25th Annual Report
ACIR: THE YEAR IN REVIEW
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Although the Reagan Administration's "Big Swap" New Federalism proposal was placed on the legislative backburner during 1983, a kind of "de facto new federalism" was taking hold across the country. Instead of anticipating a massive infusion of new aid programs from Washington, most states and localities emphasized self-reliance to weather the recession and the service reductions and readjustments it induced. By the end of the year, state-local fiscal discipline was showing results, prompting a cautious optimism among those concerned about the future effectiveness of our federal system.

OVERVIEW

Decentralizing trends evident in 1983 tapped themes recurrent throughout the history and work of the Advisory Commission on Intergovernmental Relations. In past years, although many doubted the states' ability to perform their varied tasks in modern times, the Commission doggedly tracked their progress and looked for new ways to improve state institutions and procedures. ACIR's latest research, The States Transformed: Expanded Roles, New Capabilities, shows that today's states are more representative, more responsive, more activist and more professional in their operations than ever before. Following its review of this study in 1983, the Commission found that states are in reality as well as by constitutional design "pivotal actors in our federal system."
Improved state governance does not, however, assure future effectiveness. The Commission therefore called upon state leaders to recognize that their leadership is necessary "if future public policy challenges are to be successfully surmounted." Among the most important challenges likely to face states in the years ahead is their role in helping communities, people, and businesses in need. Capping a four-year study on the States and Distressed Communities, the Commission in December of last year urged the states to take a careful look at coordinating programs and targeting assistance to those people and places that need them the most. The Commission recognized that since 1980 when it first began this study, the nature and extent of distress had changed. Structural changes in the economy have caused distress where once it did not exist. Recession has deepened problems in already troubled communities. Declining federal assistance for economic development gives states additional impetus to address the multifaceted problems associated with distress, such as plant closings and worker displacement. (See section on completed work for a fuller discussion of ACIR's recommendations.)

Although much of the Commission's attention and work throughout 1983 were concerned with the states and their relationships with local governments, the federal government's role and activities were not ignored. ACIR strongly reaffirmed its support for the General Revenue Sharing (GRS) program and called upon Congress to restore state participation, to make
the program permanent, and to compensate for the amount lost due to inflation. ACIR staff members were asked to explain how the Representative Tax System, a comprehensive measure of state tax capacity, could replace the per capita income measure of state tax wealth currently in the GRS formula. Congress did not make the substitution but called upon the U.S. Treasury Department, in consultation with the ACIR, to examine possible use of the RTS measure in future reauthorizations of the program.

It was just as important for the Commission in 1983 to say what Congress should not do as it was to say what actions were desirable. Specifically, the Commission participated in a special review of the issues surrounding state use of the unitary tax that was chaired by the Secretary of the Treasury. The ACIR contended that such use should not be legislatively restricted by Congress. Also, heeding its own call that federal intergovernmental regulations be less intrusive and more flexible, the Commission worked closely with members of Congress to develop legislation implementing these ideas.

Large and growing federal deficits undoubtedly shaped the Commission's, as well as the nation's, views on increased federal spending. In its review of alternative financing methods for building, repairing, and maintaining the nation's public physical infrastructure, the Commission could not envision large, new federal intergovernmental programs. Instead, the Commission said that the "infrastructure problem," although serious, was
probably manageable using existing financing mechanisms and that additional new monies for capital facilities would have to come primarily from state or local sources, at least for the next few years.

The Commission constantly tries to promote balance in our federal system. Because power has gravitated to the national level over the past 20 years, the current trend toward decentralization can be seen as salutary. Caveats remain, however. As the "umpire" of the federal system, the courts' role is critical. For that reason, the ACIR paid considerable attention to the judiciary as it dealt with such issues as establishing standards for local jails, setting wage and hour rules for mass transit workers, local governments' exposure to federal antitrust laws and maintaining an overall balance under the Constitution. Each of these topics will be discussed in later sections.

In addition, 1983 was a year when the Commission undertook major new research projects. As the section on current work reports, eight new research studies were begun this past year with scheduled completion dates in 1984. These studies range from examining broad trends -- as in the nationalization of political parties or local revenue diversification -- to highly specific topics on, for example, municipal financial emergencies.

The ACIR Approach

ACIR is a 26-member national, bipartisan body established by Congress in 1958 to monitor the intergovernmental system and to make recommendations
for change. Because it represents the executive and legislative branches of all three levels of government and because of its status as a permanent, independent commission, ACIR can encourage and assist executive and legislative branches of federal, state, and local governments to consider and implement its recommendations.

The work of the Commission flows in three stages: staff research undertaken at the direction of the Commission; policymaking by the Commission; and, efforts by the Commission and its staff to get the Commission’s policy recommendations adopted by others.

The Commission determines its own research 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 selected, staff gathers information by a variety of methods including library research, commission hearings, special 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 minimize errors of omission or bias in the draft prepared for the Commission. 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 associations.
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 widely disseminated, appropriate recommendations are translated into draft state legislation or Congressional bills, and implementation work proceeds.

