

**INTERIM REPORT OF THE
JOINT LEGISLATIVE
AUDIT AND REVIEW COMMISSION ON**

**State and Federal Mandates
on Local Governments
and Their Fiscal Impact**

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



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Preface

Senate Joint Resolution 45 and House Joint Resolution 156, passed during the 1990 Session of the General Assembly, direct the Joint Legislative Audit and Review Commission (JLARC) to study State and federal mandates on local governments and the fiscal impact of these mandates. The resolutions require that an interim report be prepared for the 1991 Session of the General Assembly and that the final report be presented to the 1992 General Assembly Session.

The study is a follow-up to a JLARC report prepared in 1983, entitled *State Mandates on Local Governments and Local Financial Resources*. The original study examined the burdensomeness of State mandates, and the adequacy of State financial assistance and local financial resources in meeting State mandates. The current study will reexamine these issues.

Identification of the study's research activities was begun in late 1990. This interim report outlines the major research activities to be conducted, and summarizes the past JLARC studies related to mandates. The majority of the research will be conducted during 1991. Our findings and recommendations will be reported prior to the 1992 General Assembly Session.



Philip A. Leone
Director

January 31, 1991

STATE AND FEDERAL MANDATES ON LOCAL GOVERNMENTS AND THEIR FISCAL IMPACT

An Interim Report to the 1991 Virginia General Assembly

State and federal mandates have been a long-term concern to local government officials. Increased service costs, slowed revenue growth, and reduced federal aid have added to the financial stress faced by many localities. Federal and State officials generally view mandates as a legitimate and necessary tool for implementing State policies. While local officials also tend to recognize the necessity of mandates, they have been critical of the continuous enforcement of mandates without, as they perceive, sufficient monetary resources to comply.

In 1983, the Joint Legislative Audit and Review Commission (JLARC) issued a report entitled *State Mandates on Local Governments and Local Financial Resources*. To address the continuing concerns of local governments, the General Assembly in 1990 directed JLARC to conduct a follow-up to the 1983 study. The study resolutions (House Joint Resolution 156, Senate Joint Resolution 45) direct JLARC to submit an interim report to the 1991 Session of the General Assembly and a final report to the 1992 General Assembly Session.

This interim report contains two components. First, it provides an overview of previous JLARC studies related to State mandates on local governments. Second, the general study approach to be used in the forthcoming follow-up review is presented.

OVERVIEW OF PREVIOUS JLARC STUDIES: MANDATES ON LOCAL GOVERNMENTS

In the past decade, the General Assembly has focused much of its attention and efforts on exploring ways of improving State-local relations. This interest is evidenced, in part, by a series of JLARC studies concentrating on facets of the State's relationships with local governments. These reports include: *State Mandates on Local Governments and Local Financial Resources* (1983), *Local Fiscal Stress and State Aid* (1985), and *Towns in Virginia* (1985).

The 1983 mandates study addressed three primary objectives: (1) to identify State mandates and the extent to which they impose a burden on local governments;

(2) to examine the adequacy of the amount and type of State financial assistance to localities; and (3) to determine whether local governments have sufficient local financial resources to fund the public services they are required to provide.

The study found that although many localities had expressed concern with State mandates overall, there was little consensus on the unreasonableness of specific mandates. Rather, localities repeatedly cited funding as the key problem with mandates. Specifically, JLARC found that State funding of mandates for the educational standards of quality, special education, and the auxiliary grant program had not kept pace with historical State commitments and was inconsistent with the high level of State control in these areas.

The study also found that localities had experienced various financial stresses in recent years and that many local governments had eroding financial conditions. As part of this study, JLARC developed a measure of relative local financial condition — the fiscal stress index. As reflected in this index, cities in particular showed multiple signs of fiscal stress.

Several policy options were recommended to alleviate the identified problems, including increased funding of State-mandated programs such as education. Subsequent JLARC reports focusing on educational funding recommended specific options to improve the State's funding of the standards of quality.

The 1983 JLARC report received considerable attention from both legislators and local officials. As a result, follow-up reports on local fiscal stress and towns were prepared.

The 1985 local fiscal stress report updated the fiscal stress index and examined State aid appropriations allocated to localities since the time of the original report. Based on these analyses, the study found two indications of improved local financial condition. First, State aid to localities had increased. Second, there was a moderation or leveling off of local tax efforts. Subsequent to the 1985 report, the Commission on Local Government began to refine these local fiscal indicators. The Commission on Local Government now regularly promulgates reports including these fiscal measures.

