



*We the People of the United States, in
Order to form a more perfect Union,
establish Justice, insure domestic Tran-*

*...general Welfare, and secure the Blessings of Liberty
to ourselves and our Posterity, do ordain and establish*

**ADVISORY COMMISSION
ON
INTERGOVERNMENTAL
RELATIONS**

Third Annual Report

January 31, 1962

Washington D.C.

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS
(Membership during period February 1, 1961-January 31, 1962
including names of succeeding members recently appointed)

Private Citizens:

Frank Bane, Virginia, Chairman*
James Kerr Pollock, Michigan, Vice Chairman; succeeded by Don Hummel, Arizona
John E. Burton, New York; succeeded by Howard R. Bowen, Iowa

Members from United States Senate:

Sam J. Ervin, Jr., North Carolina*
Karl E. Mundt, South Dakota*
Edmund S. Muskie, Maine*

Members from United States House of Representatives:

Florence P. Dwyer, New Jersey*
L. H. Fountain, North Carolina*
Frank Ikard, Texas; succeeded by Eugene J. Keogh, New York

Executive Branch, Federal Government:

C. Douglas Dillon, New York, Secretary of the Treasury
Arthur J. Goldberg, Illinois, Secretary of Labor
Abraham A. Ribicoff, Connecticut, Secretary of Health, Education and Welfare

Governors:

John Anderson, Jr., Kansas
Michael V. DiSalle, Ohio
Ernest F. Hollings, South Carolina*
Robert E. Smylie, Idaho*

Mayors:

Anthony Celebrezze, Cleveland, Ohio*
Gordon S. Clinton, Seattle, Washington***
Don Hummel, Tucson, Arizona; succeeded by Leo T. Murphy, Santa Fe, New Mexico
Norris Poulson, Los Angeles, California; succeeded by Richard Y. Batterton,
Denver, Colorado

Members from State Legislative Bodies:

Hal Bridenbaugh, Senator, Nebraska
Leslie Cutler, Mrs., Senator, Massachusetts; succeeded by Robert B. Duncan,
Representative, Oregon
Robert A. Ainsworth, Jr., Senator, Louisiana; succeeded by John E. Powers,
Senator, Massachusetts

Elected County Officers:

Edward Connor, Wayne County, Michigan*
Clair Donnenwirth, Plumas County, California*
Edwin Michaelian, Westchester County, New York**

* Reappointed

** Term expired December 8, 1961

*** Declined reappointment; new appointment pending

THIRD ANNUAL REPORT

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

WASHINGTON 25, D. C.

January 31, 1962

STAFF
(As of January 15, 1962)

Wm. G. Colman, Executive Director
Elizabeth C. Green, Administrative Assistant
Virginia M. Hardy, Secretary
Francis X. Tippett, Statistical Assistant
Joan E. Lief, Reference Assistant
Ann C. Mooers, Stenographer
Gwendolyn J. Frutchey, Typist
Mary T. Hansell, Typist

L. Laszlo Ecker-Racz, Assistant Director (Taxation and
Finance)
Selma Mushkin, Senior Analyst
Alice M. Rivlin, Analyst
Robert K. Kinsey, Analyst
Kathleen Y. Orringer, Secretary
Esther Fried, Stenographer

Allen D. Manvel 1/, Assistant Director (Metropolitan Areas)
Marjorie C. Brazer, Analyst
Sally O. Shames, Research Assistant
Johanna T. Barten, Secretary

_____ 2/, Assistant Director (Governmental Structure
and Functions)
Markley Roberts, Research Assistant

1/
Resigning February 15, 1962 to return to the Bureau of the
Census and being succeeded by Norman Beckman

2/
Melvin W. Sneed has been appointed to this position and will
enter on duty February 1, 1962

CONSULTANTS

William Anderson, Professor Emeritus of Political Science,
University of Minnesota

John E. Bebout, Director, Urban Studies, Rutgers University

Frederick L. Bird, Financial Consultant, Newtown, Connecticut

Charles F. Conlon, Executive Director, Federation of Tax
Administrators

John J. Corson, Director, McKinsey and Company, Inc.

George H. Deming, Director, Conference on Metropolitan Area
Problems, Institute of Public Administration, New York

Wayne T. Geissinger, Attorney and Labor-Management Arbitrator,
Columbus, Ohio

Daniel R. Grant, Associate Professor of Political Science,
Vanderbilt University

Morton Grodzins, Professor of Political Science, University
of Chicago

Frank C. Moore, Chairman, Local Government Advisory Board,
State of New York

C. H. Morrisett, State Tax Commissioner, Commonwealth of
Virginia

Roy H. Owsley, formerly Consultant to the City of Louisville,
Kentucky

Ralph E. Rechel, Transportation Consultant, Washington, D. C.

H. Clyde Reeves, former Commissioner of Revenue, Commonwealth
of Kentucky

Ray W. Wilson, former City Manager, Phoenix, Arizona

Reuben A. Zubrow, Professor of Economics, University of Colorado

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I. INTRODUCTION

A. Statutory Provisions

Public Law 86-380, approved by the President September 24, 1959, provided for the establishment of a permanent, bipartisan body of twenty-six members, to give continuing study to the relationships among local, State and National levels of government. The Act specifies the following composition of the Commission: (a) Three officers of the Executive Branch of the National Government; (b) three members of the U. S. Senate; (c) three members of the U. S. House of Representatives; (d) four Governors; (e) four Mayors; (f) three county Officials; (g) three State legislators; and (h) three private citizens.

