ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS
Washington, D. C. 20575

Recommendations to Date

August 1, 1963

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Recommendations to Date of the Advisory Commission on Intergovernmental Relations

(Underlined headings shown are the titles of the Commission's reports in which the respective recommendations are contained.)

A. GOVERNMENTAL STRUCTURE AND FUNCTIONS

State Constitutional and Statutory Restrictions on the Structural, Functional and Personnel Powers of Local Governments (Report A-12)

The Commission recommends:

1. Amendment of State constitutions to grant "residual powers" to local government--namely, all powers not reserved to the State in the Constitution or pre-empted for the State by action of the legislature;

2. Modification of State and Federal grant-in-aid programs to provide incentives to small local units of government to join together in the administration of the function being given grant assistance;

3. Authorization to county governments individually or jointly to establish service corporations or authorities, where clearly necessary and with appropriate safeguards;

4. Authorization to municipalities and counties to adopt optional forms of local government;

5. Authorization to county governing boards to fix appointment, tenure and salaries of all county officials and personnel except those engaged in so-called "liberty and equality functions" such as elections administration and district attorney and sheriff functions;

6. Authorization to municipalities to appoint all city officers other than the mayors and council members;

7. Provision by the State government of technical assistance upon request of local governments with regard to personnel administration.

Apportionment of State Legislatures (Report A-15)

The Commission recommends as guiding principles for consideration and use by Governors, legislators and State and Federal courts that:

1. Apportionment of seats in State legislative bodies is a basic factor of representative government and hence should be clearly specified in State constitutions;

2. Where a legislative body is to be apportioned on the basis of population a maximum deviation of ten percent should be constitutionally specified;

3. The constitution should charge the State legislature with initial responsibility for apportionment but should further provide for a non-legislative and non-judicial body to do the apportioning job if the legislature fails to act or acts unconstitutionally;

4. The constitution should further specify the frequency of reapportionment and should endow State courts with both jurisdiction and remedies with respect to reapportionment actions;

5. The people of the State should be provided the opportunity to react at the polls at any time to the continuance or change of apportionment formulas;

6. State and Federal courts confine their apportionment roles to adjudicating and enforcing the constitutionality of apportionment actions and should refrain from the prescription by judicial decree of specific apportionment formulas or the geographic composition of legislative districts;

7. Both houses of a State legislature be apportioned strictly on the basis of population.

Transferability of Public Employee Retirement Credits Among Units of Government (Report A-16)

The Commission recommends that:

1. Public employees of all units of government be provided coverage by a staff retirement system;

2. States, in which numerous small public employee retirement systems operate, examine the situation and provide the necessary leadership for merging these systems where feasible;

3. States which do not now have an intrastate reciprocal retirement law enact such legislation in order to provide for a considerable measure of preservation and continuity of retirement credits for public employees who transfer employment between covered units of government within the State;

4. The employee's benefits be vested when he has completed a period of service of not more than five years in the system and that the employee be granted a deferred retirement annuity at the normal retirement age, providing he does not withdraw his contributions to the retirement fund when he leaves employment covered by the fund;

5. Units of government not now covered under Social Security review the situation and give careful consideration to the possible advantages of extending Social Security to their employees.

B. METROPOLITAN AREAS

Intergovernmental Responsibilities for Mass Transportation Facilities and Services in Metropolitan Areas (Report A-4)

The Commission recommends:

1. Provision of Federal financial assistance in the form of loans and demonstration and planning grants to metropolitan areas for mass transportation facilities and services; (This has been largely accomplished through the incorporation of mass transportation assistance in the Housing Act of 1961.)

2. Legislative and administrative action by the States, particularly the larger industrial States, in initiating programs of financial and technical assistance to their metropolitan areas with respect to mass transportation facilities and services;

3. Enactment of State legislation, particularly in the larger industrial States, authorizing the establishment within metropolitan areas of mass transportation authorities, with powers to construct and operate transportation systems, to issue bonds and to impose user charges.

