17th Annual Report

ACIR: The Year in Review

The Advisory Commission on Intergovernmental Relations
Washington, D.C. 20575 January 1976
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ACIR: THE YEAR IN REVIEW

In the 16 years since it was created by Congress, the Advisory Commission on Intergovernmental Relations has developed a formidable collection of recommendations and research reports on such subjects as the structure of metropolitan government, state-local tax policy, Federal aid alternatives, and state and local financial management. This base of findings and recommendations on the intergovernmental aspects of government structure and finance took on new meaning and significance in 1975 because of the overall impact of the nation's economic woes--highlighted by the New York City fiscal crisis. New Commission positions, staff research, and implementation efforts were all related to the heightened public and official sensitivity to intergovernmental issues in 1975.

The Commission and its staff during the year looked at the flow of Federal aid, at the effectiveness and equity of hard pressed state and local revenue systems, at the capacity of existing government structures to meet the growing needs for services at acceptable cost, at the growth in public expenditures, and inevitably, at the impact of the New York financial crisis on other governments throughout the nation and on our federal system as a whole.

It was in this context of increasingly hard pressed governments that the Commission directed its staff to undertake an extended study of the Federal categorical and block grant system and its state level equivalents. Before the year ended, the Commission had acted on staff
findings on the administration of the Omnibus Crime Control and Safe Streets Act by the Law Enforcement Assistance Administration (more fully discussed later in this report). Work also progressed on other block grant programs; on the phenomenon of continued proliferation of categorical programs, which was unimpeded by the existence of block grants and general revenue sharing; and on the various administrative devices being utilized to simplify and coordinate grant administration.

Staff also began to identify the factors leading to the growth in the public sector -- to identify the elements of both controllable and uncontrollable growth and to develop measures of the impact of that growth on the individual taxpayer, on various levels of government, and on the nation's economy.

Perhaps most striking was the renewed timeliness of previous ACIR work in light of the problems of 1975. ACIR recommendations on fiscal management, government structure, tax policy, and assignment of functions all were applicable to the events of the year. A 1973 publication titled City Financial Emergencies became a "best seller" as New York's plight grew more acute and as Federal, state and local officials, bankers, scholars, the public, and notably, the nation's press sought to grasp the implications of the plight of our largest city. The ACIR study had reviewed the history of municipal bankruptcy in the United States, identified danger signals which might foretell serious fiscal problems, and suggested remedial actions in the event of impending or actual default. This work and the related staff work which has occurred since its publication resulted not only in a demand for the volume but
also in substantial staff involvement with national and local efforts to understand and deal with the problems. Of all the Commission's over 100 available model bills, those dealing with city financial emergencies were in greatest demand by state legislators and others in the last months of 1975.

Similarly, questions about the fiscal capacity and tax effort of New York and other cities resulted in increased interest in recent Commission positions on local revenue diversification and boundary adjustments. Questions about the welfare burdens of the big cities raised interest in Commission work on the assignment of functions. And the obvious need for greater intergovernmental communication and consultation called attention to a range of Commission recommendations, including the call for state-level ACIRs.

Interest in and use of ACIR's expertise was the result not only of the events of the year but also of a widening public awareness of the work of the Commission. This increased public visibility was partially the result of a reconstituted publications program, an expansion of the ACIR staff provision of technical assistance to government at all levels upon request, and the conduct of a national conference on the state of the federal system.

The health of the national economy, the crisis in New York, and the consequent upgrading of the ACIR's implementation and other outreach activities resulted in a critical nexus which could lead to an expansion of the Commission's impact in the years ahead. It, however, remains to be seen whether the heightened public and official awareness of the
problems brought to light by the difficulties of 1975 will promote needed reforms in 1976 and the immediately following years, and the extent to which ACIR can contribute as a stimulus and technical assister.

The ACIR Approach

ACIR is a 26 member national, bipartisan body established by Congress in 1959 to study points of intergovernmental friction and to make recommendations for improving the federal system. Because of its representation of the executive and legislative branches of all three levels of government and because of its unique status as a permanent, independent commission, ACIR is able to follow up on its recommendations, encouraging and assisting both of these branches of Federal, state, and local governments to implement them.

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

Research and Policy Making

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

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

When the background and findings are prepared, they are presented to the Commission along with a wide range of alternative policy options. The Commission debates the report at a public meeting and votes on policy recommendations.

Implementation

The Commission recognizes that its mandate is not merely to study the operations of the federal system but also to seek to improve it. Therefore, the Commission believes that its contribution should be measured largely by its actual achievements in bringing about significant improvements in the relationships among Federal, state and local governments. For that reason, it devotes a significant share of its resources to encouraging the consideration of its recommendations for legislative and administrative action by governments at all levels.

National efforts. Commission recommendations for changes at the national level are transmitted to the Congress, the President, or the heads of Federal departments and agencies as appropriate. This transmission of Commission views is frequently followed by Congressional or executive requests for additional ACIR involvement. As in the past, the Commission's Chairman and staff testified frequently before
Congressional committees in 1975. Topics covered included Federal aid administration, general revenue sharing, state and local fiscal conditions, national growth policy, Federal technology transfer practices and intergovernmental relations generally. Federal executive branch dealings of both a formal and informal nature are always numerous.