The Commission recognizes that, as a permanent body, its mandate is not merely to study the operations of the federal system, but to seek to improve them. The Commission believes that it should be measured largely by its actual achievements in bringing about improvements in the relationship between the national, state, and local governments. For that reason, it devotes a significant share of its resources to encouraging and facilitating consideration of its recommendations by governments at all levels, using draft legislation proposals, technical assistance, and other implementation techniques.

**Completed Work**

In 1983 the Commission completed work on five major research projects: the states' role; state aid to distressed communities; financing public physical infrastructure; local jails; and state taxation of multinational corporations. In addition, the Commission completed work on various aspects of constitutional and judicial federalism including a review of the issues surrounding a pending Supreme Court case, a seminar on constitutional
change, and monitoring of other legal developments as they relate to federalism.

The States' Role. The States Transformed: Expanded Roles, New Capabilities, ACIR's major study on the states, was substantially completed in 1983 and should be published in 1984. In this work, the Commission carefully documented the pace and extent of state institutional and procedural reform over the last 25 years.

Today's states, the Commission concluded, have as a group streamlined, modernized, and improved the machinery of governance. Although not all have progressed equally, and room for improvement exists in all 50, states have implemented reforms to the point where they can, in general, be termed "transformed." They are now better equipped to assume and fulfill their expanded roles as "middlemen" in the federal system. "The states are," the Commission found, "pivotal actors in our federal system." States now face a variety of new challenges including cutbacks in certain domestic programs, economic change, interstate competition, regulatory shifts, and expanded administrative responsibilities under the new block grants.

To meet these challenges, the ACIR recommended a number of areas where states could play a stronger role. States should take the lead in building better state-local partnerships. State legislatures should direct their attention to matters requiring statewide uniformity and grant localities greater authority over matters requiring judgments of local preferences and needs. Specifically, the Commission said, states should provide adequate funding for the costs of local compliance with state mandates.
In addition, the Commission reiterated its position that states should permit localities to diversify their revenue systems. The Commission also reaffirmed its long-standing belief that state-local tax systems should be equitable, diversified and productive so that they are capable of financing a major portion of state-local expenditure requirements. Further, the Commission urged that state personal and corporate income taxes be indexed to prevent unlegislated tax increases due to inflation-induced "bracket creep."

The Commission also went on record as affirming that education is primarily a state-local function and that it is the responsibility of these governments to structure their school systems. States have the responsibility, however, for ensuring equal educational opportunity.

States additionally bear the responsibility, in the Commission's view, of financing state court costs and the costs incurred by local court systems that are adjudicating state laws.

As part of its review of prior Commission recommendations, the Commission also reaffirmed support for:

- Legislative oversight of federal aid funds;
- Codification, publication and review of state regulations;
- County modernization;
- Reassessing state regulatory and licensing boards and commissions;
- Reducing the use of state boards and commissions for "line agency" functions; and,
Employing user charges when beneficiaries of government services are readily identifiable.

The Commission is expected to continue its review of recommendations regarding state reform and state-local relations through 1984.

State Aid to Distressed Communities. Since 1980, the Commission has been tracking what states are doing to help communities, people, and businesses in need. Based on this research, the Commission in 1983 adopted a series of recommendations on how states can and should alleviate distress. States should develop tailored policies and programs for attracting developers to distressed areas, with special attention to the needs of minority and small businesses. In addition, the Commission urged states to enhance local capabilities, assist neighborhood self-help organizations, provide adequate training and retraining programs for the unemployed, take an innovative approach to housing assistance, and consider fiscal equity when planning or reviewing state aid programs.

Over the years during which the Commission tracked state aid to distressed communities, the federal financial role in assisting distressed communities was reduced. The Commission therefore urged continued attention to "sorting out" fiscal and functional responsibilities among the federal, state, and local levels; and, pending a reappraisal of relative responsibilities, asked that the national government refrain from adding new regulatory mandates to state and local burdens. Concurrently, Congress should allow
states and localities to transfer specified amounts of federal funds between grant programs so they can better meet their needs.

The ACIR disseminated The States and Distressed Communities: The 1982 Report last year; the 1983 report will be ready for publication in 1984. In addition, the Commission prepared draft state legislation implementing its recommendations (see Implementation Activities section).

Financing Public Physical Infrastructure. Prompted by widely publicized concerns about a national "infrastructure crisis," ACIR in 1983 reviewed the research, trends, and surveys about financing public capital facilities. At its December meeting, the Commission found that infrastructure problems, although often serious, are generally manageable using existing financing mechanisms. Coordinated federal, state, and local action can, in many instances, help make existing programs more efficient in renewing infrastructure.

There is, moreover, a growing body of evidence, gathered for the ACIR report, that policymakers at all three levels of government are already taking corrective actions to address many infrastructure needs. Given the pressure to reduce massive federal deficits, however, it is unlikely that the federal government will be in a position to provide states and localities with additional large-scale aid programs for capital facilities. At least for the next few years, the Commission found, most additional funds will probably come from state-local tax sources, user charges, and
bond financing mechanisms. Congress can improve existing federal programs by balancing both capital and maintenance needs, by allowing flexibility in construction standards, and by emphasizing research and development efforts in the infrastructure field.

