

HCR

6

Alaska State Legislature

HOUSE OF REPRESENTATIVES

Rep. Andrew Halero, Co-Chair
Rep. John Harris, Co-Chair
Rep. Carl Morgan
Rep. Lisa Murkowski
Rep. Fred Dyson
Rep. Reggie Joule
Rep. Al Kookesh



State Capitol, Room 418
Juneau, Alaska
99801-1182
(907) 465-4939
Fax (907) 465-2418

COMMUNITY AND REGIONAL AFFAIRS COMMITTEE

ADDITIONAL MATERIAL FOR HCR 6

APRIL 22, 1999 HEARING

CS FOR HOUSE CONCURRENT RESOLUTION NO. 6()
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FIRST LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVES BERKOWITZ, Halcro

A RESOLUTION

1 Establishing the Task Force on the Impacts of Transfers of Governmental
2 Functions to Local Governments.

3 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

4 WHEREAS the legislature is considering how best to allocate functions of state
5 government given the fall in the price of oil and decline in daily production and the resulting
6 decrease in revenue to the state; and

7 WHEREAS the delegation of state functions to local governments has repercussions
8 for the local governments and individual taxpayers; and

9 WHEREAS some governmental functions are best performed by the state because the
10 state is in the best position to realize economies of scale; and

11 WHEREAS, for a variety of reasons, many governmental functions are best performed
12 by local governments;

13 BE IT RESOLVED by the Alaska State Legislature that the Task Force on the
14 Impacts of Transfers of Governmental Functions to Local Governments is established to

15 (1) study the effect on local governments of the transfer of functions now
16 performed by the state; and

1 (2) examine the roles of the federal, state, ^{Tribal} and municipal governments in
2 providing services and to determine whether changes ought to be made in those roles and
3 recommend legislation needed to accomplish those changes; and be it

4 **FURTHER RESOLVED** that the task force shall be composed of seven members, as
5 follows:

6 (1) two members of the Senate appointed by the President of the Senate; one
7 member shall be a member of the majority and one member shall be a member of the
8 minority; and

9 (2) two members of the House of Representatives appointed by the Speaker
10 of the House of Representatives; one member shall be a member of the majority and one
11 member shall be a member of the minority; and

12 (3) two members appointed by the Alaska Municipal League and one member
13 appointed by the Alaska Federation of Natives to represent the unincorporated communities
14 in the unorganized borough of the state; members appointed under this paragraph are not
15 entitled to travel or per diem payments from the state; and be it

16 **FURTHER RESOLVED** that the task force may conduct its work during the
17 legislative session and during the interim between sessions, may use the teleconference
18 network and meet by teleconference, and may conduct public hearings; and be it

19 **FURTHER RESOLVED** that the task force shall report its findings and
20 recommendations to the Speaker of the House of Representatives and the President of the
21 Senate no later than January 19, 2000; and be it

22 **FURTHER RESOLVED** that the task force is terminated at 11:59 p.m. on March 1,
23 2000.



Official Business

Alaska State Legislature

State Capitol
Juneau, AK 99801-1182

COMMITTEE ON COMMUNITY AND REGIONAL AFFAIRS
REPRESENTATIVE ANDREW HALCRO, REPRESENTATIVE JOHN HARRIS, CO-CHAIRMEN
STATE CAPITOL, ROOM 418
JUNEAU, ALASKA 99801-1182
(907) 465-3882

AGENDA

APRIL 20, 1999

1. Call Meeting To Order
2. Call Roll
 - a. Murkowski
 - b. Joule
 - c. Dyson
 - d. Harris
 - e. Halcro (Excused)
 - f. Morgan (Excused)
 - g. Kookesh (Excused)
3. HB 200 - Municipal Property Tax Exemptions
 - a. Tom Wright (Speaker Porter's Office)
 - b. Public Testimony
4. HCR 6 - Task Force: Transfer of State Functions
 - a. Representative Berkowitz - Sponsor
 - b. Public Testimony
5. Motion to Adjourn

Alaska State Legislature
House of Representatives
Minority Leader

Alaska State Capitol
Juneau, Alaska 99801-1182
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1-907-465-2137 (fax)



Interim Address
716 West Fourth Avenue
(phone) 1-907-269-0130
(fax) 1-907-269-0132

Representative Ethan Berkowitz
District 13

Legislators with Elected Municipal Government Experience

Representative Williams	Mayor of Saxman & Member, Saxman City Council
Representative Grussendorf	Mayor of Sitka & Member, Sitka Assembly
Representative Austerman	Member, Kodiak Borough Assembly
Representative Phillips	Member, Kenai Peninsula Borough Assembly & Homer City Council
Representative Davis	Mayor of Soldotna & Member, Soldotna City Council
Representative Smalley	Member, Kenai City Council
Representative Porter	Member, Anchorage Assembly
Representative Dyson	Member, Anchorage Assembly
Representative Davies	Member, Fairbanks North Star Borough Assembly
Representative Whitaker	Member, Fairbanks City Council
Representative Harris	Mayor of Valdez & Member, Valdez City Council
Representative Morgan	Mayor of Aniak
Representative Moses	Member, King Cove City Council
Senator Taylor	Member, Ketchikan Borough Assembly/City Council
Senator Elton	Member, Juneau Borough Assembly
Senator Torgerson	Member, Kenai Peninsula Borough Assembly



217 Second Street, Suite 200 ■ Juneau, Alaska 99801 ■ Tel (907)586-1325, Fax (907)-463-5480

April 19, 1999

Representative Ethan Berkowitz
State Capitol
Juneau, AK 99801

Dear Representative Berkowitz:

The AML strongly supports the collaboration of municipal governments with the State to support efficient and effective state and local public services with the lowest combined state and local taxes and fees. The transfer of state services to municipalities must be carefully planned to avoid unintended negative impacts. Therefore AML supports the goals of both HCR 6 and SB 33, which support state and municipal collaboration.

We believe strong local governments are a key to the future of Alaska. Local governments provide a broad range of critical services including schools, roads, police and fire protection, water and sewer, local human services, etc. Currently, the combined total spending of local governments is approximately equal to the entire state General Fund operating budget of \$2.3 billion. Local governments and schools employ approximately 35,000 Alaskans, and local taxes and fees generate over \$1.4 billion each year, making local taxpayers a greater combined revenue source than current oil revenues and second only to the earnings of Alaska's Permanent Fund.

In 1992, the AML and Alaska Conference of Mayors initiated the Governmental Roles Task Force implemented by House Concurrent Resolution 17. HCR17 (attached) had essentially the same goals to:

- Sort out state and local roles and responsibilities for providing public services and "recommend corrections for existing inconsistencies, overlap, or duplication of governmental functions...;
- Examine state-local responsibilities in other states" and encourage "successful models and innovative ideas";
- "Ensure budget reductions be shared equitably between state and municipal governments".

Copies of the Task Force recommendations are available from AML or OMB.

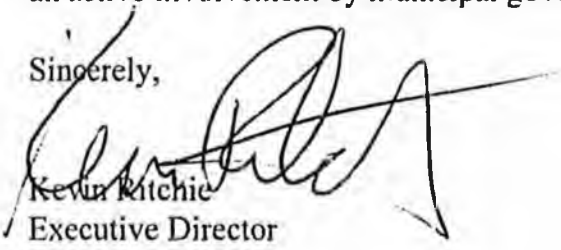
In 1996, the AML and ACoM initiated an administrative collaboration with the state administration called the "State-Local Task Force." The goals were similar and recommendations were also developed.

Neither of the above reports have been implemented, however, both contain valuable recommendations and information that are still relevant and may form a good base for new discussions. I have also attached a copy of "Sorting out State and Local Responsibilities" written by the National Conference of State Legislators.

In the years after Alaska's statehood, the evolution of local government was boldly pursued because the Constitution called for "maximum local self government." State actions to help local self-government evolve was largely dropped as oil revenues diverted attention from many critical issues.

The AML and ACoM are again willing to be involved in any effort to develop a long-range plan to deliver needed public services to Alaskans at the lowest possible cost through state-local-private partnerships. AML supports your efforts to pass HCR 6 with an active involvement by municipal governments.