In other activities which result from the Commission's statutory mandate to "make available technical assistance to the executive and legislative branches of the Federal government in the review of proposed legislation to determine its overall effect on the federal system," ACIR receives many requests from Congressional committees, the Office of Management and Budget, and other Federal sources to review and comment on proposed and pending legislation. If the proposal deals with a subject on which the Commission has taken a policy position, that fact is reported along with the Commission's supporting arguments. If the Commission has taken no policy positions on the subject or on related matters, that fact is reported. When a proposal has a significant impact on intergovernmental relations, and when there is sufficient guidance from Commission recommendations on related matters but no position on the exact subject, staff reactions are offered but clearly labeled "Staff Comments."

State efforts. ACIR recommendations for state action are translated into suggested legislative language for consideration by state legislatures. These draft proposals are made available to Governors, state legislative leaders, state administrative officials, other state and local policymakers, and interested citizens. In 1975, ACIR undertook its first comprehensive updating of approximately 120 bills which
comprised its cumulative state legislative program. As discussed elsewhere in this report, this substantial revision of previous legislation resulted in the production of model bills based on the 16 years of ACIR recommendations applicable to the states.

Efforts to implement ACIR legislation at the state level in 1975 took two forms: (a) wide distribution of Commission recommendations to relevant public officials and (b) direct technical assistance to the states, provided upon request. Building on the experience and the contacts of the previous year, ACIR distributed several thousand model bills along with appropriate supporting material. The staff rendered technical assistance at the request of at least 38 states during the year, up from 20 states in 1974. That assistance involved preparing specially tailored materials, modifying ACIR draft bills to meet special conditions, testifying before legislative committees, and working with citizen study commissions, state agencies, legislative committees, legislative drafting offices, and Governors' staffs. ACIR staff also presented papers on its work or undertook other implementation activities at some 35 conferences, policy workshops, and other national, state, and local forums in 1975.

In addition, the Commission seeks formal support for its recommendations or implementation assistance from various organizations of state and local officials, such as the National Governors' Conference; the Council of State Governments; the National Conference of State Legislatures; the National Association of Counties; the National League of Cities; the U.S. Conference of Mayors; the International City Management Association; state leagues of municipalities and associations
of counties; citizens groups; business, professional and labor organizations; taxpayers' leagues; bureaus of government research; and other public and private interest groups.

**Information Services**

ACIR's growing information program, an integral part of the implementation effort, was significantly enhanced in 1975 with the introduction of its new quarterly publication, *Intergovernmental Perspective*. After extensive review of its periodical publications, it was deemed more beneficial to merge them into a single publication for wide distribution at regular intervals. Therefore, the main features of such ACIR publications as *Congressional Watch* and *Action Agenda* were incorporated into *Intergovernmental Perspective*.

In the inaugural issue, which appeared in the Fall of 1975, Chairman Robert E. Merriam focused on the goals and general content of each succeeding issue. "The goal of our new quarterly magazine is to capture some of the best thinking and most important trends in intergovernmental relations. We will concentrate on a different topic in each issue, hopefully succinctly, readably, and usefully. In addition to a lead article in a major policy area, the publication will offer a group of regular features. These include a section called 'Washington Watch' which will provide up-to-date information on happenings in the Congress and in Federal agencies which have a direct intergovernmental impact and concern; a section called 'A Fiscal Note' which will feature an analysis of new ACIR financial statistics; and a publication section called 'and Briefly: Books' which will provide capsule descriptions of
recently released books in the field of intergovernmental relations.

The first issue highlighted the 1975 Commission report and recommendations on transportation. Eight *Information Bulletins* containing staff analyses of current intergovernmental issues were distributed to Federal, state and local officials, leaders of public interest groups, and other appropriate organizations across the country in 1975. Topics covered included State and Local Taxation of Military Personnel, Local Government Reform, and State Aid to Local Government.

The Commission staff monitors the legislative and executive actions of the states as they relate to their counties and cities. The results of monitoring these state actions are published each year. *State Actions 1974: Building on Innovation* was published in early 1975 and focused on state and local governments' accountability, efficiency, and fiscal self-sufficiency. The material for *State Actions 1975* has been collected and the publication will be available in early 1976.

The Commission staff periodically publishes a fiscal encyclopedia entitled *State and Local Finances: Significant Features of Fiscal Federalism*. This information report is a compilation of statistical tabulations from ACIR studies and other sources that serve as a handbook on state-local fiscal systems. An advanced release of specialized general sales and income tax tables from the forthcoming volume was published in late 1975 so as to be available to state legislatures during their 1976 sessions.
Federalism Conference

On February 20-22, ACIR held its first National Conference on American Federalism in Action, attracting approximately 350 Federal, state, and local officials and private citizens from all parts of the country. Members of the legislative, executive, and judicial branches at the Federal, state, and local levels were brought together for the first time in a national forum on the federal system. The Conference program focused on how the American federal system is working and on fiscal federalism, the modernization of local governments, urban transportation problems and renewal of revenue sharing.