The act directs the Commission to:

1. Bring together representatives of the Federal, State, and local governments for consideration of common problems;
2. Provide a forum for discussion of the administration of Federal grant programs;
3. Give critical attention to the conditions and controls involved in the administration of Federal grant programs;
4. Make available technical assistance to the executive and legislative branches of the Federal Government in the review of proposed legislation to determine its overall effect on the Federal system;
5. Encourage discussion and study at an early stage of emerging public problems that are likely to require intergovernmental cooperation;
6. Recommend, within the framework of the Constitution, the most desirable allocation of governmental functions, responsibilities, and revenues among the several levels of government; and
7. Recommend methods of coordinating and simplifying tax laws and administrative practices to achieve a more orderly and less competitive fiscal relationship between the levels of government and to reduce the burden of compliance for taxpayers.

B. Strengthening State and Local Government

The Commission believes that the years ahead present serious challenge to all levels of government, and that if our governmental system is to prove equal to these tasks the resources of each level

must be utilized to the highest degree of effectiveness. The Commission is therefore dedicated to strengthening this "cooperative Federalism" by enabling local and State governments to play their full part, alongside the National Government, especially now when international tension, rapid population growth and marked technological change are increasing the tasks and responsibilities of government at all levels.

Although created by an act of Congress and although deriving, so far, practically all of its financial support from Federal appropriations, the Commission functions as a national body responsive to the needs of all three major levels of government and to both their legislative and executive components. Consequently, the Commission is concerned with State-local and interlocal problems just as much as with Federal-State problems. It has already dealt with some basic problems in State-local relations.

C. Degree of Accomplishment Will Test Commission's Value

Since it exists as a continuing, rather than a temporary body, the Commission is able to approach its work selectively and to consider problems in depth. It feels no compulsion to cover the whole subject of intergovernmental relations within a fixed span of time. The Commission recognizes that its own value and place in the federal system will be determined by its ability to make constructive contributions. It cannot expect continuance and support over an indefinite period unless its actions produce significant improvement in the relationships among Federal, State and local agencies of government. Therefore, the Commission considers the function of implementation just as important as the research and study function. Consequently, a significant share of the Commission's energies will continue to be devoted to the actual application of its recommendations at National, State and local levels.

II. CHANGES IN COMMISSION MEMBERSHIP AND STAFF

During the first eleven months of the calendar year 1961, the following changes occurred in Commission membership.

The new Secretaries of Treasury, Labor and Health, Education, and Welfare were designated by President Kennedy to the places on the Commission formerly occupied by the corresponding Cabinet officers in the Eisenhower Administration. In January 1961, Governor John Anderson, Jr. of Kansas was appointed to the place on the Commission formerly occupied by Governor William Stratton of Illinois; Congressman Frank Ikard of Texas was appointed to the place formerly occupied by Congressman Wilbur Mills of Arkansas; and Robert Ainsworth, State Senator from Louisiana was appointed to the place formerly occupied by John Noble, State Senator from Missouri. However, Senator Ainsworth later resigned from the Commission, following his appointment to the Federal judiciary.

The present membership of the Commission appears on page iii.

The professional staff of the Commission was augmented during the year by the appointment of the following: (1) Mr. Allen D. Manvel as Assistant Director (Metropolitan Areas), who for a number of years served as head of the Governments Division of the Bureau of the Census; (2) Miss Selma Mushkin, Senior Analyst, who came to the Commission from the Department of Health, Education and Welfare where she conducted numerous economic and fiscal studies relative to Federal grants-in-aid; (3) Mrs. Alice Rivlin, Analyst, on leave from the Brookings Institution where she recently prepared a study of the role of the Federal Government with respect to higher education; (4) Mr. Robert Kinsey, Analyst, previously with the Housing and Home Finance Agency; (5) Mrs. Marjorie Brazer, Analyst, with a background in economics, political science, and statistics; (6) Mrs. Sally Shames, Research Assistant, who came to the Commission from the University of Pittsburgh; and (7) Mr. Markley Roberts, formerly legislative aide in the office of Senator Hubert Humphrey. Mr. Warren Cikins resigned from the staff during the year to accept a position in the Department of State. The complete staff of the Commission, including part-time consultants, is shown on pages iv and v.

III. APPROPRIATIONS AND BUDGET

For the period July 1, 1960 through June 30, 1961 the Commission operated on an appropriation of \$143,500. This amount was less than the Commission had estimated as necessary for its first full year of operation; however, the House Appropriations Committee observed that the Commission was just getting started and that any larger sum should depend upon a more detailed presentation of budgetary requirements. The Commission followed through on this suggestion and presented a complete and detailed budget to the first session of the 87th Congress. For the fiscal year ending June 30, 1962, the Congress appropriated \$375,000--an amount believed by the Commission to be fully adequate for it to discharge its statutory responsibilities. The same amount is being sought from the Congress for the fiscal year ending June 30, 1963.

The estimated breakdown, by object of expenditure, of the Commission's budget for FY 1962 is as follows:

Personnel compensation	\$217,000
Personnel benefits	15,000
Travel and transportation of persons	32,000
Transportation of things	1,000
Rent and utilities	1,000
Communications	6,000
Printing and reproduction	25,000
Other services	54,000
Services of other agencies	15,000
Supplies and materials	5,000
Equipment	<u>4,000</u>
 Total obligations	 \$375,000

Actual and estimated obligations by specific objects of expenditure for the fiscal years 1961, 1962 and 1963 are shown in Appendix A.

IV. REPORTS ISSUED AND RECOMMENDATIONS MADE

From its inception through December 31, 1961, the Commission had studied and issued reports on ten major subjects. These are summarized in the pages which follow.