The follow-up report on towns focused on the fiscal condition of towns, their ability to provide services, and relations between towns and counties. Because of a lack of data, fiscal condition indicators for towns could not be prepared. Based on qualitative review, the study found that towns, especially when compared to cities, did not appear subject to as high a level of fiscal stress. This lower level of stress was attributed to the fact that towns were generally not involved in the provision of high-cost public services. However, the study did conclude that declines in federal revenue sharing and other intergovernmental aid could increase fiscal stress in towns.

Among the recommendations of the three JLARC reports was a call for increased analysis and use of fiscal indicators in distributing State aid to local govern-

ments. This approach has achieved increased acceptance and use through the efforts of the Commission on Local Government. Indicators of local financial condition are now used in the distribution of funding for housing and community development, water control, State and local hospitals, and community health departments. As part of the current study effort, JLARC will review the implementation status of the JLARC recommendations related to mandates and local financial condition and will assess the impact of those recommendations and policy options on current local fiscal condition.

1990 JLARC REVIEW

House Joint Resolution 156 and Senate Joint Resolution 45 (Appendix A), passed by the 1990 Session of the General Assembly, direct JLARC to study State and federal mandates on local governments and the fiscal impact of these mandates. These resolutions demonstrate the continuing interest of the Legislature in examining the problems faced by local governments and in potentially improving State-local relations.

Study Mandate and Issues

The specific provisions of HJR 156 and SJR 45 require JLARC to conduct a follow-up study focusing on:

- (1) the responsibilities of local governments for providing public services;
- (2) the differences in the responsibilities of cities, counties, and towns;
- (3) sources of revenue available to localities;
- (4) additional revenue sources that could be used to provide public services;
and
- (5) the Commonwealth's responsibilities for providing public services and procedures for aiding local governments.

In addition JLARC is to consider:

- (1) the fiscal impact for localities in attempting to achieve State-required standards in the fields of education, mental health and mental retardation, public health, social services, and environmental protection;
- (2) the types of intergovernmental relationships which would be necessary for localities to efficiently and effectively provide services at levels required by the Commonwealth;

- (3) the Commonwealth's responsibilities in providing technical and financial assistance to local governments; and
- (4) avenues or revenue sources that the Commonwealth and localities should consider utilizing in order to provide such public services.

The study issues will focus on these provisions.

Though this study is largely a follow-up to the 1983 JLARC report, it does move beyond the original report in three important ways. First, the study resolutions call for the identification of federal as well as State mandates imposed on local governments. Second, the study requires the identification of mandate costs in specified areas. Third, the service delivery structures used by the State and local governments in providing mandated services are to be examined.

Definition of Mandate

The scope of government mandating is potentially very broad and extensive. Further, definitions of mandates can vary by state, agency, or administrator involved. The 1983 mandates report defines mandates as constitutional, statutory, or administrative actions that place requirements on local governments. Mandates were subdivided into three types:

- Compulsory orders: requirements with which localities must comply;
- Conditions of State financial aid: requirements that arise as a condition of receiving financial aid from the State; and
- State regulation of optional activities: activities which are not mandated but are subject to State regulations if performed.

The study team is currently examining this definition as well as alternative ones to identify the most appropriate mandates definition for this review.

Research Activities

The data sources, methods of data collection, and analysis used in this study will build on those used in the 1983 mandates study. Much of the research will center around four cross-cutting data collection methods — a survey of State agencies, a survey of local governments, interviews with State agency personnel, and interviews with local officials. Information collected through these activities will be used to address a variety of study issues, including an analysis of the fiscal impact of mandates on localities and an assessment of service delivery structures.

Survey of State Agencies. A survey instrument will be mailed to all State agencies which administer mandates or provide funds to local governments. From this survey, JLARC staff will identify the mandates administered by each State agency and the types and levels of assistance provided to localities. Follow-up telephone calls will be conducted to ensure the accuracy and completeness of the survey responses.

Survey of Local Governments. A survey instrument will be sent to local government officials to collect programmatic and financial data about each locality. The survey will also be used to garner the opinions and judgments of local officials about State and federal mandates, the adequacy of State assistance to localities, the financial condition of their localities, and methods of service delivery. In addition, the survey will be used to obtain specific information about actions localities may have taken or would like to take to respond to difficult financial conditions.

Interviews with State Agency Personnel. Structured interviews will be conducted with staff at agencies which oversee programs in the areas of education, mental health and mental retardation, public health, social services, and environmental protection. The interviews will be used to trace the evolution of State and local service responsibilities and methods of service delivery, to understand the origin of mandates (State and/or federally generated), to understand the relationship between the different levels of government, to determine the adequacy of State aid, and to analyze the process for adopting new administrative mandates.