Speakers and their topics included:

--ACIR Chairman Robert E. Merriam -- the paradox of promise and performance of American federalism;

--Senator Edmund Muskie, Maine -- the prospects for renewal of general revenue sharing in the 94th Congress;

--Harvard Professor Daniel Moynihan (now U.S. Ambassador to the United Nations) -- the future of American federalism;

--Minnesota Governor Wendell Anderson -- state revenue sharing with localities;

--Washington Governor Daniel Evans and Indianapolis Mayor Richard Lugar -- state and city modernization;

--Edgar Fiedler, Assistant Secretary for Economic Policy, Treasury Department and Arthur Okun, Senior Fellow at the Brookings Institution -- the economy and its intergovernmental impacts;
Comptroller General Elmer Staats -- project, formula, and block grants;

Judge Conrad M. Fowler, Probate Judge, Shelby County, Alabama -- county modernization;

Harlan Cleveland, Director, International Programs, Aspen Institute for Humanistic Studies -- the search for equity in the federal system.

Special interest sessions were organized on regionalism and urban transportation, to provide for the exchange of ideas on those key topics.

Three new Commission reports were released at the meeting: Trends in Fiscal Federalism 1954-1974, Federalism in 1974: The Tension of Interdependence, and State Actions 1974: Building on Innovation. Later in the year, a report of the conference was published under the title American Federalism: Toward a More Effective Partnership. That publication also contains papers presented at the conference, a list of participants, and a summary of the proceedings.

Seventeen foreign visitors attended the conference under arrangements made by the U.S. Department of State and the National Academy of Public Administration. Countries represented at the conference included Egypt, Canada, Nigeria, Australia, Belgium, Argentina, India, Malaysia and Germany.

State Legislative Program

In November of 1974, the Commission began a comprehensive review and updating of its State Legislative Program, then comprised of approximately 120 model bills. A vital tool in the implementation of ACIR recommendations, this update was necessitated by a variety of factors: adoption of Commission recommendations on substate districting,
local government modernization, and state-local fiscal relations which superseded and added to previous policy positions; the emergence of new ways of dealing with intergovernmental problems which outmoded some of ACIR's earlier model legislation; and staff implementation experience which suggested changes in the format of individual bills and the packaging of related legislative proposals.

The review and redrafting project was completed in the Fall of 1975. For ease of access and distribution, the Commission's state legislative program is published in ten parts.

Part I: State Government Structure and Processes

" II: Local Government Modernization

" III: State and Local Revenues

" IV: Fiscal and Personnel Management

" V: Environment, Land Use, and Growth Policy

" VI: Housing and Community Development

" VII: Transportation

" VIII: Health

" IX: Education

" X: Criminal Justice.

Governors and their staffs, legislative reference bureaus, the full membership of relevant state legislative committees, representatives of public interest groups, heads of large cities and counties and other interested Federal, state and local leaders have received all parts of the program. The revision project was funded in part under a grant from the U.S. Department of Housing and Urban Development.
Bank Tax Study

In April the Commission completed action on a report to Congress concerning state taxation of financial depositories (banks and savings and loan associations). Congress in 1973 directed the Commission to undertake a study of the issues out of concern that as states moved into the field there might be adverse impacts on interstate banking and commerce.

Long established restrictions on the authority of states to tax national banks were ended in 1969, when Public Law 91-156 specified that states may tax these banks under the same rules which they apply to state chartered banks. Congressional committees indicated concern that the possibilities of multiple taxation of the same base, increased compliance burdens, and uncertainties about liability for taxation might affect interstate flows of loans and deposits.

The basic thrust of the ACIR recommendations was that the Federal government should impose restrictions that would preclude certain state tax actions while still preserving the basic freedom of states to choose their own tax policies and apply their own standards.

The Commission made the following specific recommendations:

--Concerning jurisdiction to tax, the Commission called for application of Public Law 86-272 (the only Federal statute which sets limits on state jurisdictions to tax firms in interstate commerce) to interstate activities of banks and thrift institutions, with a higher and more specific threshold for state assertion of jurisdiction to tax. The threshold would be defined in terms of the "substantial physical presence" of an out-of-state depository within the taxing state;
--Congress should legislate a standard or doctrine permitting any state to tax only so much of the entire net income or other tax base of an out-of-state depository as is fairly apportioned to that state;

--Congress should amend the Federal public debt statute to authorize states to include, in the measure of otherwise valid direct net income taxes, income realized by financial depositories from Federal government obligations;

--Safeguards should be included in any legislation providing that any out-of-state depository institution shall not be subjected to heavier taxes than would be imposed if they were domestic corporations chartered or domiciled in the taxing state;

--Where a depository is subject to such taxation in more than one taxing jurisdiction, the domiciliary state may apply its tax to the entire income (or other tax base) of the business but shall allow the taxpayers a credit against such tax liability for similar taxes paid to other states.