The Commission report on financing public physical infrastructure will be available for dissemination in 1984.

Local Jails. Local jails are a long-standing concern. Few would dispute that they are often overcrowded, frequently house inappropriate populations and sometimes do not meet basic constitutional standards. In June 1983, Commission members examined the findings from their study, *Jails: Intergovernmental Dimensions of a Local Problem* and recommended actions designed to alleviate the problems many jails continue to endure. Commission members rejected the view that a stronger federal role is the answer to local jail problems. Although the Commission recommended continued federal efforts in the areas of corrections research and development, and in training and technical assistance, members felt that the foundation for solving the local jail crisis lay in a strong state-local partnership. Specifically, the Commission urged the states to alleviate some of the burdens for which local governments have primary responsibility by:

- Adopting guidelines for removing certain populations from local jails when practicable -- for example, the young, the mentally ill and the publicly inebriated are all too often, research reveals, placed in jails for want of other, more appropriate facilities or services;

- Adopting sentencing guidelines based on legislatively-predetermined population maximums in state and local facilities;
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o Fairly compensating localities for housing state prisoners;

o Encouraging localities to make increased use of community-based alternatives for punishing less serious offenders and to expand the use of pretrial release when there is a reasonable expectation that public safety will not be threatened. Also states should enact defendant-based percentage bail laws to ease the financial burden of bail on poor defendants; and,

o Allowing local correctional facilities to contract with private companies so that inmates can produce certain goods and services as long as they do not directly compete with private-sector goods and services.

Fundamentally, the Commission recognized that jails are a local problem and that setting basic standards for jail operations is a local responsibility. Localities should upgrade their jail personnel practices and management where necessary and improve inmate access to educational facilities.

Although an aggressive federal judicial corrections stance is among the newest forces influencing local jails, it is almost without question the most important. In recent years, federal judges have made extremely specific rulings demanding compliance with court-designed plans. ACIR members agreed that the courts' role should be less intrusive and less prescriptive. The Commission stated its belief that federal (and state) courts should confine their role to ensuring that appropriate legislative and executive officers produce reasonable plans for correcting constitutional violations. In consultation with local officials, states should, if they have not already done so, set standards to ensure the basic
constitutional rights of inmates. Finally, where lacking, states should establish state correctional commissions to develop comprehensive policies.

In 1983, the ACIR issued an executive summary of its research on local jails. The complete study will be released in 1984.

Constitutional and judicial federalism. Because the basic legal precepts underlying our federal system are continually interpreted and reinterpreted by the federal judiciary, the ACIR devotes considerable time to examining the role of the Supreme Court in shaping modern federalism. Last May, the Commission convened a meeting of some ACIR members and some leading constitutional lawyers and scholars to explore the question: What, if anything, needs to be changed either constitutionally, judicially, or politically to restore a better balance between levels of government? The day-long meeting, chaired by Arizona Governor Bruce Babbitt, produced a significant discourse on federalism, an edited version of which was published in the Summer issue of Intergovernmental Perspective.

Central to any discussion of judicial federalism is the landmark case, National League of Cities v. Usery (1976), in which the Supreme Court decided that commerce clause-based national regulatory forays into some traditional state or local functions were unconstitutional. In 1983, the Commission looked at a pending Supreme Court case that will again test what has come to be known as the NLC doctrine. The case involves the applying the federal Fair Labor Standards Act, the subject of NLC, to public
mass transit workers. The ACIR went on record again last year in favor of rescinding the Department of Labor's regulations that classify 10 state and local functions as "nontraditional" and therefore subject to FLSA wage and hour provisions. Also, the Commission again called upon the Court to revive and expand upon the principles expressed in NLC. The mass transit case could, in the Commission's view, provide the Court with an opportunity to conduct such a review. These recommendations were first adopted in 1982 as part of the Commission's study on regulatory federalism. The Commission's executive summary of this report, including recommendations, was issued in 1983.

The Commission also grappled with the results of another Supreme Court decision, Community Communications Co., Inc. v. City of Boulder (1982), the decision that more fully exposed cities to federal antitrust laws. In 1983, the Commission reviewed the ramifications of this decision but did not make policy recommendations (see Implementation Activities Section).

State Taxation of Multinational Corporations. Judicial federalism also related directly to another aspect of the Commission's work. Last spring the Commission's report on State Taxation of Multinational Corporations recommended a "hands off" federal role in state use of the unitary tax. Shortly thereafter, the Supreme Court handed down its decision in Container Corporation of America v. The Franchise Tax Board in which the Court upheld California's use of the unitary worldwide corporate tax methodology.
ACIR's research on this subject was issued in 1983, but activities to head off restrictive federal legislation continue, as described in the following Section.

