A COMMISSION REPORT

FISCAL BALANCE IN THE AMERICAN FEDERAL SYSTEM

VOL. 1

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS
WASHINGTON, D.C. 20575
OCTOBER 1967
A-31

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PREFACE

The Advisory Commission on Intergovernmental Relations was established by Public Law 380, passed by the first session of the 86th Congress and approved by the President September 24, 1959. Section 2 of the Act sets forth the following declaration of purpose and specific responsibilities for the Commission:

> Sec. 2. Because the complexity of modern life intensifies the need in a federal form of government for the fullest cooperation and coordination of activities between the levels of government, and because population growth and scientific developments portend an increasingly complex society in future years, it is essential that an appropriate agency be established to give continuing attention to intergovernmental problems.
>
> It is intended that the Commission, in the performance of its duties, will--
>
> (1) bring together representatives of the Federal, State and local governments for the consideration of common problems;
>
> (2) provide a forum for discussing the administration and coordination of Federal grant and other programs requiring intergovernmental cooperation;
>
> (3) give critical attention to the conditions and controls involved in the administration of Federal grant programs;
>
> (4) make available technical assistance to the executive and legislative branches of the Federal Government in the review of proposed legislation to determine its overall effect on the Federal system;
>
> (5) encourage discussion and study at an early stage of emerging public problems that are likely to require intergovernmental cooperation;
>
> (6) recommend, within the framework of the Constitution, the most desirable allocation of governmental functions, responsibilities and revenues among the several levels of government; and
>
> (7) recommend methods of coordinating and simplifying tax laws and administrative practices to achieve a more orderly and less competitive fiscal relationship between the levels of government and to reduce the burden of compliance for taxpayers.

Pursuant to its statutory responsibilities, the Commission from time to time singles out for study and recommendation particular problems, the amelioration of which, in the Commission's view, would enhance cooperation among the different levels of government and thereby improve the effectiveness of the Federal system of government as established by the Constitution. One subject so identified by the Commission concerns the broad question of fiscal balance in our Federal system.

This report was adopted by the Commission at successive meetings held on July 21 and October 6-7, 1967.

Farris Bryant
Chairman

ACKNOWLEDGMENTS

This report represents the combined efforts of the entire Commission staff. The major responsibility for the staff work was shared by John Shannon and David B. Walker, Assistant Directors, and their colleagues Jacob M. Jaffe, Albert J. Richter, Will S. Myers, Jr., James H. Pickford, Page L. Ingraham, Frank X. Tippett, L. Richard Gabler, Eugene R. Elkins, Hope Marindin and Thomas Hanna, all of whom relied on Sandra Osbourn for library research and reference service.

Research on fiscal disparities in the 37 largest metropolitan areas and in-depth fiscal studies in 12 of those areas was made possible through an Urban Planning Research and Demonstration contract awarded by the Department of Housing and Urban Development under the provisions of Section 701(b) of the Housing Act of 1954 as amended. Professor Seymour Sacks of Syracuse University conducted the fiscal disparities research and submitted the initial draft of detailed findings.

The work on the 12 metropolitan fiscal case studies included in Volume 2 of this report was carried out under contract with Seymour Sacks, Roy Bohl, James Banovetz, Morris Beck, Wendell Bedichek, George F. Break, Alexander Ganz, John Riew, Frederick Stocker, John A. Vieg and J. D. Wingfield. Professor Sacks of Syracuse University and Mr. Jaffe of the Commission staff coordinated the efforts of the "on-the-scene" investigators.

Throughout this project, the staff benefited from the advice and counsel of L. L. Ecker-Racz, Assistant Director at the time the study began.

Special thanks are due the staff of the Governments Division, Bureau of the Census, for the data and assistance they provided, especially in connection with the analysis of metropolitan fiscal disparities.

The Commission and its staff benefited from an informal review of a draft of the report by a number of individuals, including John Bebout, Andrew Bullis, George Bell, Robert Berry, Jo Bingham, Gerard Brannon, Charles Byrley, William Cassella, Arnold Diamond, Daniel Elazar, Frank Fernbach, H. R. Gallagher, Woodrow Ginsburg, Del Goldberg, Nathaniel Goldfinger, Thomas Graves, Robert Harris, Peter Harkins, Patrick Healy, Manuel Helzner, Bernard Hillenbrand, Victor Jones, Frank Keenan, Lawrence Kegan, I. M. Labovitz, Carl Madden, Allen Manvel, James Maxwell, Mary McAniff, Richard Murphy, Selma Mushkin, Richard Nathan, Tom O'Brien, Joseph Pechman, Robert Rafuse, William Robinson, George Roniger, Seymour Sacks, Harry Schieber, Charles Schwan, Charles Smith, Robert Smith, Tom Smith, Robert Steadman, E. Winslow Turner and Anita Wells.

The involvement of the entire professional staff in this report makes it fitting to separately acknowledge the vital role of those who backstopped the research effort with clerical and technical skills, specifically: Elizabeth D. Green, Frances D. Buckler, Mary R. Hamrick, Karen Haagensen, Jackie Wallace,

Ronald Ross, Sue A. Reynolds, Inez B. Rountree, Lavinia Clarke, Jean L. Dorsey, Linda Topham and Deloris Boyd.

The Commission records its appreciation for the contribution of these individuals to this report. Responsibility for content and accuracy rests, of course, with the Commission and its staff.

The Commission gratefully acknowledges the financial assistance from the Department of the Treasury for the printing of Volume 1, and from the Department of Housing and Urban Development for its financial support of the metropolitan fiscal disparities research and the printing of Volume 2.

William G. Colman
Executive Director

WORKING PROCEDURES OF THE COMMISSION

This statement of the procedures followed by the Advisory Commission on Intergovernmental Relations is intended to assist the reader's consideration of this report. The Commission, made up of busy public officials and private persons occupying positions of major responsibility, must deal with diverse and specialized subjects. It is important, therefore, in evaluating reports and recommendations of the Commission to know the processes of consultation, criticism and review to which particular reports are subjected.

The duty of the Advisory Commission, under Public Law 86-380, is to give continuing attention to intergovernmental problems in Federal-State, Federal-local, and State-local, as well as interstate and interlocal relations. The Commission's approach to this broad area of responsibility is to select specific, discrete intergovernmental problems for analysis and policy recommendation. In some cases, matters proposed for study are introduced by individual members of the Commission; in other cases, public officials, professional organizations or scholars propose projects. In still others, possible subjects are suggested by the staff. Frequently, two or more subjects compete for a single "slot" on the Commission's work program. In such instances selection is by majority vote.

Once a subject is placed on the work program, a staff member is assigned to it. In limited instances the study is contracted for with an expert in the field or a research organization. The staff's job is to assemble and analyze the facts, identify the differing points of view involved and develop a range of possible, frequently alternative, policy considerations and recommendations which the Commission might wish to consider. This is all developed and set forth in a preliminary draft report containing (a) historical and factual background, (b) analysis of the issues, and (c) alternative solutions.

The preliminary draft is reviewed within the staff of the Commission and after revision is placed before an informal group of "critics" for searching review and criticism. In assembling these reviewers, care is taken to provide (a) expert knowledge, and (b) a diversity of substantive and philosophical viewpoints. Additionally, representatives of the National League of Cities, Council of State Governments, National Association of Counties, U.S. Conference of Mayors, U.S. Bureau of the Budget and any Federal agencies directly concerned with the subject matter participate, along with the other "critics" in reviewing the draft. It should be emphasized that participation by an individual or organization in the review process does not imply in any way endorsement of the draft report. Criticisms and suggestions are presented; some may be adopted, others rejected by the Commission staff.

The draft report is then revised by the staff in light of criticisms and comments received and transmitted to the members of the Commission at least two weeks in advance of the meeting at which it is to be considered.

In its formal consideration of the draft report, the Commission registers any general opinion it may have as to further staff work or other considerations which it believes warranted. However, most of the time available is devoted to a specific and detailed examination of conclusions and possible recommendations. Differences of opinion are aired, suggested revisions discussed, amendments considered and voted upon, and finally a recommendation adopted (or modified or diluted as the case may be) with individual dissents registered. The report is then revised in the light of Commission decisions and sent to the printer, with footnotes of dissent by individual members, if any, recorded as appropriate in the copy.

SCOPE OF THE REPORT

The Commission's study of Fiscal Balance in the American Federal System is contained in two volumes. In Volume 1, the Commission analyzes the basic structure of fiscal federalism, isolates the major shortcomings of the present system, identifies the fiscal sources of tension, and prescribes policies designed to strengthen the fiscal foundation of our intergovernmental system. In Volume 2, the Commission concentrates on the critically urgent problems caused by the growth of fiscal disparities among jurisdictions within metropolitan areas. Specifically, the Commission probes in depth the "fiscal facts of life" in the 37 largest metropolitan areas, draws on special case studies in 12 of these areas, and sets forth a series of recommendations designed to bring metropolitan needs and resources into greater alignment. The Commission was aided in its urban fiscal research by a grant from the Department of Housing and Urban Development.

RECOMMENDATIONS

Volume 1. Basic Structure of Fiscal Federalism

A. Broadened Fiscal Mix and Greater Fiscal Flexibility in Federal Aid to States and Localities

1. The Commission concludes that to meet the needs of twentieth century America with its critical urban problems, the existing intergovernmental fiscal system needs to be significantly improved. Specifically, the Commission recommends that the Federal Government, recognizing the need for flexibility in the type of support it provides, authorize a combination of Federal categorical grants-in-aid, general functional block grants, and per capita general support payments. Each of these mechanisms is designed to, and should be used to, meet specific needs: the categorical grant-in-aid to stimulate and support programs in specific areas of national interest and promote experimentation and demonstration in such areas; block grants, through the consolidation of existing specific grants-in-aid, to give States and localities greater flexibility in meeting needs in broad functional areas; and general support payments on a per capita basis, adjusted for variations in tax effort, to allow States and localities to devise their own programs and set their own priorities to help solve their unique and most crucial problems. Such general support payments could be made to either State or major local units

of government if provision is made for insuring that the purposes for which they are spent are not in conflict with any existing comprehensive State plan.*,**,***

2. The Commission recommends enactment of legislation by the Congress authorizing the President to submit grant consolidation plans, such consolidations to be transmitted to the Congress and to become effective unless rejected by either House within a period of 90 days.

3. The Commission recommends that Congress and the President strive toward a drastic decrease in the numerous separate authorizations for Federal grants--adopting as a general goal a reduction by at least half the number; specifically the Commission recommends as a modest beginning, the following major consolidations: (a) elimination of all categorization and earmarking from the vocational education program to provide in effect a single vocational education grant to be usable in specified fields but within the State allotment in such amounts among the fields as determined by the State; and (b) consolidation of the existing grants for water and sewer line construction into a single authorization to be administered by a single agency.

4. The Commission recommends enactment by the Congress of legislation proposed by the Administration to authorize single applications by State and local governments for interrelated projects and for joint funding of projects containing components deriving funds from several Federal sources, in order to encourage States and localities to interrelate various functional programs and to facilitate effective program administration at the national level. It is further recommended that States enact similar legislation where necessary.

5. The Commission recommends to the President that the Bureau of the Budget initiate an aggressive program to simplify and systemize the varied matching and apportionment formulas for existing Federal grant-in-aid programs.

B. <u>Strengthening State and Local Fiscal and Tax Systems</u>

6. The Commission concludes that the development of a more equitable, diversified, and productive State-local tax system is prerequisite to avoiding excessive local property tax burdens, proliferation of local nonproperty taxes, interlocal fiscal disparities and dependence on Federal aid. The Commission therefore recommends that the States (1) require and enforce effective local use of the property tax including, in some States, a more intensive use of this revenue source, (2)

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* Chairman Bryant dissented.

** Secretary Fowler entered a reservation and dissented in part.

*** Mayor Naftalin did not concur in the portion of the last sentence which deals with comprehensive State plans.

equip themselves with a productive and broad-based tax system capable of underwriting a major portion of the State-local expanding expenditure requirements, and (3) shield basic family income from any undue burdens imposed by sales and property taxes.

7. In order to strengthen the productivity of the sales tax, the Commission recommends action by the States to protect low income families from undue tax burdens on food and drugs under general sales taxes.

8. In order to strengthen the productivity of the local property tax, the Commission recommends action by the States to help the localities finance the cost of relieving any undue local property tax burden on low income families.

9. The Commission recommends that the States which have not done so, give serious consideration to providing more flexibility in their constitutions for long-range State financing programs.

C. Improved Federal Coordination and Management

10. The Commission recommends an elevation of attention on the part of the President and the Congress to the more general need of insuring the conduct and coordination of Federal grant and other programs in such a way as to improve the overall capability of State and local government and consequently strengthen the American federal system. Its importance warrants assignment by the President of major responsibility in this area to an appointee having status equivalent to that of a member of the Cabinet. This official should be responsible for general liaison with State and local governments and be accessible to them regarding problems encountered in the administration of Federal grants-in-aid. Also this official should report at appropriate intervals to the President, Congress and the public on the extent to which grant-in-aid programs are achieving their objectives and the extent to which State and local government is being strengthened in the process.

    The Commission further recommends the strengthening of the Bureau of the Budget's capability to sustain a vigorous program of interagency coordination of Federal grants-in-aid.

11. The Commission recommends the enunciation by the President of a policy of decentralization of Federal decision-making in the administration of grant programs; among other actions, the Commission recommends decentralization to directors of Federal regional offices of most of the decisions connected with the review and approval of State or local plans developed as a condition of Federal formula-type grants and of amendments to such plans proposed by State and local governments. The Commission further recommends Presidential action to effect a major reduction in the wide variations in the regional boundaries and headquarters sites of Federal field offices.

12. The Commission believes the establishment of a field staff of the Bureau of the Budget should serve many of the purposes of field offices, appropriations for which have been sought repeatedly by the Budget Director and the President within the last few years. In addition to increased coordinative activity in the field by the Bureau, the Commission recommends the strengthening of existing Federal Executive Boards by (a) transfer of supervision of the Boards to the Bureau, and (b) provision of at least one full-time staff member for each of the major Boards.

13. The Commission recommends that the President establish within an appropriate agency of the Executive Branch a computerized system for storage and retrieval of information essential for the administration of grants-in-aid, formulation of Federal-State-local fiscal policies and other policy and management purposes. The Commission further recommends that the Congress establish a similar system to provide information for review of grant-in-aid programs and for other legislative purposes. The Commission recommends that tapes and other data resulting from these systems be made available to State and local governments.

D. Simplification of Administrative Controls Under Federal Grants

14. The Commission recommends the enactment of general legislation by the Congress applicable to Federal grants-in-aid to State governments, whereby the Comptroller General of the United States would study and review the accounting and auditing systems of State governments which receive Federal grants-in-aid and ascertain the general adequacy and integrity of such State auditing and accounting systems; the Commission further recommends that for those States certified by the Comptroller General as meeting standards of adequacy and integrity, the results of State audits of expenditures of Federal grant funds be accepted by the administering Federal agency in lieu of fiscal audits by agency personnel, such acceptance to cease when and if the Comptroller General finds that the accounting and auditing system of the particular State no longer meets the prescribed standards. Finally, the Commission recommends that this authorization be extended at the discretion of the Comptroller General to units of local government receiving sizeable grants directly from Federal agencies.

15. The Commission recommends the enactment of legislation pending in the Congress to authorize the modification, at the request of a State and with approval by the head of the Federal department or agency, of the single State agency requirement associated with Federal grants-in-aid to State governments.

16. The Commission recommends the enactment of general legislation by the Congress, consolidating insofar as possible into a single Congressional enactment a set of planning requirements--both functional and comprehensive--to be applicable

to Federal grant-in-aid programs, both present and future, especially those concerned with or affecting urban development.

17. The Commission recommends that Congress enact legislation which would effect an overall rather than piecemeal revision of Section 701 of the Housing Act of 1954. Specifically, such legislation should employ Federal planning assistance to strengthen comprehensive planning as an arm of elected chief executives, at State, areawide and local levels; require a closer interlinking of planning, programming and coordination at those levels; and relate all federally aided functional planning to comprehensive planning at the State, areawide and local levels. The Commission further recommends that provision be made for State planning agencies, especially in those States with ongoing comprehensive State planning programs receiving Federal financial assistance under Section 701, to review and comment upon all local and areawide applications for urban planning assistance. The Commission takes no position as to the most desirable location of responsibility in the Federal Executive Branch for administering assistance to State and local comprehensive planning activities.

E. <u>Strengthening the State Executive and Legislative Branches as Effective Partners in the Federal System</u>

18. In order to achieve adequate intergovernmental fiscal coordination and to strengthen State government generally, the Commission recommends the amendment of many State constitutions to reduce greatly the number of separately elected State officials.

19. The Commission recommends that where needed, State constitutions be amended to permit the Governor to succeed himself.

20. The Commission recommends State constitutional and statutory action, where needed, to provide a gubernatorial budget covering all estimated income and expenditures of the State government to be submitted to each session of the State legislature.

21. The Commission recommends that each State develop a strong planning capability in the executive branch of its State government. The planning function should include: (a) formulation for the consideration of the Governor and the legislature of comprehensive policies and long range plans for the effective and orderly development of the human and material resources of the State; (b) provision of a framework for functional, departmental and regional plans; and (c) assistance to the Governor in his budget-making and program evaluation roles.

22. The Commission recommends that State constitutions be amended, where needed, to authorize the Governor to reorganize the administrative structure of State government and to shift

functions among State departments and agencies with the exercise of such reorganization powers subject to a veto by either house of the State legislature within a specified time period.

23. In order to improve the fiscal and program coordination of Federal categorical grants going to State government the Commission recommends that the States themselves provide adequate funds and staff for this purpose; the Commission opposes the use of Federal grant funds to provide staff or facilities for the immediate office of the Governor.

24. In order to help strengthen the position of State government generally and to afford adequate time for legislative consideration of State financial participation in Federal grant-in-aid programs, the Commission recommends State constitutional or other appropriate action, where necessary, to remove such restrictions on the length and frequency of sessions of the State legislature as may interfere with the most effective performance of its functions. Specifically the Commission recommends that the holding of annual sessions be given serious consideration in those States now holding biennial sessions. Further, in order that legislative compensation not deter the holding of annual sessions, the Commission recommends that legislators be paid on an annual basis in an amount commensurate with demands upon their time.*

25. In order that the legislature may keep abreast on a policy basis with Federal and State actions on cooperative programs, the Commission recommends that the States provide for year-round professional staffing of major committees of their State legislatures.

26. In order that the State legislative voice may be heard in the formulation, financing and operation of Federal grant programs and other intergovernmental matters, the Commission recommends that State legislatures consider seriously the desirability of charging--by resolution or other appropriate means--elective presiding officers and/or chairmen and ranking members of those committees having jurisdiction in fields involving Federal-State relations with (1) following the development of proposed legislation in the Federal Executive Branch and the Congress, and (2) after appropriate consultation with State executive officials, presenting the views of legislators to congressional committees considering new or modified grant programs coming within the concern of State legislatures. The Commission further recommends that State legislatures provide adequate funding for this activity.

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* Governor Dempsey dissented.

Volume 2. Metropolitan Fiscal Disparities

A. Greater Involvement of Private Enterprise in Urban Programs

1. The Commission recommends that each of the industrial or highly urbanized States remove existing constitutional and statutory barriers to involvement of private enterprise in efforts directed toward enlarging and revitalizing the economic and fiscal base of their major cities, and that after such action take positive steps to enhance private-public cooperation in these endeavors.

B. Strengthening Local Government Organization and Neighborhood Initiative

2. The Commission recommends the enactment of State legislation empowering a State agency--or a local agency formation commission--to (a) order the dissolution or consolidation of local units of government within metropolitan areas, and (b) enjoin the use of an interlocal contract within the metropolitan area when it is found to promote fractionalization of the tax base without overriding compensating advantages; these actions should be taken pursuant to specific statutory standards, with adequate public notice and hearings, and subject to judicial review.*

   The Commission further recommends the amendment of formulas providing State aid to local governments so as to eliminate or reduce aid allotments to small units of local government not meeting statutory standards of economic, geographic and political viability.*

3. The Commission recommends the enactment of State legislation authorizing large cities and county governments in metropolitan areas to establish neighborhood subunits of government with limited powers of taxation and of local self-government with respect to specified and restricted functions including the administration of specified portions of Federal, State and local programs. Such subunits would be dissoluble by the city or county governing body at any time.*

4. In order to improve the fiscal and program coordination of Federal and State categorical grants going to county and city governments the Commission recommends that the counties and cities themselves provide adequate funds and staff for this purpose; the Commission opposes the use of Federal and State grant funds to provide staff or facilities for the immediate office of the Mayor or county executive.

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* Governors Rockefeller and Rhodes dissented.

5. The Commission recommends that Congress amend Title IX of P. L. 89-754 to remove the population ceiling on local governments served by State information centers.

6. The Commission recommends the enactment of State enabling legislation where necessary and action by city governments to establish and finance neighborhood information centers and referral services to orient residents and migrants to the demands and responsibilities of an urban society and to assist them in meeting immediate social and economic needs. The Commission also recommends the inclusion in State enabling legislation of fiscal support for such centers. The Commission further recommends that Federal agencies providing assistance in city rebuilding and in combating poverty encourage the use of grant funds for establishing and manning these centers. Congress should provide incentives to States and communities to encourage them to do this, not through separate new programs, but by amending pertinent existing grants to permit Federal grant funds to be used in this manner.

C. Reducing Disparities in Educational Financing

7. The Commission recommends that States add to their school aid formulas appropriate factors reflecting higher costs per pupil among disadvantaged as compared to advantaged children, especially in areas of high population density. The Commission further recommends the amendment of the Elementary and Secondary Education Act of 1965 to authorize the utilization of otherwise available Federal funds for incentive grants to States that make such revisions in their school aid formulas.

8. The Commission recommends the enactment of State legislation, preceded by constitutional amendment where necessary, establishing or authorizing an appropriate State agency to mandate the establishment of county or regional school property taxing districts; this is suggested for those States where school financing has not already been placed on a countywide or regional basis.*

9. The Commission recommends the enactment of State legislation, preceded by constitutional amendment where necessary, authorizing the establishment by the State educational agency of educational facilities designed to make available on a multi-district basis a specialized educational capability, including special personnel, to the children of the districts involved. The Commission further recommends that State governments provide appropriate financial incentives for the creation of such multi-district facilities.

10. The Commission recommends the amendment of the Elementary and Secondary Education Act of 1965 to authorize Federal incentive

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* Governor Rockefeller dissented.

grants to State and metropolitan educational agencies for the establishment of (a) county or regional school taxing districts, (b) specialized multi-district facilities as recommended herein, or (c) other areawide educational arrangements to assist in equalizing fiscal resources with educational needs throughout the area.*

D. Improved Statistics for Metropolitan Areas

11. The Commission recommends the establishment of a national system for the collection, analysis, and dissemination of social statistics, with full participation by Federal, State, and local governments, with special emphasis upon the development of such data for sub-State geographic areas (major cities, counties, and SMSA's) as well as State and national aggregates.

12. The Commission recommends that the Internal Revenue Service expand its reporting of income statistics for Standard Metropolitan Statistical Areas to provide data for the units of general local government within such areas.

13. The Commission recommends that Federal, State, and local officials work toward the establishment of data facilities for measuring for major urban functions the comparative performance levels of individual local units of government. This effort should be undertaken preferably by existing or new nongovernmental organizations and should look toward the establishment of optimal standards, the collection and analysis of data, and periodic publication of comparative figures.

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* Congressman Fountain dissented.

Chapter 1

INTRODUCTION

Much of the fiscal imbalance within our federal system can be traced to a revenue support for State and local governments that is something more than a three-legged stool, but less than a sturdy four-legged structure. Three powerful fiscal instruments now underpin most of State and local governments' response to America's major domestic government needs. These governments depend on property taxes ($26 billion), consumer levies ($21 billion), and Federal conditional grants ($17 billion) to finance their burgeoning obligations--the education of our youth, the care of the poor, the provision of streets and highways, and the maintenance of law and order in our communities. While increasing at a relatively fast rate, the revenue support provided by income taxes ($7 billion) still falls far short of that provided by the "big three" State and local revenue sources.

The relatively poor support performance of the State income taxes has prompted "revenue sharing" advocates to urge the Congress to build up this "fourth" leg of the State-local revenue support system with some of the proceeds from the Federal income tax by earmarking it for State and local governments on a "no strings basis." In the view of these advocates, adoption of this policy would promote a more equitable and balanced use of revenue instruments, enhance the ability of State and local governments to solve their own problems, reduce State and local dependency on Federal conditional grants, and correct a growing fiscal imbalance between the National Government and State-local governments--an imbalance attributed to the National Government's superior tax gathering resources in general and to its intensive use of the income tax in particular. Its advocates view revenue sharing, the infusion of Federal income tax revenue into the State and local revenue system, as a fiscal innovation that is necessary to protect the political integrity of a decentralized system of government. Without a stronger revenue base State and local government will not be able to underwrite the nation's growing expenditure demands.

Several significant developments strengthen the case for those urging a "new deal" in intergovernmental fiscal arrangements. Confronted with unremitting expenditure pressures, State and local policymakers have demonstrated remarkable political courage in raising taxes in general and property and consumer levies in particular. In less than 20 years State and local property and consumer levies have increased almost fivefold, from $8 billion in 1946 to $47 billion in 1967. Over half of this unprecedented increase is directly attributable to new and increased taxes; less than half to the response of old taxes to national growth.

This heavy pressure on property and consumer levies poses sharp equity and fiscal problems. Unless the subsistence of low income families is shielded from the reach of property and sales tax collectors, the productivity of these powerful revenue instruments is bound to be jeopardized by growing public protest. The demand of elderly homeowners for property tax relief is becoming especially strident, and public opposition to bond issues is becoming more apparent.

The willingness of Congress to both support and stimulate State-local expenditure efforts has also generated considerable political and administrative concern. The increase in Federal conditional aid from $3 billion in 1956 to approximately $17 billion in 1967 has prompted political misgivings from persons favorably disposed to the dispersion of power and authority. They view with alarm State and local governments' growing dependence on Federal aid with expenditure strings attached because it permits the National Government to make many critical political decisions concerning the allocation of public sector resources in fieds heretofore the province of State and local government.

Equally important, the rapid proliferation of Federal aid programs is causing apprehension even among those generally disposed in favor of a strong national position. Their concern runs to administration and problems of manageability as grant programs overlap and duplicate one another. The enormous productivity of the Federal income tax stands out in sharp contrast to a continually threatening State and local fiscal situation. Confronted with steadily rising expenditure demands, State legislators must rely upon a far less productive tax system and are hobbled by the fear of interstate tax competition. They must grope their way through the crossfire laid down by those urging greater outlay of State funds on services to their citizens and those demanding tax relief.

The fiscal crisis in the Nation's major cities powerfully underscores the fact that even the construction of a balanced tax system at the State level will not insure an effective and equitable intergovernmental fiscal system. The growing fiscal disparities on the metropolitan front point up the unequal distribution of needs and resources among jurisdictions within the same economic community. In comparison with their suburban neighbors, many major cities are extremely short on tax resources and long on expenditure requirements.

Increasingly these local jurisdictions are turning to the National Government for financial aid. However, as this Commission has warned in the past, if the States lose control over the metropolitan problem they lose the major responsibility for domestic government in the United States and in turn surrender any really significant role in the American federal system.

These fiscal developments, singly and in combination, constitute a clear and present danger to both the spirit and substance of federalism--the systematic dispersion of political authority among Federal, State and local governments.

Despite the powerful centralizing trends of the last five decades, the bases of American federalism remain strong. The eighteenth century political plan to diffuse political authority is still embedded in our Constitution. Indeed, this Commission necessarily proceeds from the assumption that for the foreseeable future there will be no basic changes in our formal constitutional arrangements for a National-State system, in contrast to a unitary or single-level form of government.

Federalism is also seared into the American political value system. It is safe to assume that despite the growing administrative and financial involvement of the Federal Government in the domestic public sector, the concept of "grass roots" government will continue to enjoy strong popular support.

Federalism also draws its strength from social reality. Despite the Nation's growing economic and cultural interdependence, our society is still pluralistic--a Nation of diverse regional and local attitudes and needs.

The Commission placed the subject of fiscal balance on its study agenda at a time when there was a firm prospect of a Federal revenue surplus and an intensification of revenue stringency at the State and local level. In this context, "the fiscal balance" issue appeared to hinge largely on how best to deploy part of the Federal surplus to relieve State and local deficits and to improve the quality of the combined Federal-State-local tax system.

During the intervening months, the preoccupation with excessive Federal surpluses was pushed to the background by the growing concern over a record Federal deficit and the threat of inflationary pressures culminating in the Administration's request for tax increases. There has been no lessening of fiscal pressure on the State and local front. That problem, especially the revenue pressures on the older industrial cities, is actually becoming more critical as the demands of the underprivileged become more strident.

At this time, when the Nation is debating the appropriate response to the Administration's request for higher taxes and when the prospective budgetary situation remains uncertain, we are impressed with the hazards of prescribing a single, simple solution to the manifestations of fiscal tensions in the American federal system. We are convinced that <u>the future of fiscal federalism must be built on firmer foundations than the fluctuating outlook for the Federal budget</u>. <u>Our need is for a broader, more balanced Federal-State-local approach to fiscal policy</u>.

In a very real sense, therefore, this study of the fiscal balance in our federal system entails an assessment of the contribution that Federal, State and local governments can make to our national objectives and aspirations--to the well-being of the American people.

Our evaluation of more effective means of financing the nation's domestic requirements has unearthed a bewildering number of proposals to improve our intergovernmental fiscal arrangement. In evaluating relative merits of the variour proposals, we have been guided by the critical values we deem necessary for preserving a strong and viable federal system of government.

<u>We believe that, to the extent possible, any proposals calling for a substantial change in financing the intergovernmental system should be consistent with the basic requirements of federalism--a broad scope for decentralized decision-making and a substantial role for the States</u>.

<u>We believe further that any proposal calling for substantial increase in Federal assistance should</u>:

- Preserve and, if possible, enhance State and local fiscal effort;
- Further the achievement of national policy goals, including provision of positive support for Federal tax and expenditure policy objectives; and
- Compensate for the fiscal overburden imposed by the heavy concentration of high cost citizens in particular governmental jurisdictions and the increasing absence of self-supporting taxpayers in those jurisdictions.

Chapter 2

STRENGTHENING THE BASIC STRUCTURE OF FISCAL FEDERALISM—FINDINGS AND RECOMMENDATIONS

Whether measured in terms of the number of grants, their dollar magnitudes, or their effects on intergovernmental relationships, the Federal categorical grant-in-aid, the principal tool of fiscal federalism for a century, has had near explosive growth since 1963. The impact of Federal aid on State and local government over the past two decades has been felt more acutely by Governors, State legislative leaders and budget officers. Many of them believe that the increasing number of grant programs has led to greater Federal interference in their administrative and policy roles and that of late grants have tended to be less stimulative and most coercive in their impact. At the national level, there has also been a growing recognition of problems associated with manageability and administration of a large number of narrowly defined categorical aids.

A hard look at the Federal aid system reveals a second major deficiency: a failure to sort out clearly the basic purposes for which the National Government should extend aid to State and local governments. The classic objectives of fiscal aid--equalization, stimulation, demonstration and general support--are not clearly differentiated under the present aid system. In the Commission's view, the need is urgent to sort out these basic aid objectives and to introduce a greater degree of "flexibility" into the entire aid system.

NEW FEDERAL AID "MIX"

Recommendation No. 1

The Commission concludes that to meet the needs of twentieth century America with its critical urban problems, the existing intergovernmental fiscal system needs to be significantly improved. Specifically, the Commission recommends that the Federal Government, recognizing the need for flexibility in the type of support it provides, authorize a combination of

Federal categorical grants-in-aid, general functional bloc grants and per capita general support payments. Each of these mechanisms is designed to, and should be used to, meet specific needs: the categorical grant-in-aid to stimulate and support programs in specific areas of national interest and promote experimentation and demonstration in such areas; bloc grants, through the consolidation of existing specific grants-in-aid, to give States and localities greater flexibility in meeting needs in broad functional areas; and general support payments on a per capita basis, adjusted for variations in tax effort, to allow States and localities to devise their own programs and set their own priorities to help solve their unique and most crucial problems. Such general support payments could be made to either State or major local units of government if provision is made for insuring that the purposes for which they are spent are not in conflict with any existing comprehensive State plan.*

A new mix of Federal aid would have important advantages. First, the extension of broad functional Federal aid and the initiation of Federal general aid would maximize the advantages of decentralized decision-making by giving State and local policymakers greater freedom in setting their own expenditure priorities. Because of great diversity in domestic governmental needs across the nation, greater freedom at the State-local level is the necessary budgetary corollary to an efficient allocation of public resources.

Second, this recommended policy would redirect the categorical system into those areas where each type of aid enjoys clear-cut advantages.

Third, the call for general support grants clearly recognizes the revenue-raising superiority of the Federal Government--a superiority reflected both by the greater growth in the yield of the Federal income taxes as the economy expands and by the vulnerability of State and local governments to interjurisdictional tax competition.

