

A COMMISSION REPORT

Devolving Federal Program Responsibilities And Revenue Sources To State And Local Governments



Advisory Commission On
Intergovernmental Relations
Washington, DC 20575
March 1986

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS
March 1986

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This report was approved with a recommendation by
the Advisory Commission on Intergovernmental Relations on
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PREFACE

Americans have always cherished the right of self-rule, and a fundamental premise of the American experiment in limited self-government is that the democratic process works best in those governments that are closest to the people. Our Constitution reflects these values by establishing a limited national government and leaving to states and their local governments broad authority for local self-rule.

In past research, the Advisory Commission on Intergovernmental Relations (ACIR) has found that increased political centralization and excessive national involvement in state and local affairs--acting through a variety of intergovernmental devices--threaten the integrity of local self-government. Based upon these findings, the Commission has examined a number of ways to achieve greater decentralization, including block grants and revenue sharing. This report continues ACIR's exploration of alternative methods to reverse the trend toward excessive political centralization through its examination of turnbacks: the simultaneous repeal of selected federal grant-in-aid programs and relinquishment of certain federal tax sources.

At its September 1985, meeting, the Commission authorized the turnback research that is published in this volume and also directed that regional public roundtables be held to inform the research. The three roundtables, held in Chicago, Philadelphia, and Salem, OR, heard a wide range of local, state and federal officials, as well as private citizens. Participants discussed such matters as the fiscal capacity of state and local governments to accommodate devolution of responsibility and authority; the transition to devolution; and questions of political feasibility. This report, which incorporates the lessons learned from the hearings, was adopted by ACIR at its December 1985, meeting.

ACIR voted to recommend revenue and responsibility turnbacks as one means of decentralizing the federal system. It held that the illustrative turnback packages developed in this report warranted further development in consultation with other interested members of the intergovernmental community. (Future papers will present the additional packages.) ACIR did not, however, recommend specific legislation; nor did it recommend the devolution of particular federal programs or revenue sources.

The ACIR recommendation also focussed on the changed, decentralized environment that turnbacks would bring about and on cushioning the change to the new environment. An adequate period of transition (including assured pass-through grants to local governments) may become necessary, as would changes in state-local relations such as adjustments in fiscal assistance and broadened authority for local taxing.

ACIR's endorsement of turnbacks is part of its longstanding study

of a range of mechanisms for decentralization, such as block grants, formula-based general revenue sharing, origin-based tax sharing, and the "swapping" of responsibilities among the various levels of government. The present report's detailed study of principles and methods helps to assess the role turnbacks may play in enhancing the workings of the federal system.

Robert B. Hawkins, Jr.
Chairman

ACKNOWLEDGMENTS

This report was written by Mark David Menchik and Max B. Sawicky, under the supervision of Lawrence A. Hunter, research director of the Advisory Commission on Intergovernmental Relations. Roger A. Hanson supplied helpful suggestions. Earlier stages of the research were conducted by Robert J. Kleine, Mark David Menchik, and Holley Ulbrich. Jim Estep, Cathy Gust, and Bud Vestal helped the authors develop the computational procedures that were used. Anita J. McPhaul, along with Mary A. Dominguez and Lori A. O'Bier, provided valuable secretarial and clerical assistance.

Staff research on revenue and responsibility turnbacks was guided by an ACIR committee headed by State Senator David A. Nething and Mayor Joseph P. Riley, Jr. County Chairman Gilbert Barrett, State Senator Ross O. Doyen, and Governor Ted Schwinden served on the committee.

The report benefited from three regional roundtables on the subject of turnbacks. The Commission and staff are grateful to the private citizens and public officials who participated at the roundtables. A list of the participants appears in Appendix A.

Report preparation was greatly aided by a "critics' session," which discussed an earlier draft. Enid Beaumont, Kathy Collins, Bill Colman, Alexander Dimitrief, Gerald H. Miller, Richard R. Mudge, Kathy Peroff, John E. Petersen, Alvin Sokolow, Michael Springer, and Gerald L. Thorpe all participated.

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Full responsibility for the content and accuracy of this report rests, of course, with the Commission and its staff.

John Shannon
Executive Director

CONTENTS

Chapter 1 -- SUMMARY AND POLICY RECOMMENDATION.....	1
INTRODUCTION.....	1
POLICY RECOMMENDATION.....	4
DISSENTS.....	4
FINDINGS.....	8
Chapter 2 -- WHY TURNBACKS?.....	9
INTRODUCTION.....	9
CONTEMPORARY PERSPECTIVES ON THE NEED FOR INCREASED POLITICAL DECENTRALIZATION.....	10
Federalism in Need of Reform.....	10
Contrary Views.....	11
FACILITATING DEFICIT REDUCTION.....	13
CONCLUSION.....	15
Chapter 3 -- TURNBACKS IN CONTEXT.....	17
INTRODUCTION.....	17
THE NEED FOR THEORY.....	17
HISTORICAL MODELS OF FEDERALISM.....	18
Chapter 4 -- DESIGNING THE TURNBACK PACKAGES.....	25
INTRODUCTION.....	25
PROGRAM TURNBACKS AND AN ECONOMIC THEORY OF FISCAL DECENTRALIZATION.	25
TURNING OVER REVENUE SOURCES: A PRAGMATIC APPROACH.....	27
MAKING REVENUE DEVOLUTION PERMANENT.....	28
THE TAX RELINQUISHMENT APPROACH TO TURNING OVER REVENUES.....	30
REVENUE SOURCES TO ACCOMPANY PROGRAM TURNBACKS.....	31
Federal Excise Tax on Motor Fuels.....	31
Tobacco Tax.....	32
Alcoholic Beverage Taxes.....	32
Telephone Excise Tax.....	32
Personal Income Tax.....	32
TRANSITIONAL ARRANGEMENTS, PASS-THROUGH MECHANISMS, AND THE POST-DEVOLUTION ENVIRONMENT.....	34
Chapter 5 -- THE ILLUSTRATIVE TURNBACK PACKAGES.....	35
INTRODUCTION.....	35
PROGRAMS THAT ARE TURNBACK CANDIDATES.....	36
DESIGNING THE TURNBACK PACKAGES.....	42
TURNBACK POLICY AND FISCAL EQUALIZATION.....	43
HOW TO READ THE TABLES.....	44
THE \$10 BILLION PACKAGE.....	49
THE \$17 BILLION PACKAGE.....	49
THE \$18 BILLION PACKAGE.....	49
THE \$21 BILLION PACKAGE.....	49
THE \$22 BILLION PACKAGE.....	66

Appendix A -- PARTICIPANTS IN REGIONAL ROUNDTABLES.....	69
Appendix B -- ALTERNATIVE MECHANISMS FOR FISCAL AND PROGRAMMATIC DEVOLUTION.....	71
REFERENCES.....	77

FIGURES, GRAPHS, AND TABLES

Figure 2.1 -- Evaluation of the Intergovernmental System: Criteria for Determining Whether Reform is Required.....	12
Figure 3.1 -- Historical Models of Federalism.....	19
Graph 2.1 -- Federal Aid in Relation to State and Local Expenditures from Own-Source Revenues in Constant 1972 Dollars, 1970-84.....	14
Graph 3.1 -- Federal Aid to State and Local Governments in Constant 1972 Dollars, 1970-84.....	22
Table 4.1 -- The Test of Vital National Interest: Necessary and Sufficient Conditions for Activity by the National Government.....	28
Table 5.1 -- Summary of Five Illustrative Turnback Packages.....	35
Table 5.2 -- Candidate Programs for Turnback, in Order of ACIR Functional Area and CFDA Number.....	37
Table 5.3 -- \$10 Billion Illustrative Turnback Package.....	46
Table 5.4 -- \$17 Billion Illustrative Turnback Package.....	50
Table 5.5 -- \$18 Billion Illustrative Turnback Package.....	54
Table 5.6 -- \$21 Billion Illustrative Turnback Package.....	58
Table 5.7 -- \$22 Billion Illustrative Turnback Package.....	62

Chapter 1

SUMMARY AND POLICY RECOMMENDATION

INTRODUCTION

A recurrent theme in American political history has been the great emphasis placed on political decentralization as an enduring value. The Constitutional design reflects this value by its effort to create a limited national government that is compatible with sovereign and vibrant states. One generalization continues to command widespread acceptance from all points along the political spectrum: "The government closest to the people governs best."

In recent years a consensus has developed, among citizens and public officials alike, that the American system of government has grown too centralized, too complicated, and tends to lack accountability at critical points. One area of special concern has been the elaborate system of federal grants-in-aid that has developed over the last 30 years.

In previous studies and position papers, the Advisory Commission on Intergovernmental Relations (ACIR) has affirmed the importance of simplifying an "excessively intergovernmentalized" federal system (e.g., ACIR, 1981c). The Commission urged that the current array of grant-in-aid programs be sorted out according to what is appropriately a federal task, and what is more fittingly a state or local responsibility. The objectives were to elevate to the national government those programs and activities that hold significance for the nation as a whole and to clear the federal domestic agenda of programs that were more appropriately handled by state-local governments or by the private sector. Criteria cited for program devolution or elimination were meager financial assistance in relation to state efforts in the same area, ineffectiveness, or disproportionately large administrative costs.

A variety of strategies for achieving these goals was identified in a staff working paper issued in December 1981 (ACIR, 1981e). The strategies included block grants, formula-based special and general revenue sharing, origin-based tax sharing, revenue/responsibility turnbacks, and program

"swaps" designed to "sort out" functional responsibilities by moving some completely to the national government while devolving others to state and local governments.

The 1981 staff working paper was basically a technical piece that examined various ways to implement decentralization and sorting out strategies. This technical work was based largely upon the body of past ACIR research that had examined the failures of the current intergovernmental system (ACIR, 1980b; ACIR, 1981c; ACIR, 1981d) In this research, ACIR also examined, in considerable detail, a number of decentralization strategies, including block grants, special and general revenue sharing, tax sharing, and "swaps." A summary of recommendations resulting from earlier aspects of this work is contained in a 1978 report (ACIR, 1978).

Other than the technical work done in the 1981 Staff Working Paper, the Commission has never examined turnbacks of revenue sources and program responsibilities in depth. The current research effort on turnbacks is an attempt to fill this gap.

The current study develops a detailed discussion of the criteria for sorting out programs and responsibilities. In this endeavor it benefits from the ACIR's own previous work on the political dimensions of federalism and a large body of literature on the economics of fiscal federalism. The current theoretical framework for evaluating assignments of program responsibilities to levels of government encompasses both economic and political considerations. This framework is a continuation of the efforts made by the Kestnbaum Commission, the Joint Federal-State Action Committee, and the ACIR itself, to develop an analytical approach to program assignment issues.

The framework is applied to the existing gamut of federal aid programs --more than 400 in all--in order to produce for illustrative purposes a "candidate list" of 177 programs that could be returned to state and local control. Because ACIR is currently studying means-tested programs (see ACIR 1985a), and because these programs raise policy issues different from those considered here, no means-tested programs are considered for turnback in this report.

Application of this framework by different analysts would certainly produce longer or shorter lists, and no brief is made here that the list presented is the last word on the subject. It is, however, the product of a serious effort to apply general criteria to federal programs as a group,

something that clearly has needed doing for a long time. The only useful critical reply to the proposed list would be a better list.

Having established the candidates for devolution, the study then presents alternative packages of programs and revenue sources for turnback. Each package is built around three components: a prespecified group of revenue sources to be relinquished by the federal government, an accompanying set of federal aid programs chosen from the candidate list, and a predetermined gap between the totals of program turnbacks and revenue turnbacks--in other words a net reduction in the federal deficit. Given these components, the variable in the procedure becomes the set of programs chosen.

Selection of programs is done by computer according to specified criteria for reducing the gains and losses of states. A rich level of flexibility is possible in defining these gains and losses--known as "fiscal mismatch"--and adjusting the pattern in which they are spread over states. It is possible, for instance, to place absolute limits on the level of per capita gains and/or losses sustained by any particular state or set of states, and to match the pattern of gains and losses to states' abilities to sustain them--i.e., to their fiscal capacity.

Five illustrative packages are offered reflecting different magnitudes of turnback programs as a whole, different levels of deficit reduction, and different types of constraints. For example, the amount of program responsibilities turned over to states ranges from \$10 to \$22 billion. As in any endeavor, the more constraints placed on the outcome, the fewer solutions are possible. Such constraints exact "costs" to other goals of the procedure, making consideration of tradeoffs necessary. The levels of mismatch, however, do not increase proportionally as package size grows. The larger packages provide more scope for tailoring the mix of programs to the excise taxes turned over, reducing mismatch.

It should be emphasized that, because the current study is a starting point for further work, its subject is as much the method as the results. Detailed and specific analysis of both the principles and specifics of turnback design allows this policy alternative to be debated in the political forum. The illustrative packages offered are legitimate proposals for consideration by policy makers, but the method affords the possibility of developing new proposals should the specific packages offered here prove unsatisfactory in the political arena. Furthermore, the turnback method need not be considered

in isolation from other decentralization strategies cited at the outset.

POLICY RECOMMENDATION

The Use of Turnbacks to Achieve Increased Political Decentralization in The American Federal System

PREAMBLE. A recurrent theme in American political history has been the great emphasis placed on decentralization as an enduring value. The Constitutional design reflects this value by its effort to create a limited national government that is compatible with sovereign and vibrant states. And, one generalization continues to command widespread acceptance from all points along the political spectrum: "the government closest to the people governs best."

The Commission finds that turnbacks (simultaneous repeal of federal aid programs and relinquishment of tax bases) are a promising approach to achieving increased political decentralization in the American federal system. The Commission finds further that any turnback package should be based upon the following principles:

- o Turnback legislation should provide for an adequate transition period to allow state and local governments to adjust to the new environment of increased political decentralization.
- o Turnback legislation should provide for an adequate pass-through of state funds to local governments during the transition period to minimize fiscal dislocation and uncertainty as local governments adjust to the new environment of political decentralization.
- o Turnback legislation should provide a mechanism during the transition period to facilitate any state legislative or constitutional changes necessary to adjust the political and fiscal relationship between states and their local governments, such as adjustments in local financial aid and changes in laws affecting local taxing authority.

Finally, the Commission finds that the attached turnback packages warrant further development; the Commission recommends that Congress, the President, and state and local officials use the attached ACIR report as a departure point for serious consideration of the turnback concept; and the Commission directs the ACIR staff to continue to develop additional alternative packages at the request of interested parties.

DISSENTS

Mayor Joseph P. Riley, Jr.,
Governor Ted Schwinden, and Mayor William Hudnut

A 1980 ACIR report stated "the federal government's influence has become more pervasive, more intrusive, more unmanageable, more inefficient, more costly, and above all, more unaccountable." While perhaps overstated, that

was a more or less accurate criticism at the time, and there subsequently ensued a reevaluation of the role of the national government in the federal system.

Yet, if the proliferation of categorical grants-in-aid during the 1960s and 1970s resulted in excessive centralization of government, then the sin of excessive decentralization is likewise committed in this Commission recommendation. As the pendulum may have swung too far to the left when the national government sought to remedy every perceived problem, the "turnback" of programs and financial responsibilities to states and localities would swing the pendulum too far to the right. It would result in a dereliction of responsibilities by Washington, particularly toward the nation's cities.

This recommendation is not so much an effort to decongest the federal system as it is a philosophical desire by some to have our national government wash its hands of any concern for local needs and problems. It is a philosophy that public transportation, the hungry, the homeless, bad housing, economic underdevelopment, poverty, et al., are not national concerns, but localized inconveniences to be borne solely by the states and cities. It is a philosophy that would inject a fatal dose of antihistamine into a system of government where there is scant evidence that congestion even exists.

Urban Development Action Grants are not pervasive; they are targeted to our most distressed center cities. Pollution control grants are not intrusive; they help preserve our national environment. Community Development Block Grants are not unmanageable; the program replaced scores of categorical programs and has spirited the revitalization of hundreds of cities and communities across our country. General Revenue Sharing is not inefficient; it has complete respect for local autonomy and is allocated at the level of government closest to the people. And these programs--along with scores of others--are costly and unaccountable only to the extent that Congress imposes excessive restrictions. What is needed is not turnbacks, but more flexibility in existing programs.

The rationale for this ACIR recommendation relies on unsubstantiated generalizations which few state and local elected officials and civil servants would endorse:

- o Its criticism of the grants-in-aid system for not equalizing the disparities in wealth of the various jurisdictions is illogical since most of the programs are not designed for that purpose. The Interstate Highway program, for example, was enacted to construct a national highway network, not to allocate funds equally to all states. Similarly, the purpose of Superfund is to eliminate hazardous waste sites, not equalize expenditures among the states or regions.
- o The implication that federal grant-in-aid programs continue to grow is erroneous. There was a definite peaking in 1978 of dollars allocated to state and local governments. Between 1980 and 1985, total federal expenditures increased by 23.3%, with defense increasing by 33.9% and interest on the debt increasing 86%. During this same period, federal grants to state and local governments decreased by

8.3%. Local governments have already taken more than their fair share of federal budget cuts.

- o The linking of turnbacks with deficit reduction carries scant cogency because our country's basic deficit problem is caused by a failure of political will to deal at the federal level with its root causes-- i.e., continuing escalating entitlement programs that are inexorably hitched to COLAs, and a lack of fiscal discipline in defense spending. This has precious little to do with intergovernmental relations and turnbacks.
- o The recommendation fails to recognize the constraints within the Congressional process which severely limit the use of turnbacks: the overlapping jurisdiction of committees; the competing interest groups and their reluctance to see their programs changed or given to another level of government; and the reluctance of elected officials, having enacted taxes and been criticized for it, to hand the revenue over to another jurisdiction.
- o In terms of turning back revenues to localities, many local governmental units do not have the authority--and possibly not the capacity --to pick up the funding of turned back programs, even though such programs are needed. There are state constitutional and statutory barriers to any legitimate pass through of this taxing authority.
- o Finally, the claim that turnbacks are efficient is specious. Many federal programs can be run far more effectively, at far less cost, by smaller national staffs than by 50 state staffs or several hundred local staffs.

In comparison with almost all other world democracies, the United States is already a genuinely decentralized system of government. We should be proud, not apologetic, for the last generation's efforts to address issues national in scope, but through state and local entities closest to the people. This effort has made our country greater.

As we approach the 200th anniversary of the Constitution, we all need to be reminded that this country is no longer a confederation. We are all citizens of the same country, and have every reason to expect that the national government, as well as state and local governments, will accept the responsibility to address our needs, wherever we may reside. The error of this massive turnback recommendation is that it forgets that we are one nation and should cherish that heritage.

Because of our experiences in the 50s, 60s and 70s, future Administrations and Congress will be less likely to develop a heavy-handed categorical approach, and will be more likely to involve the states and localities to every extent possible. Washington will be far more alert to the excesses of a national response, but not oblivious to national need.

For this reason, we believe that in years to come this ACIR report will be considered a benchmark--the benchmark of when the pendulum had swung too far to the right.

Senator David Durenberger

I have long encouraged principled and rational inquiries to determine the appropriate division of program administration and financial responsibilities among national, state, and local governments. Like all who participated in the 1982 debates on swaps and turnbacks, I am well aware of the difficulty of enacting and implementing any major changes in the intergovernmental system of aid. The New Federalism initiatives, as well as the other attempts at major reform, have demonstrated the complex interrelationships of programs, values, and goals that make up our current system of intergovernmental programs. These interrelationships complicate the task before us. For example, if we only look at winners and losers of a turnback package and ignore the implications for the existing pattern of fiscal capacities, we may end up increasing rather than minimizing the fiscal disparities among states and local governments. Similarly, if we consider non-means tested and means tested programs separately, we will overlook the sometimes complementary, sometimes conflicting relationships that exist among grant programs--relationships that can play an integral part in the outcome of programs.

While I support ACIR's efforts to consider programs and revenues that might be appropriately turned back to the states, this research should not be undertaken in isolation from the ongoing study of welfare reform. For issues of this magnitude, I believe it is the responsibility of the Commission to consider the intergovernmental system as a whole. Only then can we be sure that the changes we are proposing are consistent with the principles we all agree on: fairness to the states and localities, efficiency, and fiscal responsibility. The Commission should not make recommendations on turnbacks unless it is considering welfare programs at the same time.

