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# Struggle for balance; Three views of financial management

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FINANCIAL MANAGEMENT  
IN THE PUBLIC SECTOR

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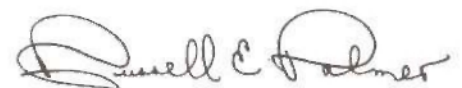
**The  
struggle  
for  
balance**

The struggle to balance the budget in the public sector has a long tradition. A recent era of expanding budgets at all levels of government, however, appears to be over—at least for the immediate future. Cleveland and New York have taught us one lesson, Proposition 13 another.

Difficult decisions, of course, remain for citizens and public officials alike. What happens, for example, should fiscal responsibility conflict with the citizens' quality of life? How can public officials best respond?

Touche Ross has long been in the center of the decision-making process that is shaping the way our cities, counties, and states will operate in the decades ahead. We know, too, that certain criteria are essential for wise decisions to be made. Paramount among them are a better understanding of the public issues and an awareness of the fiscal complexities that must be resolved.

This special issue of TEMPO is designed to increase such awareness. The survival of our local governments is not in question. However, the direction of change and growth is very much an issue. And between the lines in the pages that follow lies evidence that today's public officials are already preparing for the fiscal challenges of the 1980s.



MANAGING PARTNER

## 1 A state's view

by MICHAEL DUKAKIS/Ex-Governor of Massachusetts

*The need to change the way we help America's city and town centers is clear and immediate. Many changes can be accomplished by executive action at the state and federal level. Such administrative acts can, in fact, create a climate of public support for new legislative action.*

### **State vs. City: The Historical Record**

The record of the states in dealing with cities is long and inglorious.

In the past, states have literally paved the way for the flow of jobs from the cities by upgrading roads and providing countless highway interchanges for industrial parks and shopping malls—all at public expense. And state-approved industrial revenue bonds have often been the vehicle for industry to flee from central cities to the suburbs.

Too often, decisions on state-controlled construction for sewers, roads, parks, and state offices have been made with no consideration of how such programs affect one another and how they will influence future private investment. The possibility of combining such programs to give urban areas an economic boost is often ignored or even resisted by state agencies.

Taken together, these past mistakes might seem to make a compelling argument for excluding state governments from participation in a national urban policy. But, on the basis of our experience in Massachusetts, I have arrived at just the opposite conclusion. Stated very simply—how can a national urban policy possibly succeed if the states continue to subsidize suburban sprawl?

The critical role of states in a national urban policy must no longer be ignored or underestimated. State governments have both the money and the power to bring stability and



*Michael Dukakis, as governor, visits Chelsea community leaders.*

vitality back to our nation's cities.

States administer the bulk of federal funds for such basic public facilities as roads, sewers, and parks. States provide more direct local aid than the federal government. States are in the best position to respond to disproportionate tax burdens between cities and suburbs, to redlining in urban neighborhoods, and to discriminatory zoning practices in the suburbs.

States can streamline regulatory permits and offer incentives for urban development. And states can establish special agencies to finance new jobs and housing in urban areas.

States are also in the best position to correct the rigid inequities of some federal programs. The priorities of the Environmental Pro-

tection Agency and the Federal Highway Administration are the most glaring examples where change is essential. EPA makes it easy for us to run a new sewer through a cornfield, but almost impossible to repair and upgrade city sewers. The Federal Highway Administration provides billions each year to tear up, widen, and landscape our superb interstate system; but when money is needed for unsafe city streets jammed with trucks, the cupboard is bare.

The priorities have to change. The only way they can be made to change is a combination of leadership, persuasion, and active cooperation of federal, state, and local government with labor, business, and community leaders.



## A state's view

### The Massachusetts Urban Strategy

When I became governor in 1975, Massachusetts was in the throes of an unbelievably difficult fiscal and economic situation. Our state budget was hundreds of millions of dollars in the red, and our economy was declining precipitously. In short, we could not afford vast new appropriations for our cities, nor could we, even if it had been desirable, take on vast new land use programs.

Instead, we decided to concentrate on turning all of our existing state regulatory powers and public investment programs in the direction of one goal: reinforcement of older city and town centers and expansion of their industrial and job bases.

We established a Development Cabinet consisting of the lieutenant governor, the heads of concerned departments, and the director of state planning. Together we sat down with mayors, city councilmen, and business and labor leaders in each of the state's older urban centers. We urged them to identify what made each of their communities distinctive: interesting and architecturally-significant buildings and schools, unusual neighborhoods, and unique assets like rivers, canals, and harbors and ports which could be incorporated into a total urban development plan.

