The Report in Brief

COMMISSION REPORT

STATE AID TO LOCAL GOVERNMENT

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS
WASHINGTON, D.C. 20575
APRIL 1969
A-34
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April 1969

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THE REPORT IN BRIEF

One out of every three dollars spent by local governments—cities, counties, school districts, townships and special districts—comes from outside aid rather than local taxes and bond issues.

Most of the outside money comes in the form of State aid; it totaled more than $19 billion in 1967 including $4 billion of Federal money channeled through the States. Some $2 billion in Federal aid went directly to the localities in that year.

FIGURE 1 – LOCAL GOVERNMENTS ARE BECOMING INCREASINGLY DEPENDENT UPON OUTSIDE REVENUE SOURCES
Local public schools receive the lion's share of all State aid—nearly two-thirds. Welfare aid is next at 15 percent, and highways third at 10 percent.

Confronted with constantly mounting demands for more and better services and saddled with a third rate tax structure, local governments of all kinds face a growing fiscal dilemma.

The Advisory Commission's report on State Aid To Local Government probes the causes of this dilemma and recommends ways of easing the State-local fiscal crisis.

Three major themes emerged from the year-long study:

First, there is an acute mismatch among levels of government in the assignment of financial responsibility for the support of major public services. The critical lack of balance is caused by:

(a) the fact that most States force the local property tax to serve as the primary source of funds for the local schools as well as for cities, counties, and townships—the units of local general government; and

(b) the Federal policy requiring State and local governments to pick up nearly one-half the nation's $10 million public welfare bill.

To redress this imbalance, the Commission urges the Federal government to assume full financial responsibility for public assistance—including general assistance and medicaid—and the States to take over substantially all the non-Federal share of elementary and secondary education costs.

Second, except for school aid, formulas for distributing State aid generally ignore variations in local fiscal capacity and tax effort. The Commission calls for States to revise their distribution formulas for such programs as public health, hospitals and highways, so that they take account of variations in the capacity of local government to support these services from their own tax sources.

Third, in few if any States is there a "State-aid system." Typically, State aid is a patchwork of disjointed, uncoordinated State-local fiscal arrangements, each one created with little concern for how it might affect the others or whether it would promote long-term overall State goals and objectives. The Commission urges States to set up coordinating machinery, to devise performance standards that aided local governments must meet, and to develop yardsticks for measuring local government viability.

ACIR's FINDINGS

Here, in brief, are the Advisory Commission's findings about State aid in general and more specifically, about the major public services supported by State aid.

State Aid and Local Fiscal Needs

- Local government treasuries are drained from the demands for more and better education; for more and better law enforcement; for more
and better welfare, health and hospital services; for new urban development programs; for rebuilding cities and providing decent housing and for better control of air and water pollution.

- State financial aid has increased steadily but it has barely kept pace with the growth in local expenditures.

Public Schools

- Education is a public service with high "spillover" benefits to other communities and other States.
- With steadily rising costs and only moderate increases in State aid for education, public school needs are preempting an ever larger share of local property tax revenues.
- School aid equalization formulas, do not in fact assure equal educational opportunity throughout a State. Substantial variations in per-pupil expenditures are the rule, not the exception; and most distribution formulas ignore the critical need for extra money to go to those districts where the poor tend to congregate.

Welfare

- The public assistance problem is national in origin and national in scope, but still heavily financed by States and localities.
- The postwar flight of the poor from the rural areas to the urban centers in search of jobs has saddled many cities and urban counties with unreasonable public assistance caseloads. The migrants bring with them not only spiraling welfare costs but also added fiscal burdens for education, police protection, sanitation, health, and other public services.
- Welfare payments, eligibility requirements and fiscal resources differ widely among the States—setting off an uneconomic migration of the poor to the "high benefit" areas. At the same time the additional taxes needed to pay for poverty related programs tend to drive away taxpayers—both individuals and businesses.
- Although State and local governments pay nearly half of all public assistance costs they have little to say about what the programs will consist of or how they will be run.