I am also concerned that the turnback packages proposed in the report tend to heighten, rather than lessen, fiscal disparities between the states. The five states with the highest fiscal capacity under RTS (excluding the extreme case of Alaska) receive benefits under the three turnback packages that average 2.5 to 14 times higher than the five states with the lowest fiscal capacity. Thus, these turnback proposals would seriously exacerbate fiscal inequities in our federal system, rather than reduce them. Given the Commission's landmark work in measuring fiscal capacity and assessing the role of the national government in mitigating fiscal disparities, I think it would be improvident for us to move hastily on a recommendation that could have such far-reaching consequences for our federal system.

Finally, I would like to remind the Commission of our existing policy supporting block grants. Because many of the turnback packages include block grants, Commission support of these proposals would overturn existing policy which is based on years of Commission research and, therefore, should not be considered lightly.

Given these reservations, I cannot support this far-reaching recommendation favoring turnbacks in the absence of considering its broader implications for our system of federalism and the principles on which it is founded.

Representative Ted Weiss also dissented from the recommendation, but did not join in a formal dissent.

FINDINGS

The policy recommendation adopted by the Commission is based upon the following findings:

- o The current federal domestic budget is overloaded with more than 400 intergovernmental aid programs imposing large administrative expense and evidencing little ability to implement national policy goals. By even the most lenient criteria for establishing "national purpose," it is impossible to justify many existing intergovernmental aid programs.
- o Although the long-run pattern of state and local spending may not be altered substantially by many federal aid programs (itself bringing into question the purpose and value of the intergovernmental aid), the cumulative effect of financial reliance on the national government and the many conditions and requirements attached to the federal aid is to erode the authority of state and local officials. Turnbacks are a means to return authority and responsibility to state and local officials.
- o Federal aid programs greatly reduce the flexibility of state and local officials in program design and implementation. The long-run effect is to retard innovation and diversity at the state and local levels. Turnbacks are a means to foster policy experimentation and to accommodate public services to local preferences and needs.
- o Turnbacks can be an effective means to undo some of the disequalizing effects of the current grant-in-aid system.
- o Turnbacks provide a means to permanently augment the tax bases of state and local governments, which would improve the certainty and predictability of state and local revenues.
- o The excise taxes considered for relinquishment in this study are not as responsive to economic growth and price inflation as other federal taxes largely because the former are not currently levied on an ad valorem basis. States may choose to increase the responsiveness of collections from these excise taxes by making them ad valorem, as some have already done.
- o Turnbacks, if desired, provide a way to reduce the federal deficit in a manner that minimizes the fiscal effects on state and local governments.

Chapter 2

WHY TURNBACKS?

INTRODUCTION

Whether measured in dollars or as numbers of programs, federal grants-in-aid to states and localities have skyrocketed in the last 30 years. ACIR's reports, along with other studies in intergovernmental relations, have repeatedly pointed out that this change in the role of the federal government has acted to unbalance the federal system, increasing the fiscal and political power of the national government relative to its state and local partners; bringing about an intricate accumulation of program constraints and requirements; sometimes impeding officials' responsiveness and accountability to the citizenry; and often distorting the public choices made by the several polities involved in intergovernmental programs (ACIR, 1980a-e; ACIR, 1981a-d). ACIR and its predecessor (the Kestnbaum Commission), using such shorthand terms as "overload," "congestion," and "intrusive requirements," have long urged changes in the system of federal grants, in order to achieve simplification and decentralization (ACIR, 1978; 1981c). More recently, the pressure of huge federal budget deficits has occasioned cutbacks in grant funding that have led to a kind of de facto decentralization wherein state and local governments are now financing program responsibilities formerly funded by Washington.

This report considers a systematic mechanism for devolution by examining turnbacks of revenues and responsibilities. This would be accomplished by the federal government's withdrawing from a number of program responsibilities and by simultaneously relinquishing selected federal revenue bases. Turnbacks, however, are only one mechanism for achieving fiscal and programmatic decentralization. Appendix B contains a discussion of alternative approaches to decentralization, comparing and contrasting the strengths and weaknesses of each.

This report contemplates the return of three kinds of responsibilities to the state and local levels:

- o the responsibility of deciding whether and in what amounts to provide

- o certain goods and services that currently are federally supported;
- o the responsibility of deciding how to provide them; and
- o the responsibility for raising the revenue to finance any increase in state and local government activity necessitated by these state and local decisions.

In order to facilitate the return of these responsibilities and to provide states and localities access to the revenue sources necessary to assume them, the report suggests alternative ways for the national government simultaneously to disengage itself from, or reduce its level of activity in a variety of different spending and taxing areas. These alternative courses of action are referred to as "turnback" options.

CONTEMPORARY PERSPECTIVES ON THE NEED FOR INCREASED DECENTRALIZATION
Federalism in Need of Reform

Underlying the decision to pursue turnback options are two propositions related to federalism:

- o The national government over time has acquired an array of functional and financial responsibilities that are more appropriately assumed by citizens at the state and local levels through other institutions-- either by delegating these responsibilities to their state and local public sectors or by leaving them to be assumed by society's private sector or by volunteers;
- o Regarding the set of responsibilities to be devolved: citizens' choices on whether they are better assumed in the public sector, as opposed to the private sector or by volunteers, can better be articulated through the state and local political process than in Washington.

These propositions derive from a view that the current federal system exhibits several undesirable attributes. In past work, ACIR has characterized the present federal system as "congested" and "overloaded" (e.g., ACIR, 1981c). Such a system, in the view of the Commission, contributes to an unmanageable national political agenda, promotes undue federal interference in the operation of state and local governments, weakens political and fiscal accountability at all levels of government, and frequently produces incongruence at the state and local levels between citizen preferences and the goods and services provided by their governments. This perspective implies that a major reordering of governmental responsibilities is in order.

Although the Commission has long embraced this view, it has never articulated in concise form the criteria it applied to come to this conclusion. It is possible, however, to synthesize past ACIR work to specify the implicit criteria the Commission has looked to over the years to evaluate the intergovernmental system. Such a synthesis is provided below in Figure 2.1 in the form of a test to determine whether the intergovernmental system stands in need of reform.

Contrary Views

Not everyone agrees with the Commission that the intergovernmental system is in need of increased political decentralization. A contrary appraisal of the current system would hold that, for all of its flaws, the current system is working about as well as could be hoped, given the complexities of American federalism. This view would most likely stand by the maxim "if it ain't broke, don't fix it." Some observers, less sanguine but still positive, view the current federal system as basically sound, requiring only incremental, program-by-program adjustments to improve upon economic efficiency, administrative effectiveness, and political accountability (e.g., Nathan, 1981). Turnbacks and other similar comprehensive reforms are seen as sweeping solutions to a set of problems that are amenable to incremental adjustment.

Still another perspective asserts that the system needs reform but for entirely different reasons. Proponents of this view would assert that the real problem with the current intergovernmental system is too little, not too much, federal control (Anton, 1985). The system fails to achieve the national purposes for which it was constructed, because much of the present grant-in-aid money is in effect used by states and localities to shift their own financial burdens to a larger national tax base. Of more concern than an incongruence locally between citizens' preferences and services provided is a lack of congruence between the national objectives of grant programs and the effects of federal funding on state and local fiscal behavior, which some studies have found to be slight (Gramlich, 1985; U.S. Department of Treasury, 1985). This group of critics argues that the administrative difficulty of indirect financing and the deficiencies in grant design combine to produce a grant-in-aid system that, taken as a whole, has effects similar to a giant general fiscal assistance program, albeit a system that lacks consciously designed targeting criteria and that costs vastly more to administer than does the existing General Revenue Sharing program.

Figure 2.1

EVALUATION OF THE INTERGOVERNMENTAL SYSTEM:
CRITERIA FOR DETERMINING WHETHER REFORM IS REQUIRED

Reform is called for if the existing intergovernmental system meets the following general condition:

Condition of Reform: Taken together, the activities of the national government combine to encumber the federal system unduly, or if they combine to overload the national political process.

(The Condition of Reform is satisfied if any one of the following criteria is met.)

Criterion A: Taken together, the activities of the national government significantly weaken state or local governments' political and fiscal accountability to their citizens by driving a wedge between taxing and spending choices.

Criterion B: Overall, the national government's activities work broadly and unjustifiably to thwart the will of local majorities.

Criterion C: Taken together, the national government's activities burden subnational governments with intrusive requirements and onerous demands or procedures; i.e., the authority of states or localities is so circumscribed as to hamper effective governance and responsiveness to their citizens.

Criterion D: Taken together, the intergovernmental activities of the national government weaken the ability of state and local governments to achieve fiscal discipline within their political processes.

Criterion E: An intricate accumulation of activities by the national government, considered as a whole, impedes improvement of federally funded programs or threatens the overall efficiency of the intergovernmental system.

Criterion F: Overall, the national government's intergovernmental activities establish such extensive entitlement privileges or prohibitions that they stimulate subnational governments, private institutions or citizens continually to seek comparable entitlements or relief in reaction.

The critics divide on the solution to the problems they identify. At one end of the spectrum, some would contend that the administrative and grant design problems with the current system can be corrected, and they urge incremental or wholesale grant reform rather than devolution (Anton, 1985). Those who occupy the opposite end of the spectrum would see the administrative and grant design problems as endemic to the political process, and they would argue for devolution and revenue turnovers as a "second best" solution to increased federal control. Between the two extremes is a group who would argue that the existing system is so grossly inefficient that major devolution and revenue turnovers may be achieved with sufficient resources "left over" to permit the national government to redesign a very few intergovernmental programs to achieve what Congress considers the most important national objectives.

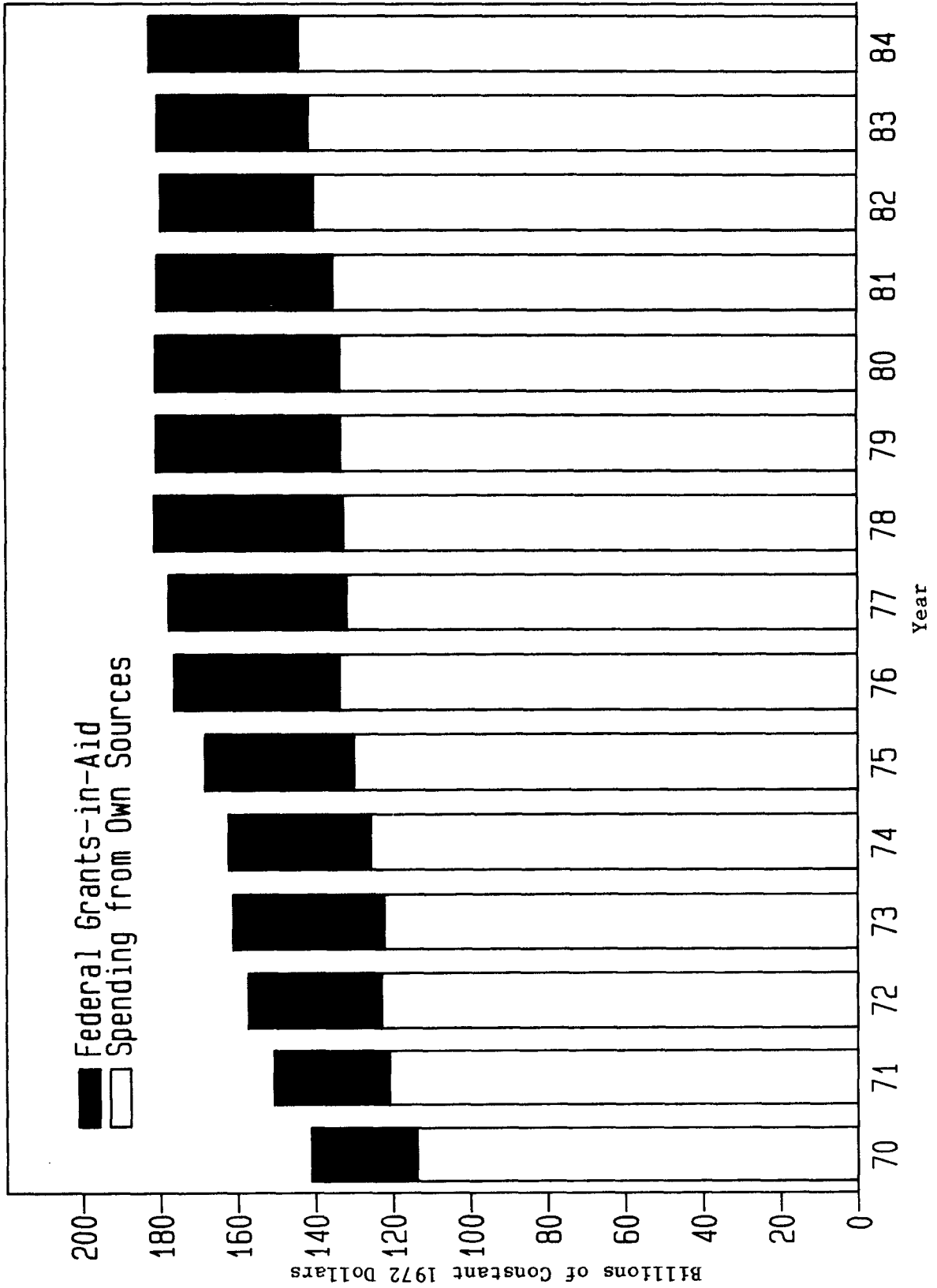
To address these differing perspectives would require nothing short of a detailed examination of the current state of American federalism, which is clearly beyond the scope of this report. But one interesting observation about this debate is pertinent here. A substantial number of critics of the current intergovernmental system may find turnbacks a common solution to the problems they perceive, even though they characterize the problems quite differently. Given this fact and the reality that a significant number of policymakers believe the system is in need of fairly extensive reform, an examination of how such a reform might be designed and implemented is warranted.

FACILITATING DEFICIT REDUCTION

There is another important rationale for examining turnbacks at this time. The fiscal reality of current intergovernmental relations is that the federal grant-in-aid system has been under constant budgetary pressure since the mid-70s, and, given the impetus behind the recent law enforcing deficit reduction (PL 99-177) there is every reason to expect that federal grants will continue to be subject to increased pressures in the future. Graph 2.1 contains two sets of bars, showing two sources of state-local spending: own-source revenues and intergovernmental aid. Since 1978 the combined height of the two sets of bars has been substantially constant, indicating that in real terms, overall spending of states and localities has stayed unchanged. But the relative importance of sources of spending has altered dramatically. Own-source revenues have increased at the same time that intergovernmental assis-

Graph 2.1

FEDERAL AID IN RELATION TO STATE AND LOCAL EXPENDITURES
FROM OWN-SOURCE REVENUES IN CONSTANT 1972 DOLLARS, 1970-84



tance has declined. In 1978 intergovernmental grants were equal to 36.7% of own-source spending, decreasing to 26.9% in 1984.

To diminish deficits that some project in the \$200 billion range, it is certain that Congress will continue to seek spending reductions from that portion of the domestic budget that finances grants-in-aid to state and local governments. The Commission believes that turnbacks offer a way to help meet the mandate for deficit reduction in an efficient and equitable manner.

CONCLUSION

Turnbacks then may serve a dual purpose: (1) to improve the overall operation of the federal system by achieving significant political decentralization, and (2) to alleviate some of the fiscal pressure on the national budget in a way designed to impose minimal fiscal burdens on state and local governments.

Chapter 3

TURNBACKS IN CONTEXT

INTRODUCTION

Before examining how turnback options might be designed, it is useful to set the context in which these proposals arise. At its core, federalism concerns itself with the constitutional design of multilevel government--what James Madison called a "compound republic" (see Ostrom, 1971). The central concern of federalism is how the people will delegate power and authority among separate levels of government. Intergovernmental relations is the process by which various levels of government interact in the exercise of their delegated authority.

THE NEED FOR THEORY

Unfortunately, a truly coherent theory of federalism cannot be said to exist. A theory entails a set of interrelated propositions that, taken together, have the power to describe, to explain and--most importantly for policy makers--to predict. Given these three capabilities, a theory provides the ability to evaluate alternative means to achieve a specified end. By these standards, extant theories of federalism are severely deficient.

Ideally, theories of federalism would inform the study of intergovernmental relations. They would increase our understanding of the benefits and costs of the inevitable conflict that emerges when independent governments and public officials compete--because they compete, as well as cooperate--within the same polity for votes and resources. Such a theory would, for example, predict when the conflict of competition among governments is economically efficient, equitable, and protective of individual liberties, and when such competition is likely to be counterproductive. Should the natural competition of federalism lead to undesirable results, a theory would suggest how intergovernmental cooperation and coordination might provide a remedy. At the same time, a well developed theory would help us understand the dual tendency for intergovernmental cooperation and coordination to degenerate into collusion among governments at the citizens' expense and also into unintended concentrations of power in the hands of the stronger of the federal partners.

It would explain how intergovernmental collusion can prove destructive of individual liberty, economic efficiency, and equity, and how concentrations of power in the hands of one partner can prove destructive to a balancing of political decentralization and centralization, which is the essence of federalism. Finally, a theory would inform us on how best to design institutions in a federal system to reap the benefits of intergovernmental cooperation and coordination without falling prey to the dangers of intergovernmental collusion and excessive concentrations of power (Brennan and Buchanan, 1980, 1982).

The lack of theory therefore is of concern for more than academic reasons. Lacking a theory that provides the ability to explain and predict, it is difficult to formulate and evaluate policy on other than an ad hoc basis. The world, however, does not stand still while theorists seek explanations. For many, both intuition and practical experience at governance indicate a need for federalism reform. Others, who are not so convinced that reform per se is required agree that certain changes may be the best way for all parties in the federal partnership to cope with the continuing budget pressure on grants-in-aid to state and local governments.

In short, the political process may now be poised for a significant change in direction with regard to federal spending for grants to state and local governments, but with less than adequate theoretical guidance to direct it. Without a more comprehensive theory of federalism, it is necessary to turn for guidance to the next best things--theories of fiscal and administrative decentralization and various historical "models" of federalism--to provide a benchmark against which to compare the current situation. Historical models are taken up in the following section to place turnbacks in perspective. An economic theory of fiscal decentralization is discussed as the primary basis for designing turnback options in the following chapter.

HISTORICAL MODELS OF FEDERALISM

One recent tabulation has compiled over 300 "models" of federalism, itself an indication of the theoretical disarray in the area (Stewart, 1984). For purposes of providing an historical perspective, this report collapses the subtlety and richness of all these models into three basic models, one of which has several variants. These historical constructions are not models in the scientific sense. They are, rather, heuristic--general descriptions of the American federal system at different points in time. Figure 3.1 presents the three models of federalism.

Figure 3.1

HISTORICAL MODELS OF FEDERALISM

<p><u>Confederation</u></p> <p>Articles of Confederation (1777-89)</p>	<p><u>Federalism</u></p> <p>U.S. Constitution (1789-Present)</p>				
	<p>Dual Federalism (1789-Civil War)</p>	<p>Cooperative Federalism (Civil War-Present)</p>			<p>Centralized Federalism</p>
	<p>Isolated instances of national government involvement in state affairs</p>	<p>Highly limited national government involvement in state affairs; virtually no involvement in local affairs (Civil War-New Deal)</p>	<p>Fairly extensive national government involvement in state affairs; virtually no involvement in local affairs (New Deal-Mid 60s)</p>	<p>Extensive national government involvement in both state and local affairs (Mid 60s-Present)</p>	<p>State and local governments act as administrative agents of the national government (Presently in certain areas, e.g., state prisons, mental health facilities clean air, OSHA)</p>

Source: ACIR staff.