Governmental Structure, Organization, and Planning in Metropolitan Areas (Report A-5)

1. In its report on governmental structure in metropolitan areas, the Commission has submitted a number of recommendations for consideration by State legislatures, including: (a) Simplified statutory requirements for municipal annexation of unincorporated territory;

(b) authorization for inter-local contracting or joint performance of urban services; (c) authorization for establishment of metropolitan service corporations for performance of particular governmental services that call for area-wide handling; (d) authorization for voluntary transfer of governmental functions from cities to counties and vice versa; (e) authorization for the creation of metropolitan area commissions on local government structure and services; (f) authorization for creation of metropolitan area planning bodies; (g) establishment of a unit of State government for continuing attention, review, and assistance regarding the State's metropolitan areas; (h) inauguration of State programs of financial and technical assistance to metropolitan areas; (i) stricter State standards for new incorporations within metropolitan areas; (j) financial and regulatory action by the State to secure and preserve "open land" in and around metropolitan areas; and (k) assumption by the State of an active role in the resolution of disputes among local units of government within metropolitan areas.

2. The Commission has also recommended expanded activity by the National Government with respect to metropolitan area problems, including (a) financial support on a continuing basis to metropolitan area planning agencies; (b) expanded Federal technical assistance to State and metropolitan planning agencies; (c) Congressional consent in advance to interstate compacts creating planning agencies in those metropolitan areas crossing State lines; and (d) review by a metropolitan planning agency of applications for Federal grants-in-aid within the area with respect to airport, highway, public housing and hospital construction, waste treatment works and urban renewal projects. (Provision for items (a), (b) and (c) have been included in the Housing Act of 1961.)

Alternative Approaches to Governmental Reorganization in Metropolitan Areas (Report A-11)

The Commission report on this subject supplements previous recommendations by proposing that:

1. Where effective county subdivision control does not exist over fringe areas, State legislatures enact legislation authorizing their municipalities to exercise extraterritorial planning, zoning and subdivision regulation in their unincorporated fringe areas;

2. The State government make its "good offices" available in the event of disputes in connection with interlocal contracts;

3. The States facilitate the formation of voluntary "metropolitan councils" of elected officials by enacting the suggested legislation authorizing the making of interlocal agreements, supplemented by whatever special provisions may be required in the particular instance in according legal entity status to voluntary councils desirous of such status.

Intergovernmental Responsibilities for Water Supply and Sewage Disposal in Metropolitan Areas (Report A-13)

The Commission recommends the following legislative and administrative actions by State and local governments:

1. Increased investment by local governments in urban water and sewer facilities, particularly for sewage treatment plants;

2. Improvement in central city-suburban contractual and planning relationships including suburban representation on city water and sewer agencies serving suburbs under contract;

3. Cooperation among local units of government in metropolitan areas so as to plan, develop and regulate water and sewer facilities on an area-wide basis;

4. Enactment of State legislation vesting responsibility for overall State water resource planning and policy making in a single agency and providing for representation of urban interests on interstate water agencies;

5. Enactment of State legislation to provide for (a) abatement and control of pollution of rivers and streams and (b) State and local regulatory authority over individual well and septic tank installations, minimizing and limiting their use to exceptional situations consistent with comprehensive land use goals;

6. Enactment of State legislation to (a) provide State financial assistance for local sewage treatment works, supplementing existing Federal aid; (b) provide incentives for area-wide or regional development of local water and sewer utilities; (c) provide State technical assistance to local waste treatment facility planning and construction; (d) liberalize debt limits and referenda requirements for water and sewer utility financing; and (e) permit joint action by units of local government in meeting area water and sewer needs;

7. More vigorous enforcement of existing State pollution abatement laws.

The Commission also recommends the following legislative and administrative actions by the National Government:

1. First, the Commission sees no present need for any new Federal grant-in-aid program for local water works comparable to Federal grants for sewage treatment construction;

2. Amendment of the Water Pollution Control Act of 1956 to provide (a) an additional matching incentive for the development of sewage disposal

facilities on a regional or area-wide basis; and (b) an increased dollar ceiling in Federal grants to larger cities for sewage treatment works;

3. Amendment of statute governing Public Facility Loans Program of the Housing and Home Finance Agency to permit (a) communities of 50,000 or more to qualify for sewer and water loans and (b) the joining together of communities with an aggregate population of over 50,000 for purposes of such loan assistance;

4. Amendment of statutes governing the FHA mortgage insurance program and the home loan program of the Veterans Administration to (a) tighten eligibility requirements for individual well and septic tank installations and (b) include as insurable site preparation and development costs of water and sewer lines and systems;

5. Evaluation by the Federal Executive Branch of present Federal enforcement powers and financial incentives relative to industrial pollution of rivers and streams;

6. Consideration of urban water needs in future Federal water resources planning equal to that given water requirements for navigation, power and agriculture.

