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LOCAL FINANCE IN THE SLOVAK REPUBLIC

FINAL REPORT

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ABSTRACT

LOCAL FINANCE IN THE SLOVAK REPUBLIC by Robert E. Firestine
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In January 1993, the Slovak Republic implemented a new system of taxation and intergovernmental finance that represents a dramatic change from past practices. Whereas categorical grants from the central government dominated municipal revenues in the past, municipalities will now receive definite and sizeable shares of property and personal income tax receipts and will have a much freer hand in making their own spending decisions. In the short term, however, it appears that municipalities will receive less in absolute terms since the amounts of the categorical grants eliminated will outweigh transfers received from the new sources. This report describes the new system (basic definitions of each revenue source and budgetary and other processes pertaining to them), shows expected impacts by analyzing budget prospects for two Slovak cities, and offers observations on broader implications and recommendations to improve municipal finance and intergovernmental financial relations. It was prepared as an information base for planning and implementing technical assistance and training programs in municipal strengthening by the ICMA consortium.

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INTRODUCTION

As an early part of the ICMA Consortium's provision of technical assistance and training under the Local Government and Housing Privatization Contract in the Czech and Slovak Republics, this report describes and analyzes the local finance structure and process in the Slovak Republic. This work, and a companion piece for the Czech Republic, are important foundations upon which strong and relevant assessment and advice may subsequently be built. This work was undertaken in the belief that only with a solid understanding of the local budgetary situation and the local finance decisionmaking process in an aid-receiving country can expatriate advice hope to contribute to realistic and constructive change therein.

This document reports on research undertaken in the Slovak Republic during February and April 1993 under the Urban Institute's contract with the U.S. Agency for International Development. This work was intended to provide an overall portrait of local and intergovernmental finance in the Slovak Republic as an early component of the larger project on financing municipal capital expenditures in the Slovak Republic which the Institute is undertaking in collaboration with the International City Managers Association (ICMA).

A companion report, Local Finance in the Czech Republic, was also prepared in the course of this work. Each report stands on its own. Although each report addresses similar topics, there is surprisingly little duplication between the two. While either may be read independently, the reader interested in both will not be forced to wade through pages of repetition. Moreover, some topics covered in this report were not emphasized in the earlier interviewing in the Czech Republic, and both interviews and data acquired on a given topic in one country seldom paralleled those obtained in the second. The more revealing illustrative examples -- especially at the municipal level -- were rarely duplicated across the border. Therefore, some material relevant to both republics may be explicitly treated only in this report, reflecting information obtained only in the Slovak Republic. Thus, some useful insights on the Czech situation may occasionally be inferred from a parallel reading of the Slovak report.

1. SUMMARY OF FINDINGS AND RECOMMENDATIONS

The Problem

The recent moves toward greater independence for municipalities in the Slovak Republic have recorded important achievements in the interests of more responsive and more effective government. In the face of economic uncertainties amidst a tumultuous transition to a market economy, the Republic is still in the process of shifting important governmental responsibilities to municipalities as it may also reassign to them some increased fiscal resources to support those newly-acquired functions.

The redefinition of intergovernmental responsibilities continues, as we await important decisions regarding the regionalization of state administration and perhaps some further devolution of functional responsibilities to the municipal level.

Of more immediate concern for municipalities is the fiscal issue, as it is not evident that the resources available to the municipalities will be adequate to meet their redefined needs. Despite the new tax-sharing arrangement for revenues of the employee income tax and the allocation to municipalities of revenues from the new, to-be-modernized property tax, municipal revenues could fall short of their increased expenditure responsibilities in the immediate future.

In this regard, a particular problem has emerged from the severe but necessary cutbacks in the state subsidies which previously supported the capital spending on former state-owned services and other activities. Indeed, municipal capital spending is endangered throughout the Republic because overall municipal resources appear barely able to support even current expenditures on the newly-enlarged set of municipal responsibilities.

This analysis demonstrates the substantial depth of this capital financing problem and offers several recommendations -- both short-term and longer-term -- for its resolution.

- <u>Immediate issues</u>. What is needed now is immediate support for some important transition steps toward (a) a market-oriented municipal credit system and (b) a more comprehensive intergovernmental finance program.
  - The first concern -- local capital financing through a municipal credit system -- is essential to deal effectively now with the current inability to finance municipal capital improvements in the Republic. Notably, this addresses critical needs to upgrade and expand local water/wastewater treatment systems so as to halt the hemorrhage of untreated effluent into the nation's rivers.
  - The second concern -- development of a more comprehensive intergovernmental finance program -- should also be addressed now because it complements the above concern. A comprehensive program in intergovernmental finance can importantly enhance the recommended efforts in local capital financing while laying a more

secure foundation for democratically-based intergovernmental cooperation in the future. Included here should be the creation of a local finance analysis and monitoring capability at the central as well as local levels that may assure both the state and the local populace that municipal governments are able to carry out their growing local responsibilities honestly and effectively.

- Longer-term issues. Plans should also be made now for subsequent work on municipal and intergovernmental issues. These include assistance in the envisioned reform of the new property tax into a modern, market-value-based local revenue instrument that can importantly enhance the ability of municipalities to finance their own fiscal programs. It also may include consideration of a number of potentially promising approaches to local and intergovernmental finance that may enable the Slovak Republic to find its own way toward effective and responsive governance at all levels.

Recommendations

The proposed municipal credit system, with loans secured by anticipated intergovernmental transfers, could play an effective and important role in ensuring the needed financing for municipal capital improvements in the Republic. While greatly facilitating the required capital financing, it would also help build the necessary skills and experience -- in both municipalities and financial institutions -- that will be essential in the subsequent development of a full-fledged municipal credit market.

Therefore, it is urged that initial steps be taken quickly toward (a) the establishment of such a system and (b) the training of municipal (and perhaps financial institution) personnel in appropriate project evaluation techniques to support such a system.

Additional complementary steps should also be taken, moreover, both:

- to ensure the greatest possible benefit from this municipal credit system, and
- to help the Slovak Republic achieve more effective municipal independence through efficient intergovernmental fiscal arrangements.

Recommendations for immediate action

A few important things should be done right away, in conjunction with the proposed municipal credit system and its affiliated training to ensure the fullest success of these ventures:

- The above-mentioned comprehensive program for intergovernmental finance should be developed so as to ensure the creation of a complete and effective system for financing local government in both the near- and the longer-term.

- A small but effective unit should be established in the Ministry of Finance to carry our local finance analysis and monitoring in order to improve MOF ability to follow local finance developments as municipal independence progresses. A potential early use of such a capability could be a thorough analysis of the local finance aspects of any prospective plans for new regionally-oriented entities of state administration.

- In those municipalities that participate in the proposed municipal credit system, a similar upgrading of local finance analysis and monitoring should be introduced in conjunction with the increased project evaluation training so as to make the most of the proposed new MOF analytic/monitoring capability and as a demonstration of its usefulness to other municipalities.

- A pilot experiment should be inaugurated in a few selected municipalities wherein an especially-needed public capital improvement (such as upgrading of a wastewater treatment facility) could be partially funded through the imposition of more-than-currently-permitted user charges, perhaps to be matched by the state.

Recommendations for longer-term consideration

Numerous other ideas should be given careful further consideration, either as potential components of the above recommendations or as separate efforts in the interest of improving municipal and intergovernmental finance in the Slovak Republic.

- Consideration should be given to a system of matching grants for municipalities that would encourage local revenue generation for projects of particular public importance by enabling locally-generated revenues to be matched by state funds.

- Progress should be made toward the introduction of increasingly autonomous determination of both rates and bases on local taxes, fees and charges as well as on the new property tax. This would prove especially important to the independent municipalities as the property tax is reformed into a modern, market-value-based system.

A Final Note

The most important recommendation here is to proceed quickly with the proposed municipal credit system. The financing of local capital improvements is a pressing current problem requiring an immediate solution, and the proposed municipal credit system offers one such solution.

The other recommendations, both short- and longer-term, should also be pursued in concert. They offer the Republic a coherent program of assistance in an area -- intergovernmental finance -- where important recent progress can easily become overwhelmed by financial exigencies. Indeed, the important gains chronicled here could be lost merely because no comprehensive analytic framework underlies the Republic's bold but seemingly piecemeal approach toward the worthy goal of greater municipal independence. The recommendations presented above can provide such a framework.

2. LOCAL GOVERNMENT STRUCTURE AND THE INTERGOVERNMENTAL FINANCE PROCESS

Local Government Structure and Organization

Municipalities and districts

Local government in the Slovak Republic is divided between units of self administration -- the approximately 2,800 generally independent municipalities -- and units of state administration, built around 38 districts (including those in the Magistrate of Bratislava) and their component 121 sub-districts.

- Municipalities. The municipalities are administratively independent of the state (mayors and municipal councils are popularly elected[1]), and municipalities are increasingly fiscal independent. The mayor of each municipality is elected, as are the members of the Board of Representatives, the official body which approves the municipal budget. In Trencin, as an illustration, the Board consists of 58 members who are referred to as "deputies." The mayor is also advised by a 14-member Municipal Council.

- Districts. The district is the local arm of the central government. Many locally-oriented government activities such as most elementary and secondary education, police protection, agricultural and forest services and unemployment services are operated throughout the country by ministry-funded and -administered offices based at the district level. In many cases, their subordinate sub-district offices provide important local-level services in such fields as education, health and labor (unemployment compensation).[2]

  The district is thus the primary locus of state administration, having succeeded the former national committees (a vestige of the previous regime) in that role in 1991. With the noted exceptions, each district office is comprised of an office of general state administration and the following functional offices:

  Environmental protection
  Labor (employment; unemployment compensation)
  Social insurance administration
  Forest office
  Land office
  Tax office: this is primarily for collection of
  state-administered taxes

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[1]Such independence need not imply a unified civic administration: in Kosice, for instance, most members of the council are reportedly from Slovakia's majority party, while the mayor is from another party.

[2]One knowledgeable observer noted that the unemployment rate runs as high as 20 percent in the most economically-troubled sub-districts.

Survey and cartography
Regional informatic agricultural administration
Police
Institute of hygiene and epidemiology
Statistics
Commerce and privatization (including an anti-monopoly office that may not exist in every district)
School administration:
- I: Primary schools
- II: Secondary schools
  (often provided to several districts by one office in a larger district[3])

Fire protection

<u>The rather direct ministry-to-municipality linkage regarding intergovernmental finance</u>

Despite the important intermediary role of the district in the delivery of most state-administered public service functions, a direct ministry-to-municipality link seems to hold sway with regard to intergovernmental finance. Indeed, most references to MOF dealings with municipalities -- by central and local officials alike -- repeatedly implied just such a much more direct ministry-to-municipality connection in finance than apparently exists for most of the functional ministries. Currently, for instance, the MOF formally notifies each of the 2,800-some municipalities by letter regarding amounts of the various specific subsidies that each municipality may expect to receive during the year. The very cumbersome nature of this arrangement was used by one MOF official as an example why the official number of municipalities may be expected to be reduced in a future regional structuring of municipalities.[4]

Anticipated Changes in Government Structure and Organization

Limited information is available on two impending changes in government organization, the first expected as early as mid-1993, and a subsequent structural change in 1995 which together may be expected to have important effects on local government and local finance in the Slovak Republic. These changes are an anticipated integration of district-level state administrative activities and a further shift of governmental responsibilities to municipalities -- both awaited in July 1993 -- and a long-anticipated regional scheme of state administration that is to take effect in 1995.

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[3]There are secondary education offices in at least Bratislava, Kosice, and Banska Bystrica.

[4]This official mentioned 1995 as the prospective date of such a regional reorganization of municipal self-government, following the November 1994 municipal and parliamentary elections.

Integration of district-level state administration

An integration of district-level state administrative functions is reportedly set for July 1993. According to MOF sources, this would incorporate into a single district-level office the four major state administrative activities of education, environment, social insurance and labor. Tax offices would apparently remain separate, under the Minister of Finance, but plans for the district-level cadastre offices were not clarified. The Ministry of Interior would reportedly oversee this new integrated office, though perhaps not solely through its ministerial budget. During a subsequent step, it was somewhat uncertainly reported that financing of some or all of these activities might be reassigned to municipalities.

Shifting of some important government responsibilities to municipalities

Additional functional responsibilities may also be shifted to municipalities as early as this summer. Although debate allegedly continues on this topic, interest reportedly is focused around the potential shifting of important responsibilities for public education from the state to the municipal level. The state, of course, continues to pay salaries of teachers and administrators in all the public schools. While municipalities already pay the costs of operation and maintenance for public elementary and secondary schools, the school buildings themselves have remained the property of the state.

It is this ownership of the school buildings themselves which may devolve to municipalities as at least a part of these impending decisions. If that occurs, capital improvements and construction of school buildings would quickly become an important aspect of the municipalities' capital financing problem.