Military Tax Study

The Federal Soldiers' and Sailors' Relief Act exempts members of the armed forces from state and local income taxes except in their state of domicile. But military pay is not subject to withholding even for the state or city of domicile. Military personnel are therefore forced to meet their tax obligations by filing and paying estimates of their tax liability. Where military personnel fail to meet their tax obligations to their state of domicile, they may find they owe taxes for the period covering all the years of their service.

Sales at military commissaries and post exchanges are exempt from state and local sales and excise (particularly cigarette and liquor)
taxes under provisions of the Buck Act. Information available to the Commission indicates that if sales at commissaries and px's in 1973 had been taxable, states and localities would have realized about $400 million in additional sales and excise taxes. Commissaries were established originally to provide goods to people located at isolated stations. Today, many commissaries are located in or near metropolitan areas.

After a full day of hearings and thorough discussion, the Commission adopted the following two recommendations:

--Congress should give early and favorable consideration to legislation amending the Buck Act to allow the application of state and local sales and excise taxes (including tobacco and liquor) to all military store sales in the United States, and;

--Congress should amend the Soldiers' and Sailors' Civil Relief Act to permit states to tax the pay of personnel stationed within their borders with residual jurisdiction to tax remaining with the state of domicile. The state of domicile should allow the military person a credit for taxes paid to the state of physical presence.

The Commission subsequently adopted the following recommendations:

--Congress should amend the appropriate statutes to authorize the Department of Defense to withhold taxes on military pay;

--Congress should adopt legislation waiving Federal immunity from state court actions to the extent necessary to make feasible wage garnishments of military pay and Federal civilian pay for delinquent state or local income taxes;

--The Defense Department should require a separate form specifically designed to obtain from military personnel a declaration of legal
residence for tax purposes and also require that records of legal residence be kept current through annual updating.

Safe Streets Act

At its November meeting, the Commission acted upon the findings of an eight-month staff survey of the workings and impact of the Omnibus Crime Control and Safe Streets Act. In a study of over one thousand cities and counties which received Law Enforcement Assistance funds under the Act, one-half indicated that crime rates would have been substantially or moderately greater without the Safe Streets program. Only 17 percent of the city and 13 percent of the county officials said crime would not have been greater without the program.

The study revealed that the state planning agencies (which plan for and distribute Safe Streets funds) devoted the vast majority of their efforts to distributing Safe Streets funds and to complying with LEAA procedural requirements, but in most cases had not become integral parts of the state-local criminal justice system. Furthermore, only a handful of state planning agencies had developed close working relationships with governors and legislators. Based on these and related findings, the Commission urged Congress to "purify" the Safe Streets Act by removing "strings" and giving states and local governments maximum flexibility, within the block grant framework, to determine the best means to meet the needs of their constituents in the broad area of criminal justice.

Specific recommendations were:

--Congress should remove present corrections and juvenile justice categories and refrain from further efforts to "earmark" funds for particular functions or jurisdictional interest;
--State planning agencies should be strengthened by calling for greater gubernatorial and legislative involvement in the planning, funding, and evaluation of Safe Streets programs;

--Procedures in the allocation of funds to major cities and urban counties should be simplified so that those jurisdictions can submit one plan for the approval of the state planning agencies without submitting a further application for specific projects ("mini" block grant approach);

--The Law Enforcement Assistance Administration, which administers the program, should develop meaningful standards and performance criteria against which to determine the extent of comprehensiveness of state criminal justice planning and funding and to more effectively monitor and evaluate state performance; and

--The state planning agencies should give greater attention to the needs of the courts in planning and funding, and should encourage court participation on supervisory boards.

The lengthy study, along with its findings and recommendations, is to be published in 1976 as a portion of an overall study of how Federal and state grants are managed.

City Financial Emergencies

The Commission's 1973 publication *City Financial Emergencies*: The Intergovernmental Dimension enjoyed renewed popularity in 1975 as a result of New York City's fiscal crisis.

The timeliness of the 1973 report and the strong intergovernmental features of the New York crisis resulted in wide press coverage of and official interest in the Commission's recommendations throughout
the year. ACIR staff met with Federal, state and local officials and representatives of the banking and other affected industries on numerous occasions during 1975.

The New York crisis had such far reaching intergovernmental implications that the Commission chose to adopt a position supplementary to their 1973 actions.

The position statement read: "The Commission recognizes that the officials, employees, and citizens of New York City and New York State have the initial responsibility for alleviating the fiscal crisis of New York City. The Commission also recognizes, however, that the Federal government, as required, should act in support of New York State and city efforts to assure that New York City's fiscal crisis does not have a nationwide effect on the economy and on the borrowing activities of other state and local governments."

ACIR staff also undertook in 1975 a review of the implications of actual or threatened city financial emergencies on the bond market and will incorporate the results of that review in the FDIC study discussed elsewhere in this report.

**Changing Public Attitudes on Governments and Taxes**

For the fourth consecutive year, the Commission contracted for a public opinion survey on selected intergovernmental issues. Conducted in May 1975, the survey produced results which led to the following observations and conclusions:

--The Federal government was selected by a clear margin (38 percent of those polled) as the level of government that provided the most for
the tax dollar. This is a marked contrast from the previous year's study which showed all three levels of government about on par.