C. TAXATION AND FINANCE

Coordination of State and Federal Inheritance, Estate and Gift Taxes (Report A-1)

The Commission recommends:

1. Amendment of the Internal Revenue Code to increase the credit against the Federal estate tax for inheritance and estate taxes paid to the States, such amendment to be effective with respect to any given State only after (a) State legislative action to shift the State tax from an "inheritance base" to an "estate base" and (b) legislative action adjusting State tax rates to assure that the effect of the increased credit would redound to the benefit of the State treasury rather than to individual Federal taxpayers.

Modification of Federal Grants-in-Aid for Public Health Services (Report A-2)

The Commission recommends:

1. Amending the Public Health Service Act of 1944 to grant authority to States to transfer funds up to 33 1/3% among specific health categories

of Federal grants-in-aid for tuberculosis, venereal disease, heart disease and cancer control and general health services;

2. Amending the Public Health Service Act of 1944 to place Federal grants-in-aid for the aforementioned categories under a single apportionment and matching formula instead of the different formulas now existing.

Investment of Idle Cash Balances by State and Local Governments (Report A-3)

The Commission recommends:

1. Where such authority does not now exist, enactment by States of legislation authorizing State and local governments to invest their idle funds in interest-bearing deposits with insured institutions and in obligations of the State or the Federal Government;

2. Technical assistance by financial officers of the State government to smaller local units of government with respect to the desirability of, and opportunities for the investment of idle funds;

3. Cooperative action by the U. S. Treasury Department and State and local finance officers designed to provide full and current information regarding the investment opportunities in short-term Treasury obligations, including exploring the desirability of special Treasury issues particularly designed to meet the needs of State and local governments.

State and Local Taxation of Privately Owned Property Located on Federal Areas (Report A-6)

The Commission recommends:

1. Favorable Congressional action on pending legislation providing for the transfer to the States of exclusive legislative jurisdiction now exercised by the Federal Government over various lands and properties where the retention of exclusive jurisdiction is not required in the national interest;

2. Following such Congressional action, prompt acceptance by the States of such jurisdiction. Such transfer of jurisdiction would carry with it the right to tax.

Intergovernmental Cooperation in Tax Administration: Some Principles and Possibilities (Report A-7)

The Commission recommends:

1. The enactment by the States of legislation authorizing the exchange of tax records and information among States and with the Federal Internal Revenue Service;

2. Joint action by the Treasury Department, the Council of State Governments and the Commission's staff to identify those State and local records and types of information that are potentially useful for the administration of Federal income and other taxes;

3. Development by the States for submission to the Treasury Department and the Congress of a proposal for the admission of State and local tax enforcement personnel to training programs conducted by the Internal Revenue Service;

4. Favorable consideration by the Congress of pending legislation to authorize the Internal Revenue Service to perform statistical and related services for State tax agencies on a reimbursement basis. (This and the preceding recommendation accomplished through the enactment of P. L. 87-870.)

Periodic Congressional Reassessment of Federal Grants-in-Aid to State and Local Governments (Report A-8)

The Commission recommends:

1. The enactment by the Congress of a general statute, applicable to any new grants which may be enacted in the future, to provide that each new grant would be re-enacted, terminated or redirected at the end of five years, depending upon the results of a thorough re-examination of the grant by the cognizant legislative committees of the Congress;

2. Periodic review by Congressional committees and executive agencies of the status of Federal grants-in-aid now in existence.

Local Nonproperty Taxes and the Coordinating Role of the State (Report A-9)

The Commission suggests a number of guidelines for the consideration of State Governors and legislatures. These include:

1. Providing cities and adjoining jurisdictions in large metropolitan areas with uniform taxing powers and authority for cooperative tax enforcement;

2. Authorizing the addition of local tax supplements to State sales and income taxes where these taxes are used both by the State and a large number of local governments;

3. Permitting pooled administration of similar local taxes levied by numerous local governments;

4. Limiting local governments to the more productive taxes and discouraging the smaller jurisdictions from excessive tax diversity;

5. Providing State technical assistance to local tax authorities including tax information, training facilities for local personnel, access to State tax records and where appropriate using sanctions against State taxpayers who fail to comply with local tax requirements.

State Constitutional and Statutory Restrictions on Local Government Debt (Report A-10)

The Commission recommends:

1. Maximum flexibility for local government borrowing with any governing State provisions being as comprehensive and uniform in character as possible;

2. Vestment of authority to incur debt with the governing bodies of local governments, subject only to a permissive referendum if petitioned by the voters and resolved generally by a simple majority vote;

3. Repeal of constitutional and statutory provisions limiting local government debt by reference to the local property tax base;

4. Provision by the States of technical assistance to local governments regarding debt issuance and State prescription of the minimum content of public announcements of local bond offerings;

5. Consideration by the States of a substitute basis for the regulation of long-term local debt--namely, by reference to the net interest cost of prospective bond issues in relation to the prevailing yield of high quality municipal securities.

