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The States and Distressed Communities

The 1982 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 volume is the third in a series of reports on State efforts to direct assistance to urban and rural areas with special needs. The current atmosphere, although different, is certainly compatible with the one prevailing when this series was initiated in 1979, and yet the undertaking remains a valuable and unduplicated one. The original focus for the series was the "potential State role in shaping community conditions," a role that, according to one Federal official, had previously "remained *terra incognita* to Federal urban policy planners."[1] The assumption in 1979 was that States might play a useful role as partners with the Federal government in carrying out urban policy. The Reagan Administration has initiated a major reconsideration of the relative roles of Federal, State and local governments in shaping community conditions. While the final outlines of those roles are still evolving, the position and responsibilities of State governments in the final scheme will certainly be enhanced and would appear to be a natural extension of the original focus.

The report's findings are as significant in this context as they were in that earlier one. As State and local governments' responsibilities grow, a catalog of State programs for distressed communities is all the more useful to governors, State legislators, and local officials as well. The survey is also revealing as a clue to the States' use of their own resources at a time of challenge and opportunity.

As in the preceding reports, this one examines 19 indicators in five areas of State-funded activity: housing, economic development, fiscal and financial assistance, and programs that enhance local capabilities[2]. The first three areas have experienced extensive Federal as well as State and local activity, a fact which has made it necessary to "sort out" Federally-funded and State-funded programs. This "sorting out" process is especially important in arriving at a picture of State activity in the four housing indicators: single-family programs, multifamily programs, housing rehabilitation grants and loans, and housing rehabilitation tax incentives. To a lesser extent, such sorting is necessary in the economic development section, which looks at State financial assistance for industrial and commercial development, site development, small business development, customized job training, and industrial revenue bonds. Federal activity must also be noted in determining the State role in the report's two community development indicators: capital improvement programs and neighborhood improvement programs.

Indicators in the remaining two areas reflect the traditional ties that bind local communities to the state governments. They also indicate how active the States can be in addressing local problems. The section on fiscal and financial management assistance considers State programs for sharing revenue, assuming local public welfare costs, reimbursing local governments for purposes of meeting State mandates, assisting local government borrowing, and reforming education finance. For the most part, these programs represent statewide policies that may target specific assistance to communities with greater need. Even when they do not, distressed communities benefit when the State assumes a burden that would otherwise be borne locally.

The section on enhancing local self-help capabilities examines two programs that permit communities to help themselves and provides a state-by-state assessment of local discretionary authority. The two tools for local self-help considered are tax increment financing and local authority to levy sales or income taxes.

To be included in this report, programs must rely on State funding and must be targeted to distressed areas of the State. The distress criterion used here is not a stringent one. "Distressed communities" are defined as any areas, including various types of general units of local government in rural, urban, and suburban places which are declining or in need in relation to other areas of the State. Even this loose standard, though, forces a distinction between programs that are available to all localities, regardless of need, and those with stiffer eligibility requirements. Although most of the programs are targeted to specific geographic areas, some are directed to specific population groups such as the low income households, the elderly, or members of minority groups. Many housing programs, for example, are targeted by income, and certain small business development programs are intended to help entrepreneurs from socially or economically disadvantaged backgrounds.

This year's report, as its predecessors have done, presents a "snapshot" of State programs now in existence. Building on last year's report, we have attempted to record new programs, changes in existing ones, and the lapse or repeal of others.

Caution, of course, must be exercised in drawing conclusions from the data. The diversity both of State governments and the programs described makes it imprudent to claim that the picture is a complete one. Programs in one State may be administered by various agencies each of which may not be aware of what the others offer, which makes locating relevant programs time-consuming and sometimes tricky. Moreover, the fact that ACIR treats each of the 19 indicators equally is not to suggest that each produces the same impact, has the same value to a distressed community, or claims to incur the same costs. A State's commitment to community assistance cannot be determined simply by counting the number of programs among the 19 indicators. Different conditions require different responses, and not all programs are necessarily appropriate for each State. Similarly, some effective and helpful State programs in transportation, judicial and other policy areas are not considered in this report.

1/ National Academy of Public Administration and Advisory Commission on Intergovernmental Relations, *The States and Distressed Communities: Indicators of Significant Actions*, Washington, DC, September 1979

2/ *The 1980 Annual Report* contained 20 indicators. "Local creation of redevelopment agencies" was dropped from the 1981 report and this year's as well. Each of the 50 States now provides that authority to its local governments.

State Urban Policies and Community Strategies Revisited

In a number of States, programs to aid distressed communities were originally linked to statewide community strategies. It seems prudent then, before reviewing State actions in each of the 19 program indicators, to step back and assess the status of these comprehensive State approaches.

The *1981 Distressed Communities Report* provided a brief update of several State efforts to develop and implement State urban policies or strategies. This report offers a more extensive review of the urban policy development in nine of the States that were the subject of analysis by the National Academy of Public Administration (NAPA) in 1979 and 1980.[1] The nine States reviewed here are: California, Connecticut, Florida, Massachusetts, Michigan, New York, North Carolina, Oregon, and Pennsylvania. These States are among those which have been the most active in developing broad urban or community policies, and they represent a diverse sample of States.

Although most of these State strategies were originally encouraged and even funded in part by the Federal government, the NAPA analysis argued in 1979 that they were "largely indigenous efforts motivated by internal consideration" and developed in response to clearly perceived problems facing the State and its communities.[2] NAPA also conjectured that difficult fiscal and economic conditions might encourage more States to develop broad strategies. In this context, it noted "a State strategy provides the governor a mechanism and process to articulate some goals and policies that can be used to make hard choices and balance competing claims for State assistance."[3]

The sections which follow provide a state-by-state report of urban policy developments in these nine States. A concluding section provides an appraisal of the current status of State urban strategies.

California

The California Urban Strategy was announced with great fanfare by Governor Edmund G. Brown, Jr., at the winter meeting of the National Governors' Association in February 1978.[4] While its release briefly upstaged President Carter's own announcement of the National Urban Policy a month later, both the Carter and Brown urban policy reports have become archival documents only four years afterward.

Proposition 13, a ballot measure which reduced local property taxes by almost 60 percent, was approved by the voters the same year the urban strategy was released, and is the major reason for the strategy's demise. The consequences of Proposition 13 were not immediately apparent, because the State's fiscal surplus permitted a "bail-out" of local governments. But, as the *New York Times* reported in *September 1981:*

After smoldering like a slow fuse for more than three years, Proposition 13 has begun to eat deeply into the services provided by both State and local governments.[5]

The State of California faces a $2.1 billion deficit in 1983, and the Legislature is considering as much as $300 million cuts in state-local assistance. This is hardly the environment for the development of new and costly urban initiatives by State government.

Still, the California Urban Strategy has had an effect. According to staff in the Governor's Office of Planning and Research (OPR), State agencies are now more sensitive to urban issues, the urban policy has been applied in the A-95 review of projects by the State clearinghouse, and a major effort has been made to locate State offices in urban areas. The strategy has also influenced the policy agenda of local governments. OPR reviews local land use plans for consistency with the strategy, and has found an increased emphasis by local governments on "in-filling" or developing vacant land in already developed areas.

The 1978 strategy report contained 45 suggested actions for implementing the policy, of which many have been implemented or are part of ongoing State activity. Some of the recommendations were opposed by realtors, developers, other special interest groups, and local governments as well. Housing actions that have been taken include enactment of a $100 million program to rehabilitate low- and moderate-cost housing and to increase the supply of low- and moderate-cost apartments. State-owned lands are also being made available to local governments to provide housing. A Housing Task Force was appointed by the Governor and many of its suggestions were adopted. In addition, stepped-up enforcement of the State'santi-redlining policies is continuing. Proposed legislation to allow local incentives for lower cost housing was not passed by the State, but a number of cities have enacted ordinances for these purposes.

The Capitol Area Plan to revitalize Sacramento is being implementd as recommended in the report. In allocating transportation funding, priority is being given to existing urban and surburban areas. A process has been established to ensure that State projects are consistent with local plans.

One of the most significant measures suggested by the 1978 report was to liberalize the use of State pension funds for investment in housing and urban development. The legislature took the first steps in this direction in 1981 and is giving the matter further consideration.

Connecticut

The Connecticut Urban Strategy is perhaps the most comprehensive and active policy process undertaken by any State. The strategy is part of the State Conservation Development and Policies Plan prepared by the executive branch, and approved by the legislature. The first plan for 1979-

1/ Charles R. Warren, *The States and Urban Strategies: A Comparative Analysis,* Washington, DC, U.S. Department of Housing and Urban Development, September, 1980.
2/ Ibid., p. 15.
3/ Ibid., p. 40.
4/ Office of Planning and Research, *An Urban Strategy for California,* Sacramento, CA, February, 1978.

5/ Robert Lindsey, "California Property Tax Cut Starting to Have Big Effect," *The New York Times,* September 30, 1981.

1982 was adopted in 1979; a revised State plan for 1982-1985 was approved recently by the Legislature.[6] The urban strategy is also backed up by the Governor's Executive Order No. 20, issued in 1978.

Despite a change in governors, development and implementation of the urban strategy have been consistent, a fact which can be attributed largely to staff continuity in the Office of Policy and Management (OPM). Because OPM reports directly to the Governor and has State budget responsibility, it is able to integrate the strategy into State agency activities. OPM reviews State agency plans and major capital investments for consistency with the plan.

The State's urban strategy puts strong emphasis on urban revitalization and economic development. Programs designed to implement its policies include a State enterprise zone program which began operation in July 1982 and the successful Urban Jobs program, in effect since 1978. This latter program, which provides a targeted package of tax and job incentives for urban industrial locations, has been credited with the creation or retention of some 20,000 jobs since 1978.

A major policy of the strategy is to "emphasize State investments or regulatory actions which help strengthen urban commercial areas." This is to be achieved partly by encouraging the location of state offices and facilities in downtown areas. Accordingly, the state recently moved the Department of Public Utility Control to downtown New Britain to aid in the leasing of a new development project.

One of the most controversial parts of the urban strategy is the policy on shopping malls. Language in the newly-adopted three-year State plan reads in part:

New centers should be restrained where population and retail sales growth do not justify them and where the retail market potential is adequately served by existing centers of nearly identical variety and scale of stores which would suffer major economic harms.[7]

This statement was adopted after negotiation, and it was stimulated by a long-standing proposal to construct an enclosed shopping mall in North Haven with four department stores and 100 shops. The nearby City of New Haven feared that the surburban mall would destroy its downtown retail center.[8] Similar malls were proposed outside of Hartford and Waterford.

The urban policy was put to the test when the U.S. Army Corps of Engineers approved a permit for the developers to fill marshland for the mall and stated in its draft Environmental impact statement that the project was not inconsistent with the State plan. Connecticut's Office of Policy Management sent a strong letter of protest to the Corps which cited the State's shopping mall policy and pointed out that the mall was not consistent with the State plan. The State has no legal power to stop the project, however, and there has been intense political pressure to have the mall built.

Connecticut is also taking a very active role in the housing area. In 1979, the Legislature created a Department of Housing and mandated it to prepare a three-year housing action plan, which was developed by a housing task force made up of citizens and local officials from around the State. The Department has just received $30 million in bonding authority for housing production; and the Connecticut Housing Finance Authority issued $200 million in housing bonds last September. Housing is also getting a boost from the State Treasurer, who is using State-administered pension funds for housing mortgages. No income limits are placed upon applicants, however, and covered employees are given first priority.

State-local aid has continued to increase. The Governor's budget for the 1982-83 fiscal year includes $671.47 million in grants to local governments, an increase of $55.29 million or 9 percent over the previous year. The bulk of this aid ($500 million) is for education, which is municipal responsibility. Included as well is $32 million in capital programs for cities and towns and $6.22 million in aid to distressed cities and towns to reimburse them for property tax abatements made for economic development.

State fiscal policies are the greatest concern of local officials in Connecticut; the State ranks 47th in the nation in providing local fiscal aid. This fact often overshadows the State's accomplishments in urban policy in the minds of local elected officials. The absence of counties and the assumption of a number of "local" responsibilities directly by the State helps explain the low ranking in State-local aid. A Commission on State Tax and Fiscal Policy has been appointed to make recommendations, but the lack of a State income tax continues to be the major obstacle to any improvement.

Florida

The State of Florida began work on a "State Community Conservation Strategy" in January 1978 with a demonstration grant from the U.S. Department of Housing and Urban Development. Since that time, extensive work on urban and community policies has continued and several new programs have been implemented. The first strategy report was issued in April 1979,[9] and a revised and updated report was produced by an interagency task force in January 1980.[10] These strategies were developed under the leadership of the Department of Veterans and Community Affairs, but with the creation of a combined Office of Planning and Budgeting (OPB) reporting directly to the Governor, the strategy is being developed further by OPB. The strategy will play an important role in a statewide growth plan being prepared by OPB at the legislature's direction. This growth plan, which is to be integrated with the budget process, will be built upon a series of State policy guides. According to an OPB staff member, 85 percent of the housing and community devel-

[6]/ Office of Policy and Management, "Conservation and Development Policies Plan: Revision of 1982-1985," Draft, Hartford, CT, March, 1980.
[7]/ *Ibid.*, p. 19.
[8]/ Neal R. Peirce, "New Haven Fights Planned Mall That Could Dash Urban Renewal," *The Washington Post*, April 3, 1982, p. E-32.

[9]/ Department of Community Affairs, "Florida Community Conservation Strategy: A Demonstration Project," Tallahassee, FL, April, 1979.
[10]/ Department of Community Affairs, "A State Community Strategy," Draft, Tallahassee, FL, January 22, 1980.

opment policy guide is being based upon the previous strategy reports.

A number of the proposals developed under Florida's Community Conservation Strategy have been implemented. Most notable are: 1) a package of tax incentive, tax credit, and community development corporation bills designed to promote urban revitalization; 2) the establishment in 1980 of a State housing finance agency; and 3) the use of distress indices to guide funding and eligibility decisions.

The urban revitalization proposals developed by the strategy task force were enacted by the State Legislature shortly after the Liberty City riots in Miami during May 1980.[11] Two of the bills provide tax credits against the corporate income tax for job creation and business relocation in blighted areas. A third bill provides grants and revolving loan funds to community development corporations (CDC's) located in distressed areas. Over $3 million in revolving loan funds have been made available to ten CDC's under the latter program. The loans are being used for business retention and expansion in Liberty City and other distressed locations in the State.

The 1979 strategy report recommended a local option sales tax primarily for purposes of property tax relief. The 1982 Legislature passed a one-cent increase in the state sales tax. One-half cent of the collections are being returned to the local governments. Since revenues are returned to the point of collection, this program is not targeted, although it does provide fiscal relief to local governments in the State.

The State is currently using distressed area designations to determine eligibility for certain programs, including the CDC loans, the job creation and business tax credits, and the use of industrial revenue bonds by commercial projects.

Massachusetts

The nation's first State urban strategy was developed in the Commonwealth of Massachusetts during the administration of Governor Michael S. Dukakis. *City and Town Centers: The Massachusetts Growth Policy Report*, published in September 1977, influenced similar efforts in other States and also President Carter's National Urban Policy.Community conservation, or the goal of revitalizing existing city and town centers, was the report's major theme, expressed this way in the introduction: "Villages don't want to be suburbs; suburbs don't want to be cities; and cities don't want to be wastelands."[12]

The passage of time and a change in governors has reduced the relevance of the 1977 study as a policy guide for State actions. The major themes developed at that time, however, continue to be important, particularly economic development and urban revitalization. Many of the programs initiated under Governor Edward King are designed to promote economic development in urban centers.

- The CARD (Commercial Area Redevelopment District) program empowers local governments to float industrial revenue bonds for economic development projects. As of May 1982, 150 districts have been approved for participation, $250 million in bonds have been issued, and $250 million in private investment has been leveraged.
- Parking facilities legislation, linked to the CARD program provides funds for parking improvements in downtown retail areas. To date, $27.5 million has been authorized and additional increases to $40 million are planned.
- A convention center bill provides $30 million to develop urban convention centers.
- A newly enacted $10 million transportation benefits bill provides assistance to transportation projects related to economic development.

Massachusetts has enacted the first State-level program modeled after the Federal Urban Development Action Grant program. A $17.5 million bond issue allows the Community Development Act Grant (CDAG) to provide grants up to $1 million for economic development projects that leverage private investment. The law requires that CDAGs may be used only for publically owned projects in substandard districts and only when no development would occur without the grant.[13]

Balanced growth policies are being encouraged by the State at the local level as well. Each jurisdiction is being asked to accept its "fair share" of housing and commercial development. The Governor recently gave the request some clout by issuing an order prohibiting communities that practice exclusionary zoning from receiving State housing and development assistance.[14]

Michigan

Governor William Milliken presented a broad package of economic development proposals to the legislature in late 1981. By the spring of 1982, 26 separate bills under his plan had been enacted. The plan covered five broad areas: regulatory relief, capital availability, business taxes, business assistance and economic development, and business promotion.One of the major sources of ideas for these proposals was the December, 1977 report of his Urban Action Group, *Cities in Transition.*[15]

Under regulatory relief, new worker compensation legislation will provide $335 million in annual relief to Michigan businesses. Reform of the unemployment compensation system, which is faced with $2 billion in debts, remains unfinished, however. To increase the availability of capital, the Legislature has established an Economic Devel-

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

12/ Office of State Planing, *City and Town Centers: The Massachusetts Growth Policy Report*, Boston, MA, September, 1977, p. ii..

13/ "Massachusetts Offers Cities First State-Level Action Grants," *Urban Economic Developments*, Council on Urban Economic Development, Vol. VI, No. 3, March 31, 1982, p.3.

14/ "State Aid Approved to Offset Prop 2-½, *"Public Administration Times*, Vol. 15, No. 10, May 15, 1982, p. 12.

15/ State of Michigan, *Cities in Transition*, Report of the Urban Action Group, Lansing, MI, December, 1977.

opment Authority, which will issue around $100 million in revenue bonds, backed by oil and gas royalties, that will be distributed through four funds: 1) a public development fund to provide infrastructure for economic development; 2) a private development fund to make direct loans to firms; 3) a mortgage insurance fund; and 4) a $25 million grant program to aid high technology companies.

The package also included legislation to liberalize restrictions on investments by public pension funds. This law will enable 5 percent of fund's total assets, or about $200 million, to be made available for venture capital. Other economic development and business assistance programs enacted include: an economic development and business assistance programs enacted include: an urban land assembly fund, a small cities grant program to provide State matching funds to the Federal Community Development Block Grant program, small business development centers, and one-stop permit shopping for small businesses in the Department of Commerce.

Despite the fiscal crisis facing Michigan, the Governor and Legislature continue to fund the Fiscal Equity Package for the City of Detroit to support activities used by non-Detroit residents. In 1981, this payment totaled $28.4 million, but has been increased to $33.4 million for 1982. Included in the package is $7 million for libraries, $1.7 million for the history museum, $12.35 million for the Detroit Art Institute, and $9.2 million for the Transportation Pension Fund. This action clearly demonstrates the State's continuing urban commitment.

New York

The State of New York has been a national leader in programs to provide housing and encourage economic development in urban areas. Some 180,000 units of State-assisted housing represent an investment of $4 billion. In addition, the State has invested almost $1 billion in 66,000 public housing units, and has produced 105,000 units of moderate to middle-income housing with $2.5 billion in mortgage funds. A State Urban Development Corporation was created to revitalize depressed areas, and a job Development Authority exists to finance the development of small and mid-sized businesses. Further, the Port Authority of New York and New Jersey has launched a major economic development program.

In January 1981, the New York Department of State issued a report, *State Action Strategies,* proposing several new urban initiatives in four major areas: infrastructure revitalization, rural revitalization, public resources for housing opportunities, and neighborhood revitalization. The report, emphasizing those activities "which can be undertaken by the State of New York within present Federal and State legislative and fiscal constraints," did not include bold or radical proposals.[16]

State Action Strategies came in for strong criticism in a report released a year later by the State Senate's Standing Committee on Cities and the City of New York. That report, *Pathways to the Future,* said the earlier proposals fall far short of the comprehensive urban policy that is needed in the Empire State.

> . . . *[T]he strategies proposed for New York State are not comprehensive. . . They focus primarily upon horizontal coordination among State agencies and neglect attention to necessary improvement in the coordination of State and local development efforts. In New York State and in most other State urban strategies, they continue the fragmented, programmatic, functional approach to urban problems characteristic of past urban policies and actions. No broadly based fiscal or structural reforms were proposed. . . . The issue of the orderly and efficient promotion of growth in communities, or the issue of consolidating growth in established city centers, was not dealt with in the proposed New York urban strategy. The proposed strategy does not address the issue of lack of a comprehensive State urban policy.*[17]

In an interview, the author of the *Pathways* report conceded that this is not the best of times for the emergence of a far-reaching urban policy. No major bills for cities have been introduced in the legislature. The fiscal pressures on the State and uncertainty over the shape of President Reagan's "New Federalism" also contribute to the cautious tone of State policies.

North Carolina

The North Carolina Balanced Growth Policy Act, adopted by the General Assembly in April 1979, was the culmination of more than a decade of activity by State task forces and citizen commissions. The Balanced Growth Policy (BGP) has now moved into the implementation stage. The BGP has three major components: 1) the designation of "growth centers" (181 cities were designated in 1980); 2) establishment of "regional balance" measures to guide the allocation and distribution of State services and programs are consistent with local needs.

Within the policy a six-factor index of need has been developed to guide the allocation of Federal and State resources to the growth centers of the State. North Carolina has also given the growth policy a role in its administration of the small cities Community Development Block Grant program. In its award of the CDBG funds, 100 of the 1,000 points maximum score for project applications will be given for "State policy consistency."

Reductions in Federal funds for physical development have had a dramatic effect on infrastructure investment plans under the BGP. The Legislature was considering the submission of a $300 million "Clean Water" bond issue to

[16]/ New York State Department of State, *State Action Strategies,* Albany, NY, January, 1981, p.5.

[17]/ New York State Senate Standing Committee on Cities and City of New York, *Pathways to the Future: Cities, Towns, Villages,* Albany, NY, March, 1982, p. 121.

voter referendum. These funds, if approved, would be invested within the BGP framework. Present plans call for directing $80 million of the total for economic development, $140 million for wastewater treatment facilities, $60 million for water supply facilities, and the remainder for a variety of other projects. However, the bond measure was kept off the 1982 ballot.

Oregon

The State of Oregon has had one of the most comprehensive growth management laws in the nation, since State legislation in 1973 established a State Land Conservation and Development Commission (LCDC) and created a framework of State goals to guide State agencies and shape local governments' comprehensive plans. Each community was mandated by the law to draw Urban Growth Boundaries to confine development, and non-urban land was designated for farming, forestry, or other rural uses. In that sense, the Oregon growth management system also constitutes a rural and urban strategy.

By 1972, the LCDC had acknowledged 124 local comprehensive plans, and according to a recent report, "Most of Oregon's 241 cities and 36 counties have demonstrated good faith efforts in preparing plans for LCDC review."[18] While many of the local governments in Oregon are now implementing their land use plans, a combination of factors is posing serious challenges to the growth management system. Oregon experienced population growth of 25.8 percent - almost twice the national average - during the 1970's, with most of this growth occurring in the suburbs and outlying rural areas. The major problem accompanying the growth has been financing of capital facilities needed to accommodate the newcomers and to implement the land use plans.

Oregon has been particularly hard hit by the current recession, because of its dependence on the timber industry and homebuilding. The State has had to reduce expenditures and raise taxes dramatically because of dropping revenues and the cuts in Federal aid. These economic and fiscal factors,

have placed Oregon's State and local governments in an atmosphere of budgetary shock. Spending decisions are expected to be more cautious. The initiation of bold new spending programs appears unlikely.[19/]

Because of the current situation and the State's lack of attention to the problem of financing public facilities, there is concern that all of the comprehensive plans generated by the growth management law could go largely unimplemented.

18/ Michael P. Buckley, "Assessing the Issues and Trends in Public Facilities Financing: Planning and Policy Considerations for State and Local Government in Oregon," Master's Theses, Department of Urban and Regional Planning, University of Oregon, Eugene, Oregon, May, 1982, p. 98.

19/ *Ibid.*, p. 118.

Pennsylvania

Economic and community development has been a major priority of Governor Richard Thornburgh since he directed the Pennsylvania State Planning Board in one of his first actions on taking office in 1979 to:

Carefully review economic and community conditions in Pennsylvania, and to establish a set of policy objectives, policies, and action alternatives that could guide public and private economic development and community conservation efforts throughout the decade of the 1980's.[20]

The result was *Choices for Pennsylvanians*, a multi-volume report published in October 1981. The *Choices* Report addressed three major areas - economy, communities, and resources - and suggested eight major directions. For the economy, it called for efforts to: 1) intensify efforts to capture new and expanding markets; 2) keep business competitive and jobs secure by minimizing the costs of doing business; and 3) strengthen Pennsylvania's economy through modernization and innovation. Community-related goals included: 1) matching existing and future jobs with skills available in the State's communities; 2) revitalizing community facilities and services in urban and rural centers; and 3) strengthening partnerships between local, State, and Federal governments, and business and labor. In the area of resources, the report urged that: 1) reliance on imported oil as an energy source be reduced; and 2) all natural resources be managed wisely.[21] In addition to these goals or directions, the final report contained a series of policies, in priority order, and 69 actions to implement the goals and policies, again in priority order.

A status report on *Choices for Pennsylvanians* in April 1982 breaks down the suggestions that have been implemented since the report was unveiled. Of the 69 actions recommended in the final report, "15 have been accomplished, 27 have had significant progress, 22 are in the process of being acted upon, and 5 are under review."[22] The Office of Policy and Planning has lead responsibility for ensuring that the Governor's budget proposals, legislative program, and executive orders are consistent with the strategy. Interdepartmental coordination is achieved through the Economic Development Committee of the Cabinet, which deals with specific proposals for economic development and job creation. The Department of Community Affairs (DCA) also plays a major role and has restructured its programs to fit the strategy including use of "Choices" policies and actions in design of the State's administration of Federal block grants.

The Pennsylvania DCA is relying on three major components to achieve the Thornburgh Administration's goals in economic development, community revitalization, and enterprise development. The Enterprise Development program, which will focus on 10-20 distressed areas in the

20/ Pennsylvania State Planning Board, *Choices for Pennsylvanians: Final Report*, Harrisburg, PA, September, 1981, p.9.

21/ *Ibid.*, p. 4.

22/ Pennsylvania State Planning Board, *Choices for Pennsylvanians: Status Report*, Draft Working Paper, Harrisburg, PA, April 12, 1982.

State, is a major initiative for the 1982-83 fiscal year. To be eligible, communities must first be designated as distressed under the Federal Urban Development Action Grant program. Designated areas will receive direct grants and priority consideration for other State resources, such as those in the State Commerce Department and Pennnslyvania Housing Finance Agency (PHFA). The state will also provide technical assistance and work with the communities to provide property tax and regulatory relief, enhance local services in the enterprise areas, and improve capital facilities.

Housing is also receiving major attention under the strategy. The Governor issued the State's first housing policy, emphasizing the repair and rehabilitation of existing housing, in 1981. During the same year, the Legislature passed a new law authorizing the first single-family housing and rehabilitation programs to be operated by the PHFA. Some $400 million for low-cost home mortgages was expected to be made available from the sale of tax-exempt bonds by the end of 1982. In addition, the DCA is offering a housing rehabilitation grant program that leverages both Federal and private funds. Since 1979, this program has assisted in rehabilitating over 2,600 units.

Pennsylvania's strategy recently has tried to address social service issues with 1982 legislation designed to increase aid to those people receiving general assistance or AFDC and to provide incentives for firms to hire welfare recipients. It does, however, include a strong education component that recognizes the importance of basic programs in math and science to the future of the State's economy. Vocational education is also emphasized; the 1982-83 budget includes $7.5 million for customized job training to meet the needs of employers for trained workers to staff new or expanded facilities.

The Pennsylvania strategy appears to have all the requisites for success: gubernatorial leadership, the organizational capacity to ensure implementation and coordination, and support from the General Assembly. Most importantly, it recognizes that state programs and resources are most effective when applied on an integrated and targeted basis.

State Strategies: An Assessment

A review of the status of State urban policies or community conservation strategies during the last year leaves one aware of the harsh political realities affecting them, but still optimistic about the capacity of State governments to deal with urban economic and community development issues. Economic development is clearly the number one priority of State policymakers, yet there are also significant initiatives underway in housing and urban revitalization. Fiscal and structural reforms have received less attention, but given the conditions of the national economy and State budgets, such priorities are understandable.

The trends in state-local fiscal assistance in these nine States are not entirely negative. Massachusetts is attempting to increase local aid dramatically to cushion the impact of Proposition 2-½, a property tax limitation measure approved by the voters in 1981. Michigan, perhaps in the greatest fiscal peril of all States, has nonetheless increased its contribution to the fiscal relief of the City of Detroit. Florida, like many States in 1982, hiked its sales tax and is sharing half the proceeds with local government. And, Connecticut, a traditionally low provider of local aid, has increased its assistance by almost 10 percent.

State community strategies have proved to be more than a passing fad. Some have more continuity and standing than others, but in each of the nine States examined, development of a strategy has had a discernible impact on State policy. In three of the States - Connecticut, North Carolina and Oregon - the strategies or growth plans have been adopted by the Legislature and have a sense of permanency. In each of the three, however, implementation has been slowed. The Connecticut strategy lacks the legal clout to make it authoritative, as the case of the North Haven shopping mall illustrates. The North Carolina plan was designed to guide capital investment decisions, but its progress has been slowed by cutbacks in Federal aid for physical development, and delays in approving State bonding authority. Similarly, the lack of capital financing for public facilities in Oregon has stalled implementation of that State's growth management plan.

Massachusetts and California were the good examples of State urban policies in 1978. The strategy reports in both those States have largely lost their relevance as policy guides or blueprints for action. Yet both have had an effect. The major themes of the 1977 Massachusetts Growth Report, community conservation and economic revitalization, continue to be pursued. The California strategy has been overtaken by events, but a number of the suggested recommendations were implemented. Its anti-sprawl, "infilling" philosophy has been accepted by the State transportation and water agencies, and local governments have inculcated those principles into their land use plans.

It is too early to assess the continuity of Florida's strategy; its reports have been labelled drafts and are just now being transformed into formal policy guides by the new Office of Planning and Budget. Yet, even as a demonstration effort, the Florida strategy has been an important source of ideas and proposals. The State's legislative response to the Miami riots, for example, was based on proposals in the strategy report.

Most of the State strategies catalog programs and present a series of recommendations or options for community assistance. As such, they provide an intellectual resource and basis for State policymaking. For example, most of the 26 bills passed in 1982 under Michigan Governor William Milliken's economic development package stemmed from the 1977 report of his Urban Action Group. California and

connecticut's recent use of State pension funds for housing show a similar heritage.

Choice for Pennsylvanians also demonstrates the value of a State strategy as a policy document. It has led to major new initiatives by the Department of Community Affairs, and has enabled the State to make a coordinated response to new and emerging Federal initiatives. Pennsylvania has coupled the Small Cities Community Development Block Grant program to its own housing and development activities, and has initiated an enterprise development program to complement and support the President's enterprise zone proposal. Nevertheless, despite Pennsylvania's apparent leadership in implementing a strategy, its performance has yet to meet the test of a gubernatorial change.

Local officials in most of these nine States have apparently shown little interest in State urban strategies. This response is partly understandable because local elected officials and their State associations tend to be reactive - dwelling on State actions currently at issue rather than focusing on strategies for the future. Another explanation is that these State strategies are not designed solely to benefit local government jurisdictions. Equally important beneficiaries are business and industry, neighborhood groups, housing developers, and consumers.

In New York State, for example, short-term political considerations often guide urban policymaking rather than far-reaching and comprehensive goals. Policymakers are influenced more by the economy, the fiscal balance sheet, and the necessity to balance the interests of cities, towns, villages and rural communities. Politicians, not plans, make policy.

Still the continuing influence and activity occurring within the context of State urban strategies in these nine States (which contain almost 40 percent of the nation's population) is valuable to note given the nature of the times. The future offers more uncertainty. Seventeen new governors were elected in November, 1982. Four of them in the nine "urban strategy" States. Additionally, fiscal pressures have made State policymakers coutious and further Federal budget cuts have increased uncertainty in state policy.

State Actions

Many of the building blocks of State urban policies and community strategies may be found among the 19 program indicators examined in this report. Indeed, of the nine States considered in the preceding chapter, six – California, Connecticut, Massachusetts, Michigan, New York, and Pennsylvania – have adopted programs in 10 or more indicator areas.

The following pages attempt to set each program indicator in the context of Federal, State, and local activity in the area. For this reason, some attention is given to the historical development of the indicators as well as to their operation today. 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.

A presumption exists in this report that the 19 indicators reviewed are each valuable, to varying degrees, as State tools for aiding their distressed communities. The utility of the indicators is derived from the fact that they were selected in 1980 after a lengthy process of consultation with State and local officials, academics, and other urban policy specialists to determine programs most representative of the significant actions that States might undertake to aid distressed areas. Additionally, after this group chose 35 categories, State, county, and municipal officials were sent a survey asking that they rank in order of importance 20 of the 30. Since the *1980 Annual Report*, one indicator, "local creation of redevelopment agencies," was dropped because each of the 50 States now provides that authority to its local governments.

In preparing the survey, particular care was taken to ensure that the sample reflected a diversity of views. The sample included chief executives of "hardship cities," executive directors of all State municipal leagues, executive directors of all State-county associations, community development directors of "hardship cities," directors of all State departments of community affairs, and the principal staff member of the legislative research agency of each State. Only after this process was completed were the indicators considered to be activities deserving high priority on the States' community assistance agenda. For further discussion as well as illustration of the survey and its data, please see the *1980 States and Distressed Communities Report*.

In addition to the selection of the 19 indicators, a criterion was identified to determine that a program was targeted to need. Exhibit 1 lists the target criteria employed. A separate criterion has been developed for each of the five categories of urban aid discussed in the report: housing, economic development, community development, fiscal reform, and enhancement of local self-help capabilities. The criteria were developed by ACIR and the National Academy of Public Administration staff on the basis of comments supplied by respondents to the indicators survey.

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.

It should be noted that the need criteria endorse the view that distress is best alleviated by aid programs targeted explicitly to communities in need. Nevertheless, this theory is challenged by many Federal, State, and local officials who subscribe to the alternative view that aid programs are best directed to regions and individuals that will put the assistance to the most productive use, thereby producing a "spillover" or "trickle-down" effect that will ultimately benefit needy communities and population groups. Unfortunately, a comparison of the merits of targeted and trickle-down assistance approaches is beyond the scope of the current report. Rather, the study is premised on the acceptance of targeting as an effective response to community distress. The criteria adopted for the study represent an effort to recognize the validity of a variety of targeting approaches to distressed communities, neighborhoods, or, in some cases, individuals, although the primary emphasis is on distressed communities.