A. Coordination of State and Federal Inheritance, Estate and Gift Taxes

1. Background

The Federal estate tax credit for taxes paid to States has remained unchanged since 1926, when it was fixed at 80 percent of Federal estate tax liability under then prevailing Federal tax rates. The 80 percent credit enabled the States, through appropriate legislation, to take for State purposes about 80 percent of the tax liability imposed under Federal law. In 1932 and on several subsequent occasions, the Congress increased Federal estate tax rates and reduced exemptions without, however, altering the scope of the credit for State taxes, with the result that the State's share of the tax liability imposed under the Revenue Code is now only about 10 percent.

The Federal and State governments currently derive about \$2.4 billion from inheritance, estate and gift taxes. In fiscal year 1961 the Federal revenue (after the credit for State taxes) was \$1.9 billion. The State revenue was about \$500 million. About 40 percent of the State total was allowed as a credit against Federal tax; an estimated \$300 million was levied outside the credit. About one-fourth of the excess of State taxes over the credit is believed to come from taxes on estates not taxed by the Federal Government--those which fall below the Federal exemption. The balance represents State taxes in excess of the Federal credit from estates taxed by both the States and the Federal Government.

The Commission's study addressed itself to the revision of the Federal-State tax credit arrangement to provide an increased share of this revenue source to the States, and also to simplify the tax laws and ease the burden of taxpayer compliance.

2. Recommendations

At its fourth meeting held on January 18-19, 1961, the Commission adopted a comprehensive report on this subject in which it recommends:

Amendment of the Internal Revenue Code to increase the credit against the Federal estate tax for estate taxes paid to the States, such amendment to be effective with respect to estates from any given State (a) after that State had adjusted its tax structure to insure that the benefits of the increased Federal credit will accrue to its treasury and, (b) if it now has an inheritance type tax, after it had replaced it with an estate tax.

3. Implementation

To carry out the Commission's recommendations with respect to estate and inheritance taxes, the following bills were introduced in the Congress: H. R. 5153 (Dwyer, R., N.J.), H. R. 5155 (Fountain, D., N.C.), and H. R. 8600 (Ikard, D., Tex.), and S. 1344 (Muskie, D., Me; cosponsors: Bartlett, D., Alaska; Bush, R., Conn.; Case, R., N.J.; Cooper, R., Ky.; Engle, D., Calif.; Gruening, D., Alaska; Holland, D., Fla.; Jackson, D., Wash.; Javits, R., N.Y.; Keating, R., N.Y.; Long, D., Mo.; Magnuson, D., Wash.; Metcalf, D., Mont.; Moss, D., Utah). These bills are presently before the House Ways and Means Committee and Senate Finance Committee, respectively.

The Commission's recommendation that the estate tax credit be revised has been endorsed by the Governors' Conference; National Tax Association; National Association of County Officials; American Municipal Association; the National Legislative Conference of the Council of State Governments; the National Association of Attorneys General; the Executive Committee of the National Conference of State Legislative Leaders; and the National Association of State Auditors, Comptrollers, and Treasurers. The Commission and the organizations supporting these recommendations will seek early consideration of the proposed legislation in the second session of the 87th Congress.

B. Investment of Idle Cash Balances by State and Local Governments

1. Background

Although there has been considerable improvement in the past two or three decades in the investment practices of State and local governments, designed to hold to a minimum the loss of interest

income on funds kept in cash and not invested, there is still considerable room for improvement particularly with respect to counties and municipalities. The practice of placing large inactive checking account balances with local banks is still frequently encountered. The subject has particular importance at a time of relatively high interest rates and urgent needs of State and local governments for increased revenue.

2. Recommendations

At its fourth meeting held on January 18-19, 1961 the Commission adopted a report containing the following recommendations:

- a. 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; 1/
- b. 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;
- c. 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.

3. Implementation

A draft bill has been prepared for the consideration of State legislatures and is included in the 1962 legislative program of the Council of State Governments. Introduction of and favorable action on this bill will be sought in approximately 12-15 States, part of which convene in legislative session in January 1962 and the remainder in January 1963.

The Commission's recommendations on this subject have been endorsed by: The Governors' Conference; National Association of County Officials; American Municipal Association; National Legislative Conference of the Council of State Governments; and National Association of State Auditors, Comptrollers and Treasurers.

1/

Mayor Celebrezze did not concur in this recommendation.

C. Modification of Federal Grants-in-Aid for Public Health Services

1. Background

Continuing Federal grants for public health activities were inaugurated under the Social Security Act of 1935. Grants for the control of venereal disease were initiated earlier by the Chamberlain-Kahn Act of 1918 but were discontinued after a few years. The Public Health Service Act of 1944, consolidating and expanding previous public health legislation, is now the basic public health statute. Grants are made to assist the States and their political subdivisions to maintain adequate programs for general health and in five specific categories: Cancer control, heart-disease control, mental health, tuberculosis control, and venereal-disease control. Funds are allotted to the States for each category except venereal disease on the basis of formulas which take into account population, the extent of the particular health problem, and State per capita income. Funds for venereal-disease control are granted on a project basis at the discretion of the Surgeon General and do not require matching. Grants for all other categories must be matched by the expenditure of one dollar from State or local sources for each Federal dollar. The programs are administered by the Public Health Service, Department of Health, Education, and Welfare.

Dating from the "First Hoover Commission" every major study group concerned with intergovernmental relations has identified as one of the problems of Federal-State relations current at the time, the specific categorization of Federal grants-in-aid for public health services and the administrative and budgetary difficulties alleged to be associated with it. The report of the "First Hoover Commission" on Federal-State Relations in a section entitled "Piecemeal Determination: Public Health" discussed this situation as one which "makes it difficult for the States to balance their own fiscal and administrative activities." Similar comments were made in the report of the Intergovernmental Relations Subcommittee of the House Committee on Government Operations in 1958 and the final report of the Joint Federal-State Action Committee.