Sincerely,



Kevin Ritchie
Executive Director

cc: AML Board of Directors
AML Legislative Committee

Appendix 6

Text of HCR 17

SENATE CS FOR CS FOR HOUSE CONCURRENT RESOLUTION NO. 17 (CRA)

IN THE LEGISLATURE OF THE STATE OF ALASKA

SEVENTEENTH LEGISLATURE - FIRST SESSION

BY THE SENATE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE

Offered: 5/15/91
Referred: Finance

Sponsor(s): HOUSE FINANCE COMMITTEE

A RESOLUTION

1 Establishing a Task Force on Governmental Roles.

2 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

3 WHEREAS both the federal and state governments have reduced assistance to municipalities and
4 shifted responsibilities to municipalities; and

5 WHEREAS state agency operating funds appropriated by the legislature have increased by 19
6 percent over the past five years; and

7 WHEREAS state funds appropriated by the legislature to municipalities have been reduced by
8 40 percent over the last five years; and

9 WHEREAS during the last five years the number of state employees has increased and the
0 number of municipal employees has decreased; and

1 WHEREAS an effort is needed to sort out responsibilities for providing governmental services
2 in the most efficient and effective manner; and

3 WHEREAS the idea of undertaking a review of the roles of federal, state, and municipal
4 government in providing services is not new, but a system for providing the review has not been
5 instituted; and

6 WHEREAS the legislature needs information on the relationship between the federal, state, and
7 municipal government to ensure that residents of the state have necessary services at reasonable costs;

1 **BE IT RESOLVED** by the Alaska State Legislature that the Task Force on Governmental Roles
2 is established with the following primary purposes:

3 (1) to define local, state, and federal governmental roles taking into account differences
4 between urban and rural areas and differences between organized boroughs, the unorganized borough,
5 and regional educational attendance areas;

6 (2) to examine the roles of the federal, state, and municipal governments in providing
7 services and to determine whether changes ought to be made in those roles and recommend legislation
8 needed to accomplish those changes;

9 (3) to consider methods of providing funding for governmental services, including the
10 existing revenue sharing program and municipal assistance program, and make recommendations for
11 improved funding mechanisms;

12 (4) to identify needed governmental services and consider methods to ensure those
13 services are efficiently provided;

14 (5) to compare the relationship between local, state, and federal governments in Alaska
15 with that in other states and make suggestions regarding implementation of successful models and
16 innovative ideas;

17 (6) to classify various public services by appropriate levels of government responsibility
18 and evaluate the classification for efficient service delivery, local control, constitutional responsibilities,
19 ability of government to pay for the services, and other pertinent criteria;

20 (7) to recommend corrections for existing inconsistencies, overlap, or duplication o
21 governmental functions, and establish a proposed time frame for implementing the corrections;

22 (8) to recommend alternatives for providing services and evaluate cost and fundin
23 options;

24 (9) to recommend changes to local government structures and mandatory powers; an
25 be it

26 **FURTHER RESOLVED** that the task force shall consist of 13 members as follows:

27 (1) two members of the Senate appointed by the President of the Senate;

28 (2) two members of the House of Representatives appointed by the Speaker of the Hous

29 (3) two persons representing the executive branch, appointed by the Governor;

30 (4) four persons representing different areas of the state and different municipalitie
31 appointed by the Alaska Municipal League;

32 (5) one person representing an unincorporated community in the unorganized boroug

appointed by the Alaska Federation of Natives;

(6) two public members appointed by the Governor; and be it

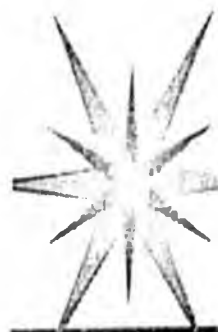
FURTHER RESOLVED that members of the task force shall elect from among themselves a chair and a vice-chair and that, within funds made available for the purpose, the task force may hire staff and, subject to approval by the Legislative Council, contract for services to perform its duties under the procurement procedures adopted by the council; and be it

FURTHER RESOLVED that each member of the task force appointed by the Alaska Municipal League should receive per diem and travel expenses from the municipality the member represents, except that the task force may, in cases of necessity and within funds made available for the purpose, approve the payment to a member of per diem and travel expenses authorized for boards and commissions under AS 39.20.180; and be it

FURTHER RESOLVED that the task force shall report its findings and recommendations to the Governor and the Legislature by June 30, 1992; and be it

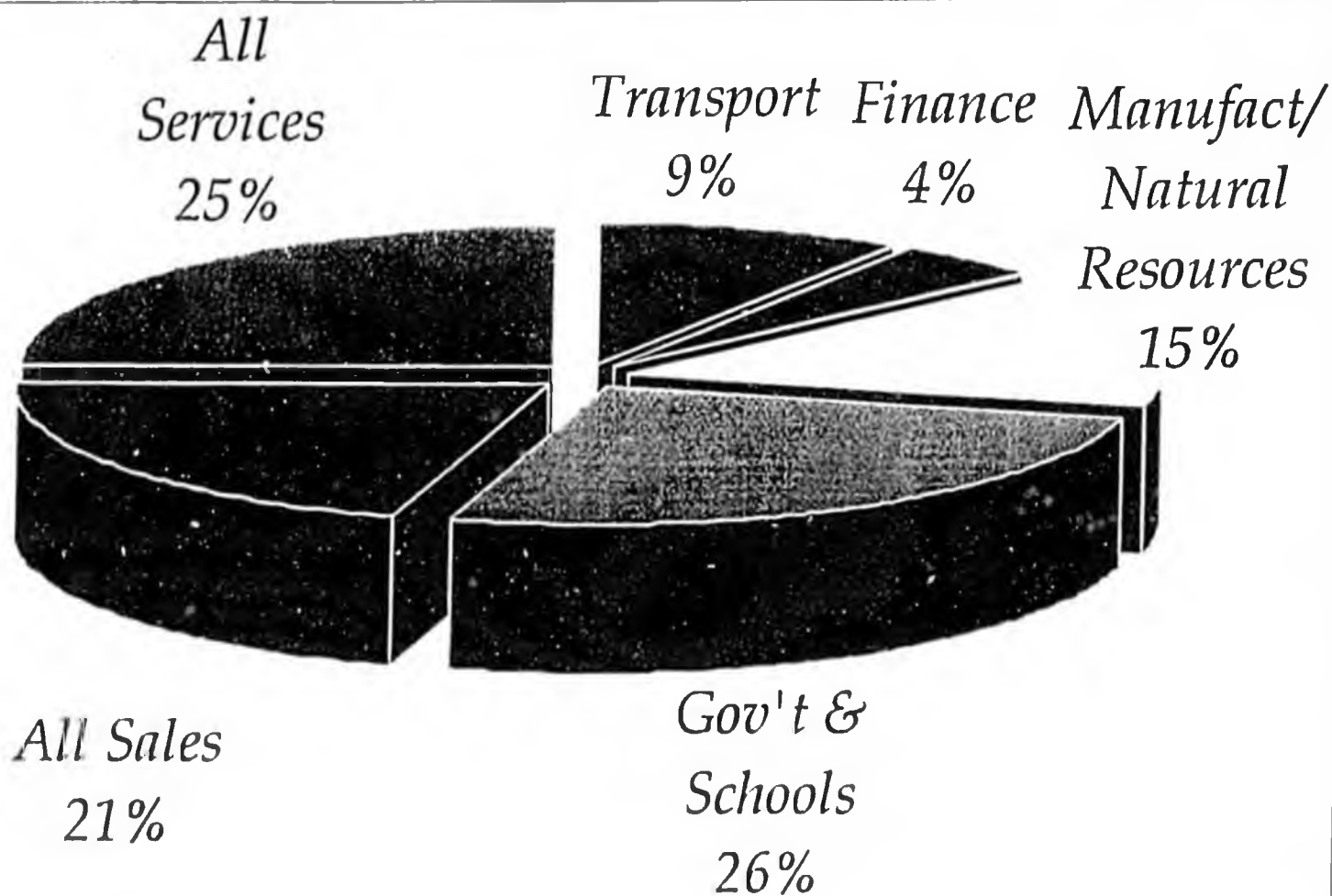
FURTHER RESOLVED that the task force report include recommendations that ensure budget reductions be shared equitably between the state and the municipal governments; and be it

FURTHER RESOLVED that the task force is terminated on June 30, 1992.



285,700 Jobs in Alaska -

(9/98 AK-DOL - Non-Agricultural Employment)



