January 31, 1975

Dear Mr. President:

I have the honor to submit the Sixteenth Annual Report of the Advisory Commission on Intergovernmental Relations, pursuant to Public Law 86-380 which requires the submission of a report on or before January 31st of each year. As provided in the statute, this report also is being transmitted to the Vice President and to the Speaker of the House of Representatives.

Respectfully submitted,

Robert E. Merriam, Chairman
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ACIR: The Year in Review

The work of the Advisory Commission on Intergovernmental Relations in 1974 centered on efforts to identify and suggest remedies for the revenue problems of state and local governments, the structural problems of those units, and the problems of providing services at the state, regional, and local levels. These three goals were pursued through a series of related research efforts and through an expanded effort at publicizing Commission recommendations and providing technical assistance to governments interested in adopting them.

Focusing on state and local revenue, the Commission concluded the first phase of its revenue sharing monitoring project; conducted additional research and surveys and published new studies on the local property tax; encouraged local revenue diversification by reversing an earlier position and calling for adoption of local sales and income taxes; and, at year's end, began a major study of Federal grant programs.

With the awareness that local governments may not be institutionally or geographically able to provide the range of desired services, even if they are fiscally able to do so, the Commission continued its work on local government modernization and substate or regional instrumentations. In February, the Commission adopted the last two reports in its comprehensive six-volume study of substate regionalism dealing with local government reorganization and the performance of functions at the local, regional, and state levels. The Commission also moved to apply the basic principles of its substate regionalism study to immediate, pressing problems. To that end, at its winter meeting the Commission adopted a niné-point program applying some of those principles to the planning, funding, and provision of transportation in metropolitan and rural areas.

Particular attention was also paid in 1974 to encouraging appropriate units of government to adopt Commission recommendations treating the three concerns: strengthening state and local revenue systems, modernizing local governments, and rethinking the distribution of responsibility for the provision of services. Since many of these reforms call for state action as a first priority, ACIR focused its implementation efforts most heavily on the state capitols.

The ACIR Approach

ACIR is a national, bipartisan body established by Congress in 1959 to study points of intergovernmental conflict and tension and to make recommendations for easing them and thereby improving the system. Because of its unique stature as a per-
manent commission, ACIR is able to follow-up on its recommendations, encouraging and assisting the legislative and executive branches of Federal, state, and local governments to implement them.

The work of the Commission flows in three stages: staff research and information gathering at the direction of the Commission; policy making by the Commission; and efforts by both Commission and staff to see that adopted policies are implemented.

Research and Policy Making. The Commission prepares an agenda of topics for study and investigation. Information is gathered by a variety of methods including library research, Commission hearings, staff surveys and field studies.

To assure that all relevant aspects of each study topic 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. “Critics’ sessions” are scheduled near the completion of a project to avoid errors of omission or bias in the draft prepared for the Commission. Participants in these shirt-sleeve sessions usually include representatives of Congressional staffs and appropriate government agencies, spokesmen of public interest groups, members of the academic community, and representatives of relevant civic, labor, and business associations.

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

Implementation

The Commission recognizes that its contribution to strengthening the federal system will be rightfully measured largely by its degree of success in actually fostering significant improvements in the relationships between and among Federal, state, and local governments. Hence, it devotes a significant share of its resources to encouraging the consideration of its recommendations for legislative and administrative action by governments at all levels.

When the Commission makes recommendations for changes at the national level, draft bills are frequently developed for consideration by Congress. Congressional members of the Commission have introduced these measures, which are referred to appropriate committees and considered along with other pending legislation.

Commission recommendations for changes at the national level are transmitted to the Congress, the President, his executive office, or the heads of individual departments and agencies as appropriate. Pursuant to its statutory mandate instruction to “make available technical assistance to the executive and legislative branches of the Federal government in the review of proposed legislation to determine its overall effect on the federal system,” ACIR receives many requests from Congressional committee chairmen, the Office of Management and Budget, and other Federal agencies to review and comment on proposals and pending legislation. If the proposal deals with a subject on which the Commission has taken a policy position, that fact is reported along with the Commission’s supporting arguments. If the Commission has taken no policy position on the subject, that fact is reported. Frequently, when a proposal would have a significant impact on intergovernmental relations, and when there is sufficient guidance from Commission recommendations on related matters, staff comments are offered clearly labeled “Staff Comments.”
The ACIR staff also receives frequent requests from Congressional committees and executive agencies to advise and assist in the development of proposals that would implement Commission recommendations for action or that are in areas where the staff has competence. Within the limits of available staff, the Commission responds affirmatively to these requests.

ACIR recommendations for state action are translated into model legislative language for consideration by state legislatures. These draft proposals are made available to Governors, state legislative leaders, state administrative officials, other state and local policymakers, and interested citizens.

In 1974, state implementation efforts were focused on the twin objectives of assuring the widest possible distribution of Commission recommendations to relevant public officials and of expanding direct technical assistance to the states. To those ends, ACIR distributed several thousand “Legislator's Guides” proposing state action on ACIR recommendations, and in response to this expanded exposure, staff was significantly involved in providing technical assistance at the request of more than 20 states. That assistance involved preparing specially tailored materials, modifying ACIR model bills, testifying before legislative committees, and working with citizen study commissions, state agencies, legislative committees, and Governors' staffs. ACIR staff also presented papers on its work or undertook other implementation activities at some 20 major national conferences, policy workshops, and other forums in 1974.