Ultimately, it is also reported that similar considerations also exist for local health clinics and perhaps other social services, although information on this remained sketchy and uncertain.

An anticipated new regional form of state administration

A new regional structure of state administration is widely anticipated. Whereas some observers indicated such an eventuality as early as April 1993, others put the date as January 1995. The prospective number of regions was reported at either 7 or 15 -- compared to Slovakia's historic three-region character -- although one MOF official indicated that the number had yet to be determined. One observer noted that some cultural accommodation may moderate any regional administration in the south, where Hungarian is a common language of instruction in the public schools, and in the east, where a similar Ukrainian cultural influence is also high.

Municipal Budget Planning

A difficult budget-planning environment

Municipal budget planning in the Slovak Republic is made difficult by the concurrent fiscal years of both the central and the municipal governments. As would be expected in a country where municipal governments used to be heavily financially dependent on the state budget, the fiscal years of both the state and the municipal governments correspond to the calendar year, beginning on January 1. Budget planning is thus largely concurrent at both the state and the municipal levels. This means that formal decisions on levels of state subsidies to municipalities usually are delayed until Parliament approves the state budget at virtually the end of the year.

The requirement of balanced municipal budgets forces a certain conservatism into budget planning during this transition in the form of state support for local government activities. Planned municipal spending must be constrained by anticipated local-source revenues plus estimates of shared taxes and state subsidies. In estimating local-source tax-and-fee revenues, municipalities face the usual difficulties that are encountered during times of economic turmoil and uncertain directions for the local economy. Expectations regarding shared taxes are even more troublesome for local budget planners. Although municipalities know that they are to receive a 70 percent share of the revenues from the income tax on physical persons (to be explained later), during uncertain economic times they find it even more difficult than does the center to anticipate the overall national level of income from which this tax revenue is to be derived. Also, until a regular flow of funds from state subsidies has been established during the early months of the year, municipalities remain generally uncertain about the expected amounts of the rather modest state subsidies that remain from the past.

Since overall state budgetary magnitudes often determine such locally-important matters as the share of centrally-imposed taxes to be shared with municipalities, these fiscal variables may also not finally be specified until, effectively, the beginning of the municipal fiscal year. Even with the reduced portion of state financing for municipal activities, this relatively late knowledge of anticipated state funding levels forces municipalities to budget very conservatively. This often leaves unfunded or underfunded numerous important local activities whose priorities are simply not of the highest order -- perhaps dramatically limiting outlays on current expenditure items and sometimes simply stopping construction work in capital expenditure items. While subsequent state notification of less-stringent-than-anticipated current-year financing may then often enable a municipality to reinstate a given expenditure item into its budget, the lost services or wasted construction time cannot be recouped even once services are restored or construction restated.

<u>The municipal budget cycle</u>

Expenditure planning dominates the early phases of municipal budget planning, which usually begins during the summer. It may include specific opportunity for local constituent participation. In Banska Bystrica, budget planning begins in August with informal planning at the executive level and notification to elected municipal council members of the future deadlines in the budgetary process. The latter prompts council members to solicit from their constituents suggestions for needed local expenditures. These requests are routed to the appropriate department heads no later than mid-October for costing and prioritization with other expenditure needs. Council advisory committees (consisting of two or three council members) reportedly offer input to these department-level budgetary considerations.

By the end of October, department heads submit their costed budget requests to the chief of the financial office (the budget director).[5] Overall budgetary decisions -- on expenditures only -- are taken in an early November "group meeting" of all department heads, chaired by the budget director. The results of this meeting are then presumably discussed with the municipal leadership.

Revenue planning for the budget begins substantially later than does expenditure planning because tax revenues assigned to municipalities, as well as state subsidies, depend upon fiscal decisions taken by the state during the waning days of each Parliamentary session. The government's draft budget in November indicates probable overall national levels of municipal subsidies and generally outlines likely changes (if they have not already been enacted) in municipal tax assignment and tax sharing arrangements. Nonetheless, these overall fiscal measures are confirmed only with the approval of the government's budget, which occurred in late December at the end of the 1992 fiscal year.

Formulation of the revenue side of municipal budgets is thus delayed until January, with the publication of an official information bulletin (an "Informacie") on anticipated levels of shared taxes, subsidies, etc.[6] Even then, formal notification of individual municipalities regarding their specified anticipated levels of state subsidy is often further delayed. As of February 23, 1993, for instance, a Banska Bystrica official indicated that the municipality had yet received no District Office notification of its anticipated revenue share of the important tax on the income of physical persons.[7] Two days later, however, the municipal council approved the proposed 1993 budget containing the municipality's own estimate of the shared tax which, it now appears, may have been to high by as much as 50-to-80 percent. (See later discussion of revenue trends for Banska Bystrica.)

<u>MOF budgetary oversight and reporting requirements</u>

The MOF publishes the basic format of municipal budgets every year, outlining only the main headings under which municipalities may reportedly structure their budgets in any manner that presents the essential revenues and expenditures. On irregular occasions throughout the year, the MOF also publishes up-dates on any new laws and regulations in the occasional "Informacie" bulletin and in the weekly "Obecni Noviny" circular, the latter of which may contain explanations with illustrative how-to-do-it examples.

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[5]The role of the chief of the municipality's financial office (the budget director) may not include any informal negotiations with department heads regarding departmental budget requests. In Banska Bystrica, the budget director indicated that she had "never" changed any of the initial departmental budget requests before entering them in the initial municipal budget document to be discussed subsequently in her early November "group meeting" with all department heads.

[6]See below for explanation of tax shares allocated to municipalities under the new 1993 local finance arrangements.

[7]Nonetheless, an MOF official claimed that municipalities received notification of their shares of the tax on dependent income "in November or December", depending on when the state budget is approved. Last year, that occurred in late December.

The MOF requires quarterly reporting of municipal budget data. It seems that the actual legal requirement for municipal fiscal reporting has until recently been rather modest -- primarily related to information in support of state subsidy disbursements. Beginning in 1993, however, municipalities must submit quarterly budgetary reports to the MOF that contain amounts of the major headings and sub-headings of revenues and expenditures. (This is apparently similar to, though not identical to, Banska Bystrica's 1993 budget format.)

Reliability and Potential Size of Intergovernmental Financial Flows

There is concern that 1992's quite regular flow of intergovernmental revenues from shared taxes and state subsidies will not be matched during 1993. With the elimination of major operating and capital subsidies for "municipalized" public housing enterprises and the substantial change in shared income taxes in 1993, municipalities are unsure about the amounts of subsidy support that they may expect from the state this year. Moreover, understandable municipal uneasiness over the necessarily continuing evolution of intergovernmental fiscal policy has apparently fueled municipal uncertainty over the reliability of state payment transfers.

Part of the present problem appears to be deficient state notification of municipalities regarding intergovernmental fiscal flows. In 1992, the district-level tax offices across the country collected the previous wage tax (18.5 percent of which, that year, was shared with municipalities, according to population) through regular monthly withholding. Early in that year, the state announced that the shared tax distribution would be approximately Kcs 790 per municipal inhabitant, and the appropriate amount was regularly received each month. In 1993, in contrast, even by late February no announcement had reportedly been made of the per-inhabitant distribution of the 70 percent share of the rather different tax on the dependent income of "physical persons" (an explanation of which appears below).

More importantly in 1993, the relatively small size of the shared tax distribution that occurred in late February seemed to imply that the total distribution for the year might not even equal the comparable 1992 level. In Banska Bystrica, for example, the February payment (no distribution was received in January) was in the Kcs 5-to-6 million range. Although this payment was not accompanied by any notice of a potential March distribution, municipal officials indicated that they would expect to receive a similar monthly payment for the remainder of 1993. If that were to occur, Banska Bystrica's total 1993 distribution could still fall short of its 1992 total by between 7 and 15 percent.

3. MAJOR 1993 CHANGES IN INTERGOVERNMENTAL AND MUNICIPAL FINANCE

In its continuing campaign to increase the independence of municipalities, the Slovak Government instituted several major changes in intergovernmental and municipal finance in 1993. The most pertinent of these are the following:

- Publicly-owned housing: Elimination of major operating and capital subsidies for public housing enterprises, ownership of which was transferred from the state to the respective municipalities;

- Shared income taxes: Replacement of taxes on wages and agricultural earnings (18.5 percent of which were shared with municipalities in 1992, up from 13 percent in 1991) with a tax on employee earnings (i.e., a tax on the dependent income of "physical persons"), 70 percent of which is allocated to municipalities according to population);

- Property tax: Replacement of the former house tax and the localization fee with a new property tax, revenues from each of which were allocated to the municipality where the property is located; and

- Specific subsidies for various purposes:

  -- Self-administration subsidies to small municipalities: Modest per-capita assistance for the self-administration activities of municipalities having up to 5,000 inhabitants;

  -- Urban transit subsidies for 3 designated cities. Targeted transit assistance to Bratislava, Kosice and Presov; and

  -- Categorical subsidies through various funds: For environmental protection, culture, etc.

Publicly-Owned Housing

Transfer of ownership from state to municipalities

The transfer of publicly-owned housing from the state to the municipalities constitutes the greatest single fiscal burden now facing municipalities in their still-evolving, more independent status. The transfer of these major assets to municipal ownership was to have provided municipalities with increased local control over a public service that is primarily local in character. In an era of privatization, it also was to have given municipalities a valuable asset whose gradual sale to tenants and investors would afford substantial revenues to municipal treasuries.

Problems associated with the transfer of asset ownership

Along with this transfer of assets came the transfer of some important liabilities as well as the termination of very substantial state subsidies to the housing sector. These changes have placed upon municipalities several significant fiscal and economic problems. These include the following:

- Loss of state subsidies. With the transfer of these housing assets to municipal ownership came the termination of both operating and capital subsidies for public housing.

  Whereas operating subsidies for public housing were of only minor importance to municipalities, state subsidies for the construction of public housing complexes were, until recently, very important components of municipal budgets. In the larger municipalities, operating subsidies for public housing generally amounted to about 3 percent of actual total revenues in 1991 and 2 percent in 1992.

Capital subsidies for public housing were a different matter, however. In Banska Bystrica, for example, subsidies for the construction of public housing complexes amounted to nearly 49 percent of actual total revenues in 1991 and over 30 percent in 1992. In Trencin, these capital subsidies equalled over 41 percent of actual total revenues in 1991 and 20 percent in 1991.

With the transfer of this entire housing function to municipalities, the continuing obligation to finance these activities shifted to the municipal level. Although the capital construction item would be expected to decline sharply in the ensuing few years, both these items nonetheless represent an important municipal undertaking to be supported solely from municipal revenue sources.

- Absence of sales revenues from housing privatization. Part of the municipalities' near-term revenue burden for public housing was to have been carried by municipal sales of apartments to current tenants (the Government's first choice of purchaser) and prospective tenants and investors. Unfortunately, relatively little revenue has been generated from sales of now-municipally-owned housing, and prospects for near-term improvement of this situation are not encouraging.

While a few municipalities project financially-important sales of publicly-owned apartments, most municipalities face probably gloomy prospects in that regard until the local economies improve and the significant administrative problems are resolved. Although Trencin is predicting that sales of municipal flats could contribute almost 10 percent of total municipal revenues in 1993, substantial portions of many municipalities' projected 1993 property sales may well be derived not from housing but from commercial and industrial facilities.[8]

Important reasons for weak sales performance in this admittedly difficult aspect of the economic transition include administered pricing, cumbersome oversight procedures, lack of convenient financing and legal uncertainties regarding property ownership.[9]

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[8]In Banska Bystrica, actual revenues from property sales were a scant Kcs 3.35 million in 1992 --barely one percent of total Municipal revenues.

[9]Government officials at both central and local levels are fully aware of the problems in this difficult area. Many freely admit that their problems illustrate the evolving nature of housing policy, and there have been numerous attempts to improve the process as experience has accumulated.

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- -- Administered pricing, rather than market pricing, has stifled the housing market in its infancy through cumbersome procedures and unrealistic valuations. In the absence of an extant housing market, appointed part-time assessors attempt to approximate realistic differences in offered prices by means of the usual appraisal characteristics of location, size, quality, etc.[10] This perhaps well-intentioned transitional approach to market valuation may well have become hamstrung by notification, documentation and review procedures that have likely discouraged many prospective purchasers.

- -- Additionally, of course, the general absence of a suitable and efficient credit market has doubtless helped to stifle whatever housing demand may otherwise exist.

- -- Finally, legal questions regarding ownership rights of the land upon which the offered apartments are built highlight ownership issues that extend as well to potentially troubling aspects of the new property tax (to be discussed later).[11]

- Soaring amounts of unpaid rents in public housing. There is a mushrooming problem of delinquencies in rent payments on the part of many existing tenants. In Banska Bystrica, rental payment arrearages reportedly increased from Kcs 800,000 in 1988 (the last full year of the former regime) to Kcs 5 million in 1992. Such delinquencies merely impose a further financial burden on municipalities already facing difficult fiscal circumstances.