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* Statements of reservation and dissent submitted by Chairman Bryant, Secretary Fowler, and Mayor Naftalin are presented on pages 11 and 12.

Categorical Aid Overhaul

The present grant-in-aid needs major overhauling. In terms of manageability at least, the law of diminishing returns applies to the steady proliferation of Federal categorical grants. Elsewhere in this report we emphasize the need for a drastic reduction in the number of separate aid categories. Beginning with such a reduction, the existing system could evolve toward a pattern of very broad categories, accompanied by planning and other requirements for the utilization of funds. But equally important, aid would have to be provided in magnitudes more commensurate with the intensity and seriousness of the problems.

Broad Functional Grants

The evolution in intergovernmental fiscal arrangements clearly points to more intensive use of the larger and broader functional grant. The Partnership in Health Act is an illustration of this kind of approach. This is a very effective method for reconciling national policy objectives with State and local fiscal and program requirements.

An expanded program of grants in broad functional areas can zero in on critical problem areas such as urban poverty. This fact gives this approach the highest rating from an efficiency standpoint. A striking fact emerges from the Commission's analysis of fiscal disparities in metropolitan areas: between 1957 and 1965 the growth in State and Federal aid had the effect of slightly widening the disparities rather than narrowing them. This demonstrates the need to give our intergovernmental aid system greater equalization power below the State level.

General Support Grant

In the Commission's view, the case for Federal general support payments to State and local governments on a per capita basis adjusted for variations in tax effort is compelling and is supported by a broad range of considerations. It is the logical "next step" in the evolution of Federal assistance for domestic governmental purposes.

Because general support payments would place State and local governments in a better financial position to solve their own problems, the federal system would be consequently strengthened. The infusion of this type of Federal aid would strengthen the financial base of State and local governments, while the unconditional character of the grant is in keeping with the objective of providing broad scope for decentralized decision-making. When adjusted to reflect variations in tax effort, it recognizes a substantial role for the State. The State that assumes financial responsibility for programs administered under its jurisdiction would be rewarded for going the extra mile on the tax-expenditure route.

General support grants harmonize with one of the strengths of the American system--its diversity. States and localities must take different approaches to problems and all benefit by their experimentation. The National Government has a clearcut interest in creating a fiscal environment that is conducive to experimentation. If the benefits of diversity are to be exploited, and indeed enhanced, the National Government must help create a fiscal environment that will enable States and localities to exercise wide latitude in determining their budgetary priorities.

Most States have made a rather impressive tax increase record, and a few States a commendable effort to make their highly regressive sales and property taxes somewhat more bearable for low income families. A general State and local fiscal problem of major proportions remains, however, so long as expenditures consistently outrun the natural growth in State and local tax yields.

A program of Federal per capita general support grants would operate in the right direction from the standpoint of interstate equalization and could be adjusted to serve as a powerful equalization instrument below the State level. A per capita distribution formula would produce a moderate degree of equalization between wealthy and poor States, providing at the same time the most aid to the more populous States. If the poorer States were allowed to share more than proportionally in the per capita general support program, the equalization effect would be highly significant.

More important, such a general support plan has the potential for substantially reducing disparities between the relatively affluent suburbs and fiscally hard-pressed cities. For example, if Federal general support were distributed to local governments on the basis of noneducational expenditures, it would go a long way toward relieving the central city "overburden" due in large part to the heavy concentration of low income persons in the major cities. New York City with approximately 45 percent of the State's population accounts for over 60 percent of all local governmental expenditure for noneducational purposes in New York State. Newark, with approximately 6 percent of New Jersey's population, accounts for almost 12 percent of all local noneducational expenditure in the State of New Jersey. In St. Louis, the ratio of noneducational expenditures to population is almost 2 to 1. That city has about 16 percent of the State's population but must finance 31 percent of Missouri's local noneducational expenditures.

If properly structured, general support grants could thus reinforce National Government urban policy objectives by reducing fiscal tensions between suburbia and the central city, and strengthen the fabric of an urban America. Moreover, because general support performs a vital equalization task, it is relatively free of the charge that it divorces tax and expenditure responsibilities. The reduction of intergovernmental fiscal disparities is a prime responsibility of the National Government, particularly in view of its superior fiscal capability.

The general support technique holds real promise in terms of helping States and localities to defray the overhead costs of bundling many categorical and functional bloc grants into effective service packages. Thus, it could serve to emphasize the interrelationship between various types of aids. Moreover, general support assistance would overcome some of the handicaps said to occur in smaller and poorer communities that lack the talent for "grantsmanship" that is required to take optimum advantage of categorical aids.

The "Pass-Through" Issue

The most controversial aspect of this general support or revenue-sharing proposal is the manner in which Federal general support funds should be routed to local governments. The Commission does not take the doctrinaire position that all funds would have to be funneled through the State, nor on the other hand does it advocate a bypass-the-State policy. The Commission's position is that if Congress decides to distribute general purpose aid directly to local governments, it should recognize the potential coordinating role of the State by insuring that local governments do not spend Federal general support funds on projects or programs in conflict with comprehensive State plans.

A State planning requirement would encourage States to meet their responsibility for planning and coordinating the orderly and effective utilization of the State's physical and human resources. We do not view such a proviso as an invitation to discriminatory action by any State. It would not affect the components of any distribution formula laid down by the Congress. The money "due" the locality under such a formula could not be diverted to other localities or to the State itself. However, such funds could not be expended in ways prohibited by the State's development plans.

This Commission recognizes that the times are not auspicious for initiating the unconditional distribution of Federal Government resources, and that many recently enacted Federal programs are not adequately funded. However, Federal aid is projected to rise substantially over the next decade, affording an opportunity to channel part of this increase into general purpose grants to State and local governments.

Moreover, once we cut through the fiscal gloom occasioned by Vietnam requirements and take a realistic view of the revenue growth potential of the Federal income tax, it becomes readily apparent that a general support proposal makes good long-range fiscal sense. If military outlays decline, the National Government could conceivably be confronted with a surplus situation in a few years, assuming normal increase in existing Federal programs. Thus, due to the enormous growth potential of the Federal income tax, we could once again be confronted with the fiscal mismatch situation--affluence at the National level and relative stringency in State and local quarters--with its perverse tax corollary, Federal income tax reductions and State and local tax increases.

We do not share the concern, expressed by some, that general support grants would radically reduce the pressure on States to strengthen their own tax systems; nor do we share the fear of separating tax and expenditure responsibility. While it is true that each dollar of Federal general support aid reduces somewhat the need to raise tax revenue at the State and local level, for the foreseeable future there is no reason to believe that general support payments would reach such magnitudes or that the pressure to increase State and local expenditures would diminish to such an extent as to obviate the need for further State and local tax increases. Moreover, within this realistically modest range, a greater reliance on the income tax and somewhat less pressure on traditional State-local levies would add to the progressivity of the total tax system. Political realities will hold general support payments far below a level that would free the States and localities from pressure to raise revenue from their own sources. To put the issue more sharply, there is no reason to believe that the Congress would turn over the keys of the Federal Treasury to State and local officials.

In fact, under the Commission's proposal Congress is urged to build relative tax effort into the general support program as a precondition for receiving "no strings" Federal assistance. These natural lines of defense surely will suffice to encourage States and localities to exploit their own tax resources to the fullest extent practicable. Moreover, States and localities might be well advised to use general support funds to meet transitional costs of realigning the distribution of tax burdens on more equitable lines to the net benefit of the public.

By the same token, it is highly unlikely that Congress would permit "no strings" money to drive out categorical aid money. As long as Congress holds the purse strings, it will be under unremitting pressure to attach conditions to its grants in order to make sure that national expenditure policy objectives are realized with tax dollars collected from a national revenue system. This pressure will serve as a powerful countervailing force to the demands of State and local officials for ever larger shares of unconditional aid.

This Commission rejects the argument that unconditional assistance would be frittered away by the irresponsible and capricious acts of State and local officials. Even a cursory examination reveals that education, health and welfare, and highway needs determine State expenditure priorities in very much the same way as they influence Congressional aid decisions. Moreover, the charge of irresponsibility invariably rests on the highly questionable tendency to generalize from a few particular instances. There is also the obvious rejoinder that if we want State and local policymakers to assume a more responsible part in governing and servicing the needs of the American people they must be treated as responsible partners in our federal system.

While from a strictly budgetary standpoint it can be argued that the various methods for aiding State and local governments--i.e., revenue sharing, Federal tax credits, complete Federal assumption of welfare financing responsibilities and more generous Federal support of either narrow categorical or broad functional aids--are competitive, the point must be emphasized that it is necessary to take a broader view of these so-called alternatives. Each approach has its own fiscal and political strengths and weaknesses; none is a panacea for all the ills of our intergovernmental fiscal system.

The interests of fiscal federalism are best served by recognizing this fact and providing the proper combination of remedial ingredients necessary to strengthen our federal system. Categorical aids will undoubtedly continue to serve the Nation's needs well, especially for purposes of stimulation or demonstration, in those instances where the national interest in areas of traditional State-local concern are clearly identified. The Commission is heartened by the Partnership in Health Act of 1966 which was designed to "decongest the categorical arteries" with a functional bloc grant that allows States and localities necessary latitude to work out appropriate programs in a field where Federal support is warranted.

Recently, the Commission recommended a partial tax credit for State and local personal income taxes against the Federal income tax in order to offset the deterrent effect which intensive Federal use of this levy has had upon the State income tax movement. In effect the Advisory Commission's tax credit proposal in 1965 was designed to restore to the States the personal income tax option--a tax policy alternative that has become less attractive to State political leadership as Federal use of this tax has become more intensive. If States are to remain viable, they should have an opportunity to tap this first-rate revenue source under political conditions that make it no less attractive than general retail sales taxes.

But contemporary American federalism also requires another new approach: one in which there is the widest possible scope for developing State and local solutions to State and local problems in contrast to a solution prescribed by a Federal categorical grant. Such an approach is typified by the general support grant.

Opposing Views

Governor Bryant's Dissent on Recommendation No. 1:

In my view, the revenue sharing concept contains many far-reaching fiscal implications for our federal system. Conceivably, in terms of its future effects upon fiscal federalism, revenue sharing could rank in significance alongside the adoption of the Sixteenth Amendment. In the absence of widespread agreement as to the desirability of such a change and in the absence of effective and specific checkpoints or conditions governing revenue sharing, I cannot support the concept at this time. Furthermore, the goal of complete fiscal equalization among States which is advanced by some of the proponents of revenue sharing is one that I am not ready to accept. I still believe in an intergovernmental system that not only permits but encourages a reasonable degree of fiscal self-determination by the States with consequent diversity in their tax and expenditure policies.

Secretary Fowler's Dissent on Recommendation No. 1:

I am in agreement with this recommendation insofar as it calls for a more flexible grant-in-aid system and for consolidation of grants into broad functional areas. I also strongly favor more State and local participation in the development of joint governmental programs. The Administration is taking action along these lines in carrying out the President's directives in his message to the Congress on "Quality of American Government" on March 20, 1967.

As to methods of giving additional assistance to State and local governments beyond the present programs, many alternatives have been advanced including: substantial Federal tax credits for State income taxes; Federal assumption of a larger share of welfare costs (either directly or through such devices as guaranteed income or negative income tax); expanded urban programs with adequate funding of the Model Cities program and more flexibility provided through an urban development fund which merges different grant programs; and general support grants with a wide range of proposed formulas for distributing funds to States and to localities.

In my view, it would be premature to choose at this time between these and other alternatives, and, consequently I do not endorse making a recommendation in this area at this time. We are faced with extremely heavy demands on our Federal fiscal resources. Even in the post-Vietnam period there will be many claimants for Federal expenditures and for tax reduction. East of the alternatives proposed involves large amounts of money. Some of the new grant programs which are now small will certainly increase, and the plight of our cities, so well documented in this report, demands that our urban programs expand substantially. Furthermore, a proposal in principle is far from being a fully developed proposal. All the alternatives involve difficult problems of implementation relating to techniques, intergovernmental relationships, standards and the like, and a wide difference of opinion presently exists as to the proper solution of these problems.

Mayor Naftalin's Partial Dissent on Recommendation No. 1:

I am in complete agreement with this recommendation except for that portion of the last sentence which introduces a comprehensive State plan proviso.

I believe local governments, especially the large cities, are in a far better position in terms of personnel capability, knowledge and interest to establish needs and set program priorities within their boundaries. States have yet to demonstrate a sufficient sense of urgency about urban problems let alone develop the competency to make this State planning requirement work.

STRENGTHENING THE GRANT SYSTEM AT THE FEDERAL LEVEL

The Commission views the widespread dissatisfaction with aspects of the Federal aid system as a great opportunity to introduce new methods of channeling Federal funds to State and local governments. Even ardent conservatives concede that a number of categorical or functional grants are here to stay regardless of the make-up of future Congresses. Yet it would be desirable from their point of view to replace some of them with other forms of aid in order to promote State and local independence and individual self-reliance. Those who espouse general support payments as a means of inculcating a higher degree of progressivity into the Federal-State-local mix are quick to emphasize that many improvements could be made in the Federal aid system. Even the most staunch defenders of the categorical system have come to recognize that certain reforms are needed if the grant device is to continue as an effective vehicle for intergovernmental comity.

In the four years from 1962 to 1966 the number of separate grant authorizations more than doubled, from 161 to 379. Seventeen departments or agencies now administer one or more grants; and for eight departments or agencies, immediate administrative responsibility is assigned to 38 separate major subunits, such as bureaus or offices. Many of the grants are for closely related functions and activities.

Evidence from public officials at all levels of government indicates that the profusion and excessive categorization of grants has had adverse consequences. State and local officials complain of an "information gap"--confusion and uncertainty as to what grants are available, who administers them, what the varying requirements are, how closely related grants differ, how to go about making proper application. The information gap gives an advantage to the larger and better organized States and cities in getting Federal money. It encourages "grantmanship," a game which has attracted private consultants who, for a fee, guide the potential applicant through the maze of bureaucratic procedures and complicated catalogs of available grants.

The functional line agency specialists at State and local levels are likely to be well-informed about grants relating to their particular programs because of long-established channels to their counterparts in Federal bureaus. Chief executives, on the other hand--Governors, Mayors, county executives--have few built-in lines of communication. Consequently, they may find it difficult to carry out their basic responsibility for overall coordination and assessment of the impact of many individual grants on the total service needs and fiscal resources of their State or locality. Even where chief executives are properly informed, the inflexibility of many separate funds and requirements makes it difficult to mobilize available resources--local, State and Federal--for the most effective combined attack on community problems. This problem becomes more serious as we increasingly recognize the necessity for a comprehensive interfunctional approach to cope meaningfully with the most critical problems of human and physical development at the local level.

Excessive categorization increases the possibility of overlapping and duplication among grants. It may enable eligible applicants to "play off" two or more Federal agencies against one another, especially when the grants have different matching ratios.

Obviously, something must be done to simplify and reduce the number of separate grant categories; of late there are encouraging signs of concern and action at the Federal level.

Under the leadership of the Secretary of HEW, whose department administers over half of the 379 grants, the Comprehensive Public Health Planning and Public Health Services Amendments were developed in 1966 and were enacted by Congress. They provide for consolidating some 20 categorical grants, such as those for control and prevention of tuberculosis, cancer, heart disease and venereal disease, and establish a single set of requirements, a single authorization and a single appropriation.

Hearings of the Senate Subcommittees on Intergovernmental Relations and on Executive Reorganization in 1966 spotlighted the problems of coordinating the profusion of grants. Leading Administration officials have said that the proliferation in numbers hampers the effective execution of both new and continuing Federal programs.

In his message on "The Quality of American Government" in March 1967, President Johnson announced that he had requested the Director of the Bureau of the Budget to review the range of Federal grant-in-aid programs to determine additional areas ready for consolidation.

Despite these favorable portents, the prospect for reductions in the number of categorical grants is dim. Consolidation is a process fraught with difficulty. Categorical grants have evolved in response to certain policy and "practical" considerations, and while such considerations can hardly justify present excessive categorization, they can raise substantial obstacles of a congressional, bureaucratic and interest-group nature. The complexity and divergent program goals of the grant structure can also retard the development of workable consolidations.

Grant Consolidation Plans—
Recommendation No. 2

The Commission recommends enactment of legislation by the Congress authorizing the President to submit grant consolidation plans, such consolidations to be transmitted to the Congress and to become effective unless rejected by either House within a period of 90 days.

This proposal calls for Presidential authority to submit grant consolidation plans to the Congress under a procedure similar to that used for administrative reorganization plans. This approach to consolidation has been incorporated in Title VI of the proposed Intergovernmental Cooperation Act of 1967. Each plan would involve a consolidation of individual programs within the same functional area. It would place administrative responsibility in one Federal agency, specify the formula or formulas for making grants, and describe the differences between the new formula and those under each of the programs being merged. It would become effective at the end of 90 calendar days of continuous session of Congress after the date of transmittal unless either House passed a resolution opposing the plan.

The Commission favors grant consolidation by Presidential submission of a proposed merger because it would:

- Allow development of grant proposals within the Executive Branch which reflect operating experience;
- Facilitate elimination of conflicting, overlapping and uncoordinated requirements and procedures;
- Encourage development of programs incorporating broader national objectives and offering quicker response to changing conditions;
- Preserve congressional discretion to determine major program objectives by the requirement that consolidation plans "lie on the table" for 90 days;
- Be no different in terms of the constitutional principle of separation of powers than the transfer of a function of government to a new agency under a reorganization plan.

Since the political difficulties in grant combination are high, the Commission believes that it is in the interest of the Congress, the President and the people-at-large to lessen these difficulties somewhat through the adoption of the "reorganization plan approach." Undoubtedly, were Congress willing to grant the consolidation authority, more consolidations would take place than under the normal legislative process. Special interests opposed to consolidation would be less able to exercise negative influence through delay and other tactics. If the goal is consolidation, then this approach is the most effective means of achieving it.

Reduction in Number of Federal Grants—
Recommendation No. 3

The Commission recommends that the Congress and the President strive toward a drastic decrease in the numerous separate authorizations for Federal grants--adopting as a general goal a reduction by at least half the number; specifically the Commission recommends as a modest beginning, the following major consolidations: (a) elimination of all categorization and earmarking from the vocational education program to provide in effect a single vocational education grant to be usable in specified fields but within the State allotment in such amounts among the fields as determined by the State; and (b) consolidation of the existing grants for water and sewer line construction into a single authorization to be administered by a single agency.

The Commission believes that it is both desirable and feasible to reduce the number of separately authorized Federal grants by at least a half, without sacrificing the essential controls associated with a so-called functional grant. The Commission does not concede that protection of the Federal interest requires specification in advance of the amounts to be expended within precise categories. This is not to say that it is inappropriate for Congress and the administering Federal agency to indicate general areas of desired priority. The Federal agency, through the process of project approval or plan review, is able to "blow the whistle" if the proposed usage of funds departs too far from congressional or executive intent. In brief, the Commission believes that major consolidation is a must if intergovernmental administrative chaos is to be avoided.

In the Commission's view, two functional groupings--vocational education, and water and sewer facilities--offer compelling opportunities for immediate action.

Vocational Education

The vocational education program has been characterized over the years as one of increasing categorization, accompanied, it is true, by some increasing flexibility in recent years for the transfer of funds among categories at the State level. As long as ten separate categories exist--ranging from the early Smith-Hughes and George-Barden programs to the new authorization added by the major legislative revisions of 1963--unnecessary complexity is created for the States, and an unnecessary and unwarranted degree of Federal specification of category priority will remain. The Commission believes that a single vocational education grant should be created with the usage of the grant limited to specified occupational fields deemed to be in short supply or otherwise of national concern. It should be up to each State to weigh the priorities among fields and make appropriate determinations. These determinations would be subject to negotiation in general policy terms in the course of the submission of the State vocational education plan.

Water and Sewer Facilities

Of all the grant programs enacted by Congress, those most criticized for their overlap, conflict and duplication have been to support water and sewer line construction, both in urban and rural areas. Two separate programs are administered by the Departments of Housing and Urban Development and Agriculture (Farmers Home Administration). Consolidation of these two grants raises problems of interdepartmental jurisdiction that are not present in consolidating vocational education grants.

Separate authorizations for water and sewer facilities grants stem in part from the congressional committee jurisdiction pattern. Urban problems are the concern of one committee and rural problems the concern of another. Separation on the basis of rural or urban location seems highly dubious from the point of view of applicant, engineering considerations, and economical grant-in-aid administration, particularly when the "rural" applicants are frequently in urbanizing areas.

Administrative difficulties are inevitable in a situation where two different Federal departments provide grant assistance for essentially the same type of facility. The two departments have attempted through interagency agreement to avoid duplication and assure that applicants are directed to the program that suits their needs and do not "play off" one agency against another. They have developed a standardized preliminary application form to coordinate their application and approval procedures. Their efforts have succeeded only partially in reducing confusion and delay in getting projects on the way.

The Commission believes that the case for consolidating these programs into a single grant is compelling. The problem here is not so much the consolidation of the substantive aspects of the grants but rather the question of which agency should administer the combined program and indeed, whether or not it is administratively and politically feasible for a single agency to carry on this function in view of the essentiality of water and sewer services to many different program objectives pursued by different agencies of the Federal Government.

The internal organization of the Executive Branch of the Federal Government is ordinarily not within the proper concern of this Commission. Yet, the water and sewer grant situation has been fraught with so much intergovernmental difficulty that the Commission here ventures an organizational suggestion for the consideration of the President. It should be possible for a single agency--the Department of Housing and Urban Development--to administer all of the funds and make all of the grants with respect to water and sewer lines. These utilities are basically a community facility and although an increasing number of grants are being made in rural areas, most of these are to urbanizing portions of the countryside. The Commission believes that present requirements regarding certification of adequate sewage treatment availability are appropriate and that responsibility for all grants for sewage treatment works as defined in the Federal Water Pollution Control Act (in contrast to sewer lines) could appropriately be centered in the water pollution control agency in the Interior Department.

Simplified Federal Grant Applications and Joint Funding—Recommendation No. 4

The Commission recommends enactment by the Congress of legislation proposed by the Administration to authorize single applications by State and local governments for interrelated projects and for joint funding of projects containing components deriving funds from several Federal sources, in order to encourage States and localities to interrelate various functional programs and to facilitate effective program administration at the national level. It is further recommended that States enact similar legislation where necessary.

Federal grant assistance increasingly has to assume "interdisciplinary" characteristics as the problems of urban society to which the grants are directed become more interrelated and interdependent. Today, the interdisciplinary approach encounters practical administrative difficulties when the necessary funds stem from several different authorizations. All of this is symptomatic of what the Commission considers to be the principal administrative problem associated with the present system of categorical grants--the extreme proliferation in numbers of separate statutory authorizations and resulting appropriations.

A State or local government in putting together an integrated program must apply separately, for example, for the educational component, welfare component, job training component, urban renewal component and so on. Keeping the separate applications moving in tandem through local, State and Federal bureaucracies becomes nearly an exercise in administrative futility. Inevitably, the competition within certain funding sectors is less intense than others so that the applicant State or local community may find part of its components approved and the other suspended in a morass of administrative and fiscal uncertainty. This situation represents a case in support of a more flexible mix of Federal aid techniques.

Pending real progress in achieving Federal aid flexibility as recommended earlier, the Commission supports the Administration proposal to have Congress authorize joint application and joint funding of grant components as a means of rendering the existing aid system more workable. The proposal seeks to remove or simplify administrative and technical impediments to consideration, processing, approval and administration of "package" projects. It would do this by (1) authorizing removal or modification of certain statutory requirements; (2) authorizing agency heads to delegate the approval and administration of Federal assistance programs to other agencies; (3) providing for a special fund in each agency to finance joint projects; (4) describing ways Federal agency heads can foster joint projects; and (5) authorizing the President to set implementing standards and procedures. Yet, with certain exceptions, the proposal would not change substantive provisions of law governing assistance programs, such as eligibility criteria, matching ratios, and apportionment formulas.

Depending upon the dedication to cooperation and the departure from narrow functional interests on the part of many program administrators, this joint funding approach is workable--assuming it is reinforced with strong direction at the highest administrative levels in the Executive Branch.

Standardizing Matching Ratios and Apportionment Formulas—Recommendation No. 5

The Commission recommends to the President that the Bureau of the Budget initiate an aggressive program to simplify and systematize the varied matching and apportionment formulas for existing Federal grant-in-aid programs.

Among the present total of 379 grants, the Commission identified 25 different matching ratios ranging from 20 percent to 100 percent Federal contribution. A widening of the range has been particularly pronounced with the multiplication of grants in recent years: in 1962, grants were established at nine different ratios; in 1963, 11; in 1964, 10; in 1965, 18; and in 1966, 9.

The Commission has attempted to determine the specific reasons for congressional decisions to use particular matching ratios and apportionment formulas in 180 grants administered by the Department of Health, Education, and Welfare. In checking congressional committee reports, documented explanations were found for only 21 of 180 matching ratios and for only 4 of 64 apportionment formulas.

The wide variation in these matching ratios and apportionment formulas casts doubt as to whether there is any rationale behind each program. It raises the question whether the differences among programs accurately reflect consciously determined differences in the degree of national interest. The lack of documentation in the legislative process suggests a negative answer. Widely varying ratios and allocation formulas complicate an already difficult job of coordination at the recipient level. The disparity among allotment and matching ratios also exercises a strong policy pull upon the extent and manner of State and local utilization of the Federal grants involved. Inevitably, State and local executives and fiscal officers search for the most advantageous combination from a matching point of view. This gives substance to the saying that "grant money drives out loan money" in State and local utilization of Federal aid. Similarly, 90 percent money will drive out 50 percent money, and 100 percent money will drive out all other kinds of alternate financing that might otherwise be available.

Acknowledging the sound policy and program reasons for variations in matching and apportionment, it is clear to this Commission that the variety of different levels and requirements is excessive. Reducing the number of grant categories as we have recommended would itself reduce inconsistencies, but additional action is needed to rationalize matching ratios and apportionment formulas; a conclusion reached by this Commission and others who have looked at the problem even before the recent expansion of categorical grants.

In a 1961 report the Commission concluded that the "review and redirection of grants has proceeded on a sporadic and uncoordinated basis and there has not been continued, systematic attention to the problem either from the congressional or executive side." The Commission recommended periodic congressional review of Federal grants to State and local governments. Legislation to implement this recommendation was introduced in the preceding three Congresses, and presently it constitutes Title V of the proposed Intergovernmental Cooperation Act of 1967. In the same report, the Commission also recommended that:

> . . . existing grant-in-aid programs be assessed periodically by executive agencies and by the Congress in terms of (a) accomplishment of objectives set forth in the authorizing legislation, (b) an estimate of the extent of the program needs still unmet, and (c) where appropriate, a description and evaluation of alternative plans or methods for achieving the objectives set forth in the enabling statute.

In its later report on equalization in grants-in-aid, the Commission made the further recommendation that Federal grant administering agencies be required by the President to review periodically (a) the adequacy of the need indexes employed in their respective grant programs and (b) the appropriateness of their equalization provisions and that this review be coordinated by the Bureau of the Budget and with the periodic congressional review procedure recommended earlier.

These previous Commission recommendations together with the one at hand would establish both legislative and executive machinery that could bring under constant surveillance the varying matching and apportionment provisions as well as other aspects of grants-in-aid with likely rationalization and simplification.

Where grant programs are consolidated either through affirmative legislative enactment or through Presidential initiative subject to congressional veto, the disparity in allotment and matching ratios obviously becomes resolved in the process of merging. The Commission recognizes that however much logic may cry for the combination of grants, the political barriers in some cases will just be too high. Therefore, the Commission urges that the Bureau of the Budget proceed immediately to erect a "second line of defense"--namely, the initiation of legislative proposals to modify matching and allotment ratios of "unmergeable" grants so as to minimize the destructive effect that such disparities now exercise.

STRENGTHENING STATE AND LOCAL FISCAL SYSTEMS

The best guarantee of fiscal flexibility for State and local governments is a highly productive and equitable revenue system. Most States, however, have not yet availed themselves of the opportunities open to them. We hold this to be true although State and local policymakers have demonstrated remarkable courage on the tax front in assuming the political hazards implicit in tax increases that produced about half of the $30 billion growth in tax collections registered during the last decade. The other half can be attributed to economic growth.

If States in particular are to remain effective partners in our federal system, they dare not abdicate their responsibility for:

* Protecting the local property taxpayers from being forced to carry a disproportionate share of the financing of the nation's domestic needs in general and educational needs in particular;

* Reforming the State-local revenue system so as to shield subsistence family income from taxation;

* Tackling the tough fiscal equity issues created by the fragmentation of the metropolitan tax base--more specifically, perform the classic equalization role, i.e., provide compensatory aid to the poor jurisdictions and, conceivably through shared tax incentive arrangements, encourage local communities in metropolitan areas to coordinate their expenditure policies so as to develop cooperative approaches to areawide problems; and

* Minimizing the proliferation of local nonproperty taxes--levies that most local governments are ill-equipped to administer and which can disrupt established competitive relationships among jurisdictions.

Broad-Based Tax System—
Recommendation No. 6

The Commission concludes that the development of a more equitable, diversified and productive State-local tax system is prerequisite to avoiding excessive local property tax burdens, proliferation of local nonproperty taxes, interlocal fiscal disparities and dependence on Federal aid. The Commission therefore recommends that the States (1) require and enforce effective local use of the property tax including, in some States, a more intensive use of this revenue source, (2) equip themselves with a productive, and broad-based tax system capable of underwriting a major portion of the State-local expanding expenditure requirements, and (3) shield basic family income from any undue burdens imposed by sales and property taxes.

There is untapped revenue potential remaining in the State-local tax system. At the present time six States are without a sales tax: Alaska, Delaware, Montana, New Hampshire, Oregon and Vermont. Fifteen are without an income tax: Connecticut, Florida, Illinois, Maine, Nevada, New Hampshire, New Jersey, Ohio, Pennsylvania, Rhode Island, South Dakota, Tennessee, Texas, Washington and

Wyoming. Additionally, many local governments, particularly in the South and Southwest, could make more effective use of the property tax.

While the champions of the graduated personal income tax and the sales tax advocates still engage in political sniping, this contest has lost much of the bitterness that in former times had transformed the State tax arena into a dark and bloody political battleground. The importance of the change cannot be overemphasized because bitter clashes between sales and income tax advocates for years hamstrung efforts to construct a more diversified and productive State tax system.

The perennial sales-versus-income-tax debate is now a luxury few States can afford.

During the last seven years Kentucky, Wisconsin, Idaho, Massachusetts, New York, Virginia, Minnesota, Michigan, West Virginia and Indiana have adopted the "second" tax, while Nebraska adopted an integrated revenue package--both a general sales and a personal income tax. Except for Indiana, Michigan and West Virginia, all of the "second" tax enactments took place on the sales tax side of the ledger. Thus, in these last few years, the growing fiscal pressures raised the number of sales-plus-personal income tax States to 30.

A broad-based sales-personal income tax combination enables a State to create a diversified and productive revenue system while holding tax rates to moderate levels. To put the issue more sharply, it enables a State to maximize its revenue potential while minimizing vulnerability to interstate tax competition.

Food Tax Credit or Exemption—
Recommendation No. 7

<u>In order to strengthen the productivity of the sales tax, the Commission recommends action by the States to protect low income families from undue tax burdens on food and drugs under general sales taxes</u>.

States have demonstrated that the sales tax need not be severely regressive--that either the exemption of food or a system of income tax credits and cash refunds can rid this tax of its worst feature for the great mass of taxpayers. At the present time 14 States exempt food outright while 6 States (Indiana, Colorado, Hawaii, Iowa, Massachusetts and Nebraska) permit State income taxpayers to take a credit for sales tax payments on food against their personal income tax liabilities.

These recent and pioneering tax credit and refund devices enable the coordination of income and consumption taxation. Hawaii and Iowa are experimenting with a diminishing income tax credit for sales tax payments--one that declines as income rises. This ingenious device removes the regressive impact of the sales tax thereby creating a climate of public opinion more favorably disposed to intensive use of the levy.

The Commission noted in its report Federal-State Coordination of Personal Income Taxes that pioneering State efforts with the personal income tax credit illustrate the benefits that can flow from State and local experimentation with new ideas. Because the personal income tax credit system can considerably lighten the relatively heavy State and local tax load now borne by the poor, it can contribute to the effectiveness of the general sales tax and perhaps the property tax as sources of State and local revenue. Or to put the issue more affirmatively, a better reconciliation of consumption and property taxes with the ability to pay principle by means of income tax credits can help State and local tax policymakers cut the Gordian knot tied by two opposing pressures--the demand for tax relief for the poor and the need for additional revenue.

Property Tax Overburden—
Recommendation No. 8

In order to strengthen the productivity of the local property tax, the Commission recommends action by the States to help the localities finance the cost of relieving any undue local property tax burden on low income families.

If by some stroke of magic the local assessor could equalize all property tax assessments at full value, or at some uniform percentage thereof, the collection of this tax would still create special hardships for property owners with low incomes.