Health and Hospitals

- With few exceptions State health and hospital aid takes no account of actual needs or local fiscal capacity to support these services.

Highways and Mass Transit

- Highway officials are beginning to recognize the special transportation needs of urban areas, but State highway aid still is distributed in a way that favors rural areas.
In most States, highway-user taxes are earmarked exclusively for highway construction and maintenance. Urban areas now need balanced transportation facilities—and the price tag for these is high. State "anti-diversion" policies preclude the use of highway user funds where the need is greatest—for urban mass transit.

Urban Development Programs

Industrial States are beginning to face up to their responsibility for helping to finance urban development programs. About one-half the States now have departments of community affairs or other agencies charged with doing something about urban problems. A few have launched multi-million dollar mass transportation, water and sewer, and urban renewal programs, "buying in" to Federally aided programs and earning thereby a "piece of the action."

ACIR's RECOMMENDATIONS

Here in summary form are the Advisory Commission's major recommendations for easing the State-local fiscal crisis:

STATE TAKE OVER OF SCHOOL COSTS

The Commission urges the States to assume "substantially all" responsibility for financing local schools.¹

This recommendation rests on twin premises:

- The local property tax must be relieved of its present heavy commitment for the support of elementary and secondary education.
- State assumption of these costs is the best way to grant property tax relief and at the same time ensure that all public school students are offered an equal opportunity to learn.

REPLACE PROPERTY TAX DOLLARS WITH INCOME AND SALES TAX DOLLARS

Local schools are claiming more and more of the property tax take. At the beginning of World War II about one-third of all local property tax revenue went to the public schools; now the school share is more than 50 percent—and still rising.

¹Commission members Daniel, Fountain, McDonald, and Ullman dissented from this recommendation. Senator Mundt abstained from voting.
Other local public services, the Advisory Commission believes, should have a stronger claim on the local property tax base. State take over of school costs would give local units of general government—cities, counties, and townships—a new fiscal lease on life. No longer would they be pushed off the local tax preserve by the school boards.

The proposal is not utopian. At present, New Mexico, North Carolina, Delaware, and Louisiana for example are within striking distance of this goal. And Hawaii for many years has both paid for and administered all its public schools.

What is involved is the substitution of State income and sales tax dollars for local property tax dollars. The change over could be gradual. However, as many as 20 States could assume complete responsibility for public school financing in the near future if they would make as intensive use of personal income and sales taxes as the "top ten" States now make on the average.

When viewed alongside the resulting dramatic decrease in local property tax loads, State assumption of school financing loses its idealistic cast and becomes a realistic and equitable way of readjusting the total tax burden.
EQUAL EDUCATION FOR ALL

The case for State take over of the non-Federal share of education costs rests in part on the conviction that this is the best way to make sure that the financial resources underlying public education are equalized throughout the State. Because the social and economic consequences of education are felt far beyond school district boundaries, States no longer can tolerate wide differences in the quality of education offered in its many local districts. Yet so long as each district has wide latitude in setting its own tax levy, great variations both in wealth and willingness to tax are inevitable. And these variables produce wide differences in the fiscal resources behind the students. As a result the quality of education today is shaped in large measure by the accidents of local property tax geography.

In theory at least, State legislatures could adopt "Robin Hood"-type equalization programs designed to skim off excess property tax wealth from rich districts and to transfer these resources to poor jurisdictions. In practice, however, it seldom works that way.

STATE FINANCING—LOCAL CONTROL

The Commission believes that localities should continue to run the schools even though the State provides all, or nearly all, of the money. The Commission also believes that localities should be empowered to supplement the State funds from local sources. But, to achieve the recommendation's dual purposes, any local financial supplement should be strictly limited—perhaps to not more than 10 percent. Otherwise the local property tax would not be freed up, and state-wide equality of educational opportunity would not be assured.

