Future students of American federalism may come to regard 1985 as the Year of the Phoenix for states. After being the dominant force in governance during the republic's first 150 years, then disparaged by many during the last half century, the states today, as well as their subdivisions, are receiving high praise from many quarters, and are reclaiming some of their traditional functions from the national government. During the past year, the research and analysis of the Advisory Commission on Intergovernmental Relations endeavored to monitor this growing decentralization process and recommend mechanisms for smoothing the transition into a new era of American federalism.

OVERVIEW

With grants-in-aid to state and local governments declining in constant dollars for the eighth straight year, and with ever more intractable federal deficits, few observers foresee a return to an intergovernmental system characterized by proliferating domestic programs initiated in Washington. Indeed, under Gramm-Rudman-Hollings some predict a drastic acceleration in the federal retrenchment process that began in 1978, regardless of which political party controls the White House or Congress.

Exclusive of defense, interest on the national debt, and Social Security, spending by the national government increased by 2% in constant dollars during 1985. On a per capita basis, the increase was 1.2%. In contrast, at the state and local level spending increased by 6% in real terms, and 5% on a per capita basis. Much of the new influx of dollars was directed toward education, prison reform, transportation, housing,
and economic development. Even with this increase in spending, and with virtually all states having balanced budgets, a number of states (notably some large industrial ones) have been able to reduce taxes, and enact extensive tax reform. The states have also been taking a lead in economic and community development, health care cost containment, public-private cooperation, and environmental issues.

This reorientation of policymaking represents a rather dramatic reversal in American government. In his 1967 book Storm Over the States, former North Carolina Governor Terry Sanford noted that states were often characterized as "indecisive...antiquated...timid and ineffective...not willing to face their problems...not responsive...[and] not interested in cities." In stark contrast, a January 11, 1986 editorial in The Washington Post (to cite just one of numerous sources) noted that today the federal government is deficit ridden while states and localities are financially healthy, and said:

"[I]t's worth remembering that once upon a time -- say, 20 years ago -- things looked quite different. Then it was the federal government that seemed competent and caring and bulging with the money needed to cure society's ills. Then it was the states and cities that seemed threadbare both of ideas and of cash. Now the situation is not exactly reversed...[but] state and local governments over two decades became increasingly well managed and increasingly a locus of creativity and energy in government...State and local government, from New York to Colorado to Pelican [S.D.] township, is working a lot better than it used to."

In short, as Governor Sanford had cautiously predicted in his 1967 book, the last twenty years have witnessed a remarkable transformation in the roles of the national, state, and local governments within the federal system.
Yet, this transition is not occurring without considerable inter-governmental tension. State and local governments have found it necessary to operate with far fewer federal dollars as a percentage of their own-source revenues, while still being subject to a labyrinth of national mandates. Washington's tax reform efforts have been the subject of wide debate by state and local officials, particularly the proposal to eliminate the deductibility of state and local taxes from federal income taxes. And of tremendous concern from a judicial standpoint was the Supreme Court's holding against state and local discretion in personnel matters (Garcia v. San Antonio Metropolitan Transit Authority). Because of its broad scope, many feel that this decision has seriously weakened the constitutional rights of the states and their subdivisions. An additional concern of local governments that grew more serious during 1985 was the skyrocketing cost of liability insurance. Just as with medical malpractice insurance, the rates of municipal liability insurance have risen so high in certain places that governments cannot afford it, and unprotected officials are dropping out of public service.

Recognizing the interaction of fiscal, regulatory, and judicial federalism, the Commission published reports on service delivery agreements among local governments, cigarette tax evasion, local government financial emergencies, state aid to distressed communities, the growing capabilities of states, and a working paper draft on the Garcia decision itself. The Commission also adopted reports recommending that Congress enact legislation enabling state and local governments to collect sales taxes on interstate mail order sales, that steps be taken to strengthen state and local political parties, and that Congress consider returning
selected categorical grant-in-aid programs to the states, along with tax sources to finance them (turnbacks).

In conjunction with the turnback recommendation and the Garcia report the Commission held a series of three hearings -- Salem, Oregon on October 2, Philadelphia on October 16, and Chicago on November 4. Inputs from these hearings were incorporated into the final reports on both topics.

The Commission also continued to promote the concept of state-local relations bodies in the states, and maintained its network of communications among these bodies in the 24 states where they exist.