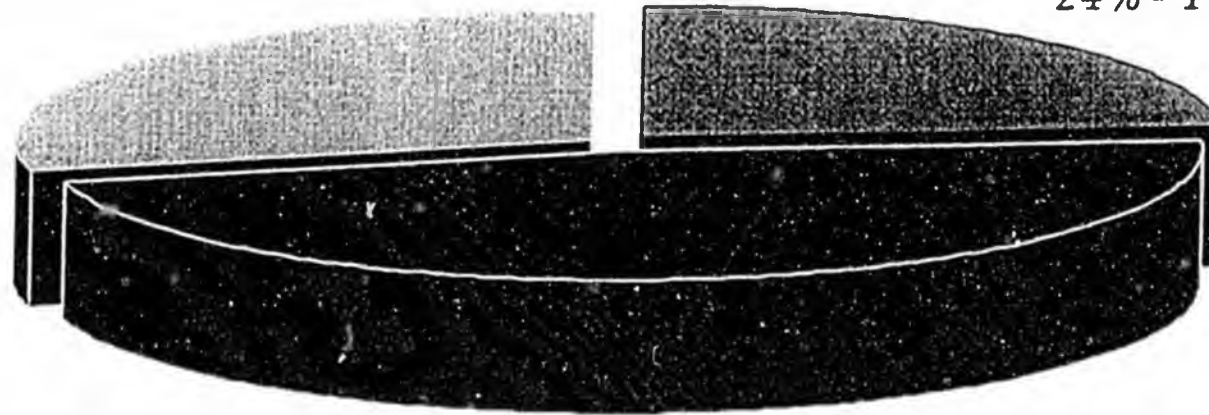


State/Local Government Jobs in Alaska - 73,200 Jobs

*Government Jobs in Alaska
AKDOL September 1998*

*State Jobs
29% - 21,100*

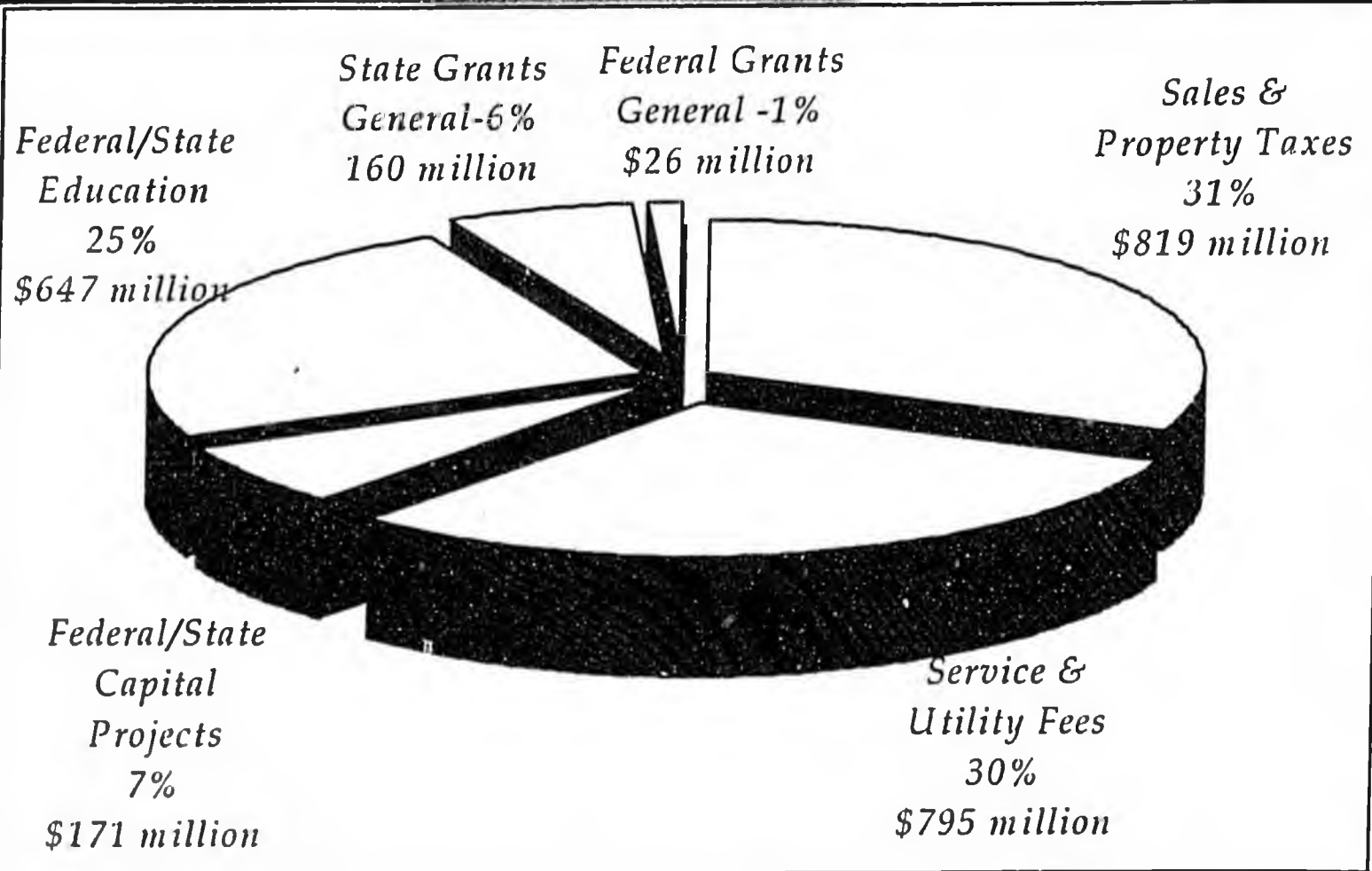
*Federal Jobs
24% - 17,500*

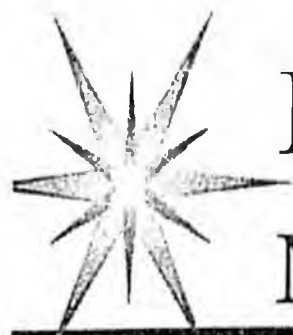


*Local Gov't
and Schools
47% - 34,600*

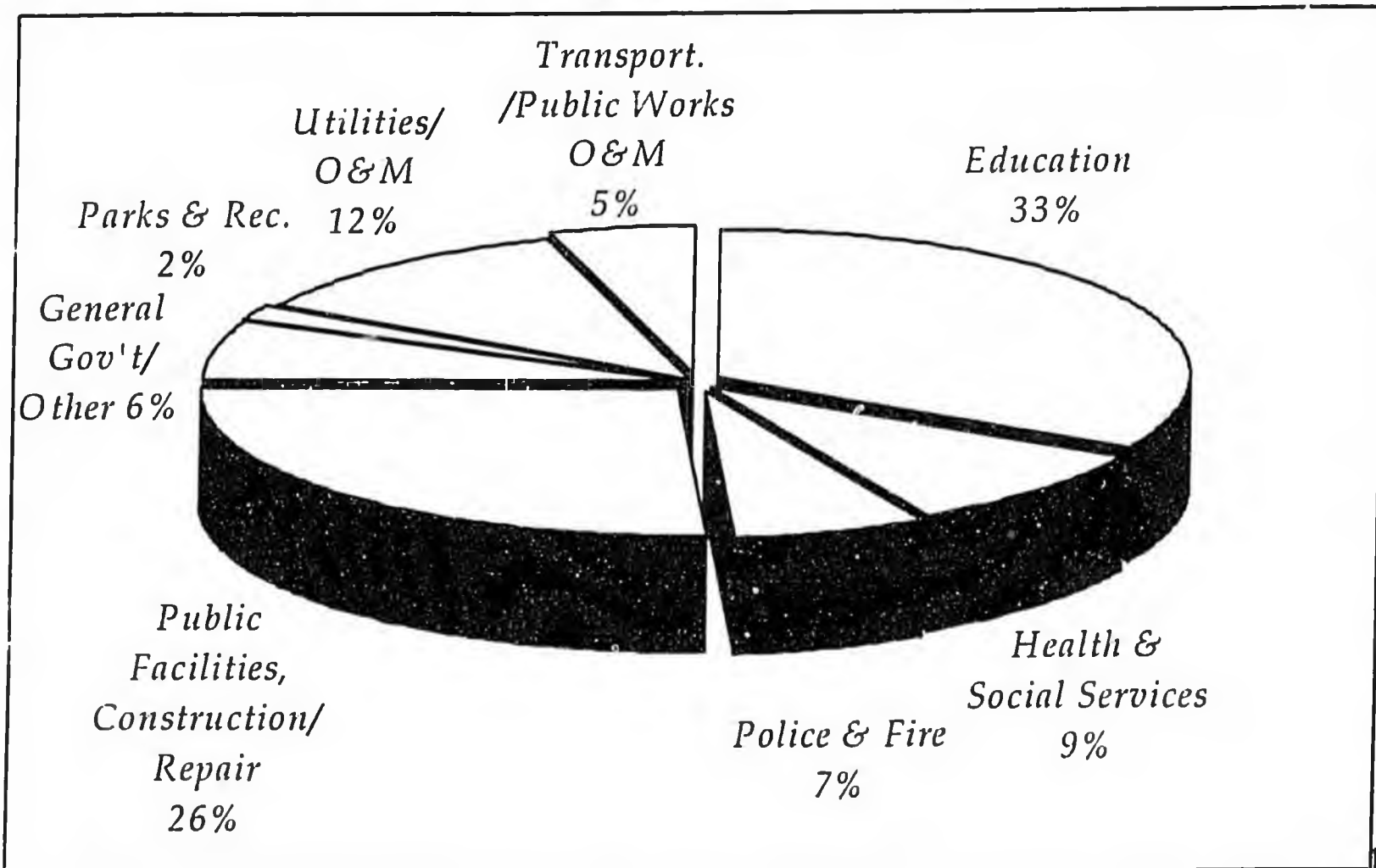


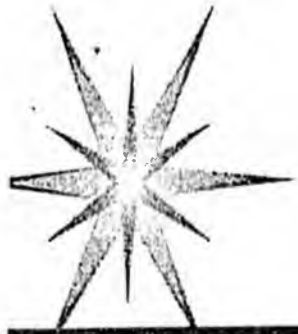
Local Government - Where the Money Comes From (\$2.6 Billion)