Table 1

Targeted State Programs to Aid Distressed Communities

New England and Mideast

Indicator	Number of States With Program	Connecticut	Maine	Massachusetts	New Hampshire	Rhode Island	Vermont	Delaware	Maryland	New Jersey	New York	Pennsylvania
Housing												
1. Single-family home construction	47	•	•	•	•	•	•	•	•	•	•	•
2. Multifamily home construction	17	•		•		•		•	•	•	•	•
3. Housing rehabilitation grant or loan	13	•		•					•	•	•	•
4. Housing rehabilitation tax incentive	15	•		•						•	•	•
Economic Development												
5. Industrial or commercial site development	8						•			•		•
6. State financial aid for industrial or commercial development	22	•		•			•		•	•	•	•
7. Customized job training	4			•								•
8. Small business development	13	•		•					•	•	•	•
9. Industrial revenue bonds	12	•		•						•		
Community Development												
10. Capital improvements	16	•		•						•		•
11. Local neighborhood improvement efforts	16	•		•				•	•	•	•	•
Fiscal Reform												
12. State revenue sharing	23		•	•	•						•	
13. Education finance reform	11	•		•								
14. Assumption of local public welfare	30	•	•	•		•	•	•	•	•		•
15. Reimbursement of State-mandated programs	12			•		•						
16. Improving local governments' access to credit markets	41	•	•	•	•	•	•	•	•	•	•	•
Enhancing Local Capabilities												
17. Local use of tax increment financing	28	•	•	•	•				•			
18. Local sales or income taxing authority	36							•	•	•	•	•
19. Local discretionary authority	16	•	•					•	•			•

Great Lakes and Plains

Indicator	Number of States With Program	Illinois	Indiana	Michigan	Ohio	Wisconsin	Iowa	Kansas	Minnesota	Missouri	Nebraska	North Dakota	South Dakota
Housing													
1. Single-family home construction	47	•	•	•		•	•		•	•	•	•	•
2. Multifamily home construction	17	•		•					•	•			
3. Housing rehabilitation grant or loan	13			•		•			•		•		
4. Housing rehabilitation tax incentive	15		•		•	•	•		•				
Economic Development													
5. Industrial or commercial site development	8		•	•									
6. State financial aid for industrial or commercial development	22	•	•	•	•	•		•	•	•			
7. Customized job training	4								•				
8. Small business development	13		•		•	•			•				
9. Industrial revenue bonds	12	•				•	•			•			
Community Development													
10. Capital improvements	16										•	•	•
11. Local neighborhood improvement efforts	16		•	•		•			•	•			
Fiscal Reform													
12. State revenue sharing	23	•		•		•			•				
13. Education finance reform	11	•		•			•	•	•	•		•	
14. Assumption of local public welfare	30	•		•		•		•		•			
15. Reimbursement of State-mandated programs	12	•		•						•			
16. Improving local governments' access to credit markets	41	•	•	•	•	•	•		•	•		•	
Enhancing Local Capabilities													
17. Local use of tax increment financing	28	•	•	•	•	•	•	•	•	•	•	•	•
18. Local sales or income taxing authority	36	•	•	•	•	•	•	•	•	•	•		•
19. Local discretionary authority	16	•		•				•					

Southeast

Indicator	Number of States With Program	Alabama	Arkansas	Florida	Georgia	Kentucky	Louisiana	Mississippi	North Carolina	South Carolina	Tennessee	Virginia	West Virginia
Housing													
1. Single-family home construction	47	•	•	•	•	•	•	•	•	•	•	•	•
2. Multifamily home construction	17					•							
3. Housing rehabilitation grant or loan	13												
4. Housing rehabilitation tax incentive	15											•	
Economic Development													
5. Industrial or commercial site development	8	•									•		
6. State financial aid for industrial or commercial development	22			•		•	•	•				•	
7. Customized job training	4												
8. Small business development	13			•			•						
9. Industrial revenue bonds	12			•							•		
Community Development													
10. Capital improvements	16												•
11. Local neighborhood improvement efforts	16			•	•							•	
Fiscal Reform													
12. State revenue sharing	23		•		•		•			•	•	•	
13. Education finance reform	11										•		
14. Assumption of local public welfare	30	•	•			•	•			•			•
15. Reimbursement of State-mandated programs	12			•							•		
16. Improving local governments' access to credit markets	41	•		•	•	•	•	•	•		•	•	•
Enhancing Local Capabilities													
17. Local use of tax increment financing	28		•	•									
18. Local sales or income taxing authority	36	•	•	•	•	•	•		•		•	•	
19. Local discretionary authority	16						•		•	•		•	

South West, Rocky Mountain and Far West

Indicator	Number of States With Program	Arizona	New Mexico	Oklahoma	Texas	Colorado	Idaho	Montana	Utah	Wyoming	California	Nevada	Oregon	Washington	Alaska	Hawaii
Housing																
1. Single-family home construction	47	•	•	•	•	•	•	•	•	•	•	•	•		•	•
2. Multifamily home construction	17										•	•	•		•	
3. Housing rehabilitation grant or loan	13					•					•					•
4. Housing rehabilitation tax incentive	15			•		•		•					•			
Economic Development																
5. Industrial or commercial site development	8													•		
6. State financial aid for industrial or commercial development	22				•								•			
7. Customized job training	4										•					
8. Small business development	13										•					
9. Industrial revenue bonds	12				•						•		•			
Community Development																
10. Capital improvements	16	•	•			•		•	•	•				•	•	
11. Local neighborhood improvement efforts	16										•					
Fiscal Reform																
12. State revenue sharing	23	•		•					•	•		•	•	•	•	•
13. Education finance reform	11		•													
14. Assumption of local public welfare	30		•	•	•		•		•	•	•			•	•	•
15. Reimbursement of State-mandated programs	12					•		•			•			•		•
16. Improving local governments' access to credit markets	41	•	•	•	•			•	•		•	•		•	•	•
Enhancing Local Capabilities																
17. Local use of tax increment financing	28		•		•	•		•	•		•	•	•		•	
18. Local sales or income taxing authority	36	•	•	•	•	•			•	•	•	•		•	•	
19. Local discretionary authority	16			•	•								•		•	

Table 2

Targeted Housing Programs

State and Region	Single-Family Housing	Multifamily Housing	Rehabilitation Grant or Loan	Rehabilitation Tax Incentive
United States	47[1]	17	13	15
New England				
Connecticut	x	x	x	x
Maine	x			
Massachusetts	x	x	x	x
New Hampshire	x			
Rhode Island	x	x		
Vermont	x			
Mideast				
Delaware	x	x		
Maryland	x	x	x	
New Jersey	x	x	x	
New York	x	x	x	x
Pennsylvania	x	x	x	x
Great Lakes				
Illinois	x	x		
Indiana	x			x
Michigan	x	x	x	
Ohio				x
Wisconsin	x		x	x
Plains				
Iowa	x			x
Kansas				
Minnesota	x	x	x	x
Missouri	x	x		
Nebraska	x		x	
North Dakota	x			
South Dakota	x			
Southeast				
Alabama	x			
Arkansas	x			
Florida	x			
Georgia	x			
Kentucky	x	x		
Louisiana	x			
Mississippi	x			
North Carolina	x			
South Carolina	x			
Tennessee	x			
Virginia	x			
West Virginia				
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				
Far West				
California	x	x	x	
Nevada	x	x		
Oregon	x	x		x
Washington				
Alaska	x		x	
Hawaii	x		x	

Source: ACIR staff compilation

[1] Arizona, Florida and North Dakota have authorized, but not issued single family bonds through December, 1981.

Housing Programs

State housing programs, caught between the vagaries of the economy and changing Federal policy, are likely to be in flux for some time to come. In a volatile atmosphere, programs targeted to ailing communities in particular are more likely to end up on the back burner as States seek to stimulate their economies with more widely available housing initiatives. The economy is not the only problem for State policymakers. Proposed changes in Federal policy that would revamp existing aid programs and eliminate other sources of financing are forcing them to plan for an uncertain future.

In the area of single-family housing, the States are learning to live with increased Federal regulation of their major financing tool, the mortgage revenue bond. The first year of the restrictions, 1981, saw only a few States approach the ceiling imposed on the bonds by the *Mortgage Subsidy Bond Tax Act of 1980.* That development was closely related to a precipitous drop in the use of the bonds during the year. Single-family issues that were expected to total $10 billion instead came to between $2.7 billion and $3.5 billion. The Congressional Budget Office attributed the slide as much to high interest rates as to the new Federal restrictions. [1] In other areas, States began formulating crite-

1/ "High Rates Called Major Drag on Mortgage Bonds," *The Weekly Bond Buyer,* New York, NY, Vol. 227, No. 4641, March 29, 1982, p. 58.

ria for distressed areas that would conform with the Act's targeting requirements. Where both State and local agencies issue the bonds, bonding capacity was allocated to keep State totals below the ceiling.

On the national level, the administration was of two minds about the future of mortgage revenue bonds. Under current law, the tax exemption for the bonds will expire December 31, 1983, stemming what the Treasury Department has long considered to be excessive tax losses. But, faced with a gravely ill housing industry that has affected other sectors of the economy, in early 1982 President Reagan proposed loosening the new restrictions as part of a five-point program for reviving the housing industry without large Federal expenditures. [2]

Uncertainty was not limited to mortgage revenue bonds. State efforts to provide multifamily housing for persons with low- and moderate-incomes are heavily dependent on Federal funding. These programs will face substantial changes, though, if proposed cutbacks in Federal support for assisted housing become a reality. The Department of Housing and Urban Development's revised fiscal 1982 subsidized housing program called for only about 37,000 newly built or rehabilitated units out of a total of 219,000 Section 8 and public housing units. Most units in the program plan were already subsidized ones to be shifted from other programs. For fiscal 1983, the President's original budget called for 121,000 units of assisted housing, of which only about 10,000 units would be new construction under the Section 8 subsidized housing program. [3]

Housing rehabilitation programs experienced many of the same difficulties. The programs are supported by Section 8 monies and to a lesser extent by mortgage revenue bonds and are therefore subject to the same pressures on their funding sources as the new construction programs.

While the States have played an increasing role in providing housing for low- and moderate-income persons, they have come later to it than their local and national partners. When Federal housing programs burgeoned during the 1930's, State efforts were generally limited to authorizing their local governments to establish public housing authorities. With the coming of housing finance agencies (HFA's), the States moved beyond authorization and regulation of local efforts to having their own programs for providing or improving housing. Forty-seven States now have such agencies, nearly 20 years after the first was created. [4]

The States remain only one actor in a crowded field, though. Local housing agencies issued roughly as many single-family housing bonds as the State HFA's during 1981, according to the Council of State Housing Agencies. [5] In multifamily programs, State HFA's account for approximately 30 percent of the new construction and rehabilitation funded by Section 8. The balance is undertaken by local public housing authorities, private developers working directly with the Department of Housing and Urban Development, and other State agencies such as community development authorities.

Single Family Programs: 46 States

Single-family housing programs at the State level have grown sharply in recent years as State housing finance agencies have used tax-exempt mortgage revenue bonds to provide cheaper mortgage money for their citizens. Before Federal restrictions and a soft bond market intervened, their volume for 1981 alone was expected to climb to $10 billion, compared to the estimated $15 billion issued by HFA's in the more than 10 years before 1978. Instead, single-family bond sales dried up for much of the year, with the result that year-end totals were put at $3.5 billion by the Department of Housing and Urban Development and $2.68 billion by the Council of State Housing Agencies. [6]

Before the slump, the Treasury Department's concern about Federal tax losses caused by the bonds was translated into substantive restrictions on their use by the Mortgage Subsidy Bond Tax Act of 1980. The Act put a ceiling on their issuance for the short term and provided for the expiration of the current tax exemption in December 1983. It also required that 20 percent of the loans subsidized by the bonds be made in economically distressed areas. But the restrictions have not been widely felt thus far. Only two States – Alaska and Connecticut – issued bonds up to the ceiling in 1981, and more than a dozen States have moved to adopt their own targeting criteria under the Act.

Apart from the Federal restrictions, State targeting of bond proceeds generally takes the form of limits on the borrowers' income and the purchase price of the homes. Other targeting devices are also used. In Kentucky, the borrower's liquid assets may not exceed one-third of the house's price. And in Nebraska, 20 percent of the mortgage loan fund is directed to handicapped persons with incomes of less than $15,000 annually. [7]

The mortgage bond legislation has changed the focus of State targeting somewhat by requiring them to set aside 20 percent of the loan funds for areas of chronic economic distress. Given the choice of using certain Census criteria or developing their own, at least 16 States have chosen the latter course. Colorado and Montana have indicated that areas experiencing rapid growth because of energy-related development will be included in their definitions. Indiana will consider the condition of housing in the area, the need for owner financing, and the potential for improving hous-

2/ Craig T. Ferris, "Reagan Asks Easing of Some Mortgage Bond Curbs," *The Weekly Bond Buyer,* New York, NY, Vol. 227, No. 4642, April 5, 1982, p. 79.

3/ *Housing and Development Reporter,* "Sharp Cutbacks in Assisted Housing Propose in Reagan Budget for 1983," Washington, DC, Bureau of National Affairs, Vol. 9, No. 38, February 15, 1982, p. 722.

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

5/ *Housing and Development Reporter,* "1981 Housing Bond Volume Down Sharply from 1980, at $6.4 Billion," Washington, DC, Bureau of National Affairs, Vol. 9, No. 42, March 15, 1982, p. 839.

6/ *Ibid.*

7/ Council of State Housing Agencies, *1981 Survey of Housing Finance Agencies,* Washington, DC, December 1981.

ing conditions with increased owner financing. Factors in Tennessee's determination of economic distress will include age of housing, lack of plumbing in housing, per capita income, and the percentage of persons on food stamps, below the poverty line or unemployed. [8]

The number of States with single-family programs has climbed to 47 this year with the addition of Louisiana and Illinois. Louisiana created an HFA in late 1980, but did not issue its first bonds until the spring of 1982. Illinois, for the first time since 1975, sold $90 million in single-family bonds on July 30, 1982. Of the three States lacking single-family programs, all do not have housing finance agencies. Ohio voters, however, approved a referendum on November 2, 1982 to allow the implementation of a single-family mortgage revenue bond program and financing of multifamily housing for senior citizens. The legislature is currently considering implementing the legislation. The program's first bond sale may come in early 1983 and is expected to be administered by the Ohio Housing Development Board.

Despite poor economic conditions, the last year saw 19 States go to the market with single-family bonds and other take steps to reactivate their single-family programs.

- In **Connecticut,** the Governor and Legislature approved the issuance of $4 million in general obligation bonds to replenish a fund for low-interest downpayment loans. The loans are made at 6 percent interest for the entire amount not provided under regular mortgage financing. In addition, the Department of Housing received $30 million in bonding authority to finance its programs.

- The **Florida** Legislature appropriated $6 million to permit the Florida Housing Finance Agency to issue perhaps $100 million in bonds in June 1982.

- **Maine's** Governor Joseph Brennan was supporting an appropriation to help finance the issuance of $40 million of bonds for the State's single-family program, which has issued bonds since 1980.

- **Massachusetts** and **New York** both increased the bonding authority of their HFA's. Borrowing authority was boosted by $200 million for the Massachusetts Home Mortgage Finance Agency and $400 million for the New York Housing Agency.

- The **Pennsylvania** Housing Finance Agency received legislative approval for its first single-family program and sold $100 million in bonds in April 1982.

[8]/ *Ibid.*

Multifamily Programs: 17 States

If mortgage revenue bonds have been the primary vehicle for financing State single-family housing programs, Section 8 of the Housing and Community Development Act of 1974 has played the same role for the States in multifamily housing efforts. The States have not relied on it solely, however, nor have they worked alone to provide apartment housing for low- and moderate-income families.

Local housing agencies are also active participants in this area, both in issuing housing bonds and working with the Federal Government under Section 8. Private developers, too, working directly with the Department of Housing and Urban Development, have been responsible for Section 8 new construction and rehabilitation projects.

Since it became effective in 1975, the States have accounted for approximately 30 percent of the new construction and housing rehabilitation undertaken pursuant to Section 8. The program serves families with incomes below 80 percent of the median in their areas. They pay 15-20 percent of their incomes in rent and the Federal Government pays the remainder of the previously agreed on rent to the landlord, which may be a State or local agency or a private developer. [9]

The Reagan Administration's proposed cuts in the Section 8 program have cast a cloud over State programs, forcing administrators to consider other options for the future. Legislation has been introduced in New York, for example, to allow the State's housing finance agency to finance its multifamily projects through a "loans-to-lenders" program. Under the program Section 8 subsidy contracts – and the income they represent – would be replaced by a relationship in which the lending institution would provide long-term loans for multifamily projects on the strength of the HFA's tax-exempt financing. New Jersey, which has relied heavily on Section 8 subsidies for its multifamily program, is also looking at alternatives. Nevada, in contrast, may find the transition smoother because most of its multifamily projects in the past have not been Section 8 undertakings.

Beyond Section 8, some States do employ their own resources for multifamily housing by financing projects through housing bonds. But here, too, local housing agencies have been active. Local agencies in 32 States joined 25 State HFA's to generate the $3.7 billion in multifamily bonds issued in 1981, according to the Council of State Housing Agencies. [10] Additionally, States using industrial revenue bonds for multifamily housing are required by the Treasury Department to set aside 20 percent of the units for "low-income" families.

For this report, *only targeted State programs that do not rely on Section 8 funds were counted.* The State pro-

[9]/ Overholser, *op. cit.,* pp. 6-7.

[10]/ *Housing and Development Reporter,* "1981 Housing Bond Volume Down Sharply from 1980, at $6.4 Billion," *loc. cit.*

grams that have been identified focus heavily on housing for the elderly. At least five State programs – Alaska, California, Connecticut, Massachusetts, and Oregon – assist local housing authorities, nonprofit groups and others that provide housing for senior citizens. The programs are not limited to urban areas, either. California, Pennsylvania and Rhode Island also attempt to encourage targeted multifamily housing construction by helping developers with loans to cover pre-mortgage costs. The number of programs has increased from 8, as reported in the 1981 report, to 17 largely because of improved data collection.

Housing Rehabilitation Programs (Grants or Loans): 13 States

State programs that encourage rehabilitation of housing through grants or low-interest loans rely heavily on bond sales and also Federal funds through the Section 8 program, which provide the cash flow needed for project financing. As a result, the Administration's plans to reduce Section 8 funding in favor of housing vouchers for low-income families will give State administrators pause on one hand, while difficulty in marketing bonds may pinch budgets on the other.

Rehabilitation programs counted in this year's report are supported entirely by State funds and targeted by income, geographical area, or other factors. Such programs are often not easily isolated. Legislatures, interested in providing for new construction of single-family and multifamily housing as well as rehabilitation or home improvement, may include all three programs in one piece of legislation. In Massachusetts, for example, both the Family Housing (Chapter 705) Program and the Elderly Housing (Chapter 667) Program are aimed not only at rehabilitation, but also at single-family and multifamily new construction.

Some overlapping also may be seen between the housing rehabilitation and the neighborhood improvement programs, which are described in the section on community development. Although many programs counted in this section are intended for individual residences, others strive to improve the neighborhoods in which the residences are located. These latter programs will generally be counted under both indicators.

Rehabilitation grant or loan programs targeted to individuals on the basis of income are often administered by State housing finance agencies. These agencies generally target single-family loans in much the same way. Thus the Hawaii Housing Authority offers rehabilitation and renovation loans of up to $10,000 to low-income families, and Michigan's Home/Neighborhood Improvement Program provides loans to families with annual incomes of less than $16,000. Other programs, however, direct State funds to municipalities for use in locally designated areas, as in Maryland, or for the purchase of blighted structures, as in Connecticut.

State actions in this area during the last year point up a continuing concern with energy conservation and a deepening awareness that Federal dollars for housing programs will be scarcer in the future.

- In **Connecticut**, the Legislature considered authorizing a bond issue to establish a second energy conservation loan program for home improvements, this one to be subsidized by the State's utilities. The program would feature a sliding scale of interest charges tied to the borrower's income. No-interest loans would be made to creditworthy low-income households.

- The **Massachusetts** Housing Finance Agency was authorized to begin a moderate rehabilitation loan program for apartment buildings. Agency officials were saying that program would receive extensive use in view of dwindling Federal funds for new multifamily construction.

- The **Michigan** State Housing Development Authority sold $30 million in revenue bonds in April 1982 to finance the reopening of its home improvement loan program. The program had been closed since September 1981.

- The **Pennsylvania** Housing Finance Authority and local governments are authorized to issue bonds for single-family housing including rehabilitation and energy conservation loans. A bond issue of $100 million solely for rehabilitation purposes is planned during 1982.

Housing Rehabilitation Programs (Tax Incentives): 15 States

Housing rehabilitation tax incentives promise relief most commonly from local property taxes and to a lesser extent from State income taxes. Although the State creates a property tax abatement unilaterally in some cases, it will more often permit local governments to designate areas to benefit from lower taxes.

Where tax incentives are targeted by local governments, property tax relief may involve deferring assessment of the improved property, as in Connecticut, or granting an exemption for the amount of the improvements, as in Iowa and New Jersey. Various formulas are used to determine the actual amount of the incentive.

In other instances, the State effectively mandates its local governments not to collect certain taxes on residential property that has been improved. In Colorado, for example, the assessed valuation of certain structures may not be increased for five years if rehabilitation increases the market value. Improvements by elderly and low- and moderate-income homeowners are assessed at a fraction of their market value in Minnesota. Similar tax incentives exist in Montana.

Least common is the tax incentive that reduces State income tax liability. Home improvements may produce such tax credits on income as well as property taxes in Wisconsin. In California, rehabilitation of low-income rental properties makes the taxpaper eligible for a depreciation deduction of up to $20,000.

Economic Development Programs

The five indicators in this section represent a sampling of the programs States use to encourage economic development generally. While some of these tools, such as small issue industrial revenue bonds and customized job training programs are available throughout many States, only those targeted to distressed communities are considered. For the economic development programs discussed in this section, such areas may be older cities that have lost their competitive edge or small communities that are suffering from economic stagnation. In other States, programs are targeted to smaller communities which lack the resources for attracting new employers.

Of the targeted programs, industrial revenue bonds and State financial assistance for industrial and commercial development are the most common. State financial assistance generally comes in the form of tax incentives, grants, and loans to firms that locate in distressed areas. The benefits are tied, for example, to job creation or expenditures for equipment, construction, or rehabilitation of business facilities. Such incentives are now being combined with others in many States and offered to companies that set up shop or expand in enterprise zones. Considerable State interest in the zones has been generated by President Reagan's proposal for Federal enterprise zones that would be contingent on State and local participation.

Small issue industrial revenue bonds are another State tool that is widely used but less commonly targeted to distressed communities. Indeed, their great popularity may lead to restrictions on their use. Members of Congress and others are complaining that tax-exempt bonds for non-governmental purposes are an unwarranted drain on Federal tax revenues. Increased targeting of the bonds is one proposed reform that would change current practice. Even where the bonds are now targeted to distressed areas for commercial projects, they remain more widely available for industrial projects. The effect is to dilute the bonds' effectiveness in directing development to the communities that need it most.

Small business development programs share many features with those that offer financial assistance for industrial or commercial development. In some cases, the only distinction is that the program is labeled as one for small business. Other programs, particularly those that help community development corporations (CDC's) and local development corporations (LDC's), fit in both categories. These programs encourage economic development by funneling State aid to entrepreneurial community organizations. Many if not most of these organizations though are in fact small businesses, albeit in a different form than they are usually encountered.

The remaining programs – site development and customized job training – are generally more focused than the first three. In contrast to the bond and other financial aid programs that attempt to attract businesses with cheaper financing or tax incentives, site development efforts turn on making a specific location attractive to an employer and then marketing it. Customized job training programs of the sort counted here – funded by State revenues and targeted either to distressed communities or disadvantaged segments of the population – are relatively rare. Far more common, but not considered in this report, are targeted programs funded with Federal money through the Comprehensive Employment and Training Act (CETA) or customized but non-targeted training programs funded by the State.

Site Development Activities: 8 States

Two areas of concern emerge from an examination of State site development programs: initial industrial development in rural areas and industrial redevelopment in older urban locales. The States' interest in bringing industry to rural areas is consistent with past economic development efforts. In urban areas, however, States that were formerly content to let the cities handle their own economic development are playing a greater role now in helping them back on their feet.

Technical assistance is a major element of State programs to prepare industrial sites in rural areas. The three such programs identified in Alabama, Tennessee, and Indiana seek to ensure that adequate water, sewer, power, and transportation facilities are available for prospective employers. In Tennessee, this aid takes the form of preliminary engineering surveys, site planning assistance, and the development of financing packages to sell completed sites. All three programs are directed to communities of less than 20,000.

States with declining urban economies are now taking interest as well in programs to revitalize their older cities. Cities receiving State urban aid in New Jersey, for example, are the beneficiaries of the Urban Industrial Parks Program, under which the State's Economic Development Authority is authorized to assemble and purchase parcels of land. In addition, it may prepare, market, and finance industrial sites. Similar help is available to distressed urban areas in Pennsylvania from both the Department of Commerce and the State's industrial development authority. In Michigan, communities with high unemployment may borrow from a special fund for site development expenses.

Distinctions between urban and rural assistance are not clear in all programs. In Washington State, for example, the Community Economic Revitalization Board provides loans and grants to local governments and Indian tribes for the construction of roads, bridges, sewer and water lines, and other public facilities in areas designated as distressed.

During the last year, one new site development program was identified and another was extended in a different form.

- In **Michigan**, the Legislature created an Urban Land Assembly Fund to provide loans to municipalities with high unemployment for the acquisition of property for industrial and downtown commercial projects. Loans can be used for the purchase of land, demolition, relocation, and site improvements required to make the land marketable.

Table 3

Targeted Economic Development Programs

State and Region	Site Development	Financial Aid	Job Training	Small Business	Industrial Revenue Bonds
United States	8	22	4	13	12
New England					
Connecticut		x		x	x
Maine					
Massachusetts		x	x	x	x
New Hampshire					
Rhode Island					
Vermont	x	x			
Mideast					
Delaware					
Maryland		x		x	
New Jersey	x	x		x	x
New York		x		x	
Pennsylvania	x	x	x	x	
Great Lakes					
Illinois		x			x
Indiana	x	x		x	
Michigan	x	x			
Ohio		x		x	
Wisconsin		x		x	x
Plains					
Iowa					x
Kansas		x			
Minnesota		x	x	x	
Missouri		x			x
Nebraska					
North Dakota					
South Dakota					
Southeast					
Alabama		x			
Arkansas					
Florida		x		x	x
Georgia					
Kentucky		x			
Louisiana		x		x	
Mississippi		x			
North Carolina					
South Carolina					
Tennessee	x				x
Virginia		x			
West Virginia					
Southwest					
Arizona					
New Mexico					
Oklahoma	x			x	
Texas		x			x
Rocky Mountain					
Colorado					
Idaho					
Montana					
Utah					
Wyoming					
Far West					
California			x	x	x
Nevada					
Oregon		x			x
Washington	x				
Alaska					
Hawaii					

Source: ACIR staff compilation

* Arizona, Florida and North Dakota have authorized, but not issued single family bonds through December, 1981.

• The **Washington** Economic Assistance Authority was terminated in June 1982, but its functions were assumed by the Community Revitalization Board.

State Financial Aid for Industrial and Commercial Development: 22 States

Using the basic tools of grants, loans, and tax incentives, States are becoming increasingly sophisticated in creating packages to encourage economic development. These aid packages are generally available not only to new businesses coming into the State, but also to ones that expand existing facilities. The program attracting the most attention at the Federal and State levels alike in the last year has been the enterprise zone, which President Reagan envisions as a major vehicle for revitalizing decaying and depressed areas through private enterprise.

The President's proposal, unveiled in January 1982, is particularly significant, because it requires States to develop incentives of their own that will complement the Federal offerings. [1] Before potential zones can be nominated, the States must receive local approval for sites they wish considered, and vice versa. The effect is to encourage a strong State and local commitment to the program and effective cooperation between them in developing sites for consideration.

The backbone of the Administration plan is a series of Federal tax incentives for investment and job creation. For example, the President proposed an investment tax credit for capital investments such as the construction or rehabilitation of commercial, industrial, or residential buildings in a zone. Investment credits would also apply to purchases of machinery and equipment. In addition, employers would benefit from tax credits for certain wages paid to their

1/ "Fact Sheet: The Administration Plan for Enterprise Zones," Washington, DC, The White House, January 27, 1982. The following description of the President's enterprise zone proposal is taken from this fact sheet.

employees in the zone. The plan offers credits for total wages paid in the zone in excess of the total paid the year before the zone was designated. Credits would also be available for wages paid to zone employees who were disadvantaged when they were hired. Other proposed incentives include eliminating capital gains taxes within the zones, and relief from tariffs and import duties by naming certain enterprise zones as foreign trade zones. In what may be a clue to the Administration's plans for bond subsidies, the proposal also offers "the continued availability of industrial development bonds to small business in enterprise zones even if the availability of such bonds is terminated elsewhere." [2] Relief from certain Federal regulations would be available as well if the State and local governments requested it.

The State and local contribution is not specified in the President's plan. The omission is consistent with the Administration's approach to deregulation, though, in that the non-Federal participants are expected to determine what they will offer to enterprise zones. A major consideration in these decisions is that suggested enterprise zones will be judged competitively. This feature of the plan has prompted some to worry that State and local government will engage in a "bidding war" to obtain the Federal designation. [3]

The Administration did suggest areas from which State and local contributions could spring. It pinpointed State and local income taxes, sales taxes, and other similar taxes as potential sources of tax relief in an enterprise zone. Areas for regulatory relief included zoning, rent controls, permit regulations, central planning requirements, and building codes.

As the enterprise zone concept has taken shape in discussions at the national level, interest in the states has grown. Many States such as Connecticut, Florida, Kansas, Kentucky, Louisiana, Maryland, Minnesota, Missouri, Ohio, and Virginia have recently passed legislation which provide benefits similar to those that would be offered in federally designated enterprise zones: property and income tax credits for jobs created and capital expenditures, exemptions from sales taxes, and the like. Beyond these incentives, two State programs make capital available to businesses locating in the zones – small businesses may obtain venture capital in Connecticut, and businesses in Maryland enterprise zones may receive aid from the State's Industrial and Commercial Redevelopment Fund. Enterprise zone benefits are targeted to a limited number of areas in some States – six each in Connecticut and Maryland, for example – but are available in a quarter of Louisiana's census tracts and may be granted to any area meeting certain unemployment and poverty criteria in Minnesota.

On the local level, Mayors were not as enthusiastic about enterprise zones as President Reagan or the State legislatures. At the annual meeting of the U.S. Conference of Mayors in June, Mayor Donald Fraser of Minneapolis observed, "I'd rather have them than not, but I have no confidence they are going to do very much." Mayor William T. McLaughlin of Wilmington, DE, added, "There's nothing they can offer that we're not doing already." [4]

Independent of enterprise zone proposals, several States also are passing legislation aimed at involving community groups such as community development corporations (CDC's) in local economic development efforts. States such as Massachusetts are already providing support for local groups that want to organize CDC's and then furnishing venture capital for development corporation projects. In Wisconsin, legislation passed in 1982 offers tax credits to purchasers of stock in a State-initiated community development finance company. Capital raised through the sale of stock will be used to finance CDC ventures.

Other State efforts to assist industrial and commercial development included:

- **Indiana** approved property tax deductions for expenditures on equipment in locally designated urban development areas. To be designated, localities must contain obsolete manufacturing facilities that may lead to reduced employment or tax revenues. The tax deductions, which are good for 100 percent of eligible expenditures in the first year, are gradually reduced over five years.

- **Kentucky** enacted legislation permitting any city, county, or urban county to designate one or more areas as economically distressed. The local government will then apply to the Kentucky Enterprise Zone Authority, which may designate seven enterprise zones in the four years after the Act becomes effective.

- The **Maryland** General Assembly repealed incentives linked to State taxes and worker's compensation payments, replacing them with more comprehensive enterprise zone legislation. The new law authorizes the Department of Economic and Community Development to designate up to six zones in any 12-month period in which businesses may receive property and income tax credits and benefits from the Industrial Land Act and the Industrial and Commercial Redevelopment Fund.

- The **Michigan** Economic Development Authority was established to finance a variety of industrial development projects. Projects located in distressed areas are eligible for more extensive financing than other undertakings, but the enabling legislation directs the authority to give highest priority to projects with the greatest potential for creating or retaining jobs in the State.

- **Minnesota** passed an enterprise zone act that permits designation of zones on request by a local government. Criteria for designation include unemployment and the number of persons below the poverty level in the proposed zone.

- **Missouri** adopted an Enterprise Zone Act that grants eligible firms a package of investment tax credits, training

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2/ *Ibid.*, p. 2.

3/ Reggie Todd and Clint Page, "Enterprise Zones Plan Builds on Ideas in Kemp-Garcia," *Nation's Cities Weekly*, Washington, DC, National League of Cities, Vol. 5, No. 6, February 8, 1982, p. 5

4/ David Hoffman, "Mayors Unimpressed by Reagan Plan," *The Washington Post*, June 23, 1982, p. A6.

credits for zone residents or disadvantaged persons hired as employees, and State income tax credits for income generated by enterprise zone business.

- **In New York,** the Rural Development Loan Fund was established to provide assistance to new and existing businesses in order to stimulate private sector employment in rural distressed communities with populations of 25,000 or less.

- **Ohio** will permit creation of Urban Jobs and Enterprise Zones under new legislation, which targeted to certain municipalities in certain counties, permits both the city and the county to offer exemptions from taxes on land and provide optional services.

Targeted Customized Job Training Programs: 4 States

State job training programs serve two functions that can complement each other. On the one hand, they supplement the State's economic development strategy by providing employers with trained workers. On the other, they generate jobs for residents, but not necessarily in areas where unemployment is critical.

Most targeted State programs rely to some extent on Federal funding under the Comprehensive Employment and Training Act (CETA). States are among the 475 "prime sponsors" of CETA programs – the rest being cities and counties – that receive Federal dollars that are then passed on to contractors who offer on-the-job or other training. These programs primarily serve disadvantaged or unskilled persons, particularly since Congress tightened eligibility for CETA participants in 1978. [5] States can and do use CETA funding to further economic development objectives, however. One such program, Colorado FIRST (Flexible Industry Related Start-up Training Program), represents an effort to assure that entry level jobs in expanding enterprises will go to Coloradans. Besides using CETA eligibility criteria, the program is targeted in that preference is given to new and expanding businesses in depressed and rural areas. Where available, CETA funds have played an important role in program projects. [6]

Where economic development is concerned, States do not rely solely on CETA for customized job training. Their own revenues are used as well to support job training programs that will lure new employers to the State or encourage existing ones to expand their operations. The Lousiana Industrial Training Program, for example, assists firms that need at least 10 employees by recruiting, screening, and testing potential workers. Training programs of six to eight weeks are provided in cooperation with the company, after which neither the trainee nor the company has an obligation to the other. CETA funds do not support this program, which is not targeted at all. [7]

To be counted for this report, programs must be funded with State revenues rather than CETA dollars. In addition, they must be targeted either geographically or by other criteria in such a way as to benefit distressed areas. In the first instance, the benefit to such a community would be direct; in the second, distressed communities are likely to include many persons who meet program criteria relating to unemployment, income, or lack of skills. Four States – California, Massachusetts, Minnesota and Pennsylvania are identified in this year's report.

The California Worksite Education and Training Act is an effort to match the needs of the State's employers and the local labor supply by offering training to low-income, unskilled job seekers and those workers with inadequate or obsolete skills. In Massachusetts, the Bay State Skills Corporation provides a 50 percent match in grants to establish training programs for all segments of the State's working population. [8] Special efforts are made, though, to give priority in skills training to groups such as displaced homemakers, the elderly, women, the handicapped, and minorities. Minnesota's Indian Vocational Program provides funding to reservations for the training of Indians. The program does depend on CETA funds, however, for student stipends. Finally, Pennsylvania's customized job training provides funds for short-term vocational employment training for specific jobs for unemployed and underemployed individuals, particularly welfare recipients.

A new look for State job training programs may be in the offering. CETA will expire in September 1983, and funding for fiscal 1982 is down to $2.9 billion from a high of $10 billion. Further cuts of approximately 20 percent are expected for fiscal 1983 unless Congress boosts funding to respond to high unemployment around the Nation. In organizations such as the National Association of State Development Agencies, however, State officials concerned with job training are beginning to discuss increased targeting of State programs. Those discussions, in connection with Administration proposals for job training block grants to the States, may presage greater State attention for targeted job training than in the past. [9]

Targeted Small Business Development: 13 States

State small business activities are for the most part addressed to a broader constituency than distressed communities. While the States' commitment to their small businesses

[5]/ William J. Lanouett, "Life After Death – CETA's Demise Won't Mean the End of Manpower Training," *National Journal*, Washington, DC, Government Research Corporation, Vol. 14, No. 6, February 6, 1982, pp. 241-42.

[6]/ Joann Wilson, *A Study of the Relationship between Postsecondary Education and Economic Devleopment in Selected States*, Phoenix, AZ, Arizona Office of Economic Planning and Development and Arizona Commission for Postsecondary Education, September 1981, pp. 15-17.

[7]/ *Ibid.*, pp. 23-24.

[8]/ For a more detailed discussion of the targeted customized job training programs in California and Massachusetts, see the 1981 report.