Although the value of the family residence serves as a fairly good proxy of ability to pay taxes in a rural society, and still does in suburbia, total household income stands out as a far more precise measure of taxable capacity in our modern urban society. This point can be grasped quickly from examples of the hardship that the payment of residential property taxes imposes on low income households. With retirement, the flow of income drops sharply and a $300 a year property tax bill that once could be taken in stride becomes a disproportionate claim on the income of an elderly couple living on a pension of $1,500. By the same token, if the flow of income falls sharply as a result of the death or physical disability of the breadwinner, or due to unemployment, then again payment of the residential property tax can become an extraordinary tax burden.

The most notable attempt to cope with the regressive impact of the property tax upon low income people can be found in Wisconsin's 1964 tax credit plan that provides substantial property tax relief to low income elderly persons--both homeowners and renters meeting specified income criteria. This tax relief program is financed from State funds and administered by the State Tax Department.

The Wisconsin legislature (and more recently the Minnesota legislature) took the position that if an elderly householder in the below $3,000 income class had to turn over more than 5 percent of total income to the residential property tax collector he was confronted with an extraordinary burden and that amount in excess of 5 percent is either refunded by the State to the property owner, or applied as a direct credit against his State income tax, if the taxpayer falls in that category. The renter is also entitled to relief and 25 percent of his rent is considered as imputed property tax payment. Of special significance is the fact that the State and not local government finances this tax relief program.

The reduction of tax disparities between high and low income communities within metropolitan areas can be cited as a beneficial side effect of the Wisconsin plan. Because the poor tend to cluster together, the mailman will deliver most of the property tax refund checks to households in the low income communities. Thus, the granting of tax relief to the low income elderly moves in the "right" equalization direction from both the interjurisdictional and interpersonal standpoints. Moreover, the tax credit can be viewed as the most efficient tax relief mechanism because it can be so designed to maximize the amount of aid extended to low income homeowners and renters while minimizing loss of revenue.

In a number of States, homestead exemption, a durable by-product of the 1930's depression, offers some protection from undue property tax burdens on low-income occupants of dwellings and farms. This method bestows property tax relief to all homeowners, however, not just those with low incomes, and misses completely the low-income families in rented properties. Moreover, as this Commission reported in its 1963 study on The Role of the States in Strengthening the Property Tax, the policy of homestead exemption involves a substantial amount of injustice among individual taxpayers and taxing jurisdictions at a large and usually unwarranted sacrifice of local property tax revenue.

Flexibility in Long-Range State Financing—Recommendation No. 9

The Commission recommends that the States which have not done so, give serious consideration to providing more flexibility in their constitutions for long-range State financing programs.

In its 1961 report, State Constitutional and Statutory Restrictions on Local Government Debt, this Commission recommended that local governments be given greater flexibility in borrowing so that they can exercise maximum initiative in meeting their own needs. The Commission believes that the States' power to borrow should also be liberalized and for essentially similar reasons.

Expanded State legislative authority to borrow becomes increasingly important as States are asked to participate in numerous Federal grants-in-aid for capital improvement projects, such as airports, hospitals, and university buildings. Such power can also help States to take a more positive role in assisting their local governments by increasing their fiscal capacity to contribute to the non-Federal share of Federal programs administered locally.

Most State constitutions restrict the borrowing freedom of State governments (legislatures). In the main the restrictions were imposed as a consequence of overextension of State credit to finance internal improvements in the nineteenth century and the ensuing defaults in periods of economic depression. Often they have not restricted the amount of borrowing, but shifted it instead to "non-guaranteed debt," incurred through such devices as revenue bonds, public corporations, and lease-purchase agreements. Debt in this form rather than as a general obligation of the States has meant higher costs and sometimes the creation of additional administrative machinery. The Commission also notes that a basic cause of earlier debt defaulting has disappeared as countercyclical devices have been built into the American way of life and the Federal Government has developed tools for controlling boom-to-bust fluctuations in the economy, thus reducing the likelihood of severe economic declines. In addition, most States (30) now are equipped with more diversified tax systems that assure a more stable State revenue yield.

In view of strengthened State fiscal systems, the development of economic stabilizers, and the fact that constitutional debt restrictions do not really place an effective limit on borrowing yet result in higher interest costs, the Commission urges the States to give serious consideration to easing the constitutional restraints on State borrowing authority.

ADMINISTRATION OF FEDERAL CATEGORICAL AIDS

To this point, the Commission has focused on the policy issues relating to the basic structure of our federal system--how it is financed and where improvements in financing arrangements can be made. Now, we turn to the equally important issues relating to how fiscal federalism can be better managed and administered--the policies needed to supply new tone to the sinews of the intergovernmental fiscal system that stretch through the Federal, State, and local levels.

Organizational Changes—Recommendation No. 10

The Commission recommends an elevation of attention on the part of the President and the Congress to the more general need of insuring the conduct and coordination of Federal grant and other programs in such a way as to improve the overall capability of State and local government and consequently strengthen the American federal system. Its importance warrants assignment by the President of major responsibility in this area to an appointee having status equivalent to that of a member of the Cabinet. This official should be responsible for general liaison with State and local governments and be accessible to them regarding problems encountered in the administration of Federal grants-in-aid. Also this official should report at appropriate intervals to the President, Congress, and the public on the extent to which grant-in-aid programs are achieving their objectives and the extent to which State and local government is being strengthened in the process.

The Commission further recommends the strengthening of the Bureau of the Budget's capability to sustain a vigorous program of interagency coordination of Federal grants-in-aid.

In considering the overall management problem of coordinating Federal grant-in-aid programs a distinction must be made between (a) Presidential designations of responsibility for maintaining liaison with other levels of government on a day-to-day basis and (b) the responsibility for supervising interagency relationships in the formulation of grant policies and the administration of grant programs. One is personal, the other institutional.

Designations for intergovernmental liaison responsibilities will vary with the differing modes of operation of different Presidents and may vary from time to time within a single Administration. Yet despite variations in style, any President nowadays must exhibit direct concern with intergovernmental policies and relationships and have the requisite personal staff to counsel him on these matters. At the same time, the broad task of daily interagency management and coordination requires a large staff with in-depth expertise on all grant programs and administration.

The Commission believes that establishment of a White House focal point for intergovernmental affairs constitutes a necessary administrative response at the national level to administrative and other problems which have been generated by the rapid expansion of grants-in-aid in recent years. The Commission sees no other feasible manner whereby the President can be properly alerted to the emergencies in both the interlevel and interagency arenas that this growth has produced. The President needs a constant point of contact with State and local officials having difficulties with the administration of Federal grant programs, and States and localities need a regular avenue of access at the highest level. The President also needs a wide-ranging troubleshooter to take on the tough assignment of resolving the most critical interjurisdictional grant conflicts within the Federal establishment.

Equally important, the Commission believes the President needs a "beefed up" effort by the Bureau of the Budget with respect to its interagency coordinating functions. The Bureau already is intimately acquainted with the management difficulties connected with grants-in-aid. In its activities relating to budget procedure, legislative reference, organization and management, and general advice to the President, the Bureau has developed considerable expertise for supervising interdepartmental relations in the formulation and administration of grant policies and programs. With more staff and fiscal support, these functions will become more expert. Close collaboration between the administration official charged with intergovernmental affairs and the Bureau will create an effective top management front to cope with the grant-related problems of communication, personal contact, interagency conflict, program consolidation and coordination.

The Commission therefore is convinced that grant-in-aid coordination should be assigned a major place in the revamped organizational structure of the

Bureau of the Budget and that substantial amounts of new funds and staff should be provided to support this much-needed expansion. The Commission also believes that both the President and the Bureau of the Budget would benefit from the designation of a White House official on intergovernmental affairs to serve as the President's eyes and ears on Federal grant management matters and as his ambassador-at-large to the States and localities.

Headquarters-Field Office Coordination— Recommendation No. 11

> The Commission recommends the enunciation by the President of a policy of decentralization of Federal decision-making in the administration of grant programs; among other actions the Commission recommends decentralization to directors of Federal regional offices of most of the decisions connected with the review and approval of State or local plans developed as a condition of Federal formula-type grants and of amendments to such plans proposed by State and local governments. The Commission further recommends Presidential action to effect a major reduction in the wide variations in the regional boundaries and headquarters sites of Federal field offices.

The widespread agreement on the need for improved Federal machinery for management coordination often focuses on the area of headquarters-field relations in administration of the grant system. The existing disorder in these relations stems from the wide variations among the 12 regional office structures of grant-administering departments and agencies in the number of regions, the number and identity of the States that make up individual regions and the cities in which regional offices are located. As a result, there are problems of communication and information exchange on common regional problems among Federal agencies; some regions are too large, requiring extensive travel by regional officials; in certain major cities, the few Federal offices are hampered in trying to provide information for a coordinated approach to local problems.

Headquarters-field relations are also ruffled by (a) variations among departments and programs in authority to deal with the States or localities, (b) lack of adequate delegation of authority to deal with interagency and intergovernmental problems in the field, and (c) variations among departments and programs with respect to channeling applications through regional offices or directly to Washington.

The Commission is convinced that adequate decentralization in the grant-in-aid sphere can be achieved only if there is continued pressure by the Executive Office of the President to delegate to directors of regional offices most of the decisions connected with the review and approval of State and local plans required by formula grants. The most appropriate method of reaching decentralization objectives is the issuance of a general order by the President setting forth general policy of the Federal Government with respect to the types of decisions and kinds of competence to be expected of the Federal field establishment.

To complement this policy of decentralization and to improve overall field office-State-local relations, the Commission endorses major reduction in the wide variations in the regional boundaries and headquarters sites of the Federal field establishment. The present 12 regional office structures have combined to create a condition where 16 States must deal with eight or more different regional office locations and only a dozen have fewer than five to contend with. Such variations in boundary and office locations contribute to the information gap, cause resentment and confusion at the State and local levels, add impetus to the tendency to deal directly with Washington, and--if unchecked--would work counter to an effective policy of decentralized decision-making.

Interagency Field Coordination—
Recommendation No. 12

The Commission believes the establishment of a field staff of the Bureau of the Budget should serve many of the purposes of field offices, appropriations for which have been sought repeatedly by the Budget Director and the President within the last few years. In addition to increased coordinative activity in the field by the Bureau, the Commission recommends the strengthening of existing Federal Executive Boards by (a) transfer of supervision of the Boards to the Bureau and (b) provision of at least one full-time staff member for each of the major Boards.

Closely linked to the issue of improved departmental headquarters-field relations, or vertical coordination, is the issue of improved interagency communication--horizontal coordination--in the field. The latter problem arises whether or not the departmental field structures are reformed. It will mount in significance if the emerging trend toward an interdisciplinary approach takes hold. Indeed, the effectiveness of this approach rests in large measure on greatly strengthened interdepartmental coordination in the field as well as in Washington. Thus, the time has come for Federal field representatives to begin to act like one family.

The Bureau of the Budget has recently established a special Intergovernmental and Field Projects Unit, stationed in Washington but with its staff spending considerable time in the field. This new field staff will enable the Bureau to intensify its review of Federal operations and intergovernmental relations in the field, and conduct special problem-oriented studies and projects.

The Commission believes that this proposal offers a flexible approach to strengthened interagency and intergovernmental coordination in the field. It should help the President's top staff agency to know more, from direct first-hand experience, about how Federal grant programs are carried out at the point of impact; how disputes are settled and frictions eased; how to improve the flow of information to State and local officials quickly and fully; and how to overcome bottlenecks to prompt decision-making. The direct result will be improved working relationships with State and local governmental units and more efficient use of Federal grant funds.

The instrument of the Federal Executive Board created through presidential initiative in 1961 has been most helpful in assuring an increased flow of communication among Federal agencies in major regional headquarter cities--such as New York, Philadelphia, Boston, Dallas, Chicago, Denver and San Francisco.

The Boards have provided a forum wherein information can be exchanged and mutual problems discussed by the regional directors of the Federal agencies concerned. However, the Boards have suffered a significant handicap in that the elected chairman of the Board usually has had to "scrounge" from his particular agency the staff services required. Since the chairmanship of the Board tends to rotate among agencies there is little staff continuity. In the Commission's view the effectiveness of the Boards would be enhanced considerably if each were granted an allotment of funds sufficient to cover the salaries of a full-time executive secretary.

Since the objectives of the Federal Executive Boards lie in the area of general governmental management rather than personnel administration, it would seem more logical for their supervision and "backstopping" to reside in the Bureau of the Budget rather than the Civil Service Commission, as at present.

Overall, the Commission is convinced that the broad objective of improved interagency Federal coordination in the field would best be met both by establishing a Bureau of the Budget field staff and by strengthening the Federal Executive Boards. This dual thrust would have the following advantages:

- The Bureau of the Budget field staff could help provide the kind of FEB involvement in substantive problem areas that they now lack, but were intended to assume.

- The FEB's would constitute a convenient forum within which the Budget Bureau could strive for improved interagency field operations.

- The FEB's would greatly facilitate the Budget Bureau's task of identifying major troublespots in the field in both the interdepartmental and intergovernmental areas.

- The linking of the FEB's to the Budget Bureau field staff would enhance the possibility of communicating and implementing effectively the goals and policies of the Administration.

- The joint efforts of the two operations would inevitably strengthen the top management capabilities of both the departments and Bureau of the Budget in Washington.

Computerization of Information—
Recommendation No. 13

<u>The Commission recommends that the President establish within an appropriate agency of the Executive Branch a computerized system for storage and retrieval of information essential for the administration of grants-in-aid, formulation of Federal-State-local fiscal policies and other policy and management purposes. The Commission further recommends that the Congress establish a similar system to provide information for review of grant-in-aid programs and for other legislative purposes. The Commission recommends that tapes and other data resulting from these systems be made available to State and local governments.</u>

To help the President discharge his responsibilities as chief administrator, the Executive Office should have ready access to full and accurate information about the nature and conduct of the programs being administered by Federal departments and agencies. The grant-in-aid system has become incredibly complex--fiscally, legally and administratively. This means that the Executive Office should be equipped with the most up-to-date information systems technology that can be brought to bear upon this difficult area of governmental affairs.

Our study of the grant-in-aid system revealed that the Bureau of the Budget is now handicapped in performing its oversight and coordination responsibilities by lack of an adequate computerized information system. Accurate overall data on such aspects of the grant system as matching ratios and apportionment formulas, planning requirements, eligible recipients, dollar amounts of grants by recipients and clientele groups, geographic distribution, and fiscal capacity and fiscal effort of State and local governments are difficult to come by, and when needed involves laborious research. This type of information is essential for understanding the intricacies of the existing complex grant systems. Quick access to it on a current basis is vital for appraising present programs and suggesting improvements such as specific grant consolidations, simplification and standardization of performance requirements and restructuring of allocation formulas and matching ratios.

An effective information system then is necessary for developing top-level policy proposals on grants and coordinating administration of them. Further, it is vital to effective execution of the total management and coordination responsibility of the chief executive.

We are impressed at the extent of computerization throughout the Federal departments and agencies which now involves 2,620 computers, costing over $1 billion yearly, and requiring 71,200 employees to operate. It would seem equally, if not more, essential that these tools of modern management be used for overall policy, planning and management purposes at the apex of the Federal hierarchy. We are aware of the current efforts of the Intergovernmental Task Force on Information Systems, sponsored by the Bureau of the Budget. Yet, we also know that its primary focus is development of an information system for use by State and local governments--not the development of a computer capability as a tool for top management control.

The Congress has similar yet differing needs for objective data in discharging its responsibility. As indicated in the recent study of the Joint Committee on Legislative Reorganization, it now suffers from lack of an adequate information storage and retrieval system.

Congress shares responsibility for disorderly growth of the categorical grant system. A major contribution of an up-to-date computerized information system would be to provide a source of data on the existing pattern of grants so that Congress would have the information to enable it to avoid decisions that would cause further duplication or inconsistencies among grant programs.

SIMPLIFICATION OF ADMINISTRATIVE CONTROLS UNDER FEDERAL GRANTS

The Commission has documented three types of grant requirements as causing unusual and--in most instances--unnecessary difficulties for participating jurisdictions: auditing and accounting requirements, the "single State agency," and planning provisions.

Acceptance of State Audits—Recommendation No. 14

The Commission recommends the enactment of general legislation by the Congress applicable to Federal grants-in-aid to State governments, whereby the Comptroller General of the United States would study and review the accounting and auditing systems of State governments which receive Federal grants-in-aid and ascertain the general adequacy and integrity of such State auditing and accounting systems; the Commission further recommends that for those States certified by the Comptroller General as meeting standards of adequacy and integrity, the results of State audits of expenditures of Federal grant funds be accepted by the administering Federal agency in lieu of fiscal audits by agency personnel, such acceptance to cease when and if the Comptroller General finds that the accounting and auditing system of the particular State no longer meets the prescribed standards. Finally, the Commission recommends that this authorization be extended at the discretion of the Comptroller General to units of local government receiving sizable grants directly from Federal agencies.

Every Federal agency administering grants-in-aid to State and local governments is charged by the Congress and by regulations of the Comptroller General with assuring the proper and legal use of Federal grant funds made available to such State or local governments. Consequently, each administering Federal agency and each major bureau engaged in grant-in-aid administration deploys the requisite number of fiscal auditors throughout the States at appropriate intervals to audit the grant-in-aid accounts.

The General Accounting Office as part of its "spot audit" program to ascertain the effectiveness of agency audits of Federal expenditures also audits grant-in-aid expenditures at the State and local levels. Federal agency auditing activities have had to keep pace with the growth in absolute number and variety of Federal grant-in-aid programs. Also since World War II, State governments have had to improve the capability of their accounting and auditing systems due to the growth, complexity and magnitude of State expenditures.

The Commission believes that intergovernmental relations could be simplified and a significant saving in total governmental manpower and taxpayer dollars could be achieved if State audits were accepted in lieu of Federal audits in those States having as high a standard of accounting adequacy and integrity as that required for the Federal Government itself. The Commission believes that the Comptroller General, as the arbiter of the propriety of Federal expenditures, is in a position to appraise periodically and to certify as to the adequacy or inadequacy of the accounting and auditing systems of each of the 50 States. There is no logical reason why the same type of arrangement could not prevail with respect to major cities and urban counties except for the additional manpower requirements that might be imposed upon the General Accounting Office.

The Commission realizes that such a procedure may raise objections that (a) the General Accounting Office has never done this before, and it would be injected into a completely new relationship with State and local governments; (b) separation of powers between Legislative and Executive Branches might be compromised; and (c) many State auditors themselves desire more and not less Federal audit.

It is clear that the Comptroller General would have to be provided with additional manpower in order to carry out the foregoing recommendation. It is equally clear, however, that the manpower increment for the General Accounting Office would be less than the collective saving in personnel for the executive agencies. If Congress should conclude that separation of powers is a problem in connection with this approach, then participation by the Bureau of the Budget both in the establishment of auditing standards for grant-in-aid expenditures and in the maintenance of a list of "approved" State auditing systems could be provided.

The intent of this proposal is not to shortcut in any way the exercise of fiscal prudence and fiscal accountability at all levels of government. The Commission believes, however, that some new intergovernmental arrangements in the accounting and auditing field would enable the achievement of these objectives at a significant saving in time, energy, and improved Federal-State-local relations.

Single State Agency Requirement—
Recommendation No. 15

<u>The Commission recommends the enactment of legislation pending in the Congress to authorize the modification, at the request of a State and with approval by the head of the Federal department or agency, of the single State agency requirement associated with Federal grants-in-aid to State governments</u>.

Few Federal provisions have been as persistent a source of irritation to Federal-State relations as the one that stipulates that a "single State agency" must be named, or a State unit be named as the "sole agency" to administer or supervise a grant program. The merits of this requirement appear to be largely historical. In the formative years of the public assistance programs, it was essential that the single State agency requirement be vigorously enforced to bring order out of chaos in the existing as well as the newly emerging public assistance programs in the States. It was also necessary that the Federal agency have one and only one State agency to deal with in matters regarding public assistance and only one agency to hold responsible for administering these programs.

Current conditions call for a more liberal interpretation of this requirement. States need to restructure their govenmental organization to keep pace with the added functions and responsibilities that are thrust upon them by the complexities of modern life. Just as change dictated Federal establishment of the Department of Health, Education, and Welfare, and subsequently, the severance from the Social Security Administration of functions now administered by the Welfare Administration, so it has been and will continue to be necessary for State government to reorganize. It is quite probable that sound State reorganization proposals will run into trouble trying to meet both the needs and desires of the particular State and, at the same time, satisfy in all cases the single State agency requirement.

Rigid application of the single State agency requirement can tie up a Governor, as well as the legislature, in restructuring State government. Moreover, an "interdisciplinary" approach like that built into an increasing number of grant programs and a rigid single State agency requirement are incompatible.

In the pending Intergovernmental Cooperation Act (S. 698; H.R. 5528 and associated bills), the head of the administering Federal department or agency is authorized to waive the single State agency requirement upon the request of a recipient State _if_ the department or agency is convinced that the alternate administrative arrangement will not undermine the program objectives being sought through the grant.

Consolidation and Simplification of Planning Requirements—Recommendation No. 16

The Commission recommends the enactment of general legislation by the Congress, consolidating insofar as possible, into a single Congressional enactment a set of planning requirements--both functional and comprehensive--to be applicable to Federal grant-in-aid programs, both present and future, especially those concerned with or affecting urban development.

A great many new planning requirements have been introduced into the categorical aid system since 1964. Some relate to planning for a particular function such as air pollution or water supply. Others require planning of a comprehensive character, i.e., tying together and interrelating the different functional plans. In November 1966, 82 grants had planning requirements of one kind or another. As these have evolved some have been very specific--even to the point of stipulating the type of advisory board that must review the State or local plan. Others have required merely a certification that the particular project does no violence to the comprehensive plan for the area.

The Director of the Bureau of the Budget has said that overlapping planning requirements are one of the major administrative and intergovernmental problems of the day. Duplication can defeat the purpose of planning and generate confusion. Confusion can also be caused where functional planning is not related to general plans. Finally, there is danger of overplanning in some areas alongside planning gaps elsewhere. In all this, the role of State planning frequently has been overlooked, although the Department of Housing and Urban Development consistently has encouraged State governments in the administration of "Section 701" funds to develop an improved planning competence at their level.

The Commission believes that the time has come when planning requirements as well as grants themselves need to be consolidated into a lesser number of separate statutory enactments and that there must be an improved planning interrelationship among local, State, and National levels of government. The Commission urges a formulation of appropriate legislation, based on existing studies, establishing a consolidation and simplification of such requirements. Such legislation might include some or all of the following features:

- Every major functional grant program should require a functional plan.

- Every functional plan should be consistent with and promote an areawide functional plan.
- All functional plans for a particular area should be based on the same demographic, economic and social data.
- Each functional plan should be consistent with and promote the comprehensive plan(s) for the area.
- All requirements for comprehensive planning should have common elements.
- If there exist separate comprehensive plans for the local, regional or metropolitan and State levels, procedures should be established to assure that no area is subject to more than one comprehensive plan at each of these levels.
- Procedures should be developed to give prime consideration to the overall planning efforts conducted under the auspices of top policymakers at the local, areawide and State levels.

Revision of Federal Planning Assistance—Recommendation No. 17

The Commission recommends that Congress enact legislation which would effect an overall rather than piecemeal revision of Section 701 of the Housing Act of 1954. Specifically, such legislation should employ Federal planning assistance to strengthen comprehensive planning as an arm of elected chief executives, at State, areawide and local levels; require a closer inter-linking of planning, programming and coordination at those levels; and relate all federally aided functional planning to comprehensive planning at the State, areawide and local levels. The Commission further recommends that provision be made for State planning agencies, especially in those States with ongoing compre-State planning programs receiving Federal financial assistance under Section 701, to review and comment upon all local and areawide applications for urban planning assistance. The Commission takes no position as to the most desirable location of responsibility in the Federal Executive Branch for administering assistance to State and local comprehensive planning activities.

Beyond the problem of simplification of planning requirements in Federal grant programs is the broader issue involving the scope and impact of the Federal Government's program of planning assistance to State and local governments. Specific questions concern the type of planning being encouraged, its geographic focus, effect on State-local relations, and relationship to programming and budgeting at the State and local levels.

The 701 program, initiated in 1954 and administered by HUD, has been the chief Federal instrument for encouraging the development of local, areawide and State comprehensive planning. It can be given much of the credit for the fact that some 46 States have statewide planning agencies and most municipalities and metropolitan areas have local and areawide planning bodies. Yet, planning in the United States is not without its shortcomings, raising questions about possible ways of improving the Federal planning assistance program. Thus, despite a growing recognition in the 701 program of the importance of planning for social needs, emphasis is still heavily weighted on physical factors even as the problems of human resource development and renewal are being accorded increasing attention. Moreover, while much is said about the futility of planning divorced from decision-making, the planning assistance program does little to encourage the linking of planning with programming and budgeting. Finally, there is no program to assist planning in rural areas, although the 701 program has been used to fund many "semi-rural" planning projects through grants to localities under 50,000 population.

Proposals for correcting these and other weaknesses of the present planning assistance program have been introduced in the 90th Congress. On the basis of its review of the various proposals, the Commission is persuaded to endorse the approach represented in the proposal of Senator Scott (R., Penn.).*

This bill would set a framework for intergovernmental coordination, encouraging State and local governments to cooperate in comprehensive planning and programming activities. Administration of responsibilities under the bill would be assigned to the expanded Office of Comprehensive Development and Emergency Planning in order to provide a central, top-level focus for coordination of Federal development grant programs. The bill would establish a minimum base of continuing grant support to State, metropolitan area, and development district planning, replacing the Section 701 system of intermittent, project type grants for planning.

The bill provides a mechanism for interrelating planning for physical, economic and human resource development. It offers incentives to States and areawide districts to contribute to the Federal planning-programming-budgeting system, thus facilitating a more complete assessment of State and local development needs and demands and improving the ability of the Federal Government to allocate its resources more efficiently.

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* "Comprehensive Planning and Coordination Act of 1967" (S. 799).

We believe further that particularly in States having an ongoing comprehensive planning program, the Federal planning program should give the State planning agency authority to review and comment on all applications for urban planning assistance from local and areawide bodies. Such a provision would provide further support for Statewide coordination of planning activities. On the specific issue of the organizational location of responsibility for administering the enlarged program, however--whether it should be in HUD, OEP, or some other unit--we take no position.

An improved planning program of the kind here envisioned would, in our opinion, achieve the objectives of the Administration and community development district proposals, and in addition would:

- Strengthen planning as an essential arm of the elected chief executive: Governor, Mayor, or county executive;
- Make possible the coordination of all of the planning requirements of other Federal legislation by emphasizing comprehensive planning and relating functional planning to it on an intergovernmental, interagency, and interprogram basis;
- Encourage expansion of the concept of comprehensive planning to include programming and coordination, giving emphasis to the need for tying planning to decision-making and implementation; and
- Provide Federal financial support for planning at State, mettropolitan, district, and local levels on a continuing (formula) rather than sporadic (project) basis, subject to approval of annual work programs.

STRENGTHENING STATE AND LOCAL CAPABILITIES FOR GRANT ADMINISTRATION

Since its inception, this Commission repeatedly has urged the strengthening of State and local governments and the modernization of their constitutions and charters in order that these levels of government may be equipped to discharge effectively their responsibilities, thereby avoiding unnecessary centralization of power and responsibility in the central government. In this report, the Commission sets forth a number of specific recommendations for the strengthening of State government. These recommendations are submitted in the context that existing State government structure often is inadequate for the State's responsibilities in connection with grant-in-aid programs.

Frequently, the legislature and the Governor are unable to assert the full strength of State government in its relationships with the Federal Government. The Commission believes that if the States are to effectively coordinate grant-in-aid programs and be fully viable and dependable partners in the federal system certain structural changes are imperative in many States. In the recommendations which follow, the Commission adds its voice to the growing insistence throughout the land for revitalization and modernization of State and local government.

STATE EXECUTIVE BRANCH

Relatively few governors actually command the executive branch of State government. Executive leadership in many States is straitjacketed by limitations, mostly constitutional, in six basic areas: the "long ballot," tenure potential, gubernatorial role in the budget process, State planning capability, executive reorganization authority and program coordination mechanisms.

While the limitations may have been appropriate at one time they are outmoded for this day and age when States are on their mettle to perform as an effective partner in our federal system. The Governor deprived of meaningful controls over expanding programs and governmental agencies has little prospect of taking an activist role on behalf of his State in the resolution of issues vital to the public.

The spectre of unbridled use of power is raised by some as an argument against the removal of existing limitations on gubernatorial authority over the executive branch of State government. The bars to arbitrary gubernatorial action are numerous and powerful. They include the marked increase in interparty competition in practically all States; strong program interests within the State administration; the ever-present cluster of special interest groups; and the prospect of a modernized, strong legislature.

Others favor the institutional status quo in order to keep certain functions "out of politics," give impetus to staff professionalism, and provide continuity in program policies and administration. They fail to recognize that these objectives are more likely of accomplishment in the long run when they are supported by a rational administrative structure with the Governor serving as the top management official.

Still others continue to interest themselves with the informal political role of the governor vis-a-vis his party, the bureaucracy, the legislature, and the electorate without realizing that the formal powers of the governor condition his informal powers and not vice versa.

The electorate in fact and the State constitutions in theory assign the Governor the responsibility of being chief executive, but the gap between legal expectations and effective power is usually great. The removal of formal limitations placed on the Governor stands out as the best method of closing this gap. Effective management of State affairs should not be left simply to the accidental appearance in the Governor's office of an extraordinary political leader operating in a favorable set of circumstances.

The "Long" Ballot--Recommendation No. 18

In order to achieve adequate intergovernmental fiscal coordination and to strengthen State government generally, the Commission recommends the amendment of many State constitutions to reduce greatly the number of separately elected State officials.

Many of the general criticisms of the grant system by State as well as local officials appear to be caused by the fragmentation of executive authority caused by the "long ballot." In several States, the heads of important agencies responsible for administering grant programs are either elected or appointed by elected boards or commissions over which the governor lacks any real authority. Nearly one-half of the States still elect the head of the State educational agency; many State departments of health, mental health, or welfare are administered through a complex system of boards and commissions. This electoral fragmentation is further complicated by the fact that most line agency officials now are more concerned with their own particular function than with its contribution and relationship to overall State policy. Grant-aided units are more likely to communicate with counterpart agencies at the Federal or local levels than with the Governor or other State agencies.

The Commission finds that these by-products of the "long ballot" place State Governors at a tremendous disadvantage in keeping informed of an in coordinating the flow of Federal grants-in-aid into their States, especially where independently elected officials are the recipients of such grants. Just as fewer and fewer cities find the "commission form" of city government with its political fragmentation tolerable, States are finding a similar need to centralize executive power in their chief executives.

Gubernatorial Succession--Recommendation No. 19

The Commission recommends that where needed, State constitutions be amended to permit the Governor to succeed himself.

The Commission finds it ironic that Mayors of large cities typically are free to serve successive terms; the President of the United States--one of the most powerful officials in the world--is entrusted under our Constitution for two four-year terms; yet only 29 of the States permit their Governors to serve two or more successive four-year terms. Such tenure limitations disregard the need for long range program and policy planning, especially in the grant-in-aid field, deny voters the opportunity to reelect Governors of proven leadership ability, ignore the growing influence of line agency officials, and tend generally to weaken the position of the States in the federal system. The Commission believes that the American people must stop singling out State government to be a weak instrument in relation to other levels, for this undermines the vitality of the federal system.

Executive Budget—Recommendation No. 20

The Commission recommends State Constitutional and Statutory action, where needed, to provide a gubernatorial budget covering all estimated income and expenditures of the State government to be submitted to each session of the State legislature.

In nearly all the States the Governor has been given final authority for budget preparation and all but a few utilize the executive budget system. But even though the Governor may have final formal responsibility for the preparation and execution of the budget, limitations often infringe on his authority throughout the budget-making process. In just 11 States is the Governor authorized to submit to the legislature only those agency budget requests approved by him; in the rest, original estimates must also be included. Furthermore, in only 15 States are executive agencies prohibited from appearing independently before the legislature to request more funds than those approved by the Governor. Finally, a majority of the States prohibits the Governor from transferring funds within agency appropriations, and earmarked revenues further restrict the discretion of many.

The Commission believes that a strong executive budget is essential for effective executive management at any level of organized activity--public or private. Additionally, even though taxes may be earmarked, the Commission is of the opinion that all State funds should be encompassed within a single budget. The Commission is also convinced that all Federal funds coming to the State government should be incorporated within the Governor's budget. Only through such a process can the State's fiscal situation be correctly presented and understood.

Strengthening State Planning Capability—Recommendation No. 21

The Commission recommends that each State develop a strong planning capability in the executive branch of its State government. The planning function should include: (a) formulation for the consideration of the Governor and the legislature of comprehensive policies and long range plans for the effective and orderly development of the human and material resources of the State; (b) provision of a framework for functional, departmental, and regional plans; and (c) assistance to the Governor in his budget-making and program evaluation roles.