State assumption of school financing in the Commission's judgment is not inconsistent with effective local policy control. Ample room for local initiative and innovation would remain. Liberated from the necessity of "selling" bond issues and tax rate increases, school board members and superintendents could concentrate on their main concern—improving the quality of their children's education. The long tradition of local control of education and the keen concern of parents for the educational well-being of their children would serve as sturdy defenses against any effort to short change educational financial needs.

Most State aid programs now are "mildly" equalizing at best. Often they actually discriminate against the central cities—where educational needs are greatest. The reason is that equalization formulas are based on an assumption that becomes less valid with each passing day. The assumption is that if two school districts have the same amount of taxable property behind each student, they are equally capable of raising money for school purposes and so are entitled to the same aid per student from the state.
FIGURE 3 – MOST STATE AID IS “EQUALIZING”

"Equalizing" Grants as Percent of Total State Education Aid

80% and over  
60% to 79.9%  
40% to 59.9%  
Less than 40%

MUNICIPAL OVERBURDEN

The truth of the matter is that a small suburban school district and a large central city district may have tax bases with approximately the same amount of taxable property behind each student, yet because of the phenomenon of "municipal overburden" the central city school district would not be able to allow nearly as much per student for school purposes as the suburban district.

"Municipal overburden" stems from the fact that central cities are forced to pay more per capita than their suburban neighbors for almost all public services. The demands of law and order and poverty related services are reflected in extremely heavy outlays for police, fire, sanitation and public health services. As much as two-thirds of all local tax revenue in the central city may be required for these "custodial" type services. Many suburban districts, on the other hand, with relatively light demands for other municipal services, put two-thirds of their property tax revenue into education. Municipal overburden together with the generally lower per capita income of central city residents make it virtually impossible for big city schools to maintain the same level of education as their suburban neighbors.

The Commission recognizes that some States will move more slowly than others toward its recommended goal—the assumption of virtually all school costs. But municipal overburden and its effect on the quality of education is a clear and urgent problem in many school districts. Therefore, as an interim measure the Commission urges States to grant extra financial aid to school districts whose budgets suffer because of the phenomenon of municipal overburden.
FEDERAL TAKE OVER OF WELFARE COSTS

The Advisory Commission recommends a second major realignment of governmental fiscal responsibility—the assumption by Washington of the entire cost of public assistance including medicaid.²

No intergovernmental program generates more tensions and creates more headaches than welfare financing. A showdown is inevitable.

Why the crises? The reasons are many: Recent court decisions striking down State residence requirements; great variations in the levels of State welfare benefits; the rapid rise in AFDC and Medicaid costs; mounting expenditure demands of other more "popular" State and local programs.

The Commission recognizes that Federal take over of the entire cost of the existing Federal-State-local welfare program may not be the best long run solution. A negative income tax, a family allowance or some other national plan might prove to be a better way to protect people from economic catastrophe. For the present, however, assumption of all public assistance costs by the National Government offers immediate relief to hard pressed State and local governments.

With their limited jurisdictional reach and fiscal capacities, State and local governments are unable to provide an adequate level of public assistance to the needy and to the medically indigent. States feel they cannot afford to get too far out of line with their neighbors in terms of benefit levels or tax rates. To do so might invite an influx of welfare recipients and drive out the people and businesses who pay the taxes that are needed to support all public services including welfare.

PRESENT SYSTEM PERVERSE

In fact, differences among States in program benefits and eligibility requirements work in a perverse direction. States that are unable or unwilling to provide an adequate level of public assistance are rewarded with diminishing caseloads while States that meet this obligation are penalized with expanding welfare rolls.

No one can be certain how many people are lured to high benefit areas solely by such differentials, but it would be folly to assume that they have no effect.

Unemployment and underemployment are the major factors that drive the poor onto the welfare rolls. Lack of job opportunities for the poorly

²Commission members Fountain, Knowles, McDonald and Ullman dissented from this recommendation. Commission members Finch, Romney, Mayo and Mundt abstained.
FIGURE 4 — THERE IS TREMENDOUS INTERSTATE VARIATION IN MONTHLY AFDC BENEFITS

Educated and unskilled result from the same national forces that have transformed this country into a highly industrialized economy. These forces lie far beyond the control of State and local governments.