2. Recommendations

At its fourth meeting held on January 18-19, 1961 the Commission adopted a report on this subject, in which it recommended:

- a. 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/

- b. 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. 2/

3. Implementation

The following bills were introduced in the first session of the 87th Congress to carry out the Commission's recommendations: H. R. 5706 (Fountain, D., N.C.); H. R. 5707 (Dwyer, R., N.J.); and S. 1467 (Muskie, D., Me.; Cosponsors: Bartlett, D., Alaska; Chavez, D., N.M.; Hickey, D., Wyo.; McCarthy, D., Minn.; McGee, D., Wyo.; Moss, D., Utah; Randolph, D., W. Va.; Young, D., O.). These bills are now pending before the House Committee on Interstate and Foreign Commerce and the Senate Committee on Labor and Welfare.

The Commission's recommendations and the Congressional bills cited above have been endorsed by: The Governors' Conference; Executive Committee of the National Conference of State Legislative Leaders; National Association of State Budget Officers; Midwestern Regional Conference of the Council of State Governments; National Association of County Officials; American Municipal Association; and the National Legislative Conference of the Council of State Governments.

D. Governmental Structure, Organization, and Planning in Metropolitan Areas

1. Background

At no point in the structure of the American Federal system of government are problems of intergovernmental relations so marked, varied, and difficult as in the large metropolitan areas, where the activities of all three levels of government function in close proximity. Within such areas, Federal, State, county, and municipal agencies, often supplemented by a host of special purpose units of local government, function in close juxtaposition, subject to an extremely complicated framework of Federal, State, and local laws and administrative regulations.

2/

Dr. Arthur Flemming, Secretary of Health, Education and Welfare and member of the Commission at the time, did not concur in these recommendations.

2. Recommendations

At its fifth meeting held on April 27-28, 1961 the Commission adopted a comprehensive report on this subject, including recommendations to both State and National governments. The Commission 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; 3/
- 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;3/
- 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.

3/

Messrs. Michaelian and Burton did not concur in these two recommendations.

The Commission also recommended expanded activity by the National Government, including:

- a. Financial support on a continuing basis to metropolitan area planning agencies; 4/
- 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.

3. Implementation

Draft bills and policy statements dealing with the Commission's recommendations to State governments have been adopted by the Council of State Governments and are included in the 1962 State Legislative Program of the Council. The second and third of the aforementioned four recommendations dealing with activities of the National Government in this area coincided with later provisions in the Housing Act of 1961. The possible need for new legislation to accomplish the first recommendation will be explored further, and it is anticipated that bills will be introduced in the second session of the 87th Congress dealing with the fourth recommendation, namely, the review by metropolitan planning agencies of applications for certain types of Federal grants-in-aid.

The recommendations of the Commission on this subject, particularly those directed to the State legislatures, have been endorsed by: American Municipal Association; National Association of County Officials; and the National Legislative Conference of the Council of State Governments.

4/

Governor Smylie dissented from, and Congressman Fountain reserved judgment on this recommendation.

E. Intergovernmental Responsibilities for Mass Transportation Facilities and Services in Metropolitan Areas

1. Background

Ways and means of preserving and strengthening commuter transportation facilities in major metropolitan areas are essential if the economic and social health of such areas is to be maintained. Continued abandonment of railroad passenger service has jeopardized many rapid transit systems and has thrown an increasingly severe burden on other forms of commuter transportation, chiefly the already overcrowded highways. A principal factor in the current breakdown of commuter transportation--especially railroad commuter facilities--has been the overlapping jurisdiction of Federal, State, county and local governments in the field of transit regulation, taxation, etc., and the failure of these various levels of government to coordinate their activities insofar as they affect commuter service, including the uncoordinated use of subsidies and taxing powers with respect to competing forms of transportation.

2. Recommendations

A report on this subject was developed with the assistance of the Institute of Public Administration, New York City, and was adopted by the Commission at its fifth meeting held on April 27-28, 1961. The report contained the following recommendations:

- a. Provision of Federal financial assistance in the form of loans and demonstration and planning grants to metropolitan areas for mass transportation facilities and services; 5/
- b. 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;
- c. 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. 6/

5/

Mr. Burton did not concur in the part of the recommendation dealing with Federal loans.

6/

Mr. Burton did not concur in this recommendation.

3. Implementation

Recommendations of the Commission directed to the Federal Government have been largely accomplished through the decision of the Congress to incorporate mass transportation assistance in the Housing Act of 1961. Although such action was not a direct result of the Commission's report, the report was used extensively by the Congressional committees and in floor debate on this subject. A draft bill dealing with State action on this problem has been incorporated by the Council of State Governments in its 1962 legislative program.

The Commission's recommendations on this subject have been endorsed by the following organizations: National Association of County Officials; American Municipal Association; and the National Legislative Conference of the Council of State Governments.

F. Periodic Congressional Reassessment of Federal Grants-in-Aid to State and Local Governments

1. Background

The difficulty of terminating, redirecting or otherwise modifying Federal grants-in-aid, once initiated, has been stressed by practically every group, beginning with the "First Hoover Commission," which has examined Federal-State relations. There are two general obstacles to terminating or redirecting the grants, once they have served their purpose. In the first place, with the initiation of a new grant, vested interests--both governmental and private--in its continuation come into being. Subject matter staffs are created or expanded at National, State and local levels of government for the purpose of administering the grant program. Aside from any instincts of organizational self-preservation which may exist, these staffs, if they are competent and conscientious, acquire a sense of mission with respect to their particular programs. Being responsible for a specific program or function they are not especially concerned with general problems of intergovernmental fiscal relations across-the-board. Consequently, their recommendations for change in the grant program are typically in the direction of expansion rather than contraction.