In addition, the Commission seeks formal support for its recommendations from the various organizations of state and local officials with which it cooperates, such as the National Governors' Conference; the Council of State Governments; the National Conference of State Legislatures; the National Association of Counties; the International City Management Association; state leagues of municipalities and associations of counties; citizen groups; business, professional, and labor organizations; taxpayers' leagues; bureaus of government research; and other public and private interest groups.

Information Services. ACIR maintains a growing information program. Periodically, Federal, state, and local officials, leaders of public interest groups, and other appropriate organizations across the country receive Information Bulletins, staff analyses of current issues; the Information Interchange Service, a transmittal service excerpting and reprinting items of intergovernmental interest; and Congressional Watch, which follows Congressional legislation and reports on action of intergovernmental interest. The staff also publishes information reports — in-depth analyses of subjects of emerging interest — providing findings and general conclusions, but containing no recommendations.

In 1974, ACIR also developed the Action Agenda to provide issue background and describe ACIR recommendations for government decisionmakers who need briefer materials than the standard research volumes. In addition, staff has begun packaging the Action Agendas with model draft bills and other supporting materials in Legislator's Guides.

In all, staff released nine Information Bulletins, six Interchanges, four Congressional Watches, three Action Agendas, and three Legislator's Guides during the year.

The Commission staff periodically publishes a fiscal encyclopedia titled State and Local Finances: Significant Features. This information report is
a compilation of statistical tabulations from ACIR studies and other sources that serve as a handbook on state-local fiscal systems. A 1973-74 edition, published early in 1974, contains a substantial expansion of information on the property tax.

The Commission staff monitors the action of the states as they fulfill their responsibilities as the "legal parents" of their counties and cities. Each year the Commission publishes a volume titled *State Action* which summarizes those and other key State actions of an intergovernmental nature. *State Action 1973* published in early 1974 focused on state and local governments' accountability, efficiency, and fiscal self-sufficiency.

**OMB Circular A-85**

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

In addition to normal A-85 administration and to the production of an A-85 annual report for the director of the Office of Management and Budget, the Commission staff actively participated with OMB, the Federal agencies, and the public interest groups representing state and local governments in a series of thorough reviews of the language and performance of Circular A-85 during 1974.

**Monitoring Revenue Sharing**

In 1974, ACIR completed the first phase of its revenue sharing monitoring project. Undertaken at the specific request of President Nixon when he signed the *State and Local Fiscal Assistance Act of 1972*, the two-year monitoring effort has included four informal public hearings, two of which were held in 1974; a nationwide public opinion poll conducted in 1973; and two surveys of public officials, including one which sampled congressional views in 1974.

**Public Hearings.** The Commission’s two 1974 revenue sharing hearings focused on widely controversial features of the revenue sharing program: use of funds to support social-service-type programs, citizen participation, and enforcement of the non-discriminatory provisions of the law. At its Chicago hearing the Commission heard testimony from that city’s fiscal officers, the Rev. Jesse Jackson of Operation PUSH, Mayor Richard G. Hatcher of Gary, Indiana, and panels representing city managers, the United Way, and the Brookings Institution. The Washington, D.C., session included testimony from representatives of the public school boards and the National Clearinghouse on Revenue Sharing—a consortium of citizen’s groups monitoring the program.

The main themes running through the two hearings were:

- A concern that local officials might not take full account of the views of their various constituencies, especially the poor, the black, and other minorities.

- A realization that the degree of citizen participation in deciding how to use revenue...
sharing funds varies across the board, with no pattern emerging for large central cities, smaller communities, or rural areas.

- A trend toward greater use of revenue sharing dollars for operating expenses and less for capital improvements exists. This may be the result of at least three basic concepts. First, some jurisdictions may have greater confidence in the continuation of the program. Second, some areas may wish to have a record of using their allotments for operating expense to strengthen the case for Congress to continue the program at least at present funding levels. Third, in some jurisdictions, inflation has hurt to the point that virtually all available revenues must go for current expenses.

Survey. The Commission assisted the Intergovernmental Relations Subcommittee of the House Government Operations Committee in the development and conduct of a survey of Congressional attitudes regarding the effectiveness of the revenue sharing program and the prospects for its renewal.

Almost 40 percent of the Congressional membership responded to the questionnaire. The results showed support for program renewal as well as an undercurrent of concern about whether the funds were used in accordance with Congressional expectations. Some skepticism was also apparent regarding the extent to which the states needed the funds in light of what, at the time of the survey, looked like substantial budget surpluses.

Monitoring Results and Recommendations. At its September 1974 meeting, the Advisory Commission on Intergovernmental Relations completed and ordered the publication of the first comprehensive re-evaluation of Federal general revenue sharing. The report strongly urged the early and permanent extension of the program.