[9]/ Seth S. King, "Labor Dept. Asks $1.8 Billion Jobs Plan," *The New York Times*, March 11, 1982.

varies, several common threads exist in these widely available programs. States often try to ensure an appropriate share of State contracts for small businesses. They also establish loan funds for all small businesses or specific ones, as Alaska has for commercial fishing and tourism-related enterprise, for example. Another common form of State attention is the agency or ombudsman that attempts to facilitate the efforts of small businesses to grow. Similarly, small business councils serve as sounding boards for their needs. [10]

Targeted small business programs share many of these characteristics. In Connecticut, for example, the Small Business Development Center Program provides technical assistance to small businesses in low-income areas to stimulate local economic growth.

As the Connecticut program suggests, though, much targeted assistance for small businesses is closely related to State efforts for industrial and commercial development. These programs, directed to economically distressed areas, are intended to benefit both small businesses and the areas in which they locate. In this context, New Jersey's Urban Centers Small Loan Program offers 7 percent loans to small businesses that will provide employment and revitalize neighborhood shopping districts in cities receiving State urban aid. Similar aid is directed primarily to manufacturing firms by the Office of Small Business Development in California. Under the Economic Development Direct Loan Program, loans are made for new or expanding businesses in areas with high unemployment or low family income.

Another facet of State support for small business development lies in increasing interest in the community development corporation (CDC). These corporations represent not individual entrepreneurs or companies as they are ordinarily understood, but community organizations established to pursue comprehensive economic development plans. As with other small businesses, their aim is to make a profit, but at the same time to generate employment and build an economically healthier community. State programs to support CDC's often involve organizational assistance, help with choosing projects, and finally venture capital through a community development finance corporation, as in Massachusetts and, as of last year, Wisconsin.

Still other targeted small business programs focus on enterprises run by minorities or others who are economically, culturally or socially disadvantaged. The Maryland Small Business Development Financing Authority, for example, provides working capital to such persons to enable them to fulfill contracts they have received from the Federal, State, or local governments. Similarly, the Pennsylvania Minority Business Development Authority offers loans or loan guarantees to viable or potentially viable businesses.

[10]/ U.S. Small Business Administration, *Director of State Small Business Programs: 1980 Edition,* Washington, DC, U.S. Small Business Administration, Office of Chief Counsel for Advocacy, July 1980.

Industrial Revenue Bonds: 12 States

Small issue industrial revenue bonds have been a tool for State economic development since the Depression, when Mississippi first issued them to attract manufacturing jobs to a State with a sorely depressed agricultural economy. [11] For the States and localities that now issue them, the appeal of the bonds is their backing by privately generated revenues rather than the government's full faith and credit. For the private concerns that undertake industrial or commercial endeavors with the bond proceeds, the appeal is the lower financing cost which the bonds' tax exemption makes possible. Despite the widespread popularity of the bonds, they are not generally targeted to distressed areas. Of the 47 States that now authorize their use, ACIR has identified only 12 that target the bonds even partially to blighted or economically depressed areas. Even in these States, the bonds remain widely available outside of the targeted localities.

Like housing revenue bonds, tax-exempt small issue industrial revenue bonds have become so popular with State and local agencies that Federal officials are questioning the resulting revenue losses. Current talk about limiting IRB's is not new, however; the first restrictions, imposed in 1968, established a $10 million ceiling for small issue IRB's that was intended to make tax-exempt financing available for smaller businesses and rule it our for large, high-cost projects. The ceiling can be raised to $20 million for projects also financed with Federal Urban Development Action Grants (UDAG's).[12]

Use of the bonds, which dropped off substantially after the small-issue restrictions were enacted in 1968, has since rebounded. The Congressional Budget Office noted in a 1981 report that IRB volume reached $8.4 billion in 1980, up from $1.3 billion in 1975, and that the Federal treasury was losing approximately $700 million annually because of the tax exemption on the bonds. This latest boom in the bonds seems almost certain to result in new restrictions. One long-time critic, Representative Charles Rangel (D-NY), reintroduced legislation in 1981 that would require the targeting of IRB financing for commercial and retail projects to economically distressed areas and lift the bonds' tax exemption altogether by 1984 unless Congress reauthorized

[11]/ The Congressional Budget Office (CBO), in its report titled *Small Issue Industrial Revenue Bonds* (April 1981) states on page one, footnote one: "In common parlance, industrial development bonds (IDB's) and industrial revenue bonds (IRB's) are interchangeable terms. Both refer to bonds that are issued by public agencies to finance facilities for private enterprises. Technically, the difference between them is that IRB's are backed solely by the revenues from the project or the facility itself, while IDB's are backed by the full faith and credit of the public issuing authority. Although IDB's were the precursors of IRB's, their use has been relatively infrequent. For further background, see Mark Rollinson, *Small Issue Industrial Development Bonds* (Chicago: Capital Publishing Corporation, 1976)."

[12]/ Sheryl J. Lincoln, "Is There – And Should There Be – A Future for Industrial Revenue Bonds?" *Journal of Housing,* Washington, DC, National Association of Housing and Redevelopment Officials, Vol. 38, No. 10, November 1981, p. 536.

it.[13] The Reagan Administration unveiled its proposed restrictions in February, 1982. They included further limits on use of the bonds by large businesses, a requirement that users of the bonds forego use of accelerated depreciation on buildings and equipment financed by the bonds, and requirement that State and local governments contribute 1 percent of the face value of the bond to the project financed by the bond.[14]

Beneficiaries of IRB financing such as McDonald's restaurants and K-Marts have raised eyebrows in the past, and issues in the last year have shown comparable imagination. The Connecticut Development Authority will use the bonds to finance construction of a sailing ship, the Mystic Clipper; Boston's industrial development agency will use them to renovate Fenway Park for the Red Sox baseball team; and they have been suggested as a way to provide a new printing plant for the New York Daily News. The bonds in that case would be issued by New York State's Urban Development Corporation or the Port Authority New York and New Jersey. Other issues by Illinois and Michigan towns would finance a "pizza theater" chain.[15]

The possibility that the Federal Government would restrict future use of the bonds or even impose retroactive limitations, as it did with mortgage revenue bonds, sent some local governments rushing to issue them last year. The City of Baltimore, for example, approved issuance of $700 million at one session of the city council.[16] On the national level, the National Governors' Association, the National Conference of State Legislatures, the United States Conference of Mayors, and the National Association of Counties all opposed restrictions proposed by the Administration on small issue industrial revenue bonds. Of elected officials' organizations, only the National League of Cities is in opposition to nongovernmental public purpose tax exempt bonds.

State regulations of IRB use is spotty. In 1982, California began reviewing bonds for industrial but not commercial projects. While the industrial bonds are not targeted by legislation, the California Industrial Development Financing Authority Commission has established a policy of using the bonds for labor-intensive projects and projects in distressed areas. One factor in that policy may be that the commission's present authority is for only $200 million in bonds. The State legislature, however, was considering a bill last year to authorize the panel to issue $250 million in bonds annually. State regulation does not extend as far as commercial use of IRB's, which has generally come in for more criticism than industrial uses. Any of California's more than 80 charter cities may issue such bonds without limit.

The California pattern seems to reverse the approach taken by most States that target IRB's to distressed communities. In those States, restrictions are placed on commercial development, which must locate in designated areas to benefit from tax-exempt financing. Industrial development, by comparison, may take place anywhere in the State. This pattern is found in Florida, Massachussetts, New Jersey, Texas, Wisconsin, for example.

- The **New Jersey** Economic Development Authority provides financing by issuing IRB's for certain types of commercial and retail facilities if they are located in designated communities with high unemployment. The New Jersey EDA does not target use of the bonds for manufacturing and distribution facilities.

- The **Texas** Industrial Commission is authorized to issue revenue bonds for both industrial and commercial projects, but targeting requirements apply only to commercial ones. To receive IRB financing, commercial projects must be located in a city eligible for Urban Development Action Grants (UDAG's) and be part of a city-designated economic revitalization plan.

- **Wisconsin** requires that commercial facilities, including shopping centers, convention center, 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. Such areas are locally designated, however, and targeting is loose, which leaves great latitude to assist any project in which a determination of blight can be made.

Community Development Programs

The two indicators in this section represent potentially complementary State efforts to revitalize communities. The first targets capital improvement programs to hard-pressed local governments for necessary services such as roads, water and sewage treatment, and schools. The second, neighborhood improvement, is more concerned with maintaining and upgrading an area's housing, economic health, or community services. With few exceptions, however, States have generally adopted one indicator or the other. Despite the potential for coordinating the two approaches, ACIR's State surveys have revealed little overlapping between them.

Targeted capital improvement efforts are generally geared to small communities that lack resources for large capital expenditures and therefore make their strongest showing in States that are experiencing a boom in energy development. The purpose of these programs is to help communities dealing with rapid and unexpected growth put needed public facilities in place. Not all programs, however, are spurred by the demands of economic development. Other States, faced with declining urban and rural areas, target capital assistance to both kinds of communities to replace and maintain existing facilities.

13/ *Ibid.*, pp. 9-10.

14/ John F. Shirey, "NLC Endorses Curbs on Development Bonds," *Nation's Cities Weekly*, Washington, DC, National League of Cities, Vol. 5, No. 10, March 8, 1982, p. 4.

15/ Industrial revenue bond issues as reported in *The Weekly Bond Buyer.*

16/ Lincoln, *loc. cit.*

In neighborhood improvement, the States are increasingly adopting programs that draw on private resources and encourage efforts by community residents. Neighborhood assistance programs and community development corporations (CDC's) in particular are receiving more attention from lawmakers in this context. The former offer individuals and corporations State tax credits for their donations to approved community projects. The latter receive State support in various forms for locally generated business ventures that benefit their communities. As lawmakers become more familiar with these tools for community development, they are beginning to combine elements of each in creating new programs. One example of this process may be seen in a new program for community economic development signed into law in Wisconsin in 1982. There the State's new nonprofit community development finance authority will raise capital for a profit-making venture capital subsidiary by offering tax credits to those who purchase stock or make donations to the new corporation.

Beyond these programs, State community development activities are taking on a new dimension as the States start administering the Federal Government's small cities Community Development Block Grant (CDBG) program. According to the Department of Housing and Urban Development, 36 States and the Commonwealth of Puerto Rico were to assume the program for fiscal 1982. Participating States devise their own plans for picking and funding projects proposed by cities with less than 50,000 population. Activities eligible under the Housing and Community Development Act include elements of capital and neighborhood improvement programs, among them public works, grants to nonprofit organizations and local development corporations, assistance to economic development projects of nonprofit agencies, and development of comprehensive community plans. Other eligible projects include energy use activities, public services, code enforcement, and rehabilitation. The States must target approved projects to low- and moderate-income citizens, a requirement that was made more specific in regulations that

Table 4

Targeted Community Development Programs

State and Region	Capital Improvement	Neighborhood Improvement
United States	16	16
New England		
Connecticut	x	x
Maine		
Massachusetts	x	x
New Hampshire		
Rhode Island		
Vermont		
Mideast		
Delaware	x	
Maryland	x	
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		
Virginia		x
West Virginia	x	
Southwest		
Arizona	x	
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.

became effective in March 1982. [1] The regulations went into effect after a protracted dispute between the Reagan Administration and Congressional Democrats who insisted on standards that would assure certain targeting of CDBG projects.

Capital Improvement Programs: 16 States

In the midst of growing nationwide concern about the deterioration of water systems, streets, bridges, and other facilities are being strained by rapid development. Assistance is available in several Northeastern States, for older communities where age has taken its toll on these facilities, but not to the same extent. Nevertheless, while only 16 States are listed as having targeted capital improvement programs, that number may be deceptive. Several States' housing and economic development programs, may improve a local area's capital facilities. Florida's housing land acquisition and development assistance program and Maryland's industrial and commercial redevelopment fund are two examples of State policies listed elsewhere in this report that also can provide local governments with capital improvement assistance.

Targeted programs, however, are only one facet of State public works investment which has long carried local consequences. The largest share of State public works spending has traditionally gone into highways, benefiting communities where State highways make up part of their street systems. Similarly with education, the second priority for State capital expenditures, State spending has eased the burden on local resources. [2] Beyond direct assistance, the States have sought to stretch local governments' revenues by increasing local borrowing power. By issuing bonds and lending the proceeds on the local level, they have reduced local costs for schools, water and sewer systems, and other capital improvements. Full or partial payment by the States of local debt service has served the same purpose.

Despite the steady State assistance and what has been a growing Federal presence in local public works, State and local spending for capital improvements has fallen in recent years. A 1977 study for the Commerce Department found that while expenditures in current dollars started falling in the mid-1970's, spending measured in constant 1972 dollars peaked in 1968. [3]

The reduction in public works spending has been caused by many factors. Inflation has pinched local budgets, and spending for social programs has made greater claims on those budgets. In the battle among competing priorities, maintenance has in many cases been deferred by local decisionmakers. The result, according to *Business Week* magazine, has been deterioration that will cost billions of dollars to arrest and reverse. Replacement or rehabilitation of more than 200,000 potentially unsafe bridges will cost an estimated $41.1 billion, for example, and $31 billion is needed during the next five years to bring sewer systems and wastewater treatment plants into line with existing water pollution standards. [4]

In this generally depressing picture, the States have taken some steps to provide extra assistance where the need is most pressing. Where rapid growth brought on by the development of energy resources has strained local facilities, many energy-producing States have diverted some severance tax revenues into grants and loans for the hard-pressed local governments. Such aid for local planning, schools, roads, and recreational facilities, is available in Montana, New Mexico, North and South Dakota, Utah, and Wyoming. At the other end of the spectrum, several Northeastern States with mature economies have attempted to direct aid to communities hard hit by shifts in population and industry. In Connecticut, a State program to link individual categorical programs into a comprehensive community development effort has suffered because of the State's own financial difficulties. Massachusetts has tried to foster development in its distressed communities with the "Heritage Park" construction program, and New Jersey has instituted programs for depressed areas in urban and rural settings alike. In other States, targeted programs for capital improvements are most commonly directed to small communities with inadequate resources for capital projects. Such programs have been identified in Colorado, Alaska, and Tennessee.

Neighborhood Development: 16 States

Among the diverse tools the States are developing to encourage neighborhood improvement, a recurring feature is official support through the tax system for projects developed and administered by community groups. Depending on the groups involved, the projects may upgrade local housing stock, generate jobs, or stimulate locally based economic development. The specific geographic focus of their efforts is the key factor in all programs counted under this indicator.

Among these programs, one that has been growing in popularity is the neighborhood assistance program, which has been adopted in at least six States. The program, first adopted in Pennsylvania in 1968, generally offers tax credits to businesses that contribute funds, goods, or services to approved community projects. Michigan offers rebates. The Missouri Neighborhood Assistance Program, for example, has assisted organizations renovating a community center, providing weatherization training and materials, and rehabilitating a neighborhood commercial strip.

Other State programs offer administrative support and venture capital to community development corporations (CDC's). These locally based entrepreneurial organizations establish and invest in businesses that will provide needed

1/ "State Small Cities CD Rules Go into Effect under HUD Agreement with House Panel," *Housing and Development Reporter,* Washington, DC, Bureau of National Affairs, Vol. 225, No. 4639, March 15, 1982, p. 819.
2/ CONSAD Research Corporation, *A Study of Public Works Investment in the United States: Executive Summary,* Washington, DC, U.S. Department of Commerce, April 1980, p. 12.
3/ *Ibid.,* pp. 6-7.

4/ "Infrastructure: A Nationwide Need to Build and Repair," *Business Week,* New York, NY, McGraw-Hill, Inc., No. 2710, October 26, 1981, p. 142.

services to the neighborhood, create employment for area residents, and generally stimulate the area's economy. As with neighborhood assistance programs, State lawmakers are beginning to see in community development corporations a vehicle for mobilizing citizens in distressed areas against the roots of that distress. Massachusetts has adopted what may be the most sophisticated program for encouraging CDC's. There the State Economic Opportunity Office offers community members assistance in organizing CDC's and them makes planning grants available to the new corporations. Another organization, the Community Development Finance Corporation, invests in CDC-sponsored businesses, using capital generated by a $10 million bond issue in 1976. Yet another agency, the Community Economic Development Assistance Corporation, provides community development corporations with expertise in assessing and developing specific undertakings.

In contrast to these development oriented programs, others concentrate on maintaining and improving housing in distressed areas. Grants may be given to local governments, as in New Jersey and Connecticut, to nonprofit groups, as in New York, or to individuals meeting certain income restrictions, as in Wisconsin.

The last year has seen several new neighborhood improvement programs established and others adapted for new purposes.

- **Missouri** Governor Christoper Bond designated neighborhood rehabilitation a State policy priority for 1982, making donations under the Missouri Neighborhood Assistance Program eligible for a 70 percent tax credit rather than the ordinary 50 percent.

- **Pennsylvania** in 1981 revised its Neighborhood Assistance Act regulations to make certain community conservation activities eligible for a 70 percent tax credit rather than the normal 50 percent.

- **Virginia's** Neighborhood Assistance Act became effective July 1, 1982. A ceiling of $1.75 million in tax credits is in effect for 1982-83, but doubles and triples in the two succeeding years.

- **Wisconsin** passed legislation establishing a community development finance authority to provide administrative and technical assistance grants to CDC's. The authority, which will raise capital by offering tax credits to purchasers of stock and contributors, will establish a for-profit subsidiary to make venture capital investments in CDC's.

Fiscal and Financial Management Assistance

Legislative property tax exemptions have reached a point where Illinois' local governments will need outside help to meet their responsibilities in a time of governmental austerity, the State's Local Government Finance Study Commission concluded last year. Exemptions granted during the 1970's removed $20 billion of assessed valuation from the local property tax base – one quarter of what the total would have been otherwise in 1979. While sharply increased funding from Federal and State levels helped localities cope with lost income during this time, the future of these intergovernmental transfers is uncertain, as is relief guaranteed by Illinois' new law requiring the State to reimburse local governments for new mandates. The commission notes: "Until the General Assembly has shown its willingness to enact laws in accordance with the spirit of the new law, local officials cannot be certain that the mandate law will protect their budgets." To relieve some of this financial pressure, the panel recommended, among other things, that the State consider relying more on its income tax to finance education and to require improved local financial records as a means of assuring local access to the credit markets. [1]

Whatever the case in earlier times, the State role in providing local services is increasing, as the Illinois report illustrates. And Illinois is not an isolated example. In New Jersey where local governments were once left to raise their own funds and provide their own services, the State role has expanded with revenues reaped from income and sales taxes enacted in recent years. The result is that State dollars have become a critical element in many local budgets, a development that became clear when financial difficulties during 1981 forced Michigan and Minnesota to delay or cut back State revenue sharing payments.

In considering State fiscal and financial management assistance to distressed communities, this section examines – with one addition – four areas identified in the Illinois report: State revenue sharing, education finance, reimbursement of State mandates, and improved local access to credit markets. The addition is State assumption of local welfare costs. These five indicators are good representatives of local government's concern with local services and its relationship to the State. Education and welfare, among the services most strongly associated with local governments, have felt a stronger State presence in recent years as some of the financial burden attached to them has been lifted from the shoulders of property taxpayers. Fiscal relief for these and other programs has come not only in categorical aid, but also in State revenue sharing, reimbursements for costs and tax exemptions mandated by the State, and assistance with local borrowing.

[1]/ State of Illinois, Local Government Study Commission, *Report of the Local Government Study Commission: Findings and Recommendations*, Springfield, IL, Legislative Council Service, April 1981.

Not all of the indicators in this section, or the following one, are specifically targeted to distressed communities. For two indicators – State revenue sharing and education finance reform – only those programs that directly increased aid to hard-pressed areas were counted in this report. The other programs – mandate reimbursement, assumption of welfare costs, and credit assistance policies – are programs generally available to all communities. A case can be made, though, that they are proportionately more valuable to communities with strained financial resources. Consequently, any State program in these areas was included.

Current information for many of these indicators is not yet available. For example, disparity ratio data for education finance are from 1978-79, and public welfare expenditures are for 1979-80. Since this information is the most recent that is available, it is difficult to relate discernible trends to the effect of Reagan federalism on State and local government. Because State funding for the fiscal and financial management assistance indicators is so closely related to the States' own fiscal condition, the question becomes how current events will affect the trends of several years ago.

Revenue Sharing: 23 States

State revenue sharing, which began simply as a vehicle for returning revenues lost through State tax exemptions to local governments, has grown to a point where it is an indispensable part of some local budgets. This reordering of local finances has taken place as State legislators have made greater use of shared revenues to effect local property tax relief and target State dollars to localities with lagging revenues.

Accordingly, State payments to local governments increased almost tenfold between 1958 and 1978, growing from $687 million to $6.819 billion. These payments took various forms, 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 that for Federal revenue sharing. Not included in this figure – which represents a 331 percent increase, even after inflation is considered – are State categorical grants to local governments, piggyback taxes

Table 5

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 Reim-bursement	Credit Market Access
United States	23	11	30	12	41
New England					
Connecticut		x	x		x
Maine	x		x		x
Massachusetts	x	x	x	x	x
New Hampshire	x				x
Rhode Island			x	x	x
Vermont			x		
Delaware			x		x
Maryland			x		x
New Jersey			x		x
New York	x				x
Pennsylvania			x		x
Great Lakes					
Illinois	x	x	x	x	x
Indiana					x
Michigan	x	x	x	x	x
Ohio					x
Wisconsin	x		x		x
Plains					
Iowa		x			x
Kansas		x	x		
Minnesota	x	x			x
Missouri		x	x	x	x
Nebraska					
North Dakota		x			x
South Dakota					
Southeast					
Alabama			x		x
Arkansas	x		x		x
Florida				x	x
Georgia	x				x
Kentucky			x		x
Louisiana	x		x		x
Mississippi					x
North Carolina					x
South Carolina	x		x		
Tennessee	x	x		x	x
Virginia	x				x
West Virginia			x		x
Southwest					
Arizona	x				x
New Mexico		x	x		x
Oklahoma	x		x		x
Texas			x		x
Rocky Mountain					
Colorado				x	
Idaho				x	
Montana				x	x
Utah	x		x		x
Wyoming	x		x		
Far West					
California			x	x	x
Nevada	x				x
Oregon	x				
Washington	x		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

adopted at local option, and most payments to school districts and special districts. [2]

The origins of State revenue sharing were more modest, however. In the beginning, local governments were merely compensated for tax revenues that could not be collected because certain property was exempted or removed from the tax rolls. Into this category fell government property, public utilities, and personal property such as household goods, financial assets, business machinery, and farm animals. While reimbursement for these taxes continues in many places, lawmakers have used more flexible State tax systems to raise additional funds for distribution to hard-pressed local governments. State revenues have been the key local property tax relief and aid for small communities and large. The beneficiaries include both smaller jurisdictions that would not benefit from particular tax bases, and central cities with fiscal needs that outstrip their resources.

As noted earlier, reimbursement for lost property tax revenues still makes up a large part of shared revenues. Still other taxes, such as sales or severance taxes, are simply collected by the State and returned to the jurisdiction generating them. Some revenues are returned to local jurisdictions on a per capita basis, a process which equalizes fiscal disparities between local governments to a limited degree. Further equalization is achieved by formulas that include such factors as the demand for governmental services in the jurisdiction, its ability to raise taxes, and the use it has made of its tax base. Of $6.6 billion distributed through 49 State revenue sharing programs in 1977, less than half was distributed according to any equalizing formulas. Approximately 40 percent of the total consisted of property tax reimbursements and tax receipts returned to the local government of origin. Another 45 percent was based on population, tax capacity, tax effort, or other need factors. The remaining funds were distributed according to factors which could not be identified. [3]

For this report, *only States that shared more than 50 percent of their revenues according to equalizing factors were counted. The number of States (23) has not changed since last year's report, since more recent data are not available (Table 6).* A study published last year by the Center for Governmental Research, Inc., indicates that 41 States have enacted revenue sharing programs with equalizing factors, but it does not specify what percentage of funds the factors affect. [4] Appendix D describes the 49 State revenue sharing programs.

During 1981, the importance of revenue sharing to local governments was most apparent in States that have directed large amounts of funding to the local level but experienced severe financial strains themselves during the year.

- **Michigan** municipalities saw State revenue sharing payments delayed for a month, and then cut by $17.6 million as a result of the State's fiscal crisis.

- In **Minnesota,** the State was forced in late 1981 by its own cash flow difficulties to issue certificates that served as IOU's for delayed State aids to local governments. City and county officials pressured lawmakers for these guarantees because, without the State aid, their jurisdictions could have suffered lowered debt ratings as a result of finishing the year with back deficits.

- In **New York,** an $80 million local aid package was vetoed by Governor Hugh Carey in a showdown with the Legislature over the State's budget. The program was first passed last year to ease the pressures of inflation on a cap on the State's revenue sharing program.

Education Finance: 11 States

The limitations of the local property tax underscore the importance education finance reform as a way for States to assist distressed communities. With both local government and elementary and secondary education heavily dependent on the property tax, both feel the pinch when these revenues are limited. In large cities, the phenomenon is described as "municipal overburden," the overriding demand for other services that drains resources from education. [5] The effect is the same, however, in smaller, poorer jurisdictions with fewer needs but even less revenue to draw on. Increased State funding for local education is one way of relieving the pressure of competing interests on the property tax in distressed communities.

Spurred by the U.S. Supreme Court decision in *Serrano v. Priest,* many States have sought during the last decade to reform their education finance systems and so reduce the disparities between spending per pupil in rich and poor school districts. While State court suits have been necessary in some instances, Legislatures have taken the initiative in others to adjust formulas for distributing State education dollars. Their efforts have taken three basic forms, according to the Education Commission of the States. In the first, the State assures each district of a "foundation" or minimum level of funding per pupil, which may be supplemented at the local level. In others, the State distributes aid so that equal local taxing effort produces comparable funding per pupil across the State. This approach may be known as "district power equalization," "guaranteed tax base," "guaranteed yield," "resource equalizer," or "percentage equalizing." Finally, some States use two-tier systems that feature taxing power equalization above the State-

[2] Advisory Commission on Intergovernmental Relations, *The State of State-Local Revenue Sharing* (M-121), Washington, DC: U.S. Government Printing Office, December 1980, p. 2.

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

[4] Patricia K. Malgieri and Friedrich J. Grasberger, *Intra-state, Intra-regional, Intra-county General Revenue Sharing Formulas: An Inventory,* Rochester, NY, Center for Governmental Research, Inc., July 1981, pp. 8-10.

[5] Advisory Commission on Intergovernmental Relations, *Improving Urban America: A Challenge to Federalism* (M-107), Washington, DC, U.S. Government Printing Office, September 1976, p. 41.

Table 6

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]	O	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 Government 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 7

Estimated Revenue Receipts for Elementary and Secondary Schools, By Governmental Source, By State: 1981-82

	Revenue Receipts by Source (in millions)				Percentage Distribution of Receipts — Total			Percentage Distribution of Receipts — Excluding Federal	
Region and State	**Total**	**Federal**	**State**	**Local and Other**	**Federal**	**State**	**Local and Other**	**State**	**Local and Other**
U.S. Total	$110,065	$8,887	$53,833	$47,346	8.1	48.9	43.0	53.2	46.8
New England	6,676	473	2,384	3,821	7.1	35.7	57.2	38.4	61.6
Connecticut	1,599	97	544	958	6.0	34.0	59.9	36.2	63.8
Maine	514	51	253	211	9.9	49.1	41.0	54.5	45.5
Massachusetts	3,483	271	1,339	1,873	7.8	38.4	53.8	41.6	58.4
New Hampshire	421	17	29	375	3.9	6.9	89.2	7.2	92.8
Rhode Island	430	23	155	252	5.3	36.1	58.6	38.1	61.9
Vermont	230	16	63	151	6.9	27.5	65.6	29.5	70.5
Mideast 1/	23,487	1,227	9,670	12,589	5.2	41.2	53.6	43.5	56.5
Delaware	337	36	229	72	10.5	68.0	21.4	76.1	23.9
District of Columbia	299	45	...	254	15.1	...	84.9	...	...
Maryland	2,307	156	938	1,213	6.8	40.7	52.6	43.6	56.4
New Jersey	4,572	163	1,803	2,607	3.6	39.4	57.0	40.9	59.1
New York	10,072	378	4,050	5,644	3.8	40.2	56.0	41.8	58.2
Pennsylvania	5,900	450	2,650	2,800	7.6	44.9	47.5	48.6	51.4
Great Lakes	20,789	1,622	8,598	10,569	7.8	41.4	50.8	44.9	55.1
Illinois	5,792	500	2,243	3,049	8.6	38.7	52.6	42.4	57.6
Indiana	2,333	141	1,413	779	6.0	60.6	33.4	64.5	35.5
Michigan	5,411	437	2,018	2,956	8.1	37.3	54.6	40.6	59.4
Ohio	4,812	393	2,005	2,414	8.2	41.7	50.2	45.4	54.6
Wisconsin	2,441	151	917	1,373	6.2	37.6	56.2	40.1	59.9
Plains	8,598	588	3,764	4,246	6.8	43.8	49.4	47.0	53.0
Iowa	1,412	85	592	735	6.0	41.9	52.0	44.6	55.4
Kansas	1,248	80	546	622	6.4	43.7	49.9	46.7	53.3
Minnesota	2,621	137	1,527	957	5.2	58.3	36.5	61.5	38.5
Missouri	2,021	175	776	1,070	8.7	38.4	53.0	42.0	58.9
Nebraska	741	57	124	561	7.6	16.7	75.7	18.1	81.9
North Dakota	269	21	122	126	7.7	45.3	47.0	49.1	50.9
South Dakota	287	34	78	175	11.8	27.2	61.0	30.8	69.2
Southeast	21,187	2,501	11,636	7,050	11.8	54.9	33.3	62.2	37.8
Alabama	1,081	160	710	211	14.8	65.7	19.5	77.1	22.9
Arkansas	822	114	453	254	13.9	55.2	30.9	64.1	35.9
Florida	4,280	350	2,200	1,730	8.2	51.4	40.4	56.0	44.0
Georgia	2,326	253	1,282	790	10.9	55.1	34.0	61.8	38.2
Kentucky	1,350	160	940	250	11.9	69.6	18.5	79.0	21.0
Louisiana	1,650	180	930	540	10.9	56.4	32.7	63.3	36.7
Mississippi	933	228	494	210	24.5	53.0	22.6	70.1	29.9
North Carolina	2,378	325	1,521	532	13.7	63.9	22.4	74.0	26.0
South Carolina	1,287	175	734	377	13.6	57.1	29.3	66.1	33.9
Tennessee	1,687	273	795	620	16.2	47.1	36.7	56.2	43.8
Virginia	2,497	194	1,014	1,290	7.8	40.6	51.6	44.0	56.0
West Virginia	897	88	562	246	9.9	62.7	27.5	69.5	30.5
Southeast	11,294	1,170	5,977	4,147	10.4	52.9	36.7	59.0	41.0
Arizona	1,421	162	639	620	11.4	45.0	43.6	50.8	49.2
New Mexico	748	90	569	89	12.0	76.1	11.9	86.5	13.5
Oklahoma	1,505	173	898	434	11.5	59.7	28.8	67.5	32.5
Texas	7,620	745	3,871	3,004	9.8	50.8	39.4	56.3	43.7
Rocky Mountain	3,561	250	1,607	1,705	7.0	45.1	47.9	48.5	51.5
Colorado	1,654	112	667	875	6.8	40.3	52.9	43.2	56.8
Idaho	410	35	225	150	8.5	54.9	36.6	60.0	40.0
Montana	457	38	224	195	8.3	49.0	42.7	53.4	46.6
Utah	740	45	403	292	6.1	54.5	39.4	58.0	42.0
Wyoming	300	20	87	193	6.6	29.1	64.3	31.2	68.8
Far West 2/	13,429	983	9,328	3,118	7.3	69.5	23.2	74.9	25.1
California	9,478	642	7,046	1,790	6.8	74.3	18.9	79.7	20.3
Nevada	326	26	181	119	8.0	55.4	36.6	60.2	39.8
Oregon	1,518	136	514	868	9.0	33.8	57.2	37.1	62.9
Washington	2,107	178	1,587	341	8.5	75.4	16.2	82.3	17.7
Alaska	562	23	450	89	4.1	80.1	15.8	83.5	16.5
Hawaii	481	50	419	12	10.4	87.1	2.5	97.2	2.8

1/ Includes Washington, D.C.
2/ Excludes Alaska and Hawaii

Source:
ACIR staff compilation and computation from National Education Association, *Estimates of School Statistics 1981-82*, Table 9, Washington, D.C., 1982.

guaranteed foundation level. The intent there is to prevent poorer school districts with an equal tax effort from lagging behind their richer counterparts after foundation funds are taken into account. [6]

A two-pronged test was used to identify States assisting their distressed communities by reforming school finance. The first was legislative adoption of an education finance reform policy, whether independently or under court order. The second was legislative implementation of that policy so as to reduce within-State disparities in expenditures per pupil. For this year's report, disparties for the two-year period between 1976-1977 and 1978-79 were examined.

Twenty-seven States met the first criterion by enacting reform policies through 1979, according to the Education Commission of the States. [7] Of these, 11 States narrowed the in-State gap in spending per pupil by districts at the 5th percentile and districts at the 95th percentile. (See Table 9.) While this number represents a considerable drop from the 18 States recorded last year, this year's figure reflects only the narrowing of disparities since the last report. Disparities remained constant in five States which reduced them in the previous seven years: Colorado, Florida, Illinois, South Carolina, and Texas. South Dakota, which reduced disparities under the 95:5 percentile ratio according to last year's report did so in the most recent two years as well. It is not counted, however, because it is no longer regarded by the Education Commission of the States as a reform State.

The data for this year's findings are difficult to confirm. For example, Hawaii is not counted because it has not adopted an education finance reform policy as described above. Nevertheless, the State's school districts are the only ones in the country with no disparities at all in spending per pupil, because primary and secondary education is a State function.

Also, it should be mentioned that States provide other forms of education assistance to distressed areas and disadvantaged persons that are not considered in this section. For example, by concentrating solely on education finance reform policies that reduce in-State disparities, the section ignores programs to aid special student populations such as to handicapped and limited English speaking children. It should be remembered, for example, that while Federal Government influence has increased the numbers of State special education programs, the States were the leaders in their initial development. Also not included in this section is the fact that many States, particularly those with large urban populations, distribute the majority of their general education aid to distressed areas where larger number of children attend the public schools. Moreover, it should be recognized that as States strive to meet their constitutional mandates to reduce disparities in spending per pupil, the overall education expenditure figures will target to distressed communities to an even greater extent.

Beyond those words of caution lie some discrepancies that are more difficult to explain. Measurements of the

Table 8

States Ranked According to State Percentage of State-Local General Expenditures, From Own Revenue Source, for Local Education, 1981-82

Local Education	
Hawaii	97.2
New Mexico	86.5
Alaska	83.5
Washington	82.3
California	79.7
Kentucky	70.0
Alabama	77.1
Delaware	76.1
North Carolina	74.0
Mississippi	70.1
West Virginia	69.5
Oklahoma	67.5
South Carolina	66.1
Indiana	64.5
Arkansas	64.1
Louisiana	63.3
Georgia	61.8
Minnesota	61.5
Nevada	60.2
Idaho	60.0
Utah	58.0
Texas	56.3
Tennessee	56.2
Florida	56.0
Maine	54.5
Montana	53.4
Arizona	50.8
North Dakota	49.1
Pennsylvania	48.6
Kansas	46.7
Ohio	45.4
Iowa	44.6
Virginia	44.0
Maryland	43.6
Colorado	43.2
Illinois	42.4
Missouri	42.0
New York	41.8
Massachusetts	41.6
New Jersey	40.9
Michigan	40.6
Wisconsin	40.1
Rhode Island	38.1
Oregon	37.1
Connecticut	36.2
Wyoming	31.2
South Dakota	30.8
Vermont	29.5
Nebraska	18.1
New Hampshire	7.2

Source: Compiled by ACIR staff from the National Education Association, Estimates of School Statistics, 1981-1982 (copyright 1981 by the National Education Association, all rights reserved).