Shared Income Taxes

In 1993, the Slovak Republic restructured the old wage-based taxes of the former Czechoslovak Federation, allocating to municipalities a substantially larger (70 percent) share of the newly-redefined employee income taxes. At the same time, the state also deprived municipalities of their previous access to potentially buoyant revenues from the income tax on entrepreneurial activities as well as from the income tax on municipal enterprises, revenues from both of which were shifted to the state.[12]

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[10]Legally, the resulting assessment is to establish a reportable value on the sale of a property for purposes of the real estate transfer tax, revenues of which accrue to the state. While it is acknowledged that the actual selling price may then vary from this assessed price, such an arrangement can only complicate matters when the selling party is the public sector, albeit at the municipal level, and the procedures of sale must follow local bureaucratic as well as legal dictates.

[11]Indeed, a major reason for the five-year abatement of the property tax on newly-privatized apartments is to sidestep this part of the ownership issue, at least for the time being.

[12]Revenue from the income tax on municipal enterprises was only Kcs 154 million (three-fourths of one percent of actual total revenues of municipalities) and thereby will not be dealt with further in this report.

Through the end of 1992, wage taxes had been imposed on the earnings of regular employees and, in a slightly different way, on the earnings of agricultural workers. During that period, municipalities had been allocated a minor share of these revenues: 13 percent in 1991 and 18.5 percent in 1992. In 1992, these revenues equaled just over 20 percent of actual total municipal revenues (Kcs 4.2 billion).

The new shared tax on employee incomes

As of January 1, 1993, the former so-called wage taxes were replaced by a new tax on the incomes of employees (a tax on the so-called dependent income of "physical persons" -- as opposed to "legal persons." Here, some explanation is in order:

> Legal persons are enterprises that are legally "registered," or recorded as such in the national business register that is maintained by the Ministry of Justice. In general, legal persons are much like standard corporate entities, and they must employ a double-entry accounting system.[13] All taxes on legal persons have been, and continue to be, fully allocated to the state.
>
> Physical persons in the Slovak Republic[14], in contrast, are "unregistered" entities that receive "dependent" income, which is wage or salary income paid to an employee by an employer. In 1993, the tax on the dependent income of physical persons is to be shared between the state and municipalities, with municipalities receiving 70 percent of the resulting revenues on the basis of population.[15]

Reassignment of revenues from the tax on entrepreneurial activity

Until the beginning of 1993, revenues from the tax on income from entrepreneurial activities had been fully allocated to the municipality of residence of the entrepreneur. Such

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[13]Some corporations reportedly may choose not to register as legal persons because of differential accounting treatment regarding the VAT.

[14]In the Czech Republic, the income of physical persons may include both the "dependent" gross income of employees (as here) and the so-called "independent" net income (really, net profit after expenses) of entrepreneurs (i.e., owners of small businesses) and of self-employed individuals. Therein, the income of physical persons may thus be either "dependent" or "independent" in nature.

In the Slovak Republic, the definition of "dependent" (employees') income is thus essentially the same as in the Czech Republic. However, the term "independent" income is not used, leaving only the "dependent" income of physical persons. Rather, the income from entrepreneurial activity is referred to in just that way. As a source of municipal revenue until the end of 1992, this was commonly translated as the tax on the income of citizens (or residents) [dan z prijmov obyvatelstva], and it appeared as such under "local taxes and fees" in municipal budgets.

[15]According to a knowledgeable MOF official, this percentage share could change as early as next year in response to economic circumstances and emerging policy developments. A different MOF official intimated the slight possibility that the 70-percent share might even be modified during the current year. That would reportedly occur only if it were accompanied by a serious change in municipal circumstances -- perhaps such as a devolution of additional functional responsibilities to the municipal level, as briefly mentioned above.

entrepreneurial activity encompassed both small business (with up to 25 employees and annual gross earnings of no more than Kcs 6 million) and self-employed individuals.

As of January 1993, all revenues from this relatively economically-responsive revenue source were allocated to the state. The municipalities' new 70-percent share of the tax on employee incomes is presumably a moderately stable revenue source. In 1993, moreover, the municipalities' Kcs 4.7 billion share of this tax is expected to be over three times that of the tax on entrepreneurial activity. Nonetheless, the state has transferred from municipalities to itself one of the more economically-responsive revenue sources in the Republic.

Bases and rates of the taxes on employee and entrepreneurial income

As is appropriate to their subjects, tax bases differ between those for dependent and for entrepreneurial income. For dependent income, the tax is calculated after netting out deductions (for social insurance contributions, commuting expenses and any extant disability) and exemptions (Kcs 20,400 personal exemptions and Kcs 9,000 for each child up to four children). (The tax on dependent income reportedly averages about 5 percent of gross wages after adjustments to the wage base, exemptions and deductions.) For entrepreneurial income, the tax base is net profit.

The tax rate schedule is the same for both dependent and entrepreneurial income. Their common marginal tax rate ranges from 15 to 45 percent:

Annual Income (in Kcs)		Annual tax (in Kcs)	
0 -	60,000	15% of net income	
60,000 -	120,000	Kcs 9,000 + 20% of income above Kcs	60,000
120,000 -	180,000	Kcs 21,000 + 25% " " " "	120,000
180,000 -	540,000	Kcs 36,000 + 32% " " " "	180,000
540,000 -	1,080,000	Kcs 151,200 + 40% " " " "	540,000
above -	1,080,000	Kcs 367,200 + 45% " " " "	1,080,000

A problem exists for those individuals who receive income from both gainful employment and entrepreneurial activity. Anyone with both a regular job and "outside" income from consulting, part-time self-employment, or even as the owner of a small business would fall into this category, and the number of such persons would be expected to grow as the economic transition continues. The problem is that both income sources may be similarly taxed. Until July 1994, the income from all such outside entrepreneurial activity will be taxed at only a nominal amount -- perhaps Kcs 1,000 per month. After that date, however, both incomes will reportedly be subject to full taxation, thereby possibly discouraging some entrepreneurial activity.

Additional deductions for health and social insurance

In addition to the above taxes on income, several substantial new deductions from income were introduced at the beginning of 1993 that support the new health insurance and social insurance funds. To suggest the economic impact of this on individual taxpayers, the following table outlines the basic proposed rate structure as it existed toward the end of 1992.[16]

	Percent of income paid by:		
Insurance program	**Companies**	**Employees**	**Self-employed Individuals**
Health insurance	**9.0%**	**4.5%**	**13.5%**
Social insurance:			
Retirement	**20.4**	**6.8**	**26.2**
Illness/health	**3.6**	**1.2**	**4.8**
Unemployment ins.	**3.0**	**1.0**	**4.0**
TOTAL	**36.0%**	**13.4%**	**48.5%**

Collection, notification and payment

In contrast to the rather direct MOF-to-municipality arrangements for notification and transfer of state subsidies described above, these functions for shared taxes are handled by the district-level tax offices (a component of state administration). Since income-based taxes are primarily collected by tax offices, largely through monthly withholding, the MOF can rather quickly calculate the total collection to be distributed to municipalities via its own network of financial directorates and their subordinate tax offices. Accordingly, by the tenth of each month -- based on the previous month's total collections of this tax -- the MOF is to notify local tax offices (through its financial directorates) of the amounts of the shared tax on the income of physical persons to be subsequently distributed to municipalities. These amounts may be expected to vary from month to month according to the actual level of taxed income that was earned during the preceding month.

MOF officials explained any delays that municipalities may have experienced in their receipt of these shared taxes (see above) as start-up problems of this new arrangement. They stated that the first distribution of the shared tax on the income of physical persons was made in March 1993 and would continue on a regular monthly basis thereafter. They claimed that, during January and February, municipalities had continued to receive their portions of revenues from last year's wage taxes.

[16]For the sake of simplicity, the table omits otherwise important caveats concerning the various applicable tax bases, etc.

The New Property Tax

Structure

The new 1993 property tax on land and buildings accrues fully to the municipality in which the affected property is located. It replaces revenue from the previous house tax and the localization fee, each of which had also gone to the appropriate municipality.

The house tax was an established levy the administration of which was reportedly sometimes rather imprecise, in that ownership and valuation of the base were frequently not well-recorded or up-to-date. Its resulting revenues were often less than those of the localization fee, a reportedly misunderstood and sometimes-avoided fee on businesses for their use of publicly-owned space. In Banska Bystrica in 1992, for example, revenues from the localization fee were budgeted at Kcs 8.0 million while those from the house tax at only Kcs 1.0 million.

Revenues from the new property tax accrue to municipalities where the property is located. Thus, a property owner whose holdings are located in several different municipalities is required to file separately for each municipality.

Tax base and tax rates

The new property tax is levied on both the land (the plot) and on any improvement thereupon (the building(s)). Levies of the new property tax are determined by property use (agricultural, residential, etc.) and size (in square meters) -- not by market valuation -- in accordance with a nationally-prescribed tax rate that is adjusted upward for larger municipalities and for location of the property therein (in zones of perceived higher or lower value).

- Plot tax. Tax rates for plots are set using nationally-determined prices for land for purposes of taxation. These are established by parliamentary decree, unless an MOF-approved "price map" exists for a municipality, in which case its data are to be used rather than the nationally established statistics.

- Buildings tax. Nationally-mandated base tax rates per square meter of built-up floor space and courtyard are assigned to various types of property usage. With the family house receiving a base tax of Kcs 1.0 per square meter, the following examples apply:

Use	Rate per sq. meter
Family house[17]	Kcs 1.0
Agricultural supply building	Kcs 1.0
Tourism and recreation	Kcs 3.0
Garages	Kcs 4.0
Agriculture, construction, etc.	Kcs 5.0
Commercial use	Kcs 10.0

[17]Upper floors are taxed at a slightly reduced rate.

- Local coefficients. Both the plot tax and the base rates for the buildings tax are adjusted by applying a local coefficient that increases the tax as a municipality's size category increases. For example, the largest coefficient is 5.0 for Bratislava, meaning that the above rates are to be multiplied by 5.0 for appropriate categories of property within the Magistrate of Bratislava. Trencin's coefficient is 3.5.

- Permissible surcharge. A surcharge may additionally be imposed by any municipality whereby the applicable tax can be increased by up to 100 percent by doubling the above local coefficient. That is, the tax, as calculated by the above scheme, may be doubled at municipal option.

Five-year exemption

A five-year exemption from the property tax applies to all newly-purchased houses or apartments. This is offered, of course, as an inducement to purchase such properties under the Republic's housing privatization program. It is also intended, as one respondent noted, as a means of avoiding the current complications relating to identification of property boundaries and especially ownership (see below).

The five-year exemption does not apply to public space rented by private entrepreneurs for commercial use, where the new property tax serves as a replacement for the former dislocation fee. On the contrary, leases for such public space are reportedly for a minimum of five years, with the advance rental payments also accruing to the municipality. Such rents, as well as property taxes, may be adjusted during the period of the lease in accordance with changes in land values. In Trencin, for example, purchase prices of public land are reported to have increased from Kcs 0.40 per square meter in 1989, to Kcs 10.0 in 1990, Kcs 140 in 1991, and Kcs 500 in 1992 and 1993.

Prospective levels of tax bills and revenue collections

The absolute amounts of the new property tax remain quite low, but they will usually exceed those of the former house tax. In many cases, the property tax levy on private family homes could well be less than Kcs 1,000 annually.

Current estimates of overall revenues from the new property tax are probably too high, but revenues will certainly exceed those of the previous property-based taxes. It is estimated that total revenues from the new property tax in 1993 will reach nearly 14 times the actual 1992 collections of the former house tax and the agricultural land tax. Nonetheless, important implementation problems noted below could well keep overall collections substantially below that level.

Implementation procedures

Information on ownership and characteristics of each piece of property (size, location, use, etc.) is supposedly maintained by the district-level cadastre office (not under the MOF), which is to provide this data for taxpayer use. In Banska Bystrica, this is to occur in the Municipality's property tax office, which in February had already obtained some property records from the cadastre office. Based on the existing cadastre office records, the taxpayer is to fill out and submit a computer-entry form on each piece of property that he or she owns.[18] Payment is to be made therefrom.

Potential administrative problems

Actual implementation concerns for the new property tax include both the relatively mundane issue of public reaction to the new procedures as well as the potentially much more serious problem of the quality of existing records.

- Public reaction to the required procedures. A purely administrative concern here is the public reaction to the entire process of paying this tax -- especially in light of its relatively small individual levy. Although the tax administration procedures appear to be reasonably well-designed for a first-time application of this nature, they clearly require significantly more care and effort on the part of the average property tax owner than is usual for the payment of a local tax. Despite a planned publicity campaign in advance of the tax payment date, some local officials are concerned that taxpayer unfamiliarity with this arrangement during its initial year could overwhelm the limited staffs assigned to this task.