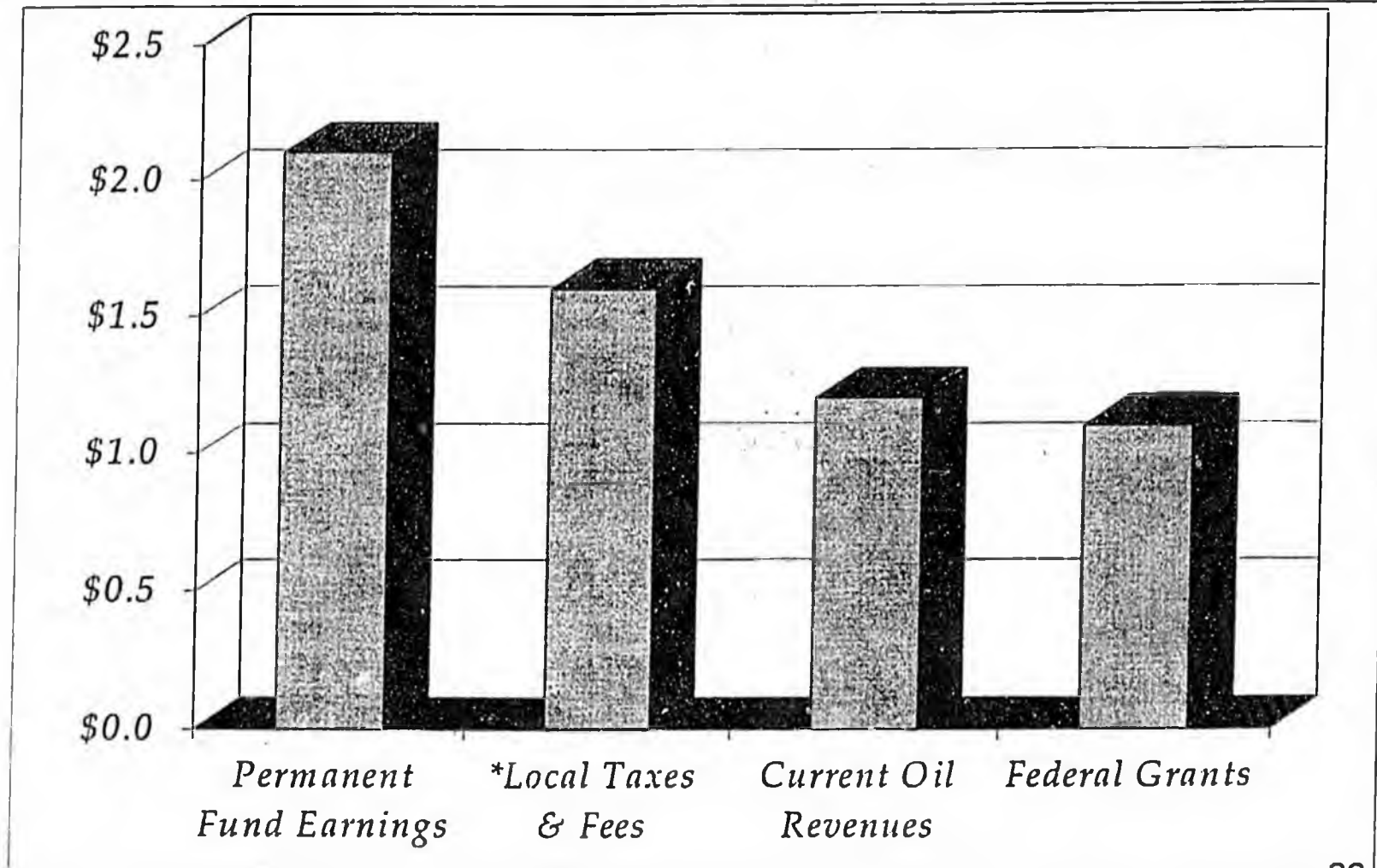
Local Government - Where the Money Goes - \$2.6 Billion





Top Alaska Current Revenues

(in \$ billions)



State of the

A New Alaska Fiscal Plan and

"... municipalities now provide approximately half of all state/local public services with a smaller percentage of state financial support than ever before."

Alaska's municipal governments have accepted the challenge of being full partners with state government in providing public services to Alaskans.

To help balance the state budget, municipalities and local taxpayers have "stepped up to the plate." After many difficult local choices, **municipalities now provide approximately half of all state/local public services** with a smaller percentage of state financial support than ever before. The price has been steadily rising local taxes to pay for the same, or fewer, public services.

Despite federal mandates and accelerating transfers of responsibility from the State for key services such as roads, harbors, and education, municipalities have kept the growth of their combined **budgets to an average of approximately 1% per year** for the past five years. However, significant cuts in state financial support for stabilizing local taxes have caused local taxes and fees to rise at a much higher rate.

In 1997, **total municipal taxes and other local fees rose to over \$1.6 billion**, surpassing projected oil revenues for the first time.

In the past, the State failed to analyze the impacts of its budget decisions on local services, local economies, and local taxpayers. It can no longer fail to do so, nor can it solve Alaska's future problems without asking for help from Alaska's communities.

Municipalities in 1999

the Growing Role of Local Government

The most critical issue facing Alaskans in 1999 is the need for the people to agree to a fiscal plan for public services that is affordable to individuals and businesses. This is not just a state government issue, but one that impacts every Alaskan.

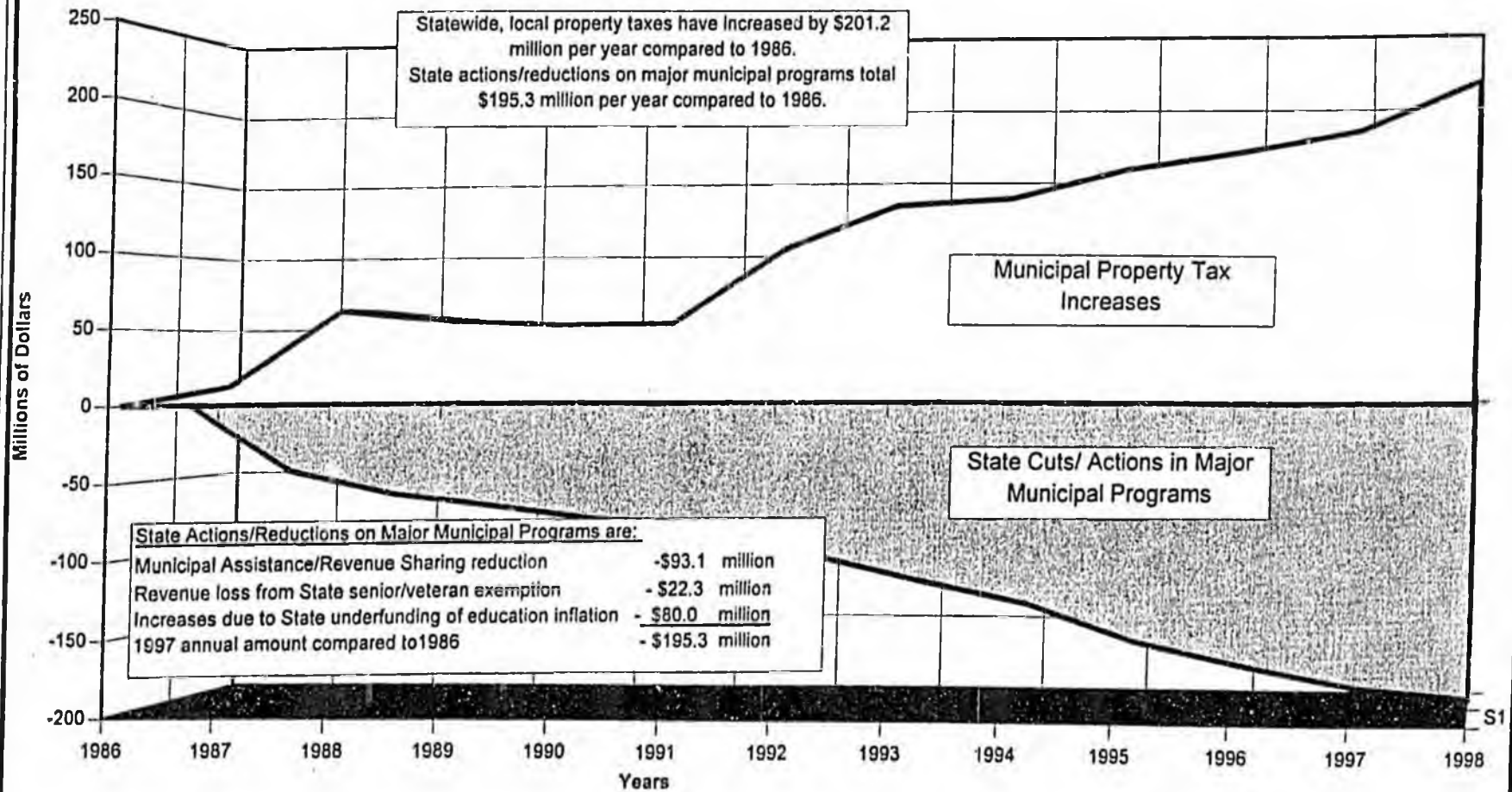
The Alaska Municipal League and Alaska Conference of Mayors believe we must all work together to resolve this issue while Alaska still has a strong economy and a full range of financial and economic options available. We are asking **every community to involve its citizens in understanding the benefits of, and the need for, a fiscal plan** and evaluating the options to keep Alaska's communities and economy strong.

In any fiscal plan, it is critical that all tax and service **impacts on citizens, businesses, and communities be openly and fully evaluated**. State budget decisions have a direct impact on local economies, critical local services, and local taxes.

Municipalities are willing to debate reductions to state programs that stabilize local property taxes, **however, the property tax and service impacts of those cuts must be openly analyzed** so the public can compare increased local taxes to other options in the fiscal plan.

"Municipalities are willing to debate reductions to state programs that stabilize local property taxes, however, the property tax and service impacts of those cuts must be openly analyzed..."