2. Recommendations

At its sixth meeting held on June 15, 1961 the Commission adopted a report on this subject containing the following recommendations:

- a. 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; 7/

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

3. Implementation

Bills to carry out the first of the foregoing recommendations have been introduced in the Congress as follows: H. R. 7802 (Fountain, D., N.C.); H. R. 7803 (Dwyer, R., N.J.); H. R. 7804 (Ikard, D., Tex.); H. R. 7805 (Smith, D., Iowa); H. R. 7808 (Curtis, R., Mo.); H. R. 7814 (Pelly, R., Wash.); H. R. 7892 (Seely-Brown, R., Conn.); H. R. 7929 (Langen, R., Minn.); H. R. 8310 (King, D., Utah); H. R. 8534 (Lindsay, R., N.Y.); S. 2286 (Muskie, D., Me.; cosponsors: Ervin, D., N.C.; Humphrey, D., Minn.; Mundt, R., S.D.).

The Intergovernmental Relations Subcommittee of the House Government Operations Committee has completed hearings on H. R. 7802 and the companion bills. A favorable Subcommittee report is anticipated early in the second session of this Congress.

The Commission's recommendations on this subject have been endorsed by the National Association of County Officials and the National Legislative Conference of the Council of State Governments.

G. State and Local Taxation of Privately Owned Property Located on Federal Areas

1. Background

This is a relatively narrow but bothersome aspect of Federal-State tax relations. Currently, privately owned personal property located on Federal reservations or other federally controlled areas is exempt from local property taxation. Repeated legislative proposals have been made for Congressional consent to State and local taxation of such personal property.

While nationwide in its geographic scope, the potential fiscal impact of a change in the tax status of these privately owned properties is limited in terms of both the number of local taxing jurisdictions affected and the aggregate amount of property tax revenues involved. The problem and the proposed remedy may, nonetheless, have significance for some individual taxing jurisdictions. They would be communities characterized by an inadequate tax base and

7/

Senator Cutler did not concur in this recommendation.

containing within their borders Government installations where privately owned property of relatively large value is employed, which cannot be taxed by virtue of its location.

The immunity from State and local property taxation enjoyed by privately owned property within certain areas under the jurisdiction of the National Government impairs the equal tax treatment of substantially similar properties and should be terminated. However, the jurisdictional circumstances which give rise to this tax inequality also deprive the residents of such areas of certain rights, privileges, services and responsibilities available to other residents of the States in which the properties are located. Legislation limited to the restoration of tax equality would contribute nothing to insuring the equal treatment of the residents of Federal areas with respect to services, privileges, etc., and may in fact retard it. The situation requires a dual approach designed to adjust both sides of the equation by retroceding to the States, and the States accepting, legislative jurisdiction over Federal areas to the extent consistent with essential national program needs and State and local requirements.

2. Recommendations

At its sixth meeting held on June 15, 1961 the Commission adopted a report on this subject recommending:

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

3. Implementation

S. 154 and the companion House Bills, H. R. 4059 and H. R. 5362, would carry out the foregoing recommendations of the Commission. This legislation was introduced prior to the Commission's report, with the backing of the Council of State Governments, the National Association of Attorneys General, and the Executive Branch of the Federal Government under both the present and preceding Administrations. A favorable Senate Committee report on S. 154 is anticipated early in the second session of this Congress.

H. Intergovernmental Cooperation in Tax Administration: Some Principles and Possibilities

1. Background

Administrative cooperation between Federal and State tax administrations has had Congressional and Executive endorsement in principle for more than a generation. Its application, however, has been rather limited, and has consisted mostly of the exchange of income tax information. Even within this narrow compass, it has proceeded only by fits and starts, and in most States has amounted to a one-way flow, not an exchange. The case for intergovernmental cooperation between tax administrations requires little demonstration. Tax administrations at all governmental levels--Federal, State and local--are engaged in a common task: the enforcement of laws required for financing governmental services. While our governmental system is predicated on a division of jurisdictional responsibilities among governmental levels, these levels exist only to complement one another in the common goal of serving the people's needs.

2. Recommendations

At its sixth meeting on June 15, 1961 the Commission adopted a report on this subject recommending:

- a. The enactment of State legislation authorizing the exchange of tax records and information among States and with the Federal Internal Revenue Service;
- b. Joint action by the Treasury Department, the Council of State Governments and the Commission's staff to identify State and local records and types of information potentially useful for the administration of Federal income and other taxes;
- c. 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;
- d. 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.

3. Implementation

A policy statement in support of the provision of State statutory authority for the exchange of tax records and information has been approved by the Council of State Governments and is incor-

porated in the Council's 1962 State Legislative Program. The staff of the Commission has begun discussion with the Federation of Tax Administrators and representatives of the Treasury Department with a view to carrying out the second of the above recommendations. The three staffs are working also on the implementation of the third recommendation set forth above. Finally, the following bills have been introduced in the Congress to carry out the fourth recommendation noted above: H. R. 9413 (Fountain, D., N.C.), H. R. 9340 (Mills, D., Ark.) and H. R. 9341 (Curtis, R., Mo.).

The Commission's recommendations with respect to cooperative tax administration have been endorsed by the National Association of Tax Administrators; National Tax Association; National Association of County Officials; and the National Legislative Conference of the Council of State Governments.