The growing range and complexity of Federal grants emphasizes the Governor's need for direct access to and control of planning resources. Identification of future State needs is a necessity for all Governors today--and this depends upon intelligent forecasting of overall social and economic trends and the relevance of grant programs to these trends. Yet, the coordination of departmental plans, many of which are now required by Federal grant legislation as a condition to receiving funds, is nonexistent in most States. In only one-third of the States are agencies required to obtain the approval of the Governor prior to submitting applications for grant assistance. Some State offices of planning provide technical assistance to localities and are frequently assigned a coordinative role for the utilization of Federal funds to both State agencies and their local units. But effective planning requires close contact with other State agencies--especially the budget office--as well as with the Governor. A number of approaches to accomplishing this goal have been used in the States, including location of the planning staff as an independent unit directly under gubernatorial control, or alternatively within a department of administration headed by an appointee of the Governor.

Executive Reorganization Authority—
Recommendation No. 22

The Commission recommends that State constitutions be amended, where needed, to authorize the Governor to reorganize the administrative structure of State government and to shift functions among State departments and agencies with the exercise of such reorganization powers subject to a veto by either house of the State legislature within a specified time period.

The rapid growth of cooperative Federal-State programs, as well as the burgeoning demands being placed on State government for expanding traditional services and initiating new programs, indicate the need for greater gubernatorial discretion in the area of administrative reorganization. The procedure permitting the President to initiate changes in the administrative structure of the Federal Executive Branch under the provisions of the Reorganization Act of 1949 should be considered by more States. Only seven have given their Governors similar power wherein the chief executive may reorganize the structure of the executive branch and shift functions among State agencies, subject to a veto by the legislative branch.

In previous reports the Commission has urged modification of provisions of Federal law which restrict the flexibility of the Governor and the legislature with regard to the organization of State government. In addition to striking the Federal shackles, the Commission believes that those imposed by the State itself likewise should be removed so that new cooperative Federal-State activities and other functions of the State government can be organized as effectively as possible.

Financial Assistance for State Program Coordination Activities—Recommendation No. 23

<u>In order to improve the fiscal and program coordination of Federal categorical grants going to State government the Commission recommends that the States themselves provide adequate funds and staff for this purpose; the Commission opposes the use of Federal grant funds to provide staff or facilities for the immediate Office of the Governor</u>.

The executive office of most Governors needs strengthening. A Governor requires substantial staff support to assist him performing the policy-initiation and management responsibilities of his office. The practice in some States is to assign staff from line departments to the Governor's office and this may be helpful for program development and maintaining coordination when department heads are appointed by the Governor and serve at his pleasure. Nevertheless, the ever increasing responsibilities of the Governor's office require a regular personal staff for developing policy recommendations to the legislature; serving as liaison with Federal, State, and local agencies; planning and coordinating programs--including grants-in-aid; and attending to innumerable public relations and political party details.

While agreeing that deficiencies in the central coordination of grants-in-aid in a number of States undermine the effectiveness of these programs and that strengthening the capabilities of the Governor's office is an urgent necessity in these cases, the Commission believes strongly that such improvement is a job for the States themselves. If States cannot or will not devote a minute percentage of the State budget providing their Chief Executives with an adequate staff, and if the Federal Treasury is called upon for this purpose, then federalism exists only in theory. The Commission is confident that the States can and will remedy this deficiency; strengthen thereby both States' responsibilities and States' rights in the American governmental system.

STATE LEGISLATIVE BRANCH

An examination of the State legislative role indicates that while State responsibilities in the federal system have grown, legislative organization, staff assistance, specialized services, and institutional spirit are still geared largely to the simple problems and small population of bygone days. The performance of a State legislature determines in large measure the success of the State in exercising its responsibilities. However, the record of State legislatures is not encouraging.

With reference to the public visibility of the State legislature, a Gallup Poll taken in November 1966 found that only 20 percent answered "yes" to the following question: "Do you happen to know who will represent your district or locality in the State Senate next year?" In response to a similar question concerning State Representatives, 24 percent answered "yes."

In terms of popular esteem, the same poll found 69 percent of the sample indicating their legislature was doing a "fair" or "poor" job; only 12 percent judged it to be "excellent."

On the matter of compensation, the latest survey by the Council of State Governments shows that the salary, per diem, and living expense allowances of legislators have increased during the past three years; yet the median compensation for the last biennial period still fell in the $5,800 to $6,300 range.

Regarding legislative sessions, annual sessions were approved in 1966 in California and Kansas; but 29 State legislatures still meet biennially, including Kentucky and North Dakota, where reform efforts were turned down by the voters in 1966.

In terms of the length of the legislative session, California and Tennessee voters sanctioned unlimited sessions, but 33 States still have time limits on their regular sessions, including North Dakota where an unshackling proposal was not supported at the polls.

On housekeeping matters, 15 State legislatures do not maintain a printed daily journal of the previous day's legislative proceedings and a comparable number do not include all rulings of the presiding officers in their legislative records.

In terms of introduction of bills, all but one State legislative body have pre-session bill drafting services, but pre-session filing is permitted in only 14 States.

On committee proceedings, 40 do not keep verbatim records of hearings, and the minutes of committee proceedings and hearings are maintained in only half of the legislatures.

One-third of the States provide professional staff to only one major standing committee in each house of the legislature and only two provide year-round staffing.

Regarding permanent legislative service agencies, 44 States now have a legislative council or similar agency to provide research information to legislators and most of the remaining 6 have some form of substitute service; yet in 12 instances, these services do not include legislative counseling for members and committees; in 16 legislatures they do not include preparation of bill and law summaries; in 15 they do not include continuous study of State revenue and expenditures; and in 14 they involve no budgetary review and analysis.

Only one-tenth of the States provide individual offices for all legislators; an additional 6 provide individual offices for Senators and in approximately 10 States, legislators share office space.

Finally, one-third of the States provide individual secretarial help for legislators and an additional 4 States provide secretaries for Senators only; the rest of the States have pool arrangements--except for 8 or 9 that make no formal arrangements for secretarial help.

In order to help strengthen the position of State government generally and to afford adequate time for legislative consideration of State financial participation in Federal grant-in-aid programs, the Commission recommends State constitutional or other appropriate action, where necessary, to remove such restrictions on the length and frequency of sessions of the State legislature as may interfere with the most effective performance of its functions. Specifically the Commission recommends that the holding of annual sessions be given serious consideration in those States now holding biennial sessions. Further, in order that legislative compensation not deter the holding of annual sessions, the Commission recommends that legislators be paid on an annual basis in an amount commensurate with demands upon their time.*

Despite great efforts by many public spirited organizations to modernize this feature of State government, 1967 finds more than half of the State legislatures still meeting on a biennial basis. Many of these legislative bodies convened in January and had adjourned by April--faced with a rigid 60 or 90-day constitutional limitation. In this day and age of increasing responsibility and complexity in governmental affairs, problems requiring State legislative action do not time themselves so as to arise only in alternate years.

Moreover, adequate meshing of State and Federal appropriations becomes impossible when consideration of State enabling legislation or appropriations may lag nearly two years behind the action of Congress.

The Commission urges the lifting of a number of existing constitutional restrictions upon the length and frequency of legislative sessions in order to

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* Governor Dempsey dissents from this recommendation and states: "I do not subscribe to this recommendation because it is my feeling that the operation of State legislatures should be decided completely by the States themselves on the basis of their individual needs, experience and desires. The biennial sessions system in Connecticut has worked well and has permitted Connecticut to handle its business efficiently and economically. The Connecticut record of leadership in many fields of legislation attests to this."

provide a more effective partnership in Federal-State programs. Equally significant, the Commission urges this course of action to correct what has come to be a symbol of weakness and impotence in State government--the limited, biennial session of the State legislature--and thereby strengthen the federal system.

Closely related to the question of annual sessions is the problem of legislative pay. As was noted earlier, the median compensation for the most recent biennial period still fell in the $5,800 to $6,300 range despite significant efforts in many States to increase the salary, per diem, and living expense allowances of legislators. The Commission is convinced that the salutary features of annual sessions--especially as they involve grant-in-aid operations--will fail to have the maximum effect if legislative stipends ignore the increased time, increased responsibilities, and increased legislative prestige that is implicit in a change to annual sessions.

Year-Round Staffing of Major Committees—
Recommendation No. 25

<u>In order that the legislature may keep abreast on a policy basis with Federal and State actions on cooperative programs, the Commission recommends that the States provide for year-round professional staffing of major committees of their State legislatures.</u>

State legislative leaders are concerned with the lack of legislative participation in framing Federal-State cooperative programs. In most States the legislature is not informed of developments in Federal-State program relationships that might have a bearing on legislative policy for the future. Even if steps were taken by the executive branch to maintain a fuller flow of information to the State legislature about Federal grant programs, it is questionable if legislative committees could make an effective contribution. They are hampered by lack of year-round staff. In many States the between-sessions legislative staff is small and attached to the State legislative council. It would be faced with an almost impossible task if it attempted to keep abreast of the evolution of a multitude of Federal statutes and regulations in all of the subject matter fields in which the State is involved. This information problem might be partially overcome if the principal substantive committees on the legislature were professionally staffed on a year-round basis and were made responsible for keeping abreast of major relevant issues in Federal-State relations. A great deal of valuable investigatory and preparatory work in connection with initiation of legislation affecting grant programs and with budget analysis could be performed by legislative committees between sessions if they were provided with interim staff facilities.

**State Legislators and Congressional Hearings—
Recommendation No. 26**

In order that the State legislative voice may be heard in the formulation, financing, and operation of Federal grant programs and other intergovernmental matters, the Commission recommends that State legislatures consider seriously the desirability of charging--by resolution or other appropriate means--elective presiding officers and/or chairmen and ranking members of those committees having jurisdiction in fields involving Federal-State relations with (1) following the development of proposed legislation in the Federal executive Branch of the Congress and (2) after appropriate consultation with State executive officials, presenting the views of legislators to Congressional committees considering new or modified grant programs coming within the concern of State legislatures. The Commission further recommends that State legislatures provide adequate funding for this activity.

The list of witnesses appearing before congressional committees in connection with Federal grants-in-aid always includes a liberal assortment of mayors, county officials, and representatives of the professional or functional area being aided or about to be aided by the legislation in question; a Governor's name appears on the witness list now and then; but a State legislator's hardly ever! The traditional State legislative practice of presenting memorials to Congress is a largely meaningless form of communication and in no sense is an adequate substitute for a direct dialogue.

The Commission believes that an increased interchange of views between key State legislators and congressional committees would be helpful in revitalizing the role of the legislature in major areas of United States domestic affairs, improving intergovernmental relations, and assisting the deliberations of congressional committees. Moreover, such enunciation of State legislative views before Congress, it is hoped, might be worked out in conjunction with comparable State executive branch efforts. In any event the Commission is of the opinion that a dialogue should begin between State legislators and Members of Congress.

Chapter 3

FISCAL FEDERALISM AND ECONOMIC GROWTH— THE IMPETUS FOR REVENUE SHARING

We have no nationwide quantitative norms for judging the adequacy of the response of our system of decentralized government to the needs of the American people. This is an issue that must be resolved periodically on election day in thousands of jurisdictions.

Tax, expenditure, and debt data, however, do permit us to trace in a general way the responsiveness of State and local governments to the challenges of change. These public finance statistics constitute the price tag the 50 States and 80,000 local governments place on governing and servicing the needs of a growing America.

Judged by these fiscal measuring sticks, the post-World War II response of State and local policymakers was truly remarkable. Between 1946 and 1966, State and local tax collections increased from $11 billion to $59 billion and, when related to the economy, from 5 percent to 8 percent of Gross National Product. The willingness of State and local governments to support education is reflected in the ten-fold increase in school expenditures, from $3 billion to $33 billion. Their investment in capital plant in the twenty years following the war exceeded $240 billion and entailed an increase in outstanding State and local debt (after repayment) from $16 billion to $107 billion.

The task of servicing the needs of a growing population might be expected to increase in direct proportion to the number of people served. But when these people interact in an increasingly urbanized environment their needs take on new dimensions and as they become more affluent, their demands for public services become more sophisticated and still more insistent.

While some State and local governmental activities lend themselves to cost-cutting techniques by the replacement of manpower with machine-power, a wide range of governmental operations are essentially face-to-face confrontations between the government employee and the citizen. In these people-related service situations, it is difficult to economize without impairing service quality. There is a limit to the number of pupils a teacher can instruct effectively. The same service logic applies to the public health nurse and the social worker.

Thus, the public sector is propelled to ever higher levels, largely beyond the control of its political managers, by the explosively dynamic forces of a growing and increasingly mobile population, the need for an ever-widening scope of governmental activity, the demand for higher quality of job performance, and the service-type operation that not only defies cost-cutting techniques characteristic of industry but also is subject to rising prices for the products it consumes.

We turn now in some detail to the measurement of change since World War II and examine a number of revenue and expenditure projections for better insight of things to come and an approximation of the relationship between prospective State and local revenue yields and expenditure demands.

While projections are approximations at best, there is no question that the unremitting pressure for additional revenue poses a clear-cut challenge to a decentralized system of government. Political influence and control, of necessity, gravitate to that level of government that experiences the least political difficulty in raising revenues.

It is this fact that has given the revenue-sharing issue its sharp political and fiscal focus. The major features of various revenue-sharing proposals are described subsequently in this portion of the report.

EXPENDITURE AND RECEIPT PATTERNS–NATIONAL INCOME AND PRODUCT ACCOUNTS FRAMEWORK

The dynamic character of the public sector has been particularly apparent since the end of World War II. It has played an increasingly relative role in the Gross National Product--a familiar yardstick for measuring economic activity.

Federal, State and local government purchases of goods and services grew from $27 billion or 13 percent of the Gross National Product in 1946 to $154 billion or 21 percent in 1966; and this represents only the direct contribution of the public sector to the GNP. If other government expenditures such as transfer payments and interest on debt are added to this figure, the government sector rises to about $208 billion in 1966 (excluding $2.3 billion of transfer payments to foreigners) and represents 28 percent of GNP, as compared with $43 billion, about 21 percent, in 1946 (Table 1). Thus, the role of government in the national economy has increased significantly since V-J Day.

Dramatic Growth in State and Local Expenditures

The constituent governmental elements of the public sector increased at very different rates. For example, since the end of World War II, the State and local expenditure growth rate has far outpaced both that of the Federal Government and the private sector.* While the National Government's share of GNP (purchases of goods and services) crept up between 1946 and 1966, the State and local government share more than doubled--from 4.7 percent of GNP in 1946 to 10.4 percent in 1966. This performance of State and local governments is all the more remarkable because of the volatile nature of National Government expenditures, including as they do national defense and international commitments.

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* See Table A-1 (Appendix A).

TABLE 1.--ELEMENTS IN THE PUBLIC SECTOR AND THE GROSS NATIONAL PRODUCT, 1946, 1956 AND 1966

Item	Amount 1966	Amount 1956	Amount 1946	Percent of GNP 1966	Percent of GNP 1956	Percent of GNP 1946
	-----(billions)------					
Federal Government	$140.6	$69.9	$33.3	18.9%	16.7%	16.0%
Purchases of goods and services	77.0	45.6	17.2	10.4	10.9	8.3
Aid to State and local governments	14.8	3.3	1.1	2.0	0.8	0.5
Transfer payments	36.0	15.2	11.4	4.8	3.6	5.5
Less payments to foreigners	2.3	1.9	2.2	0.3	0.5	1.1
Net interest paid	9.5	5.3	4.2	1.3	1.3	2.0
Subsidies less current surplus of government enterprises	5.4	2.4	1.6	0.7	0.6	0.8
State and local governments1/	66.9	32.3	9.9	9.0	7.7	4.7
Purchases of goods and services	77.2	33.0	9.8	10.4	7.9	4.7
Transfer payments	7.5	3.8	1.7	1.0	0.9	0.8
Net interest paid	0.3	0.5	0.3	*	0.1	0.1
Less current surplus of government enterprises	3.3	1.7	0.7	0.4	0.4	0.3
Less Federal aid	14.8	3.3	1.1	2.0	0.8	0.5
Total2/	207.5	102.2	43.2	27.9	24.4	20.7
Exhibit: Gross National Product	743.3	419.2	208.5	-	-	-

1/ Total expenditure less Federal aid.
2/ Excluding transfer payments to foreigners.

*Less than 0.05 percent.

Source: U.S. Department of Commerce, Office of Business Economics, The National Income and Product Accounts of the United States, 1929-1965 (Washington, D.C., U.S. Government Printing Office: August, 1966); and Survey of Current Business, July, 1967.

Defense and international outlays aside, Federal Government expenditures for civilian domestic purposes nevertheless have been growing rapidly.* Federal civilian domestic expenditure rose 258 percent between 1946 and 1966, while expenditure for defense and international purposes increased by 285 percent. Between 1956 and 1966, the increases were 133 and 66 percent respectively. State and local expenditures, which to all intents and purposes are solely for domestic civilian activities, rose 644 percent between 1946 and 1966, and 130 percent between 1956 and 1966. In the latter decade, Federal expenditures on the domestic front rose at about the same rate as those of State-local governments.

However, the Federal sector has actually been contributing more to the increase in "domestic government" in the United States in recent years than have State and local governments if the source of financing is taken into account, as shown by the following tabulation:

Expenditure for Civilian-Domestic Purposes	Amount 1966	1956	Percent Increase 1956-1966
	--(billions)---		
Direct expenditure	$131.5	$56.9	131%
Federal Government	49.7	21.3	133
State-local governments	81.8	35.6	130
Expenditure from own sources	131.5	56.9	131
Federal Government	64.5	24.6	162
State-local governments	67.0	32.3	107

The growth in government receipts was from $51 billion in 1946 to $213 billion in 1966. In relation to the GNP, receipts stood at 28.7 percent in 1966, up from 24.4 percent in 1946 (Table 2).

Impressive Increase in State and Local Tax Yields

State and local receipts, exclusive of Federal aid, rose steadily from 5.7 percent of GNP to 9.4 percent between 1946 and 1966. While Federal receipts relative to GNP fluctuated, at the close of the 20-year period they ended up in roughly the same relationship to GNP as they began with--19 percent. The growth in State and local tax collections has likewise far outpaced growth in Federal tax collections since the end of World War II (Figure 1). To achieve this result, States and their political subdivisions enacted new taxes and increased existing taxes. Federal Government receipts increased largely as a result of higher rates for contributions to social insurance and automatic growth in income tax yields in response to an expanding economy.

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* For purposes of this study, Federal Government expenditure for civilian domestic purposes is defined as total expenditure less expenditure for national defense, international relations, space research, and that portion of interest on debt that is attributable to those functions. Because this study is based on 1946-1966 expenditure data, it does not take into full account the extraordinary increase in military outlay occasioned by growing U.S. involvement in the Vietnam conflict.

TABLE 2.--GOVERNMENT RECEIPTS, NATIONAL INCOME AND PRODUCT ACCOUNTS BASIS, 1946, 1956 AND 1966

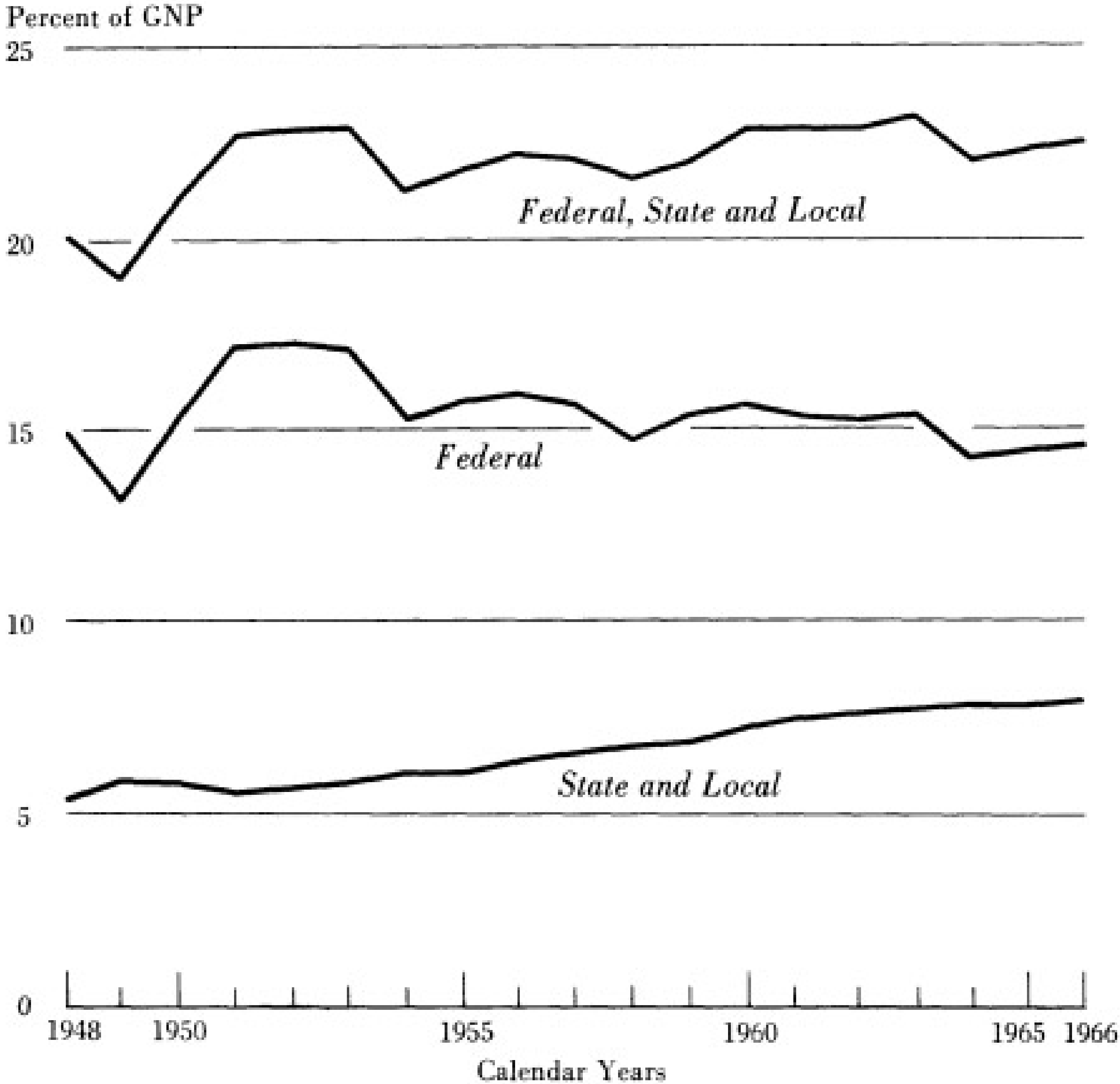
Item	Amount 1966	Amount 1956	Amount 1946	Percent Increase 1946-1966	Percent Increase 1956-1966	Percent of GNP 1966	Percent of GNP 1956	Percent of GNP 1946
	------(billions)------							
All governments, total[1/]	$213.1	$109.0	$50.9	319%	96%	28.7%	26.0%	24.4%
Taxes	167.5	93.7	43.9	282	79	22.5	22.4	21.0
Contributions for social insurance	38.2	12.6	6.0	537	203	5.1	3.0	2.9
Other	7.4	2.7	1.0	640	174	1.0	0.6	0.5
Federal Government, total	143.2	77.6	39.1	266	85	19.3	18.5	18.7
Taxes	108.8	66.7	33.4	226	63	14.6	15.9	16.0
Contributions for social insurance	33.3	10.6	5.5	505	214	4.5	2.5	2.6
Other	1.2	0.3	0.2	500	300	0.2	0.1	0.1
State and local governments, total	84.7	34.7	12.9	557	144	11.4	8.3	6.2
Federal grants-in-aid	14.8	3.3	1.1	1,245	348	2.0	0.8	0.5
Receipts from own sources	69.8	31.4	11.8	492	122	9.4	7.5	5.7
Taxes	58.7	27.0	10.5	459	117	7.9	6.4	5.0
Contributions for social insurance	4.9	2.0	0.5	880	145	0.7	0.5	0.2
Other	6.2	2.4	0.8	675	158	0.8	0.6	0.4
Exhibit: Gross National Product	743.3	419.2	208.5	256	77	-	-	-

1/ Excludes intergovernmental transactions.

Source: U.S. Department of Commerce, Office of Business Economics, The National Income and Product Accounts of the United States, 1929-1965 (Washington, D.C., U.S. Government Printing Office: August, 1966); and Survey of Current Business, July, 1967.

Figure 1.

TAXES AS PERCENTAGE OF THE GROSS NATIONAL PRODUCT, 1948 TO 1966



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Despite this spectacular rise in tax yields, the overall burden of National, State and local taxes in the United States is lower than that of most Western Nations.1/ A recent report issued by the Organization for Economic Cooperation and Development computes the American tax burden, including social insurance taxes, at 27.3 percent of GNP in 1965, which placed it in tenth place as to size of tax burden among other Western Nations:*

Sweden	39.0%
France	38.5
Austria	35.2
Norway	34.9
West Germany	34.4
Netherlands	34.1
Belgium	29.7
Denmark	29.7
Italy	29.6
United States	27.3
Canada	27.1
Switzerland	20.8

EMPLOYMENT GROWTH

Further evidence of the dynamic characteristic of fiscal federalism is available in employment data. The National, State, and local governments employed about 11-1/2 million civilians in October 1966, 16.7 percent of the monthly average of nonagricultural civilian employment that year (Table 3). Of that total, which includes both full-time and part-time employees, 2.9 million worked for the Federal Government, 2 million for the State governments, and over 6 million for local governments. This, however, is like looking at one frame of a motion picture.

Unparalleled Growth in State and Local Payrolls

State and local government employment has grown by leaps and bounds since 1946. With burgeoning demands for domestic public services, State government employment jumped from about 800 thousand to well over two million in the past 20 years, and local government employment more than doubled from almost three million to over six million.

As a result, with differing rates of Federal, State and local employment growth, the distribution of public employees among the three levels of government shifted from 2/5 Federal and 3/5 State-local in 1946 to 1/4 -3/4 in 1966. Similar but less marked shifts are evident in the trend of payroll costs (Figure 2).

1/ See Appendix G for numbered textual footnote references.

* The OECD figure does not agree exactly with the 26.7 percent figure for 1965 taxes and social insurance contributions on a national income and product account basis, but is close enough to that figure for comparative purposes. The Agency for International Development reported similar comparative tax burdens for 1965, with the U.S. figure at 26.7 percent (AID, PC/SRD, June, 1966).

TABLE 3.--PUBLIC AND PRIVATE CIVILIAN EMPLOYMENT IN THE UNITED STATES, 1946, 1956 AND 1966

Item	1966	1956	1946	Percent Increase or Decrease (-) 1946-1966	1956-1966
	-----(thousands)------				
Civilian labor force, total[1]	75,770	66,552	57,520	31.7%	13.9%
Employed	72,895	63,802	55,250	31.9	14.3
Agricultural	3,979	6,283	8,320	-52.2	-36.7
Nonagricultural	68,915	57,517	46,930	46.8	19.8
Unemployed	2,875	2,750	2,270	26.7	4.5
Percent of civilian labor force	3.8	4.1	3.9	-	-
Public civilian employment, total[2]	11,479	7,685	6,001	91.3	49.1
Federal Government[3]	2,861	2,410	2,434	17.5	18.7
State and local	8,618	5,275	3,567	141.6	63.4
State	2,211	1,268	804	175.0	74.4
Local	6,407	4,007	2,762	132.0	60.0
Public civilian employment as a percent of total nonagricultural employment:					
Total	16.7	13.4	12.8	xx	xx
Federal Government	4.2	4.2	5.2	xx	xx
State and local	12.5	9.2	7.6	xx	xx
State	3.2	2.2	1.7	xx	xx
Local	9.3	7.0	5.9	xx	xx
Public civilian employment-percentage distribution:					
Total	100.0	100.0	100.0	xx	xx
Federal Government	24.9	31.4	40.6	xx	xx
State	19.3	16.5	13.4	xx	xx
Local	55.8	52.1	46.0	xx	xx

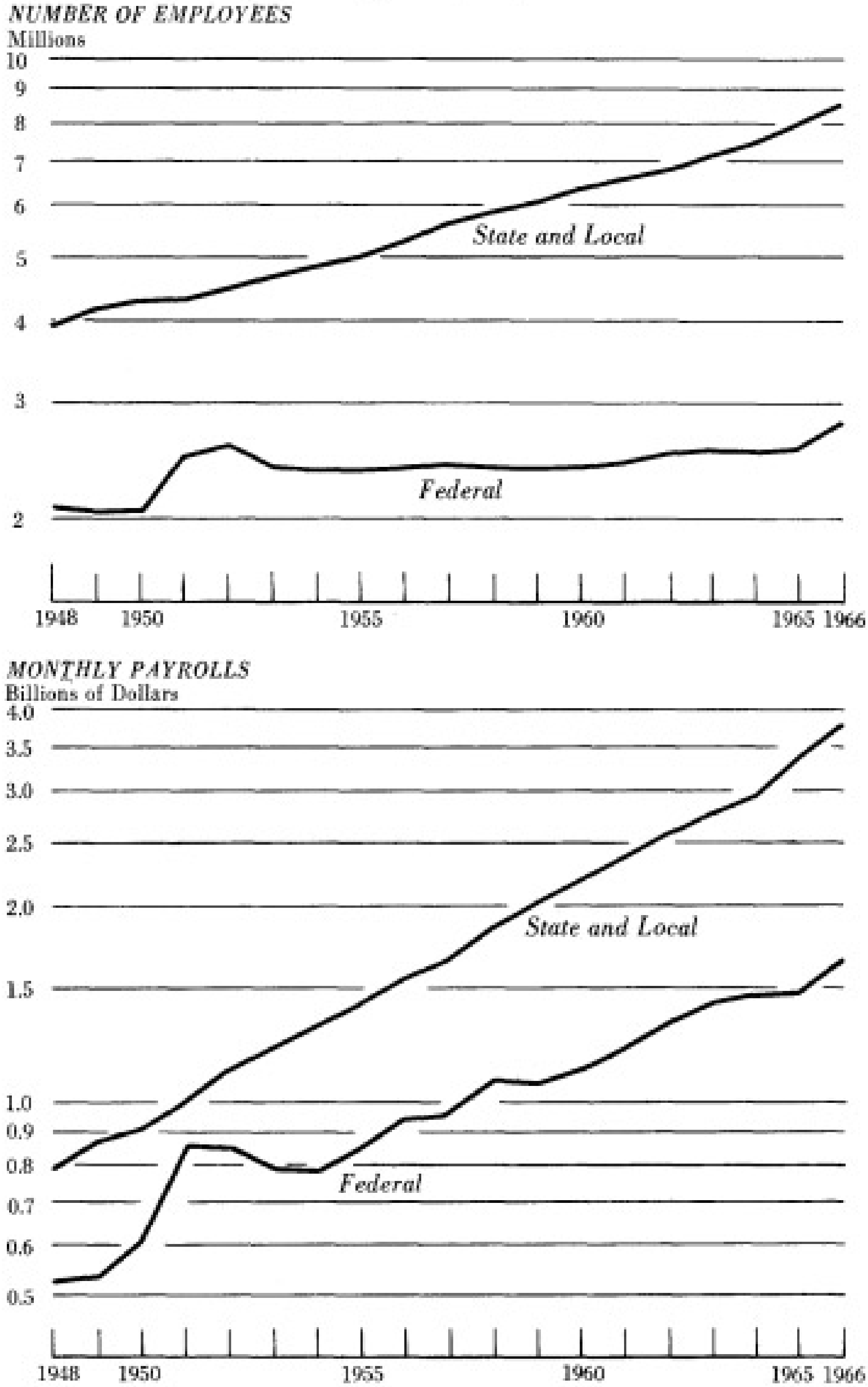
1/ Average of monthly figures.
2/ As of October of each year (full-time and part-time employees).
3/ Comprises all Federal civilian employees, including those outside the United States. Data include civilian employees of the National Guard paid directly from the Federal Treasury (in October 1966, 40,000 persons).

Source: U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings and Monthly Report of the Labor Force, June, 1967; and U.S. Bureau of the Census, Compendium of Public Employment (1962 Census of Governments, Vol. III), and Government Employment in 1966, Series GE-No. 4.

Figure 2.

GOVERNMENT EMPLOYMENT AND PAYROLL, 1948 TO 1966

Logarithmic Scale



Note: Data are for month of October; 1957 data were reported for April and have been adjusted for comparability to October.

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GOVERNMENTAL FINANCES FRAMEWORK

While the yardsticks provided by the Gross National Product and employment are helpful in comparing the relationship of the public to the private sector, they only give an inkling of the internal dynamics of fiscal federalism. To look at this facet of our federal system, we must turn to data on governmental finances provided by the Bureau of the Census' Governments Division.

This familiar framework involves even larger dollar magnitudes than the GNP framework. The difference arises because Census data take account not only of the value of goods and services produced, but also of the transfer functions of government in redistributing incomes to alleviate the economic hardship of the poor, to provide income maintenance for the retired, and to compensate for the sacrifices of veterans of past wars. Census data also reveal the role of borrowing in the finances of National, State and local governments.