Shifting financial responsibility for public assistance programs to the Federal Government would free up about $4.6 billion of State and local revenues sorely needed for other public services. Major beneficiaries would be those States and cities where the poor have tended to congregate.

Full Federal financing should mean uniform, nationwide standards but it need not—and should not—mean uniform, nationwide welfare payments. Benefit levels should be geared to local living costs. The size of the payments should be related to the amount required for a minimum basic standard of living in each geographic area; the benefit levels should not be high or low depending on the condition of State and local treasuries.

OVER-CENTRALIZATION—A DANGER?

Full Federal financing need not—and in the judgment of the Commission should not—mean centralized administration. The Commission believes that the States and localities should continue to administer public assistance for as long as the skeleton of the present system is retained (in contrast to negative income tax or some other completely new and different system).

These proposals for shifting fiscal responsibility—welfare to the Federal level and education to the State level—raise the spectre of over-centralization. If welfare "goes Federal" today, why not education tomorrow?
It is true that both of these public services—welfare and education—have some similar characteristics. There is a national interest in education as well as in welfare. Both functions are marked by "benefit spillovers" and the mobility of our population accentuates this fact. Both represent a drain on State and local treasuries. Both presently have a claim on the hard pressed local property tax.

But despite these surface similarities there are important differences. For one thing most State constitutions contain language clearly identifying education as primarily a State responsibility—not so with welfare.

Moreover, the people of America have an intense ideological and political commitment to the concept of "local schools." Nothing in governmental folklore or fact rivals this emotional attachment. Welfare enjoys no comparable stature.

Education ranks at the top of personal and civic priority lists; welfare does not. An outstanding school program is a source of pride, a goal worthy of intense effort; welfare, at best, is an uninspiring obligation to most voters and political leaders.

Another very practical difference between welfare and education is the price tag. The Federal Government now pays more than half of the $10 billion annual cost of welfare. In contrast the National Government now contributes only 7 percent of the $34 billion annual cost of local schools. Federal assumption of the $4.6 billion that States and localities now spend on welfare is a fiscal possibility now; Federal assumption of the $32.5 billion State-local share of the public school bill is not.

STATE-LOCAL FISCAL RELIEF

The combined fiscal effect of these two recommendations on State and local government would be to relieve local budgets of $13 billion and to add $9 billion to State government revenue requirements. These calculations, based on 1967 data, assume an immediate, overnight change. As a matter of fact the shift is likely to be more gradual. Either way local fiscal pressures would diminish; State fiscal pressures would increase—the actual amount, State by State, would vary greatly because of wide differences in existing State-local arrangements for financing welfare and education.

To meet their expanded revenue needs, State governments would have to tap some of the taxpayer capacity freed-up by local property tax relief—but presumably in another way. State income and sales taxes probably would be used to replace local property tax dollars—a desirable objective in itself. Just under 70 percent of the freed-up local revenues would have to be taken over by the States. Even so, the combined State-local tax take, again using 1967 figures, would be reduced by about $4.6 billion, balanced by a comparable increase in Federal expenditure.
To meet the changing transportation needs of America the Advisory Commission recommends:

- Revising the Federal highway aid program to give greater recognition to the highway requirements of a rapidly urbanizing nation.
- Updating State highway aid distribution formulas to reduce the rural bias and to take fuller account of urban needs and fiscal capacity.
- Changing so called "anti-diversion" policies to permit State highway-user revenues to be applied to meet mass transportation needs.
- Generating greater State financial and technical assistance for urban mass transit.

More money is spent for the construction and maintenance of streets and highways than for any other domestic public service with the sole exception of education.

Public highway expenditures totalled $14 billion in 1967. One-half of this amount came from State funds, one-fifth from local revenue sources, and the remaining 30 percent from the Federal Government.