The Commission found that the program had harnessed the superior fiscal resources of the Federal government to help states and local governments meet their own program and budget needs, and thereby fostered decentralized decision making.

The study also found that revenue sharing helped to narrow the fiscal gap between rich and poor states and between affluent suburbs and inner cities. It noted that the revenue sharing distribution formulae would be even more equalizing without provisions which require allocations to county areas (but not county governments), municipalities, or township governments to be not less than 20 percent nor more than 145 percent of the average statewide local per capita entitlement. Still, the Commission recommended continuation of the current formula because — despite the above ingredients — the current formula has a significant equalizing effect and because any major change in the formula would threaten the state-local consensus in support of the program.

The Commission supported effective enforcement of civil rights requirements, but suggested that a large separate enforcement staff in the Office of Revenue Sharing (ORS) is not the answer. Instead, the Commission recommended that ORS make additional arrangements with existing Federal, state, and local government agencies to enforce civil rights compliance.

On another major issue, the Commission took note of the allegation frequently expressed at ACIR convened hearings, and elsewhere, that
little revenue sharing money is being devoted to improving or expanding services for the poor. The Commission study found, however, that because of "fungibility" it is virtually impossible to track the flow of funds, determine the impact on expenditure and tax patterns, and evaluate benefits for various social and economic groups.

The Commission weighed the case for Federal budget flexibility and frequent Congressional review over revenue sharing appropriations against the case for state and local government assurance of the permanence and dependability of this funding source. Stressing the need for permanence, the Commission called on Congress to finance revenue sharing out of a permanent trust fund rather than the current method of a five-year appropriation, and to tie the funding to a constant percentage of the Federal personal income tax base.

Property Tax Revisited

The study of the property tax and property tax relief were major items on the Commission's work program in 1974, as they have been at various times in the past.


Based on the Commission's 20 recommendations in the 1963 report and the property tax relief recommendation in the 1967 report, this new study specifies four basic types of state property tax reform action:

- **Legitimacy.** Close the gap between assessment law and practice;

- **Openness.** Provide each taxpayer with the information he needs to judge the fairness of his assessment and establish a simple appeals procedure;

- **Technical Proficiency.** Assure that the assessor has the qualifications and the equipment necessary to establish and maintain accurate estimates of market value, and provide an administrative structure that facilitates this objective; and

- **Compassion.** Provide tax relief for those whose property taxes represent extraordinary burdens in relation to current income.

In contrast to the general belief that the states are making little or no headway toward property tax reform, this study found that:

... Numerous improvements have been made in many states in the past decade. Considering the political and economic obstacles to reforming assessment administration, the record of change is impressive even though numerous reform measures are still required by most states to bring the property tax to an acceptable level of administration and equity.

State efforts during the 1963-1973 decade to improve the legitimacy of the property tax included dramatic assessment level increases in Kentucky and Oregon. Kentucky moved toward its legal requirement of full
value assessments. Oregon abandoned fractional assessment and then proceeded to bring assessments to within hailing distance of its new full value standard. A number of other states moved to bring assessment law and practice into closer conformity by changing their standards to reflect what seemed achievable.

Greater openness was brought into the assessment system during the decade by such actions as requiring that taxpayers be notified of assessment changes (15 states) and that taxpayers be notified of appeals procedures (eight states). During the decade, 18 states either initiated or improved assessment-sales ratio studies; over 40 states now provide this vital information on a regular basis.

A number of state actions to improve technical proficiency also were taken. Over a third of the states reorganized and strengthened their property tax supervisory agencies between 1963 and 1973, and 12 states took steps to consolidate local assessing jurisdictions. Certification of assessors on the basis of qualifying examinations is now required in 16 states.

Evidence of greater compassion is that all 50 states and the District of Columbia now provide for a circuit-breaker, homestead exemption, or some other type of property tax relief, at least for low-income, elderly homeowners. The majority of these programs are state funded, and more than a third of them include renters as well as owners. During the decade, the circuit-breaker (the subject of the next section) was developed and became the most popular form of property tax relief.

After reviewing the actions of the 50 states in the 1963-1973 decade, 12 states (listed below in alphabetical order) were identified as leaders in property tax reform:

California
Kentucky
Maryland
Minnesota
Oregon
Washington
Florida
Maine
Michigan
Montana
Tennessee
Wisconsin

The Latest on Property Tax Relief.
Since Wisconsin pioneered the circuit-breaker approach to residential property tax relief in 1964 and ACIR recommended this type of relief in 1967 (Fiscal Balance in the American Federal System), the circuit-breaker — which relates the property tax burden to income and provides for a state rebate of the “excess” or “overload” — has enjoyed increasing popularity. Today 24 states, and the District of Columbia have such a program; half were adopted in 1973 and 1974. Three additional states have locally financed and administered circuit-breaker programs in some jurisdictions.