State Actions on Major Municipal Programs are the Primary Factor in Local Property Tax Increases
 (Increase in Property Taxes vs State Actions/ Reductions on Major Municipal Programs)



Source: "Alaska Taxable" 1986 to 1998, Dept. of Community & Regional Affairs; Department of Education funding reports 1986 to 1997.

Property Tax Facts: Comparisons With Other States¹

- Since 1986, every dollar paid by Alaskans in increased property taxes is approximately equal to state budget reductions and other actions impacting municipal revenues. This comparison does not include transfers of state service responsibilities to municipalities, or increased state and federal mandates.
- According to the National Association of State Legislatures (NCSL), **Alaska has raised property taxes as a percentage of total state and local revenues more than any other state since 1970.** Twenty-one states reduced property tax reliance by more than 10 percent. Only eight states increased the role of the property tax in state-local finance, with Alaska leading the nation.
- According to the NCSL, in 1970, Alaska was 42nd out of 50 states in state-local reliance on property taxes; in 1992, it was 20th.
- According to *Governing Magazine*, "1999 State & Local Sourcebook," in FY 95, **Alaska was 6th highest in per capita property tax out of the 50 states.** (If you exclude oil and gas property taxes, Alaska is approximately 25th.)
- The NCSL report also states that nationwide "property tax reliance will show a further decline when the statistics from the late 1990's become available." However, **Alaska is continuing the fiscal policy of disproportionately cutting municipal revenues, which causes an increase in local property taxes.**

¹ "Critical Issues in State-Local Fiscal Policy- A Guide to Local Option Taxes", National Conference of State Legislatures (NCSL), November, 1997; *Governing Magazine* "1999 State & Local Sourcebook" in FY95.

"Alaska has raised property taxes as a percentage of total state and local revenues more than any other state since 1970."

“Seamless” State/Local Public Services Affect Local Taxpayers

Most key state/local services are jointly funded and delivered by both state and local government, or “seamless.” The public is generally not aware of which government supplies the service. Road maintenance is a good example of a “seamless” service. Most citizens travel on both state and local roads. If either the state or local government fails to maintain its portion of the road system, the entire road system fails. Other examples of “seamless” state/local services include:

- schools and school construction
- deferred maintenance of public facilities
- police/troopers
- jails
- roads and harbors
- airports
- water and sewer construction
- health care and clinics
- social services and alcohol/mental health treatment
- environmental regulation
- economic development

State cuts in “seamless” state/local services require the impacted municipalities to fill the “service gap,” or accept elimination of a service deemed critical to local citizens.

State cuts to municipal revenue sharing and “seamless” state/local services **may “seem less” in terms of the State budget, but the problem is just shifted to local communities and taxpayers.”**

“State cuts to municipal revenue sharing and “seamless” state/local services may “seem less” in terms of the State budget, but the problem is just shifted to local communities and taxpayers.”

Alaska State Legislature
House of Representatives
Minority Leader

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Representative Ethan Berkowitz
District 13

House Concurrent Resolution 6

"Establishing a Task Force on the Impacts of Transfers of Governmental Functions to Local Governments."

Sponsor Statement

As the State of Alaska works to reduce spending we contemplate cessation of certain services. Local governments, by necessity or by desire, will provide some services eliminated in state government.

These changes have significant effects on both the local governments and Alaskan taxpayers. For example, reductions in Municipal Assistance by the State of Alaska have resulted in corresponding increases in taxes collected by municipalities.

While this devolution is not necessarily a bad idea, the Legislature needs to work with local governments to mitigate the effects of transferring, or eliminating, state services to local governments.

House Concurrent Resolution 6 establishes a Task Force consisting of three Senators and three Representatives, two majority members and one minority member of the respective bodies, to study the effects of transferring services from state to local government. The Task Force will work during the interim between the first and second sessions of the 21st Alaska State Legislature and report its findings in the spring of 2000. The goal is to assure that budget reductions and transfers of state functions take place in an orderly and well thought out manner.

I would appreciate your support of this legislation.

CRITICAL ISSUES IN STATE- LOCAL FISCAL POLICY

Sorting Out State and Local Responsibilities

Foundation for State Legislatures
and
National Conference of State Legislatures



National Conference of State Legislatures
William T. Pound, Executive Director

1560 Broadway, Suite 700
Denver, Colorado 80202

444 North Capitol Street, N.W., Suite 515
Washington, D.C. 20001

July 1997



The National Conference of State Legislatures serves the legislators and staffs of the nation's 50 states, its commonwealths, and territories. NCSL is a bipartisan organization with three objectives:

- To improve the quality and effectiveness of state legislatures,
- To foster interstate communication and cooperation,
- To ensure states a strong cohesive voice in the federal system.

The Conference operates from offices in Denver, Colorado, and Washington, D.C.



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FOREWORD

Ten years ago, the National Conference of State Legislatures convened a Task Force on State-Local Relations to examine critical issues in state-local relations. The task force issued a 1987 report that challenged states to reassess their policies toward local governments, and it developed a set of recommendations and principles designed to guide this process. Task force members were convinced that reduced federal aid for state and local governments, combined with public concern about state and local government accountability and efficiency, would provide the impetus for changes in established state-local relationships.

The changing legislative and economic environment of the late 1990s has brought new urgency to the challenges addressed by the task force 10 years ago. Some of the major challenges facing state and local governments in the late 1990s include the following:

- New federal laws will completely revamp the welfare system and pave the way for deregulation of the telecommunications and electric utility industries. These changes have implications for state and local revenues and expenditures.
- The health care industry is transforming itself through consolidation and managed care, and cost containment efforts will intensify in the next five years. State and local governments will continue to play major roles in health care financing and service delivery, even if the current Medicaid program is restructured.
- Technology is altering the way Americans shop and do business, with implications for how state and local governments deliver services and raise revenues to pay for those services.
- State and local governments face more constitutional and statutory constraints on their ability to tax and spend.

These issues have important consequences for state and local governments, which will assume more responsibility for funding services at a time when their ability to raise revenue is constrained. To manage this period of transition, state and local governments must review their systems for delivering and funding services with the goal of improving efficiency and accountability to the taxpayers.

This Fiscal Foundation Partners project—*Critical Issues in State-Local Fiscal Policy*—builds upon the earlier work of the Task Force on State-Local Relations, recognizing the realities of today's environment.

The project consists of two reports. This first report includes principles to evaluate the sorting out of state and local government responsibilities. The second report discusses the evolution of state-local revenue systems and provides guidelines for evaluating local revenue diversification proposals.

These reports are not intended to provide a prescription for state action or to recommend a specific set of state-local policies. Rather, they provide state legislators with a framework for evaluating their state-local fiscal policies. The unique traditions, values and fiscal characteristics of each state will ultimately determine the design of its state-local system.

PREFACE AND ACKNOWLEDGMENTS

Several members of the National Conference of State Legislatures' (NCSL) Foundation for State Legislatures convened in 1991 to discuss how they could assist in the development of sound state fiscal policy. They concurred that they could pool their resources to examine specific areas of state fiscal policy and then make recommendations on these state fiscal policy issues. This group, known as the Foundation Fiscal Partners, supports the NCSL Fiscal Affairs Program in an ongoing effort to improve the quality of fiscal information available to state policymakers.

A key goal of the partnership is to improve the dialogue among state legislators, business representatives and other organizations interested in state fiscal policy decisions. By increasing awareness among the participants, these groups have developed an effective partnership to address such concerns as fair and stable tax systems and strengthening the budget process.

Critical Issues in State-Local Fiscal Policy is the fourth Foundation Fiscal Partners project. Previous Foundation Fiscal Partners' projects include:

- *Principles of a High Quality State Revenue System* (November 1992)
- *Fundamentals of Sound State Budgeting Practices* (May 1995)
- *State Strategies to Manage Budget Shortfalls* (December 1996)

Participating Legislators and Legislative Staff

Senator Charles Horn, Ohio

Representative Willie Logan Jr., Florida

Senator David Nething, North Dakota

Senate President Tom Norton, Colorado

Delegate Howard P. Rawlings, Maryland

Representative Ann Rest, Minnesota

Paul Dlugolecki, Executive Director, Senate Minority Appropriations, Pennsylvania

Ted Ferris, Staff Director, Joint Legislative Budget Committee, Arizona

Jamie Franklin, Staff Administrator, Legislative Research Commission, Kentucky

Harry A. Green, Executive/Research Director, Advisory Commission on Intergovernmental Relations, Tennessee

Robert Keaton, Director, Senate Office of Fiscal and Policy Development, Louisiana

Stephen A. Klein, Legislative Fiscal Officer, Joint Fiscal Office, Vermont

Alan Kooney, Legislative Budget and Finance Officer, New Jersey

Abraham Lackman, Secretary, Senate Finance Committee, New York

Philip Leone, Director, Joint Legislative Audit and Review Commission, Virginia
Leo Memmott, Legislative Fiscal Analyst, Utah
Dennis Prouty, Director, Legislative Fiscal Bureau, Iowa
Stephen Price, Staff Director, House Appropriations Committee, Missouri
Gary Olson, Director, Senate Fiscal Agency, Michigan
Peter Schaafsma, Executive Director, California Debt and Investment Advisory Commission

Representatives of the Foundation Fiscal Partners

American Federation of State, County and Municipal Employees: Marcia Howard, Economic Policy Analyst, Department of Public Policy; Marie Monrad, Associate Director, Department of Public Policy
Committee on State Taxation: Douglas Lindholm, Legislative Director, representing AT&T, Ford Motor Company, American Express, Coca Cola and General Electric
International Council of Shopping Centers: Russell Pratt, Staff Vice President; Richard Warren, Director of State Relations
National Education Association: Joseph A. Falzon, Research Specialist; Janis Hagey, State Policy Affairs Coordinator; Ed Hurley, Research Specialist
National Soft Drink Association: Kevin Perry, State and Local Affairs
NCSL Foundation for State Legislatures: Jerry Sohns
Philip Morris Management Corporation: Derek Crawford, Director, Government Affairs Planning; John Dunham, Fiscal Issues Manager

Scott Mackey and Judy Zelio are the principal authors of this report. Corina Eckl, Ron Snell and Leann Stelzer provided valuable editing advice, Bruce Holdeman designed the cover, and Lisa Houlihan prepared the report for publication.