- Quality of existing records. A potentially significant problem with the new property tax is the quality of cadastre office's records themselves, which are reportedly often manually maintained. These records may well be outdated and inaccurate, regarding both property identification and especially property ownership (the legal problem outlined immediately below).

Potential legal problems

Major questions also remain regarding the proper identification and documentation of land ownership.

- Denationalization of cooperative holdings. One of these issues concerns the return to the original owners (or their estates) of largely agricultural land that had been nationalized by the former regime over four decades ago and turned into agricultural cooperatives. Here, the new laws apparently clearly point the way toward the return of these lands to their former owners; the problem is primarily one of carrying out this mandate in an efficient and equitable manner, with consideration to those who presently make their living on these lands.

[18]One local official said that the actual color-coded computer-entry forms, which appeared complete, understandable and very professional, were designed by the Slovak Association of Towns and Cities and subsequently approved by the MOF.

- "Restitution" of formerly foreign landholdings. The second legal issue involves the apparently still-unresolved ownership status of traditional former landholdings (largely by German nationals and their estates) in the Slovak Republic. These foreign ownerships, which were nullified in the wake of the Second World War, still allegedly constitute valid claims to property that was subsequently awarded to Slovak nationals. The "restitution" of this land to its rightful owners thus appears to be a still-resolved legal issue. Even once it is legally resolved, of course, its implementation would still have to be dealt with in property tax administration.

  According to one local official, the major problem here is with land (rather than buildings), since there exist no good records of land ownership, especially prior to the 1950s.

Opportunities afforded by the new property tax

Despite the generally modest anticipated revenues, the new property tax offers substantial fiscal opportunity for Slovak municipalities.

- Transition to a market-based property tax. First, the new property tax is seen as a transitory instrument to the hoped-for 1997 introduction of a market-value property tax whose revenues would also presumably accrue to municipalities. Although this date may prove to be somewhat optimistic, the eventual introduction of a market-based property tax system would mark a substantial step toward manageable fiscal independence for Slovak municipalities.

- Future likelihood of locally-determined property tax rates. Second, there is good reason to anticipate that property tax rates may ultimately be established in accordance with local fiscal autonomy -- not by the parliament (with a single structure of ceiling "base" rates, as above, that apply to the entire Republic), but by individual municipalities. At this stage, the nationally-imposed rate ceiling is a natural initial stance amidst the present state of great change.

  The widening use of local "price maps"[19] and eventual local variations from centrally-established prices for sales of property (though probably still by ministry-level permission) suggests a likely future flexibility in the overall question of local fiscal autonomy. This is fully in keeping with the tenets of greater local financial independence as enunciated in the legislation.

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[19]"Price maps" within each municipality are increasingly used to acknowledge local variations in local land values, at least for purposes of establishing the proper amount of the real estate transfer tax, revenues from which accrue to the state. In Trencin, for instance, current land prices reportedly vary from Kcs 230 to Kcs 6,800 per square meter.

Specific Subsidies for Various Purposes

In addition to the preceding relatively major new items for 1993, several smaller specific subsidy arrangements also exist.

Self-administration subsidies to small municipalities

Modest funds are newly available in 1993 to assist small municipalities (those having up to 5,000 inhabitants) in carrying out their own local administrative activities (i.e., "self-administration"). These are to allocated on a per-capita basis as follows:

Population of municipality	Amount of subsidy (per capita)
up to 1,000	Kcs 120
1,001-2,000	Kcs 90
2,001-3,000	Kcs 70
3,001-5,000	Kcs 50

Urban transit subsidies for 3 designated municipalities

Targeted transit assistance is available to the municipalities of Bratislava, Kosice and Presov, the three largest employment centers in the Republic. In 1993, these subsidies are expected to total Kcs 880 million for "non-investment" purposes and Kcs 430 million for "investment" purposes.

Categorical subsidies

Special categorical subsidies may be awarded through various funds, including those for environmental protection (Kcs 500 million in 1993), culture, etc).

4. RECENT FISCAL PATTERNS

Recent Overall Budgetary Trends in Slovak Municipalities

Overall data for all municipalities in the Slovak Republic illustrate the tumultuous change that has occurred during the last several years. The greatest local fiscal pressures have occurred in 1992, when actual revenues and expenditures were double the initial, necessarily conservative, budgetary plans. Concurrent with the decision in that year to terminate the Czechoslovak Federation was the beginning of the substantial, still-continuing shift toward greater fiscal independence for Slovak municipalities. The beginning of that increase in municipal government responsibilities produced initially great budgetary caution followed by the significant infusion of state funds to fill yawning municipal budgetary gaps. Although the important changes in revenue structure and revenue assignment that have begun in 1993 will help to alleviate this problem, it is likely that municipal fiscal needs will continue to exert great upward pressure on municipal budgets across the Republic throughout 1993 and perhaps beyond.

Revenues

A national aggregation of municipal revenue statistics for the Republic highlights the great change and substantial unpredictability that has characterized municipal finance since at least 1991.[20]

Fully reflecting the fiscal developments in the municipalities of Banska and Trencin, to be presented subsequently, Table 1 shows that 1992's understandably conservative municipal budget planning was overwhelmed by inexorable public service demands in the midst of sweeping fiscal and governmental change. The virtual doubling of nationwide municipal revenues over initial budgetary plans was often accomplished through several official modifications of a municipality's budget. Strong local pleas for state assistance to ease these fiscal pressures doubtless accompanied these budgetary adjustments.

The locally-desired fiscal relief occurred, but only on a strictly temporary basis. Two items -- a one-time capital subsidy and temporary borrowing -- account for almost 84 percent of the over Kcs 10 billion gap between planned and actual revenues during 1992, and these revenue windfalls are unlikely to recur:

- Subsidies to complete construction of public housing. Kcs 4.192 billion in unbudgeted state subsidies emerged for the purpose of completing the public housing complexes that were being transferred to municipal ownership. Despite that reprieve in 1992, both MOF and municipal officials have indicated that no such intergovernmental transfers may be expected during 1993.

- "Other revenues," which are probably mostly loans to municipalities. Kcs 4.544 billion in "other revenues" also boosted municipal revenues in 1992. These funds, which municipal budgets suggest are primarily temporary loans to municipalities, are also unlikely to recur in this form.

The current year poses a similar problem of the likely need for substantial additional revenues. In light of last year's experience, budgeted revenue levels in 1993 are probably unrealistically low at just over Kcs 11 billion. A doubling of last year's ratio of actual-to-planned revenues would result in needed 1993 revenues of over Kcs 22 billion. Moreover, an additional Kcs 4 billion would be needed beyond even that level if 1992's year-to-year revenue growth rate were extended into 1993.

Additional revenues are most acutely needed in the area of capital improvement financing, where state subsidies have virtually dried up. Overall state subsidies in 1993 are budgeted at less than two-thirds their 1992 budgeted level and at less than one-quarter their 1993 actual level. Both operating and capital subsidies for public housing have, of course,

[20]All national aggregations of statistics on municipal finance in the Slovak Republic are MOF national estimates based on budget information (actual as well as planned) that municipalities submit quarterly throughout the year. The MOF makes some adjustments to this information -- probably to correct for inaccurate, incomplete or noncomparable reporting -- which municipalities provide directly to the MOF in their own local budget formats.

been eliminated, as have all non-specific subsidies. Operating subsidies for urban transit have been trimmed to 80 percent of last year's level and urban transit capital subsidies have fallen by half -- and these funds go only to the municipalities of Bratislava, Kosice and Presov.

Changes in the category of local taxes and fees offer little relief. The replacement of the house tax (and the tax on agricultural land) with the new property tax would seem to afford an additional Kcs 2.5 billion to municipal coffers. However, as noted elsewhere in this report, administrative problems of the new property tax may well keep down its revenues, and most observers admit that any estimates of property tax revenues are highly speculative. Moreover, the reassignment of the tax on entrepreneurial income from municipal to state level has helped keep anticipated levels of local taxes and fees at just about last year's actual revenue amount.

Revenues from municipal assets also offer little help. With the elimination of the three minor items therein, the bulk of any revenue contributions here must come from property sales. Also as noted elsewhere, the difficult task of actually selling public housing units has thus far generated little revenue. Moreover, municipal officials admit that both procedural and legal issues cloud its immediate revenue prospects, and they note that troubled local economies can also discourage many potential purchasers.

Finally, shared taxes from the state are projected to raise as much revenue this year as last. The municipalities' 70 percent share of the tax on the income of dependent income (employees' earnings from both public and private sector employment) will probably generate a moderately stable revenue stream which is generally responsive to economic growth. In light of current concerns over the near-term economic prospects, however, this revenue source is not likely yield substantially increased revenues over the next year or so. Nor were the municipalities' early revenue prospects enhanced by this year's reassignment of the more economically buoyant tax on entrepreneurial income from the municipal to the state level.

Expenditures

The general trends noted immediately above with regard to revenues are also reflected in an analysis of overall municipal expenditures in the Slovak Republic. As may be seen in Table 2, however, the limited detail in these official statistics reveals little additional insight into municipal finance in the Republic as a whole.

Other than the approximate doubling of actual spending over initially budgeted levels in 1992, and the accompanying concerns for 1993 (see immediately above), these data largely reflect the changes in state subsidies that also were examined above. Additional insights may be gained from a review of municipal fiscal concerns as experienced by the individual municipality. (See next section.)

Table 1

Overall Municipal Revenues in the Slovak Republic
Initially Budgeted and Actual, 1991-1993
(in Kcs billions)

	1991		1992		1993
	Budget[1]	Actual	Budget	Actual	Budget
Local taxes and fees			2.31	3.45	3.40
House tax			.12	.13	-
Tax from agricultural land			.03	.0[illegible]	-
Property tax			-	-	2.70
Tax on entrepreneurial income			1.08	1.46	-
Local fees			1.02	1.69	.62
Administrative and other fees			.06	.11	.08
Revenues from municipal assets			.71	1.80	1.20
Earnings tax from mun ent's			.06	.15	-
Payments on financial plan			.00	.04	-
Tax on wages of mun employees			.25	.36	-
Rev's of bdgtry, cntbty org's			.35	1.03	.50
Revenues from property sales			-	-	.70
Rent			.05	.23	-
Shared taxes from state			4.74	4.20	4.74
Share of wage taxes[2]			3.27	3.52	-
Share of tax on agr. incomes			1.46	.68	-
Share of tax on dep. income			-	-	4.74
Other revenues			-	4.54	.28
Surplus from previous year			-	-	-
TOTAL "OWN" REVENUES			7.75	14.00	9.61
Subsidies from state budget			2.45	6.63	1.52
Non-specific subsidies			.21	.20	-
Specific subsidies:			2.24	6.38	1.52
To operate housing agencies			.30	.24	-
To complete housing complexes			-	4.20	-
Urban transit operating sub's			1.10	1.09	.88
Urban transit capital sub's			.85	.85	.43
Municipal self-admin; other			-	.05	.21
TOTAL REVENUES	15.18	16.17	10.21	20.63	11.14

[1] Only totals are reported because of data noncomparability.

[2] Levied at a rate of 13% in 1991 and 18.5% and in 1992.

Table 2

Overall Municipal Revenues in the Slovak Republic
Initially Budgeted and Actual, 1991-1993
(in Kcs billions)

	1991		1992		1993
	Budget**	Actual	Budget	Actual	Budget
"Non-investment" expenditures, municipal self-administration			5.89	10.32	7.32
Contracted services			?	?	?
Budgetary and cntbtry org's			?	?	?
Subsidies to mun enterprises			1.39	1.38	.88
Operation of housing agencies			.30	.29	–
Urban transit operating sub's			1.10	1.09	.88
Financial operations			.08	.42	.85
Interest & principal payment	—	—	.08	.42	.85
TOTAL NON-INVESTMENT EXPEND'S			7.36	12.12	8.28
Investment expenditures			2.85	7.55	2.85
To complete housing complexes			–	4.20	–
Development programs			2.00	2.50	2.42
Urban transit capital sub's			.85	.85	.43
Surplus			–	–	–
TOTAL EXPENDITURES	15.18	14.30	10.21	19.67	11.14

**Totals only are shown because of data noncomparability.

Recent Budget Trends in Banska Bystrica

A review of recent trends in budgeted and actual fiscal outcomes in Banska Bystrica illustrates most of the important local finance issues that have been noted thus far.

The requirement that municipal expenditures may not exceed available revenues implies that extant municipal expenditure demands largely drive any over-budget outcomes in the eventual levels of actual revenues and expenditures. This is intuitively true in an era of burgeoning municipal expenditure requirements that emerge from the devolution of major spending responsibilities from the central to the municipal governments in the current shift toward greater municipal independence in both fiscal and governance areas.