**Implementation Activities**

The Commission's policy implementation section encourages governments at all levels to implement ACIR recommendations through both legislative and administrative actions. At the national level, implementation activity includes monitoring intergovernmental policy decisions and transmitting Commission recommendations to appropriate legislative and administrative decisionmakers through testimony, formal and informal briefings, and draft legislation. At the state and local level, the implementation unit provides technical assistance, distributes Commission publications and maintains a monitoring network within the 50 states. ACIR recommendations for state action also are translated into suggested legislative language for consideration by state legislators. In addition to its information gathering and technical assistance roles, the implementation section frequently undertakes short-term study projects dealing with topical intergovernmental issues.

Although the majority of these efforts are the responsibility of the policy implementation section, the research staff as well as the Executive Director, the Chairman, and Commission members participate to varying
degrees in implementation efforts. All these activities during 1983 are summarized below.

In the fall of last year, the Commission formed a committee charged with directing and assisting implementation activities. Chaired by Governor Matheson, members include ACIR Chair Robert B. Hawkins, State Senator David E. Nething, County Board Chairman Gilbert Barrett, and White House Assistant for Intergovernmental Affairs Lee Verstandig and Mayor James Inhofe. The Committee will review recommendations to the states and will be active in representing Commission views in 1984.

Federal Relations. Commission recommendations for changes at the national level are transmitted to the Congress, the President, and the heads of federal departments and agencies as appropriate. This dissemination is frequently followed by Congressional or executive requests for additional ACIR involvement. Commission members and staff members testified before or prepared written comments for Congressional committees in 1983 on the reauthorization of General Revenue Sharing, intergovernmental regulation, entitlement programs, financial management of grant programs, and other areas of ACIR interest and expertise.

--- General Revenue Sharing. In testimony before the House Subcommittee on Intergovernmental Relations on March 16, ACIR Chairman Robert B. Hawkins, Jr. told members of the Commission's recent reaffirmation of support for the General Revenue Sharing program. Earlier in March, ACIR renewed its longstanding support for GRS and said that the program should be made permanent and that the states' share should be restored.
ACIR Assistant Director John Shannon outlined the Commission's position before the Senate Subcommittee on Intergovernmental Relations on April 6. Shannon emphasized that the Commission had not recommended any basic changes to the GRS formula. In response to questions from many Senators, Shannon explained that the representative tax system, a yardstick used by the Commission for measuring fiscal capacity and tax effort, is more comprehensive than the more commonly used per capita income measure. Although Congress did not substitute the representative tax system for per capita income in the GRS formula, the reauthorization did request a study of the current allocation formula and alternatives to it. The Secretary of the Treasury, in consultation with ACIR and others, will conduct the study.

-- Entitlement Programs. On October 4, Executive Director S. Kenneth Howard testified before the Congressional Task Force on Entitlements and Human Assistance Programs. His statement emphasized the financial and administrative difficulties state and local governments encounter in implementing entitlement programs. Particularly troublesome from a state point of view are sharp program changes that are made without adequate notification or consultation as well as inconsistent or inequitable standards and legal interpretations. Congress can help, he noted, by providing states with adequate notice before making major program changes. He also encouraged clarifying national rules and providing adequate consultation with state and local officials before new regulations are promulgated.
Federal Intergovernmental Regulation. Pursuant to the Commission's regulatory reform agenda, adopted in 1982 and published in 1983, the ACIR continued its efforts to make federal intergovernmental regulation more effective and less intrusive. At the request of Senator Durenberger's office, ACIR staff members have drafted legislation incorporating many of the Commission's recommendations concerning regulatory federalism. Of particular interest are provisions that would involve state and local officials in federal rulemaking processes, reduce federal intrusiveness through conditions attached to individual federal aid programs, require regulatory impact analyses of proposed rules affecting state and local governments, and compensate or reimburse state and local units for additional direct costs imposed upon them by federal statutes and rules. The Senate Subcommittee on Intergovernmental Relations, chaired by Senator Durenberger, is expected to hold hearings on intergovernmental regulatory reform early in 1984.

State Taxation of Multinational Corporations. As a follow-up to its study released last spring, State Taxation of Multinational Corporations, the Commission continued to oppose federal legislation restricting state use of the unitary tax. Although the Supreme Court upheld California's use of the unitary tax (in Container Corporation of America v. Franchise Tax Board), opponents of the unitary tax continued to ask the Court to rehear the Container case and to push for restrictive national legislation.
The Reagan Administration rejected the suggestion that it file an amicus brief supporting a petition filed by Container Corporation asking the Court to reheat the case. Instead a working group was appointed to study the issue and recommend changes. That working group includes private citizens and representatives of the federal government, state governments, and the American business community. Three ACIR members were named to the group -- Chairman Robert B. Hawkins, Utah Governor Scott Matheson, and North Dakota State Senate Majority Leader David Nething.