-- The Federal income tax and the local property tax drew about equal fire as the "worst" or "least fair" taxes. This pattern has remained fairly stable for the last three years.

-- The revenue sharing program was again supported by public opinion but by a smaller margin than last year (55 percent in 1975, 65 percent in 1974). Almost one quarter of those queried had "no opinion" when asked if they approved or disapproved of this federal aid program.

-- An overwhelming proportion of national opinion (83 percent) held the view that the general level of governmental services and taxes to finance them should be kept about where they are or decreased. A very small minority (5 percent) subscribed to the view that governments should "increase services and raise taxes."

This last finding of the 1975 poll came from a new question that was intended to give policymakers at all levels a reading as to the public attitude on the general issue of spending and taxes.
Grant Study

The Intergovernmental Grant System: Policies, Processes and Alternatives, a study begun by the Commission in 1974, received its first consideration in 1975. This study represents a significant expansion of the 1967 study that called for a new Federal aid "mix" involving use of categorical grants-in-aid, block grants, and per capita general support payments (general revenue sharing). Because the Federal aid system now embodies this "mix", the Commission felt it was necessary to evaluate the contribution each type of aid makes to the Federal aid system. The Commission completed a study of general revenue sharing in 1974.

The study will examine recent experience with project, formula, and block grant programs to design ways of enhancing their effectiveness. The study will also assess the role of the states as recipients of Federal aid, as intermediaries in Federal aid to localities, and as dispensers of their own aid to their localities. The study also includes appraisals of "middle-range" efforts -- short of grant consolidation -- to reform the administration of categorical grants through the simplification and standardization of administrative procedures and the development of new organizational approaches to interlevel and interagency coordination in Washington and the regions.

Preliminary findings show that Federal aid to state and local governments rose from $46 billion in Fiscal Year 1974 to an estimated $60 billion in Fiscal Year 1976. Of this total, over 85 percent goes to state and local governments in the form of categorical grants and block grants. Although the number of dollars going into categoricals
has tripled since 1966, their percentage of the total has decreased from 98 percent to the current 75 percent level because of the introduction of revenue sharing and block grants.

The Commission considered the initial chapter of the study on "target" grants at its September meeting and began its review of the block grant experience by considering the Safe Streets Act at its November meeting. Other block grants and state aid to local governments will be reviewed at the first two Commission meetings in 1976. The entire report is scheduled to be completed by the end of 1976.

Growth in the Public Sector Study

Fifty years ago Federal spending was so minuscule that the total dollars spent would not pay for one month's interest on the Federal debt today. Thirty-five years ago total state-local spending was less than today's budget for New York City alone. But these dollar examples, while striking, are far less meaningful than the fact that total government spending consumed 11 percent of the gross national product in 1930, 23 percent in 1950, and 33 percent in 1974.

There are many explanations of the changes in the role and size of government, and numerous observers find little reason for concern, however, during this past year, a period of economic difficulty, there have been repeated expressions to the effect that such public sector growth portends ominous effects on incentives, capital formation, the vitality of our economy generally, efforts to deal with chronic inflation, and even certain of our freedoms. ACIR has begun to look at parts of this subject.

"The Growth of Government Spending and Taxing: Intergovernmental Causes, Effects, and Policy Options" is the tentative name of the
Commission study now underway. The first part of the study will attempt to identify causes and generators of public sector growth and the resulting positive and negative effects. Particular attention will be paid to the state-local sector and the Social Security system which have accounted for the largest components of growth during the last 20 years. ACIR will also focus on institutional factors which tend to dilute, transfer, or bypass legislative control and accountability, including elastic revenue sources such as the Federal and state personal income taxes, Federal and state mandating of expenditure burdens on lower levels, and indexed Social Security payments and public employee pensions. The study will also examine ways legislative bodies can, if they wish, take steps to insure that spending and taxing are, with fewer exceptions, authorized by closely linked, deliberate legislative actions that the public can be aware of and attempt to influence. Indexation of income taxes, revision of "super-indexed" Social Security and pension benefits, expenditure limitation incentives and devices, and curbs on Federal and state mandating are among the current proposals that ACIR will evaluate.

The second portion of the study will deal with the direct impact of public sector growth and related taxation on taxpayers in general and on the lower and lower middle income taxpayer in particular. Preliminary calculations show that the average family's tax burden has risen from about 12 percent to 24 percent of total family income during the last 20 years, representing a much faster rate of growth than applied to wealthier people.

With reference to the tax impact on lower and lower middle income families, the ACIR study will examine a number of current policies,
including Federal income tax treatment of state and local taxes that allow wealthier taxpayers more generous write-offs; further use and refinement of "circuit breakers" to reduce regressivity in the overall tax system; the treatment of renters versus home owners under Federal and state income tax laws; and possible modification of Social Security financing.

Study of Public Bank Deposit Pledging Requirements

Public Law 93-495, passed by Congress in the fall of 1974, raised from $20,000 to $100,000 per account the insurance available to cover deposits of governmental entities at commercial banks, savings and loan associations, mutual savings banks, and credit unions. Congress, at the same time, directed ACIR to study and report on the impact of this change of insurance coverage on the municipal bond market and the supply of credit available for housing.