Thus, in Census terms, all governments in the U.S. spent a total of $225 billion, and obtained $226 billion in revenue during fiscal year 1966. They had $427 billion of outstanding debt at the end of their 1965-66 fiscal years, with fiscal year net borrowing of $10 billion. In Table 4, this snapshot is enlarged to reveal the fiscal detail for various levels and kinds of governments that comprise our federal system.

Census data on governmental finances show the same tremendous growth in government in the United States since the end of World War II that was evident in the changing relationships of the public to the private sector relative to the Gross National Product, and employment yardsticks. Taking 1948 as the base, total expenditure of all governments almost quadrupled, from $55 billion to $206 billion; revenue tripled, from $67 billion to $203 billion; and indebtedness rose more than 50 percent, from $271 billion to $417 billion (Table 5).* Except for insurance trust transactions, growth in State and local government finances outpaced that of the National Government. Whereas the general expenditure of the Federal Government about tripled and its general revenue grew about 2-1/2 times, State and local general expenditure and general revenue quadrupled. Indebtedness of the National Government rose 26 percent, while State and local government debt rose more than 400 percent during the period (Figure 3).

A substantial share of the increase in the magnitude of government finances during the postwar period is attributable to population and price increases. The effect of those factors can be eliminated from the data by converting government finance items to per capita amounts in constant prices. In those terms, the increases in most government finance items are not as impressive as in absolute current dollars. But even in constant (1958) dollars, State and local finances outpaced Federal Government finances. In constant prices, Federal debt actually declined relative to population, while State and local per capita debt more than doubled (see Table 5).

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* The year 1948 is the first post-war fiscal year for which comparable Census data are available. Fiscal 1946 (ending in midyear for the Federal Government, for almost all States, most school districts, and many other local governments) included part of the last war year; and comprehensive data for fiscal 1947 were not developed by the Bureau of the Census for all governments.

TABLE 4.--SUMMARY OF GOVERNMENTAL FINANCES, BY TYPE OF GOVERNMENT, 1966

Item	All Governments	Federal Government	State Governments	Local Governments: All Local Governments	Local Governments: Counties	Local Governments: Municipalities	Local Governments: Townships	Local Governments: School Districts	Local Governments: Special Districts
				Amount (millions)					
Direct expenditure, total	$224,813	$129,907	$34,195	$60,711	n.a.	n.a.	n.a.	n.a.	n.a.
General	189,406	106,564	29,162	53,680	$10,774	$17,047	$2,026	$21,176	$2,658
Utility and liquor stores	7,282	-	1,081	6,201	n.a.	n.a.	n.a.	n.a.	n.a.
Insurance trust	28,126	23,342	3,952	830	n.a.	n.a.	n.a.	n.a.	n.a.
Revenue from own sources, total	225,641	141,142	43,000	41,499	n.a.	n.a.	n.a.	n.a.	n.a.
General	188,462	118,547	34,311	35,404	6,829	13,122	1,610	11,886	1,959
Utility and liquor stores	6,619	-	1,361	5,258	n.a.	n.a.	n.a.	n.a.	n.a.
Insurance trust	30,558	22,595	7,128	837	n.a.	n.a.	n.a.	n.a.	n.a.
Debt outstanding	426,958	319,907	29,564	77,487	7,208	33,714	1,989	17,841	16,736
Net increase in debt during year	10,172	2,633	2,530	5,009	586	1,852	106	1,154	1,313
				Percentage Distribution					
Direct expenditure, total	100.0%	57.8%	15.2%	27.0%	n.a.	n.a.	n.a.	n.a.	n.a.
General	100.0	56.3	15.4	28.3	5.7%	9.0%	1.1%	11.2%	1.4%
Utility and liquor stores	100.0	-	14.8	85.2	n.a.	n.a.	n.a.	n.a.	n.a.
Insurance trust	100.0	83.0	14.1	3.0	n.a.	n.a.	n.a.	n.a.	n.a.
Revenue from own sources, total	100.0	62.6	19.1	18.4	n.a.	n.a.	n.a.	n.a.	n.a.
General	100.0	62.9	18.3	18.8	3.6	7.0	0.9	6.3	1.0
Utility and liquor stores	100.0	-	20.6	79.4	n.a.	n.a.	n.a.	n.a.	n.a.
Insurance trust	100.0	73.9	23.3	2.7	n.a.	n.a.	n.a.	n.a.	n.a.
Debt outstanding	100.0	74.9	6.9	18.1	1.7	7.9	0.5	4.2	3.9
Net increase in debt during year	100.0	25.9	24.9	49.2	5.8	18.2	1.0	11.3	12.9

n.a. = Data not available.

Source: U.S. Bureau of the Census, Governmental Finances in 1965-66.

TABLE 5.--THE POSTWAR GROWTH OF GOVERNMENTAL FINANCES, IN CURRENT AND CONSTANT DOLLARS, BY LEVEL OF GOVERNMENT

Item	Current Prices						Per Capita in Constant Prices (1958=100)		
	Total			Per Capita					
	1966	1948	Percent Increase 1948-1966	1966	1948	Percent Increase or Decrease (-) 1948-1966	1966	1948	Percent Increase or Decrease (-) 1948-1966
	----(millions)-----								
All Governments									
Expenditure, total[1/]	$224,813	$ 55,081	308.1%	$1,148	$ 375	206.1%	$ 927	$ 551	68.2%
General[1/]	189,406	50,088	278.1	967	342	182.7	780	502	55.4
Utility and liquor store	7,282	2,379	206.1	37	16	131.3	30	24	25.0
Insurance trust	28,126	2,614	976.0	144	18	700.0	116	26	346.2
Revenue, total[1/]	225,641	67,005	236.8	1,152	457	152.1	930	671	38.6
General[1/]	188,462	59,666	215.9	962	407	136.4	776	598	29.8
Utility and liquor store	6,619	2,511	163.6	34	17	100.0	27	26	3.8
Insurance trust	30,558	4,828	532.9	156	33	372.7	126	48	162.5
Debt outstanding at end of fiscal year	426,958	270,948	57.6	2,180	1,848	18.0	1,759	2,713	-35.2
Federal Government									
Expenditure, total	143,022	35,592	301.8	730	248	194.4	613	355	72.7
General	119,679	34,175	250.2	611	233	162.2	513	334	53.6
Intergovernmental	13,115	1,771	640.5	67	12	458.3	56	17	229.4
Direct	106,564	32,404	228.9	544	221	146.2	457	317	44.2
Insurance trust	23,342	1,417	1,547.3	119	10	1,090.0	100	14	614.3
Revenue total	141,142	47,254	198.7	721	322	123.9	605	462	31.0
General	118,547	44,277	167.7	605	302	100.3	508	433	17.3
Insurance trust	22,595	2,977	659.0	115	20	475.0	97	29	234.5
Debt outstanding at end of fiscal year	319,907	252,292	26.8	1,633	1,721	-5.1	1,371	2,465	-44.4

TABLE 5 (CONCL'D).--THE POSTWAR GROWTH OF GOVERNMENTAL FINANCES, IN CURRENT AND CONSTANT DOLLARS, BY LEVEL OF GOVERNMENT

Item	Current Prices						Per Capita in Constant Prices (1958=100)		
	Total			Per Capita					
	1966	1948	Percent Increase 1948-1966	1966	1948	Percent Increase or Decrease (-) 1948-1966	1966	1948	Percent Increase or Decrease (-) 1948-1966
	-----(millions)---								
			State and Local Governments						
Expenditure, total	$ 94,906	$21,260	346.4%	$485	$145	234.5%	$376	$218	72.5%
General	82,842	17,684	368.5	423	121	249.6	328	182	80.2
Utility and liquor store	7,282	2,379	206.1	37	16	131.3	29	24	20.8
Insurance trust	4,782	1,197	299.5	24	8	200.0	19	12	58.3
Revenue, total	97,619	21,613	351.7	498	147	238.8	386	222	73.9
General	83,036	17,250	381.4	424	118	259.3	329	177	85.9
Intergovernmental (from Federal)	13,120	1,861	605.0	67	13	415.4	52	19	173.7
From own sources	69,916	15,389	354.3	357	105	240.0	277	158	75.3
Utility and liquor store	6,619	2,511	163.6	34	17	100.0	26	26	-
Insurance trust	7,964	1,851	330.3	41	13	215.4	32	19	68.4
Debt outstanding at end of fiscal year	107,051	18,656	473.8	547	127	330.7	424	192	120.8

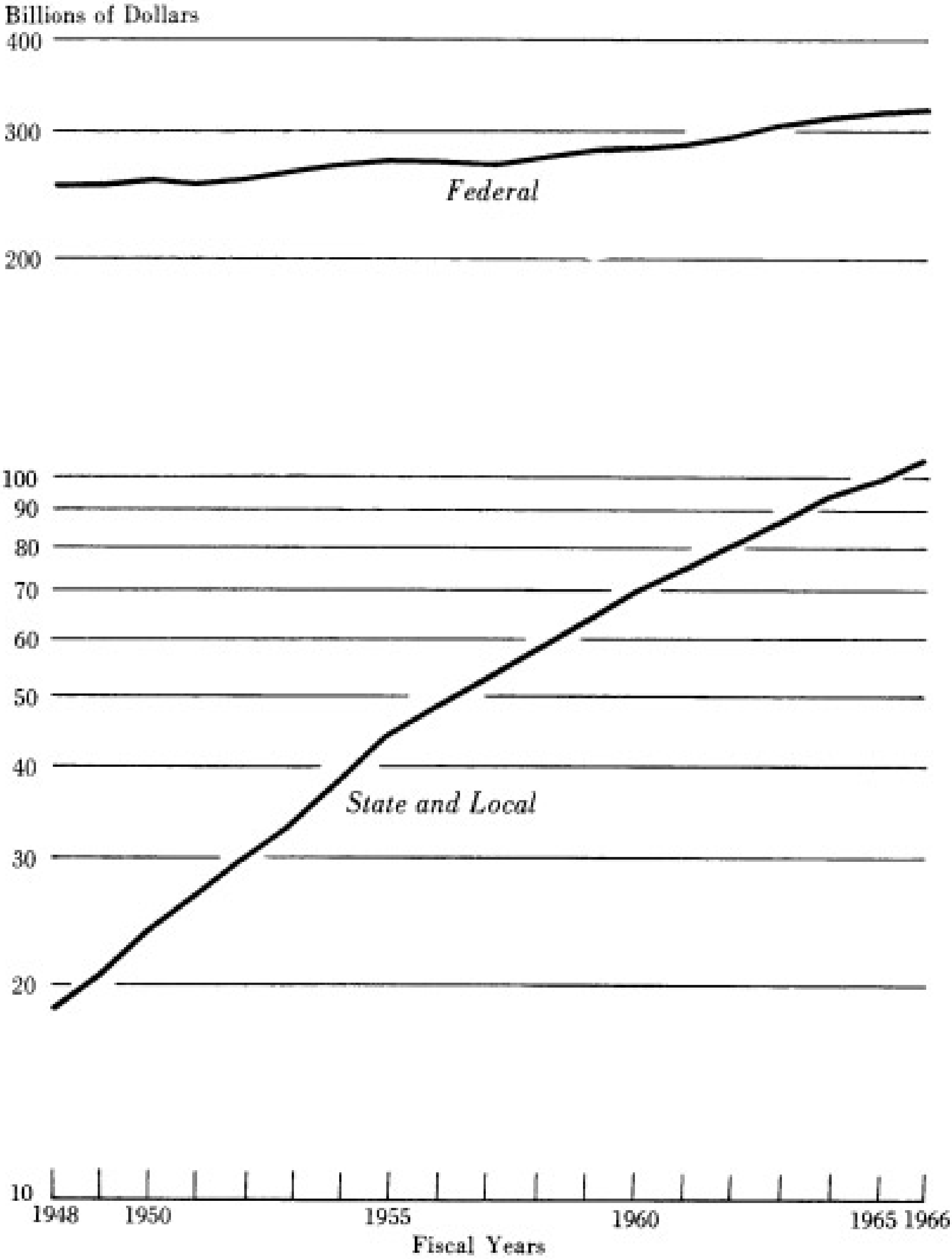
1/ Duplicative transactions between levels of government are excluded.

Note: Detail may not add to totals because of rounding.

Source: U.S. Bureau of the Census, Historical Statistics on Governmental Finances and Employment, 1962 Census of Governments. Vol. VI, No. 4 (U.S. Government Printing Office, Washington, D.C., 1964); and Governmental Finances in 1965-66.

Figure 3.

FEDERAL AND STATE-LOCAL DEBT, 1948 TO 1966
Logarithmic Scale



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FURTHER GROWTH IN PROSPECT

In recent years a number of investigators have projected State and local revenue and expenditure patterns. They have taken two basic approaches: (1) projection of the government sector within the framework of the National economy (National income and product accounts); and (2) projection of governmental finances within the classification framework of the Census of Governments.

The first approach is exemplified by a projection of U.S. economic growth to 1970 and 1975 recently published by the Joint Economic Committee of the U.S. Congress. It estimates an almost doubling of GNP by 1975 with a commensurate growth in governmental expenditures. In relation to GNP, Federal aid and State and local expenditure can be viewed as the growth elements in the governmental sector.

The Committee assumed for the purpose of its study that there would be no change in Federal tax or expenditure policy. On this assumption, they came up with a substantial Federal Government surplus ($17.6 billion for 1970 and $54.2 billion for 1975). In fact, however, as the Committee points out, a policy that permitted such Federal surpluses simply to accumulate would impede maximum economic performance and would result in serious dislocations.[2/] Accordingly, the Committee made alternative projections, based upon policy decisions mainly involving adjustments in the public sector. After allowing for a small surplus, the remainder of the Federal surplus was distributed one-third to tax reduction and two-thirds to increased Federal expenditure, largely in the form of aid to States and localities. Based on these policy assumptions, the GNP projections remain unchanged, but the government sector is increased from 27 percent of the GNP in 1965 to almost 30 percent by 1975.

The Joint Economic Committee's projections for 1975 conform closely to projections of the National Planning Association. That organization estimates 1975 GNP at between $1.1 and $1.2 trillion; Federal Government expenditure between $185 and $221 billion; State-local expenditure, between $154 and $178 billion; and total government expenditure, between $318 and $365 billion.

On the basis of explicit economic and demographic assumptions, the "government finances approach" examines each major revenue and expenditure item in detail to explain its determinants and to project its future behavior.

Two recent studies based on this approach are: (1) "Project '70," conducted under the auspices of the State-Local Finances Project of George Washington University and published in a series of separate documents by the Council of State Governments;* and (2) Fiscal Outlook for State and Local Government to 1975. Tax Foundation, Inc. (New York: 1966).

The "Project '70" study projected the State-local tax base for each tax source by State, and estimated the yield of each in calendar 1970, assuming the rates and structures in existence in mid-1965. It also included projections of Federal assistance to States and localities under the then existing grant programs. On this basis State and local taxes were projected at $70.3 billion

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* A summary entitled "Project '70: Projecting the State-local Sector," appears in Review of Economics and Statistics, May 1967.

(the fiscal 1965 total was $51.2 billion); total available revenue, including Federal aid, was projected at between $102 and $108 billion in 1970, and total fund requirements at $122 billion. The difference between "fund requirements" and "available revenues" would be made up from a $14 billion to a $20 billion increase in the annual rate of new borrowing.

The Tax Foundation study which makes projections of State and local revenue, expenditure, and outstanding debt for fiscal 1970 and 1975, uses essentially the same approach and assumptions and arrives at similar findings. A comparison of the two projections appears in Tables 6, 7 and 8.

The Committee for Economic Development takes a somewhat different tack in projecting State and local revenues and expenditures to 1975.[4/] Using an aggregative technique, but applying the same general assumptions as to the growth in the economy and changes in population, the CED concludes that it "would require an increase of about $24 billion in general expenditures of State and local governments between 1965 and 1975 simply to maintain the 1965 overall level of scope and quality . . ."[5/] Hence (with 1965 general expenditure at $74.5 billion) CED projects State and local general expenditure for 1975 (in 1965 prices) at $98.5 billion.

However, CED finds also that keeping the State and local tax structure constant and with normal additions to debt the State-local revenue yield would be $126 billion in 1975. This, according to CED, would allow for a "scope and quality" increase of 21 percent in general expenditure, bringing it to $119 billion. Then, if the States were to follow the CED recommendations to broaden their use of the general sales tax and also to make more extensive use of personal income taxes, they could raise their "scope and quality" of the service to 33 percent and increase their State-local expenditure to $131 billion (again at 1965 prices).[6/]

We noted earlier the close conformity between projections of State-local expenditures to 1975 developed by the Joint Economic Committee and the National Planning Association on a national income and product accounts basis. Because "Project '70," Tax Foundation, and CED projections are based on the "government finances" concept, it is difficult to wrench all five projections into the same mold. The four projections for 1970 are similar in magnitude, but the four projections for 1975 begin to diverge as the recapitulations in Table 9 shows. The convergence of 1970 projections and divergence of 1975 projections may well stem from underlying assumptions. Over the long pull, varying assumptions as to rates of growth in the components of government expenditures can result in substantial differences in the aggregates. The common thread that runs through all the projections is obvious: State and local government expenditures will rise sharply over the next decade.

TABLE 6.--COMPARISON OF PROJECTED LEVELS OF STATE AND LOCAL GOVERNMENT FINANCES, 1970 AND 1975
(Billions)

Item	Council of State Governments Calendar 1970	Tax Foundation Fiscal 1970	Tax Foundation Fiscal 1975
Source of funds:			
General revenue, own sources, including net liquor store profits:			
Illustration I	86.4)	88.6	117.2
Illustration II	84.3)		
Revenues from Federal Government:			
Illustration I	22.1)	20.3	30.0
Illustration II	18.5)		
Total borrowing:			
High revenue illustration	13.9)	14.0	17.1
Low revenue illustration	19.6)		
Total funds available	122.4	122.9	164.2
Use of funds:			
General expenditures	108.3	105.9	142.0
Debt retired	7.5	6.8	8.8
Contribution to employee retirement	2.5	2.4	3.0
Deficit on utility operations	.6	.5	.5
Additions to liquid assets	3.5	2.2	3.6
Total funds required	122.4	117.8	157.9
Funds available less funds required	-	5.1	6.4

Source: Tax Foundation, Inc., Fiscal Outlook for State and Local Government to 1975 (New York: 1966).

TABLE 7.--COMPARISON OF PROJECTED LEVELS OF STATE AND LOCAL GOVERNMENT TAX COLLECTIONS, 1970 AND 1975
(Billions)

Tax	Council of State Governments, Calendar 1970	Tax Foundation Fiscal 1970	Tax Foundation Fiscal 1975
Total taxes	$70.3	$69.6	$90.2
Individual income	6.6	6.3	9.5
Corporation income	2.3	2.7	3.7
Property	33.0	29.6	37.8
Sales and gross receipts, total	21.9	21.9	27.9
General	10.7	10.8	14.5
Selective, total	11.2	11.1	13.4
Motor fuel	5.2	5.2	6.2
Tobacco	1.7	1.6	1.8
Alcoholic beverage	1.3	1.1	1.3
Other	3.0	3.1	4.1
Motor vehicle and operators' licenses	2.4	2.4	2.6
All other	4.2	4.5	5.8
Additions since 1965	-	2.3	3.0

Source: Tax Foundation, Inc., Fiscal Outlook for State and Local Government to 1975 (New York, 1966).

TABLE 8.--COMPARISON OF PROJECTED LEVELS OF STATE AND LOCAL GOVERNMENT GENERAL EXPENDITURES, 1970 AND 1975
(Billions)

Function	Council of State Governments, Calendar 1970	Tax Foundation Fiscal 1970	Tax Foundation Fiscal 1975
Total general expenditures	$108.3	$105.9	$142.0
Education, total	44.6	41.5	52.9
Local schools	31.0	30.4	37.1
Higher education	12.1	9.8	14.0
Highways, total	16.2	14.1	16.6
Current	5.7	4.8	6.1
Capital	10.4	9.2	10.5
Public welfare	8.9	10.9	17.1
Cash assistance	4.5	4.6	5.3
Medical vendor payments	1.8	4.5	9.0
Other	2.7 1/	1.8	2.8
Health	1.6	1.2	1.7
Hospitals	6.4	6.3	8.9
Police and fire	5.1	5.3	7.1
Interest on general debt	3.6	3.7	5.3
Sewerage and sanitation	3.5	3.3	4.4
All other general	18.5	19.7	28.0

1/ Includes $1.1 billion public welfare expenditure under the Poverty Program.

Source: Tax Foundation, Inc., Fiscal Outlook for State and Local Government to 1975 (New York, 1966), and The Council of State Governments, Financing Public Welfare: 1970 Projections, July, 1965.

TABLE 9.--RECAPITULATION OF STATE-LOCAL EXPENDITURE PROJECTIONS, 1970 AND 1975

	Estimated State-Local Expenditures	
	1970	1975
Joint Economic Committee of Congress 1/	$119	$173
National Planning Association 2/	117	172
Tax Foundation, Inc. 3/	118	158
Council of State Governments 3/	122	-
Committee for Economic Development 4/	-	152

1/ "Equilibrium Full Employment Position," National Income and Product Accounts Basis--Mean of High and Low Projections.
2/ "Judgment Projection"--National Income and Product Accounts Basis.
3/ "Funds Required"--Government Finances Framework.
4/ "General Expenditures"--Government Finances Framework. Original CED estimate of $131 billion, based on 1965 prices and using the "strengthened tax system, was inflated to 1975 prices for comparability with Tax Foundation estimate by assuming a price change of 1.5 percent per year.

Source: ACIR Staff Estimates.

However, National and State aggregates conceal wide variations in local revenue capabilities and expenditure requirements--a critical point that the authors of these studies both recognize and emphasize. Even if it is true that there will be no revenue-expenditure gap on the average, such gaps will develop in particular States--gaps which will have to be met from new tax and non-tax sources, increased rates, and more borrowing. One recent study, commissioned by the National League of Cities, actually projects an aggregate revenue gap for municipal governments alone of $262 billion over the next 10 years. 7/*

The predictive value of expenditure and revenue projections diminishes as the focus of attention shifts from the nation to the State and particularly to the community. For example, many of our great cities appear to have a rather bleak fiscal prospect despite the finding that on the average States and localities should be able to make ends meet.

The multiplicity of local governments adds a "third dimension" to any revenue and expenditure projection--an intergovernmental factor that tends to minimize the effectiveness of both the local property tax base and State equalization efforts and to maximize the effectiveness of forces pushing in the direction of greater expenditures. For example, the industrial assessments to be found in metropolitan tax havens or in "low rate" jurisdictions are locked up and thus enjoy a partial tax exemption privilege. On the expenditure side the multiplicity of school districts and units of general government create their own competitive demand for emulation--if one school district extends the school day or the school year, the neighboring jurisdictions will soon be confronted with the demand for comparable improvements.

The multiplicity of governments and its political corrollary "home rule" can work against the most efficient allocation of resources--a "surplus" situation in one community ordinarily will finance projects of increasingly lower priority rather than underwrite a high priority function in a neighboring community confronted with a "deficit" situation. It should also be noted that the multiplicity of local governments creates a political milieu that makes State equalization efforts more costly than efficient. In order to help the poorer districts or communities, it is usually necessary to provide a measure of aid to all districts including the most wealthy.

It is far easier to point out the policy limiations of National and State projections than to calculate a surplus or deficit for each major unit of local government in the United States. No organization has yet found it expedient to take on this painstaking task, and the Commission has not done so.

Nevertheless, there is an imperative need for the type of information that will enable policymakers to draw reliable inferences about the shape of things to come at the local level in general and for metropolitan communities in particular. More specifically, what is the fiscal prognosis for our major central cities and their suburban communities? The Commission's assessment is presented in Volume 2.

REVENUE SHARING

Those troubled with the fiscal constraints with which State and local governments contend as they strive to respond to the people's burgeoning needs are understandably attracted to suggestions that the Federal Government deploy more of its resources to their needs. They received strong encouragement at the time of the 1964-65 Federal tax reduction, when much public discussion inside and outside the Federal Government focused on the striking revenue growth potential of the Federal tax structure and the long-run prospect of collections from present taxes outrunning anticipated Federal expenditure commitments. Revenue sharing is but one of several alternative methods for utilizing a Federal surplus (Appendix B, Table B-2).

The idea of increased Federal financial assistance was given impetus by the suggestion, made by Chairman Walter Heller of the Council of Economic Advisors in 1964, that the Federal Government share some of its growing income tax collections with the States when another tax reduction opportunity presented itself. If State and local treasuries could be buttressed with general purpose financial aid they would be freer to shape responsive remedies to their particular local needs. To the extent that Federal taxes collected through the progressive income tax could be substituted for further increases in State and local collections from regressive sales and property taxes, the fairness of the overall American tax system would be improved.

Federal tax sharing proposals had been sponsored inside and outside the Congress for some years. These earlier plans for general purpose revenue sharing, however, were on the basis of the place of collection and were criticized for failing to take account of State needs and resources and for ignoring the fact that people may pay their taxes in one State but live and work in one or more others. Dr. Heller proposed that the Federal Government share some of its income tax collections on the basis of population and that it depart from the long standing practice of limiting its aid to specifically identified purposes and functions.

Key Features

While the revenue-sharing idea has not been embraced by the National Administration, it has attracted strong Congressional interest. In the 89th Congress, at least 57 members sponsored or co-sponsored 51 tax-sharing bills. The 90th Congress in its first session alone almost doubled this number with other 110 Members sponsoring or co-sponsoring over 90 separate bills among which are 35 different variations on the tax-sharing theme (Appendix B, Table B-2).

<u>Basis of sharing</u>--Most of the bills (69) introduced in the 90th Congress make provisions for sharing from one to five percent of federal income tax collections. Six bills use taxable income rather than actual tax collections in determining the amount set aside for distribution to the States. Two use total federal tax revenues and another two employ tobacco and alcohol tax collections.

<u>Allocation factors</u>--Population, per capita income, and revenue or tax effort are the most popular allocation factors with 56 bills using a combination of these. Two bills use only population, two use population and per capita income, and one bill uses the combination of population and revenue effort.

State shares based on each of these factors are set out in Table B-3. The return of Federal revenues directly to the States of collection was the most popular factor in the 89th Congress and still commands some support. Twelve bills use this factor, although it does not equalize among rich and poor States. Some proposals, most notably those advocating aid to education only, have other special allocation factors such as public school enrollment.

Provision for local sharing--Thirty-two bills make no provision for local pass-through, leaving this to the individual States. Of the remaining number, forty-four specify that a certain percentage, generally 45-50 percent of the State allocation, go to local governments. One bill provides for direct sharing from the National Government to the metropolitan areas with at least 1.5 million people, under specified conditions.

None of the bills introduced thus is directed explicitly to the reduction of fiscal disparities among jurisdictions in metropolitan areas. A per capita distribution formula would produce a moderate degree of equalization between wealthy and poor jurisdictions providing at the same time the most aid to the more populous jurisdictions. But in order to substantially reduce disparities between the relatively affluent suburbs and fiscally hard-pressed cities, the population factor is not enough. Others may need to be included. If, for example, the local allocation formula were based on non-educational expenditures, central cities would receive greater aid than the suburban jurisdictions. The 35 largest central cities contain approximately 18.5 percent of the Nation's population, yet they would receive 28 percent of per capita funds adjusted for noneducational tax effort--a clear-cut method for compensating the central city for its municipal overburden. By the same token, the suburban communities in these 35 metropolitan areas, with 21 percent of the population in the United States, would receive 18.3 percent of the support grants. Thus, while coming to the aid of all communities, the most assistance would be extended to those communities with greatest need. State, local and selected city shares of a $4 billion support grant are set out in Table B-4.

Expenditure controls--The great attraction for State governments is the prospect of "no-strings" use of the resulting funds. Both State and local administrators have long sought to obtain bloc grants, free from regulations as to matching and use, as described elsewhere in this Report.

Expenditure controls on the Federal tax money being shared with States range from totally "free money" in nine bills to comprehensive and stringent State and local government modernization plans in another (Reuss H.R. 1166). The remaining bills provide controls ranging from compliance with certain Federal statutory requirements such as civil rights and fair labor practices to the submission of comprehensive State spending plans. Most bills call for periodic review of the program by the Federal executive and legislative branches.

Relation to Federal grant-in-aid programs--Out of twenty-eight bills calling for a cut-back of existing grants-in-aid in the legislative preamble only three actually have a provision directing such a cut-back. Two other bills make such a cut-back provisional.

Illustrative Proposals

The evolution of the concept of Federal general support for States and localities can be illustrated by several of the specific proposals pending in the 90th Congress.

Javits bill (S. 482)--This bill focuses the shared revenues on expenditures for the major "people related" functions--health, education and welfare. It provides for one percent of taxable income reported on individual income tax returns to be set aside in a revenue-sharing fund, 85 percent to be distributed to the States on the basis of population and relative revenue effort with the remaining 15 percent used to supplement the shares of States with below average per capita incomes. A local pass-through provision requires the States to submit a local sharing plan each year but leaves the exact amount to be shared up to each State. The local allocation must take into consideration population, density, per capita income, local costs and any other relevant factors necessary to the individual State. The legislation prohibits the use of these funds for highways, property tax relief, debt service, disaster relief and administrative expenses.

Tydings bill (S. 673)--This bill is unique in providing direct aid to metropolitan areas of 1.5 million people requesting a per capita allocation. A Commission on Federalism would be established to distribute to States a maximum of one percent of aggregate individual and corporate income tax receipts. The distribution would be on a population basis except where a State-local tax effort ratio is below the national average. Where direct allocation is made to a metropolitan area, the per capita amount allocated to the State for the area's population is reduced to two-fifths of the full amount it would have received--an incentive to a State for facilitating the creation of a metropolitan approach. Comprehensive State and local spending plans are to be submitted to the Federalism Commission acting in an advisory capacity only. It would, however, make an annual report to the Congress with an analysis and judgement as to the overall effectiveness of the plan as it operated in the previous year.

Reuss bill (H.R. 1166)--This bill requires the modernization of State and local governments as a precondition of large scale Federal financial aid. It provides for a $50 million straight appropriation for initial planning grants to States to modernize State and local government; each State to receive a per capita share, but not less than a minimum of $250,000. This money is for developing a comprehensive State and local government modernization plan. The plan must meet certain requirements many of which parallel recommendations of the Advisory Commission on Intergovernmental Relations. The plan is subject to the approval of a regional coordinating committee, composed of representatives of Governors and this Commission. The National Government is to make available a sum of $5 billion annually for three years in the form of bloc grants to assist the States in implementing their plans. The distribution to States is on the basis of population, but up to 20 percent of the money can be redistributed to low-income States based on their relative poverty level, urbanization, and tax effort as determined by this Commission. Each State must distribute a minimum of 50 percent of its allocation to its local governments.

Goodell bill (H.R. 4070) and Laird bill (H.R. 5450)--Two strong revenue-sharing advocates have introduced bills that are similar in their sharing basis and their State distribution; both call ultimately for an appropriation of 5 percent of total individual income tax receipts. Both bills distribute 90 percent of this appropriation on the basis of population and tax effort and ten percent to the 17 States with the lowest per capita income on the basis of population and per capita income. The Goodell bill earmarks 45 percent of the State allocation for local government with the exact formula determined by each State. The Laird bill leaves the distribution of the money entirely to the discretion of the States. Both bills call for a cutback in the present grant-in-aid program but only the Laird bill directs and authorizes such a cutback. The Laird bill, in addition, provides a Federal income tax credit for State and local taxes paid by individuals, beginning at 10 percent and increasing 10 percent each year to a maximum of 40 percent.

Foreign Experience With Revenue Sharing

Several foreign countries have used the general support device and the same general considerations (equalization and local responsibility issues) were also relevant issues abroad. The lessons of foreign experience, however, are not clear-cut and therefore may not be of general applicability to the United States either now or in the future. Nonetheless, one of the more general findings that does emerge rather strikingly, is the adoption of the income tax as a revenue source for the central government, thereby shutting off or constraining its use by lower governmental levels. This situation of fiscal imbalance, therefore, generated pressures for devices to channel money from the Federal to the State sector involving the complex political problems of creating a sharing arrangement acceptable to several competing governmental units. In India, however, tax sharing avoids this political confrontation, since this is written into the Constitution, with a statutory body--the Finance Commission--appointed every five years to determine the actual tax shares for each region or State.

Although the tax sharing debate in the United States is most generally linked solely to the sharing on the individual income tax, the general support programs of both Canada and Germany include additional taxes as well. In the latter, for example, the corporate income tax is also shared between the Federal and State governments and the 1966 Commission on Financial Reform recommended including also the turnover tax (a sales levy on successive stages of production) as well as the gasoline tax, provided the State use the receipts only for urban road construction.