The ACIR has sought to play a conciliatory role in the working group's explorations, seeking to balance the legitimate concerns of both the states and the multinational firms. To this end, Commission representatives have suggested a voluntary approach under which states will be given more detailed tax information than they are currently receiving to make sure that multinational firms pay their fair share on domestic operations so long as states agree to use an arms-length treatment beyond the waters edge to prevent over-taxation on the foreign operations of multinational corporations. Both sides have much to gain by working out a voluntary quid pro quo, and Commission members and the staff will continue to be active on Treasury's Working Group during 1984.  

-- ACIR's Membership. Legislation was introduced in both the House and the Senate in 1983 to expand ACIR's membership. S. 1052 would increase ACIR's membership by two, including an elected officer of a township and
an elected school board member. H.R. 1617 would increase the membership by four, giving representation to school boards, towns and townships, and federal and state judges. S. 1249 and H.R. 2536 would increase the membership by one to include a representative of Indian tribal governments.

On September 14, S. 1052 passed the Senate by voice vote. Similar legislation is now pending in the House Government Operations Committee.

Last May, the Senate Select Committee on Indian Affairs held a hearing on tribal representation on ACIR. There has been no action on the counterpart House bill which is pending in the Intergovernmental Relations and Human Resources Subcommittee.

The Commission has opposed expanding its membership, and has recommended that any new representation, such as towns and townships, be incorporated within the existing 26-member size of the ACIR. In judging individual proposals regarding membership composition, the Commission has consistently applied five criteria:

1. A balance should be maintained among the federal, state and local levels of government.

2. A balance should be maintained among political parties.

3. Governments represented on the Commission should be general purpose, rather than special purpose or single purpose ones.

4. The membership should be largely limited to elected officials of general governments.
5. Governments represented on the Commission should occur in all, or nearly all, states of the nation.

-- Other federal-relations implementation activities. ACIR's views on numerous pieces of pending legislation were requested last year. The Commission provided Congressional committees with its views on such topics as payments-in-lieu-of-taxes, single audit provisions, revisions to OMB Circular A-102, creating a Commission for More Effective Government, and many others.

In addition, the Commission occasionally performs what can only be described as a brokering role. In 1983, this role was manifested in its efforts to devise an acceptable policy on municipal antitrust immunity. The Commission served as a focal point for discussions among the public interest groups representing concerned state and local elected officials. Although the Commission failed to achieve consensus on this controversial topic in 1983, it is expected to continue its deliberations at its March 1984 meeting.

State and Local Relations. Implementing ACIR recommendations directed toward state and local governments encompasses a broad spectrum of activities. As noted previously, the major components of the staff's work include disseminating ACIR reports, responding to requests for information and assistance, monitoring current events, offering testimony before legislative committees and study commissions, and working with policymakers in specific state and local jurisdictions. Given the central constitutional and statutory
positions of the states in the area of state-local relations, and the limited availability of staff, ACIR's work concentrates on the state level, with particular attention directed toward state legislative activities.

The central component of ACIR's state legislative work is its State Legislative Program that incorporates well over 100 draft bills dealing with state and local government structural, financial, and functional activities. These proposals are made available to governors, state legislators, state administrators, local officials, and their advisors. ACIR also distributes these materials to, and seeks support for its recommendations from, various national organizations of state and local officials, state municipal leagues and county associations. In addition, ACIR works with citizens groups, businesses, professional and labor organizations, taxpayers' leagues, bureaus of government research, academic institutions, and other public and private interest groups as appropriate.

-- Monitoring and Implementation. The state-local monitoring and implementation program has four primary goals: providing technical and other assistance to state and local policymakers regarding current legislative and policy issues; discussing current and emerging intergovernmental issues with key executive and legislative branch representatives, and, where practical, with local government officials; expanding ACIR's contacts in the states; and, providing assistance to on-going ACIR research and implementation projects and activities. Because of personnel, time, and financial
constraints, Commission staff members must respond to requests for technical assistance on a "target of opportunity" basis.

A considerable amount of staff time was devoted to attending and participating in meetings of state and local associations and professional organizations. All of the national conferences of the public interest groups were covered, as were many of their regional meetings. In a number of instances, staff members made presentations and served as resource persons. In addition to these meetings, field visits were made to a number of states throughout the year to confer with state and local officials on issues and developments of mutual interest. This "networking" is a major component of a successful state-local monitoring and implementation process, and it 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*. The Winter 1984 issue of *Perspective*, the issue that annually reviews important intergovernmental developments, will discuss: 1983 election results, particularly the results of referenda and initiatives; efforts to strengthen intergovernmental consultation and cooperation; diverse state use of block grant and other federal monies; taxing and spending trends; and, local structural changes.
Block Grant Implementation. ACIR staff members continue to observe block grant implementation, especially how states are allocating block grant funds; the effect of federal aid cuts; procedural and regulatory changes that states make in implementing block grants; and, executive-legislative relations and court decisions.