To keep up with developments in this important and dynamic area, ACIR surveyed state tax agencies to obtain current information on circuit-breaker provisions, benefits, and costs. The results are presented in Property Tax Circuit-Breakers: Current Status and Policy Issues. Some of the key findings are:

- More than 3-million claimants are sharing in about $450-million of benefits annually.
- State average per capita costs range from less than $.10 to nearly $32.00, averaging $4.40.
- Benefits per claimant average $148, but range from $19 to $317.
- 19 programs include renters as well as owner-occupants.
- Five programs include the non-elderly as well as the elderly.
In addition to survey findings, the report also discusses key policy variables among which policymakers must choose in designing or revamping a circuit-breaker program. Another section also considers some basic criticisms recently leveled against circuit-breakers, and concludes that the criticisms do not undermine the desirability of circuit-breaker programs.

**New Mexico's Experiment.** New Mexico has introduced a tax relief program with a new wrinkle that is potentially even more effective than circuit-breakers in relieving tax overloads. The program, called the Low Income Comprehensive Tax Credit (LICTC), was enacted in 1972 and revised in 1973 and 1974. It provides relief from some part of all state and local taxes for families that fall below the official poverty line. The relief is granted through a refundable credit against the New Mexico income tax.

**Local Government Modernization/Reassignment of Functions**

At its February 1974 meeting in Washington, D.C., ACIR completed action on its study of the problems and prospects for local governments and substate regions. Having already made a series of recommendations regarding the structure and function of substate districts (Umbrella Multi-jurisdictional Organizations — UMJOS) at its June 1973 meeting, the Commission turned in February to the two companion elements of the study: local government modernization and reassignment of functions.

The Commission concluded that the rapid proliferation of Federally supported districts, state established districts, special districts and public authorities, regional councils, and areawide coordinating procedures was a commentary on the outmoded jurisdictional pattern of many local governments. It, therefore, adopted a series of recommendations for local government modernization that will complement the UMJO program. This agenda encompasses a half-dozen broad and interrelated objectives:

- to urge the states to place their statutory authority clearly behind a set of enforceable standards relating to municipal incorporation, local government viability, and annexation;
- to seek state establishment of local government boundary commissions to apply these standards in specific instances and to assume a continuing responsibility for the modification of substate district and county boundaries; the dissolution or merger of special districts and non-viable general local government units; and similar problems;
- to revitalize the structure of county governments with a packet of nine reform proposals which would sort out and reconcile county and municipal servicing responsibilities and carry out a new state role that supports these efforts;
- to seek state enactment of permissive legislation authorizing five different reorganization options: multicounty consolidation, city-county merger, "modernized" county, multi-

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purpose regional service corporations, and conversion of an UMJO into a general purpose government;

- to provide for the formation of broadly representative, permanent state advisory commissions on intergovernmental relations to probe on a continuing basis the structure, functions, finances, and relationships of governmental levels in the state; and

- to urge the Federal executive branch and Congress to adopt policies which accommodate state and local efforts to reorganize governments at the substate regional and local levels.

The Commission found that present patterns of local assignment of functions are often haphazardly determined by fiscal pressures on state and local government and numerous Federal and state program initiatives. These frequently result in inappropriate and conflicting functional assignments among state, regional, and local levels.

To divide the responsibilities among the levels more consistently and logically, the Commission adopted recommendations calling upon the states to enact an on-going policy and process to deal with the problem. The legislation would formulate general criteria for answering basic questions of the assignment of functions. ACIR also urged the Federal government to respect state and local policies in this area.

The Transportation Report

Building on the findings and recommendations of the substate regionalism study, as well as a year's additional research on the special problems associated with this functional area, the Commission voted in December 1974 to adopt a nine-point agenda to deal with the nation's regional transportation needs. Covering questions of planning, funding, and service provision, the plan would, if adopted, bring about major changes in Federal, state, and local practices.

Major provisions of the new ACIR policy include:

1. The urban system, secondary highway system, and mass transportation Federal aid programs should be merged into a single block grant to be distributed among metropolitan and non-metropolitan regions according to a formula based primarily on population.

2. This new unified grant could be used for any transportation mode and for either capital or operating purposes; it would be supported by earmarked monies from the National Highway Trust Fund and by regular Congressional appropriations.

3. The funds would be channeled through the states for regions wholly within a single state if the state has — as the Commission believes every state should — a strong intermodal department of transportation (DOT) responsive to overall policy control by the Governor. A substantial intermodal program of financial assistance for regional systems' funds would go directly to regional policy bodies in all interstate regions and in those states not meeting these criteria.

4. Ultimately the funds would be passed on to the appropriate construction, maintenance, and operating units, and, in some
cases, to individual transportation users, by the designated regional policy body in each area in accordance with its own plans and policies.

5. The regional bodies designated for these important Federal aid roles would be required to have well defined authoritative decision making powers, but their form could vary: a strengthened regional council similar to the one in Minneapolis-St. Paul; a city-county consolidated metropolitan government, like that in Jacksonville, Nashville, or Indianapolis; or even a state agency working closely with the locally controlled regional body having responsibilities under the state's substate districting system and under OMB Circular A-95.

6. These regional bodies would have expanded powers to plan and program regional transportation projects in accordance with their comprehensive regional plans and policies. They also would be empowered to monitor and participate in the proceedings of transportation, community development, environmental, and other related regulatory bodies to help coordinate regulatory decisions with comprehensive planning policies.