SORTING OUT STATE AND LOCAL RESPONSIBILITIES

The nation is experiencing a transition as state governments take back some of the responsibilities that the federal government had assumed between the 1930s and the 1970s. Voter pressure for fiscal discipline at all levels of government is causing state and local governments to assess (and possibly rearrange) their varied responsibilities for funding and delivering services. In sorting out, legislatures have a responsibility to determine the roles of the public and private sectors in service delivery and assign financing responsibility. This report provides five principles as a framework to help guide the sorting out process.

What is Sorting Out?

Sorting out is the process of deciding two critical issues in the relationship between state and local government:

- Which level of government should finance services, and
- Which level of government should deliver those services.

Sorting out governmental responsibilities presumes that a more fundamental question—whether government should provide the service at all—has been considered and answered affirmatively. Because local governments derive their powers from the states, it is then the responsibility of the state legislature to sort out the roles and responsibilities of state and local governments.

A major benefit of sorting out government responsibilities is to make governments accountable to taxpayers for the quality, effectiveness and efficiency of services. Alice Rivlin, in her 1992 book *Reviving the American Dream*, argues that the overlapping responsibilities of federal and state governments make it impossible for citizens to assign responsibility for the success or failure of programs. The same argument applies to state and local governments.

Government or Not?

Any sorting out process must begin with the fundamental question: Should government provide this service? Growing fiscal constraints at all levels of government in the coming years may prompt policymakers to ask this question more frequently and, in some cases,

respond that the private or nonprofit sectors are the most appropriate providers. The government's contribution to this process may be simply to provide incentives or reduce regulatory obstacles. Whether government has a role in financing services provided by private or nonprofit providers is another question. Government responses will vary, depending upon such factors as efficiency levels, cost effectiveness, accountability and political considerations.

Partnerships that combine government and nongovernment efforts are common. And, in many instances, these public-private partnerships have been successful.

Cases in Sorting Out: The V'Burg Initiative, a Public-Private Partnership

A unique combination of transitional housing, support services, and education and training in Vicksburg, Miss., was created through a public-private partnership with the purpose of moving low-income women out of welfare and toward self-sufficiency.

The V'Burg Initiative, a nonprofit development organization, was founded in 1989 by the city. Its Self-Sufficiency Committee, which represents 13 human service agencies, coordinates services provided by a network of 28 county agencies. Several federal programs subsidize child care, transportation, meals and social services, supplemented by the United Way and other private sources. The nine-unit housing development, including a child care and adult training facility, cost \$1.1 million. It was constructed debt-free with financing that included \$500,000 from the state's Community Development Block Grant program. The state made these funds available under a special competition to select innovative projects that proposed linking affordable housing and comprehensive services as a model for helping Mississippi's low-income population gain economic independence. Other financing included \$453,233 from the city, \$430,000 from the county, donations by the local utility of heating systems worth \$62,400, a \$30,282 grant from the regional Public Housing Authority, and contributions totaling \$18,000 from banks and local businesses. Professionals donated their services—such as appraisal and environmental impact assessment—to many elements of the development.

State or Local Responsibility?

Once the decision is made that government should provide a service, legislatures have an important responsibility to design a financing and delivery system that is rational, efficient and accountable. This first requires a state to determine which level of government should provide a service. If local government is determined to be the appropriate provider, the next decision must be whether the state should assist with financing.

For some state and local programs, such as education, the state constitution provides explicit guidance about the responsibility for funding and delivering services. In most cases, however, state constitutions are silent on the issue. It is then up to policymakers to determine the appropriate mix of service delivery and financing.

The sorting out process requires an explicit recognition of the disparities in the wealth of local governments. A legislative decision to shift program responsibility to local

governments could mean that certain services would no longer be provided because some local governments could not afford them, while other more affluent localities become magnets for people in need of these services. To address this concern, some states have adjusted their aid programs or have allowed local option taxes.

The sorting out process often involves weighing the tradeoffs between important, but sometimes contradictory, principles. For example, local governments may better understand the public's needs because they are closer to the citizens they serve. On the other hand, local viewpoints may not take into account the priorities of a broader state constituency. Ultimately, state traditions, values and fiscal systems will lead policymakers to decide which principles will guide their sorting out decisions.

Setting the Stage for Sorting Out

Policymakers first need to decide whether government should have a role in providing a service. If a government role is appropriate, sorting out principles can provide guidance in deciding which level of government is appropriate to finance and deliver the program or service.

Principles for Sorting Out

The following five principles constitute a framework for sorting out responsibilities between state and local governments. They encourage states to review the goals of the state-local government system and to evaluate how proposed changes in the roles and responsibilities of state and local governments can further those goals.

The five sorting out principles are these:

1. Provide the clearest possible separation of responsibility between state and local governments.
2. Assign program responsibility to the lowest possible level of government unless there is an important reason to do otherwise.
3. Consider the fiscal effects of state mandates on local governments, and either assume financing responsibility for costly mandates, allow local discretion in implementing them or repeal them.
4. Assume state responsibility for programs where uniformity or statewide benefits will result.
5. Provide state financial assistance to local governments that have the lowest capacity to raise their own revenue.

PRINCIPLE 1

Provide the clearest possible separation of responsibility between state and local governments.

When the responsibilities of state and local governments overlap, citizens have difficulty recognizing and assigning responsibility for the success or failure of programs. A key goal of sorting out should be to provide the clearest possible separation of responsibility between state and local governments.

The primary benefits of separate responsibilities are administrative efficiency, accountability and a reduced potential for cost shifting. Having fewer governments involved in programs should reduce paperwork, minimize duplication and decrease administrative costs. Separation also allows the public to hold a single government accountable for the success or failure of programs. Finally, separation eliminates the cost shifting that can occur when state and local governments share financial responsibility.

Ideally, separation should apply to both the financing and delivery of services. Policymakers should reexamine jointly funded programs to determine if justification still exists for state aid. Legislators may find programs that once needed state support may have met their funding or programmatic goals.

Resistance to change can complicate sorting out decisions. Attempts to modify existing state-local systems of financing and delivering programs that are the results of earlier political decisions and processes will create significant practical problems, particularly in areas like education and social services. Joint arrangements to share data or offer one-stop services may make fiscal sense.

Additionally, strict adherence to the separation principle may be inappropriate for certain programs or services. Application of this principle, for example, would require states to stop providing aid for K-12 education or assume responsibility for education from local school boards. Neither of these alternatives is likely to be acceptable from either a policy or a political perspective.

Cases in Sorting Out: The Special Case of Education

The special case of elementary and secondary (K-12) education illustrates the tradeoffs states face when trying to sort out the roles of state and local governments in financing and delivering services.

Although primary responsibility for delivering educational services rests with local school districts, the average state spends about one-third of its total general fund budget on state aid for K-12 education. This funding plays an important role in equalizing disparities between rich and poor communities, as well as in minimizing the burden of the local school property tax.

States have a well-established role in funding K-12 education. In some states this role is determined by the state constitution, which explicitly assigns responsibility for providing "adequate" or "efficient" education. In others, state supreme courts have assigned this responsibility to state government with little guidance on how to implement the court's ruling to achieve adequacy or efficiency.

K-12 education clearly violates the separation principle, sometimes creating friction between the state and those local school districts that want local control. States have increased the use of mandates to impose educational standards, rules and procedures on local governments. In Michigan, several school districts are suing the state because they claim the state has violated a constitutional prohibition against unfunded mandates. The state claims that state aid provided over the years has been more than adequate to fund these mandates.

State education programs clearly provide an important statewide benefit—an educated work force and citizenry. State aid programs also use the redistributive power of state government to target aid to the poorest school districts.

Most states have decided that the benefits of state education aid programs outweigh the problems they create and have determined that a joint state-local role is appropriate. There are two exceptions, however. In Hawaii, the state fully funds and delivers educational services without local government involvement. In New Hampshire, local school districts have almost complete control over educational funding and delivery decisions. A state foundation program provides just 8 percent of education funding, mostly for special education programs that have been mandated in local districts by federal court orders.

PRINCIPLE 2

Assign program responsibility to the lowest possible level of government unless there is an important reason to do otherwise.

Program responsibilities should be assigned to the lowest possible level of government to foster accountability and best meet local citizens' needs.

