IMPACT OF FEDERAL AND STATE MANDATES ON LOCAL GOVERNMENTS

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"Fend-for-yourself federalism" as opposed to "new federalism" is the term now used to more precisely describe the federal government's policies that are presently impacting small local governments. It isn't that rural communities are being ignored; on the contrary, they are recognized as a vital link in carrying out national policy. A third of the nation's population lives in communities with 25,000 or less people, and 80 percent of all incorporated places have less than 2,500 residents. Collectively, the 36,000 rural governments account for about 94 percent of all the nation's local general purpose units. The success of any federal program depends on the cooperation of local governments. Most are financially strapped and many are organizationally poor. Fend-for-yourself federalism, exemplified by reduced program funding and continuing mandates, is having lasting impacts on local governments (Sokolow). States are also issuing mandates and sometimes these are more restrictive than federal mandates.

The purpose of this paper is to examine the impact of federal and state mandates on local governments. First, a brief overview of the basic theory of public involvement is presented. Second, an overview of major federal legislation is discussed. Third, the impact of selected legislation on local governments is presented. The paper will attempt to answer the following four questions:

1. What is the justification for federal involvement?
2. What are the major programs and mandates affecting communities?
3. What are the costs associated with meeting the requirements of these mandates?
4. What are the short- and long-term implications of fend-for-yourself federalism?

The Basic Theory of Public Involvement

Basically, there are two reasons why governments get involved with providing goods and services. These involve the case of natural monopolies or where externalities exist. Natural monopolies are created by governments because economies of scale exist and competition is impractical, inconvenient or simply unworkable (McConnell). Examples of natural monopolies include electricity, water, sewer and other utilities. Often the local government is given exclusive rights to provide the utility. In addition, the local government regulates the price such that the profits of a natural monopolist are reduced. By reducing price, the quantity provided is increased. (For a complete explanation see McConnell, pp. 538-545).

Externalities exist when costs or benefits affect someone not directly involved in the production or exchange of a good and it is incurred without compensation. Examples include air and water pollution and recreation. Government action might be necessary to make participants in the market consider externalities. There are two methods the government can use to attempt to set private cost equal to social cost: a Pigouvian tax or regulation. The most commonly prescribed policy is the "Pigouvian tax" in which a tax is placed on producers in an effort to internalize the external costs. Government regulation might be the better policy if society's opportunity cost is greater than anyone is willing to pay. (For a more rigorous discussion see Buchanan).

Major Trends in Legislation

Past public investment in rural areas consisted of federal programs administered by special organizations or agencies, such as cooperatives or planning commissions, or directly by federal agencies. Under this system local leaders were largely ignored. More recent trends have focused on rural development and the spread of national programs and mandates using the local government as an instrument of implementation (Sokolow).

The steps or trends in federal programs seem to be that mandates are first created and grant-in-aid programs are established to carry out the mandates. The programs are then consolidated into block grants or some type of revenue sharing sytem. But, soon these revenue programs are drastically reduced or eliminated, while the mandates remain forcing local government to fend-for-themselves (Esser).

Table 1 highlights a selected number of federal programs and mandates that are significantly impacting local governments. Although this list is by no means all-encompassing, mandates concerning drinking water, effluent standards, solid waste disposal and Medicare consistently appear in the literature as major challenges to financially strapped small local governments.

Impacts on Local Government

The costs associated with meeting the requirements of federal mandates will, of course, vary from community to community depending on the local situation. Nonetheless, some idea of these costs will surface by examining actual case studies performed on communities over each of the major impacting program areas concerning drinking water,

Table 1. Major Programs and Mandates Impacting Local Governments

LEGISLATION	OBLIGATIONS
Ground Water Protection	
Safe Drinking Water Act of 1974, as amended	Local governments required to protect drinking water supplies
Clean Water Requirements	
Federal Water Pollution Control Act of 1972, as amended	Local governments required to meet federal effluent standards
Solid Waste Disposal	
Resource Conservation and Recovery Act of 1976, as amended; Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended	Local governments are strictly liable for the disposal of hazardous and other waste
Medical Care Payments	
1983 Prospective Payment System; Deficit Reduction Act of 1986	Fixed payment system for Medicare costs, and local governments must contribute Medicare payments for employees

Source: Sokolow, p. 7.

sewerage, solid waste and health care. In the case of health care, a simulation model is used to estimate program impacts on a community.

No matter how federal programs and mandates are paid for, ultimately local governments must carry out the programs. This responsibility imposes a significant burden on rural communities faced with the challenge of replacing lost federal funding. Rural areas confront different factors than do their urban neighbors. In this section, case studies are used to illustrate how mandates have and will impact the community's costs of providing services.

To get a better understanding of the dollar impact the Safe Drinking Act might have on local government, a cost comparison was made for the community of Cayuga, New York's (pop. 603 — 1980 est.) water treatment facilities in 1982. The town's system (without federal assistance), had an average cost of water consumed per person per year of $43 (1982 dollars). A new system designed to meet Environmental Protection Agency (EPA) and New York regulatory agency requirements (without federal assistance), was estimated to cost $57.30 (1982 dollars) per person per year. So, in this particular case, requirements increased the average cost by $14.30 (1982 dollars) annually (U.S. Congress).

Handford and Sokolow studied eight small (pop. 981 to 7,540) California communities' attempts to meet the 1972 version of the federal clean water legislation. The construction and engineering costs ranged from

$1.3 million to $6.9 million each. The local cost share ranged between $200,000 to $900,000 each, and the per capita cost fell between $26 to $320 per person. The collective debts of these communities increased from $1.5 million (1973-74) to $2.6 million (1982-83). To cover these additional costs, sewer and connection fees increased two- to threefold.

Summary

The impacts of meeting federal mandates will vary from community to community. In the short-run, significant costs and problems will challenge local leaders. In the long-run, impacts are projected to be quite beneficial as local governments adjust to their new responsibilities.

Short-Term Impacts

Handford and Sokolow describe the short-term impacts of federal mandates, specifically the Clean Water Program, as being a part of the "hardship view." This view states that communities will go through a period of hardships, trials and tribulation while attempting to meet federal program requirements. Communities may encounter construction delays, cost controversies and disagreements. They will suffer from financial problems brought on by increased debts and political backlashes from residents angry over increased fees and/or taxes and/or cuts in services. Land acquisition disputes are common as the community attempts to acquire the needed property to contract or rejuvenate their facilities. Relations with state agencies are strained as community leaders become frustrated over reimbursement disputes, technical assistance and what they perceive as arbitrary state regulations. Local leaders will resist regionalization, fearing a loss of local control. In all, this will be a time of struggle for local governments.

Long-Term Impacts

Handford and Sokolow also observed that over the long-term there are benefits. This view holds that the short-term impacts constitute a constructive learning process in which communities are weaned from their dependence on federal funds and learn to fend for themselves.

Local governments will develop a stronger system of public works finances as increased user charges lead to self-sufficiency. Communities will begin to consolidate their services and form interjursidictional partnerships. Counties will play a more active role in the delivery of services. Regionalization will not be feared as in the earlier stage. Privatization will be more common and public officials will take more risk in the financing and delivering of services. Local officials will improve their general municipal management and grantsmanship skills. The improved capacity of a community's infrastructure will aid local economic development goals. And, finally, leaders will have an increased appreciation of national environmental objectives as water quality improves and they see that local autonomy is not seriously damaged (Handford and Sokolow; Somersan; Dodge; Sokolow and Snavely).

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