7. The regional policy bodies would work with a state authorized regional intermodal transportation authority which would have the power to raise funds, coordinate and assist the activities of existing transportation provider organizations, subsidize certain classes of transportation users – like the elderly or the poor – and directly provide such needed transportation facilities or services as may otherwise be unavailable.

8. State and local transportation financing policies should be made more flexible so that impediments removed from the Federal aid programs would not be perpetuated by out-dated state and local limitations.

9. Finally, the Congress and state legislatures should consider consolidating the various transportation regulatory bodies they have established, creating single intermodal ones charged with considering – in addition to economic criteria – modal productivity and efficiency, energy conservation, desired community development, environmental protection, enhanced mobility, and unhindered access.

Local Revenue Diversification – Income Taxes, Sales Taxes, and User Charges

Finding persuasive new evidence of the plight of local governments which are mainly limited to the property tax, the Commission voted in 1974 to modify its previous and essentially negative position regarding local sales and income taxes. The Commission recommended that states permit general purpose local governments to adopt either a local sales tax or an income tax, or both, in order to achieve a more balanced use of the basic state-local tax instruments – property, income, and sales taxes. Recognizing the pitfalls of an uncoordinated use of local sales and income taxes, the Commission coupled its recommendation with necessary state safeguard actions – the most important of which is the need for a uniform local tax base which should conform to that
of the state if the state imposes the levy.

The Commission was persuaded to alter its previous position on the basis of several developments:

- evidence that local taxpayers favor sales and income taxes over higher property taxes when confronted with the need to increase local revenue yields.
- the steady growth of local sales and income taxes.
- the greater responsiveness of local sales and income taxes to natural economic growth and inflation.
- the recent experience of Virginia with its local sales tax and Maryland with its local income tax which demonstrates that the pitfalls of the "unfettered tax anything" approach can be avoided.

The Commission also recommended that Congress explicitly authorize state governments to impose a sales tax on firms making sales in states where they maintain no place of business and that the sales tax be equal to the state rate plus a single local rate, with the local sales tax position to be distributed by formula among local governments. The Commission also called for the Federal government to withhold local income taxes from Federal employees, and for the states to authorize and encourage local governments to adjust fees and user charges annually to at least reflect changes in financial costs, and to provide technical assistance and consultation as to appropriate areas, methods, and rates of charges.

Changing Public Attitudes on Governments and Taxes

For the third time, the Commission sponsored a public opinion sur-
vey to determine public attitudes toward several matters of intergovernmental concern. The results of this survey, conducted in April 1974, lead to the following conclusions:

- Although more people continue to choose the Federal sector as the level of government providing the most for the taxpayers' money, this percentage has declined in each of the three years that the survey was undertaken. In April 1974, the Federal government was virtually tied with the local level, while state government, still in third place, has gained in public favor.

- While the public feels that it gets the most from the Federal and local levels, the tax instruments used by these two sectors were regarded as the least fair. Both the Federal income tax and the local property tax were regarded with nearly equal taxpayer discontent, with state income and sales tax encountering far less public opposition. In contrast to prior years — and most dramatically with the 1972 survey — public hostility toward the Federal income tax has sharply increased while discontent with the property tax has diminished.

- Public approval of the general revenue sharing program is widespread and increasing. Only 13 percent of the respondents, indicated that they opposed this Federal program, with 65 percent registering their approval and 22 percent responding "don't know."

- Regressivity and unfair assessments were the two most frequently expressed reasons for
the public opposition to the property tax.

Trends In Fiscal Federalism: 1954-1974

ACIR issued a report which sets out in charts and tables several significant developments in fiscal federalism 1954-1974. Among the major findings are:

- Most of the growth in the expanding Federal sector has occurred in social security and Federal aid programs.
- All levels of government have grown at rates exceeding the general growth of the economy, and aids to lower levels of government have steadily expanded.
- The Federal revenue system has become less diversified while state-local revenue systems have become more balanced and diversified.
- There has been a dramatic increase in state-local tax burdens during the last 20 years.
- The tax burden of the "average" family increased by 98.3 percent during the period 1953-1974.
- The growth in the average wage of Federal employees has outstripped the wage performance of any other major sector—public or private.
- The percentage increase in the number of state and local employees has exceeded that of any other major sector of the economy—public or private.

American Federalism: Into the Third Century

Published in May 1974 as the result of three grants from the American Revolution Bicentennial Commission, American Federalism provides an agenda for government improvement for the next 25 years. The ACIR study begins with an account of the origins and history of American federalism. It then lays out the challenges of the future, calling for the revitalization of local government, the strengthening of the states, the streamlining and humanizing of the administration of justice, the achievement of balanced growth, and the restoration of fiscal balance in the federal system.

STUDIES IN PROGRESS

Bank Tax Study

In late 1973 ACIR undertook a bank tax study in response to a Congressional directive. That directive stemmed from concern that recent changes in Federal statutes affecting state taxation of financial depositories might have adverse impacts on interstate banking and commerce. The study relates to the application of state and local "doing business" taxes (primarily income taxes) on out-of-state commercial banks, mutual savings banks, and savings and loan associations.