The nine block grants passed in 1981 and the job training bill adopted in 1982 are important efforts at decentralizing government. States continue to determine the appropriate roles for governors, legislatures, and administrative agencies in allocating scarcer resources among competing interests, in pinpointing intergovernmental issues that need further study, and in resolving conflicts. As federal dollars decline relatively, state legislatures will need to review the limits that have been imposed on local governments' revenue-raising capacity, the fiscal impact of state mandates, and the need for greater autonomy among sub-state governmental units. These issues represent the very core of ACIR's state-local relations agenda.

In 1983, ACIR staff prepared an Information Bulletin on state implementation of the new block grants. This publication will be disseminated in 1984.

State ACIRs. State ACIRs and comparable organizations have become increasingly important vehicles in recent years for discussing and studying state-local issues and for proposing solutions to statewide problems.
Currently, 21 states have a functioning intergovernmental advisory group, 11 of which are patterned after the national ACIR model. In addition, at least 15 other states considered creating a state ACIR during the year.

In conjunction with the Commission's spring meeting, the U.S. ACIR hosted the first nationwide gathering of state intergovernmental advisory groups on March 10, 1983 in Charleston, South Carolina. Twelve state advisory groups participated in the session, as well as representatives from two states interested in creating such a panel and several public interest groups. The meeting was co-hosted by the South Carolina ACIR.

The discussions focused on four main areas: key intergovernmental issues; current work programs; strategies for "success;" and, relationships among the advisory groups.

Representatives from all of the states identified a range of tax and finance issues as key intergovernmental problems in their jurisdictions. Of particular concern were property tax relief, aids to local government (including state revenue sharing), tax and debt limits, local revenue diversification, and tax equity.

Issues related to sorting out functional responsibilities between levels of government and local discretionary authority were cited as major concerns in nearly half of the states represented at the meeting. Annexation and the role of special districts were singled out as special problems within this context.
About a third of the state representatives identified public physical infrastructure needs and funding, state mandates, and block grant implementation as important issues. Also mentioned were solid and hazardous waste management, regionalism, state regulations, economic development and growth, education, and health care financing.

One of the major needs expressed by participants was developing stronger communications and linkages between and among the state organizations and the U.S. ACIR. Specific suggestions which were offered included more frequent contacts between the state organizations, developing a variety of mutual assistance efforts, and assistance in identifying data and technical resources. In addition, the U.S. ACIR will explore ways to strengthen its state assistance efforts through direct technical services and expanding its clearinghouse activities.

A second national meeting of state advisory panels will be held in early 1984.

**Suggested State Legislation.** As part of its project on state aid to distressed communities, the ACIR is preparing a series of 18 draft bills which interested states can adapt to their needs in helping people, places, and businesses experiencing distress. The draft legislation is based on existing state experience in the five major areas covered in the *States and Distressed Communities* study: housing, economic development, community development, state-local fiscal effort, and enhancing local self-help capabilities. A National Advisory Panel, comprising two state
legislators, two local government officials, and experts in housing, state fiscal policy, and economic development, met several times during 1983 to advise on the project and to review draft bills.

Publications and Presentations

Staff members have participated in national meetings and workshop sessions of the National Governors' Association, National Conference of State Legislatures, National Association of Counties, U.S. Conference of Mayors, and National League of Cities as well as serving as speakers for annual meetings of numerous state organizations representing municipal and county officials.

During 1983, the Commission published four reports, four issues of Intergovernmental Perspective and two "In Briefs." Of the reports, one contained policy recommendations and three were informational. The In Briefs summarized the Commission's work on local jails and regulatory federalism. In addition, the Commission published a Staff Working Paper on Metropolitan Fiscal Capacity and Effort, 1967-1980.

Current and Future Activities

ACIR's current and future research agenda reflects the complexity of our intergovernmental system. The mixture of long- and short-term projects reflects the continuing effort to produce quality, indepth
research while also providing more timely immediate information on inter-
governmental trends and developments.

In 1984, the Commission will issue its research findings and recommen-
dations from five major studies: federal regulation of state and local
governments, the local jail crisis, state roles, financing public physical
infrastructure, and states and distressed communities. Continuing research
expected to near or reach completion this year includes studies on financ-
ing mass transit, strengthening the federal revenue system, local revenue
diversification, nationalizing political institutions, municipal financial
emergencies, interlocal agreements, central city/suburban fiscal disparities
and cigarette bootlegging.

Specific Activities. Tracking intergovernmental fiscal trends contin-
ues to be a high priority for the ACIR. Significant Features of Fiscal
Federalism, the Commission's annual compendium of tables and graphs on
federal, state and local taxing and spending, will be published again
in 1984. Staff will also update the Representative Tax System, the composite
index showing state fiscal capacity. ACIR's poll on public attitudes on
taxes and government spending will be conducted for the 13th consecutive
year, with results issued next fall. Also, the Commission will update
its catalog of federal grant-in-aid programs to reflect changes in grants
since FY 1981.