This principle fosters greater accountability because local government officials typically are more visible and accessible to citizens than state government officials. At the same time, local governments often have a better understanding of the service needs of local citizens. When the state determines service levels, citizens in different regions may receive more or fewer services than they want or need. Additionally, many types of local services such as public safety, fire protection and street repair are funded by property taxes or user fees collected locally. In many instances, local taxpayers determine their levels of service by accepting or rejecting local tax proposals.

An important caveat in principle 2 is the qualifying phrase "...unless there is an important reason to do otherwise." There are some basic issues that policymakers should consider when deciding if there is an important reason for a state role.

First, economies of scale in certain government functions may allow the state to provide services more efficiently than local governments. For example, the state may provide collection and audit services for local governments levying a local sales tax. Duplication of functions thus can be avoided, saving taxpayer dollars. Advances in technology may create additional savings if local governments can benefit from linkages to state computer systems and technology.

Second, some programs create spillover benefits or costs in a region that encompasses many local jurisdictions. This often occurs in large metropolitan areas. A single local government within the region may not respond at the optimum level if it takes into account only the effects on its residents. In such cases, regional or state financing and delivery of services may be preferable.

Finally, fiscal disparities—mismatches between needs and resources—among local governments might lead policymakers to conclude that a state role is necessary. Poorer jurisdictions often have higher service needs but lack the funding to finance them. Many states have assumed full funding of health and social service programs because of such fiscal disparities. Principle 5 further addresses the role of fiscal disparities between local governments and state policies to alleviate such disparities.

Cases in Sorting Out: Jails and Corrections Spending

Jails serve a local public safety function. They usually are county institutions. Their main purpose is to confine people awaiting trial or other legal disposition, adults serving short sentences (generally one year or less) or some combination of both. Local funding and operation of jails is probably appropriate to the extent that these corrections expenses depend on local preferences about strict law enforcement and sentencing.

Six states—Alaska, Connecticut, Delaware, Hawaii, Rhode Island and Vermont—have assumed full responsibility for the jail function. Four of these states are geographically small. Prisons and jails form one integrated system, so they have no local spending. There are significant variations among the other 44 states in terms of how responsibilities for particular functions are assigned. For example, some prisoners who would be held in state prisons in some states may be housed in local jails in others.

Local governments fund about one-third of direct state and local corrections spending, most of which is used to operate local jails. In 1991, the level of real per capita local corrections spending varied widely, ranging from \$56.01 in New York to \$4.20 in Mississippi. Local corrections spending generally is higher in states with large urban areas. California, New York and Texas have some of the largest jails in the country.

Local governments assumed a much larger share of responsibility for corrections spending between 1980 and 1991, possibly because of increased placement of state prisoners in local jails due to overcrowding in state facilities. State reimbursement to localities for the cost of housing these prisoners often does not cover the full cost. In 1992, Texas had the largest number of state prisoners in local jails, followed by Louisiana, New Jersey and Virginia. Virginia has provided local governments with financial incentives to organize regional jails to achieve economies of scale and improve service levels. As new state prisons become operational, it is likely that some of the pressure on local jails will ease.

Sources: *Jails: Intergovernmental Dimensions of a Local Problem*. Washington, D.C.: U.S. Advisory Commission on Intergovernmental Relations (n.d.).

Analyzing the Growth of State-Local Corrections Spending. Albany: Center for the Study of the States, 1995.

State Aid to Local Governments for Corrections Programs. Denver: National Conference of State Legislatures, 1989.

PRINCIPLE 3

Consider the fiscal effects of state mandates on local governments, and either assume financing responsibility for costly mandates, allow local discretion in implementing them or repeal them.

States sometimes impose requirements—mandates—on local governments to meet state social or economic policy objectives. These can create a hardship for local governments when they are given service responsibilities without adequate means to finance the delivery. Local officials argue that state mandates override local service needs and spending priorities, increase local tax burdens and are an inappropriate use of state power. From the state perspective, because local governments derive their powers from the state, mandating certain services and procedures is a legitimate use of state authority either to ensure uniformity or equity, achieve statewide benefits or encourage good public administration procedures.

Not all mandates are equally onerous in their financial effects on local governments. “Good government” mandates like those requiring public meetings or requiring minimum qualifications for local officeholders, for instance, may not impose significant expense upon local governments and presumably benefit all citizens.

States may want to consider at least three options with respect to mandates.

- Assume state responsibility for financing the mandated programs and services.
- Allow local governments discretion in implementing mandated programs and services.
- Repeal the mandates.

At a minimum, policymakers should closely examine any requirements that could impose significant costs on local governments. These decisions should generally reflect policymakers’ decisions under Principle 1—separation of responsibility.

Assessment of the fiscal effects of mandates on local governments is an important step in determining whether the state should assume financing responsibility. The fiscal note process that many states use during the development of legislation can alert state and local governments about the costs of new mandates. Some states—Virginia and South Carolina, for example—catalog existing mandates as an initial step to keep mandates under control. Other states have taken a different approach. At least 15 states have a constitutional or statutory requirement that the state assume some financial responsibility for mandates on local governments.

Cases in Sorting Out: What Are Mandates?

The U.S. Advisory Commission on Intergovernmental Relations (ACIR) has defined mandates as "constitutional, statutory or administrative action that limits or places requirements on local governments." Key categories of mandates include:

- Entitlement mandates that qualify all citizens who meet state-imposed guidelines to be eligible for locally funded services or benefits.
- Service level mandates that require certain minimum service or benefit levels to be provided by local governments.
- Personnel mandates that impose personnel procedures, guidelines, or salary and benefit requirements on local governments.
- Structural mandates that dictate how local government functions must be organized and structured.
- "Good government" mandates that impose public notice, open meeting, open records or other similar requirements.
- Tax base mandates that either provide certain exemptions from local tax bases—usually property tax exemptions—or restrict local revenue raising options.

PRINCIPLE 4

Assume state responsibility for programs where uniformity or statewide benefits will result.

As part of the sorting out process, state policymakers may want to ask whether some level of uniformity is needed when considering program responsibilities. If statewide uniformity is a goal or if there are statewide benefits in providing programs and services, the state may want to assume the responsibility for financing those programs and services.

State-determined uniformity in program benefits may prevent undesirable service level variations, particularly in programs that provide transfer payments to households. Uniformity also may minimize administrative costs and discourage migration by those seeking higher benefits. Voluntary uniformity and cost savings might result from the threat of migration, with local governments reducing benefits to stay in line with neighboring jurisdictions. The potential effects of migration may vary by state size and level of urbanization.

States that do establish uniform benefit levels will need to provide funding for those programs. Imposing uniformity requirements without funding can cause significant financial hardship in some localities. Localities with low fiscal capacity due to few taxable resources often have less flexibility to accommodate additional spending than those with a more valuable revenue base.

State policymakers also will want to consider the values and traditions of the state in determining how broadly to define "statewide benefits." For example, states may choose to establish minimum standards in areas such as air and water quality to ensure that all state citizens benefit equally.

Cases in Sorting Out: Trial Court Funding in California

Policymakers in California are considering uniformity in the context of sorting out state and local responsibilities for trial court funding. The 1997-98 California Governor's Budget proposes to address several problems with the trial court funding system. According to the California Legislative Analyst's Office, the current system of funding fails to promote equal access to justice, does not adequately provide for accountability, and strains county finances and state-county relationships.

Three levels of courts comprise California's judicial system—the state Supreme Court, the courts of appeals and the trial courts. The state funds the first two, while state and county resources together fund the trial courts. The Legislative Analyst's Office points out that the state has a clear interest in equal access to justice. Those accused of comparable crimes expect state laws to be applied uniformly, regardless of the county in which the crime occurs. Under the current trial court system, which depends on county fiscal capacity and budget priorities, disparities in access to the courts and the administration of justice may occur.

In addition, neither the state nor the counties can exercise effective fiscal oversight of court operations. Counties have limited ability to control court costs and review court operations. The state is limited as well. Since individual court system funding levels are determined by individual counties, the state may have difficulty using fiscal incentives or sanctions to promote its goals for court operations.

The governor's proposal would transfer funding responsibility from the counties to the state to ensure uniformity. Policy control and funding responsibility would be consolidated with the same level of government, thus improving accountability.

Source: California Legislative Analyst's Office, Sacramento, 1997.

Cases in Sorting Out: General Assistance Programs

The passage of comprehensive federal welfare reform legislation in 1996 prompted some states to review state and local roles in providing cash assistance to the poor. Federal welfare reform created a new state block grant program—Temporary Assistance to Needy Families (TANF). TANF replaced a federal entitlement program jointly funded by federal and state governments (and local governments in some states). TANF places a five-year limit on federal welfare benefits and removes most legal immigrants from eligibility for federal welfare benefits.

Many state and local governments provide assistance to poor citizens who are not eligible for TANF. These general assistance (GA) programs currently operate in at least one locality in 41 states and the District of Columbia. The programs are administered and funded either by the state or by local governments (usually counties) or a combination of the two. General assistance programs fall into five categories: state control and state funding, state control and state-local funding, state-local control and state-local funding, local control and local funding, and no program (see map).

The repeal of federal welfare entitlement status and the elimination of benefits for legal immigrants has prompted concern by local governments that former TANF recipients may transfer to GA programs, especially where states set most program guidelines but local governments provide much of the funding. This arrangement provides little discretion for local governments to adjust benefit levels or eligibility criteria to meet their budget constraints unless the states modify program requirements. State concerns about local control of benefits and eligibility focus on lack of uniformity.