6/ Allan Odden and John Augenblick, *School Finance Reform in the States: 1981* (Report No. F81-1), Denver, CO, Education Commission of the States, January 1981, p. 2.
7/ Education Commission of the States, "The Role of the Courts in School Finance Reform," unpublished chart, 1982.

effects of school finance formulas will vary with the factors that are considered. For example, the 95:5 percentile ratio used in this report is based on "core current education expenditures." This figure does not include either food service or transportation costs. Expenditures above the 95th percentile or below the 5th percentile are not weighed in order to exclude extremely high or low expenditures that will distort the statewide picture. Other formulas, which take into account factors such as local property values and income, may produce a substantially different picture of State efforts to reduce disparities in education spending.

The ratios used to identify States for this report illustrate one of the paradoxes of education finance reform: States that do enact reform programs do not necessarily reduce within-State spending disparities, while States that have not instituted reforms may nevertheless achieve that result. Thus, while South Dakota has not implemented the reform legislation passed several years ago according to the Education Commission of the States, it continues to whittle down spending disparities according to the 95:5 percentile ratio. And while Massachusetts' reforms were not to take effect until 1979-80, spending gaps narrowed significantly in the two years examined in this report.

Another paradox is that State assumption of a major portion of elementary and secondary education costs – a step that might be expected to equalize spending – does not necessarily do so. At least one explanation for this phenomenon has been offered. Researchers have found that school districts are likely to use some of their State's general aid for tax relief rather than increased educational spending. "On the other hand, almost all State or Federal categorical aid goes to increased spending; sometimes it even appears to stimulate addition local tax effort."[8]

Questions of mearsurement aside, it is clear that education funding fared particularly well at State and Federal hands during the 1970's and equally clear that current belt-tightening trends at all levels of government are becoming apparent in education funding. Federal aid to education grew at an annual rate of 10.2 percent in the six years before the 1981-82 school year, with increases in State aid more than keeping pace at 11 percent. The pattern has changed sharply this year, however. The growth of State aid has dropped to 6 percent, while the rate of local funding has jumped to 12 percent from 6 percent. "If this actually is a new trend," one observer notes, "it constitutes a startling reversal of a 10-year pattern that led to significant centralization of financing at the State level."[9]

Developments in the States in the last year reflected both the pressures on State finances and lawmakers' desires to maintain funding for education.

- **Michigan** school districts were hard hit by the State's inability to keep foundation aid payments abreast with inflation. Several districts, which must make up the differ-

Table 9

Within-State Disparities in Core Current Education Expenditures [1] Measured by Ratio of Expenditures at 95th and 5th Percentiles: [2] 1976-77 and 1978-79

Alabama	97.2	1.41
Alaska	1.77	2.64
Arizona [3]	1.43	NA[a]
Arkansas	1.80	1.85
California [3]	1.54	1.58
Colorado [3]	1.66	1.67
Connecticut [3]	1.83	1.75
Delaware	2.01	1.49
Florida [3]	1.41	1.41
Georgia	1.88	2.07
Hawaii	1.00	1.00
Idaho	1.50	1.54
Illinois	1.62	1.61
Indiana [3]	1.63	1.69
Iowa [3]	1.28	1.24
Kansas [3]	1.54	1.51
Kentucky	1.82	1.75
Louisiana	1.45	1.44
Maine [3]	1.60	1.60
Maryland [3]	1.64	1.79
Massachusetts [3]	2.24	1.18
Michigan [3]	1.78	1.73
Minnesota [3]	1.91	1.51
Mississippi	1.67	1.56
Missouri [3]	1.93	1.70
Montana [3]	NA[a]	NA[a]
Nebraska	1.67	1.59
Nevada	1.14	1.23
New Hampshire	1.57	1.64
New Jersey [3]	1.70	1.72
New Mexico [3]	1.48	1.38
New York	1.83	1.90
North Carolina	1.42	1.42
North Dakota [3]	1.61	1.49
Ohio [3]	1.94	2.04
Oklahoma	1.55	1.55
Oregon	1.40	1.42
Pennsylvania [3]	1.71	1.82
Rhode Island	1.53	1.61
South Carolina [3]	1.64	1.67
South Dakota	1.93	1.60
Tennessee [3]	1.89	1.87
Texas [3]	1.66	1.69
Utah [3]	1.30	1.42
Vermont	1.77	1.92
Virginia	1.82	1.83
Washington [3]	1.78	1.84
West Virginia	1.28	1.27
Wisconsin [3]	1.55	1.70
Wyoming	1.51	1.57

[1] Core current expenditures are calculated by subtracting food services and transportation costs from total expenditures to create a consistent measure of education expenditures for all States. Data includes only school district expenditures. State and intermediate expenditures are excluded.

[2] The 95:5 ratio measures school district expenditures at the 95th percentile in relation to those at the 5th percentile. Where there are no disparities, the ratio will be 1.00.

[3] States that have adopted education reform policies, according to the Education Commission of the States.

[a] Not available.

Source: ACIR staff compilation from U.S. Department of Education, National Center for Education Statistics, unpublished tabulations.

[8]/ Odden and Augenblick, *op. cit.*, p. 42.

[9]/ Kathleen E. Adams, "A Changing Federalism: The Condition of the States," Denver, CO, Education Commission of the States, unpublished paper, March 1982, p. 10.

Table 10

State and Local Expenditures for Public Welfare, by Level of Government, 1980
(Dollar amounts in millions)

	Federal Expenditure:		State Expenditure:		Local Expenditure:		State and Local Expenditure:	
State	Amount (1)	Percentage (2)	Amount (3)	Percentage (4)	Amount (5)	Percentage (6)	Amount (7)	State Percentage (8)
U.S. Total	$24,920.5	52.7%	$19,190.1[1]	40.9%	$3,026.2	6.4%	$22,210.9[1]	86.4[1]
New England	$1,709.4	49.9%	$1,595.6	46.6%	$121.6	3.5%	$1,717.2	92.9%
Connecticut	$359.4	54.4%	$270.5	41.0%	$30.2	4.6%	$300.7	90.0%
Maine	$166.7	61.6%	$95.3	35.2%	$8.4	3.1%	$103.7	91.9%
Massachusetts	$853.5	44.4%	$1,034.3	53.8%	$35.4	1.8%	$1,069.7	96.7%
New Hampshire	$78.5	46.8%	$42.7	25.4%	$46.8	27.9%	$89.5	47.7%
Rhode Island	$166.4	54.7%	$137.3	45.1%	$0.7	0.2%	$138.0	99.5%
Vermont	$84.9	84.5%	$15.5	15.4%	$0.1	0.1%	$15.6	99.4%
Mideast	$6,765.1	55.6%	$3,764.6	30.9%	$1,641.8	13.5%	$5,406.4	69.6%
Delaware	$47.8	48.4%	$50.7	51.3%	$0.3	0.3%	$51.0	99.4%
Washington, D.C.	$177.9	53.5%	$0.0	0.0%	$154.4	46.5%	$154.4	100.0%
New York	$3,776.1	57.4%	$1,507.6	22.9%	$1,290.8	19.6%	$2,798.4	53.9%
Pennsylvania	$1,489.0	52.1%	$1,239.5	43.4%	$127.6	4.5%	$1,367.1	90.7%
Great Lakes	$4,358.8	48.1%	$4,493.4	49.5%	$218.1	2.4%	$4,711.5	95.4%
Illinois	$1,134.2	44.6%	$1,411.8	55.5%	$0.0	0.0%	$1,411.8	100.0%
Indiana	$371.2	55.8%	$203.2	30.5%	$91.0	13.7%	$294.2	69.1%
Michigan	$1,314.9	47.3%	$1,532.3	55.1%	$0.0	0.0%	$1,532.3	100.0%
Ohio	$812.1	44.4%	$839.5	45.9%	$178.3	9.7%	$1,017.8	82.5%
Wisconsin	$726.4	58.1%	$506.6	40.5%	$16.8	1.3%	$523.4	96.8%
Plains	$1,509.6	50.0%	$1,216.3	40.3%	$290.6	9.6%	$1,506.9	80.7%
Iowa	$242.6	43.4%	$268.8	48.0%	$48.2	8.6%	$317.0	84.8%
Kansas	$196.8	52.7%	$169.4	45.3%	$7.5	2.0%	$176.9	95.8%
Minnesota	$525.1	50.7%	$303.5	29.3%	$206.9	20.0%	$510.4	59.5%
Missouri	$309.6	47.0%	$351.7	53.3%	$0.0	0.0%	$35.7	100.0%
Nebraska	$109.0	56.8%	$64.9	33.8%	$17.9	9.3%	$82.8	76.4%
North Dakota	$54.8	59.8%	$28.3	30.9%	$8.6	9.4%	$36.9	76.7%
South Dakota	$71.7	68.4%	$29.7	28.3%	$3.4	3.2%	$33.1	89.7%
Southeast	$4,488.1	66.2%	$1,829.2[1]	29.2%	$308.8	4.6%	$2,132[1]	85.6[1]
Alabama	$389.2	70.8%	$154.0	28.0%	$6.6	1.2%	$160.5	95.9%
Arkansas	$261.9	81.2%	$57.1	17.7%	$3.4	1.1%	$60.5	94.4%
Florida	$429.6	56.5%	$279.5	36.7%	$51.7	6.8%	$331.2	84.4%
Georgia	----[1]	----[1]	----[1]	----[1]	----[1]	----[1]	----[1]	----[1]
Kentucky	$399.6	61.6%	$237.7	36.7%	$11.0	1.7%	$248.7	95.6%
Louisiana	$441.4	68.3%	$197.4	30.6%	$7.2	1.1%	$204.6	96.5%
Mississippi	$276.4	70.3%	$104.0	26.5%	$12.7	3.2%	$116.7	89.1%
North Carolina	$533.1	69.3%	$140.2	18.2%	$96.1	12.5%	$236.3	59.3%
South Carolina	$217.7	60.0%	$136.2	37.5%	$9.2	2.5%	$145.4	93.7%
Tennessee	$406.4	68.2%	$160.1	26.9%	$29.6	5.0%	$189.7	84.4%
Virginia	$429.0	55.8%	$267.8	34.9%	$71.4	9.3%	$339.2	79.0%
West Virginia	$154.1	60.7%	$95.2	37.5%	$4.5	1.8%	$99.7	95.5%
Southwest	$1,546.4	64.4%	$769.8	32.0%	$86.0	3.6%	$855.8	90.0%
Arizona	$63.1	33.8%	$84.5	45.3%	$39.0	20.9%	$123.5	68.4%
New Mexico	$109.3	65.7%	$52.3	31.4%	$4.9	2.9%	$57.2	91.4%
Oklahoma	$343.5	62.7%	$208.1	38.0%	$0.0	0.0%	$208.1	100.0%
Texas	$1,030.5	68.7%	$424.9	28.3%	$45.5	3.0%	$470.4	90.3%
Rocky Mountain	$509.2	59.3%	$304.4	35.1%	$47.9	5.6%	$349.3	86.3%
Colorado	$226.5	56 .3%	$152.5	37.9%	$23.3	5.8%	$175.8	86.7%
Idaho	$68.0	58.4%	$44.7	38.4%	$3.7	3.2%	$48.4	92.4%
Montana	$75.5	69.5%	$15.1	13.9%	$18.0	16.6%	$33.1	45.6%
Utah	$118.6	63.0%	$67.7	35.9%	$2.1	1.1%	$69.8	97.0%
Wyoming	$20.6	48.1%	$21.4	50.0%	$0.8	1.9%	$22.2	96.4%
Far West	$3,863.3	41.9%	$5,041.2	54.7%	$308.5	3.3%	$5,349.7	94.2%
California	$3,178.1	40.5%	$4,394.3	56.0%	$276.5	3.5%	$4,670.8	94.1%
Nevada	$44.3	55.7%	$30.2	37.9%	$5.1	6.4%	$35.3	85.6%
Oregon	$282.7	59.4%	$170.9	35.9%	$22.7	4.8%	$193.6	88.3%
Washington	$358.2	44.3%	$445.8	55.2%	$4.2	0.5%	$450.0	99.1%
Alaska	$40.6	35.0%	$75.1	64.7%	$0.4	0.3%	$75.5	99.5%
Hawaii	$130.0	55.1%	$103.5	43.9%	$2.5	1.1%	$106.0	97.6%

[1]Public welfare expenditures for Georgia are included with health and hospital expenditures. Data necessary for separation by function and by source of financing are not readily available for FY 1980.

[2]Excluding Alaska and Hawaii.

ence between State aid and their costs, were forced to close temporarily when voters rejected property tax increases.

- In **New York,** the Legislature added $210 million in school aid to Governor Hugh Carey's budget. He then vetoed the extra funding as part of his effort to balance the budget passed by the Legislature. Lawmakers earlier turned down the Governor's proposal for overhauling education finance to conform to a decision handed down by the State's appellate court. That decision was later overturned in June by the Court of Appeals, New York's highest court. The Court ruled there is no constitutional requirement that school spending be equal among districts.

- **Oklahoma** and **Arkansa** were in the process of adopting finance reform programs. The Oklahoma formula was passed by the Legislature in the summer of 1981 to become effective with the 1981-82 school year. A Governor's task force was considering school finance proposals in Arkansas after the State's Supreme Court overturned the existing system in October 1981.

- **Pennsylvania** Governor Dick Thornburgh proposed $127 million in block grants to the State's 501 school districts but the legislature decided to distribute $72 million to the districts above their existing aid, frozen from last year. Another proposal, to allow school districts to use a local-option income tax in place of some property tax revenues, was not approved.

Public Welfare: 30 States

The Social Security Act of 1935, passed in the Depression, established a social welfare structure that continues to shape local welfare costs even today. By staking out the first strong Federal presence in the area and displacing a system that relied mostly on local and private efforts, the law revolutionized the way the Nation met the needs of its less fortunate citizens. [10] As a result, some local governments find much of their welfare spending today directed toward programs also funded by Federal and State dollars. This is true primarily where States pass some of their required share of the Federal programs to the local level. There all three levels of government – Federal, State, and local – contribute to such programs as Aid to Families with Dependent Children (AFDC), Medicaid, and social services provided under Title XX of the Social Security Act. Local contributions to welfare are not restricted to Federal programs, however, but also may be required by the State for general assistance and medical care for the indigent.

One factor in the State's decision to mandate a local share of welfare costs is the organization of welfare costs within the State. For example, States are far more likely to require a local contribution if welfare programs are administered by the counties, according to the American Public Welfare Association. Apart from that requirement, the county-administered systems are likely to have a freer hand in providing services, although they do so with State assistance. In State-administered systems, on the other hand, decisions are made on the State level and implemented locally by State employees. While the line between the two systems is sometimes blurred, approximately 17 States now have county-administered systems. [11]

Requirements governing local program participation vary among the States. In fiscal year 1977, for example, eight States required local governments to pay a portion of Medicaid administrative costs, and 10 mandated a local contribution to the program payments. AFDC costs were similarly apportioned, with local governments in four States paying some administrative costs and those in another nine paying a portion of benefits. Most States that shared program costs also had county-administered welfare systems. [12]

This local share weighs more heavily on counties in some States than in others. For example, until 1983, when the State will begin assuming local Medicaid costs, New York State's counties and New York City pay a quarter of Medicaid costs. In Westchester County, this portion of the county's budget has climbed from $31.6 million in 1976 to a budgeted $57.8 million for 1982. [13] At that rate, Medicaid alone will consume more than one-third of the $142.6 million Westchester County expects to collect in property taxes during 1982. Not all counties that administer their own welfare programs carry this heavy a financial burden. State governments in California, Maryland, Alabama, and Wyoming, where welfare systems are also county-administered, all pay more than 94 percent of State-local welfare costs.

Soaring Medicaid costs have put the States as well as local governments in a bind. Between 1978 and 1979, for example, State Medicaid payments jumped 17.9 percent, from $8.4 billion to $9.9 billion. During the same time, their total 14 general fund expenditures were rising only 9.4 percent. [14]

While the State share of State and local public welfare expenditures ranges from 45.6 percent in Montana to 100 percent in Missouri and Oklahoma, *States were counted in this report if their share was 90 percent or more.* The number of States assuming local public welfare costs under that test rose this year to 31 from 25 last year. Most regions

[10]/ For a more detailed discussion of the present system's origin, see: Advisory Commission on Intergovernmental Relations, *Public Assistance: The Growth of a Federal Function* (A-79), Washington, DC, U.S. Government Printing Office, July 1980.

[11]/ According to the American Public Welfare Association, they include: Alabama, California, Colorado, Georgia, Indiana, Maryland, Minnesota, Montana, Nebraska, New Jersey, New York, North Carolina, North Dakota, Ohio, South Carolina, Virginia, Wisconsin, and Wyoming.

[12]/ Congress of the United States. U.S. Senate. Committee on Finance, *Statistical Data Related to Public Assistance Programs,* 96th Cong., 2nd sess., 1980, pp. 12-17, 95-100.

[13]/ James Feron, "The Mandated Crunch on County Funds," *The New York Times,* January 17, 1982, p. xx.

[14]/ David Beam, unpublished discussion paper prepared for the Advisory Commission on Intergovernmental Relations, Seventy-Second Meeting on January 15-16, 1981.

of the country added at least one State. In the New England and Mideast regions, the new additions meant that only two States, New Hampshire and New York, were below the 90 percent mark. Despite Missouri, State participation in public welfare costs was lowest in the Plains States, where most were in the 70-80 percent range.

It should be noted that, since the most recent data is for 1980, this increase took place more than a year ago. Since then, public welfare programs have been hampered by cutbacks on the Federal level and the Reagan Administration's proposal to rearrange Federal and State responsibilities for Medicaid, AFDC, and food stamps. The States were left with potentially higher bills for welfare because of Federal adoption of more restrictive eligibility requirements for AFDC, the primary Federal-State welfare program, and a cut in funding for programs in the new social services block grant by 23 percent. Complicating decisions, though, was the States' increasingly tight fiscal condition, as a result of the recession and increased welfare caseloads.

While some States attempted to cushion the impact of the Federal cuts and the economic slowdown, they were in the minority. Most States were holding the line on benefits in 1981 or even cutting them. Five States – Arkansas, Idaho, Nevada, Oregon, and Washington – reduced AFDC payments below 1980 levels. Only 19 States increased the payments by a median of 5 percent, the lowest in more than 10 years. The year before, 29 States increased AFDC benefits by a median of 8 percent. [15] Prospects for more State action appeared unchanged early in 1982, when a *New York Times* survey of the States showed that no State intended to make up all Federal reductions with its own funds. [16]

State Mandate Reimbursement: 12 States

A significant portion of local government spending is determined not by city or county officials, but by Federal and State requirements that local governments provide certain services or add to already exising ones. While many of these mandates are necessary to protect the health and safety of people and buildings or to ensure adequate public sector financial management practices, some regulations can pose a significant burden. A 1978 ACIR study, for example, showed that four States – California, Minnesota, New York, and Wisconsin – mandated local government activity in more than 50 areas.[17]

Local governments often find their responsibilities adjusted by the State. Initially, the State determines local government structure and establishes procedures to safeguard citizens from wrongdoing by local officials. Beyond conforming with these "ground rules," localities are often required to undertake new programs or "enrich" existing ones in areas for which they are already responsible, such as education, welfare, health, and hospitals. States also grant

Table 11

States Ranked According to State Percentage of State-Local General Expenditures, From Own Revenue Source, for Public Welfare, 1980

Public Welware [1] (including Medicaid)	
Illinois	100.0
Michigan	100.0
Missouri	100.0
Oklahoma	100.0
Alaska	99.5
Rhode Island	99.5
Delaware	99.4
Vermont	99.4
Washington	99.1
Maryland	98.0
Hawaii	97.6
Utah	97.0
Wisconsin	96.8
Massachusetts	96.7
Louisiana	96.5
Wyoming	96.4
Alabama	95.9
Kansas	95.8
Kentucky	95.6
West Virginia	95.5
Arkansas	94.4
California	94.1
South Carolina	93.7
Idaho	92.4
Maine	91.9
New Mexico	91.4
New Jersey	90.7
Pennsylvania	90.7
Texas	90.3
Connecticut	90.0
South Dakota	89.7
Mississippi	89.1
Oregon	88.3
Colorado	86.7
Nevada	85.6
Iowa	84.8
Florida	84.4
Tennessee	84.4
Ohio	82.5
Virginia	79.0
Nebraska	78.4
North Dakota	76.7
Indiana	69.1
Arizona	68.4
Minnesota	59.5
North Carolina	59.3
New York	53.9
New Hampshire	47.7
Montana	45.6

[1]Data for Georgia are not available for FY 1980.

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

15/ Adam Clymer, "States, Pressed by Inflation and Cuts, Try to Hold Line on Welfare Benefits," *New York Times*, November 3, 1981. p. xx.
16/ Robert Pear, "Few States Seek to Ease Effects of Cuts for Poor," *New York Times*, January 12, 1982, p. 1.
17/ Advisory Commission on Intergovernmental Relations, *State Mandating of Local Expenditures* (A-67), Washington, DC, U.S. Government Printing Office, July 1978, pp. 2-6.

exemptions from local taxes and require local adherence to State standards for personnel and retirement benefits. The most common mandates, according to the ACIR survey, concern solid waste disposal standards, special education programs, retirement systems, and workers' compensation for local employees other than police, fire, and education personnel.

Despite the extent of State – and Federal – mandates, their dollars-and-cents impact on local government is hard to quantify, partly for definitional reasons. Nevertheless, while the benefits of government mandates are exceptionally difficult to determine, estimates of costs flowing from specific State and Federal laws or regulations have been attempted. The League of Oregon Cities estimated that State and Federal mandates in nine program areas added $6.1 million to city spending for the two fiscal years between 1972 and 1975. Of this total, $3.1 million was traced to State mandates concerning retirement benefits, life insurance, workers' compensation, and unemployment insurance. The remaining $3 million in added costs was split between new State and Federal requirements. More recently, Westchester County, NY, officials estimated in January 1982 that 65 percent of the county's anticipated property tax revenue for the year would be consumed by expenditures mandated by the Federal and State governments. [18] In New York City, Mayor Edward Koch has said that in 1982 the 47 Federal and State mandates with which the city must comply costs $711 million in capital expenditures, $1.25 billion expense-budget dollars, and $1.66 billion in lost revenue.

The 1981 report identified 14 States as having across-the-board mandate reimbursement policies. Closer examination of these States' legislation has resulted in the elimination of Arizona, Virginia, and Idaho from this year's report. Their absence and the addition of a new State, Colorado, brings the total for this year to 12. (See Appendix D.) Not included in this figure are State laws that reimburse expenditures or tax losses attached to specific programs.

The Colorado law, which became effective in July 1981, may be more effective in eliminating hidden mandates than in guaranteeing State reimbursement. Like similar laws in other States, it requires the Legislature to fund mandates for new or expanded programs or to provide a source of revenue for them. However, it also gives lawmakers the alternative of providing explicitly that added costs shall be borne by property tax revenues subject to State and local revenue and spending limits.

The Colorado statute nevertheless fits into a pattern for mandate reimbursement provisions that has emerged in recent years. As in Missouri and Massachusetts, which approved similar restrictions in 1980, mandate reimbursement is tied to new limits on revenues and expenditures by the State itself. The legislation or constitutional amendment prohibits the State not only from exceeding the limits but also shifting the responsibility and the costs of new or added services to local governments.

[18]/ Feron, *loc. cit.*

Local Credit Market Access: 41 States

State efforts to improve their local governments' access to the credit markets are closely tied to the States' regulation of local finances generally. Besides borrowing, State oversight often reaches to local budgeting and accounting as well. The State's concern in any of these areas is as much for its own fiscal well-being as the localities'. In New Jersey, for example, extensive State control of local finances dates from the Depression, when many cities and counties, became insolvent during the boom years of the 20's. Fear of local defaults is not merely a holdover from the Depression. The experience of New York City and Cleveland in recent years has made State governments more aware of the possibility of local financial emergencies and their consequences. One fear, expressed in a Florida ACIR study on the use of fiscal indicators to predict local financial crises, was that "under certain conditions, a default by one local government would impair the borrowing ability of other local governments." [19]

To be counted under this indicator, States had to provide support for local borrowing in one of four ways, which vary in their strength and the amount of State involvement they require. They include: 1) bond validation, either mandatory or optional; 2) State guarantees of debt; 3) State assistance as a financial intermediary; and 4) State aid for local debt service payments. The increase from last year is attributable to the inclusion of five States with optional bond validation procedures that did not figure in the 1981 total. The only new program identified since last year was the establishment of a municipal bond bank in Nevada.

Although State efforts to improve local credit access appear almost universal, certain patterns emerge when the five factors considered in this indicator are examined separately. For example, only 20 of the 40 States help local governments and school districts in more than one of the ways. Of these 20, more than half are in 16 Northeastern States. Patterns appear in the individual factors as well. Five of the six New England States act as financial intermediaries for certain local governments borrowing. Four of five States in the Mideast region provide State said for certain local debt service payments. Bond validation procedures, which 28 States offer in some form, are the most widely used of the four credit access devices. Five of six Great Lakes States provide them, as do 13 of the 16 States in the Southeast and Southwest.

Validation is intended to lower borrowing costs by assuring bond purchasers that their investment is secure. The process offers varying amounts of security, however, depending on the statute involved. In general, the bond issue will be examined for conformity with State requirements and approved if all necessary steps have been taken by the local government. Validation by a court will restrict or eliminate later challenges by citizens or taxpayers as to the issue's legality. Validation by the State Attorney General or a

[19]/ State of Florida. Florida Advisory Council on Intergovernmental Relations, *The Use of Fiscal Indicators to Predict Financial Emergencies in Florida* (80-4), Tallahassee, FL, Office of the Secretary of the Senate, 1980, p. 100.

commission may have the same effect or merely authorize the issue. [20]

States also attempt to make local bonds attractive to investors by guaranteeing investors that they will supplement local funds, if necessary, to meet debt service payments. In some cases, the State's guarantee may be unconditional, as when its full faith and credit is pledged to the bonds. Or it may be more limited. New Hampshire, for example, guarantees only 75 percent of the debt service for projects in school districts that experience an annual enrollment increase of 10 percent or more. And some guarantees are not backed by the State's full faith and credit. Michigan's Qualified School Bond Fund, which will provide loans to school districts to meet debt service, is supported instead by State borrowing. Only four States – California, Michigan, Minnesota, and New Hampshire – provide guarantees for certain local borrowing. [21]

By contrast, States generally do not pledge their own credit at all when borrowing for their local governments. Although the State acts as an intermediary in these cases, the debt is to be repaid by the local governments. The State's purpose in acting as a middleman is to enable local governments, through the pooling of smaller local issues at the State level, to tap the national credit market. Whether this is accomplished by a municipal bond bank or a special purpose entity such as a school building authority, the effect is the same. The financial intermediary issues its bonds and then relends the proceeds to the local units. Since repayment to the investors depends on regional economic conditions that are likely to affect all of the local borrowers simultaneously, some States have offered assurances to investors. By pledging their full faith and credit, the Maine School Building Authority has gone the farthest. Other devices for making the bonds attractive include various reserve funds for debt service payments and pledging the State's moral obligation. This last option also includes a debt reserve fund which must be replenished as needed. There is, however, no legal obligation to the investor, only the moral one suggested by the bond's name. Six States – Alaska, Maine, Nevada, New Hampshire, North Dakota, and Vermont – now have operating municipal bond banks. Thirteen other States act as intermediaries in borrowing for specific purposes, such as schools, sewage treatment facilities, capital improvements, and water projects.

Apart from using or pledging their own credit, States have attempted to facilitate local borrowing by using State aid to meet or back up local debt service payments. Eight States subsidize all or part of local debt service payments, particularly for school construction. In other States, however, aid originally directed to the local government is applied to debt service instead. In New Jersey, this is accomplished by the Qualified Bond Program, which was adopted in 1976 to attract investment in the State's municipal bonds. While State aid to local governments is offered as an inducement to invest in New Jersey's municipal debt, it is provided in several other States when there is a default by the local borrower. Aid dollars to local governments or school districts in New York, Virginia, and Pennsylvania, for example, will be diverted to bondholders in the event of a default. A total of 12 States either subsidize local debt service payments or provide for the application of State aid to debt service.

[20]/ Jack F. Haley, Jr., "A Study of State-Imposed Municipal Bond Validation Requirements," Washington, DC, Government Finance Research Center of the Municipal Finance Officers Associatioin, Nov. 1979, pp. 4-6.

[21]/ For further information on State credit assistance programs discussed in this section, see: Ronald W. Forbes and John E. Petersen, "Special Credit Assistance to Local Governments," *Municipal Bond Research: Special Report*, New York, NY, First Boston Corp., 1978.

Enhancing Local Self-Help Capabilities

Many observers are now convinced that, for too long, the growth of Federal grants to State and local governments obscured the need for fundamental changes in the way cities, counties, and towns structure and finance their operations. Senator David Durenberger of Minnesota made this point in a speech on the President's "New Federalism" proposals. He said:

"Any new federalism that we design to meet the challenges of the eighties will have to recognize that we can no longer afford to paper over fiscal disparities with Federal grant money. That it is time to look to the fiscal and political structure of States and local government as the sources of a new federalism."[1]

Enhancing local government's ability to help itself is frequently offered as a solution to many of the problems facing distressed communities. Federal aid cuts, fewer State resources, and limitations on property levies all imply placing greater reliance on local self-help measures. A comparison with last year's report on the *States and Distressed Communities* reveals that some progress has been made in adding to these capabilities, but also that setbacks have occurred in other areas where localities could help themselves. In general, for the three indicators covered in this section, the major trends that surfaced over the past year are:

- Tax increment financing, considered an attractive "self-help" tool in developing blighted areas during the 1970's, may be falling on harder times. Because inflation helped drive up property values, a drop in the rate of inflation may make tax increment financing, which depends on increases in property values to work, a less promising financing mechanism. Limitations on property levies had already placed a damper on using tax increment financing in States like California, where strict property tax lids are in effect.

- Local taxing authority, probably the most important of the three indicators considered under "self-help" measures, changed very little over the past year. The biggest change in local finance has taken place in so-called "non-tax sources," user fees and other charges for services. If the record of the past year or two is prologue, "pay-as-you-go-government" will probably become even more commonplace as the decade of the 1980's continues. Although few changes occurred in local sales and income tax rates for the purposes

[1]/ Senator David Durenberger, "A View from the Senate," *National Civic Review*, January 1982, p. 29.

of adding to general revenues, a number of States appeared willing to let localities raise tax rates if revenues were earmarked for specific purposes such as mass transit, provided the voters approved.

● Changes in State grants of local discretionary authority are difficult to measure on a yearly basis. Some believe that the Supreme Court's 1982 decision in *Community Communications Corp. v The City of Boulder* is a blow to local "home rule" authority. However, to what degree the decision will impinge upon local discretionary authority remains to be seen.

Tax Increment Financing: 28 States

Tax increment financing (TIF) is considered an important financing mechanism for local development in the 28 States that currently authorize its use. Originated as a way to generate local matching funds for Federal grants three decades ago, tax increment financing is now viewed primarily as a "self help" tool for localities because it relies on local property tax revenues and is administered and monitored almost entirely by local government officials. The purpose of tax increment financing is to "provide a method whereby slum or blighted areas can effectively pay for their own development."[2] TIF is an attractive financing tool because all jurisdictions with authority to tax in a given tax increment district continue to receive the same amount of revenue every year over the life of the district. Only the increased tax revenues attributable to improvements in the district revert to the jurisdiction charged with developing the area. Those revenues are earmarked for the area's development or retiring debt incurred to assist in its redevelopment. When the district is dissolved after a time period usually specified by law, all jurisdictions benefit from the improvement in their tax base. Tax increment financing is, then, a way to concentrate the total taxing power of all public bodies on redeveloping a blighted area. The TIF mechanism provides a way to share the cost of redevelopment which could otherwise be borne by one jurisdiction alone – usually the city – or not undertaken at all.

A comparison of State tax increment financing laws, prepared by Dr. Jack R. Huddleston of the University of Wisconsin, shows that programs in the 14 States he surveyed shared a number of common features.[3]

● The primary local government for implementing TIF projects is the municipality. However, some States give redevelopment, housing, or urban renewal agencies and/or counties the authority to use TIF as well;

● The States surveyed all allow tax increments to be generated only when TIF district values exceed their level at the time the district is created or subsequently revalued;

● All 14 States require (1) some determination of blight

Table 12

Enhancing Local Self-Help Capabilities

State and Region	Tax Increment Financing	Local Taxing Authority	Discretionary Authority
United States	28	36	11
New England			
Connecticut	x		x
Maine	x		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	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	
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	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	x
Hawaii			

Source: ACIR staff compilation.

2/ "Using Tax Increment Financing for Community Revitalization," Florida Department of Veteran and Community Affairs, Management Series No. 22, p. 3.

3/ Jack R. Huddleston, PhD., "A Comparison of State Tax Increment Financing Laws," *State Government News*, Vol. 55, No. 1, 1982, pp. 29-33.

before a redevelopment district can be created; (2) the preparation of a district plan; and, (3) at least one public hearing;

- The States allow the locality's general obligation bonds or general funds to finance redevelopment projects. Most States in the survey also permitted the use of tax increment (or allocation) bonds or notes, which are generally excluded from statutory debt limits and referendum requirements. Most States also allow lease-revenue bonds, industrial revenue bonds, special assessments, and municipal improvement bonds to be used as project finance mechanisms; and,

- Although legislation generally gives localities broad discretion in the administration of TIF plans, certain limitations are frequently stipulated in the law. For example, the Wisconsin statute, considered fairly stringent, limits payments of tax increments to no more than 15 years after the last project expenditure.

Because tax increment financing policies utilize future revenues to finance existing projects, the program is a controversial development tool often subject ot legal challenges. For example, the Florida tax increment financing law, although statutorily authorized in 1977, was not implemented until the Florida Supreme Court upheld its constitutionality in December 1980. Other State courts, including those in Arizona, Kentucky, and Texas, have held tax increment financing laws to be unconstitutional.

The Texas ruling that the increment financing statute was unconstitutional prompted a successful campaign to amend the State Constitution which culminated in voter approval of the TIF proposal on November 3, 1981.

Tax increment financing has traditionally been seen as a development tool for large cities. Recently, however, small and medium size cities have shown an interest in using tax increment financing to upgrade blighted areas. The small city of Canton, IL, for example, was the first in the State to bring to the State courts a test of the three-year-old law authorizing the use of TIF. [5] The Illinois Supreme Court affirmed the law's constitutionality, paving the way for Canton and other Illinois communities to make use of the development financing mechanism.

The use of tax increment financing has had a mixed record. Critics charge that public funds are being used to finance projects that otherwise would have been developed privately; that TIF replaces user fees as the source of financing public works; and that TIF projects are not always related to alleviating blight. Others remain enthusiastic about tax increment financing, particularly in light of cutbacks in Federal economic development programs. Chandler McKelvey, Secretary of the Department of Development in Wisconsin where TIF has been used extensively, says, "Tax increment financing has been more than useful; it has been essential to many local governments which have nowhere else to turn for the financing of those public improvements which create the conditions of development."[6] McKelvey, however, favors tightened restrictions on the use of tax increment financing in order to assure its continued viability and acceptability as a financing mechanism. Wisconsin did modify its tax incremental finance law by restricting the areas eligible for inclusion within a tax incremental district, limiting eligible project costs, providing for regular audits of each district, and requiring municipalities to make available to the public status reports on each district.

Although the decline in Federal aid for economic development may make tax increment financing a more attractive alternative or supplement to other programs, certain trends may limit its use in the future. Because TIF's success depends on capturing increases in the assessed value of a designated district, inflation, has played an important role in the recent tax increment plans by driving up property values. In short, inflation has provided the "gravy" in these plans. If the rate of inflation continues to abate, the return in a number of TIF undertakings is likely to be less certain and probably smaller. In fact, without inflation, tax increment increases will only come about because of real improvements to the district. Alternatively, incremental increases in tax receipts from the property will depend to a greater extent on increases in property tax rates. The latter form of increasing incremental property tax revenues from a tax increment district may be unsaleable. Since Proposition 13 was adopted in California in 1978, the trend has been to reduce property tax rates, and TIF projects and plans have been adversely affected in those States where the revenues from property taxes have been significantly reduced.