State Constitutional and Statutory Restrictions on Local Taxing Powers (Report A-14)

The Commission recommends as a general objective that all limitations imposed by the State upon local property tax rates be removed. Recognizing that such results cannot reasonably be expected to come about rapidly, the Commission proposes a number of guidelines for interim liberalization of property tax limits.

So long as tax rate limitations are retained,

1. Statutory provisions are preferred to constitutional provisions;

2. Use of full market value of taxable property as the basis is preferred to fractional assessed value;

3. Limitations on local functions in general are preferred to singling out individual functions;

4. Capital financing and debt service needs should be excluded;

5. Provision should be made to enable local governing bodies to obtain relief from tax limitations either by reference to the electorate or administratively by a State agency;

6. The electorate should always have power to initiate referenda on proposed rate increases;

7. If governing bodies and citizens are provided with the avenues of relief specified in 5 and 6, then tax limits embracing all overlapping local taxing jurisdictions are preferred to single jurisdiction limits;

8. Home rule charter counties and cities should be excluded from tax rate limitations.

In granting nonproperty taxing powers to local governments, beyond provisions granting home rule to local governments, the Commission recommends to States the following basic principles:

Local governments should be enabled to use these taxes only (a) where required in the interest of the desired distribution of the combined State-local tax burden among the several bases of taxation (property, income, consumption, etc.) and (b) where needs can not be met reasonably from available property tax sources or where property already bears an inordinate share of the tax burden.

Specifically the Commission recommends that provisions relating to their use be by statute rather than frozen in constitutions, that such authorization be specific and that the electorate always have the authority to petition a vote on proposals for new nonproperty taxes.

The Role of the States in Strengthening the Property Tax (Report A-17)

The Commission recommends a variety of legislative and administrative actions by State governments, as follows:

Reappraisal and Simplification of State Constitutional and Legislative Provisions

1. Each State should take a hard, critical look at its property tax law and rid it of all features which can not be administered as written, encourage taxpayers' dishonesty, force administrators to condone evasion and which, if enforced, would impose an intolerable tax burden. Each State should exclude from its property tax base any component it is unwilling or unable to administer competently.

2. To give legislatures and governors flexibility and responsibility for producing and maintaining equitable, productive, administrable property tax systems, constitutions should be divested of all details that obstruct sound utilization and administration of the property tax.

3. No new changes in the property tax system, whether by exemption or classification, should be undertaken without weighing the effect on facility of administration. Where administration has been needlessly complicated by such changes in the past, the defects should be eliminated wherever feasible.

4. In any State where the laws governing assessment administration have not been carefully reviewed and recodified in recent years and where ambiguities, inconsistencies and other weaknesses have developed, the laws should receive a thorough re-examination, overhauling and recodification.

5. In the instance of any class of self-assessed personal property, unless the local assessor is given adequate means to audit the declarations of the taxpayers, the property should be assessed by the State or the tax on such property abolished.

6. Both the legislative and executive branches of the State governments should study the property tax as consistently as the other major sources of State-local revenue and treat it as an integral part of overall State and local financial planning. Adequate provision should be made for continuing study and analysis in the research divisions of State tax commissions and tax departments and by the interim tax study committees, legislative councils, and legislative reference bureaus of State legislatures, with workable liaison arrangements.

Eliminating Underassessment

1. The States should eliminate all requirements for fixed levels of assessment except for specifying the minimum assessment ratio (in relation to market value) below which assessments may not drop, and use for equalization and measurement purposes the annual assessment ratio studies conducted by their State supervisory agencies, as follows:

   (a) The determined average level of assessment in each of a State's assessment districts would provide the basis for tax equalization in taxing districts located in more than one assessment district and for equalizing State grants for schools and similar purposes.

   (b) The determined figures for the market value of taxable property in each taxing district would be the base for all regulatory and partial tax exemption provisions now related to assessed valuations or valuations equalized at fractional levels.

2. In conjunction with adoption of the foregoing course of action, a State should conduct a thorough re-evaluation of all regulatory and partial tax exemption provisions that have been related to assessed valuation, consider the desirability of their continuance from the point of view of sound policy, and for any that may be continued, make such adjustments as are called for by new market value relationships.