As has been the case over much of the Commission's history, consider-
able attention will be paid to state governments and their roles in the
federal system. In addition to issuing its major study on the states, and
a number of related reports, the Commission in 1984 will continue to review its past recommendations about the states. Over the years, the ACIR has made some 235 recommendations to the states on aspects of state revenue systems, institutions and procedures, and relationships with localities. Determining which of these recommendations remain relevant and which need to be changed or dropped will remain high priority during 1984. To this end, and in conjunction with an overall review of the Commission's work in preparation for 25th year oversight hearings before Congress, the Commission will conduct a series of hearings across the country on its recommendations, accomplishments and future. The first of these hearings will take place in conjunction with the Commission's March meeting in Phoenix, Arizona.

**Implications for State-Local Governments of Federal Revenue-Strengthening Actions.** The Commission staff continues its major study assessing the implications for state and local governments of efforts to strengthen the federal revenue base. Federal tax changes that might be necessitated by mounting federal deficits could profoundly affect the ability of states and localities to raise revenues and borrow money. Specifically, the study will look at five major aspects of tax interrelationships: (1) the historical record of federal tax preemption; (2) tax exemption of interest on state and local bonds; (3) the deductibility of state and local taxes; (4) the value added tax; and, (5) federal tax expenditures and a consumption tax. The Commission is expected to review staff findings and to consider recommendations at its March meeting.
Nationalizing Trends in American Politics. The Commission is studying how the nationalizing trends in American politics are affecting our federalism. One major concern is the changing role of political parties. Traditionally, decentralized parties were viewed as a major factor in sustaining a decentralized governing system. The study will look at the decline of party influence to determine if and how this development is related to centralizing trends throughout all aspects of public policy. The study will also examine the rise of competing institutions and political processes especially the media and interest groups and will explore the effects of recent changes in campaign financing.

The Commission is expected to consider findings and recommendations from this study at its June meeting.

Financing Mass Transit. As part of a grant funded by the Urban Mass Transit Administration, the Commission surveyed transportation planners, service providers, and local officials in 56 metropolitan areas to determine how they are coping with the fiscal crunch that confronts today's transit industry. The survey revealed little enthusiasm for cutting services and a marked preference for improving productivity and for increasing revenues to make ends meet. The study on financing mass transit, including the survey results, is being prepared for Commission consideration at its June meeting. At that time, alternative recommendations on increasing transit productivity, augmenting revenues, and improving institutional arrangements will be explored.

Municipal Financial Emergencies. In 1973, the Commission issued City
Financial Emergencies: The Intergovernmental Dimension. Since that time, considerable changes have occurred in the financial status of municipalities. In 1983, the Commission staff began updating its previous study to analyze these many changes and to prepare proposed recommendations relevant to the current situation. Research is expected to progress through 1984.

Local revenue diversification. The ACIR has long recommended that states grant localities the authority to diversify their revenue sources and that local governments explore ways of lessening their dependence on the property tax. Preliminary findings of the ACIR local revenue diversification study show that cities, in particular, have reduced their reliance on property taxes dramatically over the past 20 years, and that the property tax has been joined by a host of other revenue sources including local sales and income taxes, interest on earnings, state aid, fees and user charges, selective excise taxes and business licenses and taxes. The study also explores changes in the market for municipal debt and the important question: When should a locality borrow? Publication of this study is anticipated in 1984.

Interlocal agreements. Many local governments have had to make hard and fast decisions about whether or not to eliminate public services or raise taxes. Because neither of these alternatives is attractive, administrative and elected officials have been increasingly looking for more efficient and economical ways to deliver services. ACIR's study examines many of these alternatives: private-public partnerships,
intergovernmental contracts, joint agreements, and transfers of functions. Current Commission research updates and expands earlier work on this subject carried out in the mid-1970s.

Central City-Suburban Fiscal Disparities. ACIR is also updating its work measuring central city-suburban fiscal disparities. This effort will mark the fourth time the Commission has reported on economic, social and fiscal differences between central cities and their surrounding suburbs. An information report evaluating metropolitan areas will be readied for publication in 1984.

Cigarette Bootlegging. Another area the Commission is revisiting is cigarette bootlegging. ACIR issued a report and recommendations on the intergovernmental aspects of the cigarette bootlegging problem in 1977. During 1984, estimated tax losses due to bootlegging operations will be updated. Depending upon the results of this investigation, the need for a uniform cigarette tax rate will be explored.
Private Citizens
Robert B. Hawkins, Jr., CHAIRMAN,
Sacramento, CA (Rep.)
James S. Dwight, Jr., Washington, DC (Rep.)
Kathleen Teague, Washington, DC (Rep.)

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

Members of the U.S. House of Representatives
Barney Frank, Massachusetts (Dem.)
Robert S. Walker, Pennsylvania (Rep.)
Theodore S. Weiss, New York (Dem.)

Officers of the Executive Branch, Federal Government
Samuel R. Pierce, Jr., Secretary of the Department of Housing and Urban Development (Rep.)
Lee L. Verstandig, Assistant to the President for Intergovernmental Affairs (Rep.)
Vacancy

Governors
Lamar Alexander, VICE CHAIRMAN, Tennessee (Rep.)
Bruce E. Babbitt, Arizona (Dem.)
Scott M. Matheson, Utah (Dem.)
Richard L. Thornburgh, Pennsylvania (Rep.)