By and large, equalization has been the objective of tax sharing arrangements in other countries. Canada goes quite far in this direction, providing grants in the amounts necessary to bring the per capita yield from the various taxes included in the base up to the average level in the two wealthiest Provinces. Germany also has equalization features built in to its system with the interesting feature that States are obliged to grant a part of their receipts to municipalities; this share, however, is determined by State--rather than--Federal law.

The experience in India is different. Although some attention is given to equalization, the results are rather mixed because some of the taxes that are returned are done so on the basis of origin of collection. Thus, the more efficient tax administration powers of the Federal sector are called into play specifically. Some observers read the past experience in India as a demonstration that under tax sharing, State governments do not seem to make an adequate tax effort or carefully scrutinize their public expenditures, and that tax sharing obligations tend to erode the counter cyclical powers of the central Government.

Chapter 4

SIGNIFICANT FEATURES OF FISCAL FEDERALISM

In assessing the fiscal balance in our federal system, we need to examine (a) the legal system that parcels out political responsibility for revenue-raising and expenditure decisions, (b) the social and political diversities and fiscal disparities that flow from the basic decision to decentralize tax and expenditure authority, and (c) the various intergovernmental fiscal arrangements designed to minimize fiscal disparities that result from the uneven distribution of revenue resources and public service requirements.

WIDESPREAD DIFFUSION OF FISCAL AUTHORITY

Decentralized decision-making is an enduring objective of our Federal system, and a substantial measure of it is ensured by the sharing of responsibility for tax and expenditure decisions between officials representing the National Government, 50 States, and over 80,000 local governments.

Judicial decisions and legislative actions have rendered largely obsolete the doctrine of strictly limited national powers. States, however, are still free to exercise those powers that are not specifically delegated to the National Government by the Constitution, nor expressly prohibited to them under the Constitution.*

Multiplicity of Local Government

Local governments derive their powers from the States, and are organized in various ways according to the particular State constitutions and statutes under which they operate. As a result, there is considerable interstate variation in the kinds of local government and the division of responsibility between State and local governments for the provision of particular governmental services.

At the beginning of 1967 there were 81,253 local governments in the 50 States.[1/] Two trends are evident: a sharp reduction in the number of school districts, partially offset by a marked increase in the number of special districts.[2/]

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* United States Constitution, Amendment X.

Type of Government	1967	1962	1957*	1952*
Total	81,304	91,236	102,392	116,807
U.S. Government	1	1	1	1
States	50	50	50	50
Local governments	81,253	91,185	102,341	116,756
Counties	3,049	3,043	3,050	3,052
Municipalities	18,051	17,997	17,215	16,807
Townships	17,107	17,144	17,198	17,202
School districts	21,782	34,678	50,454	67,355
Special districts	21,264	18,323**	14,424	12,340

*Adjusted to include units in Alaska and Hawaii, which were reported separately prior to adoption of statehood for these areas in 1959.

**Includes about 1,700 entities which under earlier Census classification practices would have been regarded as dependent agencies of other governments rather than as separate governments.

The number of local units of government varies widely from State to State. In 1967, Illinois, Pennsylvania, Kansas, Minnesota, Nebraska, South Dakota and California each contained more than 3,500 local governments, altogether accounting for almost two-fifths of the local government units in the United States, although accounting for only one-fourth of the country's population.3/ Connecticut and Rhode Island have no county government, and less than half of the States have organized townships. Independent school district governments provide public education in almost all States, yet in Hawaii, Maryland, North Carolina and Virginia this form of local government is completely absent. In Hawaii, public education is State administered, and in the other three States it is a county and municipal function. In about half of the States where independent school district organization dominates, public school systems are also operated by general purpose governments.

Regional differences in local government units are highlighted by data on the average number of local governments per county area. In 1967, 19 States--almost all of them in the Southeast--had less than 17 local governments per county area. At the other extreme 13 States--mainly in New England and the Midwest--had 45 or more local governments per county area.4/

The implication of these numbers for fiscal federalism are far reaching. The large number of local governments means for example, that the property tax base--the principal support of local government--is divided sometimes rationally but often quite irrationally among governmental units. Throughout the system as a whole, some units enjoy relative local fiscal ease while others totter on the brink of fiscal exhaustion as they pass through various stages of development. The fiscally poor frequently must pressure the overlying State government for sustenance. The variety of ways in which States have responded is a credit to the ingenuity of man. The list includes shared taxes, local supplements to State imposed taxes, equalization grants, unconditional grants, and outright assumption of fiscal and program responsibility. One of the strengths of the federal system is its demonstrated capacity to adapt to the diversity of local circumstances. In the process, however, a clear, orderly division of authority and responsibilities as between States and localities has been lost.

Intergovernmental Distribution of Functional Responsibility

With few exceptions, domestic public functions have become the shared responsibility of several governmental levels. Indeed, if the source of financing is taken into account, there is hardly a functional area, even among those that traditionally have been considered strictly local like elementary and secondary school education and sewage and sanitation in which Federal, State and local governments do not participate to some extent.

As between State and local governments, the allocation of responsibility for the performance of particular functions also varies. The distribution of the 50 States in terms of the State percentage of State-local direct general expenditure is revealing (the U.S. average is 35.1 percent):

State Percentage of State-Local General Expenditure	Number of States
65% and over	2
55 - 64.9	2
45 - 54.9	20
35 - 44.9	16
25 - 34.9	8
Less than 25	2

For total general expenditure, the State share varies from more than two-thirds in Alaska and Hawaii to less than a fourth in New Jersey and New York (Table A-2). The two newest States prefer to provide governmental services directly from the State level. Two of our oldest States retain the tradition of "keeping government close to the people."

The relationships for the major functions of education, highways and public welfare explain most of this variation (see Table A-2). Both Alaska and Hawaii provide as direct State services much or all of the elementary and secondary education, public welfare, and highway services and facilities. Public assistance--a particularly costly function in the more industrialized States--is administered at the local level in California and New York, as well as in about one-third of the other States. Some States, like North Carolina, Virginia and West Virginia, build and maintain local roads; others like New Jersey leave this function entirely to the localities.

The fact that the performance of certain functions is assigned to local governments in some States does not necessarily mean that the financing of those functions is left entirely to the localities. Although both New York and New Jersey are almost identically low in the State proportion of State-local direct general expenditure, they differ considerably in the way local spending for those functions is financed. For example, New York localities obtain about one-third of their general revenue from the State while local governments in New Jersey until recently received from the State only about one-seventh of their general revenue.*

INTERSTATE DIVERSITIES AND DISPARITIES

As might be expected, decentralization of fiscal and political authority cuts two ways. On the plus side, it permits elected officials to tailor public policies and programs to fit wide variations in the willingness and ability of communities and States to finance public services. On the negative side, wide variations in tax burden and public service levels (particularly in welfare and education fields) take on the normative color of fiscal and social "disparities," thereby stimulating public debate over the fiscal need for equalization and the political necessity for State or Federal intervention and control.

Persistence of Demographic and Social Diversity

The interstate diversity in a number of demographic, economic and social indicators is shown in data reported annually by the Department of Health, Education, and Welfare.5/ The interstate range in those indicators is shown in Fig. 4.

Despite its growing economic and cultural interdependence, the nation continues to manifest sharp political, social and regional diversity. The urban-rural mix, the social composition and the age composition of a State's population are the most important determinants of the public demand for services and its willingness to pay for them. While the income distribution has an important bearing on a State's fiscal capacity, social data, such as the number of welfare recipients and the amount paid to them, housing conditions and educational achievement, measure the extent to which a State will translate demand into public programs.

Convergence of State Personal Income and State-Local Tax Effort

The amount of personal income received by residents of a State provides a basis for comparing the States' taxable resources despite its shortcomings as a measure of fiscal capacity.6/ In 1966 per capita personal income in the United States averaged $2,963 and varied from a low of $1,777 in Mississippi to a high of $3,690 in Connecticut--a range of 1:2.1 between the lowest and highest income State (Table A-3). Personal income has been growing at a somewhat faster pace in the low income States than in the high income States, so that the gap between high and low income States has been narrowing slowly. The measure that depicts the tendency of data to be grouped around an average is the coefficient of

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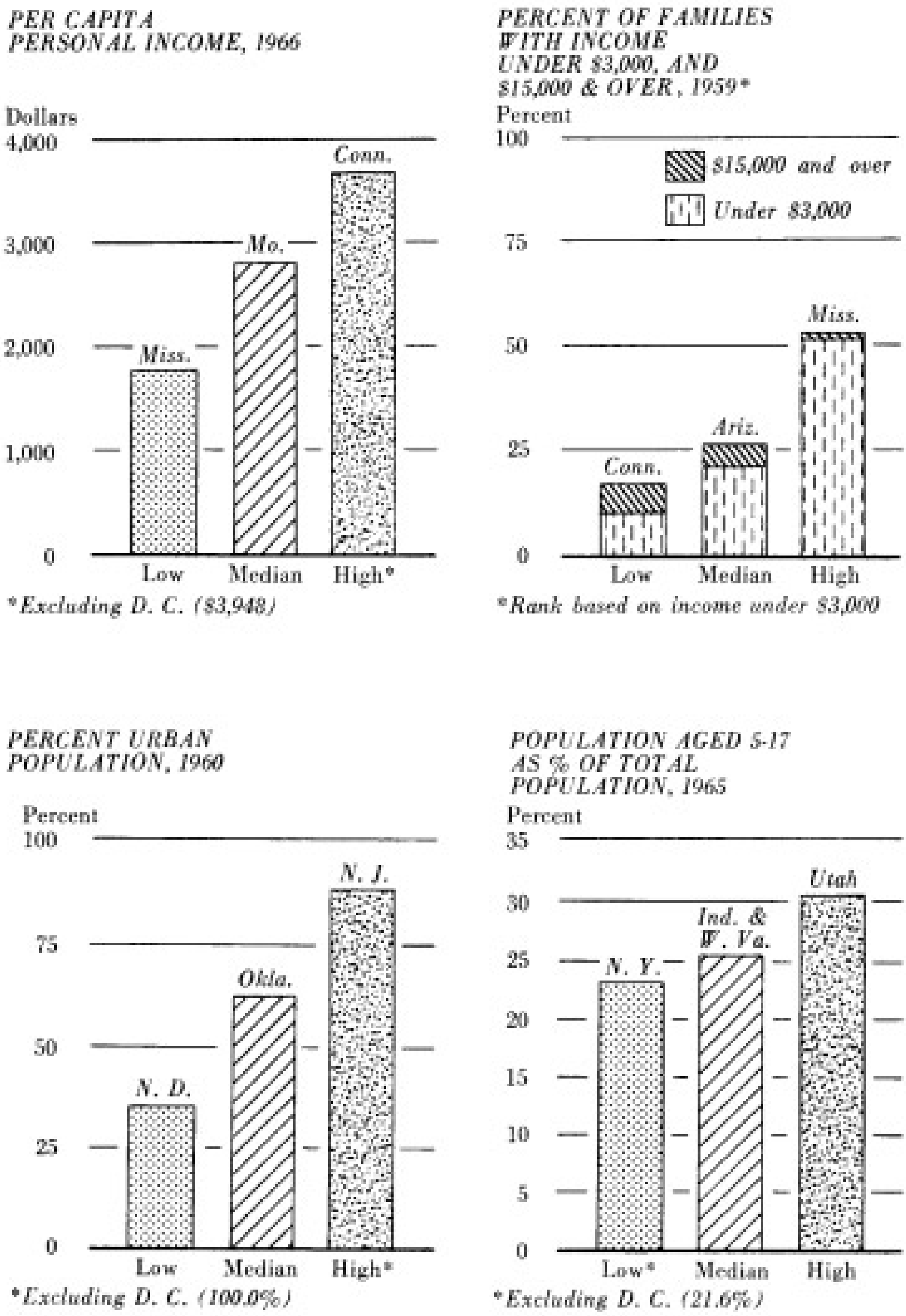
* Including Federal aid channeled through the States.

Figure 4

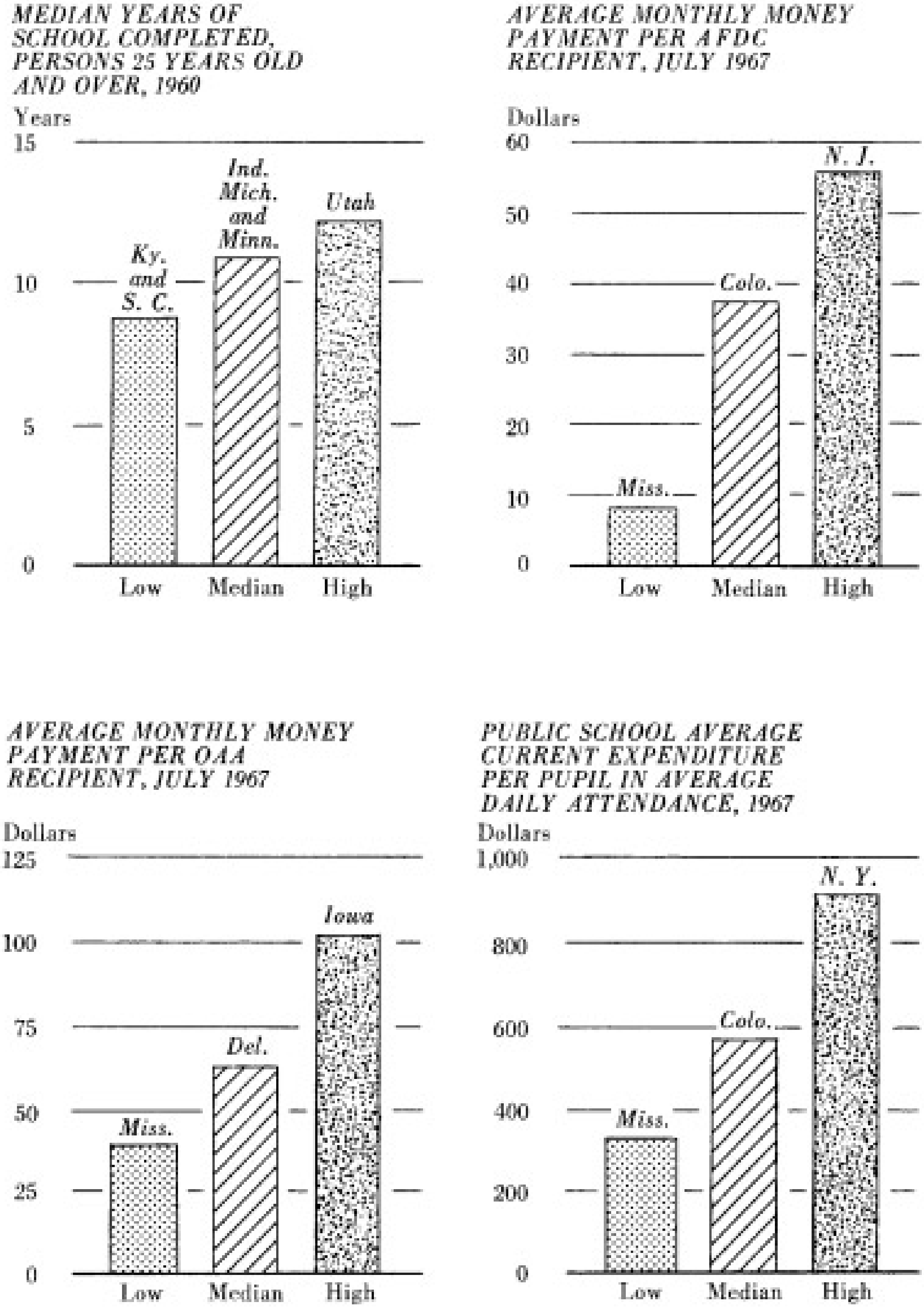
DISPARITIES IN STATE AND LOCAL CHARACTERISTICS



ACIR

Figure 4

DISPARITIES IN STATE AND LOCAL CHARACTERISTICS (Concl'd.)



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variation--the smaller the coefficient, the closer the grouping around the average. The National Planning Association estimates that the coefficient of variation in the level of per capita income among States has declined from 23.0 percent in 1950 to 21.0 percent in 1960 and 20.4 percent in 1964, and will decline further to 17.0 percent by 1975 when per capita personal income for the Nation as a whole is projected at $3,406 (in 1964 dollars).7/

Income distribution is another important factor in the revenue raising potential of the States. State by State data from the 1960 Census of Population indicate significant diversity in the distribution of families by income size in 1959 (Table A-4). For the Nation as a whole, 21 percent of the families had annual incomes of less than $3,000 and 15 percent had incomes over $10,000; the comparable figures for Mississippi were 52 percent and 5 percent respectively. In general, the percentage of low income families is higher in the southern States than in the other regions. Nevertheless, as in the case of per capita incomes, the trend has been toward a gradual convergence in the interstate differentials.

PERCENT DISTRIBUTION OF FAMILIES BY INCOME LEVEL, AND BY REGION, 1959 AND 1965*

Region	Under $3,000	$3,000 to $4,999	$5,000 to $9,999	$10,000 to $14,999	$15,000 and Over
			1965		
Northeast	12	14	45	20	9
North Central	14	15	45	19	7
South	25	19	39	12	5
West	12	15	42	21	10
United States	17	16	42	17	8
			1959		
Northeast	14	20	48	12	6
North Central	19	20	46	11	5
South	33	23	34	7	3
West	16	18	47	13	6
United States	21	21	43	11	5

*1965 data from U.S. Department of Commerce, Bureau of the Census, Consumer Income (Series P-60, No. 47, September 24, 1965), p. 4; 1959 data from Table A-4.

The relationship between State-local tax revenue and personal income is a rough measure of tax effort. By this measure, it is apparent that the more urbanized (higher income) States are exerting an increasingly greater tax effort (Table 10). The less urbanized (lower income) States actually experienced a decline in their relative tax effort. In part, this reflects the movement of lower income population groups from the rural to the urban areas of the Nation where they are frequently characterized as "high cost citizens."

Significant Interstate Variations in the Use of Major Tax Sources

Not only is there great diversity from State-to-State in the overall State-local tax effort, but there is also considerable interstate variation in the extent to which major tax sources are used. For particular tax sources, tax rates and bases are the prime determinants of the intensity with which a tax resource is exploited.

State sales taxes.--Forty-four States now impose general sales taxes at rates ranging from 2 percent in 6 States to 6 percent in Pennsylvania. At the end of 1967, most States imposed a rate of 3 percent or more.

Rate	Number of States
2%	6
2-1/2	1
3	25
3-1/2	2
4	5
4-1/4	1
4-1/2	2
5	2

Many of the States tax some kinds of services under their general sales tax laws in addition to the sale of tangible personal property. Among them are utility services, rental of rooms of transients, laundry, dry cleaning and repair services. Fourteen States, including four of the seven with the most recently enacted sales taxes, exempt food--an exemption which reduces sales tax yield by 15 to 20 percent. These States, together with their sales tax rates, are listed below. They include many of the States with the highest rates:

California*	4%	New Jersey	3%
Connecticut	3-1/2	New York*	2
Florida	3	Ohio*	4
Maine	4	Pennsylvania	5
Maryland	3	Rhode Island	5
Massachusetts	3	Texas*	2
Minnesota	3	Wisconsin	3

*Local "piggyback" sales tax authorized: 1/2 of 1% in Ohio; 1% in California and Texas; and up to 3% in New York.

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* Generally gross income after deduction of necessary business and trade costs.

TABLE 10.--STATE AND LOCAL TAX EFFORT, BY STATE, 1957 AND 1966

State and Region	Tax Revenue As a Percent of Personal Income		Tax Effort Relative to U.S. Average		
	1966	1957	1966	1957	Percent Increase or Decrease (-) 1957-1966
United States	10.2%	8.5%	100.0%	100.0%	-
New England	10.1	8.7	99.0	102.4	-3.3%
Maine	10.7	9.0	104.9	105.9	-0.9
New Hampshire	9.1	8.1	89.2	95.3	-6.4
Vermont	12.1	10.7	118.6	125.9	-5.8
Massachusetts	10.6	9.4	103.9	110.6	-6.1
Rhode Island	10.0	7.7	98.0	90.6	8.2
Connecticut	9.0	7.4	88.2	87.1	1.3
Mideast	10.5	8.3	102.9	97.6	5.4
New York	12.2	9.4	119.6	110.6	8.1
New Jersey	8.7	7.0	85.3	82.4	3.5
Pennsylvania	9.2	7.8	90.2	91.8	-1.7
Delaware	9.3	5.2	91.2	61.2	49.0
Maryland	9.3	7.5	91.2	88.2	3.4
District of Columbia	8.1	7.0	79.4	82.4	-3.6
Great Lakes	9.4	7.6	92.2	89.4	3.1
Michigan	10.0	8.4	98.0	98.8	-0.8
Ohio	8.3	6.9	81.4	81.2	0.2
Indiana	9.7	7.1	95.1	83.5	13.9
Illinois	8.8	7.4	86.3	87.1	-0.9
Wisconsin	12.1	9.6	118.6	112.9	5.0
Plains	10.6	9.0	103.9	105.9	-1.9
Minnesota	12.0	10.1	117.6	118.8	-1.0
Iowa	11.3	10.1	110.8	118.8	-6.7
Missouri	8.9	7.0	87.3	82.4	5.9
North Dakota	11.1	12.1	108.8	142.4	-23.6
South Dakota	12.0	11.4	117.6	134.1	-12.3
Nebraska	9.1	8.2	89.2	96.5	-7.6
Kansas	11.1	9.4	108.8	110.6	-1.6
Southeast	9.7	8.6	95.1	101.2	-6.0
Virginia	8.5	7.9	83.3	92.9	-10.3
West Virginia	9.8	7.7	96.1	90.6	6.1
Kentucky	9.1	7.7	89.2	90.6	-1.5
Tennessee	9.2	8.5	90.2	100.0	-9.8
North Carolina	9.8	8.4	96.1	98.8	-2.7
South Carolina	9.4	8.9	92.2	104.7	-11.9
Georgia	9.3	8.6	91.2	101.2	-9.9
Florida	10.2	9.1	100.0	107.1	-6.6
Alabama	9.2	7.7	90.2	90.6	-0.4
Mississippi	11.0	10.9	107.8	128.2	-15.9

TABLE 10 (CONCL'D).--STATE AND LOCAL TAX EFFORT, BY STATE, 1957 AND 1966

State and Region	Tax Revenue As a Percent of Personal Income 1966	Tax Revenue As a Percent of Personal Income 1957	Tax Effort Relative to U.S. Average 1966	Tax Effort Relative to U.S. Average 1957	Tax Effort Relative to U.S. Average Percent Increase or Decrease (-) 1957-1966
United States	10.2%	8.5%	100.0%	100.0%	-
Southeast (cont'd)					
Louisiana	11.4	10.4	111.8	122.4	-8.7
Arkansas	9.7	8.7	95.1	102.4	-7.1
Southwest	9.8	8.3	96.1	97.6	-1.5
Oklahoma	10.1	9.4	99.0	110.6	-10.5
Texas	9.1	7.9	89.2	92.9	-4.0
New Mexico	11.7	9.4	114.7	110.6	3.7
Arizona	12.3	9.4	120.6	110.6	9.0
Rocky Mountain	11.9	9.7	116.7	114.1	2.3
Montana	11.5	9.9	112.7	116.5	-3.3
Idaho	11.9	9.3	116.7	109.4	6.7
Wyoming	12.2	9.7	119.6	114.1	4.8
Colorado	12.1	9.8	118.6	115.3	2.9
Utah	11.7	9.6	114.7	112.9	1.6
Far West	11.7	9.6	114.7	112.9	1.6
Washington	10.8	8.9	105.9	104.7	1.4
Oregon	10.5	10.2	102.9	120.0	-14.3
Nevada	10.6	9.3	103.9	109.4	-5.0
California	11.9	9.6	116.7	112.9	3.4
Alaska	9.0	5.5	88.2	64.7	36.3
Hawaii	12.3	9.4	120.6	110.6	9.0

1/ Personal income data based on average of two calendar years, 1965-66 and 1956-57, respectively.

Source: U.S. Bureau of the Census, Historical Statistics on Governmental Finances and Employment (1962 Census of Governments, Vol. VI, No. 4) 1964; Governmental Finances in 1964-65 (Revised February, 1967), and U.S. Department of Commerce, Survey of Current Business, April, 1967.

Interstate comparisons of the net effect of variations in State sales tax rates and bases can be gleaned from the tables prepared by the Internal Revenue Service specifying for each sales tax State the amount of sales tax deduction allowable on Federal income tax returns. The allowable deduction for a family of four with an income of about $7,500 on 1966 returns ranged from $26 in Massachusetts to $155 in Michigan (Table 11).

State personal income taxes.--With a wide range of rates, personal exemptions and deductions, the 35 State personal income taxes vary considerably in their impact on individual taxpayers. On the basis of 1966 State personal income tax collections relative to the 1965 adjusted gross income* in each State, the effective personal income tax rate ranged from 0.4 percent in Mississippi to 3.5 percent in Oregon (Table 11). Figure 5 shows the relative State-by-State use of personal income taxes.

State-local property taxes.--The Southern States, which finance substantial portions of State-local expenditures from State funds, make relatively lighter use of the property tax than do the other States. This is borne out by data from the 1962 Census of Governments on effective property tax rates (Table 11). With local property tax revenue of about $18 billion in fiscal 1962 (now about $26 billion) the average effective rate (based upon market value of real estate) was 1.4 percent for the Nation and it ranged from a low of 0.4 percent in Alabama to a high of 2.8 percent in Massachusetts. Similar relationships exist today.

Moreover, these State averages conceal great variations in local property tax burdens. For example, a State with an average tax rate of 2 percent of current market value will undoubtedly have some communities with tax rates below 1 percent and others with rates in excess of 3 percent.

Unutilized tax potential.--The very existence of interstate differences in the utilization of personal income, general sales and property taxes suggests unused tax capacity at the State and local levels. This is further substantiated by several calculations described briefly here and elaborated upon in Appendix D, especially Table D-1.

> If each State had approximated the average personal income tax effort of the 10 "top" income tax States, State personal income tax collections in 1966 would have amounted to $11.2 billion, instead of $4.8 billion. This $6 billion gap between potential and the actual reflects the fact that 15 States do not even tax personal income while most of the others make only a token effort to do so.
>
> If each State had made the same general sales tax effort as the average for the 10 "top" sales tax States, collections from this source would have amounted to $14.4 billion in 1966, compared to actual collections of $9.2 billion. This $5 billion gap between State potential and actual performance can be attributed to the fact that 6 States do not levy the sales tax and many of the other jurisdictions still have what might be considered untapped potential for base or rate increase.
>
> If all the State and local governments made the same property tax effort as the average for the 10 "top" property tax States,

collections from this source would have amounted to $33.8 billion in 1966 compared to an actual collection of $24.5 billion--a $9 billion gap. While the country would be better off with less dependence on the property tax, there is no denying that in light of revenue needs and prevailing tax levels, a number of States, particularly in the South and Southwest, are leaving a very substantial property tax potential untapped.

Although States and localities are shown by the foregoing to have substantial revenue potential remaining, the calculations overstate this potential, particularly with respect to local governments. We are dealing with 50 sovereign States and over 80,000 local taxing authorities with diverse requirements, all operating under very considerable political constraints.

Moreover, even full utilization of the $20 billion "untapped potential" would leave some States and many localities far short of their expenditure requirements. It should be emphasized that <u>fiscal surpluses cannot be exported</u>. If all State and local governments levied and collected the fiscal potential of these three taxes some would have surpluses and would employ these to further augment their services or retire outstanding debt. Moreover, an untapped income tax potential in Illinois would not help Wisconsin. In fact, it is a competitive deterrent to further utilization of the income tax by Wisconsin. Similarly, a local property tax surplus in Grosse Pointe would not help Detroit. A full tax effort by South Carolina or Arkansas up to the level of the "top ten" still would not give those States the resources necessary to equalize adequately the cost of education between well-to-do and "poverty" children.

<u>Tax utilization index</u>.--The extent to which State and local governments have utilized the big three (sales, income and property) can be measured by computing the percentage relationship between actual and potential yield. The result is a State-local tax utilization index, in which a State scores "100%" utilization if its tax effort equaled that of the average of the 10 highest States using the personal income, general retail sales and property taxes, respectively. In all cases, tax effort is measured by tax collections expressed as a percentage of State personal income. The utilization rates for the States and the District of Columbia are summarized in the following table:

UTILIZATION RATES OF POTENTIAL STATE-LOCAL YIELD FROM PERSONAL INCOME, GENERAL SALES AND PROPERTY TAXES, 1966
(Frequency Distribution of States)

Percentage Utilization	Personal Income	General Sales	Property	Combined Income, Sales and Property
100% or more	8	7	4	-
80% - 100%	3	8	14	8
60% - 80%	6	13	13	20
40% - 60%	8	10	16	23
Less than 40%	26	13	4	-

TABLE 11.--STATE AND LOCAL TAX BURDEN, FOR SELECTED TAXES, BY STATE

State and Region	State Personal Income Tax, 1966[1]	State General Sales Tax, 1/1/67[2]	Local General Property Tax, 1962[3]	Index (State Amounts Related to U.S. Average)		
				State Personal Income Tax	State General Sales Tax	Local General Property Tax
United States	1.7%[4]	$ 96[5]	1.4%	100	100	100
New England						
Maine	-	94	2.1	-	98	150
New Hampshire	-	-	2.3	-	-	164
Vermont	3.0	-	2.2	176	-	157
Massachusetts	1.9	26	2.7	112	27	193
Rhode Island	-	100	2.2	-	104	157
Connecticut	-	68	1.9	-	71	136
Mideast						
New York	2.6	57[6]	2.5	153	59	179
New Jersey	-	44	2.6	-	46	186
Pennsylvania	-	84	1.7	-	88	121
Delaware	3.5	-	1.0	206	-	71
Maryland	1.7	69	1.4	100	72	100
District of Columbia	2.0	77	1.3	118	80	93
Great Lakes						
Michigan	-	155	1.7	-	161	121
Ohio	-	60	1.0	-	63	71
Indiana	1.3	81	1.2	76	84	86
Illinois	-	126[6]	1.7	-	131	121
Wisconsin	3.5	37	2.1	206	39	150
Plains						
Minnesota	3.0	-	1.9	176	-	136
Iowa	1.6	81	1.5	94	84	107
Missouri	0.9	115	1.1	53	120	79
North Dakota	0.9	77	1.4	53	80	100

TABLE 11 (CONT'D).--STATE AND LOCAL TAX BURDEN, FOR SELECTED TAXES, BY STATE

State and Region	State Personal Income Tax, 1966[1]	State General Sales Tax, 1/1/67[2]	Local General Property Tax, 1962[3]	Index (State Amounts Related to U.S. Average): State Personal Income Tax	Index (State Amounts Related to U.S. Average): State General Sales Tax	Index (State Amounts Related to U.S. Average): Local General Property Tax
United States	1.7%[4]	$ 96[5]	1.4%	100	100	100
Plains (cont'd)						
South Dakota	-	119	1.7	-	124	121
Nebraska	-	-	1.2	-	-	86
Kansas	1.7	113	1.2	100	118	86
Southeast						
Virginia	1.9	66[6]	0.9	112	69	64
West Virginia	0.8	108	0.6	47	113	43
Kentucky	1.4	110	0.7	82	115	50
Tennessee	-	112[6]	1.2	-	117	86
North Carolina	2.1	102	0.7	124	106	50
South Carolina	1.5	114	0.5	88	119	36
Georgia	1.1	119	0.8	65	124	57
Florida	-	70	1.1	-	73	79
Alabama	1.0	136[6]	0.5	59	142	36
Mississippi	0.4	143[6]	0.5	24	149	36
Louisiana	0.6	72[6]	0.5	35	75	36
Arkansas	1.1	109	0.6	65	114	43
Southwest						
Oklahoma	0.7	72[6]	0.8	41	75	57
Texas	-	46	1.0	-	48	71
New Mexico	0.8	135[6]	0.4	47	141	29
Arizona	0.8	110[6]	0.8	47	115	57
Rocky Mountain						
Montana	1.6	-	0.8	94	-	57
Idaho	2.4	108	1.0	141	113	71
Wyoming	-	93[6]	0.6	-	97	43
Colorado	1.7	111[6]	1.3	100	116	93
Utah	2.0	121[6]	0.9	118	126	64

TABLE 11 (CONCL'D).--STATE AND LOCAL TAX BURDEN, FOR SELECTED TAXES, BY STATE

State and Region	State Personal Income Tax, 1966 1/	State General Sales Tax 1/1/67 2/	Local General Property Tax, 1962 3/	Index (State Amounts Related to U.S. Average): State Personal Income Tax	State General Sales Tax	Local General Property Tax
United States	1.7% 4/	$ 96 5/	1.4%	100	100	100
Far West						
Washington	-	158	0.8	-	165	57
Oregon	3.5	-	1.4	206	-	100
Nevada	-	67	0.7	-	70	50
California	0.9	66 6/	1.3	53	69	93
Alaska	3.1	- 7/	n.a.	182	-	n.a.
Hawaii	3.0	177	0.6	176	184	43

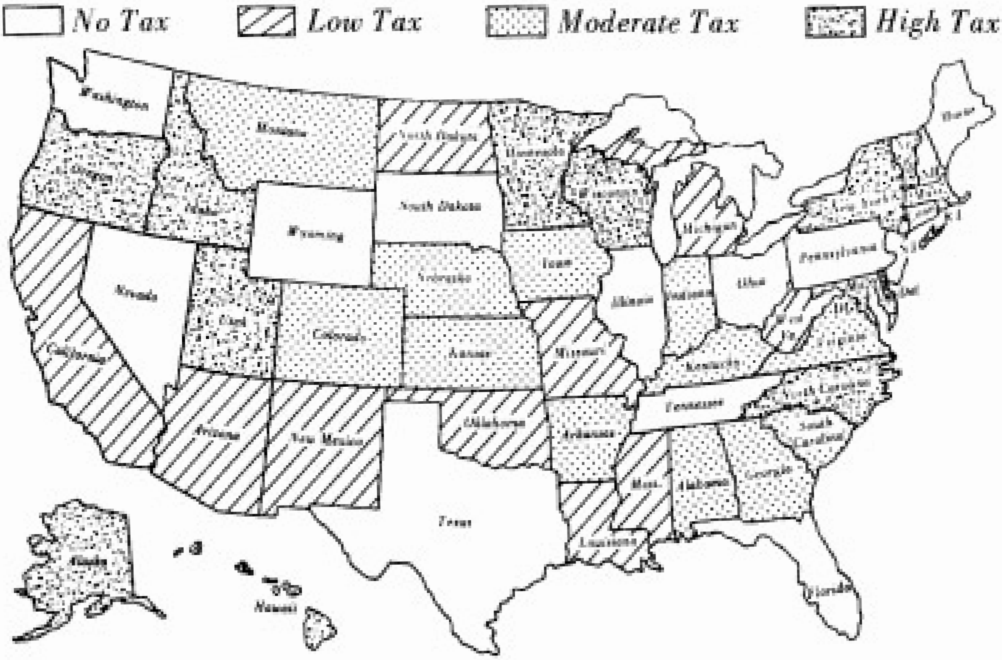
n.a. = Data not available.