3. Because there is a tendency for non-uniformity of assessment to increase when property is assessed at low fractions of full value, it is important to use as high a floor as is feasible in setting minimum assessment levels.

Tax Exemption

1. In order that the taxpayers may be kept informed, each State should require the regular assessment of all tax exempt property, compilation of the totals for each type of exemption by taxing districts, computation of the percentages of the assessed valuation thus exempt in each taxing district and publication of the findings, including the function, scope and nature of activities so exempted.

2. Outright grants, supported by appropriations, ordinarily are more in keeping with sound public policy and financial management, more economical, and more equitable than tax exemptions and should be used in preference to the latter, with allowance for such exceptions as are clearly indicated by the public interest. No tax exemption for secular purposes should be initiated or continued which would not be justifiable as a continuing State budget appropriation.

3. In the instance of mandatory tax exemptions extended to individuals for such purposes as personal welfare aid and expressions of public esteem, the States should reimburse the local communities for the amounts of the tax "loss."

Centralization of Assessment and Assessment Supervision

1. Centralized assessment administration with more inclusive centralization when dictated by efficiency, should be considered for immediate adoption by some States and for ultimate adoption by most States because it offers an uncomplicated and effective means of obtaining uniformly high-standard assessing throughout a State by the use of an integrated professional staff following standard methods and procedures under central direction.

2. The geographical organization of each State's primary local assessment districts should be reconstituted, to the extent required, to give each district the size and resources it needs to become an efficient assessing unit and to produce a well-ordered overall structure that makes successful State supervision feasible.

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2. The geographical organization of each State's primary local assessment districts should be reconstituted, to the extent required, to give each district the size and resources it needs to become an efficient assessing unit and to produce a well-ordered overall structure that makes successful State supervision feasible.

3. No assessment district should be less than county-wide and when, as in very many instances, counties are too small to comprise efficient districts, multicounty districts should be created.

4. All overlapping assessment districts should be abolished to eliminate wasteful duplication.

5. The State's share in joint State-local assessment administration should be vested in a single agency, professionally organized and equipped for the job, and headed by a career administrator of recognized professional ability and knowledge of the property tax and its administration.

6. In States in which tax administration is coordinated in a central tax department, the agency should be a major division of that department; in States where organization for tax administration is diffused the agency should be given due prominence as a separate department or bureau. Under the latter condition, particularly when strong central executive control is lacking, it may be desirable to have the career administrator serve under a multi-member commission appointed for overlapping terms.

7. The State supervisory agency should be responsible for assessment supervision and equalization, assessment of all State-assessed property and valuation research, with adequate powers clearly defined by law.

8. The State supervisory agency should be empowered to establish the professional qualifications of assessors and appraisers and certify candidates as to their fitness for employment on the basis of examinations given by it or of examinations satisfactory to it given by a State or local personnel agency, and to revoke such certification for good and sufficient cause. No person should be permitted to hold the office of assessor or to appraise property for taxation who is not thus certified.

9. Assessors should be appointed to office, with no requirement of prior district residence, by the chief executives or executive boards of local governments when assessment districts are coextensive with such governments and by the legally constituted governing agencies of multicounty districts; they should be appointed for indefinite, rather than fixed, terms; and should be subject to removal for good cause, including incompetence, by the appointing authorities.

10. To avoid obstruction to local recruitment and retention of competent professional personnel, State legislatures should not prescribe or limit the salaries paid certified local assessors and appraisers.

11. State legislatures should prescribe, or authorize the State supervisory agency to prescribe, and in either case authorize the agency to enforce, minimum professional staffing requirements in all local assessment districts. Legislatures should authorize the supervisory agency and any local districts to enter into agreements under which the agency will provide the district with specified technical services.

12. Each State should (1) evaluate the structure, powers, facilities and competence of its present agency or agencies for the supervision of assessment administration; (2) in continuing the existing setup or in creating one more suitable, determine and establish clearly its proper and necessary functions, services and powers and equip it with adequate and appropriate personnel and facilities for meeting its responsibilities; and (3) provide for continuing systematic evaluation, by the legislative as well as the executive branch, of the usefulness of the agency and the means of improving its utility.

13. In any State establishing professional qualifications for assessors and appraisers, the State supervisory agency should cooperate with educational institutions in planning and conducting pre-entry courses of study, and should conduct or arrange for regular internship training programs.