Nevertheless, any substantial expansion in municipal spending must accordingly be accompanied by overall revenue availability. In 1992, the revenues to support the 57.5-percent-over-budget expenditure surge were divided largely between the tax on the dependent income of physical persons (70 percent of which has now been assigned to municipalities) and a probably penultimate state capital subsidy to complete the construction of public housing complexes. The future absence of any such substantial subventions implies that near-term prospects for municipal expenditure growth are dim and that longer-term prospects for adequate financing of municipal capital improvements are, at present, highly uncertain.

Revenues

Budgeted and actual revenue outcomes for the Banska Bystrica Municipality between 1991 and 1993 (Table 3) show the difficulty of staying within overall budgetary targets as well as the sometimes extreme unpredictability of revenue flows that contribute to that unhappy result.

Overall revenues. At the total revenue level, seemingly good revenue budgeting in 1991 (where actual revenues in fact fell short of budgeted revenues by a bit more than 10 percent) was followed by a tumultuous 1992, where actual total revenues exceeded their initially budgeted value by 63 percent. Most of these over-budget revenues in 1992 came from two very diverse sources, neither of which are now available to municipalities.

- Tax on entrepreneurial income. Over Kcs 45 million came from the income tax on entrepreneurial activities, which soared with the reported start-up of numerous small-businesses in Banska Bystrica during 1991-92.

  A closer look at Banska Bystrica's recent budget predictions for revenues from the income tax on entrepreneurial activities reveals the particularly dynamic nature of this tax, revenues from which were reallocated from the municipalities to the state as of January 1993. Several municipal revenue estimates for the tax (including a few budget modifications not shown in the table) illustrate its explosive growth in Banska Bystrica since 1991:

  Budgeted and actual levels of revenues from the income tax on entrepreneurial activity, Banska Bystrica, 1991-1992:

Source of revenue statistic	Revenue (in Kcs mil)
1991 budget (original)	2.9
1991 budget (June adjustment)	2.9
1991 budget (October adjustment)	3.6
1991 actual revenue outcome	17.5
1992 budget (original)	10.9
1992 budget (July adjustment)	33.8
1992 actual revenue outcome	56.2

This evident buoyancy of revenues from the income tax on the entrepreneurial activity is no longer good news for municipalities, because revenues from this source were fully reassigned from municipalities to the state budget at the beginning of 1993. In 1993, the only income-related tax revenues to be allocated to municipalities will be the 70 percent share of the revenues from the tax on employee (i.e., "dependent") income. This will be reported under municipalities' "shared taxes" from the state budget.

The municipalities' 70-percent share of the tax on employees' income is, of course, responsive to economic growth. However, it is hardly expected to be as dynamic a revenue source for municipalities as might have been the tax on entrepreneurial income, which was already generating one-third the revenues of the employees' tax by the start of 1993.

- <u>State subsidies to complete construction of public housing complexes</u>. On the pessimistic side, nearly Kcs 84 million of the revenue surge was accounted for by a specific state subsidy to complete the construction of public housing complexes which have now been transferred to municipal ownership.

  With the transfer of public housing complexes to the municipalities, this capital subsidy program is winding down. Although a local official indicated the state budget still contains Kcs 1 billion for this purpose this year -- one-fifth of last year's amount -- its allocation to individual municipalities is still under "negotiation."

  Except perhaps in the area of environmental protection, no new intergovernmental grants of any such magnitude are presently foreseen, especially for major municipal capital expenditures.

In fact, as seen clearly from the table, the Municipality anticipates no state subsidies of any kind during 1993. Indeed, the dramatic evaporation of specific subsidies from the state -- from nearly Kcs 159 million in 1991 to absolutely nothing by the end of the following year -- emphasizes the fundamentally altered fiscal climate facing Slovak municipalities today. This places the entire municipal revenue burden solely upon so-called "own" [vlastne] revenues for 1993 and presumably beyond. If actual fiscal outcomes are noticeably to exceed budgeted levels over the next few years -- although hopefully much less so than in 1992 -- then the "own" revenue base is indeed likely to be severely tested.

<u>Detailed revenues</u>. Revenue estimates in the 1993 budget at least for the new property tax and for sales of municipal property may well be too optimistic -- perhaps substantially so. If that is true, the Municipality is in even more difficult fiscal straits than the budget figures imply. This puts even greater reliance on the share of state income taxes, upon which too high a proportion of the budget now rests.

- <u>Property tax</u>. Under the first category of local taxes and fees, municipal expectations for revenues from the new property tax in 1993 are over seven times the actual revenues of the former house tax and are surely well over half again as much as the former house tax and localization fee combined.

- Sales of municipal property[24]. Projected 1993 revenues of Kcs 50 million (compared to Kcs 3.3 million in 1992) from sales of municipal property appear excessive in light of recent performance as well as the important problems of this activity that were outlined above.

- Share of state income taxes. Prudent concern is generally appropriate whenever any single revenue item exceeds 50 percent of the total revenue budget. This applies in this situation, even though that single revenue source is presumed to be at least moderately responsive to economic growth. Any such income-based tax can, of course, respond as adversely in a downturn as it does positively in an upturn. This is especially true in Slovakia, where much of the established employment base may well be threatened by the continuing economic transition and where any new employment generated by the small-business and self-employment sector has yet to demonstrate much long-term viability.

Expenditures

Expenditures in Banska Bystrica over the past three years (Table 4) have traced almost classic patterns of prudent budgetary response to an economic roller-coaster. The year 1991 must have been a very chastening year for the Municipality, with actual total spending for the year down a sharp 18 percent from budgeted levels and non-investment spending down a staggering 25 percent. All would not necessarily go well, it must have seemed, as the post-Revolutionary changes were sorted out. In contrast, 1992 mirrored the municipal experience throughout Slovakia and, indeed, the Czechoslovak Federation, with burgeoning municipal budgets greatly outrunning initial expectations. In Banska Bystrica, total municipal spending exceeded the planned budget by over 57 percent, and non-investment spending made of for the difficulties of the precious year by surging 72 percent over originally budgeted levels.

This budgetary turbulence was accompanied by a significant demonstration of both the ability and willingness of the state to step in with needed resources for capital development spending. In 1992, the central government funded all of Banska Bystrica's Kcs 104.7 million to complete construction of public housing complexes -- apparently relieving the Municipality of the burden of its originally-budgeted Kcs 36 million contribution to that effort[25].

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[24]These sales are mostly of public housing, though some other assets may be included of which the municipality may retain a portion -- generally 25 percent -- of the receipts.

[25]The original 1992 budget to complete the construction of public housing complexes showed Kcs 57 million in expenditures and Kcs 21 million in specific state subsidies targeted for that purpose. This presumably meant that Kcs 36 million was to have come from Municipal funds. However, the reported actual expenditures of Kcs 104.7 million were exactly matched by Kcs 104.7 million in the respective actual specific state subsidies, thereby relieving the Municipality of any direct financial burden of this activity.

Table 3

Municipal Revenues in the Banska Republic
Initially Budgeted and Actual, 1991-1993
(in Kcs billions)

	1991		1992		1993
	Budget	Actual	Budget	Actual	Budget
Local taxes and fees	4.4	27.8	23.0	18.3	21.3
House tax	1.0	1.0	1.0	1.7	–
Property tax	–	–	–	–	13.0
Tax on entrepreneurial income	2.9	17.5	10.9	56.2	–
Local fees:	0.3	7.4	9.7	14.1	5.3
Localization fee	?	5.0	8.0	?	–
Administrative and other fees	0.2	1.9	1.4	2.5	3.0
Revenues from municipal assets	36.6	31.7	24.4	25.4	65.0
Earnings tax from mun ent's	5.5	1.9	2.5	–	–
Payments on financial plan	4.2	–	–	–	–
Tax on wages of mun employees	18.6	13.1	8.5	9.3	–
Rev's of bdgtry, cntbty org's	8.2	13.5	5.8	6.4	1.6
Revenues from property sales	–	–	2.5	3.3	50.0
Rent	–	3.3	5.0	?	13.4
Shared taxes from state	46.0	46.3	84.3	67.7	110.0
Share of wage taxes*	46.0	46.3	84.3	67.7	–
Share of tax on dep. income	–	–	–	–	110.0
Other revenues	0.0	10.4	0.2	22.3	6.0
Surplus from previous year	–	–	–	–	10.0
TOTAL "OWN" REVENUES	86. 9	116.1	131.9	190.0	212.3
Subsidies from state budget	160.0	104.2	28.4	114.0	–
Non-specific subsidies	–	–	–	–	–
Specific subsidies:	158.7	103.9	28.4	114.0	–
To operate housing agencies	7.6	7.6	7.4	7.5	–
To complete housing complexe	62.0	96.3	21.0	104.7	–
Sales of housing prdctn units	47.0	-	–	–	–
For development programs	26.1	–	–	–	–
Misc. subsidies	16.0	–	–	1.8	–
Bank loans and interest	–	–	36.0	15.8	–
TOTAL REVENUES	246.5	220.3	196.2	319.8	212.3

*Levied at a rate of 13% in 1991 and 18.5% in 1992. These figures also include revenues from taxes on agricultural income.

The most important lesson of this 1992 unbudgeted state subsidy support for public housing construction may be a cautionary tale for the near future. That is, the local memory of 1992's major state intervention with extraordinary revenues for the completion of public housing complexes may fuel hopes in 1993 or even beyond that the central government might once again come to the aid of municipalities burdened by their new-found independence. Indeed, Banska Bystrica's 1993 revenue budget -- so reliant upon the new shared taxes while remaining (correctly) devoid of state subsidies -- suggests just such a hope of unbudgeted state subsidy support.

The Municipality does, indeed, believe that modest amounts of state subsidy for construction of public housing complexes may become available this year. Nonetheless, the Kcs 1 billion that is reportedly available for this purpose in 1993 is only one-quarter of last year's amount.

The tumult of 1992 also introduced short-term financing into the budgetary domain of the Municipality. Although only short-term in nature, expenditures for financial transactions absorbed nearly 10 percent of total actual non-investment expenditures during 1992. The state provided Kcs 15 million of these credits (see the earlier table of revenues for Banska Bystrica) at a short-term interest rate reportedly to be around 17 percent.

Looking at the budget for 1993, planned non-investment spending remains moderately steady, while planned capital spending plummets in 1993 with the anticipated disappearance of state capital subsidies.

- Non-investment spending. On the one hand, budgeted non-investment expenditures on municipal self-administration activities in 1993 are planned to increase only a little more than 8 percent on the year.[27] Total spending for all non-investment activity (absent 1992's short-term financing and subsidies to municipal enterprises) is budgeted to decline less than 7 percent.

- Investment spending. On the other hand, investment spending in 1993 is slated to nose-dive over 80 percent on the year to a mere Kcs 22 million. Such a small fraction of Banska Bystrica's historic level of roughly Kcs 100 million in investment spending signals near-term difficulties as regular municipal improvements are ignored and longer-term problems as accumulating infrastructure needs go unmet.

  Not appearing in these aggregative inter-temporal expenditure figures are the details of budget cutbacks. Spending for IUM, Banska Bystrica's capital investment agency, was budgeted to fall from nearly Kcs 60 million to a little more the Kcs 6 million. While some of this former funding was shifted into the still-modest overall outlays of Kcs 22 million on development programs (mostly for new trolley tracks), many other important activities experienced

[27]This would appear to be only a modest provision for inflation. However, municipal officials pointed out that new deductions for municipal employees for social insurance and health insurance in 1993 had actually produced a 38 percent increase in the municipal wage bill over the preceding year.

either significant cutbacks or total cessation of municipal funding. These included reconstruction of roads, paving or playgrounds (funding stopped for 1993), construction of housing complexes (funding stopped), municipal contribution to certain recreation programs (funding stopped), and reconstruction of cultural facilities (funding reduced).

Recent Budget Trends in Trencin

Revenues

Trencin shows a recent trend of revenues from municipal sources that is similar to that of Banska Bystrica. (Table 5) In both 1991 and 1992, actual own revenues substantially exceeded budgeted amounts (with 1992's comparison being over 2-to-1). Trencin's revenue planning, however, was somewhat more cautious than Banska Bystrica's. Whereas Banska Bystrica budgeted its own revenues at 12-to-14 percent above the previous year's level of actual own revenues, Trencin more conservatively budgeted its own revenues in 1992 and 1993 at 5 percent and 20 percent lower, respectively, than the previous years' actual revenue outcomes.