Since the fundamental concern of federalism is the distribution of authority among levels of government, a useful way to analyze the historical models is to examine the most important ways the national government extends its own authority and how that extension in turn affects the exercise of state and local authority. The broad characterizations of federalism found in Figure 3.1 can be analyzed in terms of federal involvement and intervention in state and local affairs along each of the following three dimensions:

1. The Definition and Delimitation of Each Level of Government's Scope of Authority. Over time, defining and delimiting the scope of authority of all three levels of government has become increasingly the prerogative of the national government. In general, Congress and the courts have determined the scope of authority of the national government to be nearly unlimited, with the notable exception of those specific restrictions found in the Constitution (e.g. the Bill of Rights). In a landmark decision (Garcia v. San Antonio Metropolitan Transportation Authority, et al., 105 S.Ct. 1005, 1985) the Court has now removed itself from taking any role as arbiter in the inevitable conflicts over the appropriate distribution of authority among governmental levels, leaving this function to Congress. The effect of such a reading of the Constitution is to reduce federalism to a political arrangement to be hammered out in the Congressional process (see ACIR, 1985b). Over time, the federal government has also increasingly narrowed the scope of authority of state and local governments. Numerous actions by Washington have altered the balance of national, state, and local authority. Among the most obvious are interpretations of the necessary and proper clause and of the 14th Amendment; statutory enactments and judicial interpretations that preempt state and local authority; and statutory provisions that set uniform national standards for a wide range of public or private activity that preclude a conscious decision by state and local governments to set more or less stringent or even no standards.
2. The Exercise of Federal Authority through Legislation and Statutory Interpretation in a Manner That Has a Directly Proscriptive or Prescriptive Effect on States and Their Local Governments. Over time Congress, the courts, and administrative agencies have steadily increased the use of outright directives to extend federal authority into more and more state and local affairs. In the past, ACIR has referred to these as "mandates," although the use of judicial and administrative directives goes well beyond the statutory mandates on which ACIR has focused. Illustrative of these other techniques are judicial standards for state-operated institutions (e.g., prisons) and administrative rules that implement a statute or court decision by highly prescriptive or proscriptive regulations (the intricate administration of welfare programs, for example).
3. The Use of the Spending Power by Congress Indirectly to Get States and Local Governments To Do What the Federal Government Desires. Until the mid-1970s, it was safe to conclude that Congress had contin-

ually increased its indirect control of state and local governments' activities by use of grants-in-aid--both as a carrot to purchase their cooperation and as a stick when threats of withdrawal of the aid could persuade compliance with federal wishes. Since the mid-70s the level of federal aid has tapered off (hence the ability to purchase state and local governments' compliance may have decreased) although there is no evidence that the use of withdrawal threats has diminished. In fact, application of this approach in coercing states to adopt a 21 year-old drinking age and to enforce a uniform national speed limit suggest that this technique is as popular as ever among federal officials from all points along the political spectrum.

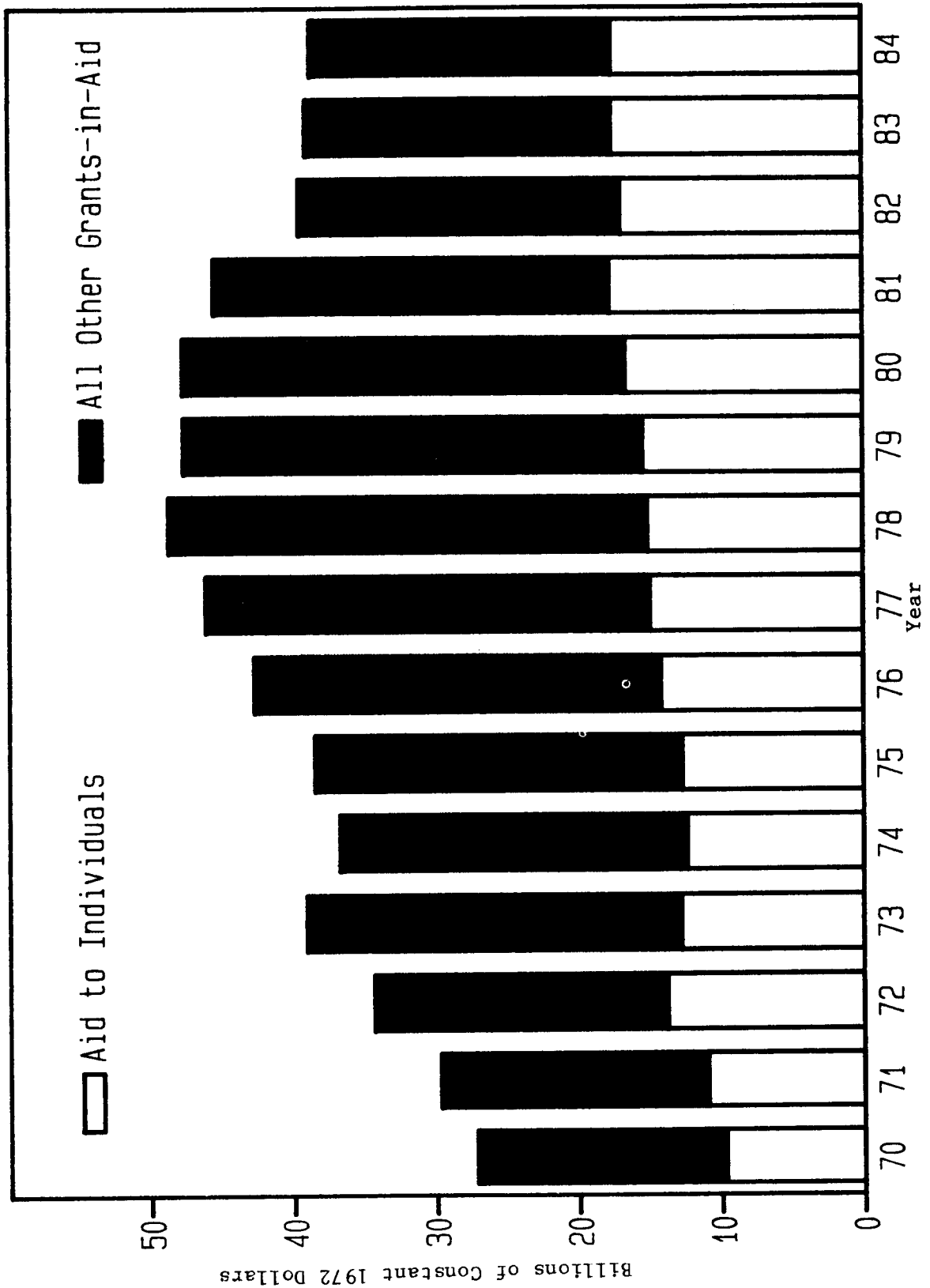
In terms of the three dimensions specified above, attempting to locate the position of the current federal system precisely in Figure 3.1 is a risky undertaking. Most, however, would agree that on all three dimensions the current system resides somewhere between cooperative federalism (characterized by pervasive national involvement) and centralized federalism. For purposes of this report, a precise location need not be pinpointed. What is important is to recognize that wherever the system may exactly be along the first two dimensions (scope of authority and direct federal intervention), it seems to be continuing to move in the direction of centralized federalism. Although it also is not easy to specify where the system currently is with respect to the third dimension (indirect intervention via grants), it is apparent that the direction of movement has at least stabilized for the present. (Graph 3.1 portrays the past 14-year trend in federal aid to state and local governments in constant 1972 dollars. The lower bar, limited to aid to individuals, shows a steadier path than the upper line, which adds aid to governments. Since 1982 at least, the area between the two--grants to governments--has been relatively constant.

Some would go farther and contend that in terms of federal financial aid, the movement toward centralized federalism has in fact reversed itself and is now running back toward cooperative federalism. This trend is frequently characterized as "de facto new federalism." Others would argue that recent aid cutbacks are misleading: the rapid increases of the 1970s represented a deviation from a long-term trend to which the system is now returning. Moreover, many state and local officials point out that the coercive threat of fund withdrawal is as effective as ever, even with reduced levels of federal aid.

An elaboration of this debate is beyond the scope of the current report.

Graph 3.1

FEDERAL AID TO STATE AND LOCAL GOVERNMENTS IN CONSTANT 1972 DOLLARS,
1970-84



Source: U.S. Bureau of the Census, Governmental Finance.

What can be said with some certainty is that the adoption of significant turnback packages would begin a real reversal of federal involvement through the grant-in-aid mechanism (if that reversal has not already occurred) or accelerate any new trend in grants-in-aid funding that might already exist.

While not rigorous, this chapter's discussion may be helpful in orienting policy makers as they begin to deliberate on the issue of turnbacks. The discussion is designed to place the significance of turnbacks in perspective. Clearly, in terms of the three dimensions of federal involvement and intervention examined here, turnbacks represent only a first step toward more fundamental political decentralization. And this fact constitutes turnbacks' greatest virtue or their most obvious shortcoming, depending on one's view of the need for a reduction in federal involvement in state and local affairs and the desirability of significant increases in political decentralization.

Chapter 4

DESIGNING THE TURNBACK PACKAGES

INTRODUCTION

This chapter is based upon the important assumptions discussed above: that increased decentralization is desirable and that turnbacks offer a worthwhile approach to achieve this goal. Turnbacks are viewed as a means to help reverse the trend toward centralized federalism noted in the preceding chapter.

PROGRAM TURNBACKS AND AN ECONOMIC THEORY OF FISCAL DECENTRALIZATION

In choosing the federal programs that might legitimately be considered candidates for devolution to state and local governments, ACIR developed and applied a stringent vital national interest test. This test derives, in large part, from a well developed theory of fiscal decentralization that is frequently and misleadingly referred to as an "economic theory of fiscal federalism" (e.g., Oates, 1972). The theory's propositions are precisely formulated and provide useful--if limited--guidance in making determinations regarding the appropriate level of government to provide particular goods and services efficiently. Its greatest limitation--and why it represents only a theory of fiscal decentralization, not of authority allocation in a federal system--is that the theory does not distinguish between true federal systems (where sovereignty resides in more than one government) and decentralized unitary systems of government. It has little to say regarding how the distribution of the power to tax in a federal system affects the distribution of political power. Moreover, it has been pointed out that many political phenomena (such as lobbying by interest groups and legislative logrolling) tend to undercut the theory's prescriptions for achieving efficiency (e.g., Brennan and Buchanan, 1980, 1982). The theory is silent on the question of individual rights and liberties.

Although restricted in its applicability, an economic theory of fiscal decentralization does offer guidance in two general ways. First, the theory provides a framework for choosing (on the basis of allocative efficiency

criteria) which levels of government should provide what particular goods and services--the assignment of functions problem--under stated conditions. When existing federal programs and activities are analyzed within this framework, one of three possibilities arises: The program/activity is determined to be more appropriately carried on solely at the national level; solely at the state/local level; or it is determined that the national government and state/local governments should share in provision of the good or service.

Second, once a choice on functional assignment is made, the theoretical framework suggests, where appropriate, how programs of shared responsibility should be structured to achieve efficiency; i.e., open-ended matching grants, highly specific categorical grants, general purpose fiscal assistance, and so forth. This report does not, however, concern itself with the design of programs deemed to be a shared responsibility. Other previous and ongoing work by ACIR on allocation formulas address many of these design problems as does a current project on welfare reform (ACIR, 1964; ACIR, 1985a). The current report concentrates exclusively on applying an economic theory of fiscal decentralization to select those existing federal programs that might legitimately be returned in their entirety to state and local governments.

The policy application of any social science theory is inherently subject to debate. Even two economists in perfect agreement on the basic theory may find themselves in substantial disagreement on their theory's application. The application to turnbacks is no different. Some will find the list of programs selected here for devolution to be too inclusive. Some will find it too restrictive, while still others will argue that the theory suggests that some of the programs on the list are now poorly designed and that they should be redesigned properly as shared responsibilities, not devolved. The use of a theory, even a well developed theory, does not guarantee total agreement on which levels of government should have responsibility for which programs. It does, however, establish a common framework in which to conduct the debate over which programs should be reassigned to state and local governments.

The vital national interest test, as developed by ACIR, consists of three general conditions against which federal grant programs were tested. In order for programs to be considered appropriately the sole or partial province of the federal government, the governmental activities performed had to meet all three conditions. If not, the program was placed on the list of candidates to be returned to states and localities.

An outline of the vital national interest test appears in Figure 4.1.

TURNING OVER REVENUE SOURCES: A PRAGMATIC APPROACH

The distribution of revenue sources in a federal system constitutes a topic in itself although it is a topic inadequately addressed by an economic theory of decentralization (but see McLure, 1983). It is not covered in this report to improve tax policy--although this may be a side-benefit of the turnback approach. Rather, revenue sources are considered for devolution based on the assumption that currently, in providing the array of goods and services to be turned back, the national government taxes at a level greater than it would, ceteris paribus, if such goods and services were not provided by the national government. Hence, it is reasoned, when program responsibilities are devolved to state and local governments, so too should a revenue source used by the national government to finance those responsibilities be devolved in a manner that avoids unduly increasing overall tax burdens.

Application of the theory of fiscal decentralization referred to above does not necessarily require the return of revenue sources to state and local governments. To achieve the type of decentralization it concerns itself with, it may be appropriate to finance locally delivered services centrally through block grants, revenue sharing, or other means. Alternatively, programs could simply be repealed without concomitant revenue returns. The premise of turnbacks, as developed here, however, states that what is being sought is true political decentralization, not merely fiscal and administrative decentralization. Therefore, the only long-term solution consistent with this goal is to turn over to state-local governments the enhanced ability to tax, along with the responsibility to make expenditure decisions. Such true decentralization requires devolving current federal revenue sources as a component of a comprehensive turnback package.

MAKING REVENUE DEVOLUTION PERMANENT

In theory, the turnback approach offers a way to increase political decentralization by a simultaneous shifting of tax bases and responsibilities from the national to the state and local levels. Unfortunately, such a shift may be viewed as temporary by voters and by state and local officials. A legitimate concern arises that, without some guarantee of permanency, the initial shift may result in an undesirable outcome in the future.

THE TEST OF VITAL NATIONAL INTEREST: NECESSARY AND SUFFICIENT

(Satisfaction of each of the following conditions is required to justify national government activity. A condition is satisfied only if the appropriate criteria are met under each.)

Condition 1
(Constitutionality) The activity is, under current interpretations of the Constitution, within the constitutional authority of the national government.

(Condition 1 is satisfied if the following criterion is met.)

Criterion 1.1: There exists no provision in the U.S. Constitution that specifically prohibits the national government from undertaking the activity.

Condition 2
(Warrantability) The activity is warranted by the presence of a problem of national scope, or significantly large regional scope, that requires for its solution some measure of national control over, stimulation of, or coordination among subnational governments, private institutions, or citizens.

(Condition 2 is satisfied if at least one of the following criteria is met.)

Criterion 2.1: In the absence of activity by the national government, activities of subnational governments, private institutions or citizens would produce significant interstate externalities (i.e., spillover effects).

Criterion 2.2: Absent activity by the national government, certain goods and services at national scale would be substantially underproduced because of their "public good" properties or because such goods and services are subject to declining marginal costs.

Criterion 2.3: Absent activity by the national government, the activities of subnational governments, private institutions or citizens would weaken the operations of national markets.

Criterion 2.4: Absent activity by the national government, subnational governments would violate the constitutional rights of individuals.

Criterion 2.5: Absent activity by the national government, there would be significant horizontal inequities among residents of different states; i.e., in states with relatively low fiscal capacity, taxpayers would have to bear inordinately high tax burdens to finance state-local services deemed essential.

CONDITIONS FOR ACTIVITY BY THE NATIONAL GOVERNMENT

Condition 3
(Economic and
Programmatic
Efficiency)

The benefits (both economic and noneconomic) derived from activity by the national government exceed the activity's costs--not only the budgetary cost to government but also all other costs likely to result to society as a whole. Further, it can be established that action by the national government designed to correct the problem will represent, in fact, the most efficient available solution, including no governmental action.

(Condition 3 is satisfied only if each of the following criteria is met.)

- Criterion 3.1: No workable alternative to national activity is at least as efficient.
- Criterion 3.2: The overall national benefits warranted by Condition 2 must exceed the overall national costs of carrying out the activity.
- Criterion 3.3: Other than specifically warranted by Condition 2, the activity of the national government does not artificially induce increased taxing and spending by subnational governments, private institutions or citizens. A polity's capacity to achieve fiscal discipline is not weakened.
- Criterion 3.4: Without good reason, the activity of the national government does not make uncertain the financial situations or other circumstances of subnational governments, private institutions or citizens.
- Criterion 3.5: An activity of the national government does not burden subnational governments with intrusive requirements and onerous demands or procedures. The authority of states and localities is not so circumscribed as to hamper effective governance and responsiveness to their citizens.
- Criterion 3.6: The activity by the national government does not significantly weaken any government's political and fiscal accountability to its citizens by driving a wedge between taxing and spending choices.
- Criterion 3.7: An activity of the national government does not work broadly and unjustifiably to thwart the will of local majorities.

In light of a continuing deficit problem at the national level, voters and state and local officials may fear that relinquishment of part or all of selected federal tax bases may actually lead Washington to move into a new tax base in the future; e.g., a value added tax (VAT) or a national sales tax. For this reason, it may be necessary to provide voters and state and local officials with a guarantee against future federal encroachment on traditional state and local tax bases or federal reassumption of relinquished tax bases. Rather than statutorily restricting the federal government's ability to levy against specific tax bases, a more effective guarantee might be an ironclad limit on overall tax collections. For example, a Constitutional amendment could limit the proportion of GNP that the national government may take in taxes. Such a provision was adopted by the U.S. Senate in 1982.

THE TAX RELINQUISHMENT APPROACH TO TURNING OVER REVENUES

The approach selected here for devolving revenue sources is for the federal government to relinquish all or part of a tax base it currently uses. This approach differs from that taken in past ACIR work where actual new federal grant programs were created and dubbed "revenue turnbacks" (1981e). Other than on a temporary, transition basis, creation of new grant programs was avoided in the current work. For one thing, only those programs deemed to be solely the responsibility of state and local governments were considered eligible for return in the first place. That being the case, it is contradictory to turn around and create a new federal grant program, albeit a broad block grant or general purpose fiscal assistance grant, as a way of financing the returned responsibilities.

Designing new federal grants certainly would be legitimate as a means of achieving intergovernmental grant reform for those activities deemed to be appropriately shared activities and thus appropriate for financing through grants-in-aid. It is assumed, however, that the programs considered here are proper candidates for total devolution to the state and local level. The appropriate way, then, to ensure that state and local governments have the ability to finance these new responsibilities is to free up tax bases, not return the revenue itself in the form of a new federal grant. Moreover, the way to guarantee that true authority and responsibility, not mere administrative flexibility, are returned is to turn over tax bases unencumbered by the political shield of federal tax credits.

Intergovernmental grant reform is both laudable and needed. For those programs deemed to be appropriately shared responsibilities, much work on grant and formula reform remains to be done. Such work, however, is of a qualitatively different nature and seeks different goals from this report.

REVENUE SOURCES TO ACCOMPANY PROGRAM TURNBACKS

Chief among the possible revenue sources that could be devolved to states (and in some cases directly to localities) are the federal excise taxes on motor fuels, the cigarette excise tax, the excise tax on alcoholic beverages, the telephone excise tax, and a portion of the federal personal income tax. Each has advantages and disadvantages. Sometimes the disadvantages can be mitigated, however. For example, excise taxes are frequently levied in rem (i.e., per gallon or per pack of cigarettes) rather than ad valorem, as a percentage of the sales price. Many states have moved to ad valorem gasoline and other excise taxes, making collections responsive to changes in price levels. A responsive revenue system is desirable to hard-pressed budget officers, trying to keep up with demands for more public services. Automatic tax increases, however, are less attractive to hard-pressed taxpayers.

Federal Excise Tax on Motor Fuels

Washington collected an estimated \$13.3 billion in FY 1985 primarily from the federal tax on motor fuels but also from other highway-related excises. The illustrative turnback packages of the next chapter each turn back a share of this total, which is expressed as relinquishing a stated amount from the \$.09/gallon tax on gasoline.

Unique among the taxes considered here for devolution, a tax on motor fuels is a benefit-based tax used to finance federal programs. Those users who tend to derive the most benefit from highway spending (or who cause the most wear on the roads) also pay the most to defray such costs. A benefit-related tax for an activity like highway use not only seems fair to many people, it also helps impose fiscal discipline, discouraging the construction of expensive but rarely used roads.

Several features of federal (and many states') motor fuel taxation highlight the relationship to benefits received. Refunds or credits for off-highway fuel use are common, as are additional charges for trucks, either ex-

cise taxes or registration fees. These additional charges, frequently based on weight, relate to trucks' causing more road wear per mile than autos.