The ACIR study has three major objectives: (1) to analyze current Federal, state, and local pledging and insurance requirements, detect trends in the size and volatility of public deposits, and discover effects on housing financing sources; (2) to determine what changes have resulted from the recent increase in insurance on public deposits; and (3) to draw conclusions about the impact of alternative future changes in the insurance of, or pledging for, public deposits on the market for state and local bonds and credit for housing.

National Forest Study

Under a contract from the U.S. Forest Service, ACIR has undertaken a study of the National Forest revenue sharing system.
The National Forest revenue system was set up by the National Forest Revenue Act of 1908 to provide compensation to local governments for the impact on them of Federal ownership of the land. The primary impact considered was lost tax revenues due to the tax immunity of the Federal land.

The Federal Government owns nearly 800 million acres of land, 187 million in the National Forest System, all of which is exempt from taxation. The National Forest Land is distributed among 700 counties in 39 states, who are also the recipients of the revenue sharing payments. Since the law restricts the use of the funds to public roads and education, school districts are also among the ultimate recipients.

The current forest revenue sharing system provides that 25 percent of the revenues yielded by each National Forest be returned to the counties in which the forest is located. These revenues come primarily from the sale of timber. Minerals, recreational fees, and grazing fees make up the remaining portion.

The ACIR study encompasses several areas of concern to local officials:

--the claim that shared monies do not compensate for taxes that would otherwise be collected from the forest land;

--claims that the presence of National Forests imposes unrecovered costs on them;

--the unpredictability of the size of payments from one year to the next which makes local fiscal management more difficult; and

--the question of whether the use of the funds should continue to be restricted to roads and schools.

Several broader issue areas are raised by this study. One is the relationship between the National Forest revenue sharing system and
natural resource policies. Under the current system of sharing revenues, there may be an incentive for local governments to support managing the forests to maximize their revenues--by increasing timber harvesting.

A second broad issue area is the relationship between this revenue sharing system and other functions where Federal ownership and management of property affect state and local governments. Principles which are most appropriate for compensating for the impact of the National Forests may have wider applicability.

Third, states' tax and aid policies, which take forest revenue sharing payments into account, may effectively alter intended local fiscal impacts, an issue that policymakers at all three levels of government will want to consider in their fiscal planning.

The study will examine several alternatives to the current revenue sharing system. One possibility is to base payments on a calculation of the amount of tax revenues foregone through tax immunity. Another is to base the system on the costs imposed on local jurisdictions. In either case, the additional question arises as to whether and how the benefits of Federal ownership accruing to the local jurisdictions should enter into the payment system.

The study process has thus far included two "thinkers' sessions" at which experts and interested persons assisted ACIR in defining the study.

**OMB Circular A-85**

ACIR is the administrator of OMB Circular A-85 which provides a mechanism for state and local government review of draft Federal regulations having substantial intergovernmental implications. The procedure calls for state and local chief executives to suggest
changes in the proposals to reflect their interest. ACIR distributes the proposals among the general government interest groups named in the Circular for comment and sets up meetings to resolve conflicts. The groups are the National Governors' Conference, Council of State Governments, National League of Cities, U.S. Conference of Mayors, National Association of Counties, and the International City Management Association.

In addition to normal A-85 administration and to the production of an A-85 annual report for the director of the Office of Management and Budget, the Commission staff at several times during the year reacted to OMB proposals for reforming the Circular process.
Appendix A

Commission Members
(December 31, 1975)

Private Citizens:
  Robert E. Merriam, Chairman, Chicago, Illinois
  Robert H. Finch, Los Angeles, California
  John H. Altorfer, Peoria, Illinois

Members of the United States Senate:
  Ernest F. Hollings, South Carolina
  Edmund S. Muskie, Maine
  William V. Roth, Delaware

Members of the U.S. House of Representatives:
  L.H. Fountain, North Carolina
  Clarence J. Brown, Jr., Ohio
  James C. Corman, California

Officers of the Executive Branch, Federal Government:
  James M. Cannon, Assistant to the President for Domestic Affairs
  Carla A. Hills, Secretary of the Department of Housing and Urban Development
  James T. Lynn, Office of Management and Budget

Governors:
  Daniel J. Evans, Washington
  Richard F. Kneip, South Dakota
  Philip W. Noel, Rhode Island
  Robert D. Ray, Iowa

Mayors:
  Harry C. Kinney, Albuquerque, N. Mexico
  Jack D. Maltester, San Leandro, California
  John H. Poelker, St. Louis, Missouri
  Vacancy

State Legislative Leaders:
  John H. Briscoe, Speaker, Maryland House of Delegates
  Robert P. Knowles, Senator, Wisconsin
  Charles F. Kurfess, Minority Leader, Ohio House of Representatives

Elected County Officials:
  Conrad M. Fowler, Shelby County, Alabama
  John H. Brewer, Kent County, Michigan
  William E. Dunn, Salt Lake County, Utah
Appendix B

Permanent Staff
(December 31, 1975)