As in Banska Bystrica and in the Slovak Republic as a whole, Trencin's initially cautious revenue budgeting in 1992 was swept aside by dramatic increases in both own revenues and in state subsidies. This yielded dramatic upgrading in municipal revenues and expenditures during that year, from which most municipalities must now retreat in their 1993 budgetary planning. Indeed, Trencin's budgeted revenues for 1993 are down more than one-third from 1992's actual levels.

The vicissitudes of state subsidies have played an important role in this annual budgetary uncertainty, as Trencin clearly demonstrates. The Municipality had not even budgeted for any state subsidies in 1992, whereas Banska Bystrica had anticipated a modest 14 percent of total revenues from state sources. The actual outcomes therefore constituted significant revenue windfalls for both municipalities, with state subsidies reaching 30 percent of own revenues in Trencin and a welcomed 60 percent in Banska Bystrica.

In 1993, the absence of planned subsidies in most of the major Slovak municipalities has had a clear dampening effect on fiscal planning in Trencin.[28] Total budgeted revenues are down almost 28 percent from actual 1992 levels -- again, as will be seen immediately below, significantly constraining municipal capital improvement expenditures.

Individual local revenue categories exhibit much the same patterns as elsewhere.

- Local taxes and fees. Revenues from these sources are projected to halve, even with perhaps too-optimistic expectations for the new property tax. Recent large gains in revenues from taxes on entrepreneurial income (converted to a state revenue source in 1993) and from local fees (presumably prominently including

[28] In 1993, of course, no major municipalities were to anticipate state subsidies, which were officially to go only for self-administration of small municipalities and for urban transit in Bratislava, Kosice and Presov.

Table 4

Municipal Revenues in the Banska Bystrica Initially Budgeted and Actual, 1991-1993 (In Kcs billions)

	1991		1992		1993
	Budget	Actual	Budget	Actual	Budget
"Non-investment" expenditures, municipal self-administration	87.8	97.9	96.2	167.7	181.6
Contractual arrangement	31.4	??	22.6	??	??
Budgetary and cntbtry org's	56.5	??	73.6	??	67.9
Subsidies to mun enterprises	54.6	7.6	7.4	7.4	–
Operation of housing agencies	7.6	7.6	7.4	7.4	–
Sale of housing prdctn units	47.0	--	–	–	–
Financial (banking) operations	–	–	9.4	19.2	–
Interest & principal payment	–	–	9.4	19.2	–
TOTAL NON-INVESTMENT EXPEND'S	142.4	105.5	113.0	194.4	181.6
Investment expenditures	104.1	96.3	83.2	114.7	22.0
To complete housing complexes	62.0	96.3	57.0	104.7	–
Development programs	42.1	–	20.0	10.0	22.0
Other: replacement, renovation	–	–	6.2	–	–
Surplus	–	–	–	10.7	8.7
TOTAL EXPENDITURES	246.5	201.8	196.2	309.1	212.3

the now-terminated localization fee) are lost to the Municipality this year. Although budgeted revenues from the new property tax are many times those on the former house tax, these projections may be much too optimistic (see below).

- <u>Revenues from municipal assets</u>. Revenue projections in this category may also be somewhat tentative. With the reassignment to the state of tax revenues from municipal enterprises and the elimination of other former taxes, municipal revenues in this grouping are heavily dependent on sales of municipal property and on rents.

  -- <u>Sales of municipal assets</u>. The anticipated Kcs 29.5 million sales figure for 1993 sales of municipal assets may well be reasonable, particularly because as much as half of that amount is to come from sales of commercial -- not housing -- properties.[29] Indeed, the Municipality hopes to maintain property sales at about the Kcs 30 million level for the next year or so in the face of some expected softening of the real estate "market." Despite the optimism, an economic downturn and the usual administrative difficulties with housing sales could belie the Municipality's estimate of revenues from property sales.[30]

-- Rent. The Kcs 21.5 million estimate of 1993 revenues from rent are probably less secure. Recent rental revenues have been far below that level, and any local economic slowdown would surely cut into rent receipts.[31]

- Shared taxes from the state. Revenue flows from the shared income tax are relatively predictable, so this estimate ought to be generally good. Nonetheless, budgeted gains over the former wage taxes are projected to be fully two-and-one-half times larger for Trencin than for the Republic as a whole. Again, therefore, an economic downturn could yield disappointing results.

- Revenues from other sources. Finally, budgeted levels of other revenues are set at reassuringly much lower levels than actually obtained in 1992. This is importantly true for municipal borrowing, which is subsumed under revenues from non-budgetary resources.

Expenditures

Dramatic increases in 1992 actual spending relative to initial budgets in Trencin parallels the national pattern, as does the subsequent planned reduction in overall budgeted expenditures relative to actual 1992 outlays. (Table 6) In 1993, the discontinuance of operating subsidies for municipal enterprises and of capital subsidies for public housing almost fully accounts for the nearly 26 percent pullback in 1993 total budgeted spending against 1992 actual levels. Thus, capital spending on construction of public housing complexes is slated to end, having fallen since 1990 from Kcs 130 million per year to zero.

The 1992 surge in outlays especially boosted investment spending, of course, where development programs as well as other capital spending gained from the infusion during the year of unplanned revenues from both municipal and state sources. In addition to 1992 planned development program outlays that included self-construction activities, creation of

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[29]Although no other data were available for comparison, so high a ratio of non-housing assets is probably unusual among expected sales of municipal assets.

[30]Of the existing stock of roughly 7,000 flats, the Municipality reportedly hopes to sell as many as 5,000 apartments and to retain the remaining 2,000 as basic public housing to be owned by the Municipality.

[31]This high a share of rent in total municipal revenues (nearly 14 percent in 1993) may also be an aberration, since over two-thirds of Trencin's projected 1993 rent revenue is to be generated from facilities of a municipal agricultural construction enterprise.

Table 5

Municipal Revenues in Trencin
Initially Budgeted and Actual, 1991-1993
(In Kcs billions)

	1991		1992		1993
	Budget	Actual	Budget	Actual	Budget
Local taxes and fees	3.2	20.9	20.8	48.7	24.0
House tax	1.3	1.2	1.3	1.7	–
Property tax	–	–	–	–	15.0
Tax on entrepreneurial income	1.2	7.0	8.0	22.6	–
Local fees:	0.4	11.3	10.0	22.5	7.0
Localization fee	?	?	?	–	
Administrative and other fees	0.3	1.4	1.5	1.9	2.0
Revenues from municipal assets	24.8	38.0	32.4	69.4	66.7
Earnings tax from mun ent's	1.5	0.7	–	5.5	–
Payments on financial plan	3.6	3.6	3.5	3.8	–
Tax on wages of mun employees	11.5	10.1	1.0	6.8	–
Rev's of bdgtry, cntbty org's	4.7	12.1	11.9	19.5	15.7
Revenues from property sales	3.5	10.7	15.0	31.0	29.5
Rent	0.1	0.7	1.0	2.8	21.5
Shared taxes from state	28.6	28.2	36.5	44.9	60.0
Share of wage taxes	28.6	28.2	36.5	44.9	–
Share of tax on dep. income	–	–	–	–	60.0
Other revenues	0.0	7.9	0.1	27.1	3.3
Rev's from nonbdgtry resources	0.0	1.9	0.0	17.1	2.0
Surplus from previous year	–	–	–	–	–
TOTAL "OWN" REVENUES	56.6	94.9	89.7	190.1	153.9
Subsidies from state budget	61.2	77.7	0.0	57.2	–
Non-specific subsidies	–	0.0	–	–	–
Specific subsidies:	61.2	77.7	0.0	57.2	–
To operate housing agencies	5.6	5.6	0.0	5.3	–
To complete housing complexes	55.6	71.5	0.0	50.0	–
Sales of housing prdctn units	–	–	–	–	–
For development programs	–	0.6	–	–	–
Misc. subsidies	- -	–	–	1.9	–
TOTAL REVENUES	117.8	172.7	89.7	247.3	153.9

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a municipal solid waste dump, and work on a stadium, over half (nearly Kcs 12 million) of the initially unbudgeted development program funding was devoted to reconstruction of a prominent local hotel for which rental revenues of Kcs 1 million were projected for the following year. These capital improvement efforts were to continue in 1993, with nearly 85 percent of the Kcs 43.5 million in development program spending allocated to the municipal dump and the hotel reconstruction.

Also notable is the growing cost of financing. Interest and principal payments more than doubled in 1993 to Kcs 30 million, comprising nearly one-fourth of budgeted non-investment expenditures.

5. THE FINANCING OF ENVIRONMENTAL PROTECTION

Structure and Organization

In the Slovak Republic, the financing of municipal capital improvements -- the ultimate concern of this report -- is carried out through several different agencies at both central and local levels of government. Some of the more important of these are the following:

- The Fund for the Environment (the "Fund") under the Ministry for the Environment, which administers the system of fees, charges and fines on pollution-generating activities and which participates in the administration of matching grants to municipalities for capital investment in environmental protection;

- The district-level water-treatment and waste-water treatment organizations [vodarnia canalazaci], under the Ministry of Agriculture and Land, which administer the user charges to individual households and to all other users of the water-supply and sewerage system, the underground piping of which is owned by this Ministry;

- The organization of specific rivers [povodia], which superintends pollution-control efforts on the Republic's four major rivers: the Danube (flowing through Bratislava), the Hron (Banska Bystrica), the Vah (Zilina and Trencin) and the Hornad (Kosice);[32] and

- The individual municipalities, which propose their own preferred environmental protection initiatives, and their respective district offices for the environment, which prioritize the proposed projects of their constituent municipalities and submit these funding requests to the Fund and the Ministry for the Environment.

[32]In 1993, only Kcs 6.5 million was allocated by the Fund to the four povodia, primarily for water-quality analysis and collection of sometime-delinquent payments.

Table 6

Municipal Expenditures in Trencin
Initially Budgeted and Actual, 1991-1993
(in Kcs billions)

	1991		1992		1993
	Budget	Actual	Budget	Actual	Budget
"Non-investment" expenditures, municipal self-administration	57.7	71.0	68.7	103.4	98.5
Contracted services	19.9	27.5	31.4	36.5	44.1
Budgetary and cntbtry org's	37.8	43.5	31.3	66.9	54.4
Subsidies to mun enterprises	7.1	8.7	3.5	7.9	–
Operation of housing agencies	5.6	5.6	–	5.3	–
Sale of housing prdctn units	1.5	3.1	3.5	2.6	–
Financial (banking) operations	1.4	2.8	2.0	12.7	30.0
Interest & principal payment	1.4	–	–	–	30.0
Other	–	2.8	–	–	–
TOTAL NON-INVESTMENT EXPEND'S	66.2	82.5	74.2	124.0	128.5
Investment expenditures	82.1	87.4	17.5	108.0	43.6
To complete housing complexes	55.6	71.5	–	50.0	–
Development programs	25.7	15.1	17.5	38.4	43.6
Other	–	–	–	9.5	–
Surplus	–	–	2.0	–	–
TOTAL EXPENDITURES	148.3	169.9	91.8	232.0	172.1

Fund Revenues

The Fund receives revenues from three separate sources.

- Fees and charges for excessive pollution are paid regularly by polluters whose effluent emissions exceed established limits. These payments include fees for air and water pollution, charges for use of underground water, and charges for use of publicly-owned solid waste facilities. In 1992, approximately Kcs 550 million in revenues was raised from these sources.

- Fines for polluting malpractices may be imposed on polluters for individual incidents of pollution arising from improper procedures or bad practices. In 1992, Kcs 10 million in revenues was generated from this activity.

- Donations may be made to environmental protection activities from international donors or other sources. In 1992, USAID donated US $15 million to the Czechoslovak Federal Republic.

Fund Expenditures and Matching Grants

Fund expenditures for environmental protection are decided upon in response to local requests for capital funding. Municipalities typically initiate these proposals, which might be forwarded to the district environmental office in, say late November. After prioritizing the various proposals of its constituent municipalities, the district environment office submits its requests in January to the Fund,[33] which then forwards these requests, unchanged, to the Ministry for the Environment for funding action.

(Although the Fund does not act upon -- or, reportedly, make any changes in -- these funding requests, there is a Fund board which advises on environmental policy in the Republic. Fund priorities for support are the completion of on-going construction, followed by proposed projects ranked, at least in part, by some form of economic evaluation.)

Environmental protection projects generally receive matching-grant subsidies from the state. The Ministry for the Environment approves municipal projects, setting both authorized expenditure levels and the percentage of the match that will provided by the state. This would usually occur during March, according to this illustrative timetable. The mayor generally comes to the Fund for a formal signing ceremony, after which his administration may draw appropriate funding from the municipality's account. In general, these moneys must be spent within one year.