The National Government plays an important financial and policymaking role in the highway field. Federal highway aid has a heavy and growing impact on State and local transportation policy.

Highway development was identified as a national need in 1916 when the Federal aid highway program was started as a 50-50 Federal-State partnership. Since then the program has been modified from time to time, most recently in 1956, when the massive interstate highway system was launched with the Federal Government providing 90 percent or more of the funds for a network of high-speed highways from coast to coast and from border to border.

Now that the interstate system is nearing completion, attention is turning more and more to the urban transportation front. The Commission is convinced that, just as Federal, State and local governments joined forces during the last half-century to build intercity and interstate highway networks, so must they now focus on the critical problem of intra-urban transportation.

FAULTY FEDERAL FORMULAS

Except for the "interstate" system, the present method of allotting Federal aid actually inhibits coordinated highway development. Funds are awarded to States under allocation formulas that are poorly suited to the needs of today.

For example, in determining the allocation of Federal funds for the "primary" system, routes in urban areas, those of the interstate system, and certain others are excluded. The result is that excluded mileage ranges from
5% in North Dakota to 82% in Rhode Island. Moreover, coverage under Federal aid for "secondary" roads is determined according to criteria established by the various States; it ranges from 3% of all road mileage in Wyoming to 35% in North Carolina. As a result of these allocation systems, aid often is granted on an individual project basis without regard to how it fits into the overall system.

Problems are particularly acute in urban areas. One reason is that Federal aid for urban use is limited by statute to 25% of available funds and ordinarily must be applied to routes which connect to primary or secondary systems outside the urban areas.

To promote orderly development of highway systems, the Commission believes that Federal funds now allocated for the "primary," "secondary," and "urban extension" programs should be distributed under a formula that recognizes a new functional classification of "State," "Urban" and "Rural" routes.

The new "State" system should include intrastate routes both inside and outside urban areas, the present interstate system, routes now on the primary
system with their urban extensions, and any other routes planned for the movement of intercity traffic.

The new "Urban" system should support development of street and highway systems for moving traffic within urban areas. It also should include extensions of the present secondary system and other major streets and urban highways.

Finally the new "Rural" system should include major traffic routes in rural areas similar to those in the present secondary system.

All of these routes should be constructed by States but localities should have a strong voice in the planning.

**RURAL BIAS IN STATE AID**

Over the last half-century remarkable progress has been made in overcoming a tremendous rural transport deficit—the rallying cry was "get the farmers out of the mud." Today's urban transport deficit is no less urgent, no less demanding. Yet, State highway aid formulas still reveal a strong rural bias.

Much of the present skewing of State aid in favor of rural areas carries over from an earlier desire to "equalize" rural-urban living standards and resources. Prior to World War II, cities were considered the centers of taxable affluence; rural areas were tax poor. State legislative policymakers closed their eyes to usage as the primary criterion for the allocation of State highway aid money.

**FIGURE 6 — RURAL ROADS DOMINATE STATE EXPENDITURE**

![Diagram showing the proportion of state expenditure on various road types: Urban streets, Municipal Extensions of State Systems, Local Streets, State No. 1, State No. 2, State Aid, and Rural Roads.]](image)
Today, municipal roadways account for about half of all vehicle miles travelled, but they receive only about one-third of State highway resources. Moreover, because they get harder use, urban highways usually must be of a higher quality than rural roads. The disparity is accentuated further by higher maintenance, labor, right of way and access road costs in urban areas—it costs three to five times as much to build urban streets as rural roads.

As people continue to concentrate in metropolitan areas, city streets must bear an ever-growing traffic burden. Municipalities are faced with increasing construction and maintenance costs in order to keep this traffic flowing—added costs that now are not reflected in formulas for allocating highway-user funds.

To correct this imbalance between rural and urban highway aid, the Advisory Commission urges that State aid allocation formulas be revised to take account of actual needs and to give proper weight to such factors as cost differentials, population density, commuter patterns, and road usage.