Included in the current research agenda are studies on judicial federalism, federal preemption of state laws, alternative approaches to organizing effective and accountable local governments and providing local public services, reform of means-tested welfare programs, provisions for fiscal discipline at state and national levels, federal income tax reform, federal aid formulas, and the agricultural recession's impact on state and local governments in farm states.

This progress report for 1985 explains the Commission's approach to issues, its research practices, its publications and other public information activities during the past year, and its research projects for 1986. Personnel and budget data are presented in appendices.

ACIR OPERATING PROCEDURES

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

The work of the Commission flows through three stages: staff research undertaken at the direction of the Commission, policymaking by the Commission, and communication of that policy to parties in a position to implement it.

The Commission determines its own agenda, basing its choices on the members' wide-ranging experiences, observations, and contacts, as well as on staff evaluations of the alternatives. Once a topic is chosen, the staff gathers information by a variety of methods including: reviewing the literature, holding hearings, conducting special surveys, and undertaking field studies.

To assure that all relevant aspects of each subject are reflected in the findings and background sections of a report, the staff conducts "thinkers sessions" at the beginning of a research project to help define the project's scope and approach. "Critics sessions" are scheduled near the completion of a project to minimize errors of omission or bias in the draft prepared for Commission action. Participants in these sessions usually include congressional staff members, representatives of appropriate government agencies, public interest groups' spokespersons, members of the academic community, specialists in the substantive area of the report, and representatives of relevant civic, labor, research, and business organizations.
Background information and findings are presented to the Commission along with an appropriate range of alternative policy options. The Commission debates the report at a public meeting and votes on policy recommendations. Subsequently, the report is published and widely disseminated.

PUBLICATIONS

During 1985, the Commission published ten reports and two issues of Intergovernmental Perspective. Five of the reports contained policy recommendations: Cigarette Tax Evasion; Bankruptcies, Defaults, and Other Government Financial Emergencies; Intergovernmental Service Agreements for Delivering Local Government Services; The Question of State Capability; and The States and Distressed Communities, The Final Report. In addition, four information reports were published. Three presented data and findings on subjects regularly monitored by the ACIR: the 1984 Edition of Significant Features of Fiscal Federalism, the latest edition of Tax Capacity of the Fifty State, 1982, and the 1985 survey of public attitudes toward government and taxes. The fourth information report was The States and Distressed Communities: Catalog of State Programs. The first volume of the ACIR's 25th Anniversary Papers, Emerging Issues in American Federalism, also was issued during 1985.

During 1986, the Commission expects to publish reports containing the Commission's research and recommendations on taxation of interstate mail order sales, recommendations on political parties, the staff analysis and Commission recommendation on turnbacks, an information report on the implications for federalism of the Supreme Court's Garcia decision, and working papers relating to many topics on its research
agenda. The customary annual reports, Significant Features of Fiscal Federalism, Tax Capacity of the Fifty States, and Changing Public Attitudes on Government and Taxes, will also be issued.

State and Local Taxation of Interstate Mail Order Sales. The forthcoming report on state and local taxation of mail order sales will present the September 1985 Commission recommendation on that subject. The Commission pointed out that significant changes have occurred in the composition and technology of the retail mail order sales market since the Supreme Court's 1967 decision in the National Bellas Hess case. In that case the Court held that states could not require out-of-state mail order firms to collect state sales/use tax taxes if their business presence in the state was limited to distributing sales catalogues or other forms of advertising. In view of the need to equalize the competitive position of in-state and out-of-state vendors and to safeguard state sales and use tax bases, the Commission recommended that Congress should enact legislation requiring mail order vendors to collect a state's use tax on interstate sales delivered in that state. To relieve the compliance burden on small mail order businesses, the Commission further recommended that the legislation should contain a de minimis rule exempting vendors with sales below a specified threshold dollar amount, and that states in which there are both local and state sales taxes should determine a single non-discriminatory rate. The report will contain the dissents of the five commissioners who voted against the recommendation.

The ACIR publication will contain an extensive staff analysis of the problems of taxing interstate mail order sales, as well as the staff
estimate of the revenue losses to states due to the inability of states to tax out-of-state mail order sales.

Transformations in American Politics: Their Implications for Federalism. The Commission will also publish an extensive report on the relation of political parties to the American federal system. This research is particularly timely in view of the recent Garcia decision which leaves to Congressional politics the question of federalism and federal-state relations.