Matching ratios vary by size of municipality and type of project. Small municipalities with limited resources generally enjoy larger matching ratios -- as high as 80 percent of funds coming from the state. Most Fund support goes to construction of large sewage treatment plants. Half of the Fund's 1991 expenditures of nearly Kcs 1 billion subsidized the local construction of sewage treatment plants, and 90 percent of Fund outlays in 1992 went to municipalities.[34]

Matching ratios also generally favor municipal projects over those of state industrial enterprises, which were allocated very limited funding in 1992 and 1993. At present, for

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[33]Districts actually make funding requests twice a year. There apparently is also some prioritization of projects within each of the Republic's 38 regions, although it is unclear whether this is done before or after proposals have been submitted to the Fund.

[34]Not all municipalities, of course, have sewage treatment plants. Whereas sewage treatment plants exist in most larger municipalities have such facilities, they are increasingly less common as municipal populations fall below 20,000 inhabitants.

example, municipalities such as Banska Bystrica or Trencin could receive as much as a 50 percent match for approved municipal water- or sewage-treatment projects, while funding for scrubbers to reduce sulphur-emissions from the coal-fired Novaky electric power plant received only a 10 percent match. In 1993, roughly Kcs 500 million from the Fund is to support Kcs 2 billion in construction, with some matching down to 10 or 20 percent of the total cost.

User Fees and Charges

Fees and charges are levied on households and enterprises for regular utilization of water supply, sewerage connections and wastewater treatment, and solid waste disposal. These fees and charges, which are uniform across the entire Republic, are collected locally by the municipal finance office for allocation to the state. These fees and charges are not part of the approximately 12 fees that are collected by the municipal finance office for municipal use.

The user charge for water supply and for sewerage connection/wastewater treatment is a single charge, levied upon households and enterprises in approximate proportion to water (and implicitly sewer) usage. At metered sites, the imposed rate is Kcs 8 per cubic meter of water usage; at unmetered sites, the charge is often approximated from the number of persons per connection. Actual charges may vary substantially from one site to another depending upon meter quality (if applicable), the extent of leakage within the subscriber's system, etc. An average household might pay between Kcs 100-to-200 annually for water-and-sewer service. Nonetheless, individual examples cited by respondents ranged by a factor of four from Kcs 6 to Kcs 24 per month (Kcs 72 to Kcs 288 per year), with a presumably extreme example being as high as Kcs 720 per year.

The uniformity of the water/wastewater charge has permitted an anomalous situation to arise in some communities between user payments and effluent discharge. That is, the mandated charges may be levied regardless of the level of treatment that is actually provided by whatever facility actually exists in a given community. Thus, users must pay the extant charge even if their sewage treatment facility is dumping substantial amounts of raw sewage into the nearby river because its capacity is overwhelmed by the local volume of wastewater. Indeed, the standard charge may be levied even if no sewage treatment plant exists in the community.

Whereas water/wastewater charges are both universal and not scheduled to change at this juncture,[35] charges for solid waste disposal are being ratcheted up annually until the "full" charge (now calculated at Kcs 1,000 per ton) is paid by the client. That is, users were required to pay 20 percent of this Kcs 1,000-per-ton charge for solid waste disposal in 1992, with the percent increasing by that rate every year until the full Kcs 1,000-per-ton charge is

[35]Water/wastewater user charges may be increased for the next fiscal year, but there is no evident plan to do so over the longer term. Nor is there any apparent attempt to relate user charges to the actual cost of service. Any such changes in water/wastewater user charges would be recommended by the Ministry for Environment in conjunction with the Ministry for Agriculture and Land.

levied in 1996. Relatively smaller users (with charges up to Kcs 1,000 annually) submit payment to municipal finance offices. Larger users submit payment directly to the Fund, which allocates 60 percent of these large-user payments into environmental protection programs in the regions from which these payments were made.

Potential Transfer of Ownership of Water/Wastewater Treatment Facilities to Municipalities

More than one respondent made somewhat inexact references to an almost inevitable transfer to municipalities of ownership of the assets of existing water/wastewater treatment facilities -- what might be called a "municipalization" of these facilities. When that happens, it was argued, rates for user charges for these services -- as then established by their new municipal owners -- could then increase and vary among the different municipalities. Short of such an eventuality, no respondent indicated that any significant increase in user charge rates for these services was in the offing, now or in the future.

6. THE APPEARANCE OF A NEW MUNICIPAL DEVELOPMENT BANK

In January 1993, a new municipal development bank began operations in Zilina, with a branch office opening in Trencin in April. The First Municipal Bank [Prva Komunalna Banka] is a joint-stock company founded by the Municipalities of Zilina, Martin, Povazska Bystrica, Liptovsky Hradok, and Bytca and by the District of Horna Marikova, which together hold a reported 99.9 percent of the basic capital of the bank. It claims that its primary clientele will be "towns and districts" and the organizations and institutions controlled by them, plus small and medium entrepreneurs. With the decreased state subsidy financing of town (municipal) and district governments, the bank seeks to "create convenient financial ties between the state budget and municipalities, with the target to reach direct financing of towns and districts from state resources." Also, "with support of towns and districts, there is intention to create suitable conditions for development of small and medium-sized businesses in towns and districts."

The bank intends to render municipal development credits to towns and cities, especially for funding construction of energy facilities, civil works, schools, health centers and other facilities. Separate lending activities in "ecological investments" envision state participation through collaboration with the Fund for the Environment, apparently utilizing special interest arrangements. The bank also hopes to encourage its investors to issue municipal bonds -- especially in large volume with long-term maturity.

The headquarters of the First Municipal Bank is located at Hodzova 9, Zilina. The bank's general manager is Ing. Jozef Mihalik (ul. Horny Val 24, Zilina; phone 089/450-35, 089/488-37), and the chairman of the board of directors is Ing. Jan Slota. The branch office of the bank in Trencin is located at Palackeho 35, and the branch manager is Ing. Jan Nedorost (phone 0831/320-26).

7. FINDINGS

Accomplishments

The commitment to greater independence for municipalities in the Slovak Republic has been accompanied by several important fiscal accomplishments. The administrative transition from the former Czechoslovak Federation has gone relatively well from the perspective of intergovernmental and local finance, although the larger transition toward a market economy will pose many problems during the next few years. The transfer of important functional responsibilities from the state to the municipalities has begun, though the problems in the housing sector likely foreshadow those in other areas whose devolution has yet to be decided or announced.

The introduction of the concept of shared taxes is promising, as the state assigned to the municipalities a majority portion of revenues from the moderately growth-responsive employee income tax. In doing so, however, the state also reclaimed all revenues from the likely more responsive income tax on entrepreneurial activity (though admittedly, such revenues may prove rather volatile in troubled economic times).

Highly encouraging, also, is the introduction of the new property tax, revenues of which are properly allocated solely to municipalities. Even more important for the future is the clear intention to transform the property tax into a modern, fully market-value based tax. Although the path to that eventuality may well be longer and more difficult than presently envisioned, the ultimate outcome will be worth the effort.

Unfinished Business

The pace of change in the Slovak Republic has been rapid and exciting. The numerous promising developments have been instituted with supporting arrangements that must now be strengthened and refined, even as further changes crowd their way into the policy arena. Existing accomplishments must be solidified, but not by foreclosing future options for flexible, adaptable response to conditions now unforeseen.

From the national perspective, yet to be addressed in this scenario is the ultimate character of intergovernmental fiscal relations in the Slovak Republic. Greater municipal independence has been courageously decreed and initiated without benefit of a clear map of the eventual goal or of the financial mechanisms to fully support its achievement. Further developments on the intergovernmental scene will surely require the modification of fiscal arrangements that are not yet fully adequate even for the system that has already been put in place.

From the local perspective, yet to be addressed in this reform agenda is the issue of local autonomy to determine both rates and bases on the taxes, charges and fees that accrue to individual municipalities. This is especially important for such local fiscal instruments as the property tax and local fees and charges. While hesitation to move in this direction is understandable in terms both of the popular wariness of government power and of the relative inexperience (and, therefore, the feared unreliability) of municipal government, it is hoped that such reluctance to entrust even municipal government to represent the will of the people will fade as municipal governance is proven in time.

Of particular concern here is the immediate problem of the financing of municipal capital improvements that is posed by this recent history. The withdrawal of state subsidies for capital investment, coupled with the limited and relatively undeveloped local fiscal base, leaves immediate capital financing needs largely unmet. The resolution of this problem may well involve careful improvements in many areas, perhaps including the following:

- Development of well-crafted intergovernmental fiscal assistance for capital purposes;
- Increased municipal fiscal flexibility to generate local revenues in a variety of way to serve locally-determined purposes;
- Creation of municipal credit institutions to primarily serve municipal credit needs within the context of a market-oriented commercial banking environment; and
- Strengthened capabilities at both central and municipal levels to analyze and monitor municipal fiscal performance, thereby fostering greater local fiscal autonomy through increased popular and state confidence in municipal abilities to properly manage their own financial and fiscal affairs.

Some Possible Constraints on Systemic Solutions

Regional unemployment

Unemployment in the midst of continuing economic transition is a large and probably growing problem that may threaten many important initiatives in local and intergovernmental finance. This is especially likely in some of the more economically troubled municipalities in the east, where municipal fiscal circumstances are doubtless much more tenuous than those reported here for Trencin and Banska Bystrica.

Continued progress toward greater policy and fiscal independence for the municipalities of the Slovak Republic may be thwarted if any coherent group of municipalities proves incapable of shouldering the additional fiscal burdens which necessarily come with such greater independence. The evident incidence of such failure on a regional basis could slow if not stop movement toward greater municipal independence.

The likelihood of significant inter-regional fiscal imbalance underscores the importance of embarking on a comprehensive review and reform of the intergovernmental grants (subsidies) system in the Slovak Republic.

Reportedly substantial delinquencies in local taxes and fees

Reportedly substantial delinquencies in local taxes and fees were noted by several respondents. Although the MOF is completing its (impressively) legally-mandated annual report on amounts of outstanding local taxes and fees that are in arrears, that study did not become available in time for its inclusion in this report. Nonetheless, a knowledgeable MOF official indicated that there is indeed a significant problem of delinquency in the payment of local taxes and fees.

At least one municipality, Trencin, is deviating from the norm by explicitly not imposing the highest possible rates, at least on the new property tax. While most municipalities are generally reported to impose the maximum permissible rates, Trencin has chosen not to invoke the permissible 100 percent surcharge on the new property tax. Trencin municipal officials argue that by not pressing for the maximum rate, local payment performance will actually be higher than if the maximum rate were imposed. In their view, this more moderate approach to municipal rate-setting (thereby exercising virtually the only local rate-setting option) is likely to generate more actual net collections than would have occurred with rate maximization. Furthermore, they argue, it also engenders better relations between the municipal populace and its leadership, as well as serving to develop higher popular confidence in municipal government. Continued monitoring and analysis of Trencin's experience in this regard would be worthwhile.

Possible public reluctance to shoulder additional tax burdens

[NOTE: This section presents material that is essentially based on impressions rather than on documented facts. Although it relates to purported popular opinion, no attempt was made in this research to elicit any popular views on this topic.]

There are reportedly significant limitations on public willingness to pay additional taxes, fees, or charges. Respondents commonly attributed this to such concerns as general economic hard times, uncertainty about the future and a seemingly widespread popular distrust of government at any level.

The reported popular distrust of government allegedly derives in part from past governments' failure to do what it had claimed it will do. One respondent noted that the pre-Revolutionary regime over-promised in the past and then failed to deliver (including unkept promises that reportedly accompanied tax increases which followed the national upheavals of 1968).

An additional common theme regarding public distrust of government was that of corruption. Respondents offered numerous anecdotes relating instances of municipal corruption, often in response to inquiries regarding public willingness to pay higher rates on local taxes and fees if those additional revenues were to be channeled into local projects that enjoyed wide community support.

Prospects

It is likely that the movement toward greater independence of municipalities in the Slovak Republic is only in its initial stages. Local populations have probably not begun to test their own power over, or tolerance for, municipal government that is significantly independent from higher authority. Accordingly, they likely have even begun to examine the possibilities for municipal improvement that can come from fiscal as well as political independence at the local level.

An important component of greater municipal independence is a clear and universally-understood program for intergovernmental and municipal finance that will bridge the gap to the future. The past few years have begun great changes which currently confuse and undermine much municipal planning because the fiscal future is so clouded. Careful thinking and analysis should be done to clarify that future, and the decisions therefrom must be well-considered and clearly enunciated.

In addition, the probable increases in local property values which will continue to emerge from the privatization of home ownership and from the eventual expansion of local economies are likely to change many minds about the appropriate levels of now-very-low rents and of the concomitant level of local property taxes. As incomes and rents rise, the now seemingly narrow base of municipal property taxation could come to be viewed much more expansively, especially if the property tax remains one of the few potentially major revenue sources that municipalities can clearly claim as their own to control as well as to administer.