A circumstance that may make it politically feasible to increase combined motor fuel taxes even above current levels is declining petroleum prices. Nationwide, gasoline averaged \$1.22 per gallon in 1980 at the pump (i.e., including all taxes), increasing to \$1.35 in 1981. Thereafter, prices have declined, to \$1.20 per gallon for 1984. Although predicting petroleum prices is problematic, Oil Statistics Bulletin indicates a continued decline, for a 1985 average of \$1.05.

Tobacco Tax

In 1984, the federal government collected \$4.7 billion in tobacco taxes. The major advantage of this tax from the perspective of state officials is that politically it is relatively easy to increase. State budget officers, however, are likely to be disappointed in the limited potential for automatic growth of cigarette and other tobacco taxation. From the taxpayers' perspective this may be a desirable attribute, though. Our calculations assume the permanent rate of \$.08 per package of cigarettes.

Alcoholic Beverage Taxes

Like the tobacco tax, this revenue source does not have much automatic growth potential. Collections for 1984 were \$5.3 billion at the then-existing rate.

Telephone Excise Tax

This revenue source has been considered a logical candidate for turnover to state-local governments since the 1950s when the Joint Federal-State Action Committee recommended its devolution. The telephone excise tax also has a considerable potential for automatic growth, which should make it attractive in the eyes of state officials, if not citizens. The major disadvantage of this revenue source is that it amounts to no more than \$2 billion annually, limiting its usefulness as a replacement for federal grants.

Personal Income Tax

In seeking to achieve greater political decentralization, this is probably the best tax to devolve in part to state and local governments. By intentionally reducing the federal income tax burden on taxpayers and coupling

that reduction with the decreased federal expenditures that result from program turnbacks, the federal government automatically strengthens all state and local tax bases. With individuals richer by the amount of the federal income tax reduction, states and local governments would be able to pick up this increased wealth through either a state or local income tax, sales taxes, property taxes, excise taxes, or user charges and fees. There would be no necessity to increase the aggregate tax burden on taxpayers in the states; but unless specifically designed to avoid it, the distribution of the tax burden within states would likely change depending upon the taxes state and local governments employed to pick up the returned income tax base.

The large federal income tax cuts since 1981 have provided states a revenue return of this sort. The significant tax increases at the state and local level since that time have therefore not increased citizens' overall tax burden as much as they would have in the absence of such federal tax reductions. The precise extent to which this fact made state and local taxpayers more receptive to tax increases over this period deserves empirical investigation.

Unfortunately, revenue return by cutting federal income taxation is politically the most difficult to achieve. It would require a careful education effort to make citizens aware that the purpose of the federal income tax cut was not to provide tax relief to taxpayers, but rather to transfer part of the federal government's income tax base to state and local governments. Because the recent federal income tax cuts were billed as real tax relief, not tax shifts from one level of government to another, state and local tax increases that came in their wake may not have been as readily accepted as if the stated intention had been to shift part of the income tax base to the state level.

In contemplating a partial turnover of the income tax base, it would be especially important to provide voters with an ironclad guarantee (such as a Constitutional amendment) that after the initial tax shift, the national government would not reclaim the tax by future income tax increases or by adding an entirely new levy, such as a VAT. In addition, state and local governments would be obliged to provide citizens advance notice of how exactly they intended to move into the "tax room" provided by the federal income tax cut.

Based upon the reactions of participants of the ACIR regional roundtables on the turnover of revenues and responsibilities, the Commission judged

that devolution of a portion of the personal income tax was not politically feasible at this time. Therefore, the remainder of this report considers the excise taxes as potential revenue sources to be turned over to the states.

TRANSITIONAL ARRANGEMENTS, PASS-THROUGH MECHANISMS, AND THE POST-DEVOLUTION ENVIRONMENT

Having discussed the basis for choosing revenues and programs for turn-back, two key practical questions in this turnover can now be considered. These are (1) mechanisms to cushion the process of devolution (the problem of transition) and (2) the pass-through of funds from states to localities.

To be successful, devolution must be designed to minimize disruption in the operation of state and local governments, both during the transition period and over the long run. Of particular concern is the potential for dislocation at the local level. Two key components of any turnback plan, therefore, are the transition period and arrangements for the state-local pass-through of funds from devolved revenue sources.

Transition mechanisms should not be thought of merely as a means of gaining political acceptance of a devolution proposal. The transition mechanism should ensure that change is orderly and predictable; all the actors involved should be able to adjust to the environment of increased political decentralization during the transition period.

The excise tax bases considered in this report to accompany the programs returned are seldom amenable to direct local assumption. Following the repeal of federal grants that directly benefit local governments, local officials will require some reassurance about fiscal support during the transition period. Local officials must also be convinced that at the end of the transition phase the new fiscal arrangements will provide them with adequate resources to meet the demands of their citizens.

The increased decentralization brought about by turnbacks will almost certainly require state and local governments to readjust their political and fiscal interrelationships. State financial aid to local governments may have to be increased, retargeted, or both. State-set limits on local taxing authority may also have to be readjusted.

Chapter 5

THE ILLUSTRATIVE TURNBACK PACKAGES

INTRODUCTION

This chapter presents five exploratory turnback packages, covering a wide range of alternative approaches to devolution through turning over revenues and responsibilities to the states. The current funding of program responsibilities turned back--the "size" of the packages--varies from \$10-\$22 billion per year. One of the packages is not designed for deficit reduction. For the others, the deficit reduction range is from \$1.5-\$3.3 billion a year.

Table 5.1 summarizes the packages.^{1/} Each package turns back \$9.6 billion in alcohol, telephone, and tobacco excises, based on end-user estimates for each state, not the current collections from manufacturers. The four largest packages additionally relinquish a share of the federal tax on motor fuels and other highway-related excises.

Table 5.1

SUMMARY OF THE FIVE ILLUSTRATIVE TURNBACK PACKAGES

Current Funding of Programs Turned Back	Tax Turnback	Percent of Past Funds Replaced	Annual Deficit Reduc- tion (in thousands)	Per Capita Loss for Deficit Reduc- tion	Largest Per Capita Loss Net of Deficit Reduc- tion 1/	Largest Per Capita Gain Net of Deficit Reduc- tion 2/
<u>(in thousands)</u>		<u>Replaced</u>	<u>thousands)</u>	<u>tion</u>	<u>tion 1/</u>	<u>tion 2/</u>
\$ 9,820,591	\$ 9,624,792	98.01%	\$ 195,799	\$ 0.84	\$25.29-HA	\$30.24-NV
16,698,973	15,188,296	90.95	1,510,677	6.47	31.51-MT	36.50-NH
18,135,081	15,188,296	83.75	2,946,785	12.63	43.08-SD	23.93-FL
21,160,245	18,673,094	88.25	2,487,151	10.66	52.09-NY	43.38-OK
22,147,948	18,673,094	84.31	3,474,854	14.89	45.84-VT	38.34-OK

1/ Excluding Alaska, with the largest per capita loss in each package.
2/ Excluding Wyoming, with the largest per capita gain in each package.

Source: ACIR calculations based primarily on fiscal data for FY 84.

Table 5.1 indicates "fiscal mismatch"--different states' relative gains and losses--by summarizing one of the yardsticks used in the state-by-state descriptions of each package. The summary table shows the maximum per capita gain, net of deficit reduction, and the state with the maximum gain. Table 5.1 also shows the maximum per capita loss and the state with this loss, again net of deficit reduction. Gains and losses do not necessarily increase with package size, a finding in contrast to that observed in the 1981 ACIR work (ACIR, 1981e). The method used to assemble the packages was designed to minimize mismatch and the larger packages provided more scope for this. The hypothetical even per capita amount of deficit reduction that was used in the fiscal mismatch calculation assumes that whatever the state of residence, each citizen must make the same contribution toward the total by which the package trims the federal budget deficit. All tables depict states' fiscal situation after a period of transition is complete that, very likely, would cushion the net losses and delay the gains.2/

PROGRAMS THAT ARE TURNBACK CANDIDATES

Table 5.2 lists the 177 current federal programs of grants in aid that were considered for turnback.3/ Counts of grant programs differ, but for present purposes heavy reliance was placed on the definition of distinct entries in the Catalog of Federal Domestic Assistance (CFDA). (Some of the programs considered for turnback are portions of CFDA categories.) Out of roughly 524 grant-in-aid programs, 86 were removed from consideration because they provide means-tested benefits. (The latter programs are being studied in ACIR research on the welfare system.) Of the remainder, 261 grant programs were removed under the judgment that they were inappropriate for devolution.* The resulting 177 grant programs were thought to be in general accord with the principles and issues of devolutionary federalism discussed in Chapter 4 in the test of vital national interest. Reasonable disagreement about the contents of the list of candidate turnback programs is possible. The principles voiced earlier can be difficult to apply. Many government programs are not unambiguously national or local. If a grant program is currently working

*Some programs like highways are closely linked to federal revenue bases--in this case the federal gasoline tax. If the federal unemployment insurance tax were considered for turnback, then it might be appropriate to consider the devolution of programs linked to that tax, such as grants for administering offices of state employment services.

Table 5.2

CANDIDATE PROGRAMS FOR TURNBACK, IN ORDER OF ACIR FUNCTIONAL AREA AND CFDA NUMBER

<u>CFDA Number</u>	<u>Name of Grant Program</u>	<u>Obligations (in thousands of dollars)</u>
Arts and Humanities		
45.104	Promotion of the Humanities--Media Humanities Projects	9,680
45.116	Promotion of the Humanities--Summer Seminars for College Teachers	4,385
45.122	Promotion of the Humanities--Fellowships at Centers for Advanced Study	980
45.124	Promotion of the Humanities--Research Resources	7,784
45.125	Promotion of the Humanities--Museums and Historical Organizations	9,270
45.127	Promotion of the Humanities--Instruction in Elementary and Secondary Schools	7,858
45.128	Promotion of the Humanities--Humanities Studies Program	691
45.129	Promotion of the Humanities--State Programs	25,405
45.130	Promotion of the Humanities--Challenge Grants Program	18,259
45.132	Promotion of the Humanities--Research Materials Publications	487
45.133	Promotion of the Humanities--Humanities, Science and Technology	652
45.134	Promotion of the Humanities--Research Conferences	508
45.135	Promotion of the Humanities--Youth Projects	508
45.137	Promotion of the Humanities--Humanities Projects in Libraries	2,872
45.140	Promotion of the Humanities--Basic Research	3,571
45.145	Promotion of the Humanities--Research Materials Tools and Reference Works	4,120
45.146	Promotion of the Humanities--Research Materials Editions	2,865
45.147	Promotion of the Humanities--Research Materials Translations	1,216
45.148	Promotion of the Humanities--Intercultural Research	2,276
45.150	Central Disciplines in Undergraduate Education	5,938
45.151	Summer Seminars for Secondary School Teachers	2,772
45.301	Institute of Museum Services	15,834
Community Development		
14.218	Community Development Block Grant -- Entitlement Grants	2,317,364
14.221	Urban Development Action Grants	644,471
14.228	Community Development Block Grant -- States' Program	964,034
Criminal Justice		
16.540	Juvenile Justice Block Grant	42,020
16.541	Juvenile Justice and Delinquency Prevention -- Special Emphasis	21,583
16.542	National Institute for Juvenile Justice and Delinquency Prevention	7,308
16.560	Justice Research (Development Project Grants)	16,914
16.601	Corrections Training and Staff Development	2,547
16.602	Corrections--Research and Evaluation and Policy Formulation	162
16.603	Corrections--Technical Assistance	6,020
Economic Development		
11.300	Economic Development -- Grants and Loans for Public Works and Development Assistance	130,440
11.303	Economic Development -- Technical Assistance	8,436
11.304	Economic Development -- Public Works Impact Projects	33,982
11.305	Economic Development -- State and Local Economic Development	26,137
23.003	Appalachian Development Highway System	91,514
23.004	Appalachian Health Programs	4,099
23.008	Appalachian Local Access Roads	7,486
23.009	Appalachian Local Development District Assistance	4,000

Table 5.2 (cont.)

CANDIDATE PROGRAMS FOR TURNBACK, IN ORDER OF ACIR FUNCTIONAL AREA AND CFDA NUMBER

CFDA Number	Name of Grant Program	FY 84 Obligations (in thousands of dollars)
Economic Opportunity		
59.032	Office of Women's Business Ownership	2,201
Elementary and Secondary Education		
13.600	Administration for Children, Youth and Families -- Head Start	949,513
13.630	Administration for Developmental Disabilities -- Protection and Advocacy Grants	7,962
13.630	Administration for Developmental Disabilities -- Basic Support	41,571
13.631	Administration on Development Disabilities -- Special Projects	2,403
84.002	Adult Education -- State Administered Program	96,971
84.003	Bilingual Education	110,587
84.004	Civil Rights Technical Assistance and Training	23,653
84.008	Alcohol and Drug Abuse Education Program	2,801
84.009	Program for Education of Handicapped Children in State-Supported Schools	146,020
84.010	Educationally Deprived Children -- Local Education Agencies	2,864,413
84.012	Educationally Deprived Children -- State Administration	33,144
84.013	Educationally Deprived Children in Institutions Serving Neglected or Delinquent Children	32,198
84.014	Follow Through	11,987
84.023	Handicapped -- Research and Demonstration	12,366
84.024	Handicapped Early Childhood Assistance	18,762
84.025	Handicapped Innovative Programs -- Deaf-Blind Centers	11,965
84.026	Handicapped Media Services and Captioned Films	14,011
84.027	Handicapped -- State Grant Program	1,043,752
84.027	Handicapped -- Preschool Incentive Grants	26,134
84.028	Handicapped Regional Resource Centers	5,700
84.029	Handicapped Personnel Preparation	54,409
84.123	Law-Related Education	818
84.151	Block Grant for Improving School Programs -- State Grants	437,599
84.158	Secondary Education and Transitional Services	5,868
Employment and Training		
13.646	Work Incentive Program -- Child Care and Other Social Services	158,483
17.235	Senior Community Service Employment -- National Program	244,480
17.246	Dislocated Worker Assistance	163,414
17.250	Job Training Partnership Grants to States (Disadvantaged Workers)	787,301
17.250	Summer Youth Employment Program (JTPA)	1,820,790
17.646	Work Incentive Program	98,411
Food and Nutrition		
10.560	State Administrative Expenses for Child Nutrition	40,785
10.564	Nutrition Education and Training Program	4,726
Higher Education		
45.111	Promotion of the Humanities--Exemplary Projects, Nontraditional Programs, and Teaching	5,212
84.047	Upward Bound	67,982
84.069	State Student Incentive Grants	75,347

Highways and Public Transportation		
20.205	Interstate Highway Construction	2,682,747
20.205	Interstate Highway 4R	2,506,821
20.205	Urban Highway System and Metropolitan Planning	894,411
20.205	Secondary Highways	607,401
20.205	Interstate Transfer Grants--Highways	430,505
20.205	Other Highway Trust Fund Programs	2,918,655
20.205	Primary Highways	2,336,030
20.500	UMTA Capital Improvement Grants -- Section 3	1,189,614
20.507	UMTA Capital and Operating Assistance Formula Grants -- Section 5	2,212,073
20.509	Public Transportation for Nonurbanized Areas -- Section 18	111,568
Libraries		
84.034	Public Library Services	63,753
84.035	Interlibrary Cooperation	14,708
84.039	Library Research and Demonstration	240
84.091	Strengthening Research Library Resources	6,001
84.154	Public Library Services -- Library Construction (Title II)	20,064
Medical Assistance		
13.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	4,813
13.217	Family Planning Projects	131,976
13.224	Community Health Centers	338,301
13.226	Health Service Research and Development -- Grants	10,109
13.242	Mental Health Research Grants	115,259
13.244	Mental Health Clinical or Service Related Training Grants	20,932
13.260	Family Planning Services	3,592
13.263	Occupational Safety and Health -- Training Grants	8,655
13.268	Childhood Immunization Grants	28,673
13.273	Alcohol Research Programs	20,823
13.293	State Health Planning and Development Agencies	18,293
13.294	Health Planning and Health Systems Agencies	36,187
13.298	Nurse Training and Traineeships	11,643
13.361	Nursing Research Project Grants	8,159
13.379	Grants for Graduate Training in Family Medicine	38,477
13.381	Health Professions -- Financial Distressed Grants	5,600
13.766	Health Financing Research, Demonstration and Experiments	34,163
13.776	Professional Standards Review Organizations -- Medicare	51,276
13.776	Professional Standards Review Organizations -- Medicaid	14,643
13.777	State Health Care Providers Survey Certification -- Medicare	37,460
13.777	State Health Care Providers Survey Certification -- Medicaid	27,531
13.822	Health Careers Opportunity Program	17,767
13.864	Population Research	90,570
13.865	Research for Mothers and Children	134,367
13.886	Grants for Physician Assistant Training Program	4,415
13.891	Alcohol Research Center Grants	9,664
13.965	Black Lung Clinics	3,120
13.974	Family Planning -- Services Delivery Improvement Research Grants	1,952
13.977	Preventive Health Service--Venereal Disease Control Grants	41,903
13.978	Venereal Disease Research, Demonstration, Information and Education	1,969
13.991	Preventive Health Services Block Grants	85,121
13.992	Alcohol, Drug Abuse, and Mental Health Block Grant	453,402
Miscellaneous		
11.550	Public Telecommunications Facilities	12,530

Table 5.2 (cont.)

CANDIDATE PROGRAMS FOR TURNBACK, IN ORDER OF ACIR FUNCTIONAL AREA AND CFDA NUMBER

<u>CFDA Number</u>	<u>Name of Grant Program</u>	<u>FY 84 Obligations (in thousands of dollars)</u>
Natural Resources Conservation and Development		
10.025	Plant and Animal Disease and Pest Control	204,351
10.156	Federal-State Marketing Improvement Program	961
10.500	Cooperative Extension Service -- 1862 Land Grant Universities	262,646
10.500	Tuskegee Institute	16,551
10.652	Forestry Research	7,639
10.664	Cooperative Forestry Assistance	17,452
10.901	Resource Conservation and Development	8,821
10.904	Watershed Protection and Flood Prevention--Operations, Planning and Emergency Assistance	28,115
10.904	Watershed Protection and Flood Prevention--Small Watershed Operations	118,298
11.405	Anadromous and Great Lakes Fisheries Conservation	3,405
11.419	Coastal Zone Management Program Administration	14,414
11.420	Coastal Zone Management Estuarine Sanctuaries	1,596
11.421	Coastal Energy Impact Program (Formula Grants)	370
11.427	Grants and Cooperative Agreements Program	10,939
15.600	Anadromous Fish Conservation	3,225
15.605	Fish Restoration (Dingell-Johnson Program)	30,648
15.611	Wildlife Restoration (Pittman-Robertson Program)	87,724
15.904	Historic Preservation Grants	20,710
15.916	Land and Water Conservation Fund Grants	104,319
15.919	Urban Park and Recreation Recovery Program	6,639
Occupational Safety and Health		
15.250	Underground Coal Mining	37,725
15.250	Small Mine Operators Assistance	741
15.252	Abandoned Mine Land Reclamation Program	246,182
17.500	Occupational Safety and Health -- Statistical Grants	47,913
17.500	Occupational Safety and Health -- State Operational Grants	3,796
Other Transportation		
20.106	Airport Improvement Program	867,387
20.308	Local Rail Service Assistance	22,547
Vocational Education		
84.048	Vocational Education -- Basic Grants to States	555,538
84.049	Vocational Education -- Consumer and Homemaking Education	31,011
84.050	Vocational Education -- Program Improvement and Supportive Service	98,473
84.052	Vocational Education -- Special Programs for the Disadvantaged	14,073
84.053	Vocational Education -- State Advisory Councils	6,404
84.077	Bilingual Vocational Training	3,401
84.083	Women's Educational Equity	5,152
84.099	Bilingual Vocational Instructor Training	1,542
84.121	Vocational Education -- State Planning and Evaluation	3,519
84.126	Rehabilitation Services -- Basic Support	1,014,680
84.128	Rehabilitation Services -- Special Projects	28,141

84.129	Rehabilitation Training	3,209
84.132	Centers for Independent Living	19,063
Volunteer Services		
72.002	Retired Senior Volunteer Program	28,310
72.005	Service-Learning Programs	1,134
72.010	Mini-Grant Program	209
72.011	State Office of Voluntary Citizen Participation	380
72.012	Volunteer Demonstration Program	2,636
72.013	Technical Assistance Program	92
Water Pollution Control		
10.418	Water and Waste Disposal Systems Grants for Rural Communities	99,847
10.418	Water and Waste Loans	265,706
66.418	Water Quality Management Grants to States	22,468
66.418	Construction Grants for Wastewater Treatment Works	3,558,102
66.419	Water Pollution Control -- State and Interstate (106 Grant)	52,052
66.432	Safe Drinking Water -- Public Water Systems Supervision	26,147
66.438	Construction Management Assistance	81,769

well, there is a natural reluctance to devolve it, even though its inappropriate centralization may cause future problems. In addition to disagreements about specific programs, some would prefer the list to be shorter, restricting the possible scope of devolution, while others would expand the roll of turnback candidates. Despite the very real difficulties in selecting grant programs for possible devolution, however, this list should serve as a workable starting point for constructing turnback packages.