The Commission made five recommendations on the subject. They concern enactment of new—or modification of existing—state laws affecting political parties' roles in nominations and elections; reforming state regulation of the internal organizational structure, composition, and procedures of political parties; changing the status of state and local parties under the Federal Election Campaign Act; assuring political party access to the media; and realizing the potential of cable television in community affairs.

These recommendations were based on summary findings of the staff study of political parties:

Throughout much of American history, the strongly decentralized structure of political parties has helped maintain a balance between national, state, and local authority, but over the past 25 years, changes in American politics have reduced the role of parties in the electoral process and enhanced the role of rival institutions.
Historic changes in communications media, especially the rise of television, have focused more attention on Washington and contributed to changes in the conduct of politics.

Organized interest groups active in Washington have proliferated in number, diversified in form, and adopted new political techniques for influencing government; new styles of politics have added to costs of campaigning and dramatically changed the sources of campaign financing; efforts to reform campaign financing procedures have frequently had unintended consequences and tended to favor one set of political actors over another.

Both political parties have begun to adapt to their new political environment over recent years, with the national party organizations assuming a leadership role in many aspects of party modernization.

Although many state and local parties have made significant efforts to enhance their capabilities and services, there remains considerable variation in organizational capacity and levels of activity.

Devolving Federal Program Responsibilities and Revenue Sources to State and Local Governments. In early 1986, the Commission will publish a policy report containing the Commission's recommendation on the use of turnbacks to achieve increased political decentralization in the American federal system, as well as a set of illustrative packages of turnbacks
and revenue source returns. At its December 1985 meeting, the Commission found that turnbacks (simultaneous repeal of federal aid programs and relinquishment of tax bases) are a promising approach to achieving increased political decentralization in the American federal system. The Commission recommended that turnback packages should be based upon three important principles: provision of an adequate transition period to allow state and local governments to adjust to the new political environment of increased political decentralization; provision for adequate pass-through of state funds to local governments during the transition period; and provision of a mechanism during the transition period to facilitate any state legislative or constitutional changes necessary to adjust the political and fiscal relationship between states and their local governments. The Commission found that the turnback packages presented in the staff report warrant further development and recommended that the Congress, the President, and state and local officials use the packages as a departure point for serious consideration of the turnback package, and that the ACIR staff continue to develop additional alternative packages at the request of interested parties.

The report will contain five illustrative turnback packages reflecting different magnitudes of turnback programs as a whole, different levels of deficit reduction, and different types of constraints. It should be emphasized that the subject of the current study and its illustrative packages is as much the method as the results. The detailed and specific analyses of both the principles and the specifics allow this policy alternative to be debated in the political forum, and the method
affords the possibility of developing new proposals should the specific packages presented prove unsatisfactory.

Reflections on Garcia and Its Implications for Federalism. A report on the recent Supreme Court Garcia decision and its implications for federalism will be published as an information report during the first part of 1986. The Commission has taken no position on the Garcia decision or on the broader issues raised by it and covered in the information report. Its purpose in publishing the report is to enter into a dialogue on the future of federalism, and to make it possible for all responsible parties to contribute to its preservation.

In its decision in the case of Garcia v. San Antonio Transit Authority, the Supreme Court withdrew from past efforts to define the boundary of authority between the national government and the states. The Court will no longer attempt to assume the role of "umpire" of the federal system, leaving a determination of the precise scope of national authority in the hands of Congress. This publication explores the implications of the Garcia decision for the future of federalism in the United States. The Commission views the immediate issue of federal wage and hour regulation of state and local employees as secondary to the constitutional issues at stake: whether state autonomy has been sacrificed to national expedience. The staff analysis explores the broad constitutional context of Garcia in an effort to learn what, if anything, has gone wrong in the workings of the constitutional system with respect to the maintenance of federalism. It concludes by suggesting both a range of possible state responses to Garcia and a variety of approaches to constitutional reform through the process of constitutional amendment.
The Condition of American Federalism. The second volume of the Commission's twenty-fifth anniversary series will also be issued. It contains a report of five regional hearings examining the condition of contemporary federalism. Among the issues which receive particular attention are intergovernmental fiscal relations, such as the use of tax-exempt bonds, and state-local relations seen from the viewpoint of the various actors on the scene.

Annual Publications. In preparation for release in the early part of the year are the Commission's two annual publications on fiscal federalism: Significant Feature of Fiscal Federalism, and the most recent update of the Representative Tax System, Tax Capacity of the Fifty States, 1983. In the spring, the Commission will again conduct its annual poll on public opinion on government and taxes, and issue a report on its findings during the year.