The majority of the states—38 in all—either have no program or have programs that assign both funding and program control to a single level of government.

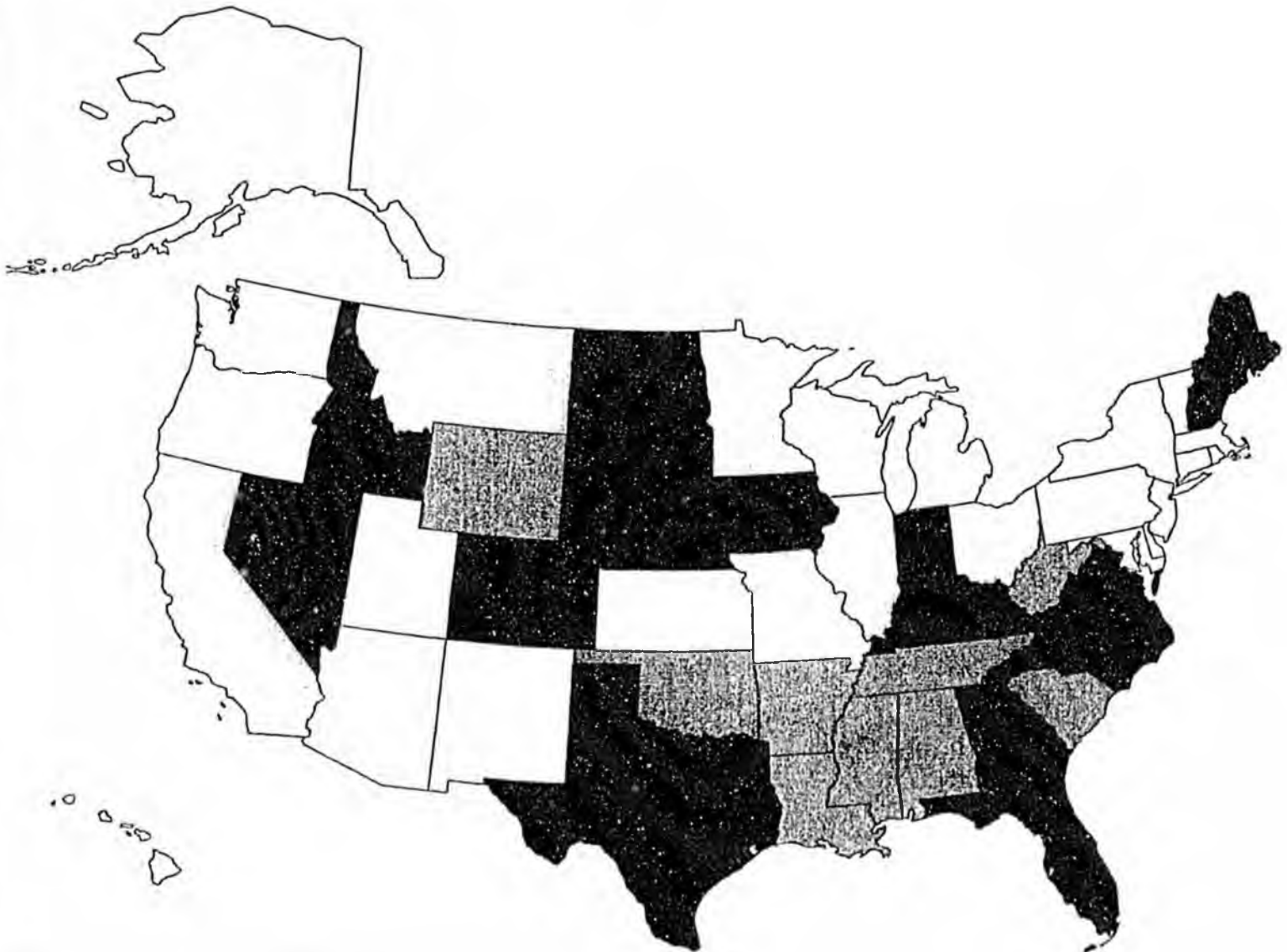
Since 1992, several states have acted to give local governments more control over GA programs. California allowed counties to reduce benefit levels below previously mandated state levels. Three other states—Connecticut, Minnesota and Ohio—eliminated the requirement that local GA programs provide benefits to able-bodied adults without children. Wisconsin replaced its mandated county GA program with a program of optional block grants that allow counties to set benefit levels.

Principles of sorting out would support program funding and control at the same level of government. In those states that decide uniformity is needed, the program should be administered and funded at the state level. Otherwise, the principles support devolving program control and funding to local governments.

Sources: National General Assistance Survey, 1992. Washington, D.C.: Center on Budget and Policy Priorities and National Conference of State Legislatures.

Uccello, Cori E. and L. Jerome Gallagher. "General Assistance Programs: The State-Based Part of the Safety Net." Washington, D.C.: The Urban Institute, 1997.

State General Assistance Programs: Control and Funding



State General Assistance		
	State Control and State Funding	(17)
	State Control and State-Local Funding	(9)
	State-Local Control and State-Local Funding	(4)
	Local Control and Local Funding	(12)
	No Program	(9)

Note: No information is available for Puerto Rico.

Sources: *National General Assistance Survey, 1992.* Washington, D.C.: Center on Budget and Policy Priorities and National Conference of State Legislatures.

PRINCIPLE 5

Provide state financial assistance to local governments that have the lowest capacity to raise their own revenue.

Poorer localities may have difficulty raising revenues from their own sources. As states consider sorting out, they need to recognize that poorer localities are likely to be disproportionately burdened by new responsibilities. At the same time, these local governments may face a greater demand for poverty related services. State aid programs should serve an equalizing function by attempting to minimize, rather than exacerbate, fiscal disparities between wealthier and poorer localities.

The ability of local governments to raise revenue from their own sources depends upon many factors. The relative wealth of a local jurisdiction—as measured by its tax base—is probably the most important factor. Limits on property taxes and the availability of local option taxes, however, also can affect local government fiscal resources. Some restrictions on local revenues are constitutional, while others are imposed by the legislature.

States are well suited to minimize fiscal disparities between wealthy and poor local jurisdictions. The state tax base is spread over a large geographical area that includes both wealthy and poor regions. Many states also rely upon the income tax for a significant share of their revenues. Income taxes tend to be less burdensome on poorer residents. This combination allows states to use both expenditure and tax policy to alleviate fiscal disparities.

Cases in Sorting Out: Minnesota's Fiscal Disparities Program

Fiscal disparities—imbalances between public service needs and financial resources in certain communities—are addressed in Minnesota through a property tax base sharing program that involves seven metropolitan counties. The shared tax base is redistributed to all municipalities on the basis of a formula that uses as its factors population and market value of taxable real property. It is designed to redress the problem of uneven distribution of property tax base that results from concentrations of commercial-industrial development in some areas. "Fiscal capacity is defined as equalized market value per capita. Equalized market value is market value adjusted for differential assessment levels between jurisdictions," explain Karen Baker and Stephen Hinze, Minnesota House legislative analysts. "Other things being equal, businesses are more likely to expand in communities with high fiscal capacity (because of low tax rates), further exacerbating differences in fiscal well-being." A disadvantage of the program is its administrative complexity. Advantages are that tax base sharing can spread the fiscal benefits of business development and encourage orderly growth. Older areas in need of redevelopment also can receive additional resources.

Source: Research Department, Minnesota House of Representatives, St. Paul, Minn.

CONCLUSION

The nation is moving into what economist John Shannon has called "middle of the road federalism," in which neither the federal government nor state governments clearly dominate the fiscal landscape. States are responding to technological, political and fiscal changes by reevaluating services and making new decisions about which level of government should have which responsibilities. State legislatures must design service delivery systems that encourage rational and efficient actions by state and local governments. They must consider the effect of state decisions on the ability of local governments to respond to community needs. They must determine the appropriate source of funding for programs. Five principles to guide the sorting out of these responsibilities are discussed in this report. The principles assume that policymakers have decided that government is the appropriate financing and delivery system for the services under consideration.

The sorting out process involves tradeoffs; the relative importance of these tradeoffs will depend upon existing state fiscal systems, traditions and values. A state's responsibility for uniformity, for example, may have to be weighed against local autonomy. On one hand, local governments may better understand the public's needs because they are closer to the citizens they serve. On the other hand, local viewpoints may not take into account the priorities of a broader state constituency. Accountability may be easiest to determine when only one level of government—preferably the lowest level—has funding and service responsibilities. However, not all local governments have the same service needs and financing capacity. These are some of the considerations that state lawmakers must weigh as they reshape our complex state-local fiscal system.

FISCAL NOTE

STATE OF ALASKA
1999 LEGISLATIVE SESSION

BILL NO. HCR 6

Revision Date: 4/20/99

Dept. Affected _____

Title: Task Force: Transfer State Functions

BRU _____

Sponsor: Berkowitz

Component _____

Requestor: CRH - House

Component Serial No. _____

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1091 Designated Program Receipts						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY98) cost: _____

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation has no fiscal impact

Prepared by

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Phone _____

House Community & Regional Affairs

Date: 4/20/99