I. Local Nonproperty Taxes and the Coordinating Role of the State

1. Background

In 1960, local governments relied on nonproperty taxes for one-eighth of the tax revenue they raised themselves. Most of them find such taxes difficult to impose and enforce. Nonetheless, local governments across the country are searching for more of them. Some, in a few States, have made substantial strides in this direction.

The development of local nonproperty taxes encounters serious restraints stemming out of the limited territorial jurisdiction of local governments. It entails some hazards for State and national economic policies over and above the aggravated tax overlapping, for it affects the competitive relationship of local business enterprises. It involves, moreover, heavy compliance burdens for taxpayers and the uneconomical use of local governments' limited tax enforcement resources.

The imbalance at the local level between rapidly rising revenue requirements and limited taxing resources has long been recognized as the central problem in State-local relations. A redressing of this balance will necessarily involve numerous variables, combined in differing proportions in the several States.

Interstate variety in State-local fiscal relations is the hallmark of our governmental system. Many would say, and with good reason, that it is its strength. Under the system, each State develops its own arrangements for enabling its local governments to discharge the obligations it places upon them. The State develops these arrangements with benefit of a kit of tools and techniques. The contents of the kit are more or less common among the States. It is their application--the combinations and permutations in their use, their adaptation to the different circumstances prevailing in the several States--that varies.

2. Recommendations

At its seventh meeting held on September 14-15, 1961 the Commission adopted a report dealing with these nonproperty taxes and suggesting the following guidelines for the consideration of State Governors and legislatures:

- a. Providing cities and adjoining jurisdictions in large metropolitan areas with uniform taxing powers and authority for cooperative tax enforcement;
- b. 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;
- c. Permitting pooled administration of similar local taxes levied by numerous local governments;
- d. Limiting local governments to the more productive taxes and discouraging the smaller jurisdictions from excessive tax diversity;
- e. 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.

3. Implementation

No progress has been made as yet in implementing the above suggestions. Consultations will be held with the Federation of Tax Administrators regarding the drafting of suitable alternative bills and policy statements for consideration by Governors and State legislatures.

Due to the relative recency of this report the recommendations have not yet been considered by any of the levels of government or by governmental organizations.

J. State Constitutional and Statutory Restrictions on Local Government Debt

1. Background

The general topic of State restrictions upon local units of government has been rated as highly important by most study groups which have examined intergovernmental relations in general or State-local relations in particular. Elimination of undesirable restrictions

is regarded by many as a matter of key importance to strengthening local governments and arresting unnecessary centralization. The objective of decentralization cannot be attained by a readjustment of National-State relations alone. It will be fully achieved only when carried through to the lowest levels of government, where every citizen has the opportunity to participate actively and directly. The strengthening of local governments requires that activities that can be handled by these units be allocated to them, together with the financial powers necessary for their support.

The Commission is considering this general problem in three separate segments: (a) restrictions upon debt; (b) restrictions upon functions, structure and personnel of local governments; and (c) restrictions upon property taxation and other forms of local taxation.

2. Recommendations

At its seventh meeting held on September 14-15, 1961 the Commission adopted a report dealing with the first segment of the general topic described above--State constitutional and statutory restrictions on local government debt. The Commission concluded that the present maze of constitutional and statutory restrictions upon local government borrowing constitutes a serious impediment to effective local self-government in the United States, handicapping the self-reliance of local communities and impelling them toward increased financial dependence on States and the Federal Government.

The Commission made the following recommendations:

- a. Maximum flexibility for local government borrowing with any governing State provisions being as comprehensive and uniform in character as possible;
- b. 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;
- c. Repeal of constitutional and statutory provisions limiting local government debt by reference to the local property tax base; 8/

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Mr. Michaelian and Mr. Burton did not concur in this recommendation.

- d. Study and consideration by the States of a different 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; 9/
- e. 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.

3. Implementation

Due to the relative recency of this report the recommendations have not yet been considered by State and local governments.

V. CURRENT AND FUTURE WORK PROGRAM

Work is currently under way or planned in the immediate future with respect to the following subjects.

A. Structure and Potential Improvement of the Real Property Tax

The effectiveness of property taxation is and will remain the central tax problem of local governments. The successful resolution of the problem will determine the nature of State-local tax relations and is in turn dependent on the leadership and assistance provided local governments by the States. Property taxes provide about half of all State and local tax revenues and seven-eighths of locally collected tax revenues of cities, towns, counties, and school districts. The local units of government will necessarily depend upon the property tax for large parts of additional revenues needed in the future, and their quest for revenues is expected to continue unabated because most of the forces which have contributed to rising government costs since World War II are likely to persist into the indefinite future. In the face of these needs, property taxation policies and practices are severely limiting the fiscal powers of a great majority of local governments operating under constitutional, statutory and charter tax rate and debt limitations based on assessed value aggregates.

The Commission is sponsoring a study of intergovernmental relationships--especially State-local relationships--with respect to the real property tax. The first portion of this study, currently in process, seeks to develop some guidelines for the role of the States in helping their local governments to improve property taxation. These

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Mayor Clinton, Senator Cutler and Mr. Burton did not concur in this recommendation; Secretary Dillon expressed reservations concerning it.

guidelines are being developed on the basis of experience in about ten States which have made a major effort in this direction in recent years. This part of the study is being conducted under contract in cooperation with the staff of the Commission.

B. Development of Improved Measures of Fiscal Capacity and Tax Effort of State and Local Units of Government

Several authorities in the tax field have mentioned this as one of the most difficult yet one of the most promising areas of research in intergovernmental financial relations. Better measures of capacity would be useful to State and local officials in assessing tax loads in a particular jurisdiction in relation to tax loads in others. And such capacity indexes would help to appraise the fiscal resource indicators now in use in State aids to local governments and Federal grants to States. Federal grant-in-aid programs frequently rely on per capita income of the States as a measure of fiscal capacity in those Federal aid programs that have equalization provisions; assessed value of real property is the measure of capacity now most frequently used by States in the distribution of State aids to local governments. Questions have been raised about these measures and about the need for alternatives.