THE RESEARCH PROGRAM

Members of the Commission unanimously adopted an ambitious three-year research program at their March 1985 meeting in Washington. Based on recommendations of a special subcommittee chaired by Pennsylvania Governor Dick Thornburgh, the agenda encompasses a broad range of intergovernmental issues, with special thematic emphasis on state-local relations, and the basic concepts of local governance and federalism.

The eight-part research agenda includes topics ranging from the role of the national judiciary in the federal government to issues of local service delivery. The full research agenda includes:
Judicial federalism. Taking a broad perspective, research will consider the changing role of the Supreme Court as the "arbiter of federalism" and the protector of Constitutional rights, and examine the impact of court decisions and other judicial actions on intergovernmental mandates and grant administration. Are the courts interpreting the Constitution or writing their own legislation? Can any general principles be offered to guide the role of the judiciary in intergovernmental affairs?

Federal preemption. State and local officials frequently have complained that the involvement of the national government in new areas of activity often has had the effect—and frequently the intent as well—of preempting state-local discretionary authority. The focus of this study will be on three areas: where the federal government totally has excluded the states from regulating in a particular area; where federal and state governments have separate and distinct spheres of authority carved out within a given field; and where the federal government guarantees certain absolute or minimum standards, but encourages or compels the states to act as agents or partners to enforce or implement the same or similar standards.
"Rethinking local self-government. This broadly-defined project will establish a framework to consider the potentials, capabilities, and limitations of local governments and local self-governance. Despite declining intergovernmental support and the existence of hardpressed local tax bases, citizens' service demands have not abated, leading to calls for more local initiative and self-help. Viewing localities as "limited political economies" emphasizes both their capabilities and their limitations, and the research will assess whether this perspective can help explore certain local problems of intergovernmental significance. The project, for example, will explore local actions aimed at economic development and stabilization, long considered the province of the national government.

Alternative approaches to providing local public services. Another broad topic of research relating to local government and local self-reliance, this study will examine the use of innovative means of local service financing and delivery, such as levying user charges and private sector contracting. The study will build upon the Commission's earlier work in the area of interlocal service arrangements, and examine the role of intergovernmental regulations in the implementation of these arrangements.

Reform of means-tested welfare programs. There are over 70 federal grant programs with benefits conditioned on
income. Many of the programs are controversial and difficult to administer. This research will consider ways to achieve a more efficient welfare system, recognizing past resistance to comprehensive change and the intergovernmental character of existing financing arrangements.

* Intergovernmental aid formulas. An examination of intergovernmental grant formulas is particularly timely in a period when federal grants are shrinking and communities are turning more and more to their state legislatures for aid. This project will examine existing and alternative grant formulas, and suggest how allocation formulas can best achieve program goals.

* Fiscal discipline. At a time of $200 billion federal budget deficits, it is useful to compare state and local budgetary controls with those at the federal level. For example, all states but one (Vermont) are restrained from running a deficit, either by constitution or statute. Moreover, most governors have the power to veto line items in budget bills. What causes federal deficits? Can those instruments of fiscal discipline that constrain state-local taxing and spending be applied at the national level? A comprehensive view of the instruments, circumstances and even the philosophies of government associated
with fiscal discipline may cast a new light on the federal deficit problem.

Federal income tax reform. Several proposals are being discussed that would reform the federal tax on personal incomes and, indirectly, would influence state and local abilities to tax. Such proposals (including that of the Reagan Administration) would lower marginal tax rates by eliminating or restricting specific items of tax preference. In several proposals, those taxpayers who itemize their deductions could not deduct their tax payments to states and localities. This change could increase the effective "price" of state-local taxation, also eliminating a federal tax feature that may serve to mute interstate tax competition. The state-by-state consequences of the alternative reform proposals will be examined, both for each state's tax revenues in the aggregate and for particular taxpayers' income categories.

In addition to the topics on the eight-part research agenda, at its December 1985 meeting the Commission instructed its staff to provide assistance to the newly-created Commission on Rural America. The ACIR staff will assist this Commission by examining the impact of the agricultural recession on state and local governments.
OTHER ACTIVITIES

Communications. Bringing ACIR recommendations to the attention of appropriate parties encompasses a broad spectrum of activities: disseminating reports, responding to requests for information and assistance, monitoring current events, offering testimony before legislative committees and study commissions, press releases, and working with policymakers in specific jurisdictions. Commissioners and staff also participated in meetings of state and local associations and professional organizations. In most instances, ACIR representatives made presentations and served as resource persons. In addition, staff members visited a number of states to confer with policymakers on issues and developments of mutual interest. This "networking" is an effective means of informing officials--particularly newly elected or appointed ones--of ACIR and its work.