Local Taxing Authority: 36 States

Local government finance has undergone major changes in response to the voters' go-slow attitude on taxing and spending. Limitations on the mainstay of local government finance, the property tax, were in place in 39 States by 1980. Although, in some cases, the effect of these restrictions was more apparent than real, and property tax revenues have recently begun rising again, the overall result has been a decided tilt towards revenue diversification. If the current recession continues, and, as the full effects of Federal aid cuts are felt, the search for additional revenue sources at the local level will probably intensify.

The data on local government finance indicate that a

5/ "Local Money Local Control: The Tax-Increment Road to Urban Renewal," *Illinois Issues,* Vol. 6, No. 6, June 1980, pp. 16-19.

6/ *Wisconsin Developments,* Vol. 1, No. 3, Summer 1981, p. 2.

gradual shift towards diversification has been taking place for some time. As Table 13 shows, local revenues from property taxes fell from nearly 84 percent of total 1972 local tax collections to under 77 percent in 1981. General sales tax collections, on the other hand, increased from 5.5 percent to 9.5 percent of the total over the 1972-81 period. Individual income tax receipts climbed modestly over the past decade, reaching nearly 6 percent of total local collections by 1981.

A total of 36 States permit their localities to levy either a sales or an income tax; only a few of the 36, however, permit the same jurisdictions to levy both. Appendix E contains a listing of the 30 States which authorize local sales taxes and the 13 States which allow local income taxes. Over the past year, there has been no change in the number of States granting localities the authority to tax sales or income. Considerable activity has taken place, however, in the rates of taxation permitted. Arkansas authorized counties and first-class cities to raise their sales tax from 1.5 to 2.5 percent subject to voter approval. In addition, sales taxes specifically for the purpose of financing municipal mass transit systems were extended or increased in Missouri, Nebraska, New York, and Utah; most of the authorized increases were subject to voter approval. [7]

Income tax receipts, although only amounting to 8.5 percent of total municipal own-source revenue in 1980, are an important source of funds in the cities where an income tax is permitted. Local income tax increases were few and far between in 1981. To enable Detroit to weather its fiscal crisis, the Michigan Legislature permitted the city, with voter approval, to raise its maximum rate of tax on its residents from 2 percent to 3 percent and on nonresidents from 0.5 percent ot 1.5 percent. Voters in Cleveland, too, approved an increase in the city income tax. Oregon authorized mass transit districts to impose a tax of 0.6 percent on net earnings from self-employment.

Although both sales and income taxes are significant sources of revenue for localities, the push towards diversification has tended to bypass them, reflecting, in large part, the voters' message to reduce taxes. The most dramatic shift in local government finance has taken place in nontax revenues (interest collections, user fees, hospital and educational charges, etc.). The Tax Foundation estimates that nontax revenues accounted for about one third of all local governmental revenues from their own sources in 1980. [8] The findings were borne out by a recent ACIR poll conducted with the assistance of the Municipal Finance Officers Association (MFOA). The cities' response to their budgetary problems was overwhelmingly to raise user fees. Seventy-two percent of the finance officers responding to the ACIR/MFOA survey (438 out of the 595 contacted) reported that their cities had raised user fees. [9]

7/ *Tax Administration News,* November 1981, Vol. 45, No. 11, pp. 130-131.

8/ "Call It What You Will, A Tax is a Tax Is a Tax," *Washington Post,* June 6, 1982.

9/ John Shannon, "The Tax Revolt and Its Effects on Municipal Revenue Behavior," Remarks before the Lincoln Institute of Land Policy and University of California, Los Angeles, School of Law Conference, Washington, Advisory Commission on Intergovernmental Relations, May 1982.

Exhibit 2

States Which Authorize Local Governments to Enact Income Tax Levies [1] and Sales Tax Levies, September, 1981

Income: [2] 23 States	Sales: [3] 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, D.C., 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 ½ of 1% payroll tax imposed on employers, profit and nonprofit, having a payroll over $2,500 per calendar quarter; the San Francisco 1.1% payroll expense tax; the 6/10 of 1% quarterly payroll tax on employers imposed in the Tri-County Metropolitan Transit District (encompassing Washington, Clackamas and Multnomah Counties, OR); the 0.54% payroll tax imposed on Lane County Mass Transit District; and the Portland business tax of 2.2% of net income.

[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 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, D.C., U.S. Government Printing Office, October 1980, Table 80. Update by ACIR staff, September 1981.

Table 13

Local Tax Collections, By Major Source, Selected Years 1902-1981

Fiscal Year	Total Tax Collections	Property Taxes	Sales and Gross Receipts Taxes		Individual Income Taxes [1]	All Other Taxes
			General	Selective		
Amount (In Millions)						
1902	$704	$624	--	--	--	$80
1913	1,308	1,192	--	$3	--	113
1922	3,069	2,973	--	20	--	76
1927	4,479	4,360	--	25	--	94
1932	4,274	4,159	--	26	--	89
1936	4,083	3,865	$40[2]	50[2]	--	128
1940	4,497	4,170	55[2]	75[2]	$18	179
1944	4,703	4,361	60[2]	76[2]	26	180
1948	6,599	5,850	210[2]	190[2]	44	305
1952	9,466	8,282	369	258	85	473
1956	12,992	11,282	546	343	164	657
1960	18,081	15,798	875	464	254	692
1964	23,542	20,519	1,170	635	376	841
1968	31,171	26,835	1,204	728	1,077	1,327
1972	49,739	41,620	2,727	1,541	2,230	1,621
1976	67,557	54,884	4,711	2,445	3,127	2,390
1977	74,852	60,267	5,472	2,807	3,754	2,552
1978	80,381	64,058	6,193	3,133	4,071	2,926
1979	80,606	62,453	7,053	3,526	4,309	3,264
1980	86,387	65,607	8,160	3,912	4,990	3,718
1981	93,500	71,650	8,850	4,250	5,500	3,250
Percentage Distribution						
1902	100.0	88.6	--	--	--	11.4
1913	100.0	91.1	--	0.2	--	8.6
1922	100.0	96.9	--	0.7	--	2.5
1927	100.0	97.3	--	0.6	--	2.1
1932	100.0	97.3	--	0.6	--	2.1
1936	100.0	94.7	1.0	1.2	--	3.1
1940	100.0	92.7	1.2	1.7	0.4	4.0
1944	100.0	92.7	1.3	1.6	0.6	3.8
1948	100.0	88.6	3.2	2.9	0.7	4.6
1952	100.0	87.5	3.9	2.7	0.9	5.0
1956	100.0	86.8	4.2	2.6	1.3	5.1
1960	100.0	87.4	4.8	2.6	1.4	3.8
1964	100.0	87.2	5.0	2.7	1.6	3.6
1968	100.0	86.1	3.9	2.3	3.5	4.3
1972	100.0	83.7	5.5	3.1	4.5	3.3
1976	100.0	81.2	7.0	3.6	4.6	3.5
1977	100.0	80.5	7.3	3.8	5.0	3.4
1978	100.0	79.7	7.7	3.9	5.1	3.6
1979	100.0	77.5	8.7	4.4	5.3	4.0
1980	100.0	75.9	9.4	4.5	5.8	4.3
1981 Est.	100.0	76.6	9.5	4.5	5.9	3.5

[1] Includes minor amounts of local corporation income taxes.
[2] The distribution of sales and gross receipts taxes between "General" and "Selective" for the years 1936-1948 are estimated.

Source: Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism*. 1980-81 Edition (M-132). Washington, D.C., U.S. Government Printing Office, December 1981, Table 28.

Local governments generally entered the decade of the eighties in something of a three-way fiscal vise. Their solutions have been typically to try to raise property taxes revenues modestly when permitted by State law; continue to use sales and income tax levies, seeking increases for specific purposes, not usually as general revenue sources; and, to try to use the philosophy of "pay-as-you-go government" by raising fees and charges as the least objectionable path to solvency.

Local Discretionary Authority: 16 States

Local governments, nowhere mentioned in the U.S. Constitution, have been, and, to a great extent, still are "mere tenants at will of the (State) legislature," as propounded by Judge John F. Dillon in his classic decision handed down in 1868. The history of State-local relations since mid-19th century is largely the story of local governments' efforts to modify their subordinate relationship and achieve what is loosely called "home rule" or, more accurately, local discretionary authority.[10]

Although local governments are generally acknowledged to have made progress in obtaining greater power over their own affairs, until recently there has been no measure of the extent to which they have succeeded. Based on extensive legal research and a survey of knowledgeable individuals, the ACIR developed a composite index showing the degree to which 10 local governments in the 50 States possess discretionary authority. This composite index was computed by assigning arbitrary weights to each of the four types of authority: financial - 4; function - 3; personnel -2; and structural - 1. The figures for each of the six types of general-purpose local government unit were combined by weighing each type of unit based on its share of the State's nonschool local direct general expenditures represented by that unit. Table 14 ranks the States according to this composite index, with the States granting the highest degree of local discretionary at the top. Since the cities and counties carry by far the greatest weight in the composite, by virtue of their high proportion of nonschool local direct general expenditures, the States are ranked separately on these two indices in the second and third column. A fourth column shows each State's rating (as listed in column one) according to the degree of State dominance over State-local government fiscal affairs: a rating of 1 indicates State dominance; 2 shows the State to be a strong fiscal partner; and, 3 indicates the State as the junior fiscal partner.

These rankings provide a general indication of the relative standing of the 50 States with respect to the amount of local discretion they allow their localities as a whole. For the purposes of this analysis, one can say that those 16 States with a composite index under 2.5 can be said to give their local governments relatively greater discretion in managing their own affairs. Conversely, those 12 States ranked above 3.30 on the scale tend to maintain the greatest control over their substate general purpose units.

Any attempt to measure grants of power must be tempered by the fact that subjective factors are involved; that there is great variety in the types of State-local relations; and that these relationships change over time. In the past few years, in particular, State actions assisting or broadening local fiscal capacity, or freeing local funds for other purposes, ran head on into popular demand for lower taxes and reduced spending. In every State ACIR surveyed, fiscal restraints were found to reduce local discretionary authority. Thirty-six percent of the respondents said authority had been curtailed by State limits on local debt; another 35 percent cited tax limitation; and, an additional 29 percent placed the blame simply on a lack of revenue.

At the time of the ACIR survey in 1979-80, only 18 percent viewed Federal court decisions as a major limitation on local authority. Some now believe, however, that the Supreme Court's decision in *Community Communications Co. v. Boulder* in 1982 constitutes a threat to home rule. At issue in *Boulder* was a 90-day moratorium imposed by the City of Boulder, Colorado on the expansion of an existing cable franchise. The affected cable company challenged the city's action as a violation of antitrust laws. Boulder argued that, as a home rule municipality, it was free of Sherman Act liability under the "State action" exemption. The Court rejected that interpretation, saying the principle of sovereignty applies to States and not to "sovereign cities." The ramifications of the *Boulder* decisions are as yet not fully known. Justice Rehnquist, in the dissenting opinion, argued that the decision was a severe blow to home rule and the ability of local governments to govern effectively. Others, however, contended that the ruling's most egregious consequence would be a rash of lawsuits. To this date, however, numerous lawsuits have been filed against local governments on the basis of the *Boulder* decision. While no court has yet found against a local government in such a case, the costs to local authority are apparently great nonetheless. Primarily, this is due to the high costs of involvement in antitrust litigation. The effect has been to delay and, at times, postpone public policymaking on the part of local government officials.

Overall, ACIR's research shows that even before the *Boulder* case general purpose local governments in most States fell short of possessing broad structural, functional, and financing powers. The research also revealed that existing grants of power are not always fully utilized in some key areas. Utilization has tended to rise over time but local officials still frequently seek special State legislation even when they already possess the requested authority under their charters of general legislation. Further, over the past several decades, the trend has been to "spin off" functions and authority to special district governments.

10/ Advisory Commission on Intergovernmental Relations, *Measuring Local Discretionary Authority* (M-131), Washington, DC, U.S. Government Printing Office, November 1981.

Table 14

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	2.66	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	Virgina	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	Mississipp	3.90	3
36	New Jersey	3.26	Kentucky	2.94	New Hampshire	3.90	3
37	Indiana	3.30	Colorada	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	Massachussets	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.

Portraits of State Performance

When all of the programs have been considered, the question of their effectiveness remains. *The States and Distressed Communities* report identifies and describes State efforts targeted to needy areas, but ACIR has not attempted a detailed analysis of each program's implementation record. However, the research did include a close look at a number of widely implemented policy instruments. The analysis of one State's experience with these instruments permits a cautious generalization of how they might operate in another. The assumption is that each of these four predominant tools – technical assistance, grant or loan, bond subsidy, and tax incentive – has its own characteristic implementing institutions, standard operating procedures, types of expertise and professional cadre, products, degree of visibility, enactment and review processes, and relationships with other societal forces."[1]

Another assumption in this analysis is that a State's implementation record in assisting a distressed area is influenced by factors inherent in the housing and development strategies they choose. Whether it be a legislature's unwillingness to appropriate funds for site development or a State agency's desire to issue bond subsidies only to the most credit-worthy developers, numerous characteristics influence a program's ability to effectively target assistance. "In short, each program tool involves a finely balanced complex of institutional, procedural, political, and economic relationships that substantially shape the character of the government action that results."[2] The States' success or failure to adapt the instruments to their needs and objectives is at the heart of the following case-studies.

Nine State programs reflecting four tools are studied. The programs were selected without any prior knowledge of their performance. Attention was paid only to program implementation dates and basic components to insure that they were neither too new nor similar to other selected programs. The analyses, however, are in no way meant to be comprehensive. They were written after telephone interviews and an examination of documents pertaining to each individual program. No on-site interviews were performed. Nevertheless, the following portraits isolate one or two factors influencing a program's implementation record that may be of interest to other States.

In addition to describing four instruments, the case studies also represent five different indicators: site development, industrial revenue bond, neighborhood assistance, multifamily housing and housing rehabilitation tax incentive programs. In site development, Alabama's Prepared Cities Program and Washington's Community Economic Revitalization Board (CERB) are discussed. Both programs attempt to improve the appeal of selected communities to industry, but each uses a different tool to attain its goals. The choice of instrument and the effectiveness of the States' targeting provisions are related to those factors which initially justified the programs' establishment. In Alabama, the State Development Office detected a need within smaller cities and designed a program internally to provide technical assistance. No new State money was sought and no legislation was enacted. Lack of legislative involvement in the creation of the program reduced political considerations during the design and implementation of policy guidelines and targeting provisions.

In Washington, CERB, formerly known as the Economic Assistance Authority, was established in 1972 to entice industry into Washington and reduce the State's unemployment level. The Legislature chose grants and loans as an instrument to quickly funnel funds into designated high unemployment areas. And yet the legislators also wished for and received a program which would aid their particular constituencies. Political considerations, then, diluted the program's targeting impact and reduced the State's ability to aid principally those communities with the highest levels of unemployment.

The industrial revenue bond and multifamily housing indicators generally use the bond subsidy as a development tool. To target industrial revenue bonds, the Connecticut Self-Sustaining Bond Program and the Tennessee *Central Business Improvement District Act* offer tax abatements to firms receiving bond financing in designated areas. Both the Connecticut and Tennessee programs assume, first, by reducing the costs of borrowing, businesses can be attracted to their States; and second, that businesses can be influenced to locate in a distressed area by selective tax abatements. But these assumptions are being widely challenged. With respect to the bond subsidy, a recent report argues that "the cost of capital savings do not amount to much in light of total production costs or market differences among States, even in a region with similar production costs among the States."[3] With respect to tax abatements, the same analysis reports that "the best available evidence suggests that the real effect of State taxes on investment location is grossly exaggerated. Taxes on businesses at prevailing levels make little difference . . . "[4]

Still, many States prefer not to risk omitting either IRBs or tax incentives from tool kit for targeting the economic development. The Connecticut and Tennessee programs rest on the belief that some businesses or developers wishing low interest financing also need the added incentive derived from tax abatement.

The two programs are distinguished by their administrative features and the extent of their objectives. In Connecticut, the Self-Sustaining Bond Program is State-administered and designed to aid 21 cities and towns in economically distressed areas and 38 cities and towns in areas of high unemployment. By definition, the program's objectives are long term: to improve the economic and employment capacity of the designated communities. Since many of the communities have little to offer by themselves, the State hopes that bond financing and tax abatements might improve the area's attractiveness. In contrast, the *Central Business Improvement District Act* allows local

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[1]/ Lester M. Salamon, "Rethinking Public Management: Third Party Government and the Changing Forms of Government Action" in *Public Policy,* Volume 29, No. 3, Summer 1981, p. 264.
[2]/ *Ibid.,* p. 265.

[3]/ Lawrence Litvak and Belden Daniels, *Innovations in Development Finance,* Washington, DC, The Council of State Planning Agencies, 1979, p. 101.
[4]/ Ibid., p. 30.

governments to designate qualifying areas and to issue the bonds. Memphis, the principal beneficiary of the State law, is attempting to improve its blighted downtown. The city's goal is to assist a small geographic area in a relatively short time period. Additionally, in Memphis' case, the particular geographic area has proved attractive to many condominium and high-price developers to whom bond subsidies are less critical.

Bond subsidies also are used to encourage the construction of multifamily residences. To be successful, low- and moderate-income multifamily programs often require complementary Federal assistance either to encourage investment in blighted areas or to improve the tenants' ability to pay rent. And yet, as the experience with New York's Mitchell-Lama Program and Oregon's Elderly Housing Finance policy demonstrates, federal aid can have multiple effects. In New York, for example, federal assistance camouflaged the fact that the State had issued too many guaranteed bonds and supported too many risky projects. When federal assistance was withdrawn for a short period, the project's financial weaknesses were apparent and new housing developments were halted.

In Oregon, since the State was authorized to issue general obligation bonds carrying the lowest possible interest rate, it was less inclined to seek federal aid. However, the State's ability to finance a large number of elderly housing projects was hampered by a series of macroeconomic shocks: a rising interest rate, a slumping housing industry and an unstable bond market. Unable to rely simply on the bond's attractiveness, some federal assistance was necessary in order to help residents pay their expenses while reducing project vacancy rates.

The Indiana and Delaware neighborhood assistance programs represent yet another development tool, the tax incentive. Unlike most tax incentives which are intended to affect business location decisions, these States issue tax credits or deductions to influence corporate philanthropic behavior toward neighborhood and community groups working in distressed areas. The risk of these programs is that firms may be rewarded for doing what they would have done even in the absence of the incentive.

While the two programs pursue the same objectives, they work in slightly different ways. The success of the Indiana Neighborhood Assistance Credit Program is clearly contingent upon local local action. A neighborhood group must initiate application to the State for the tax credit. The local groups can then offer this credit to contributing businesses or individuals. Under Delaware's *Neighborhood Assistance Act,* the donor, rather than the recipient of the contribution, takes the initiative. A corporation first contributes to an eligible neighborhood group and then applies to the State for a tax deduction.

In addition to marketing problems, organizational factors have hindered program effectiveness. In Indiana, for example, local groups are faced with a difficult choice: either they must divert staff from community work in order to raise money or they must pursue their organizational objectives at the expense of fund raising. Often, for small neighborhood groups, these options are mutually exclusive. In Delaware, the instrument's effectiveness is linked to a corporation's organizational dimensions. For example, each business currently participating in the neighborhood policy makes its donations without considering the potential tax breaks. The incentive, then, does not influence philanthropic decisionmaking.

A housing rehabilitation tax incentive represents the final program and instrument to be portrayed. Virginia's housing rehabilitation tax exemption attempts to influence homeowners' decisions to rehabilitate the housing stock by offering a property tax deduction when buildings 25 years or older are improved and the assessed value of the structure is increased by no less than 40 percent. By reducing tax rates, the state hopes to encourage redevelopment.

Generally, this tool is useful if it is targeted to a particularly distressed area and the incentive is sufficient to initiate rehabilitation. In Virginia, the program is perceived differently by different communities. For example, many older homes that meet the State's age criterion are located in prime redevelopment locations where rehabilitation would be done regardless of the incentive. In other communities where the older housing stock is located in less desirable areas, taxes often are not high enough to allow the deduction to offset the costs incurred by rehabilitation.

Virginia's program, and the other eight State policies as well, are discussed in terms of their policy dynamics and performance. Most importantly, these portraits discuss selected factors influencing program implementation. Implementation has been described as an assembly process, where the original mandate that sets the policy in motion is "a blueprint for a large machine that was to turn out rehabilitated psychotics, or healthier old people or better-educated children or more effective airplanes or safer streets.[5] In this case, the State programs represent a blueprint for relieving distress in communities. The following portraits describe elements which impede or improve the assembly process.

Portrait One: Alabama's Prepared Cities Program

Sylacauga, Alabama is one of 18 communities certified by the State as prepared for industrial development. As such, Sylacauga boasts of its eight first-place "Keep America Beautiful" awards and its five "Cleanest Town in Alabama" awards. Its schools are lauded as ranking above State and national averages on the standardized achievement test scores of its pupils. And its citizens talk of changes being made in the city: two new shopping centers underway, 180 new apartment units just completed, and $7 million being spent to improve the hospital.

Sylacauga has identified and marketed its assets to attract new industry as part of Alabama's Prepared Cities program. Administered by Alabama's Development Office,

[5]/ Eugene Bardach, *The Implementation Game: What Happens After a Bill Becomes a Law,* Cambridge, MA, The MIT Press, 1977, p. 36.

the Prepared Cities Program offers towns, with a population under 20,000, a self-help program to become competively attractive to industrial developers. Rather than offering grants, bond subsidies, or tax incentives, the State merely issues a handbook to eligible cities containing step-by-step guidelines for local leaders to follow in preparing their area. If a city follows the road map, several guarantees can be offered to prospective businesses: land can be found at controlled, reasonable prices and zoned for industry; water, sewage, power and fuel is on site or conveniently available; roadways are on the site, with highway linkages to the Interstate system, and railroad and/or airstrips nearby.

Alabama's program represents the prototypical technical assistance intrument; few State funds are allocated toward the policy, while a lot of local energy and commitment is demanded. The program's budget is an estimated $46,000, used principally for personnel costs. No State money is provided to a community for site development. In fact, as a creation of the Governor's Development Office, the Prepared Cities Program has neither enabling legislation nor a legislative budget. The program lives or dies by the philosophy that those communities that want to help themselves will help themselves.

Policy Dynamics

The State serves as facilitator. After a community decides to enter the program, the State sends out a team to conduct a "community evaluation." The team is composed of the State Director of Community Development or his/her designate and four others selected from private sector organizations involved in industrial development, e.g. Alabama Chamber of Commerce, Alabama Power Company, Alabama Gas Corporation, and Southern Railway System representatives. These advisors serve *pro bono.* The evaluators identify ways to improve the appearance of the community, i.e., how better to use vacant land, improve unsightly areas, and so on.

After the assessment team makes its recommendations, the town forms a Community Industrial Team to coordinate and plan for its industrial and economic growth. This team (or a public agency) acquires industrial sites of 25 or more acres, with utilities, that meet specifications enumerated in the Prepared Cities' guidelines. After the community's appearance and livability is improved for an industry's inspection, a sales team is assembled and trained to handle prospects and produce a sales brochure. Finally, once the State's preparedness standards are met, the Governor confers certification.

Performance

Out of the less than 100 small communities eligible for certification, 18 are certified and 30 are in the process of becoming certified. The program's ultimate success, however, is measured by the communities' ability to attract industry. In the past three years, 1979 through 1981, 15 new industries have located in certified cities representing an estimated $130.8 million in capital investment and 4,100 new jobs. Additionally, many businesses already located in a certified community have since expanded.

Factors Influencing Program Implementation

The technical assistance instrument, while minimizing the State's budget commitment, often requires the use of local funds. In the Prepared Cities Program, developing industrial sites and preparing marketing materials costs money. For small communities like Sylacauga, those costs can be substantial. Federal aid is not as forthcoming as it may have been for site development projects. Likewise, the program demands that members of a community commit themselves to an improvement policy without knowing the actual cost of that commitment. Political, civic and business leaders generally are not enthusiastic about such uncertain undertakings.

And yet Alabama's program also encourages a treendous degree of community participation and civic pride. Consider the case of Sylacauga. Its brochure is filled with colorful pictures of parks, lakes, tennis courts, and industrial sites. Sylacauga is no longer just another small Alabama town; instead, it is one of America's "great" towns, "strategically" located in Alabama, lying near the "fertile" Coosa River Valley area.

Additionally, the community's efforts appear to have prepared it for industry. Sylacauga's brochure provides business with economic data about the city and its surrounding areas as well as detailed maps concerning the five prepared industrial sites. Pamphlets describe the labor force (11.3 percent are unemployed in the surrounding county) and Alabama's Right to Work Act. Availability of water, coal, solid waste disposal, natural gas and electric power is also discussed.

A technical assistance policy, then, requires that a choice be made. Is the expense of local citizens' commitment and the community's funds worth being a "prepared city?" The State, by only providing technical assistance, requires that the community alone make that choice. So far, Alabama's small towns appear to be favoring the certified status. Still, as federal aid and local funds dry up, the poorest and most distressed communities may have the decision already made for them. In the future, the truly distressed small city may find it increasingly difficult to afford to follow the State's road map to preparedness.

Portrait Two: Washington's Community Economic Revitalization Board

Washington's *Economic Assistance Act of 1972* was passed primarily as a response to the economic downturn in the State's economy aggravated by layoffs at the Boeing Corpo-

ration earlier. The Act created an Economic Assistance Authority whose role was to provide both tax deferments to industries creating employment and grants or loans for public works projects that prepare industrial sites. For both, the program goal was simple: to create job opportunities. Additionally, the grants or loans were to be directed to areas identified to have high unemployment, low per capita income, or slow population growth. And yet, by making the program's objectives broad, the ability to target funds was diluted. Most of Washington's communities could claim to meet one element of the targeting criteria.

Inadequate targeting to the neediest areas or industries has caused problems for the program. Its tax deferral component was dropped during the 1981 legislative session after legislators complained that many large industries were receiving unnecessary State assistance. In fact, the State estimated that it lost $50 million in deferrals. While the Department of Commerce and Economic Development argues that the benefits of the tax deferral program exceeded its costs, legislators claimed that many of these benefits, such as jobs or investments, would have been forthcoming despite State assistance.

Policy Dynamics

The site development portion of the *Economic Assistance Act* was salvaged if in a slightly altered form. Beginning in July 1982, the Economic Assistance Authority (EAA) was eliminated and replaced with the Community Economic Revitalization Board (CERB) – a change more of form than substance. CERB relies on a revolving account generated from past legislative appropriations. Since 1974, no new money has been appropriated for the program leaving the account with approximately $500,000. Because the fund level is relatively low, CERB will aid seven or eight projects a year, usually in rural communities where a need exists and costs are lower.

Performance

Since 1972, one hundred twenty-three projects have been funded at an estimated grant and loan level of $13.4 million. On average, total cost per project is $109,000. From these projects, approximately 12,266 jobs have been created. In an assessment of the program in 1978, the Department of Commerce and Economic Development, arguing that program benefits exceeded total costs, reported that when accounting for newly generated State business and occupation taxes, revenues exceeded 28 percent of the total actual costs (excluding loans) of the grant/loan program after one year. "As the costs are incurred only once for each project, and tax revenues are benefits to the public sector which continue into the future, B&O tax revenues alone would exceed the costs of the program after four years."[6] The evaluation also reported, however, that benefits from the grant/loan program including jobs, wages and salaries and taxes, may be overestimated because total EAA aid only contributed approximately 29 percent of the total project costs and some new jobs and tax revenues associated with projects would have occurred without State funding. According to the assessment, "when program participants were asked whether their project would have been constructed without EAA funding, 27 out of 58 survey respondents answered that the public facility project would not have been constructed and the new firm or expansion would have been lost to the State."[7]

As reported in the State's evaluation, many of the projects are funded only partially by EAA grants or loans. For example, EAA provided the City of Hoquiam $32,500 in grant funds and a $32,500 loan to assist in building a sewer facility to serve 755 acres. The total cost of the project was $1,238,990, with the remaining funds coming from local sources, the federal Department of Energy, and the Environmental Protection Agency. The project maintained 325 jobs at a veneer and plywood company. Similarly, the Port of Skamania County received a $60,000 EAA grant to aid the development of an 8.8 acre industrial park located in the Town of Stevenson. Total cost of the project was $319,200, with the additional funding provided by the federal Economic Development Administration.

Factors Influencing Program Implementation

While the value of the Washington community assistance program to smaller communities is undeniable, the State often has had to juggle funds to reflect the relative needs of different communities, the employment potential of various projects and the merits of individual grant applications. For the Port of Skamania County project, for example, a $60,000 grant was used to help diversify the community's economic base but only nine jobs were established. Meanwhile, $250,000 was provided to another community by EAA for the construction of a sanitary sewer line extension along a road leading to the airport. While the project produced 155 to 300 jobs, State funds may not have been a crucial ingredient. In this case, the improvements were to facilitate location of a K-Mart facility, and Holiday Inn and to expand a helicopter conversion facility. Even without the State's money, it is doubtful that these establishments would have shifted their resources to another State or even another community, given the airport's location.

These examples demonstrate the State's flexible response to the program's fairly broad targeting criteria. And yet because the funds are generally available and the capital incentive is relatively small, the program's real impact on distressed areas may be minimal as well. On a more positive note, by relying principally on a revolving loan fund, the State budget is not taxed by CERB even while many smaller communities are assisted.

6/ Michael A. Nelson and Anne M. Vandeman, "A Review and Economic Evaluation of the Economic Assistance Act of 1972," Washington State Department of Commerce and Economic Development, Research Division, October 1978, p. 85.

7/ *Ibid.*

Portrait Three: Connecticut's Self-Sustaining Bond Program

While the degree to which bond subsidies influence business location decisions remains controversial, Connecticut's Development Authority has attempted to refine the targeting effect of its revenue bonds administratively. It offers its most compelling incentives for businesses locating in targeted areas and attempts to reduce the possibility of IRB abuse by commercial and retail firms.

Policy Dynamics

Targeting small issue IRB's is accomplished principally by linking the State's bond subsidy programs, as administered by the Connecticut Development Authority, with the Urban Jobs Development program, as administered by the Economic Development Authority. The Self-Sustaining Bond program, the State's largest IRB program, was established to provide financing for up to 100 percent of the cost of specific industrial and certain recreational and utility projects. The bonds are payable solely from payments from participating companies and do not otherwise constitute a debt or liability of the Authority, the State of Connecticut, or any municipality. Since the bonds are tax-exempt, the interest rate is generally negotiated at a rate substantially below conventional rates. The project ceiling is $10 million.

In 1978, Connecticut's IRB programs were amended to encourage manufacturing firms to locate in urban areas. Specifically, incentives provided in the Urban Jobs and Development Program were linked to the State's IRB policy. The jobs program was created by Governor Ella Grasso to be the cornerstone of Connecticut's urban strategy. Manufacturing firms locating in the 21 "economically distressed areas" (as defined by HUD) qualify for the following incentives: a tax abatement of 80 percent of local property taxes for five years and 25 percent of the State corporation business tax for 10 years for new manufacturing investments in qualified areas; in the "economically distressed" cities and towns, working capital loans are available in conjunction with bank participation for up to 50 percent of a small firm's working capital needs to a maximum of $75,000; and, for projects in cities and towns classified as "high unemployment" areas, the program includes a $500 grant for each full-time job created in conjunction with a project.

Performance

The effect of the combined incentive program on business location decisions is debatable. From FY 1973 until FY 1978, the self-sustaining program offered no incentive to manufacturers locating in distressed or high unemployment areas. And yet, of the 35 manufacturing projects begun with a self-sustaining loan, 19 (or 54 percent) were in areas which now would qualify for additional incentives. These 19 loans equaled $32.5 million. Since 1978 and the start of the Urban Jobs program, 198 companies have been certified to receive the urban jobs' benefits and 28 of those projects (totalling $84.5 million) have been for companies also receiving a self-sustaining loan.

While the number of targeted loans has grown since adding the tax incentives, the increase is not large when considered next to the growth in total loan approvals. For example, the Connecticut Development Authority states that initial loan approvals, a number higher than the actual amount issued, equalled $66 million in the year before the urban job incentives were added. In FY 1979, the following year, $201 million in loans were approved, an increase of more than 300 percent. The number of firms locating in targeted areas after FY 1978 was really quite small compared to the number of initial loan approvals.

Factors Influencing Program Implementation

Connecticut's ability to influence business location decisions probably is reduced since its IRB targeting incentives exist within the framework of statewide authorization. The Connecticut Development Authority has tried to increase the impact of IRB's on distressed areas by giving businesses receiving a bond subsidy a choice: They can either locate in any Connecticut community or they can seek a tax abatement and have their location options restricted. When businesses do not choose the latter course, the impact of the Connecticut Self-Sustaining Board Program is diminished.

The Connecticut Development Authority generally appears to be aware of shortcomings which may accompany the use of bond subsidies, particularly when used for targeted assistance. A case in point occurred in 1980 when Connecticut's Legislature passed an amendment authorizing the use of small issue IRB's for commercial and retail projects locating in distressed municipalities. And yet recognizing that some development analysts believe that commercial and retail firms follow the market and need not be subsidized, the Connecticut Development Authority decided to reduce any risk of IRB abuse by issuing restrictive program guidelines. For example, an applicant's project must not cause "significant disruption of existing employment or competing facilities in the area in which the project is located." Further, eligible projects also must not be speculative ventures, fast food restaurants, bars or ventures involving only the acquisition of an existing facility without any substantial renovation or improvement to the facility. Since the tough eligibility requirements, only one project has been financed for $300,000 and only one other is under consideration. In general then, Connecticut appears to be particularly sensitive to the nationwide debate over the utility of IRB's.

Portrait Four: Tennessee's Central Business Improvement District Act

The Tennessee Legislature, in 1954, authorized the use of industrial revenue bonds with a noble purpose in mind: "to relieve conditions of unemployment, to aid the rehabilitation of returning veterans, and to encourage the increase of industry and commerce within [the] State, thereby reducing the evils attendant upon unemployment." Upon passage of the law, however, State involvement in the IRB process practically ceased. IRB's were a municipal incentive, not subject to serious State oversight. Given the wide-open rules for IRB use in the State, a municipality could target the financing tool to high unemployment areas or simply attract commercial operations to locate anywhere within the community's boundaries. Nevertheless, residents of Memphis, conscious of a blighted downtown area, sought the State's approval for special districts in which industrial revenue bonds could be targeted. The State's IRB law was amended to create a political and marketing tool for Memphis.

Policy Dynamics

To understand Memphis' need for state legislation to help legitimize a municipal development project, a quick look at the city's political map is required. Some observers believe that Memphis is run by three "governments". First, but not necessarily foremost, is the city government. For forty years, "Boss" Edward Hull Crump ran the city as a one man show. After his death, control of the city was uncertain. A 1973 *New York Times* accurately describes the city's politics: "Boss Crump so controlled local government that after his death in 1954 a leadership vacuum was created that still dogs the city today."[8] The secong government, the business community, filled the gap left by Crump. Reigning as Memphis' shadow government, the Memphis Chamber of Commerce and its membership have guided the city's development policy. The third government is Shelby County. While Memphis lies within the county's boundaries, each operates under its own charter. Given the different power centers with their varying interests, State legislation was desired to help coalesce each government in support of the city's redevelopment plan.

To that end, State legislation was written in 1972 at the behest of a few Memphis citizens authorizing local governments to create a Central Business Improvement District. In December 1972, the Memphis City Council passed an ordinance creating its district. Later, construction began on the $6 million Mid-America Mall, funded from a special property tax levied on downtown business owners and bond financing. By 1977, some city residents recognized that an organization needed to be established to maintain the working relationship between the three "governments". As such, the Central City Commission was created as a non-profit organization serving as the official partnership between the private business community and government in the revitalization of downtown Memphis. Major funding for the commission is shared equally by the City of Memphis and Shelby County.

Another problem rectified in 1977 related to the City Council's 1972 ordinance creating an Improvement District. That ordinance stated that "it is the opinion of the Council of the City of Memphis that modernization of the downtown facilities is a primary imperative to the attraction of new recreational, hotel or motel and restaurant facilities." Unfortunately, modernization of the downtown area was not enough to attract new hotels or motels and the Memphis governments decided that bond subsidies were needed. Since Tennessee law prohibited the use of IRB's for residential use, the legislature amended it at the request of Memphis legislators to allow small issue IRB-financed projects to include any hotel, motel, or apartment building. Additionally, the law was amended to allow apartment, commercial and office developers a 15-year property tax freeze with gradual escalation to normal value over a 10-year period. Armed with new tools to attract developers, the Center City Revenue Finance Corporation (CCRFC) was established to issue the bonds relating to the improvement district and the 1977 amendments.