Mayors
Margaret T. Hance, Phoenix, Arizona (Rep.)
Ferd Harrison, Scotland Neck, North Carolina (Dem.)
James Inhofe, Tulsa, Oklahoma (Rep.)
Joseph P. Riley, Jr., Charleston, S.C. (Dem.)

State Legislators
Ross O. Doyen, President, Kansas State Senate (Rep.)
David E. Nething, Majority Leader, North Dakota State Senate (Rep.)
William F. Passannante, Speaker Pro Temp, New York State Assembly (Dem.)

Elected County Officials
Gilbert Barrett, Chairman of the Board,
Dougherty County, Georgia (Dem.)
William J. Murphy, County Executive,
Rensselaer County, New York (Rep.)
Sandra R. Smoley, President, National Association of Counties, Sacramento, CA (Rep.)
Appendix B

ACIR PERMANENT STAFF AS OF DECEMBER 31, 1983

Howard, S. Kenneth (Executive Director)
Shannon, F. John (Assistant Director)
Walker, David B. (Assistant Director)

Beam, David R. (Senior Analyst)
Becker, Stephanie J. (Information Officer)
Bunn, Elizabeth A. (Secretary)
Calkins, Susannah E. (Senior Analyst)
Colella, Cynthia C. (Senior Analyst)
Conlan, Timothy J. (Analyst)
Dickerson, Dorothy J. (Federal Relations Associate)
Fensterman, Jerold P. (State-Local Relations Associate)
Ficklin, Kandie K. (Secretary)
Fried, Esther (Special Assistant to the Exec. Dir.)
Hahn, Thomas D. (Accountant)
Jones, MacArthur C. (Duplicating Machine Operator)
Kirkwood, Karen L. (Staff Assistant)
Koch, Patricia A. (Librarian)
Lawson, Michael W. (Analyst)
McDowell, Bruce D. (Senior Analyst)
Menchik, Mark David (Senior Analyst)
Nathan, Harolyn D. (Secretary)
Peters, Joan F. (Receptionist)
Phillips, Ruthamae A. (Secretary)
Preston, Arlene (Secretary)
Richter, Albert J. (Senior Analyst)
Roberts, Jane F. (State-Local Relations Associate)
Ross, Ronald L. (Mail Room Supervisor)
Schwalje, Lynn C. (Secretary)
Steinko, Franklin A. (Budget and Management Officer)
Talley, Martha A. (Secretary)
Appendix C

Financial Support

From its inception, the Commission has been financed primarily from Congressional appropriations but has generated some additional income from state or local government contributions and from grants to support specific research or other projects. The Commission received about $265,875 in fiscal 1983 in contributions, honoraria, and reimbursements.

In 1977, ACIR, on the basis of its discussions with the Office of Management and Budget and the House and Senate Appropriations Committees, finalized the reinstatement of its program of soliciting contributions from state governments. The seventh year (1983) of the resumed solicitation program generated 33 state contributions totaling $82,750.

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 specific research projects. The Commission approves the acceptance of all such funds.
Appendix D

Salaries and Expenses Statement (in thousands)

<table>
<thead>
<tr>
<th>Object Classification</th>
<th>FY 1983 Actual</th>
<th>FY 1984 Estimated</th>
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<tbody>
<tr>
<td>Personnel Compensation</td>
<td>$1,073</td>
<td>$1,205</td>
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<tr>
<td>Personnel Benefits</td>
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<td>Benefits for Former Personnel</td>
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<tr>
<td>Travel and Transportation of Persons</td>
<td>64</td>
<td>52</td>
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<tr>
<td>Transportation of Things</td>
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<td>9</td>
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<tr>
<td>Standard Level User Charges</td>
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<td>270</td>
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<tr>
<td>Communications, Utilities &amp; Other Rent</td>
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<td>137</td>
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<tr>
<td>Printing and Reproduction</td>
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<td>76</td>
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<tr>
<td>Other Services</td>
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<td>95</td>
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<tr>
<td>Supplies and Materials</td>
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<tr>
<td>Equipment</td>
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<td><strong>Total Obligations</strong></td>
<td><strong>$1,978</strong></td>
<td><strong>$2,000</strong></td>
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Appendix E

Publications

Reports Published in 1983

A-92 State Taxation of Multinational Corporations
S-12 Changing Public Attitudes on Governments and Taxes
M-136 The States and Distressed Communities: The 1982 Report
B-7 In Brief: Regulatory Federalism: Policy, Process, Impact and Reform
B-8 In Brief: Jails: Intergovernmental Dimensions of a Local Problem

Intergovernmental Perspective, Winter 1983, Vol. 8, No. 4/ Vol. 9, No. 1, "Federalism in 1982: Renewing the Debate"

Intergovernmental Perspective, Spring 1983, Vol. 9, No. 2, "The Regulatory Maze"


Intergovernmental Perspective, Fall 1983, Vol. 9, No. 4, "Local Government Before the Court"