1/ State personal income tax collections in 1966 as a percent of Federal adjusted gross income in 1965.
2/ Estimated average State general sales tax liability for a family of four with AGI between $7,500 and $8,000, January 1, 1967.
3/ Average effective rate of local general property tax on locally assessed real property, 1962.
4/ Weighted mean of the 33 States, and the District of Columbia imposing a personal income tax as of 1/1/67. Excluded from this tabulation are the New Hampshire and Tennessee flat rate taxes on interest and dividends, and the New Jersey "commuters tax," which applies only to income earned in New Jersey by residents of New York. Michigan and Nebraska became personal income tax States during 1967.
5/ Arithmetic mean of the 42 States and the District of Columbia imposing a general sales tax as of 1/1/67. Minnesota and Nebraska became sales tax States during 1967.
6/ In addition but not reflected in these data, local sales taxes are authorized and imposed by numerous local governments at rates ranging between 1/2 percent and 3 percent. For additional detail see, Advisory Commission on Intergovernmental Relations, Tax Overlapping in the United States, Selected Tables Updated--A Supplement to Report M-23, December 1966 and subsequent annual Supplements.
7/ Local sales taxes are levied by a number of municipalities.

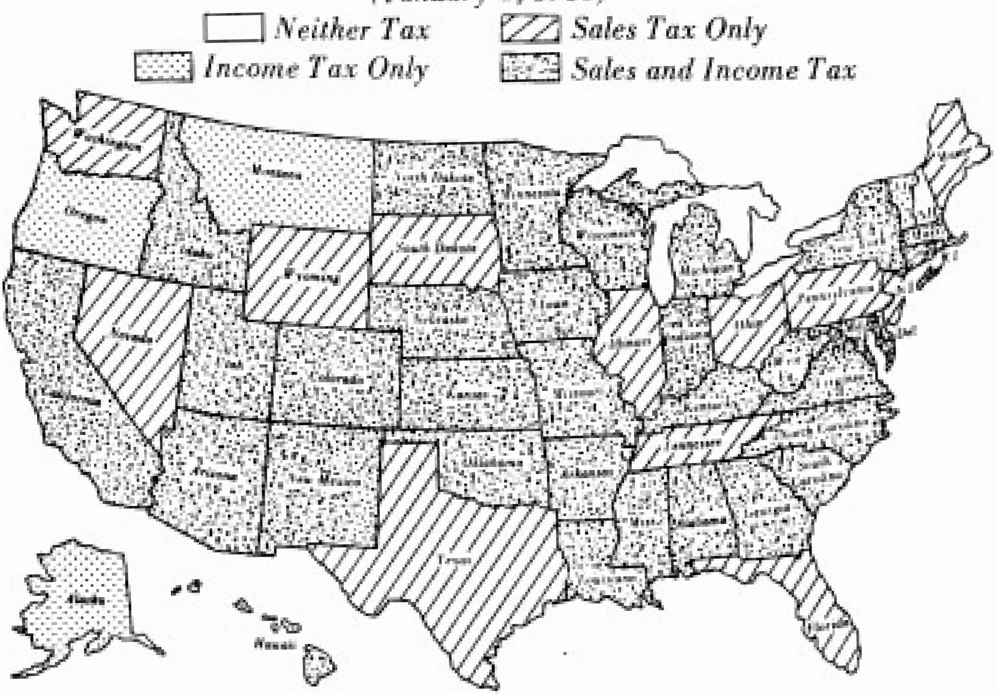
Source: U.S. Bureau of the Census, State Tax Collections in 1966, and Property Taxation in 1962 (State and Local Government Special Studies, No. 47), November 1964; U.S. Treasury Department, Internal Revenue Service, Statistics of Income, Individual Income Tax Returns, 1965, and 1966 State Sales Tax Tables, Document No. 5622.

Figure 5.

STATES WITH BROAD-BASED PERSONAL INCOME TAXES
(January 1, 1968)



USE OF PERSONAL INCOME AND GENERAL SALES TAXES BY STATES
(January 1, 1968)



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While no State scored 100%, based on 1966 tax collections, Hawaii, Arizona, Utah, California, Colorado, Wyoming, New York and Wisconsin came closest--over 80% out of a possible 100% (Table D-2). As a result of recent State tax enactments that will be reflected in collection data within a year or two, a number of States have materially increased their utilization rates already (Table D-3). On the other hand, Delaware, Virginia and West Virginia stood out as the States with the greatest amount of untapped tax potential. When compared to the average of the 10 top States in each of these three major categories, their score indicated they had used up only 43 percent of their sales, income and property tax potential.

It should be noted that property, sales and income taxes, being general in character, tend to be the "last resort" type of taxes--levies that States and localities will use only after they have fairly well mined those revenue sources that are less hazardous to exploit from a political standpoint. For example, a State can be expected to maximize the amount of taxes that it can "export" to other States via severance taxes on minerals or petroleum--a fact that partially explains Louisiana's, Texas' and Oklahoma's, low rank on a "last resort" type of tax utilization index. Relatively speaking, taxes on alcoholic beverages and cigarettes also rate as revenue raising "easy marks"--particularly cigarette taxes since the health issue has become prominent.

However, with all of these qualifications, the fact remains that most States and many local governments have not exhausted their tax potential by any means--a fact which when considered in conjunction with the fluctuating fiscal fortunes of the National Government and the deepening big city fiscal crisis described in Volume 2 of this report, complicates any effort to chart an efficient policy for strengthening the intergovernmental system.

COMPENSATORY ACTION ON THE EXPENDITURE FRONT

The accommodation of diverse local, State and National political objectives to fiscal capabilities is most evident in the intergovernmental "joining" of financial responsibility as revealed in the expenditure aspects of fiscal federalism.

Upward Drift of Responsibility for Financing Functions

<u>Slowly, but steadily, the jurisdictions with superior fiscal capabilities--first the States and then the National Government--have assumed a larger responsibility for financing the Nation's domestic programs</u>.

This fact takes on special significance in view of the rather remarkable absolute increase in State and local government general expenditures from $9 billion in 1942 to $83 billion in 1966. Between 1942 and 1957, there was a small shift from local to State financing of general government services: the Federal Government's share remained fairly constant, just below 10 percent. Since 1957, however, Federal outlays have increased sharply and the Federal share rose from 9.5 percent to 15.8 percent causing both the State and local contributions to slip relatively (Fig. 6, Table A-5).

Growth in Federal Aid

During the past decade, Federal aid has become an increasingly important factor in the financing of services provided by State and local governments. The $3 billion total in fiscal 1956 represented about 10 percent of State and local general revenue. By 1966 it had climbed to $13 billion and comprised about 16 percent of State and local general revenue. For fiscal 1967 the U.S. Bureau of the Budget estimates Federal aid at $15.4 billion or 16 to 17 percent of State and local general revenue, and with an estimated $17.4 billion of Federal aid in fiscal 1968, the percentage will probably go higher.[8/]

The interstate variation in the relationship of Federal aid to State and local general revenue is considerable. It ranges from 8.6 percent of general revenue in New York to 44.4 percent in Alaska (Table 12). Alaska's State-local general revenue was only $127 million compared to New York's $8.8 billion; the aid amounted to $101 million for Alaska and $832 million for New York.*

The low income States, particularly in the South, also tally higher-than-average proportions of Federal aid revenue. To some extent, this reflects the equalization provisions in Federal grant programs, as well as the fact that such States generally do not spend more on federally-aided programs than the absolute minimum needed to meet matching requirements.

The equalizing effect of Federal grants.--A critical issue in structuring a system of Federal financial aid to State and local governments is the extent to which recognition is given to the wide variations in both fiscal needs and fiscal resources among the States and among the respective local governments. We have on previous occasions dealt with several aspects of this difficult problem. We dealt with it at some length in the Commission's earlier report on The Role of Equalization in Federal Grants.[9/] We concluded on the basis of that examination that the role of equalization in the system should be enhanced. Some of the grant-in-aid programs enacted during the last two or three years, particularly those that focus on education and poverty, move in this direction.

In a recent study by the Bureau of the Budget, Federal grants were found to have a definite equalizing effect provided the atypical jurisdictions, Alaska, Hawaii and the District of Columbia, are excluded.** This equalization finding can be attributed in part at least to several new grant-in-aid programs in which caseload rather than an explicit fiscal capacity equalization factor (per capita income) is used as the method of allocating funds. For example, the Elementary and Secondary Education Act has a natural or "automatic" equalization effect because it distributes school funds to States on the basis of the number of children from families below $2,000 income and number of children from families receiving welfare benefits under the category of aid to families with dependent children.

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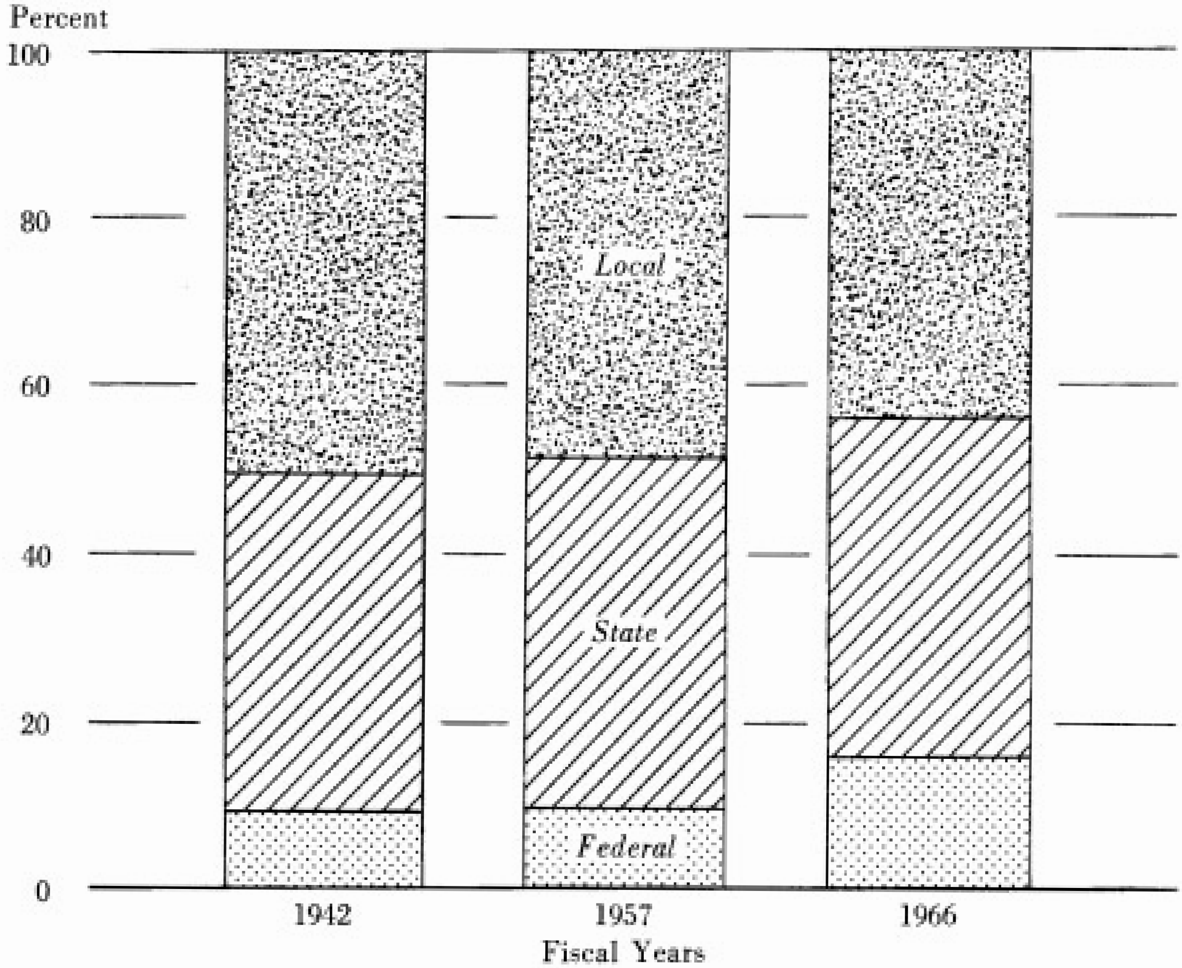
* The especially large amount of highway aid needed to meet the high cost of road construction and the large amount of shared Federal mineral leasing revenue account for Alaska's high percentage. Shared revenue from the leasing of mineral, grazing and forest lands stands out as an important Federal aid factor for most of the Western States. In Wyoming and Nevada, for example, Federal aid comprised 37.8 and 25.5 percent of the general revenue, respectively.

** Excluding these atypical jurisdictions the Bureau study found that for the year 1966 Federal grants had an equalization power (correlation coefficient) of -.301.[10/]

Figure 6.

SOURCE OF FUNDS FOR STATE AND LOCAL GENERAL EXPENDITURE
1942, 1957 and 1966



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One cautionary note is necessary in interpreting the equalizing effect of the present grant system. Equalization as described here, and in most analyses of Federal grant programs, measures differences among States; it says nothing about equalization among political subdivisions within States--disparities that in many cases are far greater than variations between States. In view of the importance of cities and counties as the basic units for raising money and delivering services, it can be argued that the need for interlocal equalization particularly within the same metropolitan area is more urgent.

Growth in State Aid

Just as the Federal aid role is largely determined by national policy, the impact of State aid on local government is primarily the result of State attitudes and policies. The critical policy decisions involve the general level of public services, the way public funds are raised, and the division of responsibility between the State and its local governments.

In fiscal 1966, the States distributed about $16 billion to their localities, including Federal aid channeled through the States, supplying on an average about 31 percent of local general revenue (Table 12). The relationship of State aid to local general revenue which varied from a low of 10 percent in New Hampshire to a high of 52 percent in North Carolina, is summarized by the following tabulation:

State Aid as Percent of Local General Revenue	Number of States
Less than 10%	1
10% - 19.9%	7
20% - 29.9%	17
30% - 39.9%	17
40% - 49.9%	7
50% and over	1

A rather striking regional pattern emerges from the State aid data. New England, with its tradition of strong local government, keeps State aid at a minimum, causing the localities to rely most heavily on local property taxes to finance local services. There the States provide 21 percent of local general revenue, ranging from the aforementioned 10 percent in New Hampshire to 24 percent in Massachusetts. By contrast, the Southeastern States provide 37 percent of local general revenue. Florida supplies the smallest proportion, 27 percent, and North Carolina the highest, 52 percent.

An analysis of interstate variations in State aid to local government also reveals that the States which aided local government least were generally those lacking one of the two tax work-horses--personal income and sales--in their revenue system in 1966. By region, the States were:

TABLE 12.--PERCENTAGE RELATIONSHIP BETWEEN SELECTED ITEMS OF STATE AND LOCAL GOVERNMENT REVENUE, BY STATE, 1966

State and Region	Federal Aid As a Percent of State and Local General Revenue	State Aid As a Percent of Local General Revenue	State Taxes As a Percent of State and Local Taxes	Property Taxes As a Percent of State and Local Taxes	Local Nonproperty Taxes As a Percent of Total Local Taxes
United States	15.8%	30.8%	51.8%	43.5%	12.9%
New England	14.8	21.2	46.2	53.4	1.0
Maine	19.4	16.4	51.4	49.2	0.5
New Hampshire	16.6	9.7	37.7	63.3	0.9
Vermont	26.8	22.6	59.9	39.1	3.3
Massachusetts	13.6	24.4	42.9	56.6	1.0
Rhode Island	18.2	21.9	55.3	44.0	1.5
Connecticut	12.6	16.4	48.5	51.1	0.8
Mideast	10.8	29.1	45.9	42.3	22.2
New York	8.6	33.9	45.6	40.7	25.3
New Jersey	10.4	14.4	29.7	64.6	8.3
Pennsylvania	13.8	26.4	55.4	33.7	24.6
Delaware	14.9	48.5	78.6	20.1	6.8
Maryland	12.5	37.2	56.6	42.1	7.9
District of Columbia	26.9	-	-	35.1	64.9
Great Lakes	12.7	29.9	49.6	48.3	7.5
Michigan	12.7	34.6	56.6	43.6	6.4
Ohio	14.6	27.4	44.9	51.8	9.8
Indiana	11.7	32.7	52.1	49.0	0.5
Illinois	12.4	20.2	43.0	50.7	11.1
Wisconsin	10.4	44.0	57.7	44.6	1.7
Plains	16.9	25.4	49.4	49.4	6.4
Minnesota	16.1	31.4	51.8	49.8	2.1
Iowa	14.3	23.7	48.3	51.4	1.4
Missouri	20.1	24.7	52.5	39.4	18.2
North Dakota	18.2	24.6	50.1	50.0	3.0
South Dakota	21.6	13.1	41.3	55.6	5.3
Nebraska	16.2	17.6	36.0	71.7	6.3
Kansas	14.9	25.9	50.9	48.9	3.1
Southeast	20.9	37.6	66.7	28.9	17.6
Virginia	19.2	29.5	55.6	35.7	22.9
West Virginia	27.1	37.9	70.6	26.1	11.7
Kentucky	24.2	35.1	70.7	26.8	21.2
Tennessee	22.8	37.1	64.1	29.6	17.6

TABLE 12 (CONCL'D).--PERCENTAGE RELATIONSHIP BETWEEN SELECTED ITEMS OF STATE AND LOCAL GOVERNMENT REVENUE, BY STATE, 1966

State and Region	Federal Aid As a Percent of State and Local General Revenue	State Aid As a Percent of Local General Revenue	State Taxes As a Percent of State and Local Taxes	Property Taxes As a Percent of State and Local Taxes	Local Nonproperty Taxes As a Percent of Total Local Taxes
United States	15.8%	30.8%	51.8%	43.5%	12.9%
Southeast (cont'd)					
North Carolina	17.7	51.5	75.0	26.1	3.0
South Carolina	18.8	45.7	76.8	21.9	6.9
Georgia	20.5	35.1	66.6	29.9	11.1
Florida	14.1	26.6	58.1	39.2	16.3
Alabama	27.6	42.1	72.4	18.1	47.2
Mississippi	23.7	40.8	67.1	27.3	19.8
Louisiana	21.7	48.6	74.5	21.5	23.6
Arkansas	27.5	39.4	72.3	26.1	6.1
Southwest	19.5	31.7	57.7	41.9	7.5
Oklahoma	23.5	34.7	65.9	32.4	5.2
Texas	16.8	28.9	53.7	45.5	6.1
New Mexico	29.6	46.9	75.6	23.1	24.1
Arizona	20.3	34.2	57.2	46.5	12.2
Rocky Mountain	22.6	29.5	52.3	46.5	7.3
Montana	24.7	18.5	44.8	56.1	5.0
Idaho	19.8	28.8	60.1	39.5	2.3
Wyoming	33.7	30.0	53.0	53.1	5.7
Colorado	19.4	29.7	49.2	46.7	8.8
Utah	24.6	37.1	59.2	41.6	9.4
Far West 1/	17.0	34.0	49.0	47.8	11.5
Washington	16.5	37.1	69.8	31.2	14.2
Oregon	22.3	26.6	51.3	47.4	3.3
Nevada	22.3	26.4	54.0	40.0	18.0
California	16.4	34.3	46.0	50.2	11.8
Alaska	44.4	37.3	67.7	24.0	26.2
Hawaii	20.3	16.9	72.1	21.7	22.4

1/ Excluding Alaska and Hawaii.

Source: U.S. Bureau of the Census, Governmental Finances in 1965-66.

New England	-- Connecticut, Maine and New Hampshire
Mideast	-- New Jersey and Pennsylvania
Great Lakes	-- Illinois and Ohio
Plains	-- Nebraska* and South Dakota
Southeast	-- Florida and Virginia*
Southwest	-- Texas
Rocky Mountain	-- Montana
Far West	-- Nevada and Oregon

The distribution of responsibility between the State and local governments for the performance of governmental functions also explains some of the interstate differences in the relative importance of State aid in financing local government services. For example, State aid tends to be relatively larger in those States which lodge the responsibility for categorical public assistance programs with local government.**

Public welfare programs (or the major portion of them) are administered at the local level in 15 States, with aid from the State and Federal Governments.*** Because all Federal aid for public assistance goes initially to the States, State aid in those 15 States includes Federal monies channeled through the State treasury. Local public welfare administration explains in part why State aid looms larger in the local finance picture in North Carolina than in most of the other Southeastern States and in Massachusetts when compared with other New England States.

State policy varies with respect to the expenditure strings attached to State aid to localities. Nationally, $1.3 billion, or about 8 percent of the total State aid, was for such general "no strings" local government support in fiscal 1966. Much of this was in the form of State sales or income taxes shared with localities either on a population basis or according to the place of collection. Arizona, Hawaii, New Hampshire and Wisconsin distributed more than 20 percent of their State aid to localities without functional strings (Table A-6).

The Financing of State and Local Expenditures for Selected Functions

Tracing expenditures back to their source--to the originating level of government--a clear picture emerges as to where responsibility for financing public services lies.

Over the last quarter of a century, States have been gradually shouldering a larger share of the overall State-local financial burden--44.3 percent in 1942, 46.8 percent in 1957, 47.8 percent in 1966 (Table A-7). However, there is some interregional variation from this pattern. In New England, the State proportion rose sharply (from 37.9 to 49.9 percent) between 1942 and 1957 and then

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* Now impose both personal income and sales taxes.

** Old Age Assistance, Aid to Families with Dependent Children, Aid to the Blind and Aid to the Permanently and Totally Disabled.

*** California, Colorado, Indiana, Kansas, Maryland, Massachusetts, Nebraska, New Jersey, New York, North Carolina, Ohio, Virginia, Wisconsin and Wyoming.

fell between 1957 and 1966, reflecting the trends in Connecticut and Massachusetts. The Mideast, dominated by New York, showed a gradual rise in the proportion of State financing throughout the period as did the Rocky Mountain and Far West regions. In the Plains States the proportion of State financing declined gradually. These variations for the Nation as a whole and their historical trend are reflected in the following frequency distribution:

State Financing	Number of States		
	1966	1957	1942*
Less than 40%	2	4	9
40% - 44.9%	8	7	7
45% - 45.9%	12	14	14
50% - 54.9%	12	6	5
55% - 59.9%	5	8	4
60% and over	11	11	9
Total	50	50	48

Four functions--education, public welfare, health and hospitals and highways--lay claim to more than 70 percent of all State and local funds (Fig. 7) and to almost 90 percent of all Federal aid dollars. The following discussion deals with the intergovernmental assignment of responsibility for financing each of these functions.

Education.--Public education is the costliest single State-local function. The 1966 outlay of $33.3 billion accounted for two-fifths of total State and local general expenditure (Table A-8). Higher education (mainly for State operated institutions) accounted for $7.2 billion of the total educational outlay and the remainder was for elementary and secondary education, including about $700 million for general State supervision of the public educational system.

From a fiscal standpoint, State and local governments continue to dominate public education (Fig. 8). Federal funds financed about 9 percent of State and local educational expenditures in fiscal 1966.* States and localities divided about equally the burden of financing the remaining 91 percent. The bulk of higher education financing falls on the States. Elementary and secondary education is a divided financial responsibility--with the States now "picking up" about 40 percent of the local school bill (Table A-9).

Educational expenditures per capita and the State-local distribution of responsibility for raising funds varies widely from State-to-State. With a national average per capita expenditure for total education of $170 in 1966, Mississippi and South Carolina spent only $118, while Alaska, Utah and Wyoming each spent over $250 per capita. As a group, the Southeastern States were lowest in per capita spending for education, followed by New England. The Rocky Mountain States were highest, followed by the Far West.

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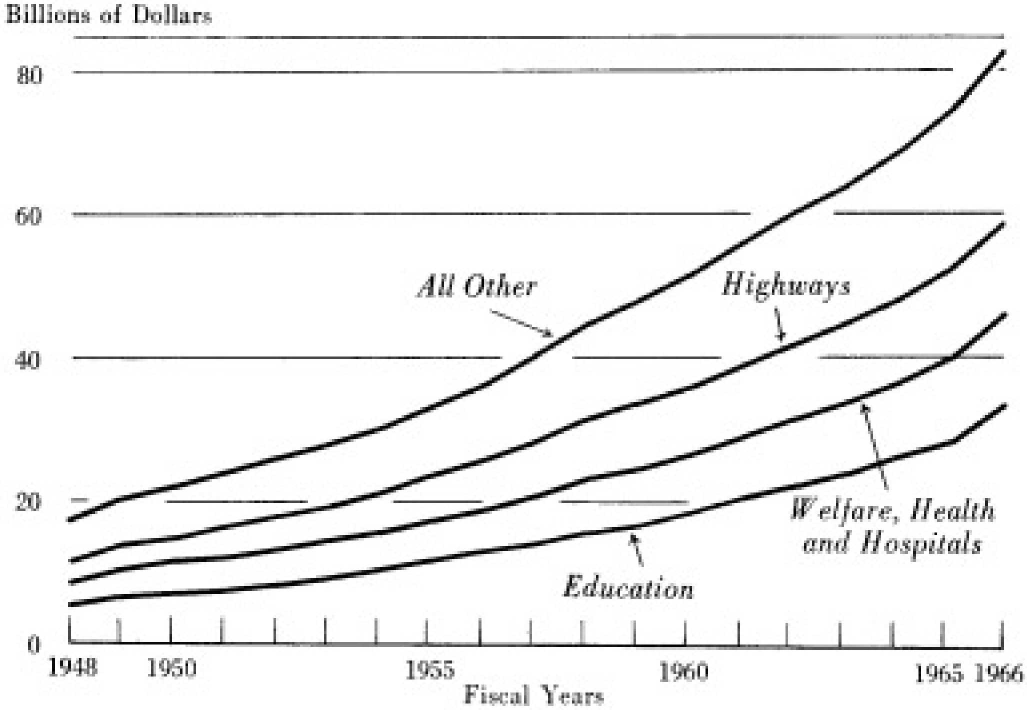
* It should be noted, however, that the fiscal 1966 data do not yet adequately reflect significant increases in Federal aid resulting from the Elementary and Secondary Education Act.

Figure 7.

STATE AND LOCAL GENERAL EXPENDITURE FOR SELECTED FUNCTIONS, 1948 TO 1966



PERCENTAGE DISTRIBUTION OF EXPENDITURE, 1948 AND 1966

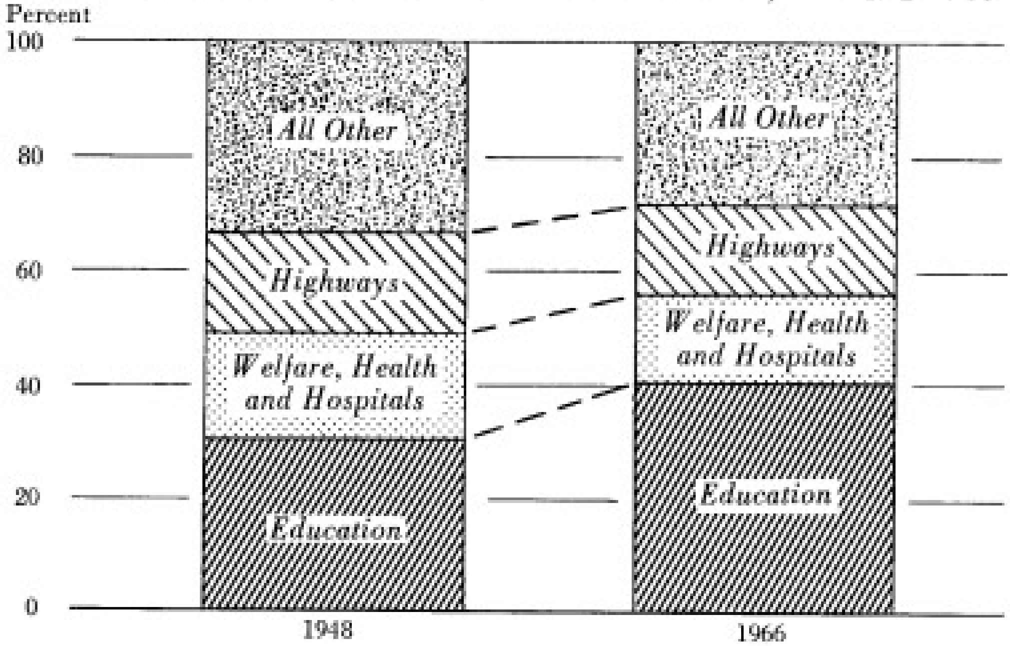


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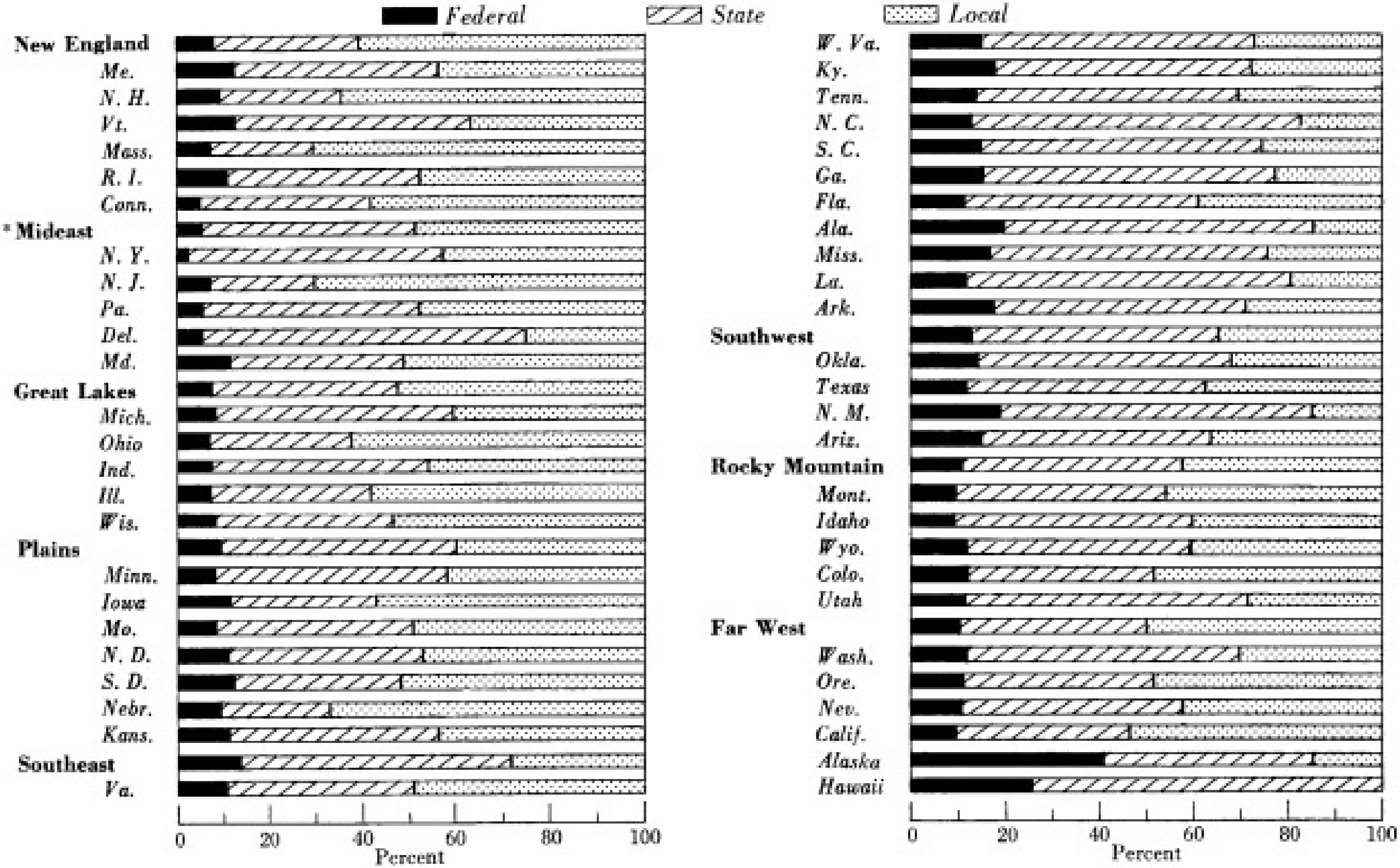
Figure 8.