Anderson, Wayne F., Executive Director
Walker, David B., Assistant Director
Shannon, F. John, Assistant Director
Gilson, Lawrence D., Director of Policy Implementation
Beam, David R., Analyst
Bell, Michael E., Intern
Bunn, Elizabeth A., Secretary
Clarke, Lavinia B., Secretary
Davis, Marinda T., Secretary
Doddy, Joanne L., Intern
Ebel, Robert D., Professor in Residence
Ferrell, Lynn D., State-Local Relations Associate
Fisher, Ronald C., Intern
Fried, Esther, Administrative Officer
Gabler, L. Richard, Senior Analyst
Hahn, Thomas D., Accountant
Jones, MacArthur C., Duplicating Machine Operator
McDowell, Bruce D., Senior Analyst
Moore, Margaret M., Secretary
Myers, Will S., Senior Analyst
Nolin, Evelyn M., Secretary
Phillips, Ruthamae A., Secretary
Richter, Albert J., Senior Analyst
Roberts, Diana M., Production Manager
Ross, Ronald L., Mail Room Supervisor
Silberg, Linda S., Secretary
Smith, Betty W., Secretary to Executive Director
Steinko, Franklin A., Jr., Assistant to Executive Director
Stenberg, Carl W., Senior Analyst
Thomas, Gloria K., Secretary
Tippett, Francis X., Statistician
Ward, Gloria D., Secretary
Weissert, Carol S., Information Officer
Wright, Carol Monical, Librarian
Appendix C

Official Consultants

Albert J. Abrams, secretary of the New York State Senate, Albany, New York
Frank Bane, former chairman of ACIR, Washington, D.C.
John E. Bebout, state program director, Institute for Urban Studies,
University of Houston, Houston, Texas
George C. Benson, director, Henry Salvatori Center and President
Emeritus, Claremont Men's College, Claremont, California
John C. Bollens, professor of political science, University of
California, Los Angeles, California
George Break, professor of economics, University of California,
Berkeley, California
Frank L. Britt, executive manager, Toledo Area Governmental Research
Association, Toledo, Ohio
Alan K. Campbell, dean, The Maxwell Graduate School of Citizenship
and Public Affairs, Syracuse University, Syracuse, New York
Arnold Cantor, assistant director of research, AFL-CIO, Washington, D.C.
William N. Cassella, executive director, National Municipal League,
New York, New York
William G. Colman, governmental consultant, Potomac, Maryland
Charles F. Conlon, executive director, Federation of Tax Administrators,
Chicago, Illinois
Sangamon State University, Springfield, Illinois
L. Laszlo Ecker-Racz, consultant, Arlington, Virginia
Daniel J. Elazar, professor of political science and director, Center
for the Study of Federalism, Temple University, Philadelphia, Pennsylvania
Neely Gardner, professor of public administration, University of Southern
California, Los Angeles, California
C. Lowell Harriss, professor of economics, Columbia University; Economic
Lawrence Howard, professor of public and international affairs, University
of Pittsburgh, Pittsburgh, Pennsylvania
Victor Jones, professor of political science, University of California,
Berkeley, California
Richard Leach, professor of political science, Duke University, Durham,
North Carolina
Eugene C. Lee, director, Institute of Governmental Studies and professor
of Political Science, University of California, Berkeley, California
Carl H. Madden, chief economist, Chamber of Commerce of the United
States, Washington, D.C.
James Maxwell, professor emeritus, Department of Economics, Clarke
University, Worcester, Massachusetts
Arthur Naftalin, professor, School of Public Affairs, University of
Minnesota, Minneapolis, Minnesota
Oliver Oldman, professor of law, Harvard School of Law, Cambridge, Massachusetts
James A. Papke, professor of economics, Purdue University, Lafayette, Indiana
Carl Fforzheimer, Jr., director, National Association of State Boards of Education, New York, New York
Frank Schiff, vice president and chief economist, Committee for Economic Development, Washington, D.C.
Mabel Walker, consultant, Milford, New Jersey
George H. Watson, president, Friends World College, Huntington, New York
Murray L. Weidenbaum, professor of economics, Washington University, St. Louis, Missouri
Joseph F. Zimmerman, professor of political science, State University of New York, Albany, New York
Appendix D

Financial Support

From its inception, the Commission has been financed primarily from Congressional appropriations but has generated some earnings and contributions. Approximately $33,000 was received by the Commission in 1975 in contributions, honoraria, travel reimbursements, and revenues from its conference on "American Federalism in Action". The conference was underwritten by delegate fees and a grant from the National Science Foundation, and was entirely self-supporting. While a variety of factors worked against establishing a renewed program for soliciting contributions from state and local governments in 1975, ACIR, on the basis of its discussions with OMB, is now taking steps to launch this effort in early 1976.