Interviews with Local Government Officials. Interviews with officials at selected localities are currently being conducted to obtain local government input into the study's research design. Additional visits to localities will be conducted during the course of the study to follow up on responses to the local government survey, and to explore in more detail the impact of selected mandates on the locality and the financial problems existing in that locality. Future visits to localities will include discussions with staff overseeing programs in the areas of education, mental health and mental retardation, public health, social services, and environmental protection.

Other Research Activities. Other research activities for the study will include reviews of fiscal data promulgated by the Commission on Local Government, document reviews, and contacts with officials in the federal government and other states. Additional research activities will be identified as the study progresses.

GENERAL ASSEMBLY OF VIRGINIA--1990 SESSION

HOUSE JOINT RESOLUTION NO. 156

Requesting the Joint Legislative Audit and Review Commission to study state and federal mandates on local governments and the fiscal impact of the mandates.

Agreed to by the House of Delegates, March 9, 1990

Agreed to by the Senate, March 7, 1990

WHEREAS, the Legislative Program Review and Evaluation Act of 1978 (§ 30-66 et seq. of the Code of Virginia) provides for the Joint Legislative Audit and Review Commission to conduct a systematic evaluation of state government according to schedules and areas designated for study by the General Assembly; and

WHEREAS, increased service costs, slowed revenue growth, and reduced federal aid have created financial stress for many localities; and

WHEREAS, local governments are recognized as political subdivisions of the Commonwealth and many localities have unique characteristics and capabilities which need to be considered; and

WHEREAS, local governments have been required to comply with a growing number of statutory and regulatory requirements in order to serve useful public purposes which have been identified by the state and federal governments; and

WHEREAS, local efforts to comply with such requirements have continued to impose additional fiscal pressures upon local governments; and

WHEREAS, local governments have continued to rely primarily upon real property taxes for an average of forty percent of their revenues, and the real property tax effort among Virginia's localities ranks second among all Southern states; and

WHEREAS, the rate of increase in the true value of real estate has slowed in recent years, and the local governments should have methods other than real property taxes to deal with state mandates; and

WHEREAS, in 1984, the Joint Legislative Audit and Review Commission reported that localities consistently cited lack of funding as the primary problem in complying with state mandates; and

WHEREAS, there is a continuous need to study the many complex issues concerning federal, state, and local relations, including but not limited to, federal and state mandates on local governments and their fiscal impact on local government; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Joint Legislative Audit and Review Commission shall conduct a follow-up study focusing on the (i) responsibilities of local governments for providing public services; (ii) differences in the responsibilities of cities, counties, and towns; (iii) sources of revenue available to localities; (iv) additional revenue sources that could be used to provide public services; and (v) the Commonwealth's responsibilities for providing public services and procedures for aiding local governments.

The Joint Legislative Audit and Review Commission shall also consider the following issues: (i) the fiscal impact for localities in attempting to achieve state-required standards in the fields of education, mental health and mental retardation, public health, social services, and environmental protection; (ii) the types of intergovernmental relationships which would be necessary for localities to efficiently and effectively provide services at levels required by the Commonwealth; (iii) the Commonwealth's responsibilities in providing technical and financial assistance to local governments; and (iv) avenues or revenue sources that the Commonwealth and localities should consider utilizing in order to provide such public services.

Local governments and state agencies are requested to cooperate by providing any information that the Joint Legislative Audit and Review Commission deems necessary for the purpose of completing its study.

The Commission shall submit an interim report of its progress to the Governor and the 1991 Session of the General Assembly and shall complete its work in time to submit its recommendations and final report to the Governor and the 1992 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents. The Commission is further encouraged to present its study plan and interim and final reports to the Local Government Advisory Council for its review and consideration.

SENATE JOINT RESOLUTION NO. 45

Requesting the Joint Legislative Audit and Review Commission to study state and federal mandates on local governments and the fiscal impact of the mandates.

Agreed to by the Senate, March 9, 1990

Agreed to by the House of Delegates, March 7, 1990

WHEREAS, the Legislative Program Review and Evaluation Act of 1978 (§ 30-66 et seq. of the Code of Virginia) provides for the Joint Legislative Audit and Review Commission to conduct a systematic evaluation of state government according to schedules and areas designated for study by the General Assembly; and

WHEREAS, increased service costs, slowed revenue growth, and reduced federal aid have created financial stress for many localities; and

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