Significant intergovernmental developments throughout the country are followed by ACIR staff and reported regularly in the "Intergovernmental Focus" section of Intergovernmental Perspective. ACIR and its work are regularly quoted in the mass media and specialized journals. During 1985, ACIR received mention in over 829 newspaper articles.

State ACIRs. Interest in state-level ACIRs and comparable agencies continued to grow during the year. When the Commission recommended that states establish these counterpart agencies 12 years ago, there were only four state ACIRs in operation. In 1985, two more states created a commission (Missouri and Vermont). By year's end, 24 states had an intergovernmental counterpart agency, 15 of which are patterned after the national ACIR model. Nearly a dozen more states had a state ACIR proposal under consideration.
As the interest in state ACIRs and similar agencies has increased, so have the partnership and network grown between and among the state panels and the national ACIR. In 1983, ACIR sponsored the first national meeting of the state-level advisory groups in Charleston, South Carolina. In response to the success of that session, a subsequent meeting was held in Phoenix, Arizona in 1984, and in Washington, D.C. in 1985. The Commission has made the state panels' program a part of its regular Spring business meeting.

The first state-organized meeting of the counterpart agencies was hosted by the New York State-Local Commission in September 1985. The primary topics of the two-day conference in Albany included state aid, local fiscal capacity computer software and data bases, state mandates, and tort liability.

These gatherings provide opportunities for the states and the national ACIR to exchange information and ideas, and to discuss current work programs. Plans already are underway for similar meetings during 1986.

**Hearings.** At its September 20 meeting, the Commission voted to conduct a series of regional hearings to solicit a range of views on two important issues with important federalism and intergovernmental consequences: the constitutional implications of the Supreme Court's decision in *Garcia v. San Antonio Metropolitan Transit Authority*, and the question of revenue and responsibility turnbacks to state and local governments. Three hearings were held during the months of October and November in Salem (Oregon), Philadelphia (Pennsylvania), and Chicago (Illinois), involving 11 Commissioners or their representatives and a broad cross-
A Promising Trend - The Growing Number of State ACIR Counterpart Agencies

1974 - 1985

*Connecticut  *Florida  Illinois  *Iowa  Louisiana  Maine

*Maryland  *Massachusetts  Michigan  *Minnesota  *Missouri  *New Jersey

New Mexico  New York  *North Carolina  *Ohio  *Pennsylvania  *South Carolina

South Dakota  *Tennessee  *Texas  *Vermont  Virginia  *Washington

*National ACIR model
section of state, local and federal officials, academicians, and public
interest, research and community organizations.

Garcia. The Garcia decision prompted considerable discussion and
controversy within the intergovernmental community during the year.
Although amendments to the Fair Labor Standards Act were approved by the
Congress to help ameliorate the fiscal impact on state and local govern-
ments of the Court's decision in Garcia, fundamental federalism questions
remain which go well beyond the immediate fiscal and budgetary effects.

Central to these concerns is whether state autonomy has been
sacrificed to national expedience. Participants at each of the three
hearings discussed a range of state responses (including litigation,
greater influence in the national legislative process, and resistance),
as well as amending the U.S. Constitution to address such issues as
explicit criteria for determining the limits of congressional power
vis-a-vis the states, restructuring the national political process, and
prohibitions against congressional actions which displace state powers.

Turnbacks. Throughout its 26-year history, the Commission has
examined a number of ways to achieve greater decentralization, including
the use of block grants and revenue sharing. Revenue and responsibility
turnbacks to state and local governments, especially during times of
excessively high federal budget deficits, provide yet another alternative
method to achieving greater political and fiscal decentralization.
Hearing participants discussed such matters as the fiscal capacity of
state and local governments to accommodate devolution of responsibility
and authority; the transition to devolution; and questions of political
feasibility.
The lessons learned from these three hearings were incorporated into the final reports on both issues which were reviewed and approved by the Commission at its December 4 meeting.
PARTICIPANTS IN REGIONAL ROUNDTABLES
(for Garcia and Turnbacks)