Performance

Initially, Memphis developers sought to construct expensive housing. For example, 104-unit luxury high rise condominium called Wagner Place was constructed with CCRFC financing. Another project called Riverbluff was for 37 new luxury townhouses. Since 1981, however, the number of residential projects decreased substantially when the Internal Revenue Service ruled that residential projects using IRB's must set aside 20 percent of building space for low- and middle-income persons. Since most developers were not willing to use IRB's with the 20 percent requirement, the total number of residential projects decreased. While 30 percent of the projects currently approved for the revitalization area are residential units, they generally receive the property tax freeze without bond financing.

CCRFC has financed 14 projects either already constructed or under construction out of the 34 projects begun in the improvement district. The other 20 projects in the district are being financed privately. Of the 19 developments still in the preliminary application phase, approximately 10 are scheduled to receive CCRFC financing. Seventeen of the 34 projects received the 10-year property tax freeze.

Factors Influencing Program Implementation

Having been responsible for amending the State law to allow IRB financing for residential projects in targeted areas, Memphis remains the only city in Tennessee that extensively uses the option. In fact, some staff members at the State Industrial Development Agency and the Nashville

[8]/ Jon Nordheimer, "Memphis: A City that Wants Never to Change," *The New York Times,* January 26, 1973, p. 37+.

Chamber of Commerce expressed surprise that the targeting option existed. And yet, because Memphis' redevelopment area proved attractive to many "blue-chip" developers, subsidized financing and the property tax freeze has become concomitantly less critical. Developers appear to have been attracted by the Memphis community leaders' commitment to a revitalized and fashionable "old town" area by the riverfront rather than the subsidies themselves.

Portrait Five: New York's Mitchell-Lama Program

New York's Mitchell-Lama Program is an example of a State-of-the-art housing policy gone awry. Passed by the New York Legislature in 1955, the Mitchell-Lama Program for the first time anywhere provided low-cost, long-term loans made available by either a State or a municipality. The program allowed private builders to receive mortgage loans covering up to 90 percent of the cost of a project. Additionally, municipalities were allowed to exempt from local real estate taxes up to 50 percent of the value of the completed project for a maximum of 30 years.

In return for the government aid, the builder had to accept a limitation on profit that allowed a maximum of 6 percent return investment. Moreover, the builder could charge rents no greater than those approved by the State Housing Commissioner.

Policy Dynamics and Performance

Utilizing the nation's first Housing Finance Agency and later the State's Urban Development Corporation as its public financing authority, the Mitchell-Lama Program helped finance 270 projects. Mortgage funds committed for the program equalled almost $3 billion for 105,205 apartments. Since 1975, though, no new projects have been begun. No new bonds have been issued on its behalf after 1972. And the last rental project to be completed was finished in 1979.

The most direct cause of Mitchell-Lama's demise was the State's choice of financing mechanism, the moral obligation bond. Now discredited, the moral obligation bond allowed the State to meet growing housing needs without either a voter referendum or direct legislative appropriation. The hidden costs imposed by the bonds' use sent New York into a credit crisis, bankrupted the Urban Development Corporation and ended the Mitchell-Lama Program.

Moral obligation bonds require that a reserve fund be created by a State's public authority (such as the Housing Finance Agency) to be drawn down if the agency's revenues are insufficient to pay the debt service on the bonds. If the fund is used, it is then "incumbent upon the Legislature to consider the apportionment and payment of the amounts of money to restore that capital reserve fund."[9]

Investors viewed the bonds favorably: "Since the issuer of the bonds was the New York HFA, a creation of the State, and a State agency, which was performing public and social functions, then any risks related to the projects being constructed or the repayment of bonds were not theirs, but belonged to the State."[10]

The State viewed the program as self-sufficient: "Moral obligation was adequate as a back-up to any losses, but losses were not anticipated because of the self-supporting nature of the projects."[11] In fact, the moral obligation device, by not creating a legal obligation to the State, meant that the bonds did not need to be treated as part of the State debt.

As the State and its public authorities approved riskier and greater numbers of housing projects, the bonds' ability to pay for themselves diminished. As the hidden debt increased, the State faced a credit crisis. Mitchell-Lama was caught between the increased need for housing and faith in moral obligation bond financing.

Factors Influencing Program Implementation

New York's experience might appear to be a unique one. Today, general obligation bonds and mortgage revenue bonds serve as the principal financing mechanism for rental housing, while the State housing authorities seem more responsible in managing their programs. And yet Mitchell-Lama does offer a lesson about the tenuous nature of a bond financed development program.

A successful bond program must be acceptable in the market. If too great a risk is attached to a bond sale, then investors will be less willing to buy. In the case of the Urban Development Corporation, investor concern began when HUD announced a moratorium on further subsidy payments under Section 236 of the National Housing Act. The Corporation had relied greatly on Section 236. Of the 30,759 units constructed by or with assistance with UDC, 28,818 or 90.4 percent of the units were dependent on federal subsidies under the 236 program or other rent reduction programs.[12]

Political influence ensured that UDC, within a few months, was able to continue receiving subsidies. Still, the possibility of a federal subsidy cut caused the underwriters and investors in the program to reevaluate the basic concepts and assumptions which underlay UDC operations.

Today, the same scenario is possible. Section 8 rent subsidies, by guaranteeing that the developer will receive some return ono its investment, provide some shield from risk. Over 95 percent of all multifamily projects receive Section 8 subsidies. To reduce or eliminate Section 8 fund-

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9/ *Restoring Credit and Confidence: A Reform Program for New York State and its Public Authorities,* A Report to the Governor by the New York State Moreland Act Commission on the Urban Development Corporation and Other State Financing Agencies, March 31, 1976, p. 109.
10/ *Ibid.,* p. 112.
11/ *Ibid.,* p. 113.
12/ *Ibid.,* p. 141.

ing would increase the risk associated with a rental project.

Similarly, a State program can be impaired by a default on a project. While use of a mortgage revenue bond does not guarantee State backing, a default by a developer could reduce the investors' confidence. A failed project also could affect the State's reputation as a program and financial manager.

The Mitchell-Lama program remains relevant for State housing policy managers. Mitchell-Lama and its use of moral obligation bonds represented an untested political choice to build housing fast without subjecting project financing to public or legislative votes. Additionally, the program's risks were covered up by its reliance on federal subsidies. When federal aid was withdrawn for a short period, the program's risks were visible.

Portrait Six: Oregon's Elderly Housing Finance Program

After the voters rejected a 1975 measure to allow Oregon to issue bonds for the construction and rehabilitation of housing for the elderly, some analysts were surprised that 54 percent of them endorsed a similar measure in 1978. The increased support for the program was attributed to growing awareness of older citizens' problems of living on a fixed income. At the time of passage, though, no one thought that Oregon's program for the elderly would turn out to be one of the few operational and largely unsubsidized rental programs in the nation.

Policy Dynamics

The purpose of the Elderly Housing Finance Program is to provide rental housing to persons 58 years of age or older who cannot afford decent, safe and sanitary housing. Twenty percent of the units in each development must be occupied at all times by residents with low incomes, as defined by HUD. Priority for the other 80 percent of the units must be given to residents with incomes under the median family income in Oregon.

With proceeds from the sale of general obligation bonds, the Division of Housing of the Oregon Department of Commerce provides private, public, or non-profit developers with below market rate, long-term mortgage loans backed by the full faith and credit of the State. The interest is approximately the rate at which the bonds are sold. Loan terms are a maximum of 40 years with a maximum 85 percent loan to value ratio for uninsured loans. Nonprofit developers may obtain a 100 percent loan on an insured project. Loans can be made for new construction or substantial rehabilitation. There are no requirements regarding the type of housing.

Performance

Initially, program administrators were optimistic about its potential for assisting elderly residents. By using general obligation bonds, the rental program could offer lower interest rates than were otherwise possible. Optimism faded quickly, though, as a series of jolts in 1980-81 hit the housing and bond market. Interest rates rose to a record level, affecting even the general obligation bonds used for the program. Congress imposed restrictions on the volume and use of revenue bonds. And Oregon, largely dependent on the lumber industry, entered a deep economic recession.

For other rental programs dependent on revenue bonds, these jolts were almost impossible to overcome. The Elderly Housing Program was protected somewhat, since it relied on general obligation rather than revenue bonds. Hence, its bonds were immune from the Congressional restrictions while its interest rates remained the lowest available. Nevertheless, though operational, the program still struggles. Its only bond sale was in 1980, and as of May 1982 four loan commitments had been made for projects totaling 293 units. Given the high interest rates, no new bond sales have been possible. Applications still are accepted and project sponsors simply wait, unable to afford other financing at market interest rates. One project has been waiting since May 1980, another since December 1980.

Other problems exist as well. Interest rates for the program, initially expected to be at 8-10 percent are now in excess of 12 percent. Subsidized housing has been added to the program to add to its attractiveness to developers by creating a larger pool of potential tenants. Meanwhile, elderly residents wishing to move into State housing cannot do so because they are unable to sell their present home in today's market. As a consequence of the prospective tenants' inability to sell their current homes, sponsors' projects are jeopardized financially since they are operating below capacity. Finally, added uncertainty about project success has made program administrators more critical of funding applications. Before underwriting any project, more complete investigations of the sponsor's application are undertaken and more equity is requested. Before the housing and general economic slump, 80 percent of preapplications were approved; since the tougher requirements became effective, only 25 percent have been approved.

Ironically, even if the program should pick up again, Oregon is faced with limited land for multifamily housing. A recent estimate showed "only 7 percent of the vacant, residentially-zoned land in Portland area is zoned for multifamily. This shortage of building sites contributed directly to the artificial shortage of units themselves, and, consequently, to higher prices and higher rents."[13]

[13]/ John M. DeGrove and Nancy E. Stroud, *Oregon's State Strategy*, prepared for the National Academy of Public Administration and the Department of Housing and Urban Development, Washington, DC, U.S. Government Printing Office, September, 1980, p. 29.

Factors Influencing Program Implementation

Oregon's experience with bond subsidies points out the many macro-economic shocks which may affect such an instrument. Inflation, high interest rates and a troubled housing market all influence the bond market. For these reasons, Oregon's Elderly Assistance Program stood still in January 1982, through a new bond sale was scheduled for June 1982 as the market stabilized. While the Elderly Assistance Program leads a troubled life, the fact that targeted projects were being planned and new bond sales are scheduled suggests that this rental program is better off than most.

Portrait Seven: Delaware's Neighborhood Assistance Act

Depending on the persons one talks to, the value of the *The Neighborhood Assistance Act* to Delaware will vary. The Act allows a tax deduction to businesses which contribute to community organizations in impoverished areas. An administrator of the program laments the fact that businesses once got a tax credit for contributions rather than the tax deduction initiated in 1972. A corporation that provides financial assistance to a qualified community group and receives the tax deduction often wonders why it ever seeks the deduction, considering the meager return. Finally, one community group supported the legislation for whatever incentive it gives corporations to contribute to its efforts.

Amidst these various perspectives is the fact that the *Neighborhood Assistance Act* is little used. The Delaware Tax Appeal Board, whose job is to approve applications for the tax deduction, received five proposals in the fiscal year ending in June 1981, for contributions amounting to $20,150. The Board approved four proposals totalling $17,400 and rejected one for $2,750. All contributions were given to community groups located in Wilmington and three corporations were responsible for the four donations.

Policy Dynamics

The law's purpose is straightforward: the State wishes "to encourage the investment by business firms in offering neighborhood assistance and providing job training, education, crime prevention and community services, both directly and by contributions to neighborhood organizations, to benefit individuals living in impoverished areas." A business firm wishing to receive the deduction applies to the Tax Appeal Board, which reviews the application to determine if the community group is listed as exempt from income taxation under the Internal Revenue Code and is located in a designated impoverished area. A deduction is allowed equal to the amount invested by the business firm in a program, "not [to] exceed 5 percent of the annual tax paid by the business as computed without such deduction or $50,000, whichever is less."

Performance

The three different perspectives reviewed earlier shed light on the program's value. From the program administrator's perspective, the impact of the *Neighborhood Assistance Act* has decreased ever since 1972 when a tax deduction was exchanged for a credit. While approximately 12 corporations were taking advantage of the maximum $50,000 credit before; only three participate today. The law was amended because the Legislature felt it was too costly. The program administrator also points to the failure to adequately market the policy. Beyond a listing in the federal Department of Commerce Clearinghouse Bulletin, no publicity is provided. Additionally, the Neighborhood Assistance Act has never been a statewide program. In 1981, for example, all three corporations that took advantage of the Act were located in Wilmington and the community groups they contribute to also were located in Wilmington. One State representative described the policy as a "Wilmington program," although the legislation's intent was to be statewide.

The corporation's perspective is also interesting. While one might presume that the legislation was intended to influence business behavior by increasing contributions to organizations in distressed areas, corporate contribution decisions are often independent of these concerns. For the three corporations taking advantage of the tax deduction, contributions are determined by their Board of Directors and, afterwards, a list of recipients is sent to each corporation's tax section for review. None of the corporations considers the State's list of eligible community groups before making its contribution decisions. In fact, one corporation's tax analyst explained that the Board of Directors probably is not even aware that the law was changed to provide a tax deduction rather than a credit.

It is not particularly surprising, then, that the businesses show little enthusiasm for the law. To the corporations, the deduction is not of great consequence. One corporation's contribution equaled $2,800. Dupont Corporation, the largest company located in Delaware, does not even seek the deduction, although its contribution list probably includes several eligible organizations.

From the community organization's viewpoint, however, corporate donations are important for whatever reasons they may be forthcoming. For example, Community Housing Inc. receives approximately $2,000 from a corporation to assist its work in stimulating private industry growth in Wilmington's inner city. And yet, while business donations are important to the community group, no evidence suggests that without the *Neighborhood Assistance Act* business contributions would end.

Factors Influencing Program Implementation

A neighborhood assistance policy, like the one in Delaware, is intended to influence business contribution decisions. Yet

Delaware's program offers a weak incentive that in turn impairs the effectiveness of the tax concession as a development tool. For example, a State tax deduction for corporate contributions is a small tax break, especially when a federal deduction already is forthcoming. Moreover, the inadequate marketing of the program reduces its value to the community groups. These groups generally attract funding based on their own fund-raising capabilities regardless of the State's help.

Portrait Eight: Indiana's Neighborhood Assistance Credit Program

Frustration has characterized the implementation of Indiana's Neighborhood Assistance Credit Program (NACP). From the State's perspective, the policy has not fullfilled its expectations. To many contributors, the program has been too bureaucratic. And from community groups, NACP has demanded that they be simultaneously facilitator, fund raiser, bureaucrat, and community servicer. To ease the frustration, the program's regulations were recently amended to raise program operations to originally anticipated levels and to encourage additional local investment in neighborhood projects. For example, NACP was shifted away from the Office of Minority Business Enterprise to allow the Director of the Department of Commerce to designate the administrative agency or agencies to better respond to program priorities, regulations were streamlined or given more flexibility, and six staff persons were hired to serve as field representatives to market the program and assist community groups. The State's changes were implemented in late May 1982, so their success is not known. NACP however, did require a reevaluation of its administrative and regulatory procedures.

Policy Dynamics

The 1976 Indiana General Assembly enacted NACP to provide credits on State income taxes to businesses and individuals that assist local neighborhood organizations and projects in order to upgrade economically disadvantaged areas. The credit is computed for the tax year in which the contribution is made and cannot exceed $25,000 for any taxable year. The total amount of the credit allowed for NAP in any State fiscal year is $1 million. The tax credit is limited to 50 percent of the amount contributed.

To receive a credit, a community organization must apply to the State proposing a project or need for which business or individual donations might help. The State, upon approval of the application, allows the community group to offer tax credits to potential contributors. That is, a contributor aiding a designated community group does so with the knowledge that any donation will produce a 50 percent tax credit. Contribution of funds, labor, or building materials can qualify under NACP, as well as credit for leasing or donating property.

Performance

Annual contributor participation levels have been below the $1 million in tax credits set aside by the Indiana General Assembly and Department of Commerce. For example, in the 1978-79 fiscal year, the first year of authorization, only $39,915 in NACP tax credits were approved; the following year saw $29,640, the next year $73,007, and, by June the 1981-82 fiscal year level stood at $55,694. According to records kept by the Indiana Department of Commerce, no more than 15 community groups have participated in the program from the 1980-81 fiscal year to the present. Interestingly, 70 percent of the tax credits go to individual contributors, although businesses represent 60 percent of the dollar volume.

Factors Influencing Program Implementation

If nothing else, NACP probably makes it easier for contributors to justify donations and possibly increases their funding amounts somewhat. For example, in Elkhart, IN, the Community Day Care Corporation was able to fund construction of a new building with the assistance of the tax credit program. Community Day Care received authorization for $100,000 in tax credits, received donations for $134,954 and has $33,053 in credits left over. The appeal of the tax credit convinced the city's Rotary Club to serve as fund raiser for the community group, raising the money by selling the tax credits to contributors. Without the tax credit, donations might have been forthcoming but would not have been enough to meet funding goals.

Still, not all community groups have been able to find a Rotary Club to assist fund raising efforts and others that have found outside aid have been frustrated by the program's rules. The Near Eastside Community Organization in Indianapolis is representative of thus problem: to survive financially, staff must be diverted from community work for fund raising, and yet to be useful as an organization, staff must devote time to its services. As a result, the groups may do neither activity as well as they might wish. The Near Eastside Community group, for example, received authorization for $10,000 in tax credits but only used $100. The time demanded for filling out forms, soliciting contributions and providing services reduced their overall capacity.

And yet the experience of Muncie Youth Opportunity Unlimited (YOU) may offer the most exasperating example of community group and contributor frustration with NACP. YOU is a pilot program set up in high schools to assist students, who are neither college bound nor in a vocational program, to find employment. To aid its work, YOU sought a $6,250 NACP tax credit on June 9, 1981. By July 10, NACP's program director promised that all contributions and tax credit claims would be processed in two weeks. As of June 1982, no tax credits have been forthcoming although donations totaling $12,500 have been received.

The fund raising was organized by several community and business leaders and more than 20 local corporations and one individual have donated funds to YOU. Contributors were told that the NACP paperwork would catch up after the donation. And yet in an April 1982 memo to the YOU Board of Members, the project director listed a page-long "sequence of events on NACP tax credit effort" and explained:

As you can imagine I have become very frustrated with the [NACP] process, plus I can readily understand the confusion created among our contributors and the reluctance to be involved in such a drawn-out, time-consuming process. Any suggestions you give would be very much appreciated. I am ready to forget the whole thing.

The board members decided to write the program off as something "typical of the State and Federal Government." Contributors decided that the time taken to fill out NACP paperwork was not worth the tax credit.

The experiences of the Muncie and Indianapolis groups have led to the State's recent changes in its neighborhood assistance policy. Today, however, many community groups' financial survival depends on their ability to serve several roles simultaneously, a condition that can detract from their goal of aiding the local community. While NACP cannot end this difficulty, the program presently appears to exacerbate the problem by making its success contingent on the local group's administrative and fund raising abilities.

Portrait Nine: Virginia's Housing Rehabilitation Tax Exemption

In Alexandria, VA, much of the older housing stock is being rehabilitated by speculators and homebuyers in order to cash in on redevelopment of the Old Town area. Not surprisingly, given the increasing value of land and the city's close proximity to the Potomac River, National Airport, and Washington, DC, Alexandria has had to offer few incentives to attract investors. Still, city officials were given an option by an amendment to the Virginia Constitution to allow a five-year tax exemption for an amount equal to the increase in assessed value resulting from rehabilitation. Alexandria city officials did not authorize such an ordinance. Approximately one-third of the city would have been eligible, causing a depletion of the city's revenues, while almost all of the rehabilitation could be done without the tax waiver.

Policy Dynamics and Performance

Alexandria's decision not to offer a rehabilitation tax incentive reflects the fact that the value of many development tools will vary among a State's different communities. In this case, the Virginia law was written principally for the City of Richmond and Henrico County. Since local governments in Virginia are subject to Dillon's Rule, the rule of State omnipotence relative to local governments, the State legislature had to approve authorization of the tax incentive. As approved in 1980, the Virginia law allows any governing body of any county, city, or town "to provide rehabilitation tax exemptions [for up to 10 years] for structures no less than 25 years of age that have been improved so as to increase the assessed value of the structure by no less than 40 percent without increasing the total square footage of such structures more than 15 percent."

Richmond legislators were responding to residents in two city neighborhoods which wanted to accelerate upgrading of the housing stock. Additionally, at the behest of Henrico County, a waiver was provided to developers for the costs of replacing rather than rehabilitating a structure. Still, even these local areas that wanted the incentive have used it sparingly. In Richmond, 250 people have taken advantage of the law in a city where approximately 40 percent of Richmond's housing stock would be eligible. Those that have received the tax break tend to be speculators rather than the average homeowner. In Henrico County, the law has been used once, to replace an existing structure with a group of apartments. Outside the Richmond area, Portsmouth offers the tax incentive but it has been used only six times. According to the City Appraiser's office, almost all of those eligible projects would have been begun without the waiver.

Factors Influencing Program Implementation

Several reasons might explain the incentive's lack of popularity. Foremost may be that the average homeowner cannot afford, given recessionary conditions, to rehabilitate 40 percent or more of a home. Secondly, a community may have amended the State amendment with its own tougher eligibility standards. In Portsmouth's ordinance, for example, a tax waiver is relinquished if the rehabilitated home is sold. Therefore, speculators wanting to rehabilitate and

sell a home would not be eligible. Thus, while only six projects have received the tax break in the last two years, many more rehabilitation projects have been completed without it.

Another reason the Virginia law is not used may be because it does not really offer much of an incentive. While a bonus is offered to a person wishing to rehabilitate a house, the tax rates generally are not high enough to provide sufficient relief to prompt that decision. Consider the person who buys a shell for $40,000 and increases the value of the building to $90,000 resulting in a $50,000 difference. At a tax rate of $1.50 per hundred dollars of assessed valuation, the builder would receive a $750 tax break annually for up to ten years, an amount that may pale in comparison to the cost of supplies, and other building costs.

From a city's perspective, the tax break may not be valuable. In Alexandria, where rehabilitation continues without the city's assistance, a tax waiver merely would have depleted the local treasury without providing compensatory benefits. Alexandria's example, in fact, hints at a problem common to tax incentives offered to businesses. A study published by the Council of State Planning Agencies concluded that "when the State abates or exempts local taxes to induce a firm to move in, the net benefits may well become negative."[14] Needless to say, a housing rehabilitation incentive also may offer negative benefits if it is directed to areas that otherwise might be improved.

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[14]/ Roger J. Vaughan, *State Taxation and Economic Development*, Washington, DC, The Council of State Planning Agencies, 1979, p. 95.

Conclusion

At first glance, it would be easy to surmise that little changed since ACIR surveyed the states for the 1981 report, *The States and Distressed Communities.* Between 1981 and 1982, the number of States that adopted or dropped each type of program generally increased or decreased by just a few States, as indicated in Table 15. Three totals remain the same. By themselves, however, the numbers do not reveal a complete story of State activity last year.

For instance, the catalog of 1982 programs makes one point clear: States are generally continuing their commitment to helping their distressed communities. Some States are even increasing that commitment by adding new programs. These new programs do not change the indicator totals because the States in question already have been counted for earlier programs that still may be operating. Michigan's Economic Development Authority and Maryland's new enterprise zone legislation are good examples of State programs that replace more limited initiatives approved the year before.

In addition, simply maintaining program levels in the current economic climate can be interpreted as a positive sign. Programs specifically targeted to distressed areas within the State could slip on a lawmaker's list of priorities as State treasuries come under increasing pressure. Working under constitutional, statutory, or traditional balanced budged requirements, many legislatures have been forced to raise taxes, reduce expenditures or both in an effort to continue to fund existing programs. Some - among them, Arizona, Connecticut, Idaho, Kentucky, Michigan, Oregon, Nebraska, and West Virginia - have approved across-the-board spending cuts, exempting high-priority programs. Limited budget reductions enacted in other States resulted in deferred capital spending or decreases in the State workforce.

Several types of programs have become popular over the past year or two. State lawmakers enacted legislation creating enterprise zones in Kansas, Kentucky, Maryland, Minnesota, Missouri, Ohio, and Virginia. Neighborhood assistance programs added another to their ranks in Virginia. On the other hand, at lease one program is less in use. No State granted its local governments new authority to levy sales or income taxes. That the future of this form of local revenue-raising authority, which spread steadily during the postwar years, may be in doubt was made clear in a recent survey, conducted by ACIR and the Municipal Finance Officers' Association, that found sharp increases being made in user fees rather than local income or sales taxes.[1]

The modest increases visible for individual programs are reflected as well in the total number of program types counted for each State. As in last year's report, Massachusetts, counted in 16 areas, is again the only State with programs in more than 15 of the 19 categories. The number of States with programs in 12 to 14 of the categories increased from 4 to 8, and now includes California, Connec-

Table 15

Number of States with Programs in ACIR's 19 Indicators of Aid

Indicator	1982	1981
Housing		
1. Single-Family Home Construction	47	45
2. **Multifamily** Home Construction	17	8
3. Housing Rehabilitation Grant or Loan	13	14
4. Housing Rehabilitation Tax Incentive	15	17
Economic Development		
5. Industrial or Commercial Site Development	8	6
6. State Financial Aid for Industrial or Commercial Development	22	16
7. Customized Job Training	4	3
8. Small Business Development	13	11
9. Industrial Revenue Bonds	12	11
Community Development		
10. Capital Improvements	16	16
11. Local Neighborhood Improvement Efforts	16	14
Fiscal Reform		
12. State Revenue Sharing	23	23
13. Education Finance Reform	11	18
14. Assumption of Local Public Welfare	30	25
15. Reimbursement of State—Mandated Programs	12	14
16. Improving Local Government's Access To Credit Markets	41	35
Enhancing Local Capabilities		
17. Local Use of Tax Increment Financing	28	24
18. Local Sales or Income Taxing Authority	36	36
19. Local Discretionary Authority	16	16

Source: ACIR, States and Distressed Communities, 1981 report and 1982 (draft).

*Some of the changes in program totals, particularly for the multi-family category, are due to improved data collection rather than new state policy enactments.

[1]/ John Shannon, "The Tax Revolt and Its Effects on Municipal Revenue Behavior," Remarks before the Lincoln Institute of Land Policy and University of California, Los Angeles, School of Law Conference, Washington, Advisory Commission on Intergovernmental Relations, May 1982.

ticut, Illinois, Michigan, Minnesota, New Jersey, Pennsylvania, and Wisconsin. The total for States with programs in 9 to 11 of the categories dropped from 9 to 6, while those States active in 5 to 8 program areas added another to their number, for a total of 28. The number of States with only one to four programs dropped from nine to seven.

Blanket conclusions about the regional distribution of the community assistance programs are difficult. When ranking the regions according to those with the greatest number of programs, the frostbelt States, led by the Mideast and Great Lakes regions, top the list (see Table 16). The Far West and the Northeast rank third.

Frostbelt-sunbelt differences are more apparent when the 19 indicators are broken into the two subcategories - development programs and fiscal/self-help reforms. For instance, development programs, including the housing, economic development and community assistance programs, are largely a frostbelt phenomenon. The Mideast, Great Lakes and Northeast States have the greatest number of these programs and the Southwest, Southeast and Rocky Mountain regions have significantly fewer.

In the fiscal/self-help categories, which include the financial reform and self-help programs, a regional pattern is not a readily apparent. Although the sunbelt regions generally favor fiscal/self-help programs, the frostbelt States have enacted a sinificant percentage of these programs as well. Thus, although one can expect the frostbelt regions to favor development-type policies, the fiscal/self-help programs are less likely to be concentrated in particular regions. These patterns are not too surprising because development programs are more apt to be targeted in northern and eastern cities where the roads, sewer systems and housing stock are older. Fiscal reforms, which generally require either a State's authorization of a local power or enactment of an equalizing local aid policy, are unrelated to a community's age. Rather than resulting from factors indigenous to a particular region, such reforms are probably more influenced by the degree of State fiscal and administrative centralization.

When all of the programs have been added up and regional differences noted, the question of their effectiveness remains. In States where they have been adopted as part of a State urban policy or community strategy, this framework must be considered as well. The experience of such strategies in nine States suggests that certain benefits linger even when specific programs are discarded as politically unworkable or too costly. In this sense, the strategy promotes an awareness of the problems of distressed communities that, in varying degrees, is taken into account in the planning process. Changes in administration, reduced revenues, and poor economic conditions are unquestionably factors that can reduce urban policy's effectiveness.

Parenthetically, the hard times that have affected existing urban policies, do not seem to have prompted further State efforts in this area. The National Academy of Public Administration suggested in its 1979 study of State urban policies that difficult fiscal and economic conditions might lead other States to launch broad urban policy initiatives, on the theory that such policies would give the governors a framework for establishing goals and making hard choices. Little in this year's research, however, indicates that States without urban policies or community strategies are considering such a course. For the most part, States without programs in certain indicators last year did not have them this year. And according to reports from the State capitals, lawmakers' attention during the last year was focused primarily on budget cuts and tax increases.

Table 16

Percentage of the 19 Indicators Enacted in U.S. Regions

	Total	Development	Fiscal/ Self-Help
Mideast	56.8	63.6	47.5
Great Lakes	55.7	47.2	67.5
Far West	43.8	34.8	56.3
Northeast	43.8	39.4	50.0
Plains	38.3	31.2	50.0
Southwest	35.5	21.4	56.3
Southeast	30.2	21.9	41.7
Rocky Mountain	26.3	21.8	32.5

When the legislators do consider programs for distressed communities, the portraits of the nine States contained in this year's report may provide some insight as they design their own. The portraits point up the difficulty of gauging the effectiveness of tax incentives, bond subsidies, and other tools for encouraging development or redevelopment in a given area. With the exception Alabama's Prepared Cities Program, all of the programs examined in the portraits represent actual or potential costs to the State. Where there is no actual expenditure, as in the industrial revenue bonds, the possibility remains that excessive use of tax-exempt financing may at least make it more expensive for a State to market its own general obligation bonds. Where programs - such as the tax incentives - have not received much use, the problem becomes one of effectiveness rather than cost. In short, decisionmakers in the executive and legislative branches alike need to be able to determine whether a program is meeting the goals intended for it and whether it represents the most efficient use of State tax dollars.

To be sure, the effectiveness of government action in almost all of the report's program areas has been debated for some time. In the housing area, the Reagan Administration's interest in replacing Federal support for construction with housing assistance payments to the families themselves is just one aspect of this debate. Similarly, the usefulness of bond subsidies, tax incentives, and other tools for revitalizing depressed areas remains a matter of controversy. The 1982 Report has not sought to settle these questions, but rather has catalogued the programs and asked basic questions about their working.

Targeted Single-Family Housing Programs*

Alabama:

Alabama Housing Finance Authority's most recent single-family issue of $100 million in December 1981 was targeted to low-to-moderate income families. Adjusted gross income may not exceed $37,000. Purchase price restrictions under the Mortgage Subsidy Bond Tax Act* are $58,230 for newly constructed housing and $50,490 for existing housing. In addition to bond monies, AHFA also receives State funds to cover costs associated with bond issues.

Alaska:

1. Alaska Housing Finance Corporation's most recent single-family issue of $100 million on November 11, 1981, used purchase price limits of $74,600 for existing housing and $90,630 for new housing. The State does not impose income limits.

2. *Home Ownership Assistance Program.* 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, Department of Community Affairs.

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, Department of Community Affairs.

Arizona:

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

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. Purchase price restrictions for new bond issues after the 1980 Act will be $62,100 to $64,400 for new construction and $58,500 to $61,400 for existing housing, depending on area.

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.

**The Mortgage Subsidy Bond Tax Act of 1980* imposed certain limits on purchase prices of houses bought with bond proceeds. References in this appendix to "the 1980 Act" are concerned with this legislation.

Connecticut:

1. Connecticut Housing Finance Authority's latest single-family issue in November 1981 for $200 million used the following restrictions: income limits of $24,000 for households of three or fewer persons and up to $40,200 for families of seven or more, depending on area; sales price limits of $53,000 to $82,000, depending on area, are also in effect. Some individuals who can not meet the income requirements may still be eligible if they purchase homes within designated urban areas or if they substantially rehabilitate a home they have purchased. Purchase price limits of $45,000 to $75,000 for existing housing and $55,000 to $85,000 for new housing will be in effect for future bond issues under the 1980 Act.

2. *New Construction Loans.* Nonprofit organizations use loan money to construct new homes that are then sold to low- and moderate-income persons and families.

3. *Downpayment Loan Program.* Second mortgage loans to assist households in making downpayments. Administered by Department of Housing. Single- and multifamily (1 to 4 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).

Florida:

1. Florida Housing Authority has the authority to issue bonds for single-family housing, but has not issued any 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 Department of Community Affairs.

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 latest single-family issue in December 1981 for $30 million used the following restrictions: income limit of $15,000 for the head of a household with an additional $500 for each dependent up to six and $900 for each additional dependent above six. Under the 1980 Act, purchase price limits of $44,000 for existing housing and $49,500 for new construction are in effect.

Illinois:

For the first time since 1975, Illinois approved a single-family bond issue of $90 million.

Indiana:

Indiana Housing Finance Authority's latest single-family issue of $75 million in May 1982 used income limits of approximately $31,000 plus an additional $1000 for each dependent and purchase price limits of $75,000, with mortgages limited to $71,250.

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 $36 million in December 1981 financed the State's mortgage purchase program and loans to lenders. Purchase price limits ranged from $46,000 to $52,000, according to region, for newly constructed housing and $39,870 for existing housing. Income limits were $19,500 plus $1500 to the head of a household and an additional $1,500 for each dependent.

Louisiana:

Louisiana Housing Finance Agency's first single-famly issue in December 1981 for $150 million used the following restrictions: income limit of $40,000; purchase price restrictions ranging from $69,210 to $89,700 for new housing and $50,580 to $67,320 for existing housing. A total of $1.5 million of the bond proceeds was set aside for targeted areas.

Maine:

Maine State Housing Authority's most recent single-famliy 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 $65 million in March 1982 for the Mortgage Purchase Program used income limits of $28,000 for one person and $33,000 for two or more. Maximum acquisition costs were $49,590 to $60,000, depending on the region.

2. The Maryland Home Financing Program uses the following restrictions: gross income may not exceed $22,850 for one person to $28,300 for three persons; maximum loan amounts range from $42,500 to $46,500. The program was last funded in August 1981 through a general obligation bond issue of [illegible]4.5 million.

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.* $67 million, 1982 Provides for the construction and rehabilitation of low-income housing for the elderly. (See also multifamly housing and housing rehabilitation grants and loans.)

3. *Chapter 705 Program.* $10 million, 1982 Provides monies for the development of scattered-site family public housing. (See also multifamily housing and housing rehabilitation grants and loans.)

Michigan:

Michigan State Housing Development Authority's most recent single-family issue of $25 million in December 1981 used the following program restriction: purchase price restrictions of $89,370 for the Detroit SMSA and $69,750 for all other areas.

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 to 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 March 1982 used the following program restrictions: income limits of $24,000 for families of one to four and $29,000 for families of more than four; purchase price restrictions range from $42,300 through $46,200 depending on area.

Montana:

Montana Board of Housing's most recent single-family issue of $55 million in April 1982 used the following restrictions: limit of $25,000 adjusted gross income and purchase price restrictions of $79,300 for new construction and $63,300 for existing housing.

Nebraska:

Nebraska Mortgage Finance Fund's most recent single-family issue of $37.7 million in March 1982 used the following restrictions: income limits of $32,500 and purchase price limits of $62,500 for new construction and $51,300 for existing housing in the Lincoln area. Purchase price limits are $40,000 for the remainder of the State.

Nevada:

Nevada Housing Division's most recent single-family issue of $30 million in May 1980 used the following program restrictions: income limits of $15,900 to $28,350, based on family size, and purchase price limits of $60,000 to $65,000, depending on area.