14. To guard against weak spots among local assessing districts and to assure that assessing throughout the State meets at least acceptable minimum standards, each State should determine by thorough research the minimum level of acceptable assessment performance and require the State supervisory agency to provide for appropriate assessment administration, at district expense, in those local districts that fail to meet the minimum standards.

State-Assessed Property

1. State assessment should be extended to all property of types: (1) which customarily lie in more than one district and do not lend themselves to piecemeal local assessment; (2) which require appraisal specialists beyond the economical scope of most local district staffs; and (3) which can be more readily discovered and valued by a central agency.

2. The division of assessment jurisdiction between State and local agencies should be clear both to taxpayers and assessors.

Studies and Reports

1. The State agency responsible for supervision of property tax administration should be empowered to require assessors and other local officers to report data on assessed valuations and other features of the property tax, for such periods and in such form and content as it

prescribes, in adequate detail to serve its needs for supervision and study. The agency should be required to publish meaningful digests of such data annually or biennially.

2. The State supervisory agency should be required to conduct, annually, comprehensive assessment ratio studies, in accordance with sound statistical procedures, of the average level of assessment and degree of uniformity of assessment overall and for each major class of property, in all assessment districts of the State. The agency should be required to publish the findings of each study, both as to the quality and average level of assessment, in clear, readily understandable form.

3. States should take all feasible steps to facilitate the compilation of comparable interstate property tax information by the Bureau of the Census, particularly by improving and standardizing their own collection, compilation and analysis of essential data.

Taxpayer Appeals

1. The present administrative-judicial hierarchy of agencies for assessment review and appeal in most States should be objectively evaluated and reconstituted, as necessary, to provide the remedies to which taxpayers are entitled, but do not now receive under the uniformity provisions of State laws and the equal protection clause of the Fourteenth Amendment.

2. The review machinery should have a two-level organization, with both the local and State agencies serving only an appellate function and being professionally well staffed for that purpose; the State agency--either an administrative board or a tax court--should be separate from any State agency for property tax administration, should be an appellate body to hear appeals from decisions of local review agencies and from central assessments by the State supervisory agency, and should include a small claims division with simple, inexpensive procedure; appeals from the State agency, but on questions of law only, should be to the supreme court of the State.

3. To aid the taxpayer in proving discrimination in his assessment, (1) the State supervisory agency should be required, following sound statistical procedures, to make and publish the findings of annual assessment ratio studies which, in addition to serving the purposes of supervision and equalization, will inform the taxpayer of the average level of assessment in his district; and (2) the legislature should provide that the assessment ratios thus established may be introduced by the taxpayer as evidence in appeals to the review agencies on the issue of whether his assessment is inequitable.

Industrial Development Bond Financing (Report A-18)

It is the Commission's finding that industrial development bond financing tends to impair tax equities, competitive business relationships and conventional financing institutions out of proportion to the contribution it makes to economic development and employment. The Commission recognizes the widespread and growing nature of this practice and the unlikelihood that it can be stopped quickly. It concludes that if this practice continues, a number of safeguards are absolutely essential to minimize intergovernmental friction, to insure that government resources used for these purposes bear a reasonable relationship to the public purpose served and that the governmental power employed is not diverted for private advantage. The Commission believes that the need for these safeguards is urgent.

1. The Commission recommends that the States restrict and regulate by law the precise conditions under which local governments may engage in this activity, as follows:

   (a) Subject all bond issues to approval by a State supervisory agency;

   (b) Restrict authority to issue such bonds to counties and municipalities; deny the authority to special districts;

   (c) Give priority to communities with surplus labor, outside the area of the effective operation of conventional credit and property leasing facilities;

   (d) Limit the total amount of such bonds which may be outstanding at any one time in the State;

   (e) Prohibit such financing for the "pirating" of industrial plants by one community from another.

2. The Commission recommends that local industrial development bond financing be confined to rural areas. States desiring to stimulate employment in urban and industrial areas can accomplish this best by a program of second mortgage loans to supplement local civic and conventional financing or by State guarantees of conventional loans.

3. The Commission finds the industrial development bond device particularly offensive when it is used to finance plants for strong national firms which themselves have access to adequate financing through conventional channels. The abuse is especially glaring when the firm itself acquires the tax exempt bonds issued to finance the plant it occupies, thus becoming also the beneficiary of tax exempt income. Therefore, the Commission recommends that the Congress amend the Internal Revenue Code so that the firms which buy the tax exempt bonds themselves cannot deduct as a business cost the rents paid for the use of industrial plants built with these bonds.