"ANTI-DIVERSION’ IS ANTI-URBAN

Another reflection of the rural and intercity bias in State highway programs is the so-called "anti-diversion" policy.

Twenty-eight States now have "anti-diversion" provisions in their constitutions requiring that highway-user taxes be earmarked exclusively for highway purposes. Most of the remaining States require similar earmarking by statute.

**FIGURE 7 – SOME STATES DIVERT CONSIDERABLE PORTIONS OF HIGHWAY TAXES**

Percentage of Highway User Taxes Applied to Nonhighway Purposes, 1967

- States with constitutional anti-diversion provisions.
Earmarking provisions were adopted at a time when some States were channelling highway-user revenues into welfare, education and other non-highway programs. Without doubt these provisions contributed to the development of the nation's first-rate highway system.

But transportation goals have changed. City streets and even urban expressways choke with the flow of goods and people. And the urban environment is befouled with noise and fumes. The need is urgent in the metropolitan areas to relieve congestion by supplementing highway facilities with mass transit.

Highway-user funds are earmarked on the theory that these taxes should be reserved for facilities that benefit those who pay the levies. This rationale ignores the interdependence of modes of transportation. By relieving congestion, mass transit benefits motorists as well as transit riders—who at other times are motorists too!

The Commission urges that all States give clear recognition to the interdependence of alternative modes of transportation and broaden the purposes for which highway-user funds may be allocated to include, particularly, transportation planning and mass transit in urban areas.

MASSIVE STATE COMMITMENT

The need for better mass transit facilities in urban areas is well documented. The daily struggle of urbanites and suburbanites alike to reach their jobs is ample evidence that drastic action is required. Equally significant and even more distressing is the fact that efforts to improve the lot of the underprivileged inner city residents often are hamstrung by the lack of an adequate, reasonably priced mass transit system.

The post war decline in the use of mass transit continues, as automobile ownership increases. Private operation of bus and rail facilities becomes less and less profitable. Many communities are faced with the prospect of either buying out the private operators or losing the often limited and inadequate transit facilities they now have.

The cost of acquiring, modernizing, and expanding mass transit will run to billions of dollars. Although some of the needed funds will come from local sources and some from the Federal treasury, much of the money must come from the States.

Increasing the urban share of State highway-user funds and authorizing local governments to use some of those funds for mass transit projects will help some, but not nearly enough. To solve the urban transport trauma urban States must make a massive commitment.

Five States—Maryland, Massachusetts, New Jersey, New York and Pennsylvania—have led the way; they now give substantial aid to urban areas for mass transportation facilities. The Advisory Commission believes that all urban States must become deeply involved; by developing long range mass transportation plans; by providing needed technical assistance; and, most importantly, by granting large sums of State money and credit for the acquisition, operation and improvement of mass transit facilities.
SYSTEMATIZE STATE AID

To systematize the present patchwork of disjointed, uncoordinated State-local fiscal arrangements the Advisory Commission urges the States:

- To set up effective coordinating machinery
- To devise meaningful performance standards
- To develop yardsticks for measuring local government viability

Spurred by recurring local fiscal crises, and a proliferation of Federal “carrot and stick” incentives, States have constructed their local aid programs in bits and pieces. Rarely is there an overall State aid policy. Individual aid programs fight each other, pulling and hauling local governments in opposite directions.

The need to systematize State-local fiscal relations is evident. In every State, some State level agency should have clear-cut responsibility for marshalling the necessary data identifying the conflicts and inconsistencies and pinpointing the key issues that require executive and legislative resolution.

In some States the department of local or community affairs is a logical candidate for this assignment. Other States might assign responsibility to the budget office or to the planning office.

STATE-LOCAL DATA BANK

Where the agency appears on the State organizational chart is a secondary issue. The critical need is for State policymakers to fix responsibility for assembling complete information about State-local fiscal relationships to be used as a basis for continuing critical evaluation.