In requesting ACIR recommendations for legislation "which will provide equitable state taxation" on out-of-state depositories, Congress declared that "the national goals of fostering an efficient banking system and the free flow of commerce among the states will be furthered by clarifying the principles governing state taxation of interstate transactions of banks and other depositories." (Public Law 93-100, sec. 7.)

Long established restrictions on the authority of states to tax national banks were ended in 1969, when P.L. 91-156 specified that states may tax these banks under the same rules which they apply to state chartered banks. Under the revised law, it
would be possible for two or more states with taxing jurisdiction over a given depository to use different types of reports and records. Congressional committees indicated concern that the possibilities of multiple taxation of the same base, increased compliance burdens, and uncertainties about liability for taxation might affect interstate flows of loans and deposits.

During 1974, staff for the bank tax study consulted with state tax administrators, state and Federal regulatory officials, state legislators, and representatives of depository institutions and then drafted a series of alternative recommendations for consideration by the Commission. These were discussed at a Commission meeting in mid-December and will lead to formal action by ACIR in early 1975.

Study of Federal Aid Programs

In its 1967 examination of intergovernmental fiscal and administrative policies (Fiscal Balance in the American Federal System), ACIR called for a new Federal aid "mix" which would recognize the need for flexibility in the types of financial assistance provided to state and local governments. This "mix" would involve a combination of Federal categorical grants-in-aid, block grants, and per capita general support payments (revenue sharing). Each of these mechanisms was viewed as accomplishing different objectives. The categorical grant would stimulate and support specific programs in the national interest and underwrite demonstration and experimentation projects; the block grant would give states and localities considerable flexibility in meeting needs within broad functional areas while pursuing national objectives; and revenue sharing would provide additional financial resources to state and local governments without functional restraints to conduct programs in response to their own priorities.

Now that a tripartite Federal aid system similar to that recommended by the Commission almost seven years ago has been established, a review of these objectives in light of the experience to date is in order. The on-going debate over the use of general revenue sharing funds by state and local governments, the continuing confusion regarding the distinctive statutory and administrative features of block grants, and the continuing concern over the future of categorical grants make this reassessment particularly timely.

In the spring of 1974, the Commission authorized the staff to begin work on a report concerning "The Intergovernmental Grant System: Policies, Processes, and Alternatives."

The basic purpose of this study is to evaluate the traditional and recent issues involving project, formula, and block grant programs and design ways of enhancing the effectiveness of these instruments. The role of the states as prime recipients of Federal assistance, as direct providers of services to their citizens, and as dispensers of aid (from their own and from Federal sources) to their localities also will be probed. In this, the Commission's 1969 report on State Aid to Local Government will be updated. General revenue sharing will not be covered, except to recognize its nature and magnitude within the intergovernmental system, due to the recent report by the Commission on this program (General Revenue Sharing: An ACIR Re-Evaluation).

Differential State-Local Taxation of Military Personnel

Federal law currently requires that military personnel be treated differently from other citizens for the purpose of state and local taxation. The Soldiers and Sailors Civil
Relief Act, for example, specifies that a member of the armed forces is liable for state and local income taxes only in his chosen “state of domicile” — regardless of where his military pay is earned. This differs from the treatment accorded civilians and has apparently led to some general confusion among taxpayers and tax administrators. The result has been revenue losses and tax avoidance. In addition, state and local governments cannot withhold income taxes from military paychecks. This rule hampers tax enforcement efforts and creates hardships for military taxpayers who must then pay these taxes in a lump sum when they come due.

Military personnel is also exempted by the Buck Act from state and local sales and excise (particularly cigarette and liquor) taxes when they purchase goods and services on a military base.

The staff will examine the pros and cons of continuing the special state and local tax status of military personnel and estimate the revenue losses which state and local governments suffer because of current Federal provisions.

The Effect of Recent Changes in the FDIC Provisions on The State and Local Bond Market

In Public Law 93-495, enacted in December, 1974, the Congress directed the Commission to conduct a study of the impact of providing full federal deposit insurance for public unit deposits of $100,000 per account on funds available for housing, on state and local bond markets, and on state “pledging” laws.

The law calls for a report to the Congress on the results of its study no later than October 28, 1975.

Revision of ACIR Model Bills

In November of 1974, the Commission launched a comprehensive revisi-
bility for revenue and expenditure decisions. These factors include:

- increasing elasticity of Federal and state revenues and the effect of this increase on inducing increased expenditures;

- the effect of Federally mandated expenditures on state and local governments and the effect of state mandated expenditures on local governments;

- the effect of inflation on the tax system, particularly on the personal income tax.

This study will examine several possible ways to improve political decisions and accountability. Among these are:

- the indexation of Federal and state personal income taxes so that revenue growth is tied to increases in real income, not price increases;

- the use of local tax and expenditure limitation strategies such as those used by several states and at least one Canadian province;

- the requirement that intergovernmental fiscal impact statements be prepared in connection with all Federal and state legislation calling for major changes in public outlays or revenue systems;

- the requirement that higher levels of government assume or share fiscal responsibility for mandated expenditures.