Moreover, the evident concern that local government corruption would militate against any significant expansion of the municipal fiscal base is also likely to fade with time. That happy eventuality can emerge, provided that the Slovaks do indeed institute a truly independent local governance that is both responsive to the local polity and subject to sufficient financial monitoring -- both by the center and by the municipalities themselves.

8. RECOMMENDATIONS

Development of Coherent and Transparent Arrangements for Intergovernmental Finance

<u>A comprehensive study of intergovernmental finance</u>

A comprehensive study of intergovernmental finance in the Slovak Republic is recommended to determine the municipalities' current and future governmental responsibilities and to identify the most effective longer-term ways of financing those responsibilities. This must be done in a clear, open and transparent manner so as to prepare for the necessary transitions and to enable the state and the municipalities themselves to begin collaborative planning for the fiscal future.

Such a program should produce a more carefully planned transparent approach to municipal finance assistance than would either of the commonly-expressed expectations for near-term state assistance to municipalities. The first of these undesirable alternatives would be an increase in the present 70 percent municipal share of revenues from the employee income tax. Such an administratively easy move would provide additional local funding while failing to come to grips with any of the more difficult longer-term considerations for intergovernmental finance that ought to be addressed by a comprehensive study of the problem. The second of these undesirable alternatives would be the infusion of rather ad hoc state subsidies to municipalities, perhaps in somewhat the same manner as was done last year. Any such rather ad hoc subsidies at this juncture would only confuse future expectations of all parties.

At this point, it is important to develop a plan for moving toward an adequate, equitable and transparent system of intergovernmental finance. Such a announced scheme would clarify the currently uncertain municipal finance situation and would help both the state and the municipalities to prepare for a more coherent and predictable fiscal future.

<u>Consideration of a system of matching grants for municipalities</u>

In developing a future program of intergovernmental finance such as was just outlined, attention should be given to a carefully considered system of matching grants to municipalities that would be broader but similar in nature to the present scheme of state matching grants for environmental protection. This might be especially appropriate if and when there is any further devolution of public service responsibilities from state to municipal levels.

The existing experience with state matching grants for environmental protection is a good start toward a more comprehensive system of intergovernmental grants that could address fiscal disparities among municipalities as well as minimum outlays for certain categorical needs and other functional expenditures which the central government may wish to encourage.

<u>Creation of an MOF capability for monitoring and analysis of local finance developments in the municipalities</u>[36]

However the future of intergovernmental finance is played out, one important element of such a program should be the early creation of a more substantial analytic capability in the Department of Local Budgets and Regional Policy in the Ministry of Finance. Only with increased central government confidence in the ability, honesty and effectiveness of municipal governments can the center proceed toward even more independent local governance in the Slovak Republic. Indeed, if the intimations reported above are correct of even further impending reassignments of functional responsibilities to the municipal level, the case is

[36]This should ideally be linked with enhanced municipal capabilities for carrying out local finance analysis (see below), especially including suitable evaluations of potential municipal capital improvements that might be financed through municipal credit arrangements that have already been proposed to AID by the Consortium.

strengthened for an effective MOF analytic and monitoring unit that may track, assess, and help to guide local governments in their expanding new ventures.

Greater Municipal Revenue Generation, especially in Support of Capital Improvements

Movement toward autonomous determination of property tax rates by each individual municipality

There should be movement toward ultimate municipal flexibility in the setting of property tax rates. This should to accompany the thorough property tax reform that, it is hoped, is to be part of the anticipated transition of the property tax to a modern, market-based property tax later in this decade.

Movement toward autonomous determination of local fees and charges rates by each individual municipality

There should be movement toward ultimate municipal flexibility in the setting of local fees and charges. An important reflection of local fiscal independence is municipal flexibility in establishing its own schedule of local fees and charges. (Ideally, this may be extended to include municipal definition of tax bases as well as rates, and perhaps to include municipal authority to raise revenues from presently untaxed activities.)

Such local fiscal autonomy can be a crucial element in achieving the financing infrastructure for general municipally-provided public services. This is particularly relevant to the proper specification of user charges for the expansion and improvement of water/wastewater treatment as well as for other specified public service functions.

Consideration of betterment charges to recoup some costs of particularly well-defined benefits from municipal capital improvements

Consideration might be given to permitting municipalities to impose betterment charges on local businesses that identifiably benefit from a particular local capital improvement. This involves the assigning of important portions of the costs of infrastructure improvements with very localized benefits (such as street improvement or better auto and/or pedestrian access) to those local businesses that would actually gain from such improvements in terms of increased business volume.

Such an approach might enable a municipality to carry out a proposed improvement because of the additional funding contributed by those businesses which would gain from the anticipated local improvement. (Some local businesses would, of course, object to their financial participation in such an arrangement, preferring to reap the benefits of neighborhood without incurring any undue costs.) Much of the current structure of local fees already falls directly on business, and the rate schedules for the new property tax are also significantly heavier on business than on private households. Nonetheless, at least a portion of any additional taxes could be passed on to customers, leaving a higher volume of business

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for those establishments which benefit from local public service improvements, and likely higher profits regardless of the ultimate shiftability of the tax to the consumer.

A pilot experiment to fund the improvement of water/wastewater treatment facilities through permissible increases in user charges in selected municipalities

A pilot experiment is proposed that would impose higher water/wastewater user charges to finance the municipal share of capital improvement expenditures in selected municipalities. The objective would be to demonstrate the feasibility of permitting localities to increase regular charges for water/wastewater use sufficiently to fund substantial portions of needed improvements in the local water/wastewater treatment facility. At present, such experiments would be carried out through the district-level water-treatment and waste-water treatment organizations [vodarnia canalazaci], under the Ministry of Agriculture and Land, which administer the existing system of water/wastewater user charges. (At some future time, part or all of this function may be transferred to municipalities, as noted above.)

If the local community had a high enough preference that the local wastewater treatment plant be upgraded, for instance, so as to eliminate the dumping of over-capacity waste into the local river, the populace should be willing to shoulder the additional burden of the proposed extra user charge for this purpose. This should be an appealing concept in the Slovak Republic, since the Fund for the Environment already provides substantial matching funds to support just such endeavors. Thus, local contributions above the present fee limit would be significantly matched from Fund monies, providing an even greater local incentive for such an experiment.

Institutional Approaches to Capital Improvement Financing

A municipal credit system as a transition to a regular municipal credit market

Ideally, long-term credit to finance municipal capital improvements would be provided by a functioning municipal bond market. The successful development of such a market in the Slovak Republic is probably some years in the future. Therefore, transition approaches should be sought for the provision of municipal credit which can help to fill the existing finance gap relating to municipal capital improvements.

One such approach, as previously suggested by the Urban Institute through the ICM Consortium, is an interim municipal credit system that would use as security anticipated state transfers to the credit-seeking municipality. The only currently assured transfers consist of the monthly allocations of shared revenues from the employee income tax. These shared-revenue transfers are expected to be both significant in amount and generally predictable in flow, arriving in each municipality's account at approximately the same time each month.

At transition credit arrangement of this nature could provide useful borrowing experience to most Slovak municipalities, whose actual experience with such transactions is limited at best. What little borrowing there has been almost surely has been of relatively

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short-term nature, with most (probably fairly small) loans being of no more than two years' duration.

Particularly in conjunction with the recommended local (and central) training in project evaluation for credit purposes, the inauguration of such a system would afford participating municipalities with a unique opportunity to begin thinking about regular long-term municipal borrowing while enjoying access to needed credit for capital improvements financing. If such efforts could productively be linked to, or carried out through, a municipal development bank such as described above, so much the better.

Moreover, the other recommendations contained herein to improve municipal (as well as central) government local finance analytic capabilities adds an extra dimension to the suggested municipal credit system. Such expanded municipal analytic capacity would form an important part of the pre-loan borrowing process. As such, it would significantly advance the capacity of the participating municipality to compare and evaluate proposed projects in preparation for the day when such borrowing is done in a regular commercial market.

Response to this general concept was universally positive in the several conversations where it was raised with municipal, MOF, or knowledgeable unofficial respondents.[37]

<u>The linkage of central and local interests in improved capabilities for local finance analysis</u>

It is recommended that a concurrent pilot demonstration be conducted that is aimed at improving the analytic and monitoring capabilities of municipal as well as central governments in the areas of local finance and project evaluation. This would make the most of any proposed efforts to increase the financing of capital projects in selected municipalities by greatly increasing MOF appreciation of this effort, upgrading MOF abilities to monitor and analyze local finance developments throughout the Republic, and strengthen the human resource skills as well as the institutional experience within the participating municipalities.

Some of the reasons for this recommended linkage between the proposed improvement of municipal and central analytical capabilities are discussed below.

> Regarding project evaluation, some care should be taken in formulating the approach to and designing the training for the project evaluation component of this important municipal credit concept. That is, it would likely be a stimulating and rewarding exercise to identify and develop the optimal mix of qualitative and quantitative techniques of project evaluation that would be most effective in the hands of local staffs in the municipalities of the Slovak Republic. There is no doubt that the talented and energetic personnel now serving many Slovak municipalities could make the most of promising, practically-oriented analytic techniques.

[37]In all such conversations, the concept of the municipal credit system was never discussed in any detail and even then only as a "hypothetical" notion.

There is a legitimate concern, however, that the talented members of many municipal staffs might never really have the time to apply such intriguing tools to their best advantage. Talented though some of these individuals have been observed to be, they are also inevitably the most valuable and most overworked members of the municipal management team. Some of these individuals have already been seen to be spread very thinly across the realm of policy concerns that daily inundate the relatively new leadership in some of the Republic's most dynamic municipalities.

It is not at all clear whether such talented but already very hard-working municipal staff can really be freed to apply their evident abilities to the primarily analytic endeavors of project evaluation (however non-quantitative). Indeed, whether they or their superiors would willingly make such a trade-off in light of their busy public schedules is a concern that should be addressed. The alternative of hiring additional young staff for the analytic work, with its attendant involvement in policy deliberations, would likely find willing applicants, but many municipalities might be financially incapable or programmatically unwilling to make such a commitment to improved analysis on their own.[38]

It is at this point where the recommended strengthening of the MOF's capability for monitoring and analysis of municipal finance comes full circle. That is, perhaps the most fruitful way to improve the monitoring and analysis of municipal finance in the Slovak Republic would be the joint emphasis on improving such capabilities at both the central and the municipal levels. Especially if approached via a pilot project in such municipalities as Banska Bystrica and Trencin, the concurrent development of central and municipal local finance analytic capability could prove to be a most robust demonstration of the value of such an enhanced capability for municipalities throughout the Republic.

Therefore, a pilot demonstration is recommended of the concurrent development of central and municipal local finance analytic capability.

The possible promise of joint stock companies

The seemingly broad interest in municipal enterprises may offer some useful institutional possibilities for expanding the institutional environment for municipal capital finance in the Slovak Republic. The new municipal development bank with headquarters in Zilina and a new branch in Trencin may be a good example of this. If it turns out that the joint stock company approach has appeal, however, such operations must be carefully

[38] The old story of salary is also a not unimportant concern here. Municipal employees reportedly earn lower salaries than do their counterparts at state enterprises, to say nothing of the eventual opportunities in the still-emerging private sector. The point here is not that the newly-analytically trained staff should be given some sort of salary increment (which may not be feasible, in any case); indeed, most would recognize that any such training could only enhance their subsequent earning power. Rather, it is perhaps helpful to note that, in contemplation of the additional work burdens that could be incurred by learning the new analytic techniques, the municipal employee may be at least somewhat deterred from participation by the relatively low municipal salary schedule.

channeled and closely monitored so as to ensure that municipalities do not wastefully and inefficiently crowd out Slovakia's nascent sector by an implicit re-introduction of public enterprises at the local level just as they are being drastically reformed or eliminated at the national level.

Informal micro-level efforts to improve local community environments

One respondent offered that opinion that the widespread distrust of government might require a very much more localized approach to improving the municipal environment. It was suggested that very locally-oriented groups of neighbors coming together to pursue a mutually-desired goal might be a useful device to tap a community's perhaps very limited willingness to engage in group endeavor for the common good. If the level of distrust of government -- even local government in the post-federal Slovak Republic -- is indeed a great impediment to progress, such informal micro-level groups may have a role to play at least in formulating an initiative and starting it on its way.

8. A FINAL NOTE

The most important recommendation here is to proceed quickly with the proposed municipal credit system. The financing of local capital improvements is a pressing current problem requiring an immediate solution, and the proposed municipal credit system offers one such solution.

The other recommendations, both short- and longer-term, should also be pursued in concert. They offer the Republic a coherent program of assistance in an area -- intergovernmental finance -- where important recent progress can easily become overwhelmed by financial exigencies. Indeed, the important gains chronicled here could be lost merely because no comprehensive analytic framework underlies the Republic's bold but seemingly piecemeal approach toward the worthy goal of greater municipal independence. The recommendations presented above can provide such a framework.