The need is obvious; it becomes more urgent with each passing day.

State and Federal aid dollars should work together systematically to strengthen local responsibility and at the same time assure a fair distribution of burdens and benefits. A comprehensive State-local information system, the Commission believes, is a necessary administrative tool for evaluating the effectiveness of State aid—and Federal aid—to local governments. The information system should provide State policymakers with data on such things as program needs and results, local fiscal capacity and tax effort, the fiscal viability of local governments, and the possibilities of consolidating State aid programs.

PERFORMANCE STANDARDS

Nationwide, State aid to local governments accounts for more than one-third of all State expenditures, and in some States aid to localities runs to 40 or 50 percent of the total budget.

With a comprehensive and smooth functioning information system the States can begin measuring performance—not only at the State level but also at the local level.
The Commission stresses the need for both fiscal and program performance standards. Obviously the States should prescribe and enforce accounting, auditing and fiscal reporting requirements for local governments that receive State funds. But just as important—the States should make sure that funds are being put to the program uses for which they were intended and that the quality of service is as high as it should be.

Performance standards for State grants to local governments serve a dual purpose. Local program administrators need them as an indication of the intent of State policymakers. By the same token, those charged at the State level with reviewing and evaluating grant programs need standards in order to measure results against intended goals.

What kind of standards? That will depend upon the program. In education certain indicators already are well developed—pupil-teacher ratios, teacher certification requirements, length of school year, and the like. For welfare programs there are client eligibility standards and client need measures, among others.

But standards for measuring program “output” also are needed. In education, State legislators in the future can be expected to place more weight on evidence of student achievement and less emphasis on pupil-teacher ratios. In welfare, more attention should and must be given to measuring the actual success of efforts to help individuals and families regain self-sufficiency.

As States move into new urban development programs, many of which can have an impact on entire neighborhoods, it will be necessary to spell out some benchmarks for citizen participation, including, where appropriate, the holding of public hearings, before programs are launched.

But here, as in all things, moderation is needed. The Federal Government has been too specific and too detailed in many of its standards and requirements. Federal categorical aid program requirements seem all too often to imply that officials at other levels of government cannot or should not be trusted to exercise good judgment.

There is a lesson here for State policymakers. In framing standards for State aid to local governments, State legislators and administrative officials should steer a middle course between “too much” and “not enough” specificity in fiscal and performance standards.

DOES THE PROGRAM FIT?

Effective information systems and realistic performance standards are powerful tools. With them States can achieve a high degree of coordination.

States have the right and the obligation to insist that local programs and projects aided by State dollars conform to statewide and areawide planning objectives. Only in this way can a State make sure that State assistance to local governments contributes to statewide goals, produces programs and projects that complement one another, and discourages overlapping and duplication. Reasonable planning and review requirements, the Advisory Commission insists, should be an integral part of all State aid legislation.
Admittedly, requiring local plans to conform to regional, State and Federal planning objectives has a “centralist” tinge. But to put the issue bluntly, a price must be paid for orderly development. This price is reflected in the length of time required to secure the necessary approval for local plans from officials at higher levels, the cost of local personnel whose efforts are consumed in development and clearing the plans, and a very real but hard-to-measure factor—the diminution of local autonomy. Moreover, the “pioneers” in planning conformance—the Federal policymakers—thus far have demonstrated an inability to avoid conflicting and extremely complex planning requirements.

Thus, as in the case of performance standards, State policymakers will have to steer a middle course between extreme specificity and the “law of the jungle” approach. Hopefully, States will develop planning guides to serve their own needs and as models for the Federal Government to follow.

DISCOURAGE NON-VIABLE LOCAL GOVERNMENTS

A telling indictment of many present State aid programs is that they prop up and keep alive non-viable units of local government—leeches on the body politic that are too weak to perform needed public services or that were formed primarily to shield their property owners from local taxes.