DESIGNING THE TURNBACK PACKAGES

ACIR's 1981 paper (ACIR, 1981e) identified fiscal mismatch as a serious concern in the design of turnback packages. The packages examined in that paper, as in others, tried different ways of fitting current program spending to current tax receipts in order to trim the large losses and gains that some states otherwise would experience. But, even given the packages' revenue sources, experimenting with alternative combinations of grant programs is a daunting task. With 177 candidate programs the number of possible combinations is the figure "two" followed by 53 other digits.

Analysis in the early stages of this research used a computerized optimization procedure to suggest alternative packages that minimized a measure of fiscal mismatch. Unlike ACIR's 1981 work, the amount of fiscal mismatch (caused by the uneven state-by-state allocation of revenues and responsibilities) did not necessarily increase with the size of the package. This is because larger packages provide more scope for tailoring the pattern of program responsibilities to that of revenues. Although the results were far better than comparison packages assembled by hand (as was done in 1981), there was still a problem. Strict adherence to mismatch minimization in effect set the fiscal status quo in concrete. Current federal grant funds are not always distributed efficiently or equitably. And, aside from the motor fuels tax, the per capita distribution of excise collections is not only very uneven, but is unconnected with current program funding. Utah and Wyoming are neighbors, but the former contributes \$16 per capita in federal alcohol and tobacco excises while the latter contributes \$185.

More important, the current distribution of federal aid gives too much financial assistance to relatively well off states and too little to relatively poor states. If one compares the states' per capita grants for all of the 177 candidate programs with a measure of the fiscal capacity of each, the

relationship is uneven, but one in which grant receipt tends to increase with fiscal capacity. For example, the correlation coefficient is +0.25 when per capita personal income is the fiscal capacity indicator.4/

Consequently, one objective chosen when designing the illustrative turn-back packages was to change this generally counter-equalizing distribution of federal grants to one that would be equalizing; i.e., that would tend to have net gains in states with low fiscal capacity. A trade-off is involved, however. The more a turnback package changes the existing distribution to improve it by a fiscal disparities criterion, the greater the fiscal mismatch is likely to be relative to the status quo. Despite this trade-off the packages did, by and large, achieve a degree of fiscal equalization. For instance, per capita gains and losses in the \$22 billion package show a negative correlation of -0.31 with per capita personal income, so that the states with weak tax bases are significantly more likely than others to have a gain.5/

TURNBACK POLICY AND FISCAL EQUALIZATION

Since the packages do not effect pure fiscal equalization, a comparison of states' gains or losses reveals important discrepancies between this pattern and individual states' abilities to absorb such losses through increasing collections of own-source revenues. By the same token, some states that may be presumed to be well off in a relative sense also benefit disproportionately under the turnback procedure. Thus two fundamental notions of equity are violated: "horizontal equity," or equal treatment of equals, and "vertical equity," or appropriately unequal treatment of states in different circumstances.

Whether mismatch is formally minimized or not, simply comparing funding levels before and after turnback overlooks an important fact: Mississippi is far less able to absorb a loss of \$10 per capita than is Connecticut. Losses especially hurt in states with limited fiscal capacity. And gains in states with ample tax bases seem galling.

The selection of grant programs for turnback packages was seen as an opportunity to correct, at least to a limited extent, the current bias in the allocation of intergovernmental aid; at the very least to avoid producing new counter-equalizing tendencies through turnbacks. As discussed in a forthcoming technical paper, the optimization procedure was redesigned to be sensi-

tive to states' relative fiscal capacities. In defining the "equalization-oriented" mismatch measure used here, a loss in a state with low fiscal capacity generated a higher degree of effective mismatch than a loss in a state with high fiscal capacity. Similarly, gains produced higher mismatch figures when they occurred in states with strong tax bases.^{6/} Alternative measures of fiscal capacity were used, leading to similar results.

At the same time the optimization procedure was redesigned to allow for an equalizing tendency, it was enhanced in another respect. A maximum loss level was sometimes specified, to protect states from heavy per capita losses, and the maximum allowable gain could be restricted, to prevent inordinate windfalls by some states.

The enhanced procedure thus combined four goals: (1) minimizing "pure" mismatch; (2) correcting, to some degree, the counter-equalization of the current grant system; (3) protecting all states against heavy losses; and (4) avoiding a large windfall gain for any state. These four goals militated against each other and were sometimes contradictory. In other words, given the fiscal distributions of specified revenue sources and candidate programs, on occasion there was proven to be no turnback package that satisfied all four goals as they were specified. In the experimentation conducted so far, avoiding windfalls rarely improved other aspects of the allocation of gains and losses, probably because this goal weakened achievement of others. Consequently, none of the packages shown used this provision, though future packages might. Protecting states against heavy losses was generally possible--except for Alaska in the larger packages--though it detracted from equalization and protecting populous states from losses was often difficult. Seemingly, minimizing mismatch and equalization did not sharply conflict with each other.

More experience with the design procedure should suggest just how well the oft-conflicting goals of turnback packages can be balanced against each other. At the same time, efforts are currently underway to develop additional ways to measure the degree to which a turnback package is equalizing. For the present, however, the state-specific listings of gains and losses can be compared to any chosen measure of fiscal capacity.

HOW TO READ THE TABLES

Tables 5.3 to 5.7 describe the five alternative turnback packages. The

first page of these tables presents the state-by-state fiscal features of each package after transition is completed. Continued pages of the tables list the grant programs that are turned back in each package.

In Tables 5.3 to 5.7:

Column A. The first column shows the program responsibilities turned back to each state in thousands of 1984 dollars. For the \$10 billion package for example (Table 5.3), Alabama would receive programs totalling just over \$132 million.

Column B. The next column shows the tax resources turned back to each state, assuming that the post-transition levy is at the current national rate. Again referring to Table 5.3, Alabama receives tax bases totalling \$128 million.

Column C. The state and local balance--Column C--is program turnbacks minus tax turnbacks. Alabama loses \$4 million in the \$10 billion package. Because the other packages include significant deficit reduction, state entries are usually negative, which indicates a loss. The following two columns divide up the total state-local balance into: (1) that accounted for by the state's even share of deficit reduction and (2) pure fiscal mismatch, i.e., the imperfect matching of resources and program funding in each state.

Column D. "Even deficit reduction" means that each state area contributes the same per capita amount. Alabama's share is \$3 million for the \$10 billion package, corresponding to \$.84 per capita.

Column E. The state-local balance after deficit reduction is one indicator of fiscal mismatch. For the \$10 billion package, a relatively slight mismatch causes Alabama to lose \$804,000 more than an even deficit reduction would require. In the same table Arizona gains from turnback, so its entry is a positive number, namely \$31 million. One state's loss caused by pure fiscal mismatch is another state's gain, so this column always totals zero.

Column F. Another indicator of the consequences of a turnback package is the percentage of program funding replaced: tax turnbacks divided by program turnbacks. Nationwide, the \$10 billion package replaces 98% of program funding but Alabama (with a slight loss after deficit reduction) gets somewhat less--97%--of its past receipt of funds.

Column G. All things considered, Alabama's loss of \$4 million is equivalent to a loss of 8/100s of 1% of state-local own source revenues, for a figure of -0.08% in the next column. That column reflects the total gain or loss, that is, the combined effect of deficit reduction and fiscal mismatch.

Column H. The last column is a state's per capita gain or loss after deficit reduction and is the best indicator of the package's fiscal mismatch. For the \$10 billion package the gain of tax bases and program authority would "cost" Alabamans \$.20 per capita. Because the

Table 5.3

\$10 BILLION ILLUSTRATIVE TURNBACK PACKAGE

Relinquishment of Alcohol, Tobacco, and Telephone Excise Taxes:
Turnback of 59 Nontransportation Programs, Post Transition, 1984 Data

STATE	(A) PROGRAM TURNBACK (\$K)	(B) TAX TURNBACK (\$K)	(C) TOTAL S&L BALANCE (\$K)	(D) S&L LOSS DUE TO EVEN DEF. RED (\$K)	(E) S&L BALANCE AFTER DEF. RED. (\$K)	(F) % OF PROG. FUNDS REPLACED	(G) CHANGE AS % OWN SOURCE REVENUE	(H) P.C. BAL. AFTER DEF. REDUCTION(\$)
ALABAMA	132,318	128,192	-4,126	3,322	-804	96.88	-0.08	-0.20
ALASKA	40,689	21,552	-19,137	402	-18,735	52.97	-0.37	-39.11
ARIZONA	93,082	121,755	28,673	2,486	31,159	130.80	0.59	10.52
ARKANSAS	73,633	75,420	1,787	1,953	3,740	102.43	0.07	1.61
CALIFORNIA	1,033,388	1,134,888	101,500	21,122	122,743	108.83	0.22	4.88
COLORADO	92,398	143,356	50,958	2,634	53,592	155.15	0.93	17.07
CONNECTICUT	117,238	154,009	36,770	2,633	39,403	131.36	0.65	12.56
DELAWARE	38,185	31,261	-6,904	508	-6,396	81.92	-0.57	-10.55
FLORIDA	385,780	505,889	120,109	8,961	129,070	131.13	0.79	12.09
GEORGIA	174,790	235,410	60,620	4,809	65,429	134.68	0.70	11.41
HAWAII	67,356	40,627	-26,729	858	-25,871	60.32	-1.35	-25.29
IDAHO	24,547	34,689	10,142	830	10,972	141.32	0.80	11.09
ILLINOIS	530,461	471,476	-58,985	9,637	-49,348	88.88	-0.32	-4.30
INDIANA	176,298	196,876	20,578	4,597	25,175	111.67	0.28	4.59
IOWA	105,487	93,273	-12,214	2,437	-9,777	88.42	-0.26	-3.37
KANSAS	63,937	83,507	19,570	2,035	21,605	130.61	0.48	8.91
KENTUCKY	127,812	138,599	10,787	3,116	13,903	108.44	0.24	3.74
LOUISIANA	175,012	179,181	4,169	3,724	7,893	102.38	0.06	1.78
MAINE	42,052	48,088	6,036	962	6,978	114.31	0.38	6.09
MARYLAND	289,143	198,422	-90,721	3,611	-87,110	68.62	-1.14	-20.24
MASSACHUSETTS	316,726	284,061	-32,665	4,839	-27,826	89.69	-0.32	-4.83
MICHIGAN	497,420	355,715	-141,705	7,609	-134,096	71.51	-0.82	-14.79
MINNESOTA	134,115	232,426	98,311	3,477	101,788	173.30	1.10	24.56
MISSISSIPPI	115,804	130,101	14,297	2,171	16,468	112.35	0.45	6.37
MISSOURI	215,457	175,193	-40,264	4,170	-36,094	81.31	-0.64	-7.26
MONTANA	33,678	33,815	137	686	823	100.41	0.01	1.01
NEBRASKA	44,595	54,304	9,709	1,340	11,049	121.77	0.35	6.92
NEVADA	34,209	60,401	26,192	748	26,940	176.56	1.56	30.24
NEW HAMPSHIRE	58,877	75,473	16,596	805	17,401	128.19	1.31	18.14
NEW JERSEY	329,444	373,081	43,637	6,266	49,903	113.25	0.31	6.58
NEW MEXICO	50,851	51,775	924	1,174	2,098	101.82	0.03	1.50
NEW YORK	1,151,119	734,739	-416,380	14,824	-401,556	63.83	-0.98	-22.73
NORTH CAROLINA	175,324	225,345	50,021	5,103	55,124	128.53	0.65	9.06
NORTH DAKOTA	32,196	27,219	-4,977	571	-4,406	84.54	-0.39	-6.48
OHIO	485,584	372,249	-113,335	9,016	-104,319	76.66	-0.69	-9.71
OKLAHOMA	83,678	125,073	41,395	2,767	44,162	149.47	0.82	13.39
OREGON	106,742	107,845	1,103	2,234	3,337	101.03	0.02	1.25
PENNSYLVANIA	544,313	422,073	-122,240	9,981	-112,259	77.54	-0.67	-9.44
RHODE ISLAND	50,366	44,155	-6,211	801	-5,410	87.67	-0.36	-5.66
SOUTH CAROLINA	116,570	125,347	8,777	2,739	11,516	107.53	0.21	3.53
SOUTH DAKOTA	26,963	25,433	-1,530	587	-943	94.33	-0.15	-1.35
TENNESSEE	149,829	160,602	10,773	3,931	14,704	107.19	0.19	3.14
TEXAS	577,216	604,610	27,394	13,193	40,587	104.75	0.12	2.58
UTAH	41,523	38,937	-2,586	1,358	-1,228	93.77	-0.10	-0.76
VERMONT	33,634	25,415	-8,219	441	-7,778	75.56	-1.02	-14.82
VIRGINIA	169,356	216,897	47,541	4,657	52,198	128.07	0.58	9.40
WASHINGTON	134,115	171,783	37,668	3,608	41,276	128.09	0.47	9.60
WEST VIRGINIA	110,209	107,707	-2,502	1,649	-853	97.73	-0.09	-0.43
WISCONSIN	190,392	125,579	-64,813	3,988	-60,827	65.96	-0.72	-12.80
WYOMING	26,703	100,872	74,169	431	74,600	377.76	3.76	145.14
UNITED STATES	9,820,591	9,624,792	-195,799	195,799	0	98.01	-0.05	0.00

FY 84
 Obligations
 (in thousands
 of dollars)

<u>CFDA NUMBER</u>	<u>NAME OF GRANT PROGRAM</u>	
Arts and Humanities		
45.104	Promotion of the Humanities--Media Humanities Projects	9,680
45.116	Promotion of the Humanities--Summer Seminars for College Teachers	4,385
45.122	Promotion of the Humanities--Fellowships at Centers for Advanced Study	980
45.125	Promotion of the Humanities--Museums and Historical Organizations	9,270
45.127	Promotion of the Humanities--Instruction in Elementary and Secondary Schools	7,858
45.128	Promotion of the Humanities--Humanities Studies Program	691
45.130	Promotion of the Humanities--Challenge Grants Program	18,259
45.132	Promotion of the Humanities--Research Materials Publications	487
45.133	Promotion of the Humanities--Humanities, Science and Technology	652
45.134	Promotion of the Humanities--Research Conferences	508
45.135	Promotion of the Humanities--Youth Projects	508
45.140	Promotion of the Humanities--Basic Research	3,571
45.146	Promotion of the Humanities--Research Materials Editions	2,865
45.147	Promotion of the Humanities--Research Materials Translations	1,216
45.148	Promotion of the Humanities--Intercultural Research	2,276
45.150	Central Disciplines in Undergraduate Education	5,938
45.151	Summer Seminars for Secondary School Teachers	2,772
Community Development		
14.218	Community Development Block Grant -- Entitlement Grants	2,317,364
Criminal Justice		
16.541	Juvenile Justice and Delinquency Prevention -- Special Emphasis	21,583
16.542	National Institute for Juvenile Justice and Delinquency Prevention	7,308
16.560	Justice Research (Development Project Grants)	16,914
16.602	Corrections--Research and Evaluation and Policy Formulation	162
Elementary and Secondary Education		
84.003	Bilingual Education	110,587
84.008	Alcohol and Drug Abuse Education Program	2,801
84.009	Program for Education of Handicapped Children in State-Supported Schools	146,020
84.010	Educationally Deprived Children -- Local Education Agencies	2,864,413
84.013	Educationally Deprived Children in Institutions Serving Neglected or Delinquent Children	32,198
84.026	Handicapped Media Services and Captioned Films	14,011
84.158	Secondary Education and Transitional Services	5,868
Libraries		
84.039	Library Research and Demonstration	240
84.091	Strengthening Research Library Resources	6,001
84.154	Public Library Services -- Library Construction (Title II)	20,064
Medical Assistance		
13.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	4,813
13.242	Mental Health Research Grants	115,259
13.260	Family Planning Services	3,592

Table 5.3 (cont.)

\$10 BILLION ILLUSTRATIVE TURNBACK PACKAGE

<u>CFDA NUMBER</u>	<u>NAME OF GRANT PROGRAM</u>	FY 84 Obligations (in thousands of dollars)
13.273	Alcohol Research Programs	20,823
13.294	Health Planning and Health Systems Agencies	36,187
13.361	Nursing Research Project Grants	8,159
13.766	Health Financing Research, Demonstration and Experiments	34,163
13.822	Health Careers Opportunity Program	17,767
13.864	Population Research	90,570
13.865	Research for Mothers and Children	134,367
13.891	Alcohol Research Center Grants	9,664
13.974	Family Planning -- Services Delivery Improvement Research Grants	1,952
Natural Resources Conservation and Development		
10.025	Plant and Animal Disease and Pest Control	204,351
11.405	Anadromous and Great Lakes Fisheries Conservation	3,405
11.419	Coastal Zone Management Program Administration	14,414
11.420	Coastal Zone Management Estuarine Sanctuaries	1,596
11.421	Coastal Energy Impact Program (Formula Grants)	370
11.427	Grants and Cooperative Agreements Program	10,939
15.600	Anadromous Fish Conservation	3,225
15.919	Urban Park and Recreation Recovery Program	6,639
Vocational Education		
84.077	Bilingual Vocational Training	3,401
84.083	Women's Educational Equity	5,152
84.099	Bilingual Vocational Instructor Training	1,542
84.129	Rehabilitation Training	3,209
Volunteer Services		
72.012	Volunteer Demonstration Program	2,636
72.013	Technical Assistance Program	92
Water Pollution Control		
66.418	Construction Grants for Wastewater Treatment Works	3,558,102

gains and losses associated with pure mismatch balance each other out, the nationwide per capita figure is always zero.

THE \$10 BILLION PACKAGE

This package returns \$9.8 billion in program responsibilities to the states and localities (Table 5.3). At the same time, state-local governments would gain \$9.6 billion from all of the federal alcohol, tobacco, and telephone excise taxes. Replacing 98% of program revenues on average, this package includes only a relatively slight amount of deficit reduction, \$196 million annually. As shown in the continuation of Table 5.3, the 59 grant-in-aid programs that are devolved exclude the major transportation grants.

This package displays a tendency to equalization. Arkansas, Maine, Mississippi, South Carolina, and Tennessee--poor states by any standard--each register a gain in the last column. But Connecticut also has a net benefit from the turnback of revenues and responsibilities.

THE \$17 BILLION PACKAGE

The \$17 billion package (Table 5.4), like its \$18 billion cousin, turns part of the federal highway excises over to the states, along with the excises on alcohol, telephones, and tobacco. The states receive responsibility for the non-Interstate highway programs.^{7/}

The package has far less of an equalizing tendency than its \$10 billion predecessor, judged by the per capita losses (net of deficit reduction) of Mississippi, Tennessee, and West Virginia. Further experimentation with the design of this package might, however, make it more equalizing.

THE \$18 BILLION PACKAGE

Although the revenues are the same as in the \$17 billion package, the program responsibilities are somewhat greater, totalling \$18 billion, for \$2.9 billion in deficit reduction annually (Table 5.5). Nationwide, 84% of current funding for the turned back programs is replaced. The share in deficit reduction is \$12.63 per person.