We agreed that little-used or abandoned buildings could be recycled for housing, industry, restaurants, and recreation. We agreed that older downtowns need people and that good publicly-assisted housing for elderly citizens and families of moderate income could be comfortably located above stores or in existing older commercial and industrial buildings which were close to downtown stores,

theaters, shops, and restaurants.

But above all, we assured them that we would commit the combined resources and powers of state government to stimulate new investment in our older cities and town centers—especially in such new capital facilities as buildings, roads, and sewers. This would create jobs and generate private development.

A new state college of art combined with a new park and marina will be going into the old Boston Navy Yard in Charlestown. That commitment has helped to stimulate investment by a private developer of millions of dollars in new housing and retail activity at the same site.

A new transportation building committed to the deteriorating theater section of downtown Boston will be a magnet for tax-producing private investment which will quickly surpass the cost to the state. That transportation building will share an open court with the rehabilitated home of the Boston Opera Company. Even before groundbreaking, the building is starting the regeneration of Boston's theater district.

In Lowell, construction of a downtown state park along the mill canals has sparked the rebirth of the city center. In Northampton, relocation of the regional Registry of Motor Vehicles in the downtown area has provided the anchor for main street revitalization. And it looks like the story will be repeated in Haverhill and Worcester, with the rehabilitation of 19th century buildings and new parking facilities.

New rules for state-funded school building assistance require that communities consider rehabilitation or expansion of existing buildings. School committees must now consider the impact of new construction on transportation, sewer, road, and

water main costs. This change has allowed the rehabilitation of historic high schools in the centers of Chicopee, Pittsfield, and Lowell, instead of building costly new schools on the outskirts. Similarly, changes in the state building codes are making conversion and recycling of old buildings a less expensive alternative to tearing them down and rebuilding from scratch.

These changes are working in Massachusetts. Variations on them would work in many states.

Federal encouragement of assistance to states can take several forms. The President's recent executive order requiring federal offices and facilities to use downtown locations is a challenging break with tradition; many states and cities can benefit from it.

Even more important would be federal incentives to the states to make public investments in the areas that need them. This would encourage the states to find out exactly where those areas are and focus their full resources on them.

Such an incentive program would begin to organize and combine the billions of federal and state dollars that are now frittered away on uncoordinated public improvements. Rebuilding antiquated urban water systems, improving mass transit facilities, adapting old buildings to new uses, creating new parks and conservation areas—making all these government programs work in concert to revitalize economically distressed areas will go a long way toward bringing hope and opportunity to the nation's poor and jobless. ◻

*Former Massachusetts governor Michael S. Dukakis was chairman of the Urban Policy Task Force of the National Governor's Association.*

The day after Proposition 13 became law in California, elected officials in the state were faced with a difficult and distressing responsibility—to reduce already tight budgets by eliminating programs, services, new spending initiatives, and public jobs. The City of Los Angeles, for example, anticipated a \$230 million loss in property tax revenue and an uncertain future with regard to its share of state surplus funds.

Soon after, city employees challenged the city to provide already negotiated cost-of-living salary increases. There followed a public outcry about “essential” and “non-essential” services. This push and pull between limited resources and increasing needs is particularly troublesome when it occurs within an urban environment which has steadily relied upon increasing governmental assistance. How will these tensions be resolved? And how will our responses affect the future of our cities?

### **The Demands**

These demands on cities for service and performance come from several sources, among them: 1) federal and state requirements, 2) the urban poor, and 3) the need to preserve and enhance the urban environment.

1. Among the major federal requirements facing the City of Los Angeles are: the *Clean Air Act*, mandating certain air quality standards; the *Safe Drinking Water Act*, establishing standards for the city's drinking water supply; the *Federal Water Pollution Control Act of 1972*, requiring the elimination of ocean disposal of sludge and establishing secondary treatment standards for publicly-owned sewage treatment works; the *National Environmental Protection Act*, requiring detailed

## **A city's view**

by TOM BRADLEY/Mayor, Los Angeles

*Mayor Bradley receives schoolchildren at his office.*

environmental impact analysis and reporting; and the *Civil Rights Act* and other measures which require affirmative action compliance, citizen participation programs, accessibility of facilities for the handicapped, and other procedural mandates.

The costs of compliance, however, are often very high. And although federal funds—an important part of local revenues—are used where available to help achieve compliance, Congress is not obligated to help local government handle the costs of complying with federally mandated programs. By way of contrast, the State of California has legislation which requires that funds needed to implement any state-mandated program be provided to

the local governments. This approach insures that local implementation of such standards will not jeopardize the financial stability of individual cities.