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 latest single-family issue of $36.2 million in April 1982 used the following restrictions: homes must be owner-occupied and contain no more than four units; mortgage limits for single-family are $50,000; for a two-three family structure, $70,000; for a four-family structure, $80,000. The program is targeted to eligible neighborhoods in urban aid municipalities.

New Mexico:

New Mexico Mortgage Finance Authority's most recent single-family issue of $43.6 million in September 1981 used the following restrictions: income limit of $23,000 with $1,200 additional for each dependent in families of more than three; purchase price limits are $58,410 for new construction and $41,760 for existing housing.

New York:

New York Mortgage Agency's most recent single-family issue for $104.75 million in November 1981 used the following restrictions: There are no income or

mortgage limits; purchase price limits of $58,950 to $84,240 for new construction and $37,620 to $71,460 for existing housing. Twenty percent of the funds are targeted to areas of chronic economic distress.

North Carolina:

North Carolina Housing Finance Agency's most recent single-family issue of $30 million in November 1981 used the following restrictions: income limits of $15,000 to $17,400 and purchase price limits of $44,800 to $88,800 for new construction, depending on area and $43,200 to $59,300 for existing housing, also depending on area.

North Dakota:

North Dakota Industrial Commission has been authorized to sell bonds but none have been issued. The State is presently considering setting up a housing finance agency for the purpose of selling bonds.

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 or 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. (See also housing rehabilitation).

Pennsylvania:

Pennsylvania Housing Finance Agency's most recent single-family issue of $100 million in April 1982 financed the State's single-family mortgage purchase program. Purchase limits are $69,300 for new and $46,890 for existing housing.

Rhode Island:

1. Rhode Island Housing and Mortgage Finance Corporation's latest single-family issues were December 1981 for $40 million and $25 million. Statewide income limits are $42,500 and purchase price restrictions are $51,400 for existing housing and $71,800 for new construction for areas inside SMSA's. The limits are $58,200 for existing and $73,500 for new construction for areas outside SMSA's.

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 $50 million in December 1981 used the following program restrictions: statewide income limits of $19,000 for an individual, $24,000 for a two-person household, $28,000 for three, and $30,000 for four or more. Purchase price restrictions ranged from $49,000 to $52,000 in urban areas and $33,000 through $41,000 in rural areas.

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 homebuyer 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 in March 1982 for $25 million had the following restrictions: adjusted gross income of $23,000; purchase price restrictions of $50,400 for new construction and $45,810 for existing housing.

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: 1. Wyoming Community Development Authority's most recent single-family issue of $125 million in December 1980 used the following restrictions: income limits of $45,000 and purchase price limits of $100,000. Mortgage limits are $67,500 to $75,000. Future issues must use the purchase price limits of the 1980 Act of $71,300 for new construction and $56,000 for existing housing.

2. *State Severance Tax Fund.* A new program using funds obtained from State severance tax revenues finances mortgages for families with higher incomes. This program also has higher purchase price limits and is not limited to participation by first-income home buyers.

Targeted Multifamily Housing Program

Alaska: *Senior Citizen Housing Program.* Provides money for the construction of multifamily elderly housing. Administered by the Department of Community and Regional Affairs.

California: A revenue bond issue of $36.3 million in March 1981 is being used to finance the loan-to-lenders program, direct construction loans, and direct permanent loans described below:

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. (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. 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.

Connecticut:

A $50 million bond issue in June 1981 is being used to finance the direct construction and direct permanent loan programs described below:

1. *Downpayment Loan Program.* Second mortgage loans to assist households in making downpayments. Administered by Department of Housing. (See also single-family housing.)

2. *Multifamily Program.* Loans for multifamily housing development or rehabilitation.

3. *Rental housing* for the elderly. Grants to local housing authorities. Administered by Department of Housing. Income trigger. Multifamily.

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

Delaware:

The Delaware State Housing Authority operates a non-federally subsidized rental assistance program for 407 units. Not presently active.

Illinois:

The Illinois Housing Development Authority operates a non-federally subsidized rental assistance program for 4,730 units. Not presently active.

Kentucky:

The Kentucky Housing Corporation operates a non-federally subsidized rental assistance program for 656 units. Not presently active.

Maryland:

The Maryland Department of Economic and Community Development operates a non-federally subsidized rental assistance program for 415 units. The program is currently active.

Massachusetts:

1. *Chapter 667 Program.* $67 million, 1982. Provides for the construction and rehabilitation of units of low-income housing for the elderly. (See also single-family housing and housing rehabilitation grants and loans.)

2. *Chapter 705 Program.* $10 million, 1982. Provides monies for the development of scattered-site family public housing. (See also single-family housing and housing rehabilitation grants and loans.)

Michigan:

Michigan State Housing Development Authority operates a non-federally subsidized rental assistance program for 2,054. Not presently active.

Minnesota:

The Minnesota Housing Finance Agency operates a non-federally subsidized rental assistance program for 77 units. Not presently active.

Missouri:

The Missouri Housing Development Commission operates a non-federally subsidized rental assistance program for 4,266 units. Not presently active.

New Jersey:

The New Jersey Housing Finance Agency operates a non-federally subsidized rental assistance program for 2,380 units. The program is currently active.

New York:

1. *Mitchell-Lama Program.* 1960. Multifamily housing for moderate- and middle-income households. Subsidies have been provided to limited-profit companies for development of multifamily housing. 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.

Nevada:

Mortgage Purchase Program. Provides loans for the construction of lower cost housing.

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 Program. Provides State grants for site acquisition, development costs, site improvement, premortgage, and other expenses for multifamily housing projects for low- and moderate-income individuals. Administered by the Department of Community Affairs. (See also housing rehabilitation and capital improvement.)

Rhode Island:

Housing Seed Money Fund. Promotes construction and rehabilitation of low- and moderate-income housing. Financial loan assistance is made available to non-profit sponsors at no interest for premortgage 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. Deferred payment loans available at 3 percent interest. Administered by the Department of Housing.

Colorado:

Housing Redevelopment 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. (See also neighborhood improvement.)

Connecticut:

1. *Housing Site Development Program.* Grants to municipalities for the acquisition and rehabilitation of blighted structures. Administered by the Department of Housing.

2. *Municipal Rehabilitation.* Costs of acquisition and rehabilitation/construction are combined under one mortgage to modernize and correct housing code violations. Administered by Connecticut Housing Finance Authority.

3. *Buy, Rehabilitate, and Resell Program.* Nonprofit organizations use loans to purchase, rehabilitate, and resell structures in urban areas to low- and moderate-income individuals or families. Administered by Connecticut Housing Finance Authority.

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.

Maryland:

Housing Rehabilitation Program. 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. *Chapter 667 Program.* $67 million, 1982. Provides for the construction and rehabilitation of low-income housing for the elderly. (See also single-family and multifamily housing.)

2. *Chapter 705 Program.* $10 million, 1982. Provides monies for the development of scattered-site family public housing. (See also single-family and multifamily housing.)

Michigan:

Home Improvement Program/Neighborhood Improvement Program (HIP/NIP). Provides loans for remodeling, repairs, energy conservation improvements, or accessibility improvements for handicapped individuals. Last bond issue was in April 1982 for $30 million. Restrictions are adjusted gross income of no more than $15,999 and an additional $750 for each dependent.

Minnesota:

1. *Home Improvement Grant Program.* $14.4 million for 1982. Makes loans available to homeowners at low interest rates. Financed by appropriations from the State.

2. *Rehabilitation Loan Program.* $3.5 million for 1982. Makes 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:

Home Improvement and Energy Conservation Program.
$15 million bond sale in October 1981. Eighty percent of funds available for home improvement to moderate-income families. Structures must be owner-occupied. Restrictions: income of $20,000 or less for an individual and up to $31,000 for families of six or more. Maximum loans of $15,000 over a 15-year period.

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:

1. *Housing and Redevelopment Program.* Provides State grants for housing rehabilitation for low- and moderate-income families. Since 1979, over $6 million has been provided to rehabilitate 2600 units. (See also multifamily housing and capital improvement programs.)

2. *PHFA Single-Family Housing Program.* PHFA and local governments are authorized to issue bonds for single-family housing including rehabilitation and energy conservation loans. A bond issue of $100 million solely for rehab purposes is planned during 1982. (See also single-family 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)

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:

Any areas designated by a municipality as enterprise zones as provided by law, shall have assessments on all real property within the zones fixed if property is improved during the time an area is designated an enterprise zone. Fixed assessment shall be for 7 years and may be revoked if the residential rental property is rented to any individual whose income is more than 200 percent of the median family income of the municipality or if a condominium is sold to anyone above the income maximum. (See also State financial aid programs.)

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:

Chapter 121 A – "Urban Development Corporations." 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.

Montana:

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

New Jersey:

1. *1968 Limited Dividend Non-Profit Housing Corporation Act.* Similar to the Fox-Lance tax incentive program (see State financial aid), this program is designed to encourage nonprofit projects financed with government mortgages, such as those provided with federal money funneled through the State's housing finance agency. The Limited Dividend Act differs from Fox-Lance in that it exempts both land and buildings from the tax rate. The service charge, while also 15 percent under the limited dividend act, is computed in terms of "gross shelter rents." A developer is able to first deduct the cost of utilities before determining how much he owes the city. The developer is also allowed a return of 8 percent of his capital

under the law. The additional profit, rather than going to the city each year, is allowed to collect in the corporations' accounts to be divided between the city and State when the tax abatement runs out.

2. Muncipalities may regard up to $15,000 of assessed value of home improvements to houses more than 20 years old as not increasing the value of the property for five years. The abatement requires the approval of the county planning board. The program is targeted to neighborhoods or communities threatened by blight. (See also neighborhood improvement.)

New York:

J-51 Program. Cities of one million or more (i.e., New York City) may exempt any increase in assessed valuations for multiple dwellings due to certain improvements, alterations, conversions, etc.. Alternations 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. In 1981, legislation was amended to include full exemption during the construction period as well as for the first two years following completion. The amendment applies to projects begun between January 1, 1975 and January 1, 1986. Projects must be completed by December 31, 1987.

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:

Provides for exemptions for certain multiple-unit rental housing and limited assessment for rehabilitated residential property. Assessment will not be altered for 10 years following improvements. Limited assessments may be terminated immediately, however, if the structure is converted to condominiums or if the assessor finds the structure is being used for other than residential housing purposes. Such units must be located in locally designated areas. Newly constructed multifamily dwellings also are eligible for property tax exemption.

Pennsylvania:

1. *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.

2. *Improvement of Deteriorating Real Property or Areas Tax Exemption Program.* (RETAP) Authorizes property tax exemptions for improvements to deteriorated dwellings in locally designated decaying neighborhoods.

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:

Prepared 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. Administered by the Alabama Development Office.

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. Administered by the Department of Commerce.

Michigan:

Urban Land Assembly Act. Creates an Urban Land Assembly Fund to provide loans to municipalities with high unemployment for the acquisition of property for economic development purposes including industrial and downtown commercial projects. Loans can be used for the purchase of land, demolition, relocation, and site improvements required to make the land marketable. The Department of Commerce supervises the fund. (1981 Mich. Pub. Acts 171)

New Jersey:

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. N.J. Stat. Ann. §34:13-1 *et seq.*

Pennsylvania:

1. *Pennsylvania Industrial Development 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. Pennsylvania Industrial Development Act. 1956 Pa. Laws 537 (See also State financial aid.)

2. *Site Development Act.* The Department of Commerce is authorized to make grants for projects that will provide for the construction, rehabilitation, alteration, expansion or improvement of water an sewage lines, access roads, channels, and land acquisition located in urban impoverished areas. Site development grants are generally limited to $50,000 or 50 percent of the total project cost, whichever is less. Counties having annual average unemployment rates more than 40 percent higher than the statewide annual average and cities and boroughs designated by the federal Department of Housing and Urban Development as economically distressed and having populations over 2,500 are eligible for grants up to $100,000 or 50 percent of total project cost, whichever is less. Appropriation for 1982-83 is $1 million.

Tennessee:

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

Vermont:

1. *Loan Guarantee Program.* This program, administered by the Vermont Industrial Development Authority, is designed to aid business by guaranteeing loans of commercial lending institutions. Loans can be made for the acquisition of land, buildings, machinery and equipment, or working capital, and must be secured by fixed assets. (See also State financial aid programs.)

2. *Direct Loan Program.* This program, administered by the Vermont Industrial Development Authority, is designed to make low interest loans available to businesses for the purchase of land, buildings, machinery and equipment for use in an industrial project. (See also State financial aid programs.)

3. *Assistance to Local Development Corporations.* This program provides loans to local development corporations for the purchase of land for industrial parks, industrial park planning and development, and the erection of speculative shell buildings. (See also State financial aid programs.)

4. *The Regional Economic Development Grant Program.* These grants, coupled with matching local monies, make it possible for nonprofit development corporations to hire full-time professionals to direct their programs. Areas with high unemployment or low industrial employment are among the targeted areas.

Washington:

Community Economic Revitalization Board. Formerly the 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. H.B. 906 (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 ½ 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 distressed 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, and a suspension of the sales tax on replacement parts. A commission is studying regulatory and licensing policy. Public Act 81-445. (See also housing rehabilitation.)

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. Expires in June 1986. Administered by the Department of Veteran and Community Affairs. Laws of Florida, Chapter 80-247.

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. Expires at the end of 1986. Administered by the Department of Veteran and Community Affairs. Laws of Florida, Chapter 80-248.

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. *Urban Development Areas.* Property tax deductions are available for expenditures on land and equipment in locally designated urban development areas. These areas now include localities containing manufacturing facilities that are obsolete technologically, economically or as to their energy source. A second criterion is that this obsolescence may lead to a decline in employment or tax revenues. Tax deductions from the property's assessed value decline from 100 percent in the first year to 50 percent in the fifth and zero thereafter. The deduction was extended to purchases of manufacturing equipment in 1981. Administered by the State Board of Tax Commissioners. 1981 Ind. Acts 72.

2. *Act 1558.* The Indiana Economic Development Authority Act (1965) established 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.

Kansas:

Enterprise Zone Program. The Secretary of the Department of Economic Development, under certain conditions, can approve the creation of enterprise zones. Incentives within the zone include an income tax credit for new zone businesses, a sales tax exemption for constructing or modernizing a business facility, and tax increment financing eligibility. House Bill 3121, 1982.

Kentucky:

Enterprise Zone Program. Any city, county, or urban county government may designate one or more areas to be an economically depressed area. This government must then apply to the Kentucky Enterprise Zone Authority, which may designate seven enterprise zones in the four years after the Act becomes effective. The new law attempts to encourage new economic activity in the zones by means of reduced taxes and removal of unnecessary governmental barriers to economic growth. House Bill 505, 1982.

Louisiana:

Enterprise Zone Program. An enterprise zone law 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. One-quarter of the State's census divisions will be declared to be enterprise zones. The program is 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. Administered by the Department of Economic and Community Development.

2. *Enterprise Zone Program.* The Department of Economic and Community Development is authorized to designate up to six zones in any twelve-month period for business to receive property and income tax credits and benefits from the Industrial Land Act and the Industrial and Commercial Redevelopment Fund. An enterprise zone must meet one of four criteria to ensure that State and local resources are targeted to distressed areas and chronically unemployed persons, whether urban or rural. In determining a zone's eligibility, DECD is allowed to consider areas in reasonable proximity to the actual zone area in order to include undeveloped land adjacent to or within economically distressed areas. S.B. 811, 1982.

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 downpayments, lower monthly payments, and negotiate longer maturities than would be possible without such assistance. Administered by the Massachusetts Industrial Finance Agency.

2. *Organizational Development Program.* This program for community development corporations, administered by the State Economic Opportunity Office, offers technical and financial aid to community groups wishing to organize CDC's. Assistance includes training and personnel to help organize the community and help in locating other resources. (See also small business development and neighborhood improvement.)

3. *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. Administered by the State Economic Opportunity Office. (See also small business development and neighborhood improvement.)

4. *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 State 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. The State financed the original $10 million fund through the sale of bonds. (See also small business development and neighborhood improvement.)

5. *Community Economic Development Assistance Corporation (CEDAC).* This corporation helps Massachusetts CDC's assess and develop specific projects. Its primary concern since beginning in 1978 has been determining project feasibility and marshaling resources for projects. To be eligible, projects must benefit residents of communities with few job opportunities. Projects are then chosen on the basis of the number and kind of jobs they will provide, the amount of community ownership they will afford, the project's viability and the degree of community distress. (See also small business development and neighborhood improvement.)

6. *Urban Job Incentive Program.* Provides a State credit to firms locating or expanding in urban communities with high property taxes to the Statewide average. The firm 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:

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

a. Restored obsolete facilities are completely exempt from ad valorem property taxes.

b. 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 retain sales outlets. 1978 Mich. Pub. Acts 255

2. *Michigan Economic Development Authority.* Agency will issue economic development bonds secured by oil and gas revenues. Loans will then be made for industrial development projects. Projects located in distressed areas need not have financing from other lenders as well in order to be eligible for loans. Additional public or private financing is needed for other industrial development projects. The enabling legislation instructs the authority to give highest priority to projects with the greatest potential for creating or retaining jobs in the State. 1982 Mich. Pub. Acts 70

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 also 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: Loans (at an interest rate 4 percent below the prime rate of major Minnesota banks) with ARA participation limited to 20 percent of the total project cost. Loans may be used for land, buildings, machinery and equipment. Approximately $3.5 million loans issued since 1962. Administered by the Department of Energy, Planning, and Development. Minn. Stat. Ann. §472.01 *et seq.*

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. Appropriation for grants is approximately $225,000 for FY 1982. Administered by the Department of Energy, Planning, and Development. Minn. Stat. Ann. §362.41 (See also small business development and neighborhood improvement.)

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. Once the constitutionality of the severance tax provision was upheld by the U.S. Supreme Court in 1979, the program became operational in August 1980. As of May 1982, three loans have been approved for a total of $67,500. Program is supervised by the Department of Energy, Planning, and Development, although the tribal councils approve loans. Minn. Stat. Ann. §362.40

4. *Enterprise Zone Act.* Permits the Commissioner of Energy, Planning, and Development to designate enterprise zones upon request by a local governmental unit. Criteria for designation include unemployment and number of persons below the poverty level. Industrial employment property in a zone can be valued at reduced amounts for real estate taxation purposes. Article VI of House file 1872, March 1982.

Mississippi:

The governing authorities of any municipality of more than 45,000 may exempt from municipal property taxes (excluding school taxes) for up to seven years new structures that are erected or improvements that are made to existing ones pursuant to a city plan for development of the central business district. The owner must apply for city approval of the exemption. Counties may grant the exemption to the same structures for county taxes. S. 2896, approved April 20, 1981.

Missouri:

Enterprise Zone Act. The Enterprise Zone Act offers tax incentives to businesses which locate in underdeveloped, blighted areas. Firms locating in enterprise zones would be eligible for an investment tax credit of 10 percent of the first $10,000 in investments, 5 percent of the next $90,000, and 2 percent of the remaining investment; up to a $1,200 tax credit for each new employee hired; and up to a $400 employee training credit for each new employee that is a zone resident or considered disadvantaged. In addition, up to half the income earned by a zone business would be exempt from State income taxation for up to 15 years. Passed April 1982.

New Jersey:

1. *Loan Guarantees and Direct Loans.* The bulk of New Jersey Economic Development Authority activity is in issuing industrial revenue bonds for specific projects (see section on targeted IRB use). Administrative fees from participating firms amount to ½ 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 by regulation. 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.

2. *Urban Renewal Corporation and Association Law (1961).* Commonly known as the *Fox-Lance Act,* the law allows developers organized as limited dividend, urban renewal corporations to enter agreements with municipalities for exemptions from local property taxes. The exemption lasts for either 15 years after construction is finished, or for 20 years after the contract with the city is signed, whichever comes first. Administered by the Division of Economic Development within the Department of Labor and Industry.

3. *Five Year Tax Abatement Law.* This law provides that qualified municipalities may adopt ordinances exempting business improvements to property in need of rehabilitation from the local property taxes and may enter into written agreement with an applicant for abatement thereof. There are 31 urban aid cities and 8 other municipalities which qualify under this law. Administered by Department of Labor and Industry. 1977 N.J. Laws 12

New York:

1. *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.

2. *Rural Development Loan Fund.* Provides loans to eligible new and existing businesses to stimulate private sector employment in rural distressed communities with populations of 25,000 or less. Loans will range from $20,000 to $50,000, up to a maximum of 20 percent of a project's cost. The total amount available for lending in the first year is $800,000. The U.S. Economic Development Administration has approved $239,000 to help capitalize the program. The remainder of the loan capital will be provided from existing State resources. Administered by the Job Development Authority.

Ohio:

1. *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.

2. *Urban Jobs and Enterprise Zones.* Within certain counties, certain municipalities may establish such zones. After certification of the zone, the city may before 1988 enter an agreement with a business under which it agrees to establish, expend, renovate or occupy a facility and hire new employees in return for one or more incentives. These include exemptions from taxes on land and equipment and provision of optional services by the municipality. With the agreement of affected municipalities, a county may also create such zones and offer the same incentives. County tax exemptions may not exceed 50 percent, however, while city exemptions may be for as much as 100 percent. House Bill 351, November 1981, amended by House Bill 536 enacted in May 1982.

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. 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. Total appropriation for PIDA in FY 1981 was $18 million, of which less than $1 million was for administrative costs. Revenue bonds have been issued three times: 1975, 1976, and 1978. Total net commitments for loans in December 1981 was approximately $80.2 million. Pennsylvania Industrial Development Act. 1956 Pa. Laws 537 (See also site development and small business development.)

Texas:

Texas Rural Industrial Development Act. Provides direct loans to non-profit 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 1960-1970, containing less than a 50,000 population, and not sustaining a population increase as great as the average for the State's metropolitan areas. Loans of $236,000 issued in FY 1981. Administered by the Texas Industrial Commission. Tex. Rev. Civ. Stat. art. 5190.2

Vermont:

1. *Loan Guarantee Program.* This program, administered by the Vermont Industrial Development Authority, is designed to aid business by guaranteeing loans of commercial lending institutions. Loans can be made for the acquisition of land, buildings, machinery and equipment, or working capital, and must be secured by fixed assets. (See also site development programs.)

2. *Direct Loan Program.* This program, administered by the Vermont Industrial Development Authority, is designed to make low interest loans available to businesses for the purchase of land, buildings, machinery and equipment for use in an industrial project. (See also site development programs.)

3. *Assistance to Local Development Corporations.* This program provides loans to local development corporations for the purchase of land for industrial parks, industrial park planning and development, and the erection of speculative shell buildings. (See also site development programs.)

4. *The Regional Economic Development Grant Program.* These grants, coupled with matching local monies, make it possible for nonprofit development corporations to hire full-time professionals to direct their programs. Areas with high unemployment or low industrial employment are among the targeted areas.

Virginia:

Urban Enterprise Zone Act. The Governor may approve, upon recommendation of the Secretary of Commerce and Resources, up to six areas as Urban Enterprise Zones for a period of up to 20 years. The State tax incentives include a business income tax credit, an unemployment tax credit for workers at zones businesses, and an exemption from the State sales tax for purchases by zones businesses for up to five years. Substitute Bill 689, 1982.

Wisconsin:

Community Development Finance Authority. Legislation passed in 1982 establishes a nonprofit authority to provide technical and administrative assistance to community development corporations. The authority will also establish a profit-making subsidiary to provide venture capital to CDC's. Capital for the community development finance company (CDFC) will be raised by offering tax credits equal to 75 percent of the amount of stock purchased in the CDFC but not exceeding 75 percent of the donation. A.B. 858 (1982) (See also small business development and neighborhood improvement.)

Targeted Customized Job Training Programs

California:

California Worksite Education and Training Act. Training is designed to meet the actual and specific needs of employers for trained workers; provide marketable skills and jobs for the structurally unemployed; and to offer instruction to help

workers upgrade their skills and move into better paying jobs with advancement potential. The structurally unemployed include youth, minorities, the disabled, welfare recipients and those at the poverty level. The program, however, is not limited to low-income persons.

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 States. 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 reservation for the training of Indians (7 percent of training costs are covered by Federal vocational dollars). The program is contingent on receiving a CETA appropriation for student stipends.

Pennsylvania:

Customized Job Training Program. Provides funds for short-term vocational employment training for specific jobs for unemployed and underemployed individuals, particularly welfare recipients.

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 under its budget.

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 innovation small business enterprises. The

Corporation will use its resources in three ways: invest in Small Business Investment Companies (SBIC'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:

1. *Louisiana Small Business Investment Fund.* 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 loans 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. Also includes a Special Fund to provide guarantees and interest subsidies on long-term working capital loans.

Massachusetts:

1. *Organizational Development Program.* This program for community development corporations, administered by the State Economic Opportunity Office, offers technical and financial aid to community groups wishing to organize the community and help in locating other resources. (See also State financial aid and neighborhood improvement.)

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. Administered by the State Economic Opportunity Office. (See also State financial aid and neighborhood improvement.)

3. *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 State 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 area. The CDFC goal is to develop sound businesses which will create or retain jobs, and provide other economic benefits in economically distressed areas. The State financed the original $10 million fund through the sale of bonds. (See also State financial aid and neighborhood improvement.)

4. *Community Economic Development Assistance Corporation (CEDAC).* This corporation helps Massachusetts CDC's assess and develop specific projects. Its primary concern since beginning in 1978 has been determining project feasibility and marshaling resources for projects. To be eligible, projects must benefit residents of communities with few job opportunities. Projects are then chosen on the basis of the number and kind of jobs they will provide, the amount of community ownership they will afford, the project's viability and the degree of community distress. (See also State financial aid and neighborhood improvement.)

Minnesota:

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. Appropriation for grants is approximately $225,000 for FY 1982. Administered by the Department of Energy, Planning, and Development. Chapter 362 (See also State financial aid and neighborhood improvement)

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. Established by resolution of the Board of Commissioners of the Economic Development Authority.

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:

The Ohio Financing Commission is 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:

1. *Pennsylvania Minority Business Development Authority.* The Authority will make loans to viable or potentially viable enterprises owned and operated by demonstrated socially or economically disadvantaged persons belonging to ethnic or minority groups. Minority Business Development Authority Act. 1974 Pa. Laws 206

2. *Pennsylvania Industrial Development Authority.* PIDA can contribute 40 percent of a small business project's cost in areas with unemployment less than 6 percent, with the percentage increasing to 70 percent in areas with unemployment over 10 percent. (See also site development and State financial aid.)

Wisconsin:

Community Development Finance Authority. Legislation passed in 1981 establishes a nonprofit authority to prove technical and administrative assistance to community development corporations. The authority will also establish a profit-making subsidiary to provide venture capital to CDC's. Capital for the community development finance company (CDFC) will be raised by offering tax credits equal to 75 percent of the amount of stock purchased in the CDFC but not exceeding 75 percent of the donation. A.B. 858 (1982) (See also State financial aid and neighborhood improvement.)

Targeted Industrial Revenue Bond Programs

California:

The California Industrial Development Financing Authority Commission must approve all IRB's issued for industrial purposes. The Commission is authorized to issue a total of $200 million in bonds and has established a policy of targeting bonds to labor-intensive projects and projects in distressed areas. Any of California's charter cities may issue bonds for commercial projects without Commission approval, however.

Connecticut:

Self-Sustaining Revenue Bond Program. In addition to providing financing, the Connecticut Development Authority offers special tax incentives to manufacturing firms locating in distressed areas or areas with chronic unemployment. The incentives are part of the Urban Jobs and Development program. (For more information on that program, see State financial aid.) The authority also finances certail retail, service, parking, and transportation projects in "economically distressed areas" of the State under extremely restrictive targeting guidelines. Conn. Gen. Stat. §32-11a *et seq.*

Florida:

Industrial Development Financing Act. 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 IRBs can be used by all municipalities. Fla. Stat. §159.25 *et seq.*

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:

a. deterioration, or dilapidated physical conditions;

b. inappropriate land use or patterns of ownership which impair or arrest sound growth;

c. 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 declining or depressed communicial 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:

Kansas City and St. Louis are authorized to sell revenue bonds to finance commercial development in blighted areas. (H.B. 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. Special tax incentives are also available for IRB projects designed for the central business improvement district. 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. Tenn. Code Ann. §7-84-101

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 to commercial projects, not industrial ones. For IRBs 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. Established by the Development Corporation Act of 1979. As of May 1982, $1.71 billion in bonds have been issued. Tex. Rev. Civ. Stat. art. 5190.6

Wisconsin:

Commercial facilities, including shopping centers, convention centers, office buildings, motels and hotels financed by IRBs 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. Blighted areas locally designated; targeting is loose, leaves great latitute 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.* 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.

Arizona:

State Development Fund. A small, pilot-type fund of $100,000 is available for 1982. Grants must be matched by local jurisdictions. Funds are to be used for water development, sewage disposal, and other "bricks and mortar" projects.

Colorado:

1. *Small Communities Sewer Construction Program.* 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.* 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 that lack the money to meet the costs of repair. Department of Local Affairs determines eligibility and the State Health Department administers the program.

Connecticut:

Urban Action Grants. Provides monies to communities designated as distresed by the States and meeting 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.* 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 Department of Community Affairs. 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. Not funded in 1982. 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 population over 5,500 receive grants or loans for 25 percent or $100,000.

2. *Energy Impacted Areas Program.* 1977. Not funded in 1982. Proceeds from severance tax are 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:

1. *Community Facilities Program.* Grants to communities of less than 12,000 population for construction, alteration, expansion or improvement of water facilities, sanitary sewage lines, and access roads. Maximum grant amount is $75,000 in counties with an unemployment rate more than 40 percent higher than the State average or which are designated by HUD as economically distressed; $50,000 elsewhere. A total of $2.5 million is available in 1982-83.

2. *Site Development Program.* Grants for water or sewer facilities, access roads, land acquisition, etc. Maximum grant amount is $100,000 in areas with high unemployment or designated as economically distressed; $50,000 elsewhere. A total of $1.0 million is available in 1982-83. (See also site development.)

3. *Sewage Facilities Grants.* Grants to local government for planning, enforcement, and operation of sewage facilities. A total of $18.6 million is available in 1982-83.

4. *Water Bond Issue.* Bonds totalling $300 million will be issued for loans to local governments and private companies for rehabilitation of public water systems, flood protection projects, dam safety, and port facilities.

5. *Housing and Redevelopment Program.* Provides grants for site improvements, construction of community facilities, roadway construction, etc. benefitting low- and moderate-income individuals. (See also multifamily housing and housing rehabilitation.)

South Dakota:

Energy Severance Tax Fund. Severance tax funds are used to offset energy development (oil, gas, and uranium) related impacts to communities.

Utah:

Community Impact Funding Program. 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.* Grants and loans for the treatment of dangerous waste disposal facilities.

   b. *Agricultural Pollution Abatement Program.* Grants and loans for draining improvement projects. Both programs administered by the Department of Ecology.

2. *Referendum 38.* 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.

3. *Community Economic Revitalization Board.* Formerly the 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. H.B. 906 (1982)

West Virginia:

Water Development Authority Program. 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.

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. Administered by the Wyoming Farm Loan Board.

2. *State Coal Severance Fund.* Monies collected from severance taxes on coal development 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.) Administered by the Wyoming Farm Loan Board.

3. *Joint Powers Fund.* 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:

1. *Marks-Foran Residential Rehabilitation Act of 1973.* Designed to reverse decline of entire neighborhoods by concentrating loans in designated residential rehabilitation areas where at least 95 percent of the homes meet locally determined rehabilitation standards. The program is financed through the sale of tax exempt bonds.

2. *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.* Provided loans for community housing development activities in distressed areas. Administered by the Department of Housing.

2. *Neighborhood Housing Services Program.* 1978 enactment provides State funds to NHS programs in urban neighborhoods. Funds are given in the form of loans and targeted to communities with the greatest need. Currently, 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. *Community Improvement Act of 1980.* Neighborhood assistance program designed to grant Florida corporations a 50 percent tax credit for donations which support redevelopment and restoration activities.

2. *Community Development Support and Assistance Program.* This program, supported by funds from State general revenue as well as CDBG monies, is composed of two parts: 1) grants and loans to CDC's; and 2) tax credit programs. The tax credit component allows deductions for contributions to community-based organizations, new businesses, or existing businesses which improve the condition of slum or blighted areas.

Georgia:

Dcwntown Development Program. Provides technical assistance for the revitalization of commercial areas and declining neighborhoods. Administered by the Department of Community Affairs.

Indiana:

Neighborhood Assistance Tax Credit Program. (1976). The State has created $1 million in tax credit authority for FY 1982. A 50 percent tax credit is available to corporations that contribute to neighborhood revitalization or economic development projects in blighted or declining areas.

Maryland:

Neighborhood Housing Services Program. Provides grants of $150,000 plus staff costs and expenses for neighborhood improvement projects. This program is a partnership between local government and the private sector aimed at addressing problems in blighted communities with an emphasis on housing. A 50 percent match from the city involved is required. Administered by the Department of Community and Economic Development.

Massachusetts:

1. *Organizational Development Program.* This program, designed for community development corporations, is administered by the State Economic Opportunity Office. It offers technical and financial aid to community groups wishing to organize CDC's. Assistance includes training and personnel to help organize the community and to help in locating other resources. (See also State financial aid and small business development.)

2. *Community Economic Development Assistance Corporation (CEDAC).* This program helps Massachusetts CDC's assess and develop specific projects. Its primary concern since beginning in 1978 has been to determine project feasibility and marshal resources for projects. To be eligible, projects must benefit residents of communities with few job opportunities. Projects are then chosen on the basis of the number and kinds of jobs they will provide, the amount of community ownership they will afford, the project's viability, and the degree of community distress. (See also State financial aid and small business development.)

3. *Neighborhood Housing Program.* $1.5 million targeted to communities below a certain poverty level for revitalization projects.

Michigan:

Neighborhood Assistance Program. Now providing support for four projects. This program provides cash rebates, rather than tax credits, of up to 50 percent for business contributions to neighborhood programs. Eligible recipients are limited to organizations closely tied to neighborhoods with resident-based membership. The program is targeted to low-income, high unemployment areas.

Minnesota:

Community Development Corporation. $225,000, 1982. 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. The program is administered by the Department of Energy, Planning, and Development.

Missouri:

1. *Neighborhood Assistance Program.* The neighborhood assistance program offers 50 percent income tax credits for contributions to neighborhood projects, e.g., community services (day care centers, medical clinics, and counselling services), crime prevention, education and job training, renovation, repair, and new construction. Since the program was enacted in 1977, $6 million in contributions have been made to neighborhood projects. The program was amended during the last legislative session (H.B. 1353) to extend the tax credit to partnerships and sole proprietorships. Previously, tax credits were extended only to corporations, financial institutions, and insurance companies.

2. *Chapter 353 Property Tax Abatement Program.* The Chapter 353 program authorizes cities to grant 25-year property tax abatements and eminent domain power to redevelopment corporations that invest in industrial, commercial, and residential projects in blighted areas. Since enacted in 1945, more than $800 million in private investment has been leveraged through the program.

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.* 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.* Basically, same program as the Neighborhood Preservation Companies Act, but directed to rural neighborhoods only. Admnistered by the Department of Housing. (See also housing rehabilitation.)

3. *Business Improvement District Program.* This is a new program designed to allow businessmen to assess themselves additional taxes to be collected by a governmental unit and returned to the group for use in local improvements. No State funds are currently involved, but a movement is underway to create a revolving fund to provide project seed money. Only local government approval is needed to create new districts in the State.

4. *Urban Initiative Program.* Provides grants for housing rehabilitation averaging $20,000 to municipalities of 50,000 or more with deteriorating housing stock and high unemployment. Sixteen communities are currently eligible.

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. Priority projects designated by the Department of Community Affairs can qualify for a 70 percent credit. The program is administered by the Bureau of Human Resources in the Department of Community Affairs.

Virginia:

Neighborhood Assistance Program. Provides for a 50 percent tax credit to any business in the State which gives financial assistance to organizations that help poor people in distressed areas.

Wisconsin:

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

2. *Community Economic Development Program.* Provides for creation of a nonprofit Community Development Finance Authority (CDFA) and a for-profit Community Development Finance Company (CDFC). The CDFA will create the CDFC, which will make venture capital investments in CDC business and physical development projects. A majority of the funds will be raised by offering tax credits of 75 percent to corporations or individuals who purchase stock in the CDFC.