THE \$21 BILLION PACKAGE

The \$21 billion package reduces the deficit by \$2.5 billion annually, which is \$10.66 per capita nationwide (Table 5.6). Although this package is

Table 5.4

\$17 BILLION ILLUSTRATIVE TURNBACK PACKAGE

Relinquishment of Alcohol, Tobacco, and Telephone Excise Taxes and
3.9 Cents of the Gasoline Tax: Turnback of 84 Programs,
Including Non-Interstate Roads, Post Transition, 1984 Data

STATE	(A) PROGRAM TURNBACK (\$K)	(B) TAX TURNBACK (\$K)	(C) TOTAL S&L BALANCE (\$K)	(D) S&L LOSS DUE TO EVEN DEF. RED(\$K)	(E) S&L BALANCE AFTER DEF. RED. (\$K)	(F) % OF PROG. FUNDS REPLACED	(G) CHANGE AS % OWN SOURCE REVENUE	(H) P.C. BAL. AFTER DEF. REDUCTION(\$)
ALABAMA	330,439	231,588	-98,850	25,629	-73,221	70.09	-1.91	-18.49
ALASKA	149,057	33,198	-115,859	3,101	-112,758	22.27	-2.21	-235.40
ARIZONA	262,814	196,348	-66,466	19,181	-47,285	74.71	-1.36	-15.96
ARKANSAS	168,629	140,975	-27,654	15,071	-12,583	83.60	-1.06	-5.41
CALIFORNIA	1,581,643	1,698,024	116,381	162,968	279,349	107.36	0.25	11.10
COLORADO	217,014	224,085	7,072	20,321	27,392	103.26	0.13	8.73
CONNECTICUT	220,743	222,795	2,052	20,314	22,366	100.93	0.04	7.13
DELAWARE	49,882	47,052	-2,830	3,923	1,093	94.33	-0.23	1.80
FLORIDA	604,175	767,934	163,759	69,139	232,898	127.10	1.08	21.81
GEORGIA	370,082	398,292	28,210	37,107	65,317	107.62	0.33	11.40
HAWAII	69,507	56,598	-12,909	6,623	-6,287	81.43	-0.65	-6.15
IDAHO	88,423	58,774	-29,649	6,402	-23,247	66.47	-2.34	-23.51
ILLINOIS	863,032	705,553	-157,479	74,357	-83,122	81.75	-0.85	-7.24
INDIANA	352,472	337,527	-14,945	35,469	20,524	95.76	-0.20	3.75
IOWA	226,826	151,017	-75,809	18,806	-57,003	66.58	-1.59	-19.62
KANSAS	190,213	152,559	-37,654	15,699	-21,956	80.20	-0.92	-9.05
KENTUCKY	280,523	235,465	-45,058	24,043	-21,014	83.94	-1.01	-5.66
LOUISIANA	308,178	298,926	-9,251	28,730	19,479	97.00	-0.12	4.39
MAINE	85,012	75,947	-9,065	7,419	-1,646	89.34	-0.57	-1.44
MARYLAND	305,971	301,078	-4,893	27,863	22,970	98.40	-0.06	5.34
MASSACHUSETTS	398,408	402,661	4,253	37,334	41,587	101.07	0.04	7.21
MICHIGAN	659,944	547,614	-112,330	58,710	-53,620	82.98	-0.65	-5.91
MINNESOTA	295,285	333,261	37,976	26,827	64,803	112.86	0.43	15.64
MISSISSIPPI	252,329	196,714	-55,615	16,747	-38,867	77.96	-1.76	-15.02
MISSOURI	387,287	312,392	-74,896	32,174	-42,721	80.66	-1.19	-8.60
MONTANA	90,086	59,051	-31,035	5,289	-25,746	65.55	-1.95	-31.51
NEBRASKA	113,848	94,873	-18,975	10,338	-8,637	83.33	-0.68	-5.41
NEVADA	82,486	87,636	5,150	5,768	10,919	106.24	0.31	12.25
NEW HAMPSHIRE	67,460	96,256	28,796	6,208	35,005	142.69	2.27	36.50
NEW JERSEY	506,948	545,321	38,373	48,345	86,719	107.57	0.27	11.61
NEW MEXICO	131,041	94,870	-36,171	9,057	-27,115	72.40	-1.28	-19.38
NEW YORK	1,382,766	1,022,129	-360,637	114,370	-246,267	73.92	-0.85	-13.94
NORTH CAROLINA	399,071	381,784	-17,287	39,373	22,086	95.67	-0.23	3.63
NORTH DAKOTA	66,044	48,045	-17,999	4,402	-13,597	72.75	-1.42	-20.00
OHIO	727,946	624,621	-103,325	69,566	-33,759	85.81	-0.63	-3.14
OKLAHOMA	189,507	226,403	36,896	21,350	58,246	119.47	0.73	17.66
OREGON	174,454	177,319	2,865	17,233	20,098	101.64	0.06	7.55
PENNSYLVANIA	952,142	666,944	-285,199	77,004	-208,194	70.05	-1.57	-17.50
RHODE ISLAND	93,717	63,020	-30,697	6,182	-24,514	67.25	-1.76	-25.67
SOUTH CAROLINA	213,819	208,678	-5,141	21,130	15,989	97.60	-0.12	4.90
SOUTH DAKOTA	71,103	45,451	-25,652	4,532	-21,121	63.92	-2.60	-30.17
TENNESSEE	367,490	293,964	-73,527	30,329	-43,198	79.99	-1.29	-9.22
TEXAS	921,945	1,073,355	151,409	101,792	253,201	116.42	0.64	16.10
UTAH	137,704	77,155	-60,549	10,481	-50,068	56.03	-2.42	-30.93
VERMONT	50,328	37,720	-12,608	3,399	-9,209	74.95	-1.56	-17.54
VIRGINIA	368,340	355,727	-12,613	35,929	23,316	96.58	-0.15	4.20
WASHINGTON	326,730	272,225	-54,505	27,837	-26,668	83.32	-0.69	-6.20
WEST VIRGINIA	184,798	152,443	-32,354	12,721	-19,634	82.49	-1.21	-9.99
WISCONSIN	305,571	234,817	-70,755	30,756	-39,998	76.85	-0.78	-8.42
WYOMING	55,741	122,111	66,370	3,327	69,697	219.07	3.37	135.60

FY 84
 Obligations
 (in thousands
 of dollars)

<u>CFDA NUMBER</u>	<u>NAME OF GRANT PROGRAM</u>	
Arts and Humanities		
45.104	Promotion of the Humanities--Media Humanities Projects	9,680
45.116	Promotion of the Humanities--Summer Seminars for College Teachers	4,385
45.122	Promotion of the Humanities--Fellowships at Centers for Advanced Study	980
45.127	Promotion of the Humanities--Instruction in Elementary and Secondary Schools	7,858
45.128	Promotion of the Humanities--Humanities Studies Program	691
45.130	Promotion of the Humanities--Challenge Grants Program	18,259
45.132	Promotion of the Humanities--Research Materials Publications	487
45.133	Promotion of the Humanities--Humanities, Science and Technology	652
45.140	Promotion of the Humanities--Basic Research	3,571
45.145	Promotion of the Humanities--Research Materials Tools and Reference Works	4,120
45.146	Promotion of the Humanities--Research Materials Editions	2,865
45.147	Promotion of the Humanities--Research Materials Translations	1,216
45.150	Central Disciplines in Undergraduate Education	5,938
45.151	Summer Seminars for Secondary School Teachers	2,772
Community Development		
14.218	Community Development Block Grant -- Entitlement Grants	2,317,364
Criminal Justice		
16.541	Juvenile Justice and Delinquency Prevention -- Special Emphasis	21,583
16.542	National Institute for Juvenile Justice and Delinquency Prevention	7,308
16.560	Justice Research (Development Project Grants)	16,914
Economic Development		
11.303	Economic Development -- Technical Assistance	8,436
11.304	Economic Development -- Public Works Impact Projects	33,982
23.003	Appalachian Development Highway System	91,514
23.004	Appalachian Health Programs	4,099
23.008	Appalachian Local Access Roads	7,486
23.009	Appalachian Local Development District Assistance	4,000
Elementary and Secondary Education		
13.600	Administration for Children, Youth and Families -- Head Start	949,513
13.631	Administration on Development Disabilities -- Special Projects	2,403
84.002	Adult Education -- State Administered Program	96,971
84.008	Alcohol and Drug Abuse Education Program	2,801
84.013	Educationally Deprived Children in Institutions Serving Neglected or Delinquent Children	32,198
84.023	Handicapped -- Research and Demonstration	12,366
84.027	Handicapped -- State Grant Program	1,043,752
84.027	Handicapped -- Preschool Incentive Grants	26,134
Employment and Training		
17.235	Senior Community Service Employment -- National Program	244,480
17.246	Dislocated Worker Assistance	163,414
17.250	Job Training Partnership Grants to States (Disadvantaged Workers)	787,301
17.250	Summer Youth Employment Program (JTPA)	1,820,790
17.646	Work Incentive Program	98,411

Table 5.4 (cont.)

\$17 BILLION ILLUSTRATIVE TURNBACK PACKAGE

<u>CFDA NUMBER</u>	<u>NAME OF GRANT PROGRAM</u>	<u>FY 84 Obligations (in thousands of dollars)</u>
Higher Education		
84.069	State Student Incentive Grants	75,347
Highways and Public Transportation		
20.205	Urban Highway System and Metropolitan Planning	894,411
20.205	Secondary Highways	607,401
20.205	Other Highway Trust Fund Programs	2,918,655
20.205	Primary Highways	2,336,030
Libraries		
84.039	Library Research and Demonstration	240
84.091	Strengthening Research Library Resources	6,001
84.154	Public Library Services -- Library Construction (Title II)	20,064
Medical Assistance		
13.217	Family Planning Projects	131,976
13.226	Health Service Research and Development -- Grants	10,109
13.242	Mental Health Research Grants	115,259
13.260	Family Planning Services	3,592
13.263	Occupational Safety and Health -- Training Grants	8,655
13.273	Alcohol Research Programs	20,823
13.298	Nurse Training and Traineeships	11,643
13.361	Nursing Research Project Grants	8,159
13.379	Grants for Graduate Training in Family Medicine	38,477
13.381	Health Professions -- Financial Distressed Grants	5,600
13.766	Health Financing Research, Demonstration and Experiments	34,163
13.776	Professional Standards Review Organizations -- Medicare	51,276
13.864	Population Research	90,570
13.865	Research for Mothers and Children	134,367
13.886	Grants for Physician Assistant Training Program	4,415
13.891	Alcohol Research Center Grants	9,664
13.965	Black Lung Clinics	3,120
13.974	Family Planning -- Services Delivery Improvement Research Grants	1,952
13.977	Preventive Health Service--Venereal Disease Control Grants	41,903
13.978	Venereal Disease Research, Demonstration, Information and Education	1,969
13.991	Preventive Health Services Block Grants	85,121
13.992	Alcohol, Drug Abuse, and Mental Health Block Grant	453,402
Natural Resources Conservation and Development		
10.025	Plant and Animal Disease and Pest Control	204,351
10.156	Federal-State Marketing Improvement Program	961

11.405 Anadromous and Great Lakes Fisheries Conservation	3,405
11.421 Coastal Energy Impact Program (Formula Grants)	370
15.919 Urban Park and Recreation Recovery Program	6,639
Occupational Safety and Health	
17.500 Occupational Safety and Health -- Statistical Grants	47,913
Vocational Education	
84.048 Vocational Education -- Basic Grants to States	555,538
84.049 Vocational Education -- Consumer and Homemaking Education	31,011
84.050 Vocational Education -- Program Improvement and Supportive Service	98,473
84.052 Vocational Education -- Special Programs for the Disadvantaged	14,073
84.083 Women's Educational Equity	5,152
84.121 Vocational Education -- State Planning and Evaluation	3,519
84.126 Rehabilitation Services -- Basic Support	1,014,680
84.128 Rehabilitation Services -- Special Projects	28,141
84.129 Rehabilitation Training	3,209
Volunteer Services	
72.005 Service-Learning Programs	1,134
72.013 Technical Assistance Program	92

Table 5.5

\$18 BILLION ILLUSTRATIVE TURNBACK PACKAGE

Relinquishment of Alcohol, Tobacco, and Telephone Excise Taxes and
3.6 Cents of the Gasoline Tax: Turnback of 67 Programs,
Including Non-Interstate Roads, Post Transition, 1984 Data

STATE	(A) PROGRAM TURNBACK (\$K)	(B) TAX TURNBACK (\$K)	(C) TOTAL S&L BALANCE (\$K)	(D) S&L LOSS DUE TO EVEN DEF. RED (\$K)	(E) S&L BALANCE AFTER DEF. RED. (\$K)	(F) % OF PROG. FUNDS REPLACED	(G) CHANGE AS % OWN SOURCE REVENUE	(H) P.C. BAL. AFTER DEF. REDUCTION (\$)
ALABAMA	346,308	231,588	-114,720	49,993	-64,726	66.87	-2.22	-16.35
ALASKA	164,058	33,198	-130,860	6,049	-124,811	20.24	-2.50	-260.57
ARIZONA	271,947	196,348	-75,599	37,416	-38,183	72.20	-1.55	-12.89
ARKANSAS	196,699	140,975	-55,724	29,398	-26,326	71.67	-2.13	-11.31
CALIFORNIA	1,695,607	1,698,024	2,418	317,892	320,310	100.14	0.01	12.72
COLORADO	224,085	224,085	-0	39,639	39,639	100.00	-0.00	12.63
CONNECTICUT	232,451	222,795	-9,656	39,626	29,970	95.85	-0.17	9.55
DELAWARE	56,606	47,052	-9,553	7,652	-1,901	83.12	-0.79	-3.14
FLORIDA	647,247	767,934	120,687	134,865	255,552	118.65	0.80	23.93
GEORGIA	395,592	398,292	2,700	72,383	75,083	100.68	0.03	13.10
HAWAII	79,362	56,598	-22,764	12,918	-9,846	71.32	-1.15	-9.62
IDAHO	94,303	58,774	-35,529	12,489	-23,041	62.32	-2.81	-23.30
ILLINOIS	922,697	705,553	-217,144	145,043	-72,101	76.47	-1.17	-6.28
INDIANA	396,048	337,527	-58,521	69,188	10,667	85.22	-0.80	1.95
IOWA	239,229	151,017	-88,212	36,684	-51,528	63.13	-1.85	-17.74
KANSAS	202,984	152,559	-50,425	30,622	-19,803	75.16	-1.24	-8.17
KENTUCKY	306,574	235,465	-71,109	46,900	-24,209	76.81	-1.60	-6.52
LOUISIANA	327,738	298,926	-28,812	56,042	27,231	91.21	-0.39	6.14
MAINE	99,493	75,947	-23,546	14,471	-9,075	76.33	-1.48	-7.92
MARYLAND	301,181	301,078	-103	54,350	54,248	99.97	-0.00	12.60
MASSACHUSETTS	420,510	402,661	-17,849	72,825	54,976	95.76	-0.17	9.53
MICHIGAN	768,749	547,614	-221,135	114,522	-106,614	71.23	-1.28	-11.76
MINNESOTA	325,363	333,261	7,898	52,330	60,227	102.43	0.09	14.53
MISSISSIPPI	283,515	196,714	-86,800	32,668	-54,132	69.38	-2.75	-20.92
MISSOURI	433,177	312,392	-120,785	62,760	-58,025	72.12	-1.91	-11.68
MONTANA	100,281	59,051	-41,230	10,317	-30,913	58.89	-2.59	-37.84
NEBRASKA	119,377	94,873	-24,504	20,167	-4,338	79.47	-0.88	-2.72
NEVADA	87,636	87,636	-0	11,251	11,251	100.00	-0.00	12.63
NEW HAMPSHIRE	90,626	96,256	5,631	12,110	17,741	106.21	0.44	18.50
NEW JERSEY	545,321	545,321	-0	94,304	94,304	100.00	-0.00	12.63
NEW MEXICO	141,981	94,870	-47,091	17,666	-29,425	66.83	-1.66	-21.03
NEW YORK	1,513,560	1,022,129	-491,430	223,095	-268,335	67.53	-1.16	-15.19
NORTH CAROLINA	414,305	381,784	-32,521	76,802	44,281	92.15	-0.42	7.28
NORTH DAKOTA	76,672	48,045	-28,627	8,587	-20,041	62.66	-2.26	-29.47
OHIO	841,048	624,621	-216,427	135,698	-80,728	74.27	-1.32	-7.51
OKLAHOMA	205,405	226,403	20,997	41,646	62,644	110.22	0.42	18.99
OREGON	194,180	177,319	-16,862	33,615	16,754	91.32	-0.34	6.29
PENNSYLVANIA	993,073	666,944	-326,130	150,208	-175,922	67.16	-1.80	-14.79
RHODE ISLAND	102,274	63,020	-39,254	12,060	-27,195	61.62	-2.26	-28.48
SOUTH CAROLINA	239,867	208,678	-31,189	41,217	10,028	87.00	-0.74	3.07
SOUTH DAKOTA	84,444	45,451	-38,993	8,839	-30,154	53.82	-3.95	-43.08
TENNESSEE	384,374	293,964	-90,410	59,161	-31,249	76.48	-1.59	-6.67
TEXAS	1,003,584	1,073,355	69,771	198,560	268,330	106.95	0.29	17.06
UTAH	148,184	77,155	-71,029	20,444	-50,584	52.07	-2.84	-31.24
VERMONT	62,999	37,720	-25,279	6,630	-18,649	59.87	-3.13	-35.52
VIRGINIA	386,348	355,727	-30,620	70,084	39,464	92.07	-0.37	7.11
WASHINGTON	347,943	272,225	-75,718	54,300	-21,419	78.24	-0.95	-4.98
WEST VIRGINIA	206,537	152,443	-54,094	24,814	-29,280	73.81	-2.02	-14.90
WISCONSIN	349,921	234,817	-115,104	59,995	-55,109	67.11	-1.27	-11.60
WYOMING	63,638	122,111	58,473	6,491	64,964	191.88	2.97	126.39
UNITED STATES	18,135,081	15,188,296	-2,946,785	2,946,785	0	83.75	-0.75	0.00

FY 84
Obligations
(in thousands
of dollars)

<u>CFDA NUMBER</u>	<u>NAME OF GRANT PROGRAM</u>	
Arts and Humanities		
45.104	Promotion of the Humanities--Media Humanities Projects	9,680
45.122	Promotion of the Humanities--Fellowships at Centers for Advanced Study	980
45.127	Promotion of the Humanities--Instruction in Elementary and Secondary Schools	7,858
45.130	Promotion of the Humanities--Challenge Grants Program	18,259
45.132	Promotion of the Humanities--Research Materials Publications	487
45.134	Promotion of the Humanities--Research Conferences	508
45.145	Promotion of the Humanities--Research Materials Tools and Reference Works	4,120
45.146	Promotion of the Humanities--Research Materials Editions	2,865
45.147	Promotion of the Humanities--Research Materials Translations	1,216
45.150	Central Disciplines in Undergraduate Education	5,938
Community Development		
14.218	Community Development Block Grant -- Entitlement Grants	2,317,364
Criminal Justice		
16.542	National Institute for Juvenile Justice and Delinquency Prevention	7,308
16.601	Corrections Training and Staff Development	2,547
16.603	Corrections--Technical Assistance	6,020
Economic Development		
11.300	Economic Development -- Grants and Loans for Public Works and Development Assistance	130,440
Elementary and Secondary Education		
13.600	Administration for Children, Youth and Families -- Head Start	949,513
13.631	Administration on Development Disabilities -- Special Projects	2,403
84.003	Bilingual Education	110,587
84.008	Alcohol and Drug Abuse Education Program	2,801
84.023	Handicapped -- Research and Demonstration	12,366
84.027	Handicapped -- State Grant Program	1,043,752
84.027	Handicapped -- Preschool Incentive Grants	26,134
Employment and Training		
17.235	Senior Community Service Employment -- National Program	244,480
17.246	Dislocated Worker Assistance	163,414
17.250	Job Training Partnership Grants to States (Disadvantaged Workers)	787,301
17.250	Summer Youth Employment Program (JTPA)	1,820,790
17.646	Work Incentive Program	98,411
Higher Education		
84.047	Upward Bound	67,982
84.069	State Student Incentive Grants	75,347

Table 5.5 (cont.)