The second major concern triggered by the steady growth of our Federal-state-local fiscal system relates to its direct impact on taxpayers in general and to low- and lower-middle-income taxpayers in particular. The estimated direct tax burden borne by the average family has virtually doubled in the last 20 years — rising from about 12 percent in 1954 to 24 percent of total family income in 1974.

ACIR’s examination to date indicates that two major factors are primarily responsible for the fact that the tax burden borne by the average family is rising at a considerably faster rate than that of the upper-income family. Those factors are the inability of low-income tax payers to take advantage of tax write-offs and the growth in the Social Security tax.

The staff will examine several policies that would ease the tax impact of the rising public sector on low- and middle-income families. These include:

- Possible modification of the present Federal income tax treatment of state and local taxes so as to enable low- and middle-income taxpayers to obtain a more generous write-off — the possible use of positive and negative tax credits and Federal circuit-breakers.

- Possible modification of the treatment of interest and taxes for renters under present IRS provisions. Unlike homeowners, renters are currently denied these “write-off” opportunities.

- Possible liberalization of the standard deduction privilege to compensate low- and moderate-income taxpayers for the rapid rise in state and local taxes and housing costs.
Appendix A

Permanent Staff

(December 31, 1974)

Anderson, Wayne F., Executive Director
Walker, David B., Assistant Director
Shannon, F. John, Assistant Director
Beam, David, Intern
Bowman, John H., Senior Government Resident in Public Finance
Bunn, Elizabeth A., Secretary
Clarke, Lavinia B., Secretary
Cutler, Natalie J., Research Assistant
Davis, Marinda T., Secretary
Evans, Phyllis, Secretary
Ferrell, Lynn D., Intern
Fried, Esther, Administrative Officer
Gabler, L. Richard, Senior Analyst
Gilson, Lawrence D., Director of Policy implementation
Hahn, Thomas D., Accountant
Jones, MacArthur C., Duplicating Machine Operator
Kafoglis, Milton, Senior Academic Resident in Public Finance
McDowell, Bruce D., Senior Analyst
Moore, Margaret E., Secretary
Myers, Will S., Senior Analyst
Nolin, Evelyn, Secretary
Richter, Albert J., Senior Analyst
Roberts, Diana M., Production Manager
Ross, Ronald L., Mail Room Supervisor
Silberg, Linda, Secretary
Smith, Betty W., Secretary to Executive Director
Steinko, Franklin A., Jr., Assistant to the Executive Director
Stenberg, Carl W., Senior Analyst
Suyderhoud, Jack, Intern
Tanaka, Toshiko, Receptionist
Thomas, Gloria K., Secretary
Tippett, Francis X., Statistician
Veseth, Michael A., Intern
Ward, Gloria D., Secretary
Wright, Carol M., Librarian
Appendix B

Official Consultants

Albert J. Abrams, secretary of the New York State Senate, Albany, New York
William Anderson, professor emeritus of political science, University of Minnesota, Minneapolis, Minnesota
Frank Bane, former chairman of ACIR, Washington, D.C.
John E. Bebout, state program director, Institute for Urban Studies, University of Houston, Houston, Texas
George C. S. Benson, director, Henry Salvatori Center and President Emeritus, Claremont Men's College, Claremont, California
John C. Bollens, professor of political science, University of California, Los Angeles, California
George Break, professor of economics, University of California, Berkeley, California
Frank L. Britt, executive manager, Toledo Area Governmental Research Association, Toledo, Ohio
Alan K. Campbell, dean, The Maxwell Graduate School of Citizenship and Public Affairs, Syracuse University, Syracuse, New York
Arnold Cantor, assistant director of research, AFL-CIO, Washington, D.C.
William N. Cassella, executive director, National Municipal League, New York, New York
William G. Colman, governmental consultant, Potomac, Maryland
Charles F. Conlon, executive director, Federation of Tax Administrators, Chicago, Illinois
L. Laszlo Ecker-Racz, consultant, Arlington, Virginia
Daniel J. Elazar, professor of political science and director, Center for the Study of Federalism, Temple University, Philadelphia, Pennsylvania
Neely Gardner, professor of public administration, University of Southern California, Los Angeles, California
C. Lowell Harriss, professor of economics, Columbia University; Economic Consultant, Tax Foundation, Inc., New York, New York
Lawrence Howard, professor of public and international affairs, University of Pittsburgh, Pittsburgh, Pennsylvania
Victor Jones, professor of political science, University of California, Berkeley, California
Richard Leach, professor of political science, Duke University, Durham, North Carolina
Eugene C. Lee, director, Institute of Governmental Studies and professor of Political Science, University of California, Berkeley, California

Carl H. Madden, chief economist, Chamber of Commerce of the United States, Washington, D.C.

James Maxwell, professor emeritus, Department of Economics, Clarke University, Worcester, Massachusetts

Arthur Naftalin, professor, School of Public Affairs, University of Minnesota, Minneapolis, Minnesota

Oliver Oldman, professor of law, Harvard School of Law, Cambridge, Massachusetts

James A. Papke, professor of economics, Purdue University, Lafayette, Indiana


Carl Pforzheimer, Jr., director, National Association of State Boards of Education, New York, New York

Frank Schiff, vice president and chief economist, Committee for Economic Development, Washington, D.C.