To explore adequately the possibility of other measures requires a fairly sizable research undertaking embracing the fields of economics and public finance. The Commission's staff has undertaken the initial phase of the project which consists of calculating the comparative yields of representative state/local tax structures in each of the States.

C. State Constitutional and Statutory Restrictions on the Taxing Powers of Local Government

Local governments frequently operate under constitutional, statutory or charter property tax rate restrictions which are said to limit their ability to help themselves, to impair local self-determination, and to contribute to dependence on State and Federal financial aid. Restrictions upon the powers of local jurisdictions to employ non-property taxes are said to pose similar problems, although with less degree of urgency. A project scheduled for processing during 1962 is designed to ascertain the extent of these restrictions with respect to real property taxes, to ascertain their impact on local government finances, and to develop for the consideration of State governments, proposals for constitutional and statutory remedies.

D. Effect of Tax, Expenditure and Debt Practices on Location of Industry and Economic Development

Some State and local governments are engaging in competitive fiscal measures calculated to attract industry. Property tax exemption, and financing the construction of industrial plants (for lease to private

enterprise) through the sale of tax exempt municipal obligations are the more frequent devices. Some States and local governments are creating industrial development credit corporations for these purposes. The effect of these competitive practices upon the orderly development of the Nation's economy is actively debated. A project, scheduled for the near future, will seek to ascertain the extent and detailed characteristics of these practices and appraise their effect on State and local finances and economic development, in the expectation that some policy guidelines for the consideration of State and local governments can be advanced.

E. Cooperative Tax Administration

This is still a productive field for improvement in inter-governmental financial relations despite marked progress already made. The Commission's studies will result in a series of reports designed to uncover new and fruitful possibilities for cooperative arrangements among Federal, State and local tax administrators. The first report in this series has already been issued by the Commission--Intergovernmental Cooperation in Tax Administration: Some Principles and Possibilities--as described in the preceding chapter.

F. Some Intergovernmental Problems in the Field of Public Welfare

Section 2 (3) of the statute charges the Commission specifically with giving "critical attention to the conditions and controls involved in the administration of Federal grant programs." The Commission has taken cognizance of current discussions and differences of opinion between a number of States and the National Government regarding the conditions and requirements associated with the review and approval of State plans for public assistance activities.

G. Intergovernmental Responsibilities for Water Supply and Sewage Disposal in Metropolitan Areas

Study of this subject will consider problems arising from a variety of conditions and developments, including: fragmentation of responsibility for these functions among numerous local governments; the pressure within some areas of rapid population growth upon available sources of water; and the relation between these service functions and such other governmental activities as zoning and control of environmental sanitation.

H. Factors Affecting Popular Approval of Governmental Reorganization in Metropolitan Areas

Since 1950, referendum elections have been held in 18 of the 212 metropolitan areas in the Nation upon proposals that called for significant change in local government organization. The Commission

is gathering information about the campaigns for and against these proposals, in an effort to identify major factors which have affected popular attitudes and the referendum results.

It is anticipated that an informational report on this subject will be ready for Commission consideration early in 1962.

I. Classification of Local Government Activities in Urbanized Areas in Terms of Their Susceptibility to Localized Versus Large-Area Handling

Much of the current discussion of the so-called "metropolitan area problem" as it relates to the multiplicity of local units of government in largely urbanized areas is characterized by lack of clarity in distinguishing between urban problems and metropolitan problems. Specifically, the rapid growth of population of the metropolitan areas and its spread over many different local government jurisdictions has created serious financial and administrative problems with respect to some but not all functions of government carried on in these areas. Merely because a function is urban in character and carried on only in urban areas does not mean that multiple handling of the problem by a number of local jurisdictions is necessarily bad. Certain functions, on the other hand, because of their physical, financial, or administrative characteristics are especially difficult to handle on a fragmented basis and necessitate consideration of some type of area-wide approach. The Commission study will endeavor to develop some criteria and guidelines for such distinctions among functions that will be helpful to groups engaged in undertaking surveys of local governmental structures and functions in metropolitan areas.

A report on this subject will be considered by the Commission sometime during the first half of the 1962 calendar year.

J. Alternative Approaches to Governmental Reorganization in Metropolitan Areas

A number of different approaches have been advocated and used with respect to facilitating the administration of local government in metropolitan areas. The principal methods include:

1. The "urban county" approach, whereunder local government functions which require area-wide treatment are taken over by the county government. This approach is considered particularly appropriate in those metropolitan areas which embrace only one county.

2. City-county consolidation, whereunder city and county governments in a metropolitan area are consolidated, as in San Francisco and Denver.

3. The "federation" approach, whereunder certain functions are assumed by a new metropolitan form of government with others continuing to be handled by the individual counties and municipalities within the metropolitan areas.

4. Voluntary and informal cooperative arrangements, whereby the local units of government within a metropolitan area band together for study and coordinated attack on common problems. This arrangement is typified by the Metropolitan Regional Council in New York, the Association of Bay Area Governments on the West Coast, the Washington Metropolitan Regional Conference in the National Capital Area and the Supervisors' Inter-County Group in the Detroit metropolitan area.

The Commission will study in detail the advantages and disadvantages of these and other approaches to more effective local government in metropolitan areas and will endeavor to identify those situations in which the different approaches appear to offer the greatest promise.