§18 BILLION ILLUSTRATIVE TURNBACK PACKAGE

FY 84
Obligations
(in thousands
of dollars)

CFDA NUMBER	NAME OF GRANT PROGRAM	
Highways and Public Transportation		
20.205	Urban Highway System and Metropolitan Planning	894,411
20.205	Secondary Highways	607,401
20.205	Other Highway Trust Fund Programs	1,751,193
20.205	Primary Highways	2,336,030
Libraries		
84.091	Strengthening Research Library Resources	6,001
Medical Assistance		
13.217	Family Planning Projects	131,976
13.242	Mental Health Research Grants	115,259
13.260	Family Planning Services	3,592
13.263	Occupational Safety and Health -- Training Grants	8,655
13.298	Nurse Training and Traineeships	11,643
13.379	Grants for Graduate Training in Family Medicine	38,477
13.776	Professional Standards Review Organizations -- Medicare	51,276
13.776	Professional Standards Review Organizations -- Medicaid	14,643
13.886	Grants for Physician Assistant Training Program	4,415
13.891	Alcohol Research Center Grants	9,664
13.978	Veneral Disease Research, Demonstration, Information and Education	1,969
13.991	Preventive Health Services Block Grants	85,121
13.992	Alcohol, Drug Abuse, and Mental Health Block Grant	453,402
Miscellaneous		
11.550	Public Telecommunications Facilities	12,530
Natural Resources Conservation and Development		
10.652	Forestry Research	7,639
11.421	Coastal Energy Impact Program (Formula Grants)	370
15.600	Anadromous Fish Conservation	3,225
Occupational Safety and Health		
17.500	Occupational Safety and Health -- Statistical Grants	47,913
Vocational Education		
84.048	Vocational Education -- Basic Grants to States	555,538
84.049	Vocational Education -- Consumer and Homemaking Education	31,011
84.050	Vocational Education -- Program Improvement and Supportive Service	98,473

84.052 Vocational Education -- Special Programs for the Disadvantaged	14,073
84.077 Bilingual Vocational Training	3,401
84.083 Women's Educational Equity	5,152
84.121 Vocational Education -- State Planning and Evaluation	3,519
84.126 Rehabilitation Services -- Basic Support	1,014,680
84.129 Rehabilitation Training	3,209

Volunteer Services

72.002 Retired Senior Volunteer Program	28,310
72.005 Service-Learning Programs	1,134
72.012 Volunteer Demonstration Program	2,636

Water Pollution Control

10.418 Water and Waste Disposal Systems Grants for Rural Communities	99,847
10.418 Water and Waste Loans	265,706
66.418 Construction Grants for Wastewater Treatment Works	3,558,102

Table 5.6

\$21 BILLION ILLUSTRATIVE TURNBACK PACKAGE

Relinquishment of Alcohol, Tobacco, and Telephone Excise Taxes and
6.1 Cents of the Gasoline Tax; Turnback of 63 Programs,
Including Selected Block Grants, Non-Interstate Roads, and UMTA,
Post Transition, 1984 Data

STATE	(A) PROGRAM TURNBACK (\$K)	(B) TAX TURNBACK (\$K)	(C) TOTAL S&L BALANCE (\$K)	(D) S&L LOSS DUE TO EVEN DEF. RED(\$K)	(E) S&L BALANCE AFTER DEF. RED. (\$K)	(F) % OF PROG. FUNDS REPLACED	(G) CHANGE AS % OWN SOURCE REVENUE	(H) P.C. BAL. AFTER DEF. REDUCTION(\$)
ALABAMA	321,415	296,353	-25,062	42,196	17,134	92.20	-0.48	4.33
ALASKA	206,451	40,493	-165,958	5,105	-160,853	19.61	-3.17	-335.81
ARIZONA	267,927	243,071	-24,856	31,580	6,724	90.72	-0.51	2.27
ARKANSAS	165,966	182,037	16,071	24,812	40,883	109.68	0.61	17.56
CALIFORNIA	2,048,126	2,050,693	2,567	268,308	270,875	100.13	0.01	10.76
COLORADO	274,066	274,652	586	33,456	34,042	100.21	0.01	10.84
CONNECTICUT	266,183	265,881	-302	33,445	33,143	99.89	-0.01	10.56
DELAWARE	75,771	56,931	-18,840	6,459	-12,382	75.14	-1.56	-20.43
FLORIDA	670,425	932,070	261,645	113,829	375,474	139.03	1.73	35.16
GEORGIA	489,376	500,316	10,940	61,092	72,032	102.24	0.13	12.57
HAWAII	101,643	66,601	-35,042	10,903	-24,138	65.52	-1.77	-23.60
IDAHO	94,298	73,859	-20,438	10,541	-9,897	78.33	-1.62	-10.01
ILLINOIS	1,131,749	852,171	-279,577	122,419	-157,158	75.30	-1.50	-13.68
INDIANA	416,315	425,626	9,311	58,396	67,707	102.24	0.13	12.36
IOWA	248,321	187,186	-61,135	30,962	-30,173	75.38	-1.28	-10.39
KANSAS	198,841	195,810	-3,031	25,846	22,815	98.48	-0.07	9.41
KENTUCKY	332,654	296,140	-36,514	39,584	3,070	89.02	-0.82	0.83
LOUISIANA	309,053	373,931	64,878	47,301	112,179	120.99	0.87	25.28
MAINE	102,625	93,410	-9,215	12,214	2,999	91.02	-0.58	2.62
MARYLAND	408,052	365,379	-42,673	45,873	3,199	89.54	-0.54	0.74
MASSACHUSETTS	593,656	476,948	-116,708	61,465	-55,242	80.34	-1.13	-9.58
MICHIGAN	878,941	667,813	-211,128	96,659	-114,469	75.98	-1.22	-12.62
MINNESOTA	327,868	396,420	68,552	44,167	112,720	120.91	0.77	27.20
MISSISSIPPI	233,959	238,439	4,480	27,573	32,053	101.91	0.14	12.39
MISSOURI	491,511	398,329	-93,183	52,971	-40,212	81.04	-1.47	-8.09
MONTANA	113,883	74,858	-39,025	8,708	-30,317	65.73	-2.45	-37.11
NEBRASKA	130,022	120,284	-9,738	17,021	7,283	92.51	-0.35	4.56
NEVADA	100,555	104,696	4,141	9,496	13,637	104.12	0.25	15.31
NEW HAMPSHIRE	113,053	109,275	-3,778	10,221	6,443	96.66	-0.30	6.72
NEW JERSEY	713,599	653,207	-60,392	79,595	19,203	91.54	-0.43	2.57
NEW MEXICO	135,565	121,863	-13,702	14,811	1,200	89.89	-0.48	0.86
NEW YORK	2,310,788	1,202,142	-1,108,647	188,297	-920,350	52.02	-2.62	-52.09
NORTH CAROLINA	408,467	479,772	71,306	64,823	136,128	117.46	0.93	22.38
NORTH DAKOTA	88,213	61,089	-27,124	7,248	-19,876	69.25	-2.14	-29.23
OHIO	927,694	782,699	-144,996	114,532	-30,463	84.37	-0.89	-2.83
OKLAHOMA	181,958	289,873	107,915	35,151	143,065	159.31	2.14	43.38
OREGON	248,440	220,835	-27,605	28,372	767	88.89	-0.56	0.29
PENNSYLVANIA	1,362,537	820,323	-542,215	126,779	-415,436	60.21	-2.99	-34.93
RHODE ISLAND	109,404	74,836	-34,567	10,179	-24,389	68.40	-1.99	-25.54
SOUTH CAROLINA	233,029	260,874	27,845	34,788	62,633	111.95	0.66	19.19
SOUTH DAKOTA	77,994	57,989	-20,005	7,461	-12,544	74.35	-2.03	-17.92
TENNESSEE	368,293	377,497	9,204	49,933	59,137	102.50	0.16	12.62
TEXAS	1,107,411	1,366,961	259,550	167,589	427,138	123.44	1.09	27.16
UTAH	154,018	101,094	-52,924	17,256	-35,668	65.64	-2.12	-22.03
VERMONT	74,290	45,427	-28,863	5,596	-23,267	61.15	-3.57	-44.32
VIRGINIA	411,097	442,686	31,589	59,153	90,742	107.68	0.38	16.35
WASHINGTON	368,116	335,139	-32,977	45,830	12,853	91.04	-0.42	2.99
WEST VIRGINIA	262,996	180,465	-82,531	20,943	-61,588	68.62	-3.08	-31.34
WISCONSIN	392,955	303,240	-89,716	50,637	-39,079	77.17	-0.99	-8.23
WYOMING	110,676	135,414	24,738	5,478	30,216	122.35	1.26	58.79
UNITED STATES	21,160,245	18,673,094	-2,487,151	2,487,151	0	88.25	-0.63	0.00

FY 84
Obligations
(in thousands
of dollars)

CFDA NUMBER

NAME OF GRANT PROGRAM

Arts and Humanities

45.127 Promotion of the Humanities--Instruction in Elementary and Secondary Schools	7,858
45.128 Promotion of the Humanities--Humanities Studies Program	691
45.130 Promotion of the Humanities--Challenge Grants Program	18,259
45.133 Promotion of the Humanities--Humanities, Science and Technology	652
45.150 Central Disciplines in Undergraduate Education	5,938
45.151 Summer Seminars for Secondary School Teachers	2,772

Community Development

14.218 Community Development Block Grant -- Entitlement Grants	2,317,364
14.221 Urban Development Action Grants	644,471
14.228 Community Development Block Grant -- States' Program	964,034

Criminal Justice

16.541 Juvenile Justice and Delinquency Prevention -- Special Emphasis	21,583
16.542 National Institute for Juvenile Justice and Delinquency Prevention	7,308
16.560 Justice Research (Development Project Grants)	16,914
16.601 Corrections Training and Staff Development	2,547
16.603 Corrections--Technical Assistance	6,020

Economic Development

11.304 Economic Development -- Public Works Impact Projects	33,982
23.003 Appalachian Development Highway System	91,514
23.008 Appalachian Local Access Roads	7,486
23.009 Appalachian Local Development District Assistance	4,000

Elementary and Secondary Education

13.631 Administration on Development Disabilities -- Special Projects	2,403
84.013 Educationally Deprived Children in Institutions Serving Neglected or Delinquent Children	32,198
84.023 Handicapped -- Research and Demonstration	12,366
84.024 Handicapped Early Childhood Assistance	18,762
84.026 Handicapped Media Services and Captioned Films	14,011
84.027 Handicapped -- Preschool Incentive Grants	26,134

Employment and Training

17.235 Senior Community Service Employment -- National Program	244,480
17.246 Dislocated Worker Assistance	163,414
17.250 Summer Youth Employment Program (JTPA)	1,820,790
17.646 Work Incentive Program	98,411

-59-

Table 5.6 (cont.)

\$21 BILLION ILLUSTRATIVE TURNBACK PACKAGE

<u>CFDA NUMBER</u>	<u>NAME OF GRANT PROGRAM</u>	<u>FY 84 Obligations (in thousands of dollars)</u>
Highways and Public Transportation		
20.205	Urban Highway System and Metropolitan Planning	894,411
20.205	Secondary Highways	607,401
20.205	Other Highway Trust Fund Programs	1,751,193
20.205	Primary Highways	2,336,030
20.500	UMTA Capital Improvement Grants -- Section 3	1,189,614
20.507	UMTA Capital and Operating Assistance Formula Grants -- Section 5	2,212,073
20.509	Public Transportation for Nonurbanized Areas -- Section 18	111,568
Medical Assistance		
13.224	Community Health Centers	338,301
13.242	Mental Health Research Grants	115,259
13.260	Family Planning Services	3,592
13.263	Occupational Safety and Health -- Training Grants	8,655
13.294	Health Planning and Health Systems Agencies	36,187
13.298	Nurse Training and Traineeships	11,643
13.361	Nursing Research Project Grants	8,159
13.379	Grants for Graduate Training in Family Medicine	38,477
13.766	Health Financing Research, Demonstration and Experiments	34,163
13.864	Population Research	90,570
13.865	Research for Mothers and Children	134,367
13.886	Grants for Physician Assistant Training Program	4,415
13.891	Alcohol Research Center Grants	9,664
13.965	Black Lung Clinics	3,120
13.978	Venereal Disease Research, Demonstration, Information and Education	1,969
Miscellaneous		
11.550	Public Telecommunications Facilities	12,530
Natural Resources Conservation and Development		
10.156	Federal-State Marketing Improvement Program	961
10.652	Forestry Research	7,639
15.919	Urban Park and Recreation Recovery Program	6,639
Occupational Safety and Health		
15.250	Underground Coal Mining	37,725
15.250	Small Mine Operators Assistance	741
15.252	Abandoned Mine Land Reclamation Program	246,182
17.500	Occupational Safety and Health -- Statistical Grants	47,913

Other Transportation		
20.106 Airport Improvement Program		867,387
Vocational Education		
84.077 Bilingual Vocational Training		3,401
84.129 Rehabilitation Training		3,209
Volunteer Services		
72.013 Technical Assistance Program		92
Water Pollution Control		
66.418 Construction Grants for Wastewater Treatment Works		3,558,102

Table 5.7

\$22 BILLION ILLUSTRATIVE TURNBACK PACKAGE

Relinquishment of Alcohol, Tobacco, and Telephone Excise Taxes and
5.8 Cents of the Gasoline Tax: Turnback of 73 Programs,
Including Non-Interstate Roads and UMTA, Post Transition, 1984 Data

STATE	(A) PROGRAM TURNBACK (\$K)	(B) TAX TURNBACK (\$K)	(C) TOTAL S&L BALANCE (\$K)	(D) S&L LOSS DUE TO EVEN DEF.RED(\$K)	(E) S&L BALANCE AFTER DEF. RED. (\$K)	(F) % OF PROG. FUNDS REPLACED	(G) CHANGE AS % OWN SOURCE REVENUE	(H) P.C. BAL. AFTER DEF. REDUCTION(\$)
ALABAMA	354,480	296,353	-58,127	58,952	825	83.60	-1.12	0.21
ALASKA	176,566	40,493	-136,073	7,133	-128,941	22.93	-2.60	-269.19
ARIZONA	268,912	243,071	-25,841	44,121	18,280	90.39	-0.53	6.17
ARKANSAS	204,627	182,037	-22,590	34,666	12,075	88.96	-0.86	5.19
CALIFORNIA	2,037,131	2,050,693	13,562	374,859	388,421	100.67	0.03	15.43
COLORADO	244,842	274,652	29,810	46,742	76,552	112.18	0.54	24.39
CONNECTICUT	268,132	265,881	-2,251	46,727	44,476	99.16	-0.04	14.17
DELAWARE	82,686	56,931	-25,755	9,024	-16,732	68.85	-2.14	-27.61
FLORIDA	687,640	932,070	244,430	159,033	403,463	135.55	1.62	37.78
GEORGIA	521,544	500,316	-21,228	85,354	64,126	95.93	-0.25	11.19
HAWAII	110,321	66,601	-43,720	15,233	-28,487	60.37	-2.21	-27.85
IDAHO	100,272	73,859	-26,412	14,727	-11,685	73.66	-2.09	-11.82
ILLINOIS	1,193,736	852,171	-341,564	171,035	-170,530	71.39	-1.83	-14.85
INDIANA	454,401	425,626	-28,775	81,586	52,811	93.67	-0.39	9.64
IOWA	283,810	187,186	-96,624	43,258	-53,367	65.95	-2.02	-18.37
KANSAS	224,564	195,810	-28,754	36,110	7,356	87.20	-0.71	3.03
KENTUCKY	374,794	296,140	-78,654	55,304	-23,350	79.01	-1.77	-6.29
LOUISIANA	345,425	373,931	28,506	66,085	94,591	108.25	0.38	21.31
MAINE	116,880	93,410	-23,470	17,065	-6,405	79.92	-1.48	-5.59
MARYLAND	422,019	365,379	-56,640	64,090	7,449	86.58	-0.71	1.73
MASSACHUSETTS	606,574	476,948	-129,626	85,875	-43,751	78.63	-1.26	-7.59
MICHIGAN	959,707	667,813	-291,894	135,044	-156,850	69.59	-1.69	-17.30
MINNESOTA	356,865	396,420	39,555	61,707	101,262	111.08	0.44	24.44
MISSISSIPPI	268,356	238,439	-29,917	38,522	8,605	88.85	-0.95	3.33
MISSOURI	510,970	398,329	-112,642	74,007	-38,635	77.96	-1.78	-7.77
MONTANA	118,014	74,858	-43,156	12,166	-30,990	63.43	-2.71	-37.93
NEBRASKA	140,705	120,284	-20,421	23,780	3,359	85.49	-0.74	2.10
NEVADA	94,852	104,696	9,844	13,268	23,112	110.38	0.59	25.94
NEW HAMPSHIRE	123,286	109,275	-14,011	14,280	269	88.64	-1.10	0.28
NEW JERSEY	761,879	653,207	-108,672	111,204	2,532	85.74	-0.77	0.34
NEW MEXICO	140,148	121,863	-18,285	20,832	2,547	86.95	-0.64	1.82
NEW YORK	2,273,610	1,202,142	-1,071,469	263,074	-808,394	52.87	-2.53	-45.76
NORTH CAROLINA	450,069	479,772	29,704	90,565	120,269	106.60	0.39	19.77
NORTH DAKOTA	93,244	61,089	-32,155	10,126	-22,029	65.52	-2.54	-32.40
OHIO	985,605	782,699	-202,907	160,016	-42,891	79.41	-1.24	-3.99
OKLAHOMA	212,546	289,873	77,327	49,110	126,437	136.38	1.54	38.34
OREGON	263,036	220,835	-42,201	39,639	-2,562	83.96	-0.85	-0.96
PENNSYLVANIA	1,379,648	820,323	-559,326	177,125	-382,201	59.46	-3.08	-32.13
RHODE ISLAND	112,798	74,836	-37,961	14,221	-23,741	66.35	-2.18	-24.86
SOUTH CAROLINA	263,625	260,874	-2,751	48,603	45,853	98.96	-0.07	14.05
SOUTH DAKOTA	91,207	57,989	-33,218	10,424	-22,794	63.58	-3.36	-32.56
TENNESSEE	409,806	377,497	-32,309	69,763	37,454	92.12	-0.57	7.99
TEXAS	1,163,843	1,366,961	203,118	234,142	437,259	117.45	0.85	27.81
UTAH	161,339	101,094	-60,245	-60,245	-36,137	62.66	-2.41	-22.32
VERMONT	77,312	45,427	-31,885	7,818	-24,067	58.76	-3.94	-45.84
VIRGINIA	448,927	442,686	-6,241	82,643	76,402	98.61	-0.08	13.77
WASHINGTON	380,383	335,139	-45,244	64,030	18,786	88.11	-0.57	4.37
WEST VIRGINIA	282,710	180,465	-102,245	29,260	-72,985	63.83	-3.81	-37.14
WISCONSIN	432,001	303,240	-128,762	70,746	-58,016	70.19	-1.42	-12.21
WYOMING	112,101	135,414	23,313	7,654	30,967	120.80	1.18	60.25

FY 84
Obligations
(in thousands
of dollars)

<u>CFDA NUMBER</u>	<u>NAME OF GRANT PROGRAM</u>	
Arts and Humanities		
45.132	Promotion of the Humanities--Research Materials Publications	487
45.133	Promotion of the Humanities--Humanities, Science and Technology	652
Community Development		
14.218	Community Development Block Grant -- Entitlement Grants	2,317,364
14.221	Urban Development Action Grants	644,471
14.228	Community Development Block Grant -- States' Program	964,034
Criminal Justice		
16.541	Juvenile Justice and Delinquency Prevention -- Special Emphasis	21,583
16.542	National Institute for Juvenile Justice and Delinquency Prevention	7,308
16.601	Corrections Training and Staff Development	2,547
16.602	Corrections--Research and Evaluation and Policy Formulation	162
16.603	Corrections--Technical Assistance	6,020
Economic Development		
11.300	Economic Development -- Grants and Loans for Public Works and Development Assistance	130,440
11.303	Economic Development -- Technical Assistance	8,436
11.304	Economic Development -- Public Works Impact Projects	33,982
11.305	Economic Development -- State and Local Economic Development	26,137
23.004	Appalachian Health Programs	4,099
23.008	Appalachian Local Access Roads	7,486
23.009	Appalachian Local Development District Assistance	4,000
Economic Opportunity		
59.032	Office of Women's Business Ownership	2,201
Elementary and Secondary Education		
13.631	Administration on Development Disabilities -- Special Projects	2,403
84.024	Handicapped Early Childhood Assistance	18,762
84.026	Handicapped Media Services and Captioned Films	14,011
84.027	Handicapped -- State Grant Program	1,043,752
84.027	Handicapped -- Preschool Incentive Grants	26,134
Employment and Training		
13.646	Work Incentive Program -- Child Care and Other Social Services	158,483
17.246	Dislocated Worker Assistance	163,414
17.250	Summer Youth Employment Program (JTPA)	1,820,790

Table 5.7 (cont.)