Salem (Oregon) Roundtable, October 2, 1985

Gwen Van Den Bosch, Mayor, Dallas, Oregon
Mary McCauley Burrows, Member, Oregon House of Representatives
Paget Engen, Staff Member, League of Oregon Cities
Randall Franke, Board of Commissioners, Marion County, Oregon
Elvern Hall, Mayor of Newberg, Oregon
John Horsley, Board of Commissioners, Kitsap County, Washington
Jerry Justice, Administrative Officer, Clackamas County, Oregon
Jerry Martin, Staff Member, Oregon School Boards Association
Wes Myllenbeck, Chairman, Board of Commissioners, Washington County, Oregon
Jerry Orrick, Executive Director, Association of Oregon Counties
Ken Roudybush, Administrative Officer, Marion County, Oregon
Ken Tollenaar, Director, Bureau of Governmental Research and Service, University of Oregon
Dick Townsend, Acting Executive Director, League of Oregon Cities

Philadelphia Roundtable, October 16, 1985

Edwin Baker, University of Pennsylvania Law School
Michael Bird, Staff Director, Government Operations and Regulation Committee, National Conference of State Legislatures
Robert Connor, New Jersey Civil Service Commission
Chris Danilo, New Jersey Civil Service Commission
Curt Kiser, State Senator, Clearwater, Florida
Austin Lee, Executive Director, Bipartisan Management Committee, House of Representatives, State of Pennsylvania

Ed Koc, Research Associate, Pennsylvania Economy League, Eastern Division

Jim Nelligan, Deputy Secretary of Revenue, State of Pennsylvania

Rose Swanger, County Commissioner, Lebanon, Pennsylvania

Jeffrey Teitz, State Representative, State of Rhode Island

Robert Thompson, Chairman, Board of Commissioners, Chester County, Pennsylvania

William D. Valente, Villanova University Law School

Paul Violette, Senate Majority Leader, State of Maine

Dave Wynne, Pennsylvania Economy League

Chicago Roundtable, November 4, 1985

John Amberger, Southeast Michigan Council of Governments

Roland W. Burris, Comptroller, State of Illinois

Henry N. Butler, University of Chicago Law School

Jeffrey Esser, Government Finance Officers Association

Jim Frech, Washington Office, Illinois General Assembly

Donald Haider, Kellogg School of Management, Northwestern University

Douglas W. Kmiec, University of Notre Dame Law School

Earl Mackey, Executive Director, National Conference of State Legislatures

John Martin, Speaker, Maine House of Representatives

Paul McCarron, Chairman, Minnesota Governor's Advisory Council on State-Local Relations

Robert E. Merriam, Chicago, Illinois

Frank Miller, Chairman, Board of Supervisors, Kane County, Illinois
Lloyd Omdahl, Bureau of Governmental Affairs, University of North Dakota

Vincent Ostrom, Department of Political Science, Indiana University

Ivan L. Schraeder, Director of Labor Relations, State of Missouri

Thomas Solberg, Bureau of Local Government Services, Wisconsin Department of Revenue

Mary Eleanor Wall, Elmhurst, Illinois

Richard S. Williamson, Chicago, Illinois
Appendix B

December 31, 1985

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

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

Members of the United States Senate
David Durenberger, Minnesota (Rep.)
William V. Roth, Jr., Delaware (Rep.)
James R. Sasser, Tennessee (Dem.)

Members of the U.S. House of Representatives
Sander M. Levin, Michigan (Dem.)
Robert S. Walker, Pennsylvania (Rep.)
Theodore S. Weiss, New York (Dem.)

Officers of the Executive Branch, Federal Government
William E. Brock, III, Secretary, U.S. Department of Labor (Rep.)
Mitchell E. Daniels, Jr., Assistant to the President
for Political and Governmental Affairs (Rep.)
Edwin Meese, III, Attorney General, U.S. Department of Justice (Rep.)

Governors
John Carlin, Kansas (Dem.)
Ted Schwinden, Montana (Dem.)
John H. Sununu, VICE CHAIRMAN, New Hampshire (Rep.)
Richard L. Thornburgh, Pennsylvania (Rep.)

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

State Legislators
John T. Bragg, Deputy Speaker, Tennessee House of Representatives (Dem.)
Ross O. Doyen, Kansas State Senate (Rep.)
David E. Nething, Majority Leader, North Dakota State Senate (Rep.)