It is anticipated that a report on this subject will be ready for Commission consideration by the middle of the 1962 calendar year.

K. Constitutional and Statutory Restrictions on Local Government Structure, Functions and Personnel

This topic has been rated as highly important by most study groups which have examined intergovernmental relations in general or State-local relations in particular. It has been viewed by many as being of key importance in strengthening local government and avoiding unnecessary centralization. In many States constitutional or statutory restrictions, or both, tend to handicap the undertaking by local government of new responsibilities brought about by changing times and circumstances. Also in many instances, the structure of local government is described in detail under general State laws with too little discretion left to the local citizens to re-adjust the form and activities of their local government in order to meet particular local needs.

A report on this subject will be considered by the Commission in the early summer of 1962.

VI. OTHER ACTIVITIES

A. Statistical Data Regarding Metropolitan Areas

Government administrators in metropolitan areas and scholars engaged in research on various aspects of metropolitan area problems have become increasingly concerned regarding the lack of adequate economic and other statistical data covering metropolitan areas and

minor subdivisions thereof. Typically, these data are collected and published by political unit and cannot always be pulled together on an economic area basis.

The Commission has been carrying on discussions with Federal and State agencies regarding the ways in which statistics on population, housing, labor, governments and economic activities might be made more available and useful to those engaged in metropolitan area planning.

B. Library and Clearinghouse Activities

As one of its first tasks the Commission has constituted itself as a central clearinghouse for information on the many complex aspects of intergovernmental relations. As part of this general purpose it will act as a co-ordinating center for the further study of intergovernmental problems.

Among the first tasks of the Commission in this regard has been (1) to assemble important information sources on the more crucial intergovernmental problems, (2) to identify the major sources of information in order to serve as a convenient reference point, and (3) to prepare, or have prepared, monographs summarizing presently available but relatively inaccessible data in Federal agencies and other sources which will help other levels of government to help themselves in the solution of their financial, administrative, and other problems.

C. Informational Activities

In addition to the reports issued by the Commission which contain specific recommendations for legislative or other action by one or more levels of government, reports and other materials of a strictly informational character are prepared for varying degrees of distribution. For example, summaries of State fiscal data and of 1961 State tax legislation were prepared by the staff for the use of Commission members and others; similarly, a brief statistical summary was issued concerning the losses of county population shown by the 1960 Census.

In November, 1961 a comprehensive study entitled Overlapping Taxes in the U. S., 1961 was published and placed on sale by the Government Printing Office. This report will be of considerable interest and value to officials of National, State and local governments concerned with fiscal and tax policy.

Also, during its second year of operations the Commission, its Chairman, members and staff have met with a number of professional groups to explain the work of the Commission and to solicit support for the proposals made by the Commission for the improvement

of intergovernmental relations. Included among these activities have been meetings with: the annual conference of the National Association of County Officials, Chicago; National Association of Tax Administrators, Denver; National Municipal League, Miami; annual conference of the National Association of State Auditors, Comptrollers and Treasurers, Denver; the National Conference of State Legislative Leaders, Reno; the National Legislative Conference of the Council of State Governments, Philadelphia; the National Tax Association, Seattle; the annual conference of the American Society for Public Administration, Philadelphia; and other conferences and meetings of State and local officials.

APPENDIX A

OBLIGATIONS OF THE ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS
FOR FISCAL YEARS 1961, 1962 AND 1963

Object Classification (In thousands of dollars)	FY 1961 actual	FY 1962 estimate	FY 1963 estimate
Personnel Compensation	\$ 97	\$217	\$263
Personnel Benefits (retirement, health, insurance, FICA)	6	15	19
Travel and transportation of persons	13	32	34
Transportation of things	--	1	1
Rent and utilities	--	1	1
Communications (telephone, postage, telegraph)	2	6	7
Printing and reproduction	6	25	26
Other services	7	54	2
Services of other agencies	3	15	15
Supplies, materials	6	5	6
Equipment	3	4	1
Total Obligations	\$143	\$375	\$375

**Published Reports of the Advisory Commission
on Intergovernmental Relations**

Coordination of State and Federal Inheritance, Estate and Gift Taxes.
Report A-1. January 1961. 134 p., printed.

Modification of Federal Grants-in-Aid for Public Health Services.
Report A-2. January 1961. 46 p., offset.

Investment of Idle Cash Balances by State and Local Governments.
Report A-3. January 1961. 61 p., printed.

*Intergovernmental Responsibilities for Mass Transportation Facilities
and Services.* Report A-4. April 1961. 54 p., offset.

*Governmental Structure, Organization, and Planning in Metropolitan
Areas.* Report A-5. July 1961. 83 p., printed.

*State and Local Taxation of Privately Owned Property Located on
Federal Areas: Proposed Amendment to the Buck Act.* Report
A-6. June 1961. 34 p., offset.

Intergovernmental Cooperation in Tax Administration. Report A-7.
June 1961. 20 p., offset.

*Periodic Congressional Reassessment of Federal Grants-in-Aid to State
and Local Governments.* Report A-8. June 1961. 67 p., offset.

Local Nonproperty Taxes and the Coordinating Role of the State.
Report A-9. September 1961. 68 p., offset.

*State Constitutional and Statutory Restrictions on Local Government
Debt.* Report A-10. September 1961. 97 p., printed.

Tax Overlapping in the United States, 1961. Report M-11. Sep-
tember 1961. 100 p., printed.*

*This publication, priced at \$1.00, may be purchased from the Superintendent of Documents, Government Printing Office, Washington 25, D.C. Single copies of the other reports listed may be obtained from the Advisory Commission on Intergovernmental Relations, Washington 25, D.C.