2. Service demands arise from a growing community of urban poor. During the past decade, the number of poor people living in cities has increased as the middle class left for suburban areas. In Los Angeles, the number of families at poverty level rose from 68,000 in 1970 to more than 114,000 in 1977—an increase of 66.7 percent. They now represent roughly 15½ percent of the city's population. Since the poor are traditionally more dependent upon public services to meet both “essential” needs—such as emergency service, shelter, and employment—and



### A city's view

"non-essential" needs—including recreation, cultural, and social services—their demands upon the city have increased significantly in recent years.

3. Demand for service also arises from efforts to revitalize the urban environment. Recent interest in reinvestment and relocation in the central city is slowly bringing back affluent residents—and the solid tax base they represent—to help support the city. Such a commitment to the central city is costly, of course, yet it is vital to the economic stability and growth of both the urban core and the metropolitan area.

It is important, however, that revitalization does not mean that the affluent return to the core city and the poor become displaced to the metropolitan fringes. This would merely reshuffle the problem. The competing demands placed upon cities require the achievement of a wholesome environment for both affluent and poor, for both commercial and residential needs.

#### The Resources

On the opposite side of the ledger, cities must examine the resources available to meet local needs. Because Proposition 13 had effectively reduced a local government's reliance on property taxes, for example, there has been a tendency to utilize a "user tax" approach, where the levy is paid by the direct recipient of the service. But not only is this a less significant funding source, it is also regressive in terms of the urban poor—those least able to pay for the services they need.

There is discussion that alternative taxes, such as the sales tax, might be increased. While this is an unlikely prospect—given the Proposition 13

requirement that new taxes be ratified by two-thirds of all registered voters—the sales tax also places a disproportionate share of the burden on lower income persons.

In 1978, the California state surplus became a major source of new revenue, providing roughly \$77 million to Los Angeles. This gain, however, is temporary; and it is questionable as a dependable source of revenue. Yet, local dependence on federal funds as a revenue source is increasing, and will continue to increase. A recent survey by the Advisory Commission on Intergovernmental Relations noted that direct federal funds received by Los Angeles were estimated at 39.8 percent of the city's own general revenues in 1978. This brings with it a shift of control and power away from local government and toward the federal government.


What are some of the solutions available to help local government with limited resources meet the increasing demand for services? One is efficient and cost-effective operations. Red tape is not only cumbersome but costly. Thus, consolidating grant requirements, reorganizing departmental functions, and coordinating services are means of improving effectiveness. Given the interdependence among all levels of government, continued cooperation among these levels can help the public sector to provide the highest quality of service possible. From the city perspective, state and federal levels need to (1) recognize limited local resources and (2) make sure funds exist to carry out programs they mandate. They could also help by minimizing restrictions on the use of federal funds. Such programs as general revenue sharing, for example, permit local officials to allocate

funds freely to meet pressing local needs. Unnecessary controls serve only to increase administrative overhead and decrease actual services.

On the local level, we need to use more volunteers to help meet service needs. Volunteers are an untapped community resource. Also, where possible, the local governments must create incentives to encourage private business to share the responsibilities for meeting local urban needs. Innovative, even controversial, solutions must be examined, including such options as regional or metropolitan tax sharing and increasing private sector participation. We must begin to look for creative and resourceful solutions to difficult problems.

#### Conclusion

As long as the demand for services continues to rise and the spending ability of local governments is further limited, these intergovernmental and public/private joint commitments are essential. Of course, the local government's ability to manage its limited resources will improve as the national economy resolves its overriding problem of inflation. Local governments have become the target of criticism because of increases in budgets and spending, whereas many of these increases merely reflect inflationary factors. Other sectors of the economy, however—such as energy, housing, and health care—reflect increased costs at rates beyond both inflation and the rate of increase in government spending.

The tension between limited resources and increasing demands appears to be escalating. Local officials must understand the degree of tension and target their limited resources creatively to answer local needs. 

Perhaps government's greatest challenge today—certainly at the level of local service delivery—can be described as differentiating between real public demands and those that we officials *perceive* as legitimate public demands. For the difference may well be the difference between a viable tax structure and an oppressive rate of taxation.

It is a disturbing truth that any interest group can usually find an audience sympathetic to its needs. Indeed, no one can fault a special interest group for seeking what it perceives to be a sponsor from among appointed or elected officials. Yet, when this group's alleged needs and the local officials' interpretation of those needs are stacked one upon the other, the pyramiding effect on tax monies, and in turn on taxpayers, can be staggering.

How, then, can a legitimate need for a specific service be distinguished from a need that, being worthwhile but limited, is clearly beyond normal public resources? How, indeed, can any government official deal with the public's ever-increasing demands, interpret the basic cost, and continue to live within income limitations?

Several questions are posed. Are these service demands needed? Are the services being delivered efficiently? Have available resources to pay for them fully been tapped? From where can additional funds be drawn? What happens to programs if revenues decline? Given that change is usually necessary, even inevitable, is this particular change needed or merely change for the sake of change? How, in short, shall we meet shifting priorities?