Elected County Officials
Gilbert Barrett, Chairman of the Board, Dougherty County, Georgia (Dem.)
Philip B. Elfstrom, Commissioner, Kane County, Illinois (Rep.)
Sandra R. Smooley, Supervisor, Sacramento County, California (Rep.)
Appendix C

ACIR PERMANENT STAFF AS OF DECEMBER 31, 1985

Shannon, F. John (Executive Director)
Hunter, Lawrence A. (Research Director)
Gleason, Robert R., Jr. (Director, Communications and Publications)

Anderson, Gary M. (Analyst)
Bunn, Elizabeth A. (Secretary)
Calkins, Susannah E. (Senior Analyst)
Dominguez, Mary A. (Secretary)
Fried, Esther (Personnel Officer)
Hahn, Thomas D. (Accountant)
Jones, MacArthur C. (Duplicating Machine Operator)
Kirkwood, Karen L. (Staff Assistant)
Lawson, Michael W. (Analyst)
Lynch, Carolyn D. (Analyst)
McDowell, Bruce D. (Executive Assistant to the Executive Director)
McManus, Kelly A. (Information Officer)
McPhaul, Anita J. (Secretary)
Menchik, Mark D. (Senior Analyst)
Oakerson, Ronald J. (Senior Analyst)
O'Bier, Lori A. (Secretary)
Phillips, Ruthamea A. (Administrative Assistant)
Roberts, Jane F. (Assistant Director, Communications and Publications)
Rollocks, Cynthia R. (Receptionist)
Ross, Ronald L. (Mail Room Supervisor)
Sawicky, Max B. (Analyst)
Steinko, Franklin A., Jr. (Budget and Management Officer)
Wallin, Bruce A. (Senior Analyst)
ORGANIZATION AND FINANCIAL SUPPORT

The Commission is keenly aware of the need for tight budgetary constraints. Its budget requests for fiscal years 1986 and 1987 were submitted within the limits of OMB's long-range planning guidelines, and expenditure controls have been tightened even further in anticipation of further cuts under the Gramm-Rudman-Hollings legislation.

The Commission's tradition has been to stay small. Even with specially mandated studies for Congress in the 1970s, the regular staff never exceeded 37. The permanent staff at the end of 1985 numbered 27 (seven below the authorized level), four fewer than at the end of 1984.

As efforts to control the federal deficit gained strength during 1985, Congress reemphasized to ACIR (in the House Appropriations Committee report) the need to increase financial contributions from the states. The combination of these events focused new attention on the Commission's budget process.

With adoption of a new set of Bylaws on September 20, 1985, the Commission provided a direct role for itself in the budget process. At the meeting on December 4, 1985, Chairman Robert Hawkins appointed a Budget Committee consisting of himself, State Senator Doyen of Kansas (who will chair the Budget Committee), Mayor Riley of Charleston, S.C., and Commissioner Dwight of Washington, D.C.

To assist the Budget Committee in responding to the current cutback situation, the staff has compiled ACIR's expenditure, personnel, and
revenue histories. The findings of these analyses may be summarized as follows:

- In addition to its regular appropriation, ACIR has received—at one time or another—revenues from federal agency project grants, foundation project grants, state contributions, local government contributions, sales of publications and other products, reimbursements for staff travel expenses, speaker honorariums, and contract services payments.

- Increasing facilities costs (including rent, telephone, postage, ADP maintenance and the like) have tended to squeeze program expenditures—despite three substantial reductions in the amount of office space and postage use within the past three years and other cost control initiatives over the past decade. Changes in federal policies in the mid-1970’s, requiring the Commission to pay commercial rates for rent and postage, plus continuing inflation in all federal charges, have not been offset, except in the initial year, by increased federal appropriations.

- ACIR revenues peaked in 1978, and have begun a downward trend in constant dollars. The prospects for our regular federal appropriations in the next few years are for continuing decline as the nation becomes more serious about deficit reduction.
Consequently, the size of ACIR's staff has decreased and so has the quantity of publications being disseminated. Like revenues, ACIR's personnel levels peaked in the late 1970's and have declined since. From a peak of 37 full-time permanent employees, the regular staff dropped to 27 by the end of 1985. The peak of 13 full-time equivalents in temporary and contractual employees dropped to three in 1985. At the same time, the typical press run for an ACIR report dropped from 8,000 or 10,000 copies in the past to 3,000 or 4,000 in 1985. And the number of reports published decreased from a peak of 25 per year, a few years ago, to 12 in 1985—five of which were policy reports adopted by the Commission.