\$22 BILLION ILLUSTRATIVE TURNBACK PACKAGE

<u>CFDA NUMBER</u>	<u>NAME OF GRANT PROGRAM</u>	<u>FY 84 Obligations (in thousands of dollars)</u>
Highways and Public Transportation		
20.205	Urban Highway System and Metropolitan Planning	894,411
20.205	Secondary Highways	607,401
20.205	Other Highway Trust Fund Programs	2,918,655
20.205	Primary Highways	2,336,030
20.500	UMTA Capital Improvement Grants -- Section 3	1,189,614
20.507	UMTA Capital and Operating Assistance Formula Grants -- Section 5	2,212,073
20.509	Public Transportation for Nonurbanized Areas -- Section 18	111,568
Libraries		
84.039	Library Research and Demonstration	240
84.154	Public Library Services -- Library Construction (Title II)	20,064
Medical Assistance		
13.217	Family Planning Projects	131,976
13.263	Occupational Safety and Health -- Training Grants	8,655
13.361	Nursing Research Project Grants	8,159
13.381	Health Professions -- Financial Distressed Grants	5,600
13.766	Health Financing Research, Demonstration and Experiments	34,163
13.965	Black Lung Clinics	3,120
13.978	Venereal Disease Research, Demonstration, Information and Education	1,969
Miscellaneous		
11.550	Public Telecommunications Facilities	12,530
Natural Resources Conservation and Development		
10.156	Federal-State Marketing Improvement Program	961
10.500	Cooperative Extension Service -- 1862 Land Grant Universities	262,646
10.500	Tuskegee Institute	16,551
10.652	Forestry Research	7,639
10.664	Cooperative Forestry Assistance	17,452
10.901	Resource Conservation and Development	8,821
10.904	Watershed Protection and Flood Prevention--Small Watershed Operations	118,298
11.405	Anadromous and Great Lakes Fisheries Conservation	3,405
11.419	Coastal Zone Management Program Administration	14,414
11.420	Coastal Zone Management Estuarine Sanctuaries	1,596
15.600	Anadromous Fish Conservation	3,225
15.611	Wildlife Restoration (Pittman-Robertson Program)	87,724
15.919	Urban Park and Recreation Recovery Program	6,639

Occupational Safety and Health	
15.250 Underground Coal Mining	37,725
15.250 Small Mine Operators Assistance	741
15.252 Abandoned Mine Land Reclamation Program	246,182
17.500 Occupational Safety and Health -- Statistical Grants	47,913
17.500 Occupational Safety and Health -- State Operational Grants	3,796
Other Transportation	
20.308 Local Rail Service Assistance	22,547
Vocational Education	
84.048 Vocational Education -- Basic Grants to States	555,538
84.049 Vocational Education -- Consumer and Homemaking Education	31,011
84.050 Vocational Education -- Program Improvement and Supportive Service	98,473
84.052 Vocational Education -- Special Programs for the Disadvantaged	14,073
84.129 Rehabilitation Training	3,209
Volunteer Services	
72.010 Mini-Grant Program	209
72.011 State Office of Voluntary Citizen Participation	380
72.013 Technical Assistance Program	92
Water Pollution Control	
10.418 Water and Waste Disposal Systems Grants for Rural Communities	99,847
10.418 Water and Waste Loans	265,706
66.418 Construction Grants for Wastewater Treatment Works	3,558,102

larger than its predecessor, there is somewhat less deficit reduction, because it replaces 88% (rather than 84%) of current funding. Revenues come from the alcohol, tobacco, and telephone excises, as well as a share of the federal gas tax. The gas tax funding corresponds to non-Interstate road programs plus those of the Urban Mass Transit Administration (UMTA). In addition, this package is designed to test for including certain large block-grant and other programs.

The package has an equalizing tendency, with South Carolina gaining \$19 per capita, after deficit reduction. West Virginia suffers a loss (including its share of deficit reduction), however, that is equivalent to 3% of its own-source revenues.

THE \$22 BILLION PACKAGE

The \$22 billion package, the largest in terms of program devolution, also attains the most deficit reduction, \$3.5 billion annually (Table 5.7). Further work will take a large package like this and adjust its percentage deficit reduction to be comparable to that effected by the mandatory reductions under the Gramm-Rudman-Hollings Amendment. In this way across-the-board cutbacks can be compared to those that take the states' fiscal capacities into account.

FOOTNOTES

- 1/ Current program spending is defined as FY 84 actual obligations, collected by Fiscal Planning Services. Total revenues, also for FY 84, are those listed in the FY 86 Budget of the United States Government, except in the case of highway-related excises. Because there was a rate increase on diesel fuel during FY 84, FY 85 figures are used. State-by-state allocation of highway excises uses FY 83 figures from the Federal Highway Administration, the most recent available when research began. Allocation of alcoholic beverage excises uses FY 84 data from the Distilled Spirits Council. Allocation of telephone excise taxes uses 1983 data from the American Telephone and Telegraph Company and the Federal Communications Commission. Allocation of tobacco excises uses 1983 data from the American Tobacco Institute.
- 2/ The last two columns of Table 5.1 omit Alaska and Wyoming. For each package shown (as well as for the alternative packages considered), Alaska had the highest per capita loss, a figure that was often several times higher than the state with the second highest loss. Alaska receives an unusually high level of federal grants per capita. Wyoming, on the other hand, always received the largest per capita gain because of its relatively modest current receipt of federal funds, combined with high per capita proceeds from alcohol and tobacco excises. Both Alaska and Wyo-

ming, however, figured in package design and appear in the state-by-state detail for each package.

- 3/ FY 84 obligations in this table include Washington, DC. Elsewhere, however, this jurisdiction was excluded.
- 4/ Plus 1 indicates perfect positive association; 0 no association; -1 perfect negative association. The t statistic is 1.78 so the relationship between fiscal capacity and grant receipt is statistically significant at a two-tailed significance level of 0.10.
- 5/ A statistic of -2.23 shows that the relationship between relatively low fiscal capacity and a loss (rather than a gain) to be statistically significant at a two-tailed significance level of 0.05.
- 6/ In fact, effective mismatch was computed as the sum of four components: (1) losses--relative to current funding--in states with fiscal capacity below the national average; (2) losses in states with above-average fiscal capacity; (3) gains in states with above-average capacities; and (4) gains in states with below-average capacities. Both the size of the gain or loss and the level of fiscal capacity (relative to the national average) influenced each component. Per capita gains and losses were gross; i.e., not net of the even deficit reduction amount. Although parameter values varied from package to package, in each case they were designed especially to avoid the first category of mismatch, losses in states least likely to be able to absorb them.
- 7/ This and all other packages with transportation programs include 60% of the "Other highway trust fund programs" line in Table 5.2, which is predominantly the bridge replacement and rehabilitation program. The 60% figure derives from unpublished Congressional Budget Office data indicating that about 60% of federal bridge funding, nationwide, goes for bridges on non-Interstate roads.

Appendix A

PARTICIPANTS IN REGIONAL ROUNDTABLES

Three roundtable meetings on revenue and responsibility turnbacks were sponsored by ACIR during the fall of 1985, in Salem (OR), Philadelphia, and Chicago. Participants in these meetings were very helpful in developing the ideas contained in this report, for which the Commission is grateful. Their names and organizations are listed below.

Salem (OR) Roundtable, October 2, 1985

Mary Van Den Bosch, Mayor of Dallas, OR
Pat Engen, staff member, League of Oregon Cities
Melburn Hall, Mayor of Newberg, OR, President-elect of the League of Oregon Cities
Jerry Justice, Director of Public Affairs, Clackamas County, OR
Jerry Martin, staff member, Oregon School Boards Association
Jerry Orick, Executive Director, Organization of Oregon Counties
Judith Tegger, Special Assistant to the Attorney-General for Labor Relations, State of Oregon
Ken Tollenaar, Director, Bureau of Governmental Research and Service, University of Oregon
Dick Townsend, Acting Executive Director, League of Oregon Cities

Philadelphia Roundtable, October 16, 1985

Ed Baker, University of Pennsylvania Law School
Michael Bird, staff director, Government Operations and Regulation Committee, National Conference of State Legislatures
Bob Connor, New Jersey Civil Service Commission
Chris Danilo, New Jersey Civil Service Commission
Curt Kiser, State Senator, Clearwater, FL
Austin Lee, Executive Director, Bipartisan Management Committee, Pennsylvania House of Representatives
Jim Nelligan, Deputy Secretary of Revenue, State of Pennsylvania
Rose Marie Swanger, County Commissioner, Lebanon County, PA
Jeffrey Teitz, State Representative in Rhode Island, Chairman of House Judiciary Committee
Bob Thompson, Chairman of County Commissioners, Chester County, PA
William D. Valente, Villanova University Law School
Dave Wynne, Pennsylvania Economy League

Chicago Roundtable, November 4, 1985

John Amberger, Southeast Michigan Council of Governments
Roland W. Burris, Comptroller, State of Illinois
Henry N. Butler, University of Chicago Law School
Jeffrey Esser, Government Finance Officers Association
Jim Frech, Washington Office, Illinois General Assembly
Douglas W. Kmiec, University of Notre Dame Law School
Paul McCarron, Chairman, Minnesota Governor's Advisory Council on State-
Local Relations
Earl Mackey, Executive Director, National Conference of State
Legislatures
John Martin, Speaker, Maine House of Representatives
Frank Miller, Chairman of the Board, Kane County, IL
Lloyd Omdahl, Bureau of Governmental Affairs, University of North Dakota
Vincent Ostrom, Department of Political Science, Indiana University
Ivan L. Schraeder, Director of Labor Relations, State of Missouri
Thomas Solberg, Bureau of Local Government Services, Wisconsin
Department of Revenue
Mary Eleanor Wall, Elmhurst, IL

Appendix B

ALTERNATIVE MECHANISMS FOR FISCAL AND PROGRAMATIC DEVOLUTION

The chief alternatives to turnbacks are block grants; formula-based revenue sharing; origin-based sharing of taxes collected by Washington; and "swaps" of program responsibilities among the levels of government.

BLOCK GRANTS

As an alternative to categorical or project grants, with their intricate requirements, block grants offer financial assistance to state-local governments with far fewer strings attached. But there are some strings attached, notably the cross-cutting requirements that Congress has mandated on its grant recipients (ACIR, 1984). And, subject to the annual appropriation process, block-grant funding has not been as large, or as reliable, as had been the case in prior years. Certain major block grants, such as those for community development, already have been sharply cut; most are at risk of further cutback.

Block grants are a compromise, combining federal funding with less federal control than exists with most grant programs. As a compromise, they have weaknesses as well as strengths, as shown by recent funding cuts. The national political consensus that establishes a block grant for a particular purpose may not succeed in maintaining its funding or its original goals.

In contrast to categorical grants supporting, say, cultural facilities or fisheries, the ultimate beneficiaries of any block grant constitute a diffuse group. They may see little reason to lobby for a program that might not benefit them. Consequently, block grants may not fare well at budget-cutting time. By the same token, beneficiary groups continually press to "re-categorize" block grants (undermining the flexibility they were designed to give state and local officials) in hopes of directing program funding toward the particular activities of interest to them.

FORMULA-BASED REVENUE SHARING AND ORIGIN-BASED TAX SHARING

Tax dollars collected by Washington may be distributed by formula (as in General Revenue Sharing grants) or by point of origin. Formula-based distribution is ideal for targeting funds on jurisdictions with weak tax bases. If they had to rely wholly on their own revenue sources (that is, were deprived of all intergovernmental grants) some states or their communities would have to tax at rates substantially higher than average to provide even minimal public services. State and local public officials like revenue and tax-sharing grants particularly because the money can be used as general purpose fiscal assistance, ideally relieving pressures to raise taxes. As with block grants, however, the unearmarked character of spending from shared tax dollars deprives these grants of avid supporters among service recipients.

Origin-based tax sharing might gain favor among those jurisdictions that pay more in taxes to Washington than they get back. This approach contradicts the targeting of assistance to places with low fiscal capacity. Taxing citizens in order to send the collections to Washington and then back to their own communities may seem unnecessarily circuitous, but nationally uniform tax rates avoid interjurisdictional competition for low taxes. At the same time, the inability of state and local governments to set the rates of Congressionally shared taxes, means that they cannot choose between lower taxes and higher levels of public services.

SWAPPING PROGRAMS AMONG LEVELS OF GOVERNMENT

Governments at different levels may swap program responsibilities amongst themselves in order to "sort out" authority for given types of programs, greatly simplifying administration and enhancing accountability and responsiveness. Such a sorting out of government functions was central to the Reagan Administration's unsuccessful New Federalism proposal of 1982. That proposal foundered when the administration attempted to give the states funding responsibility for certain existing welfare programs, programs that, unaided, some states probably cannot fund at current levels.

ASSESSING ALTERNATIVE MECHANISMS FOR DEVOLUTION

Five criteria are central to any analysis of alternative devolution mechanisms. In the long run, a full appraisal depends on the uncertain intergovernmental political environment of the future but each criterion is important enough for discussion. The criteria are:

- 1) the extent of decentralization achieved (which is related to fiscal and political accountability);
- 2) the simplicity of any resulting plan (in turn encouraging ease and quality of implementation);
- 3) certainty of funding;
- 4) future revenue adequacy, given hard-pressed budgets at all levels of government; and
- 5) effects on fiscal discipline, given similar pressures to avoid tax increases.

Extent of Decentralization

Governmental decentralization--which is difficult to define and measure--nevertheless may usefully be subdivided into administrative, fiscal, and programmatic decentralization. Loosening up the federal regulations used to administer a categorical program achieves some degree of administrative decentralization because the state-local officials who run the intergovernmental program will have a freer hand to change its operations. But adding some administrative flexibility does not achieve programmatic decentralization because it does not make fundamental changes in the program's goals or even in how it attempts to achieve those goals. These are matters of legislative design or redesign, which is in Congress's bailiwick. And because administrative flexibility has nothing to do with program finance it does not influence fiscal decentralization, which is increased when the subnational government that administers the program also funds it.

The greatest extent of governmental decentralization--full political decentralization--occurs when state-local citizens and officials have simultaneous control of governmental activities and their financing. By contrast, only administrative decentralization may be possible in a strict unitary system of government. But in a federal system, where subnational governments and citizens have broad powers, true decentralization demands much more. Full political decentralization is achieved only under swaps and turnbacks, for only with these devolutionary mechanisms do administrative, fiscal, and programmatic powers shift to state-local governments. All other alternatives certainly provide more fiscal flexibility than does the existing grant-in-aid system, which is heavily dependent on categorical assistance, but the other alternatives do not offer full fiscal decentralization.

Decentralization provides both the circumstances and the responsibility for state and local governments to be accountable to their citizens. Malfunctioning programs cannot be blamed on Congress or on bureaucrats in far-

away Washington. Similarly, the pressures for responsiveness increase as does decentralization. Taxing and spending choices not consonant with the voting community will be punished at the ballot box. Again, swaps and turn-backs generally score higher on this measure than do alternatives.

Simplicity

Certainly, any of the devolutionary mechanisms would significantly simplify the current intergovernmental system, when they are in place. But along with simplicity, certainty of transition is also important, and there the mechanisms differ. The nation has experience with block grants and revenue sharing. Not so with swaps and turnbacks, which--depending on their design--may conceivably lead to rather different post-transition fiscal circumstances. State and local officials who are reluctant to embark on major changes, however, could be reassured by a well designed process of transition.

Future Revenue Adequacy

Long-term revenue adequacy is as difficult to forecast as it is important to hard-pressed budget officers. Frequently the current funding of intergovernmental revenues considered for devolution is used as a basis for comparison. But that assumes the continuation of the federal status quo, which is highly unlikely given the forces behind the passage of the Gramm-Rudman-Hollings Amendment, which mandates a balanced budget by 1991. An additional baseline for comparison is thus the automatic funding cuts that would occur were the amendment's provisions to be put into effect. Whatever the baseline used, any devolutionary mechanism can be designed to maintain the funding that would occur absent devolution, to cut funding (for deficit reduction) or even to increase funding.

Another aspect of long-term revenue adequacy is whether future funding will increase to keep up with citizen demands for increased government spending. From this perspective the ideal revenue source is one that is highly "elastic," that is, increases automatically (adjusting for inflation) without the need for rate hikes. Elastic taxes grow with increased population, economic activity, and price levels. The federal tax on personal incomes has long been considered the most elastic tax, but its yields have been stiffened by indexation. Block grants, revenue sharing and tax sharing that are linked to the federal income tax are guaranteed automatic growth only if they can

win out over other competitors for income tax revenues.

After swaps, the devolved programs will, of course, be financed from state-local taxation. Because of the greater reliance on sales and income taxation, the state-local revenue base is far more elastic than it once was, but still less so than federal levies. In the last five years (when federal collections have decreased) many state taxpayers have accepted tax hikes. Elasticity is not the only component in revenue adequacy; pressure for tax cuts and willingness to accept tax increases are important also.

The excise tax sources considered for turnback in Chapter 4 are less elastic than most taxes. Their elasticity may be increased, however, by levying them as a percentage of sales rather than a fixed number of cents per pack of cigarettes or gallon of gasoline. Parenthetically, those two excises frequently have been increased by states.

Fiscal Discipline

The goal of fiscal discipline is itself multifaceted and generally militates against that of revenue adequacy; only one aspect of the former will be considered at this time. Fiscal discipline is weakened by policies that unjustifiably and artificially stimulate state-local taxing and spending. Matching grants (though often desirable from other viewpoints) do so by reducing the state-local "tax prices" of public services. In a categorical grant, for example, when Washington uses three of its dollars to match a single state dollar, the states must pay only \$.25 of each additional dollar devoted to that service. This may well increase the state's taxing and spending for the service.

None of the devolutionary mechanisms considered have a matching component, removing an incentive to additional taxing and spending. Although each mechanism funds a certain level of spending, state-local governments must pay a dollar for each additional dollar spent.

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The Commission is composed of 26 members—nine representing the Federal government, 14 representing state and local government, and three representing the public. The President appoints 20—three private citizens and three Federal executive officials directly and four governors, three state legislators, four mayors, and three elected county officials from states nominated by the National Governors' Conference, the Council of State Governments, the National League of Cities/U.S. Conference of Mayors, and the National Association of Counties. The three Senators are chosen by the President of the Senate and the three Congressmen by the Speaker of the House.

Each Commission member serves a two year term and may be reappointed.

As a continuing body, the Commission approaches its work by addressing itself to specific issues and problems, the resolution of which would produce improved cooperation among the levels of government and more effective functioning of the federal system. In addition to dealing with the all important functional and structural relationships among the various governments, the Commission has also extensively studied critical stresses currently being placed on traditional governmental taxing practices. One of the long range efforts of the Commission has been to seek ways to improve Federal, state, and local governmental taxing practices and policies to achieve equitable allocation of resources, increased efficiency in collection and administration, and reduced compliance burdens upon the taxpayers.

Studies undertaken by the Commission have dealt with subjects as diverse as transportation and as specific as state taxation of out-of-state depositories; as wide ranging as substate regionalism to the more specialized issue of local revenue diversification. In selecting items for the work program, the Commission considers the relative importance and urgency of the problem, its manageability from the point of view of finances and staff available to ACIR and the extent to which the Commission can make a fruitful contribution toward the solution of the problem.

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