Federal agencies contract with ACIR in connection with projects that tie in closely with the ongoing work of the Commission. Projects funded by other agencies in 1975 included a study for the National Commission on Water Quality ($16,500) to "assist in creating a forecasting model capable of predicting state and local revenues and expenditures," another for the American Revolution Bicentennial Administration ($10,000) to develop a "nationwide program to stimulate citizen dialogue in public and community affairs," and a project for the Department of Transportation ($82,000) that led to a Commission report complete with recommendations and findings on the "feasibility and necessity of structuring metropolitan areawide public agencies to plan, implement, and finance transportation projects."
Periodically, federal agencies contract with ACIR in connection with projects that tie in closely with the ongoing work of the Commission. Projects funded by other agencies in 1975 included studies on substate regionalism (HUD), the delivery of services (HEW), bicentennial forums (ARBA), Categorical and block grants (HEW), metropolitan transportation (DOT), and criminal justice (LEAA). The Commission also developed model state legislation under a contract from HUD and a national water quality model under a grant from the National Commission on Water Quality.

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

Salaries and Expense Statement

<table>
<thead>
<tr>
<th>Object Classification</th>
<th>FY 1975 Actual</th>
<th>FY 1976 Estimate</th>
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<tbody>
<tr>
<td>Personnel Compensation</td>
<td>$708,000</td>
<td>$803,000</td>
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<tr>
<td>Personnel Benefits</td>
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<tr>
<td>Travel and Transportation of Persons</td>
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<td>49,000</td>
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<tr>
<td>Transportation of Things</td>
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<tr>
<td>Rent, Communications, and Utilities</td>
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<td>208,000</td>
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<tr>
<td>Printing and Reproduction</td>
<td>63,000</td>
<td>65,000</td>
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<tr>
<td>Other Services</td>
<td>128,000</td>
<td>31,000</td>
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<tr>
<td>Supplies and Materials</td>
<td>38,000</td>
<td>23,000</td>
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<tr>
<td>Equipment</td>
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<td><strong>Total Obligations</strong></td>
<td><strong>$1,238,000</strong></td>
<td><strong>$1,261,000</strong></td>
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Appendix F

Publications

REPORTS PUBLISHED IN 1975

ACIR State Legislative Program: A Guide. M-91. November 1975. 11 pages. A guide to ACIR's State Legislative Program which was revised and updated in 1975. The 10 volume program is composed of 113 model bills designed to implement 16 years of Commission recommendations.


ACIR State Legislative Program: 2. Local Government Modernization. M-93. November 1975. 196 pages. Volume Two contains suggested state legislation designed to strengthen local governments through such means as establishing statutory standards and procedures for the incorporation of new municipalities, creation of special districts and annexation of unincorporated territories; clarifying legal powers of general purpose local governments; and authorizing contracting and other cooperative relationships between and among units of local government. There are also six bills dealing with regional cooperation and coordination.

ACIR State Legislative Program: 3. State and Local Revenues. M-94. November 1975. 146 pages. State legislation in the area of property taxation is a key concern of this volume. It also includes legislative language in areas such as authorization for local sales and income taxes and assistance in local user charge formulation.

ACIR State Legislative Program: 4. Fiscal and Personnel Management. M-95. November 1975. 108 pages. This volume contains 12 bills in the area of fiscal management ranging from state intervention in local governments' financial emergencies to citizen participation in the budget process. In addition there are six suggested state bills in the area of personnel management, including one providing for state review and assistance in local retirement systems.

ACIR State Legislative Program: 5. Environment, Land Use and Growth Policy. M-96. November 1975. 146 pages. State growth policy and land use and environmental planning and regulation are the two major areas of concern in this volume.
ACIR State Legislative Program: 6. Housing and Community Development. M-97. December 1975. 196 pages. Program operations and assistance are the primary concerns of 10 bills in this volume. Other bills in the volume are in the area of fair housing and building regulation.


ACIR State Legislative Program: 9. Education. M-100. December 1975. 66 pages. State financing of public elementary and secondary schools is a key model bill in this volume. Other bills provide for establishment of areawide tax base for school finances, for districts for specialized education, and for educational accountability and remedial assistance.


*Toward More Balanced Transportation: New Intergovernmental Proposals. A-49. August 1975. 307 pages. $3.75. A look at the regional transportation needs in both metropolitan and non-metropolitan areas including Commission recommendations for improving the current system.


Federalism in 1974: The Tension of Interdependence. M-89. February 1975. 32 pages. $0.85. Major intergovernmental policy issues are discussed in this annual publication. Of particular concern are those areas at the national level that impact on all levels of government.


REPORTS PUBLISHED IN 1974


*The Expenditure Tax: Concept, Administration and Possible Applications. M-84. March 1974. 64 pp. $0.70.


POLICY REPORTS CURRENTLY AVAILABLE


INFORMATION REPORTS CURRENTLY AVAILABLE


Hearings Before the Advisory Commission on Intergovernmental Relations on Intergovernmental Problems in Medicaid. September 1968. 29 pp.

Notes


**To order publications marked with a double asterisk, write directly to the National Technical Information Service, Springfield, Virginia 22151, giving PB Number. Paper copies $6.00. Microfiche (4"x6" sheets) 95 cents.

As the supply permits, single copies of most publications listed may be obtained without charge from the Advisory Commission on Intergovernmental Relations, Washington, D.C. 20575.