Supplemental funding of specific ACIR projects, over and above the Commission's regular congressional appropriation, peaked dramatically several years ago, and dropped off to zero by the end of 1985. Funding from private foundations peaked between 1968 and 1972, while federal agency funding peaked during the 1970's.

State contributions to ACIR are strictly voluntary, and provided revenues equal to about 3% of the Commission's federal appropriation in 1985. In constant dollars, this source of revenue peaked briefly in 1970 and dropped off dramatically by the mid 1970s.
Then it came back to a relatively high and consistent level during the 1980s—under continued prodding from Congress. In the last three years, 32-34 states have been contributing on a regular basis.

A few local governments contributed on a voluntary basis in the years 1970-1973. The peak came in 1973 when five localities contributed a total of $2,250. There have been no local contributions since then.

These trends are creating mounting pressures to consider shifting ACIR revenues more toward entrepreneurial sources, rather than relying chiefly upon the regular appropriations process, and to continue pursuing productivity improvements. The Budget Committee is exploring a wide range of options for diversifying the Commission's revenue sources.

Meanwhile, the staff has become very cost conscious. ACIR was able to hold the line on its 1987 budget request (submitted to OMB in 1985) because of the following belt-tightening efforts:

* **Permanent Staff Reduction and Increased Use of Contractors.** The permanent staff costs of ACIR approximated 62% of total appropriated funds in FY 1984. In an effort to better utilize these appropriated funds, a decision was made to hire "life-of-project" contractors (individuals or firms) rather than permanent staff to reduce overall personnel, employment advertising and search, and other "start-up" costs. While this reduced personnel costs by about $170,000 in FY 1985, there
was a corresponding $99,000 increase in other services (contractor product). This reallocation of resources netted ACIR approximately $48,000, and is being continued.

* **Space.** In compliance with Reform 88 initiatives to reduce overall federal office space utilization and coincident with the reduction in permanent staff, ACIR reduced its office space in 1985 by 1,000 square feet, the third year in a row that office space was reduced. This will reduce the annual charge from GSA, on a constant dollar basis, by approximately $18,000.

* **Library Facilities.** In 1985 ACIR reached an agreement with the George Washington University Library which will, over two years, reduce ACIR's library charges by about $10,000. In essence, ACIR staff will have access to the library, xerography capabilities, and computer on-line services on a fee basis. Annual savings are expected to continue.

* **Printing and Reproduction.** Various initiatives have been undertaken in this area because it encompasses the largest category of discretionary funds in the Commission's appropriation.

1) The print shop, in accordance with a Grace Commission recommendation was phased out in 1985 in favor of relying upon the Government Printing Office's
Printing Office's Rapid Response Center or GPO-initiated commercial contracts.

2) ACIR has automated most its office operations over the past few years, and decided in 1985 to use its computers and word processing equipment to produce "camera-ready" copy for printing of certain reports rather than incur the time and monetary costs of typesetting.

3) A marketing program for ACIR publications was initiated in 1985 to make most effective use of the limited quantities of each report to be printed and to help recapture some of the printing and distribution costs.

These changes are expected to effect savings over the next few years of approximately $50,000 per annum.

ACIR expects that these savings will offset increases mandated by the General Services Administration (for rent, federal intercity telephone service, switchboard service, protective services, etc.), the U.S. Postal Service, U.S. Public Health Service, and the U.S. Government Printing Office. The Commission's 25-year record of remaining small and frugal while maintaining its vitality and high productivity is continuing.
Appendix E

SALARIES AND EXPENSES STATEMENT
(in thousands)

<table>
<thead>
<tr>
<th>Object Classification</th>
<th>FY 1985 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel Compensation</td>
<td>$1,105</td>
</tr>
<tr>
<td>Personnel Benefits</td>
<td>129</td>
</tr>
<tr>
<td>Travel and Transportation of Persons</td>
<td>68</td>
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<tr>
<td>Transportation of Things</td>
<td>9</td>
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<tr>
<td>Standard Level User Charges</td>
<td>253</td>
</tr>
<tr>
<td>Communications, Utilities &amp; Other Rent</td>
<td>111</td>
</tr>
<tr>
<td>Printing and Reproduction</td>
<td>63</td>
</tr>
<tr>
<td>Other Services</td>
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</tr>
<tr>
<td>Supplies and Materials</td>
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</tr>
<tr>
<td>Equipment</td>
<td>54</td>
</tr>
<tr>
<td><strong>Total Obligations</strong></td>
<td><strong>$2,375</strong></td>
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