Fulton, the largest and most populous of Georgia's 159 counties—it

## **B** A county's view

by SAM BROWNLEE/Manager, Fulton County, Georgia

*County Manager Brownlee, right, confers with Commissioner Milton Farris.*

includes the city of Atlanta—responded to these questions three decades ago by reorganizing its governing structure. As a result, the board of commissioners now functions somewhat as a corporate board of directors, while the county manager, who is the county's chief executive officer, assumes a responsibility comparable to that of a corporate president. The change in governing methods was not achieved to take politics out of government. Rather, it came about simply to put a trained management team into the daily operation of the county's executive branch.

Has it worked? The answer is, by most standards, "yes!" Of 45 government units in metropolitan Atlanta, an area encompassing nearly 2,000,000

people, Fulton is the only government to have entered its eighth consecutive year without a single mill added to the general levy.

How has it achieved this? Fulton responded to bona fide demands for additional services by replacing certain contracts with municipalities and creating its own police and fire departments, both operated at less cost than before. Then it developed a greatly expanded recreation and parks program with new conventional facilities, instituted and completed a 20-year comprehensive physical planning process with provision for annual review, and established the first of two regional tennis centers. Today, literally dozens of programs, and especially those dealing with human needs and health



**A county's view**

matters, continue to function under a general tax rate that has remained unchanged for most of the decade.

The decisions to implement these programs did not hinge upon political whim or the availability of revenue. They came about through the use of tools available to most governments—public hearings for citizen input, the use of the research facilities of our state universities, and the assistance of in-house professionals and, to a lesser degree, of independent consulting firms. One discovery has been that legitimate needs can often be met most efficiently by private enterprise.

The collection and disposal of solid waste is perhaps the ideal, even classic, example of this. A private contractor was employed following studies by one of our state university's research departments.

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**“The time is long overdue for a more rational meshing of federal and state-local fiscal policy. Recession-triggered state and local layoffs and tax increases, for instance, conflict directly with national-level tax cuts and related steps to stimulate the economy.”**

NEAL R. PEIRCE, columnist

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And experience has since shown that, indeed, such a service cannot be duplicated at the same cost when performed by public employees. This is but a single example of the benefits derived through using private resources with highly spe-

cialized and technological know-how, even though the end product might be as unglamorous and mundane as garbage collection.

It is Fulton's philosophy, but regrettably not the practice of many other local governments, that priorities should be challenged periodically. This is especially true for costly social service programs. In private sector budgets, such research is almost a standing line item.

**How the Needs Are Funded**

Funding is the foundation of all programs and services. Deficit financing should not, under any circumstances, be engaged in. Programs and services must depend on available funds. Proposition 13 certainly revealed nothing new to those of us in government; we already knew the unpopularity of added levies. A partial answer for Fulton, and likely for many of the nation's 3,000 counties, is to be found in such steps as (1) the creation of free zones to attract additional revenues without increasing existing ad valorem, excise, sales, or other taxes; (2) the continued evaluation of service demands and the cost of their implementation; and (3) a more effective interrelationship with other local governments.

Counties, after all, originated as a means to achieve greater decentralized government in the years before the present ease of communications and travel was achieved. Counties are thus a true extension of state constitutional law, in contrast to municipalities, which operate under charters bestowed by the legislature. The traditional problem for counties has been to regain an equitable share of tax monies levied by the state. No one would contend

that each dollar forwarded to the state should be returned penny for penny. Yet a fairer distribution is required, if population centers are to receive adequate resources.

Fulton, for instance, contains an unincorporated area comprising well over half its total size; there are 10 municipalities, moreover, located within the county boundaries. Reputable studies indicate that approximately 29 percent of the state of Georgia's total budget comes from Fulton County. This county alone contributes sales tax revenues to the state greater than its annual budget of \$100 million. That figure is exclusive of inventory, income, and excise taxes, and other levies highly productive to the state. Such a circumstance is not uncommon, of course; but it is one for which county governments must seek reasonable compensation.

As a final comment, the referendum is a reasonably accurate method of measuring public attitudes toward services. It is axiomatic that when the people want a service, they do not care which agency or government provides it. It is the service they want. Equally, if they feel a service is unneeded or bloated by bureaucracy, the ballot may be the surest means of expressing this.

These approaches are tools that any manager in government, as well as in business, might consider using. In brief, the approach to problems of local government can—or should—be essentially the same as the approach to problems in the private sector. For there is a common denominator that government and business have—shareholder reactions. As time goes on, the voter, the public shareholder, will react as corporate shareholders do when confronted by mismanagement. ▲