Lopsided, parasitic communities are found in virtually all metropolitan areas. They partake of the public services provided by neighboring communities, they enjoy the social and economic benefits that a metropolitan setting offers, but by clever use—or misuse—of loose and archaic State incorporation statutes and procedures, they avoid contributing their fair share of the costs of local government.

Similarly, in rural areas, some tiny governments have so few residents and such limited tax bases that they cannot afford independent governmental status. Their residents could be better served by merger or consolidation with healthier, more viable units of local government.

The Advisory Commission believes that State aid should not be used to prop up non-viable local governments. Quite the contrary. In the Commission’s judgment State aid should be used as a tool to stimulate and encourage whatever changes in local government boundaries and structure may be necessary to assure all citizens a reasonable level of public service.

SURGERY REQUIRED

As the source of local government power and authority, States have a responsibility to ensure that the costs and benefits of local public services are distributed equitably. Every locality should be able to perform public services with reasonable efficiency—that is, be able to take advantage of economies of scale, specialization of labor, and the application of modern technology.

Because of their heavy financial involvement in education most States have shown no hesitancy in pushing localities toward public school systems of
sufficient size to promote the use of modern facilities and equipment and specialized instructional and auxiliary personnel. Nationally this has had a dramatic effect; the last quarter of a century has seen a reduction in the number of independent school districts from over 100,000 to about 22,000.

For units of general government, however, this kind of thrust from the State for efficiency and effectiveness has been largely lacking.

Special districts present a particularly difficult problem. Most of them perform only a single function—sanitation, drainage, mosquito abatement, etc. The number of special districts has mushroomed from about 8,000 in 1942 to some 21,000 in 1967. Many of them were established expressly to evade out-moded constitutional and statutory debt or tax limits. Often they are subject to little or no public control. Many perform functions that duplicate services of general units of government or that could be performed more effectively by city or county governments. Whenever there is a choice, units of general government are preferable to special districts. States should take a hard look at their special districts, eliminating those that can be dispensed with and restraining the formation of new ones.

MEASURES OF VIABILITY

In 1967 the Advisory Commission recommended that each State establish an agency empowered to compel the consolidation or dissolution of "nonviable" jurisdictions.

The Commission now urges States to develop realistic measures of local government viability including:

- measures of capacity to raise adequate amounts of revenue in an equitable manner.
- measures of economic "mix" such as proper proportions of residential, industrial and other types of property.
- measures of minimum population and geographic size needed to assure adequate public services at reasonable cost.
- other measures reflecting political accountability and community cohesiveness, as well as economic and social balance.

Specific criteria for determining viability will vary with the circumstances. There are some community characteristics that are relatively easy to quantify such as geographic area and population diversity. These factors should be taken into account, but by themselves they are not adequate to the task of determining viability. Other, less precise and harder-to-quantify criteria also must be considered. Moreover, the viability measure may have to vary, depending upon the location of the municipality—e.g., population size in a metropolitan setting as contrasted to a rural setting. Then, too, different combinations of criteria will be needed for counties, for school districts and for special districts.

What is a viable unit of local government? Here, in brief, are some of the characteristics viable local governments should possess:

Community self containment. A local unit of government should enjoy a reasonable degree of self containment, as indicated by a combination of
historical, geographic, economic and sociological characteristics. A "sense of community" should exist and it should show promise of continuing and becoming stronger.

Community balance. A local unit of government should include diverse interests within its boundaries so as to achieve a reasonable balance and should give promise of remaining so in the foreseeable future. The distribution of individuals and families by income level provides one basis for judging the balance among interest groups.

Fiscal Capacity. Every locality should possess an adequate tax base, reducing and simplifying the task of the State government in evening out local fiscal disparities. Jurisdictions that possess either an overabundance or a paucity of local tax resources create problems. Rich industrial or residential enclaves that skim off the local resource base can contribute as much as poorly endowed jurisdictions to the complexity of State equalization aid requirements.

Performance Record. Every locality should be able to perform public services with reasonable efficiency—that is, to take advantage of economies of scale, specialization of labor, and the application of modern technology.