Revenue Sharing Programs*

Alabama: Major programs include alcohol control profits and beer sales tax payments. Total general local aid was $30.9 million in 1979.

Alaska:* Major programs include per capita payments with per capita amounts varying with the number of services provided by the locality. Other payments include reimbursement for senior exemption. Aids in 1979 were $36.4 million.

Arizona:* Major programs include distribution of share of general sales tax to local governments according to population for cities and towns, and according to taxable retail sales for counties. Urban revenue sharing aid provided to cities on the basis of population. Total general local support was $160.1 million in 1979.

Arkansas:* County aid distributed 75 percent equally to all counties and 25 percent according to population. Municipal aid distributed on basis of population. Total general local support was $32.5 million in 1979.

California: Major program compensates localities for revenues lost through Proposition 13. Other property relief aids. 1979 aid: $1.8 billion.

Colorado: Major program is cigarette tax rebate. Total general local support was $16.2 million in 1979.

Connecticut: Major programs include compensation for elderly homestead credit and exempted manufacturing inventory. The State's urban aid program, which distributed aid according to equalizing criteria, was repealed in 1981. Total 1979 payments for general aid were $123.3 million.

Florida: State revenue sharing distributes funds from State cigarette and intangible property taxes to cities and towns based on population and State sales tax collections. Total general local support was $274.8 million in 1979.

Georgia:* Program allocates aid according to the number of homesteads for counties, with aids to cities inversely related to population size. Total general local support was $16.1 million in 1979.

Hawaii:* The State's revenue sharing program was essentially frozen at the 1971-72 allocation levels following the enactment of Federal revenue sharing. The 1971-72 allocations were inversely related to per capita property tax wealth. Total general local support was $20.7 million in 1979.

Idaho: Twenty percent of general sales tax proceeds distributed to local governments according to business personal property tax collections. Other major programs include distribution of alcohol monopoly profits by population. Total general aids were $33.7 million in 1979.

Illinois:* One-twelfth share of personal and corporate income taxes distributed to municipalities with counties receiving the share for unincorporated areas. 1979 aid was $182 million.

Indiana: In addition to State payments for homestead exemption, cities receive a portion of State cigarette and alcohol taxes plus revenue sharing payments, all distributed according to population. Counties receive revenue sharing and proceeds of intangibles tax and excise tax.

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*An asterisk next to a State's name indicates that this State has a revenue sharing policy meeting the report's criteria. See text for explanation.

Iowa: In addition to payment for homestead, personal, and agricultural property exemptions, cities and towns receive municipal assistance payments on the basis of population. Total general local support came to $112 million in 1979.

Kansas: Major programs distribute aid according to population and assessed valuation. Total general local support was $23.9 million in 1979.

Kentucky: Program for payment in lieu of T.V.A. taxes. Total general local support was $1.1 million.

Louisiana:* Revenue sharing program allocates aid according to population and the number of homesteads. Other programs include the distribution of tobacco tax receipts. Total general local support payments came to $167.4 million in 1979.

Maine:* Program distributes 4 percent of State income and sales tax receipts to cities and towns according to a formula that has population weighted for the effective property tax rate. Total payments for all general local support came to $24.6 million in 1979.

Maryland: Major program is State payment of $.11 per $100 of valuation to counties and Baltimore. Other payments include tobacco and parimutuel taxes distributed on a per capita basis. Total general support was $107.7 million in 1979.

Massachusetts:* "Beano" and lottery receipts distributed to cities and townships according to a formula of $10 x (per capita State equalized property value/locality's equalized property value) x locality's population. Total payments reported to be over $200 million annually. Large increase in aid following Proposition 2 ½.

Michigan:* The State revenue sharing formula distributes earmarked portions of State sales, income, intangibles, and single business taxes to counties, cities, villages and townships according to population and tax effort. Additional payments for tax burden and for distressed communities financed through general fund. Total general local aid was $598.7 million in 1979.

Minnesota:* In addition to homestead credit, State general aids include payments to counties, munipalities, and townships according to formula of (levy limit + general aids) minus (10 equalized mills) or last year's aid plus a minimum per capita increase. Other payments to taconite producing areas. Total general local support was $350.1 million in 1979.

Mississippi: Major program is the distribution of 19 percent of State tax receipts to cities where the revenues originated. Total general local support in 1979 was $103.8 million.

Missouri: Share of financial institutions tax distributed to localities. Total general local support was $6.6 million in 1979.

Montana: Portion of coal severance tax distributed to counties according to coal production. Total support was $10.8 million in 1979.

Nebraska: Major programs include compensation for homestead and personal property exemptions, and various payments on the basis of population, taxable value, and tax levies. Total general local support was $101.8 million in 1979.

Nevada:* Portions of the cigarette and liquor excise taxes returned to the county of origin. Total payments for all general local support came to $17.6 million in 1979.

New Hampshire:* Portions of the interest and dividends, meals and rooms, and business and profits taxes distributed to cities and townships according to an equalizinig formula that includes population, property tax levy, and property valuation. Total payments for general local support were $34.9 million in 1979.

New Jersey:	Major programs include payments for business personal property tax exemptions and railroad property exemption, revenue sharing, and urban aid. Revenue sharing is distributed to localities meeting criteria. Total general aid was $530.9 million in 1979.
New Mexico:	Twenty-five percent of State sales tax receipts distributed to cities where revenues originated. Gas, cigarette, and motor vehicle license taxes distributed to city and county of origin. Total general local support was $98.5 million in 1979.
New York:*	Four percent of State tax collections go to the cities in existence in 1968, on a population basis. Another 4 percent goes to all general purpose units according to per capita amounts that vary with the type of government.
North Carolina:	Shared intangible taxes distributed to county areas according to population and governments according to property tax levies. Alcohol taxes distributed on basis of population. General aids were $93 million in 1979.
North Dakota:	Five percent of State income and sales tax receipts are distributed to cities and counties; half according to population and half according to property tax levies. Other programs include reimbursement for the personal property exemption. Total general local support was $20.1 million in 1979.
Ohio:	State distributes 3.5 percent of State sales, personal income, and corporate franchise taxes, mainly according to assessed value and partly according to population and to cities with local income taxes. Total payments for general local support came to $155.5 million in 1979.
Oklahoma:*	Share of alcohol, bus mileage, and commercial vehicle taxes distributed according to population and sparsity. Total general local support was $8.6 million in 1979.
Oregon:*	Portion of liquor control revenues and cigarette tax receipts shared with cities and counties on a per capita basis. Timber tax receipts returned to county where revenue originated. Payments for homestead credit. Total general local support was $49.2 million in 1979.
Pennsylvania:	Alcoholic beverage license taxes and public utility taxes distributed to cities and towns where revenue originated. Total payments for all shared revenues came to $44 million in 1979.
Rhode Island:	Major programs include payment to cities and towns in proportion to property tax levies, other payments based on population and in compensation for State exempted property. Total general local support was $12.5 million in 1979.
South Carolina:*	A share of State personal and corporate income taxes distributed to counties according to population. Share of State alcohol and beer taxes distributed to counties and municipalities on a per capita basis. Payment to counties for homestead exemption. Total general local support was $70 million in 1979.
South Dakota:	Major programs share 36.5 percent of alcoholic beverage taxes with cities and townships according to population. Other programs distribute aids back to the locality where they originated. General aids totaled $10.6 million in 1979.
Tennessee:*	Major program shares 12.5 percent of State sales tax according to population. Share of tax on dividend and interest income shared with locality of origin. Total general local support was $77.9 million in 1979.
Texas:	Share of alcoholic beverage tax receipts shared equally between cities and counties where revenues originated. Total general local support was $20.7 million in 1979.

Utah:* Share of alcoholic beverage tax receipts distributed to cities and counties according to population. Total general local support was $2 million in 1979.

Vermont: Reimbursement for railroad and flood control property tax exemptions. Total general local support was $179,000 in 1979.

Virginia:* Two-thirds of State liquor store profits and wine tax proceeds distributed to localities on per capita basis. Total general local support was $21.5 million in 1979.

Washington:* Liquor control profits and wine taxes distributed to "wet" localities according to population. 1979 aids were $45.9 million.

West Virginia: Coal taxes shared with producer localities. Total was $9 million in 1979.

Wisconsin:* Major program aids localities according to formula with local revenues adjusted by property tax wealth. Other payments include per capita aid, property tax relief, and compensation for exempted utility property. Total general local support was $764.8 million in 1979.

Wyoming: Thirty-three percent of State sales tax receipts returned to area of origin and then divided among county, city, and town governments according to population. Other payments include distribution of cigarette tax receipts and homestead credit. Total payments were $71.5 million in 1979.

Education Finance Programs*

Alabama: Foundation type formula program with aid based on number of teachers and their education. Local effort is frozen at $4.7 million and is allocated among localities on the basis of an economic index.

Alaska: Basic support program is percentage equalizing type with aid distributed according to formula that includes factors for enrollment, school size, special education, and bilingual education. The total of the factors is multiplied by a percentage based on local property tax wealth to determine State aid.

Arizona: Basic support program is foundation type with aid distributed on the basis of classroom units weighted for grade and number of handicapped students. The local share is 13 mills. Additional funds for non-English speaking students.

Arkansas: Basic support program is foundation type with aid equal to the amount received in 1975-76 plus an equalization amount distributed inversely to property tax wealth. Additional weight given to small school districts in formula. Districts with handicapped students receive additional aid.

California: Major program is foundation type block grant that replaces local revenues lost through Proposition 13. Aid amount is net of local property tax effort.

Colorado: Basic support program has guaranteed yield per student per mill of local property tax support, within certain minimum and maximum levels of State aid. Additional State aid for handicapped or non-English speaking students.

Connecticut:* Guaranteed tax base-type formula being phased in with grant based on income, property tax base, and educational need. Additional aid is provided to districts with large number of poverty families and students requiring bilingual education.

Delaware: Districts receive aid based on teacher experience and degree level and on pupil units multipled by dollar amounts. State aid cannot be more than 90 percent or less than 10 percent of authorized local costs. Additional pupil weighting for handicapped students.

Florida: Basic support program is foundation type with the foundation level equal to cost factors multipled by the base student allocation. Aid is determined by subtracting the required local tax effort from the foundation amount. Additional weighting is provided for handicapped students.

Georgia: Basic support program distributes aids according to the number of teachers and their degree level. Local costs are allocated among school districts according to their assessed valuation. Additional weighting provided for teacher units in districts with handicapped or low achieving students.

Hawaii: Elementary and secondary education is a State function; school employees are State employees. Hawaii is unique among the States in this respect.

Idaho: Basic support program is foundation type with aid distributed according to pupil units weighted for grade of pupils, handicapped students, and school size. The State sets local share of costs.

Illinois:* Basic support program allows districts to choose the most advantageous of four formulas; three foundation type formulas and a guaranteed tax base formula. The latter formula, chosen by most school districts, provides aid in proportion to local effort up to a certain maximum. Additional weighting for compensatory education. Additional aid for bilingual education and handicapped students.

Indiana: Basic support program is foundation type with State aid to districts based on formula with teacher training ratios, average daily membership, and special programs. Districts are guaranteed at least previous year's aid adjusted for average daily membership. Local share is 40 mills levied on 1974 valuation. Additional aid for handicapped.

Iowa:* Basic support program is foundation type with State aid equal to foundation level times the number of pupils minus a local contribution of $5.40 per $1,000 valuation. Pupil units weighted extra for handicapped students.

Kansas:* Basic support program provides a guaranteed yield equal to the difference between approved costs and school district wealth, with the latter measured by property value and income. Additional aid is provided to districts with handicapped students.

Kentucky: Basic support program provides aid according to classroom units calculated using State set enrollment ratios. Aid is also based on teacher experience and education. Additional weighting in the formulas is provided for small districts and for districts with handicapped students. Local costs are comparatively small.

Louisiana: Basic support program provides aid on the basis of teacher units calculated according to stateset ratios that vary with the size of the school. Additional weighting of teacher units for handicapped or non-English speaking students. There is a required local tax effort.

Maine: Principally a foundation type formula with foundation level based on average statewide expenditure level net of a specified mill rate chargeback. Districts exceeding the chargeback receive a guaranteed revenue yield per mill. Additional funds for districts with special students and low population density.

Maryland: Formula is foundation type with an average of 55 percent of basic costs provided in 1979. Remaining local share varies with income and property tax wealth. Additional weighting given to non-English speaking students. Density aid for Baltimore City. Current court challenge to aid system.

Massachusetts:* Foundation type formula with foundation level at average expenditure per student statewide. Local share determined by hold-harmless provisions and property tax wealth. Extra weighting provided for districts with exceptional, low-income, or non-English speaking students.

Michigan: Basic support program provides guaranteed yield for the first 30 mills of school levy. There is additional aid for districts with slow-learners, non-English speakers, and handicapped.

Minnesota:* Basic support program is foundation type with aid equal to per pupil foundation level minus uniform equalized mill rate. Students from AFDC families receive additional weighting. Additional funds for districts with handicapped or non-English speaking students.

Mississippi: Basic support program provides aid according to the number of teacher units with extra weighting for handicapped or compensatory education. Local share is determined by local tax wealth index with minimum State share of 40 percent.

Missouri:* Mixed foundation-guaranteed tax base type formula. District receives foundation amount less required local effort. Additional aid for poorer districts. Orphans and students from AFDC families receive extra weight in formula. Additional aid to districts with handicapped students.

Montana: Basic support program is foundation type with aid distributed according to the number of students and teachers, adjusted for school size. Additional funds for districts with handicapped students. State aid is partially funded through severance taxes and federal royalties. Local share is State mandated mill rate.

Nebraska: Basic support program is foundation type with aid equal to foundation level net of the required local effort. Gifted and culturally deprived students receive additional weighting in formula.

Nevada: Basic support program is foundation type with aid distribution determined by school enrollment weighted by teacher units and class size. The State sets the required local contribution. Additional weighting for handicapped students.

New Hampshire: Foundation type program with State support based on average daily membership; required local property tax support is 14 mills.

New Jersey: Guaranteed tax base formula with aid determined by relative property valuation per pupil. Additional weighting for handicapped or non-English speaking students.

New Mexico:* Basic support program is foundation type with aid distributed according to pupil units weighted for grade. Additional weighting for handicapped or non-English speaking students.

New York: Percentage equaliziing type formula. State provides share of certain basic costs with additional basic support varying inversely with property tax wealth. Additional weight given to handicapped or disadvantaged students.

North Carolina: Basic support program distributes aid according to the number of teachers and their education and experience. State-determined ratios vary with school grade. Additional weighting of teacher units for handicapped students. Additional funding for compensatory education based on the number of students failing competency tests. Additional local expenditure optional.

North Dakota:* Basic support program is foundation type with aid equal to foundation level times the number of pupils, net of the required local effort of 20 mills. Additional aid is provided for handicapped students.

Ohio: Basic support program provides guaranteed yield for the first 20 mills with a lower guarantee for an additional 10 mills. Additional funds for districts with handicapped or disadvantaged students.

Oklahoma: Combination foundation and guaranteed-yield type formula. Foundation program bases aid on attendance with 15 mill local share plus other local taxes. incentive program provides guaranteed yield for levies in excess of 15 mills. Additional aid for special education.

Oregon: Basic support program provides 30 percent of cost of approved school program with equalization aid based on assessed valuation. Additional aid for handicapped or culturally deprived students.

Pennsylvania: Local wealth measured by 40 percent of personal income ratio and 60 percent market valuation ratio. Wealth measure is divided by weighted average daily attendance. Available aid allocated by formula with certain minimums. Additional aid for districts with high and low density and poverty families.

Rhode Island: Percentage equalizing type formula with aid distributed according to median income and property tax wealth. The minimum State share is 30 percent of costs and 90 percent of previous year's aid. Additional aid to districts with handicapped, poverty, or non-English speaking students.

South Carolina: Basic support program is foundation type with State aid allocated according to pupil count weighted for grade disabilities. Local share is 30 percent of full funding costs allocated according to an index of local property tax wealth.

South Dakota: Basic support program is foundation type with aid equal to foundation level multiplied by classroom units, with amount net of required contribution of 18 mills for non-agricultural property and 15 mills for agricultural property. Additional aid for sparsity and for special education.

Tennessee:* Basic support program is foundation with aid determined by weighted pupil units with additional weighting for teacher education and experience, and for handicapped students. Local share varies with property tax wealth.

Texas: Basic support program is foundation type with supplemental equalization feature. Aid is based on enrollment and teacher units with the latter weighted for teacher experience and education. Additional equalization aid for districts with property tax wealth 10 percent or more below the U.S. average. Mandated minimum local tax effort.

Utah: Basic support program is foundation type with guaranteed yield field. Aid is distributed on the basis of pupil units weighted for school size, grade, handicapped students, and teacher education and experience. Guaranteed yield for districts levying over the minimum required tax rate. Additional aid for bilingual education.

Vermont: Percentage equalizing type formula with State share varying between 3 percent and 66 percent of total costs, depending on property tax wealth. The State provides additional funds for districts with exceptional children.

Virginia: Basic support program distributes aid according to average daily membership with the local share determined by an index of property valuation, sales, and income. Additional aids for district with handicapped students. One cent of 3 cent State sales tax retûrned to counties and independent cities on basis of school age.

Washington: Basic school support program is foundation type with aid based on the number of pupils and teacher salary levels. State sets local revenue effort that is net of certain other local revenues. State provides additional aid for handicapped or disadvantaged students.

West Virginia: Basic support program is foundation type with aid based on teacher units adjusted for teacher education and experience. Mandatory local tax effort. Additional aid for handicapped students.

Wisconsin: Basic support program provides guaranteed yield per pupil unit, with lower guarantee for that part of a district's spending that is above the statewide average. Additional aid for districts with handicapped, low achieving, or non-English speaking students.

Wyoming: Basic support program is foundation type with aid distributed according to classroom units weighted for school size and grade. State sets local mill rate contribution. Additional aid for districts with handicapped students.

Mandate Reimbursement Programs

California: 1. Mandates requiring a new program or higher level of service shall be accompanied by funds to reimburse local governments for costs of such programs, or increased service levels. No funds need be provided when the mandate is requested by the local agency affected, the legislation defines a new crime or changes an existing definition of a crime or legislative mandates are enacted prior to January 1, 1975. Cal. Const. art. 13B, §6

2. The State is to reimburse each local government for all costs imposed by the State through mandated programs, services and other requirements. In the initial fiscal year, local agencies were to submit claims to the State Controller within 45 days; in subsequent fiscal years, claims shall be submitted to the controller by October 31. Also in subsequent years funds are to be appropriated by the Legislature to cover mandated costs. The funds received pursuant to this Chapter may be used for any public purposes. Cal. Rev. & Tax Code §2231 *et seq.* (West)

Colorado: Actions by the General Assembly which mandate local governments to initiate or expand a program after July 1, 1981, shall either: (a) provide State funding; (b) provide a local source of revenue; or (c) provide that the cost be funded by local property tax revenues. The last alternative will be subject to State and local property tax limitations and revenue raising limitations. Colo. Rev. Stat. §29-1-304

Florida: 1. Any general law which requires a municipality or county to perform an activity or provide a service or facility which will require the expenditure of additional funds must include an economic impact statement estimating the amount needed to cover the total cost to municipalities and counties and must provide a means to finance such activity or service or facility.

2. Any general law which grants an exemption or changes the manner by which property is assessed or changes the authorization to levy local taxes must provide a means of finance on an ongoing basis. This may be by State aid, granting the right to levy a special tax, or through other means provided by law. Any such method shall bear a reasonable relationship to actual cost. Fla. Stat. §11.0706

Hawaii: The State constitution requires the State to share in the cost of any new program or increases in the service level of any existing program of any political subdivision which is mandated by the State. Haw. Const. art. 8, §5

Illinois: The State Mandate Act requires: (1) collection and publication of information regarding existing and future State and Federal mandates; (2) regular review of existing mandate programs; and (3) reimbursement to local government for State mandates by express formula according to the type of mandated. Ill. Stat. Ann. ch. 85, §2201 *et seq.*

Massachusetts: Laws imposing any direct service or cost obligation on local governments are effective only if a local government approves them by vote or appropriates funding for them, unless the legislature provides funding. Laws granting or increasing exemptions from local taxes must include State funding to be effective. Mass. Ann. Laws ch. 29, §27C (Michie/Law. Co-op)

Michigan: 1. Local governments may not be required to expand an existing service or activity or undertake new responsibilities "unless a State appropriation is made and disbursed" to pay for any resulting increased costs. Mich. Const. art. 9, §29

2. The State must provide funds to local government for the costs of administering and implementing activities or services required of them. Mich. Comp. Laws §21.231 - §21.244

Missouri: The State shall not require a new or increased level of activity by any political subdivision without providing a corresponding State appropriation. Mo. Const. art. 10, §21

Montana: Statutes imposing new local government duties that require a performance of an activity or service or facility which will require the direct expenditure of additional funds must provide a specific means to finance the activity, service or facility other than the existing authorized mill levies or the all purpose mill levy. A law will not become effective until a specific means of financing is provided by the Legislature. If an increase on the above levies is the means of financing the expenditure, an increase in the levies must be sufficient to cover the additional costs. Mont. Code Ann. §1-2-112

Rhode Island: The Department of Community Affairs shall offer a report by city and town of the cost of State mandates each September. It is to be included as a line item appropriation in the State budget. R.I. Gen. Law §45-13-9

Tennessee: No law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the State share in the cost. Tenn. Const. art 2, §24, implemented by Tenn. Code Ann. §9-6-301 *et seq.*

Washington: The Legislature shall not impose responsibility for new programs or increased levels of service on any taxing district unless the districts are reimbursed for the costs thereof by the State. Wash. Rev. Code §43.135.060

Improving Local Credit Access

A. Municipal bond validation

Alabama: State court validation optional. Ala. Code §11-81-221.

Arizona: Municipalities may submit bonds to be issued to the Attorney General for certification of the bonds; conformity with provisions of the State's constitution and laws. Ariz. Rev. Stat. Ann. §9-534

California: State court validation optional. Cal. Gov't Code §53511 (Deering)

Florida: State court validation optional. Fla. Stat. §75.02

Georgia: Municipal bonds must be validated by the State Circuit court. Ga. Code Ann. §87-301 *et seq.*

Illinois:	Department of Commerce and Community Affairs authorized to issue an advisory opinion on municipal bond issues. At local government's request, the department may also direct the State Treasurer's office to market the bonds. Ill. Stat. Ann. ch. 85, §841-848
Iowa:	Municipalities may request that the State Auditor validate bonds issued for low-rent housing. Iowa Code Ann. §403.19
Kentucky:	Municipal bonds must be validated by the State court having jurisdiction. Ky. Rev. Stat. §66.210-§66.310
Louisiana:	The Louisiana Bond Commission must authorize and approve all local government bond issues. La. Rev. Sta. Ann. tit. 47, §1803 (West)
Massachusetts:	Towns issuing short term notes must register notes with the Director of the Bureau of Accounts. Mass. Ann. Laws ch. 44, §28 (Michie/Law Co-op)
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. Mich. Comp. Laws §133.1 *et seq.*
Mississippi:	Issuers of public bonds may submit them to the State bond attorney for a determination of their validity. Miss. Code Ann. §31-13-5
Missouri:	Municipal bonds must be registered with the State Auditor's Office. The auditor gives an opinion with respect to the bond issues's compliance with law and contracts. Mo. Ann. Stat. §108.240 (Vernon)
Montana:	Municipal bonds must be approved by the State attorney general. Mont. Code Ann. §7-7-101
Nevada:	The County Bond Commission must approve municipal bond issues.
New Jersey:	School bond issues must be approved by the deputy attorney general assigned to the Department of Education. N.J. Stat. Ann. §18A:24 *et seq.*; §52:27BB-54 *et seq.* (West)
New Mexico:	School bond issues must be approved by the State attorney general. N.M. Stat. Ann. §22-18-9
North Carolina:	The State of North Carolina's Local Government Commission markets and delivers all municipal bonds. N.C.Gen. Stat. §159.51 *et seq.*
North Dakota:	Optional provision allows the State attorney general to give an opinion on the legal sufficiency of the investment. N.D. Cent. Code §21-03-21.1
Ohio:	State court validation optional. Ohio Rev. Code Ann. §133.71 (Page)
Oklahoma:	Municipal bonds must be certified by the State bond commissioner (attorney general). Okla. Stat. Ann. tit. 62, §14
Pennsylvania:	Municipal bonds must be approved by the State Department of Community Affairs. Pa. Stat. Ann. title 53, §6780-161
Rhode Island:	In order to exceed the State debt limit, municipalities must have State approval. R.I. Gen. Laws §45-12-11

Texas: Municipal bonds issued by home rule cities must be registered by the State comptroller of public accounts and approved by the State Attorney General. Tex. Rev. Civ. Stat. Ann. art. 1175(10) (Vernon)

Virginia: State court validation optional. Va. Code §15.1-213

Washington: State court validation optional. Wash. Rev. Code §7.25.010

West Virginia: Municipal bonds must be approved by the State Attorney General. W. Va. Code §13-1-25. The State Municipal Bond Commission must be notified before issurance. W. Va. Code §13-1-8

Wisconsin: An optional provision allows the State Attorney General to give a legal opinion on the bonds upon request. Wis. Stat. Ann. §67.025, §165.015(3) (West)

B. State guarantees of municipal debt

California: *Health Facilities Construction Loan Programs.* Provides issurance for local debt for health facilities construction. The local borrower pays premium 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.

C. State financial intermediaries

Alaska: 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 munipalities 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 represent a State grant to localities; 40 percent represent 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: 1. *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.

2. Municipal bond bank.

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.

Maryland: Since 1967, the State has issued all bonds for local schools.

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: 1. Municipal bond bank.

2. 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.

New Hampshire: Municipal bond bank.

North Dakota: Municipal bond bank.

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. (See also State aid for local debt service payments).

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.* Two programs provide: (1) loans to local units for water projects, and (2) loans and grants to local units for sewage treatment plants under the Water Quality Enhancement Program.

Vermont: Municipal bond bank.

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.

D. State aid for local debt service payments

Alaska: State pays 80 percent of all debt service on school boards.

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.

Indiana: In case of a default at the local level on school bonds State educational aid must be diverted from the school district to the bondholder.

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.

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.

New York: The State Comptroller must deduct and withhold from State educational aid to a school district sufficient funds to pay a bondholder if that school district defaults on its bonds. The bondholder must file a statement with the State Comptroller in order to receive the payment due, under a 1959 State law.

Pennsylvania: If there is a local default on bonds issued by the Pennsylvania State Public Building Authority for school construction, the State must direct the equivalent amount of State aid to the authority. A portion of State school subsidies is earmarked for reimbursement of school districts' lease-rental of facilities built by the authority.

Utah: Under a formula-based ratio, school receive State payments for part of their debt service requirements.

Virginia: The governor may withhold State funds due any local government that has defaulted on payments of principal or interest of their general obligation bonds.

Tax Increment Financing Programs

Alaska: *Slum Clearance and Redevelopment Act.* Municipalities and boroughs are authorized to use increased valuations in urban renewal areas to pay back the principal and interest on loans, money advances, or other indebtedness. Alaska Stat. §18.55.695

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. Act 716 (1981), Ark. Stat. Ann. §13-2504J

California: *Community Redevelopment Law.* 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. Cal. Health & Safety Code §33670 (West)

Colorado: Urban renewal authorities have the power to issue revenue bonds to implement tax increment financing. Colo. Rev. Stat. §31-25-107

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. Conn. Gen. Stat. Ann. §8-127 (West)

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. Fla. Stat., Chapter 163 (1977)

Illinois: *Real Property Tax Increment Allocation Redevelopment (1976).* 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. Ill. Ann. Stat. ch. 24, §11-74.4-1 *et seq.* (Smith-Hurd)

Indiana: *Redevelopment of Blighted Areas Act.* 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. Ind. Code Ann. §18-7-7.1-1 *et seq* (Burns)

Iowa: *Urban Renewal Law.* 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. Iowa Code Ann. §403.9 (West)

Kansas: *Redevelopment of Central Business District Areas.* Cities authorized to acquire certain property and issue special obligation bonds for the financing of redevelopment projects. Property must be located in blighted central business areas for the purpose of promoting the general and economic welfare of the city. Kansas Stat. Ann. 1978 Supplemented 12-1770 (1978)

Maine: *Community Redevelopment Act.* A municipality may retain all or part of the tax increment of a development district for the purpose of financing the development program. Tax Increment Financing Act.

Maryland: *Maryland Industrial Land 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. Md. Ann. Code art. 41, §266JJ-1-12

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. 1975 Mich. Pub. Acts 197

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. 1980 Mich. Pub. Acts 450

Missouri: *Tax Increment Financing.* Improvements to infrastructure often increase the assessed valuation of the improved property and the tax revenue collected from the property. Tax increment financing allows cities to use the increased property tax revenue to repay the costs of such improvements. The increase in property tax revenue is called the tax increment. H.B. 1411, H.B. 1587 (1982)

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. Minn. Stat. §§458, 462, 472-474

Montana: *Urban Renewal Law.* 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. Mont. Rev. Codes Ann. §11-3921

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. Neb. Rev. Stat. §18-2147 *et seq.*

Nevada: *Community Redevelopment Law.* 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. Nev. Rev. Stat. §279.674 *et seq.*

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. N.H. Rev. Stat. Ann. §205:4-C

New Mexico: *Urban Development Law.* 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: *Urban Renewal Law.* 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. N.D. Cent. Code Ann. §40-58-20

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:

Tax Incremental Districts. 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. S.D. Compiled Laws Ann. §11-9-1 *et seq.*

Texas:

Tax Increment Districts may be established for a period of 15 years. Cities may finance new streets, utilities and other public facilities in blighted areas using earmarked tax revenues generated by increased property valuations in those areas. Owners of private property agree to stimulate economic development by constructing new buildings, such as retail stores, offices and restaurants, and by rehabilitating existing structures. An industrial or commercial area is determined to be blighted if it contains a substantial number of substandard structures and constitutes an economic liability which impairs the sound growth of the city.

Utah:

Neighborhood Development Act. Enables municipalities to designate redevelopment agencies, which have the power to issue tax increment bonds and employ tax increment financing. Utah Code Ann. §11-19-29

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.

Local Taxing Authority

Alabama:

Forty counties and roughly 281 cities levy a sales tax with rate between .5 percent and 3 percent. Payroll taxes in Auburn, Birmingham, Gadsden, Opelika, and Rainbow City.

Alaska:

Five boroughs, two city-boroughs, and eighty-five cities levy sales taxes at rates of 1 percent to 4 percent.

Arizona:

Fifty-nine cities levy a sales tax at 1 percent or 2 percent.

Arkansas:

Counties may levy a 1 percent sales tax with voter approval. Cities may levy a .5 percent or 1 percent sales tax with voter approval; two cities do so. First class cities may impose an income tax with voter approval. No cities have adopted the tax.

California:

Counties may enact a sales tax with a maximum rate of 1.25 percent; the maximum rate for cities is 1 percent. In jurisdictions where both a county and a city levy the maximum tax, the overall tax is limited to 1.25 percent with 80 percent of the proceeds going to the municipal government. Fifty-eight counties and roughly 381 cities have imposed sales taxes.

Colorado:

Twenty-three counties levy a sales tax at rates of 1 percent and 2 percent. Roughly 159 municipalities levy a sales tax, with rates varying between 1 percent and 4 percent.

Delaware:

Residents and non-resident workers in Wilmington subject to 1 percent tax on wages, salaries, commissions, and net profits.

Florida:

Counties which adopted a charter before June 1976 may levy a 1 percent sales tax with voter approval. No county has enacted a sales tax.

Georgia: Counties and qualified municipalities, with voter approval, may impose either an income tax or a 1 percent sales tax but not both. One hundred three counties and several municipalities have imposed the sales tax. None have chosen the income tax.

Illinois: Sales tax in 102 counties, roughly 1250 municipalities. Rate is .5 percent to 1 percent for counties in unincorporated areas and for municipalities.

Indiana: Counties may adopt a gross income tax with a maximum rate of 1 percent for residents. Thirty-eight counties have done so. Counties and cities may also adopt a payroll tax with a maximum rate of 1.5 percent. Five counties and one city have done so.

Iowa: Twenty-six school districts have adopted income tax surcharge with rates between 3.25 percent and 10 percent of State income tax liability.

Kansas: With voter approval, cities may levy a sales tax of .5 percent to 1 percent. Counties may levy the tax without voter approval. Five counties and 35 cities have enacted the sales tax.

Kentucky: Mass transit districts may levy a .5 percent sales tax with voter approval. Cities and counties may levy an occupational license tax (payroll tax). In 1979, 67 cities and counties levied the occupational license tax.

Louisiana: Parishes, municipalities, and school districts can levy a sales tax with the combined tax rate not to exceed 3 percent. Sixty-three parishes and roughly 152 municipalities levy a sales tax.

Maryland: Counties and Baltimore City must levy a personal income tax equal to between 20 percent and 50 percent of State liability.

Michigan: Cities may impose an income tax of 2 percent on residents and 1 percent on income earned by non-residents. In Detroit the tax is 3 percent for residents and 1.5 percent for non-residents.

Minnesota: One percent sales tax in Duluth.

Missouri: Incorporated municipalities may levy up to a 1 percent sales tax; 332 cities do so with an additional .5 percent transit tax in Kansas City, St. Louis City, and St. Louis County. Kansas City and St. Louis also levy a 1 percent payroll tax.

Nebraska: Incorporated municipalities may levy a sales tax of .5 percent or 1 percent. Metropolitan cities may levy a tax up to 1.5 percent. Six cities have a 1 percent tax; Omaha has a 1.5 percent tax.

Nevada: County sales and use tax, used to finance local school support and city-county relief raised from 1.5 percent to 3.75 percent until July 1983. A county transit tax of .25 percent can be imposed with voter approval.

New Jersey: Atlantic City has luxury and cigarette taxes. Newark has a limited payroll tax.

New Mexico: Municipalities may levy a sales tax up to .75 percent. Seventy-six cities use the sales tax. Counties, with voter approval may levy a .25 percent sales tax; eight have done so.

New York: New York City has a 4 percent sales tax, 36 counties have a 3 percent tax, seven have a 2 percent tax, and two have a 1 percent tax. Twenty-eight cities other than New York City have a sales tax. New York City also has personal and corporate income taxes.

North Carolina: Counties may levy 1 percent sales tax with the approval of the voters or by action of the county commissioners. Ninety-nine counties have imposed the sales tax.

Ohio: Fifty-two counties levy a .5 percent sales tax. Three transit districts also levy a sales tax. Cities may adopt an income tax up to 2 percent. Over 400 cities have an income tax. School districts may impose an income tax up to 1 percent.

Oklahoma: Municipalities may levy a sales tax up to 3 percent. Nearly 400 municipalities have the sales tax.

Pennsylvania: Cities, townships, boroughs, and school districts meeting size criteria may levy individual compensation and net profit tax up to a total combined maximum of 1 percent. There is widespread use of these taxes.

South Dakota: Incorporated cities and towns may levy any tax also levied by the State. Sixty-one cities and towns levy a sales tax of 1 percent to 2 percent.

Tennessee: Counties, cities, and towns may each levy a sales tax not to exceed 2.25 percent. Ninety-four counties and 11 municipalities have imposed the sales tax.

Texas: Over 900 municipalities levy an additional 1 percent sales tax. Municipalities may levy up to a 1 percent sales tax with voter approval for transit districts; 28 municipalities do so.

Utah: Counties, cities, and towns may levy up to a .75 percent sales and use tax. An additional .25 percent may be levied for transit district with voter approval. All counties impose the sales tax for general purposes; three counties and one city impose the transit tax.

Virginia: All Virginia counties and independent cities levy a 1 percent sales tax.

Washington: Counties, cities, and towns may impose a .5 percent sales tax. Counties must give credit to taxpayers for a municipal tax. Thirty-eight counties and roughly 264 municipalities have imposed a sales tax.

Wisconsin: Counties may adopt a .5 percent sales tax, although the proceeds must go to municipal and township governments. No counties have adopted the tax.

Wyoming: Counties may adopt a .5 percent or 1 percent sales tax; fifteen counties have done so, all at the 1 percent rate.

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