Mabel Walker, consultant, Milford, New Jersey

George H. Watson, president, Friends World College, Huntington, New York

Murray L. Weidenbaum, professor of economics, Washington University, St. Louis, Missouri

Joseph F. Zimmerman, professor of political science, State University of New York, Albany, New York
Appendix C

Financial Support

From its inception, the Commission has relied upon Congressional appropriations, but it was hoped that in 1974 the state and local governments would shoulder more of the Commission costs. The past year has seen a shift in the sources of contributed financial support of the Commission. Normally, the Commission has solicited state and local governments directly for contributions of $500 to $5,000.

In 1974, the Commission sought to work out a national contribution plan with the National Governors' Conference, Council of State Governments, National League of Cities, U.S. Conference of Mayors, National Association of Counties, National Conference of State Legislatures, and the International City Management Association. Efforts to negotiate the plan are continuing, and the Commission's objective is a $100,000 contributions level—approximately 10 percent of Commission costs.

The Commission also receives funds from non-profit organizations for speaking engagements and other ACIR staff participation. Approximately $8,500 was received by the Commission in 1974 as either travel reimbursement or honoraria.

Federal agencies contract with ACIR in connection with projects that tie in closely with the ongoing work of the Commission. Projects funded by other agencies in 1974 included a study for the National Commission on Water Quality ($16,500) to "assist in creating a forecasting model capable of predicting state and local revenues and expenditures," another for the American Revolution Bicentennial Administration ($10,000) to develop a "nationwide program to stimulate citizen dialogue in public and community affairs," and a project for the Department of Transportation ($82,000) that led to a Commission report complete with recommendations and findings on the "feasibility and necessity of structuring metropolitan areawide public agencies to plan, implement, and finance transportation projects."

In addition, the Department of Health, Education and Welfare ($363,888) has asked the Commission to study the whole spectrum of categorical and block grants — procedures, administration, costs, impacts, regulations, etc. This is a current project of the Commission staff and will result in a full Commission report.

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 and temporary personnel to carry out the specific research projects for which the funds are granted.
# Appendix D

## Salaries and Expense Statement

<table>
<thead>
<tr>
<th>Object Classification</th>
<th>FY 1974 Actual (in thousands of dollars)</th>
<th>FY 1975 Estimate (in thousands of dollars)</th>
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<tr>
<td>Personnel Compensation</td>
<td>$646</td>
<td>$777</td>
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<tr>
<td>Personnel Benefits</td>
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<tr>
<td>Travel and Transportation of Persons</td>
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<tr>
<td>Transportation of Things</td>
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<td>3</td>
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<tr>
<td>Rent, Communications, and Utilities</td>
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<td>189</td>
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<tr>
<td>Printing and Reproduction</td>
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<td>57</td>
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<td>Other Services</td>
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<tr>
<td>Supplies and Materials</td>
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<tr>
<td>Equipment</td>
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<td>TOTAL OBLIGATIONS</td>
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Appendix E

Publications

Reports Published in 1974
*State Actions 1973: Toward Full Partnership. ACIR Report M-82. January 1974. 40 pp. $85. Information and reference report summarizing selected state constitutional and legislative actions during 1973 that were directed toward local units of government, particularly those in urban areas.
1974. 176 pp. $2.00. A study of the assignment of public service responsibilities to State, areawide, and local units.


Policy Reports (Currently Available)


Information Reports (Currently Available)


Other Reports Available From ACIR
Hearings Before the Advisory Commission on Intergovernmental Relations on Intergovernmental Problems in Medicaid. September 1968. 29 pp.

Notes
*Publications marked with an asterisk may be purchased directly from the Superintendent of Documents, Government Printing Office, Washington, DC 20402.

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

As the supply permits, single copies of most publications listed may be obtained without charge from the Advisory Commission on Intergovernmental Relations, Washington, DC 20575.
The Advisory Commission on Intergovernmental Relations (ACIR) was created by Congress in 1959 to monitor the operation of the American federal system and to recommend improvements. ACIR is a permanent national bipartisan body representing the executive and legislative branches of Federal, State and local government and the public.

Of the 26 Commission members, nine represent the Federal government, 14 represent State and local governments and three represent the general public. Twenty members are appointed by the President. He names three private citizens and three Federal executive officials directly and selects four governors, three State legislators, four mayors and three elected county officials from slates nominated, respectively, by the National Governors’ Conference, the Council of State Governments, the National League of Cities/U.S. Conference of Mayors, and the National Association of Counties. The other six are Members of Congress—three Senators appointed by the President of the Senate and three Representatives appointed by the Speaker of the House. Commission members serve two-year terms and may be reappointed. The Commission names an Executive Director who heads the small professional staff.

After selecting specific intergovernmental issues for investigation, ACIR follows a multi-step procedure that assures review and comment by representatives of all points of view, all affected levels of government, technical experts and interested groups. The Commission then debates each issue and formulates its policy positions. Commission findings and recommendations are published and draft bills and executive orders are developed to assist in implementing ACIR policies.