FINANCING OF STATE AND LOCAL EDUCATION EXPENDITURE, BY LEVEL OF GOVERNMENT, BY STATE, 1966



* Includes D.C.

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Year to year changes in per capita educational outlays can be substantial--the national average jumped from $147 in 1965 to $170 in 1966. The volatility in per capita educational expenditures often results in one State leap-frogging past several others when it supports education more generously.

Per capita expenditure comparisons understate the effort on behalf of public education in these States with relatively large numbers of students in private and parochial schools. A comparison on the basis of per pupil public school expenditure strips out this private school factor. Even by this measure, the Southeastern States are lowest, averaging $390 per pupil in average daily attendance in 1966, compared with a national average of $532. The States ranged from $317 in Mississippi to $876 in New York.

Significantly, the trend is toward increasing State responsibility for financing elementary and secondard education, a development that helps explain the increased number of States that impose both broad-based personal income and sales taxes. In 1942, 35 percent of all State and local expenditure for education other than for colleges and universities was financed from State funds. In 1957, this proportion had moved to 38 percent, and by 1966 to more than 40 per cent. As a group, the Southeastern State governments financed the largest proportion in 1966--59 percent--and the New England States the smallest--22 percent.

The division of responsibility between States and localities for financing primary and secondard education is developing more similarity across the country. In New England--the region that has traditionally emphasized local responsibility for education--the trend is toward greater State financing involvement.

New Jersey and New York present an interesting neighbor-State contrast in school financing trends. New Jersey paid only 16 percent of the local school bill in 1966, down from 23 percent in 1942. New Jersey's revenue system was characterized by the absence of broad-based taxes until a State sales tax came on the scene in 1966. New York financed half of the local school bill in 1966, up from 30 percent in 1942 and 38 percent in 1957--a reflection of a responsive State revenue system further diversified in 1965 by the enactment of a State sales tax.

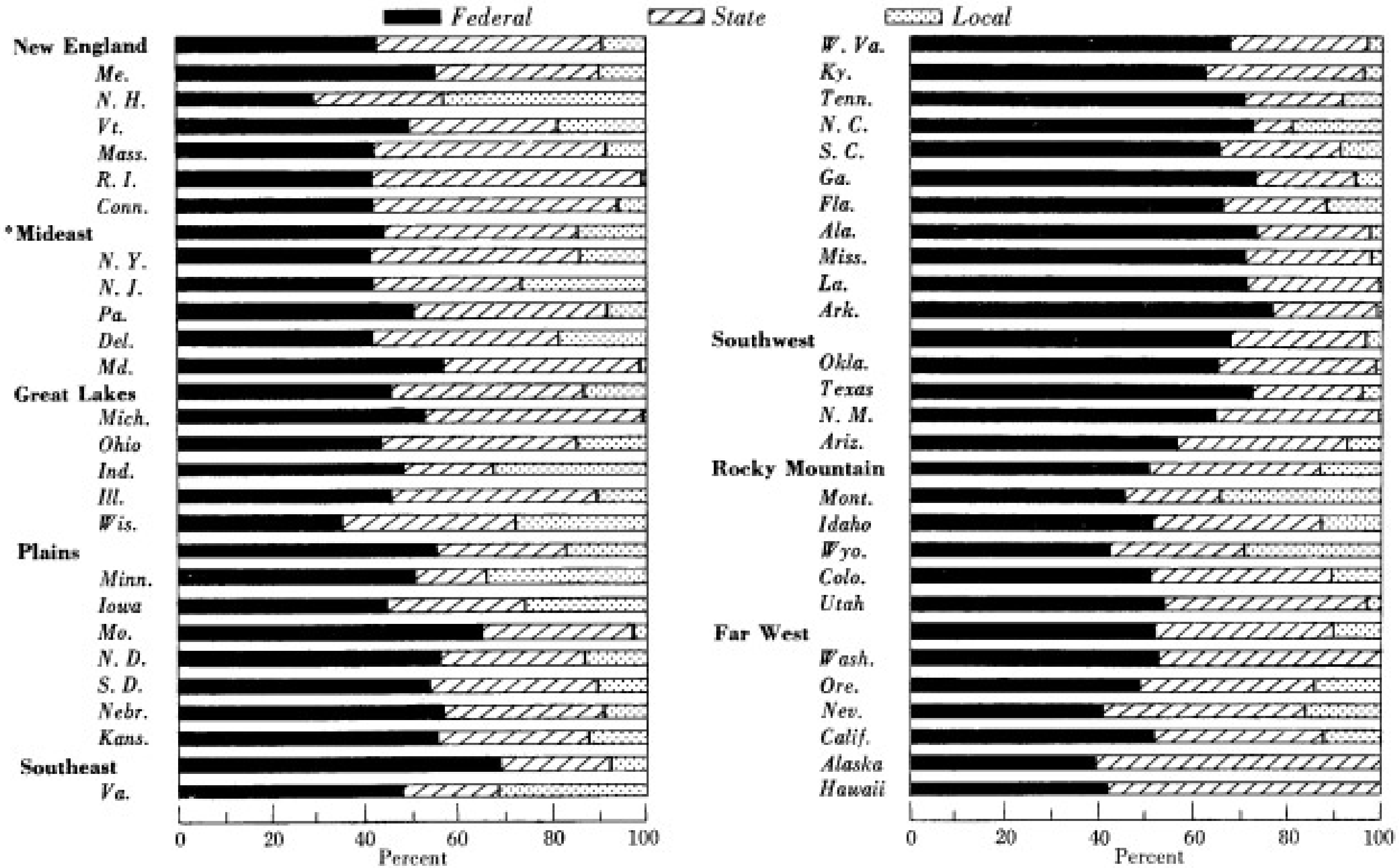
Public welfare.--Unlike education, the State and local public welfare function has been heavily supported from Federal funds since the Depression of the 1930's. In 1966, fully half of all State and local expenditure for public welfare was from Federal aid for categorical public assistance programs (Table A-10). In some of the Southern States, the National Government financed more than 70 percent (Fig. 9).

Federal financing of State and local public welfare programs has grown since 1942. Although the national old age and survivors insurance system was expected to reduce drastically the need for State and local welfare programs, this has not occurred. The number of old age assistance recipients has indeed declined, but the number of beneficiaries of the program for aid to families with dependent children has been rising steadily, as have the benefit payments. This, together with increases in Federal matching has resulted in an increase in the Federal share from 30 percent of the cost in 1942 to 45 percent in 1957 and 53 percent in 1966.

The Federally-aided public assistance programs, initiated in the mid 1930's, were the first major effort at Federal-State cooperation in a functional

Figure 9.

FINANCING OF STATE AND LOCAL PUBLIC WELFARE EXPENDITURE, BY LEVEL OF GOVERNMENT, BY STATE, 1966



* Includes D.C.

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area that up to that time had been left almost entirely to local governments. The substantial Federal financial involvement and the insistence that the States set up programs to handle the Federal funds led to substantial financial involvement on the part of the State governments as well. Thus, over 75 percent of the non-Federal funds going into public welfare came from State government sources in 1966. In 1942, the State portion had been 61 percent, and in 1957 it was about 72 percent. The preponderance of State financing is almost universal; only a handful of States finance less than half of the non-Federal costs (Fig. 9; table A-10). All of the non-Federal share is financed at the State level in Alaska, Hawaii and Washington (Table A-11).

A recent study of public welfare points to the group of categorical assistance programs as illustrative of "cooperative federalism:"

> . . . Of all the important programs involving money payments to individuals, public assistance is most dependent on interaction between governmental levels. If the goal of public relief in America were to show how federalism operates, the goal would be achieved.[11/]

Yet, as the author points out, the appalling range of benefit payments under the various programs provides a revealing commentary on its actual operation. Per capita welfare expenditures varied in fiscal 1966 from a low of $14 in Virginia to a high of $70 in Oklahoma, with a national average of $35. This substantial variation cannot be justified on the basis of measurable differences in need alone. Benefit payments for AFDC ranged in July 1966 from $7.90 in Mississippi to $50.83 in New York; and for OAA from $39.68 in Mississippi to $120.58 in New Hampshire; differences which far exceed the variations in the cost of living and relative need. More important are sharp differences in local attitudes toward the merit of various "relief" programs. There is no nationally established subsistence level below which assistance payments may not fall. The lower limit (a very low one) is established by the amount of monthly payment State and local government is willing and able to make to take advantage of the most favorable matching provisions of the Federal public assistance programs.

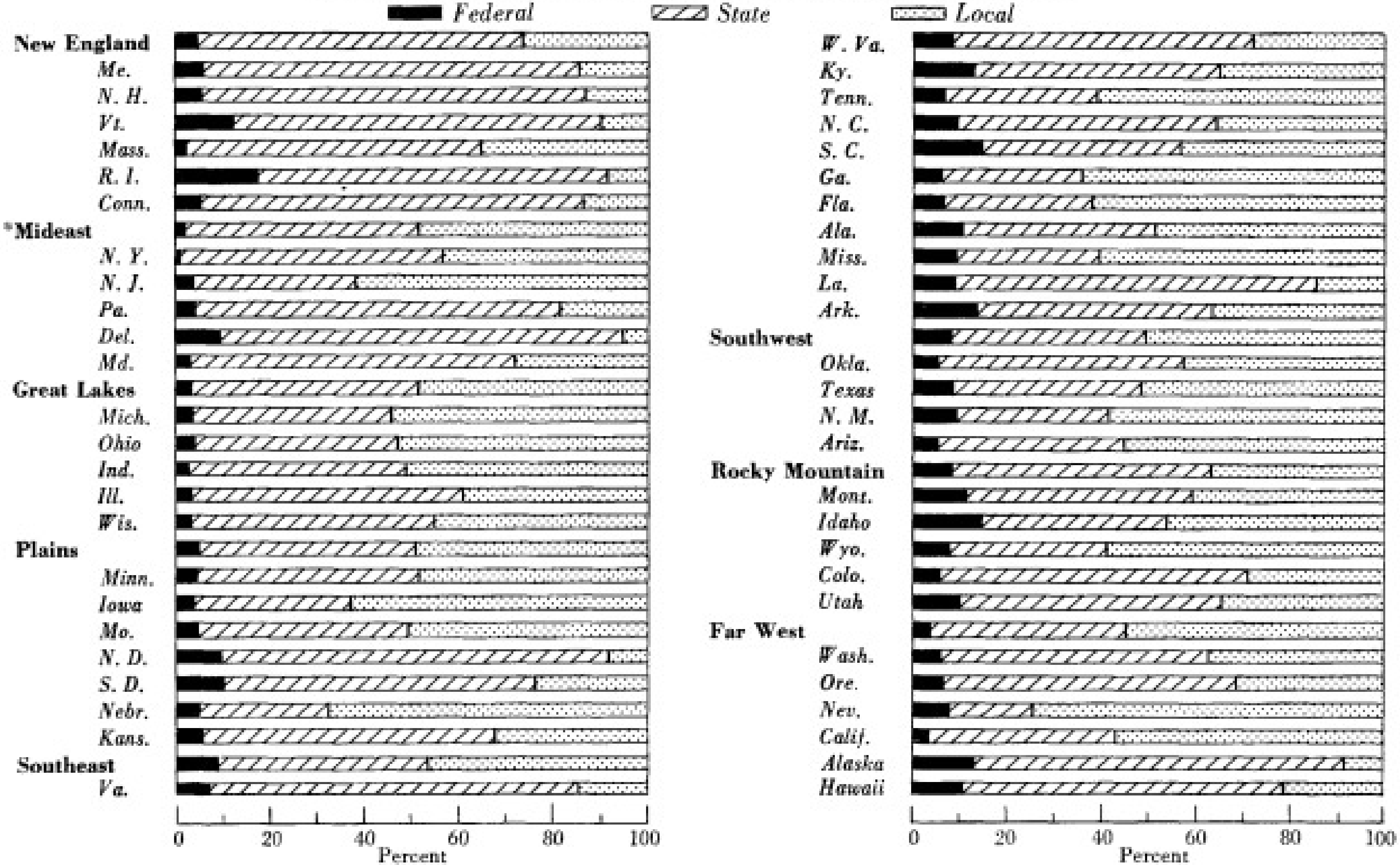
Health and hospitals.--To a significant extent, responsibility for providing different aspects of the "health and hospitals" function is divided among the three governmental levels. The construction and operation of Public Health Service hospitals and quarantine stations and hospitals and clinics of the Veterans Administration and the Bureau of Indian Affairs, and also the financing of a great deal of medical research are in the National Government's domain. Mental institutions, tuberculosis hospitals and specialized rehabilitation centers are operated at the State level. Many local governments construct and operate general hospitals and also underwrite the provision of general public health services with the States. State and local functional responsibilities are federally aided (Fig. 10; Table A-12).

The $6 billion spent on health and hospital services and facilities by State and local governments was shared almost equally between the two levels in fiscal 1966 as it has been with little change over past years. Yet, the interstate variation in the level of expenditure for health and hospital services, as indicated by the per capita data in Table A-12, is large, ranging from $11 in South Dakota to $80 in New York.

There are also great differences from State to State in the way the financing responsibility is divided between State and local governments (Table A-13). For example, the percent of the non-Federal financing from State

Figure 10.

FINANCING OF STATE AND LOCAL HEALTH AND HOSPITAL EXPENDITURE, BY LEVEL OF GOVERNMENT, BY STATE, 1966



* Includes D.C.

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funds in 1966 exceeded 90 percent in Delaware and North Dakota while in Nebraska, Georgia and Nevada the State proportion was one-third or less.

Highways.--With the initiation of a massive interstate highway system in 1956, Federal legislation established the National Government as a prime source of highway financing. By fiscal 1966, Federal aid provided one-third of the $12.8 billion spent by States and localities for road and street construction and maintenance (Fig. 11; Table A-14). Prior to establishment of the 90-10 interstate highway program, the 50-50 matching program for primary, secondary and urban-extension highways (still in operation) furnished only 11 to 13 percent of State and local highway expenditure.

About 70 percent of the non-Federal highway financing is paid by State governments, a pattern which is fairly uniform among the States, and one which has changed little over the years (Table A-15). A significant portion of the State highway expenditure is in the form of shared highway-user revenue with local governments. These "dedicated" intergovernmental transfers comprise 35 to 40 percent of the funds available to local governments for streets and highways.

There is, of course, interstate variation in the level of highway spending. With a national average of $65 per capita in 1966, the range was from less than $50 in New Jersey, Illinois and the Carolinas, to more than $140 in sparsely-settled Montana, Nevada and Wyoming. The proportion financed from Federal funds also varied, the higher proportions going generally to those States with the highest per capita costs.

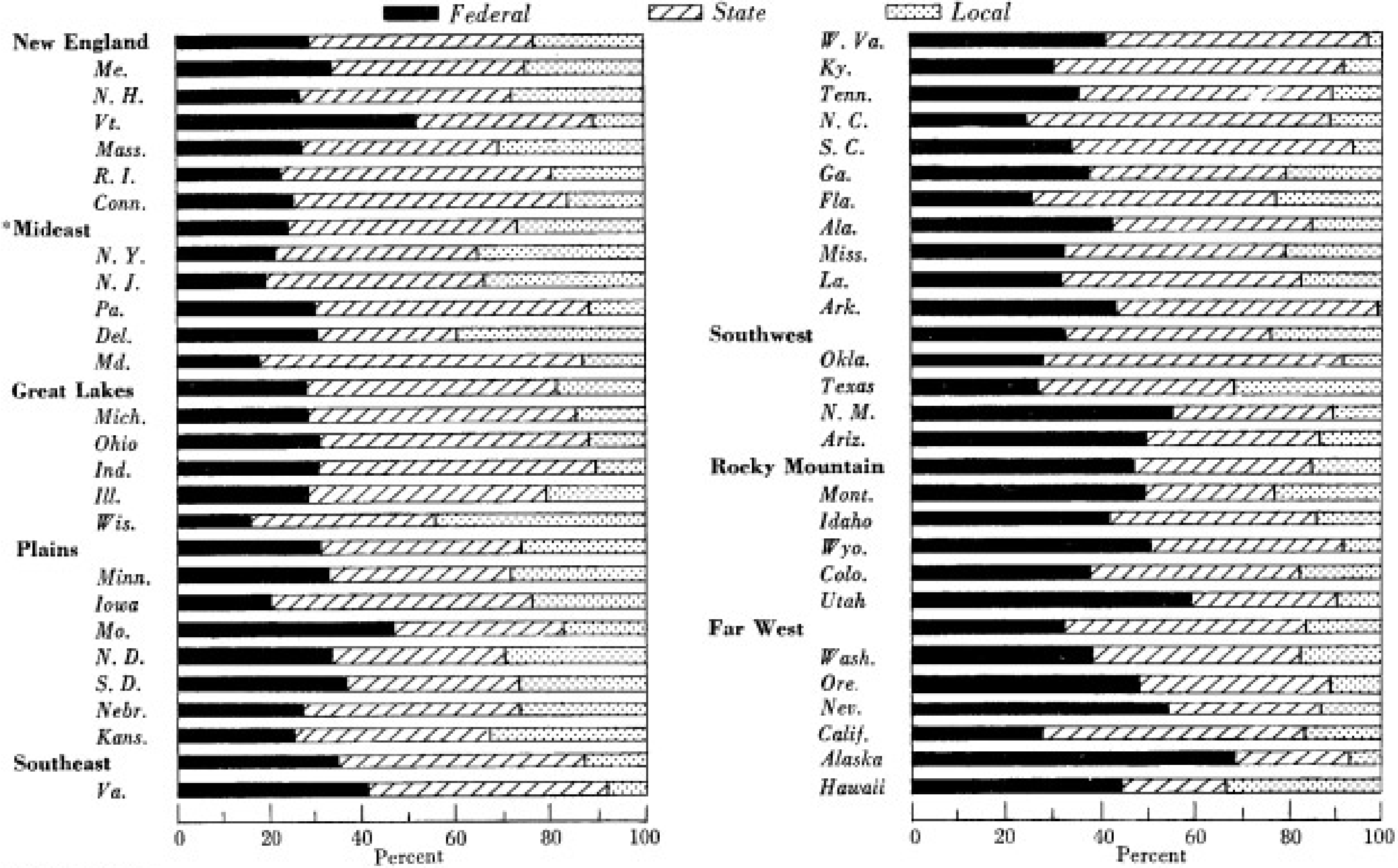
EXTENSIVE SEPARATION OF TAX SOURCES

Although the "marble cake" analogy is useful in depicting the expenditure and functional side of our intergovernmental system, the revenue side of fiscal federalism resembles more closely the "layer cake," dominated by Federal income, State consumer and local property taxes (Table 13). Most striking is the polarity in income and property taxes--the former in the National Government domain and virtually the entire yield of the latter going to local governments (Fig. 12). In each instance, more than 90 percent of the total tax take from these two categories has traditionally gone either to the National Government or to the localities.

The "separation" thesis is not as clear-cut in the case of consumer taxes. Actually, this group of taxes has been divided between the Federal Government and the States, the localities obtaining only a minor portion. Forty years ago, almost 70 percent of the consumer taxes (about half of them customs duties) went to the Federal Government and 29 percent to the States. Beginning in 1932, as the States moved rapidly into the general sales tax field, an area which the Federal Government has not entered, the distribution of consumer tax revenue shifted from the Federal to the State governments.[12] Also, the States have been increasing their general sales tax rates as well as their rates on selected excises such as those on tobacco products, alcoholic beverages and motor fuel. Further shifts can be expected as States continue to enact new and increased consumer taxes.

Figure 11.

FINANCING OF STATE AND LOCAL HIGHWAY EXPENDITURE, BY LEVEL OF GOVERNMENT, BY STATE, 1966



* *Includes D.C.*

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Figure 12.

FEDERAL, STATE, AND LOCAL RELIANCE ON MAJOR TAX SOURCES, 1927 AND 1966

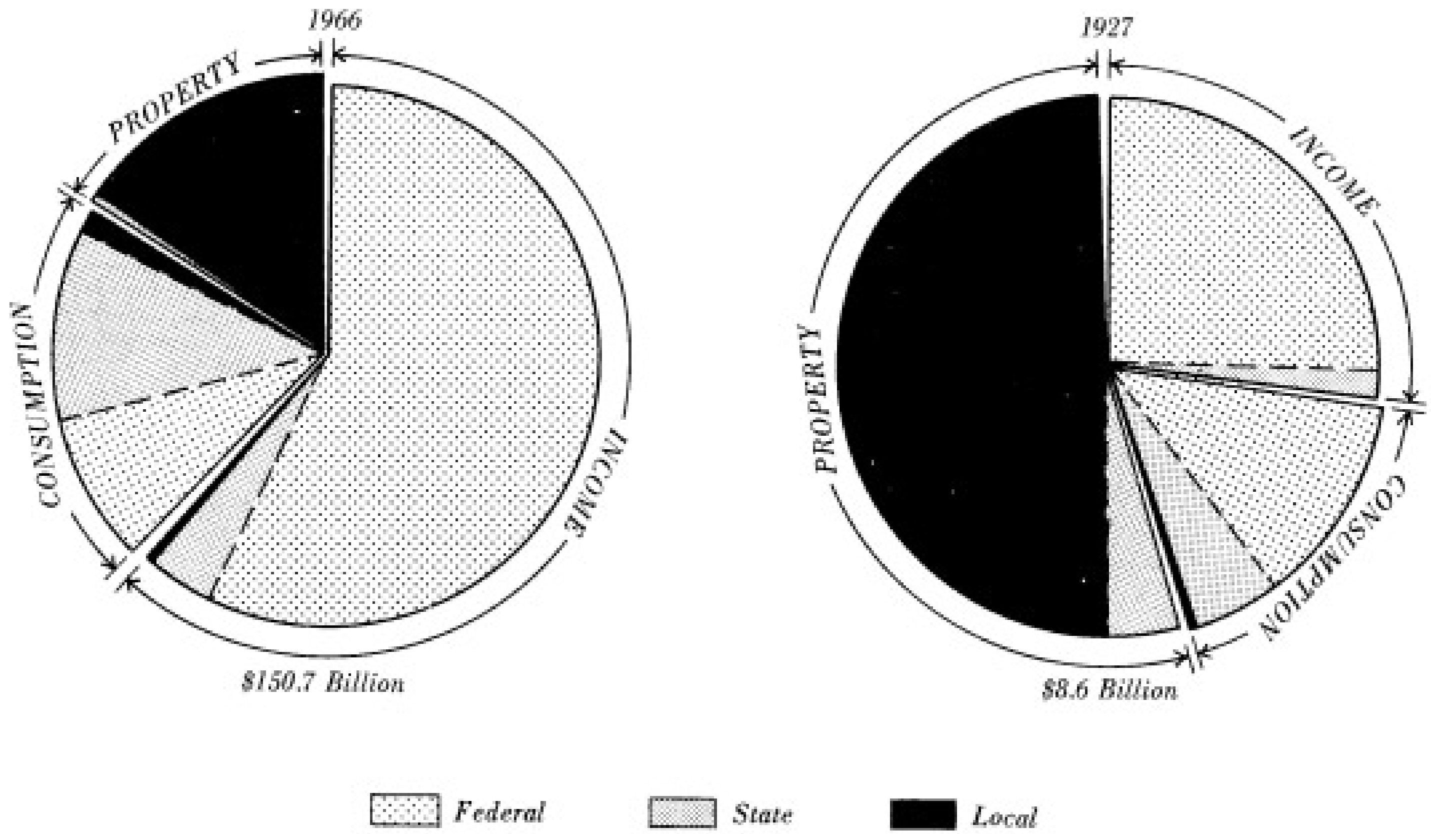

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TABLE 13.--DISTRIBUTION OF MAJOR TAX SOURCES AMONG GOVERNMENTAL LEVELS, SELECTED YEARS, 1927-1966

Tax Source	Amount					Percent Distribution Among Governments				
	1966	1957	1948	1938	1927	1966	1957	1948	1938	1927
				All Governments						
Income	$92,317	$59,525	$30,118	$2,993	$2,300	100.0%	100.0%	100.0%	100.0%	100.0%
Consumption	33,726	20,594	12,092	3,815	1,558	100.0	100.0	100.0	100.0	100.0
Property	24,670	12,864	6,126	4,440	4,730	100.0	100.0	100.0	100.0	100.0
Other	10,123	5,650	2,881	1,701	862	100.0	100.0	100.0	100.0	100.0
				Federal Government						
Income	85,519	56,787	28,983	2,610	2,138	92.6	95.4	96.2	87.2	93.0
Consumption	14,641	11,127	7,650	2,021	1,088	43.4	54.0	63.3	53.0	69.8
Property	-	-	-	-	-	-	-	-	-	-
Other	3,935	1,902	1,243	713	137	38.9	33.7	43.1	41.9	15.9
				State Governments						
Income	6,326	2,547	1,084	383	162	6.9	4.3	3.6	12.8	7.0
Consumption	17,044	8,436	4,042	1,674	445	50.5	41.0	33.4	43.9	28.6
Property	834	479	276	244	370	3.4	3.7	4.5	5.5	7.8
Other	5,176	3,069	1,340	831	631	51.1	54.3	46.5	48.9	73.2
				Local Governments						
Income	472	191	44	-	-	0.5	0.3	0.1	-	-
Consumption	2,041	1,031	400	120	25	6.1	5.0	3.3	3.1	1.6
Property	23,836	12,385	5,850	4,196	4,360	96.6	96.3	95.5	94.5	92.2
Other	1,012	679	305	157	94	10.0	12.0	10.6	9.2	10.9

Source: U.S. Bureau of the Census, Historical Statistics on Governmental Finances and Employment (1962 Census of Governments, Vol. VI, No. 4); and Governmental Finances in 1965-66.

When viewed in the aggregate, as in Table A-16, the American tax system has undergone a dramatic shift from strong reliance on property taxes (almost three-fifths of all tax collections in 1913) to strong reliance on income (almost three-fifths of all taxes collected in 1966).

The significance of this transformation for fiscal federalism is to be found in the fact that the Federal Government has utilized intensively the highly responsive income tax while the States and localities have resorted to more intensive use of consumer and property levies (second and third rate revenue producers).

National Government Dominance in Income Taxation

Extraordinary twentieth century political circumstances are primarily responsible for the National Government's domination of the income tax field. When the Federal personal income tax was first imposed in 1913, rates were low and personal exemptions high--a light tax on the relatively few who were rich.

World War I not only brought on a fiscal crisis, but created a body of political agreement that enabled Congress to raise tax rates higher than anyone anticipated at the time the Sixteenth Amendment was ratified. Between 1913 and 1918, normal tax rates rose from 1 to 6 percent while the top surtax rate soared from 6 to 65 percent. The Federal corporate income tax rates, supplemented by excess profit taxes, also rose steeply during this five-year period. As a result, the Federal individual and corporate income taxes were transformed from insignificant to primary revenue producers--accounting for half of all Federal receipts.

Crisis and consensus left in their wake a powerful new revenue source and the opportunity for the National Government to provide periodic tax reductions during the 1920's.* By 1931, the highest marginal rate had dropped to 25 percent and the lowest rate was a mere 1.5 percent.

The Great Depression of the early 1930's again created a tax crisis-consensus situation with effective political support quickly mustered for a series of tax increases designed both to balance the budget and effect a radical redistribution of income. While a policy calling for higher taxes during a period of sharp economic decline flies in the face of contemporary thinking, it had strong political appeal 30-odd years ago. After four rate increases, the top marginal rate had climbed to 79 percent by 1938.

Hard on the heels of the Depression, World War II contributed to the further build-up of the Federal personal income tax as it lost its "rich man's tax" connotation and assumed the characteristics of a universal tax. People who never before had paid an income tax joined the ranks of filers and turned over at least 23 percent of their net taxable income to the Internal Revenue Service. Between 1940 and 1944, the number of filers increased from 15 to 47 million.

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* While Federal income taxpayers received the lion's share of the fiscal dividends, the National Government's favorable fiscal position enabled it to strengthen the State tax system by allowing a credit against the Federal estate tax for payment of State death taxes.

The introduction of withholding at the source made "mass" income taxation possible by effectively spreading the payment of this relatively large tax throughout the year on a pay-as-you-earn basis.

The political consensus triggered by Pearl Harbor permitted the National Government not only to expand the base, but also to push bracket rates to an all time high of 94 percent on incomes above $200,000. Corporate tax rates and excess profits levies were also raised to a new peak during World War II.

The net result of these developments is that the National Government possesses the revenue source most responsive to changes in the economy. And, because of the unparalleled recent expansion of the economy, the "automatic" growth characteristic of the personal income tax has endowed the Federal Government with a fiscal advantage compared to States and localities. Indeed, when the Federal Government deemed it necessary to bolster the economy and reduced income tax rates conspicuously, Federal revenues dropped only temporarily. This attests to the marked responsiveness of the income tax.

While two world wars and one great depression provided the National Government with an opportunity to construct an unrivaled revenue source, the basis for dramatic tax increase action--crisis and consensus--is ordinarily conspicuous by its absence at the State and local level. The demand for higher taxes to pay for teachers' salary hikes, more mental hospital beds, or larger welfare payments does not generate the same type of agreement within the body politic as did the mobilization of public dollars to wage shooting wars.

State Income Tax Stalemate-- Sales Tax Victory

One of the criticisms directed at the States is that they have failed to exploit the full potential of the income tax. The plea on behalf of the States is that a variety of political, economic and fiscal factors conspire to thwart widespread State use of this tax.

A State usually must reach a crisis situation before sufficient consensus can be mobilized in favor of a policy that calls for the imposition of a new tax on the public. It is in this context that "an old tax becomes a good tax."

While in a few States constitutional limitations make adoption of a personal income tax difficult,[13/] fears of interstate competition loom as a more important factor working against its wider State use. Opponents of progressive income taxation are quick to assert that wealthy residents will migrate and the State's tax image will become "tarnished."

After analyzing all of the factors that have retarded the State individual income tax movement, the Advisory Commission, in its report on Federal-State Coordination of Personal Income Taxes, underscored the deterrent effect of intensive use of the income tax by the National Government:[14/]

> . . . Heavy Federal use of the personal income tax, especially since 1940, has been the single most important deterrent to its expanded use by the States. . . . It has enabled the opponents of State income taxation to win the day with the argument that the Federal Government has

effectively "pre-empted" this tax; that, therefore, State and local governments must necessarily depend primarily on consumer, business, and property taxes.

In support of the Commission's "deterrent" thesis, it should be noted that only five States have enacted or reenacted the income tax in the last 30 years, while 21 States have enacted the general sales tax.* Seven States have entered the general sales tax field within the last two years: Idaho and New York in 1965; Massachusetts, New Jersey and Virginia in 1966; and Minnesota and Nebraska in 1967. And, imposition of a general sales tax was very much a live issue in the 1967 legislative sessions of the six States still without such a tax.**

While general sales taxation has become virtually universal at the State level (the 44 sales tax States contain 98% of the Nation's population) only 35 States with 60% of the population utilize the personal income tax. Moreover, most of the income tax States make only an anemic use of this revenue source (see Fig. 5).

Heavy Local Reliance on the Property Tax

Property taxation has been traditionally the mainstay of local government tax systems. In 1927, it was virtually the sole source of local tax revenue--97 percent of the total. This percentage has been whittled down very gradually as some of the larger communities were able to obtain general sales and income taxes, and as some States authorized their local governments to "piggyback" on their State general sales taxes. Currently about seven-eighths of all local tax revenue is derived from property (Table 14). Interestingly, this percentage has held fairly constant since the end of World War II, although some decline may soon occur as State legislatures become more concerned with the ever-rising complaint that property tax burdens are reaching economic and political limits. The fact remains, however, that except for municipalities, property taxation is virtually the only source of local tax revenue--93 percent for counties, 98 percent for school districts, and 95 percent for townships and special districts (Table 15).

Authorization to levy local nonproperty taxes is often an alternative to greater reliance on the property tax. In nine States and the District of Columbia, such taxes provided 20 percent or more of local tax revenue in 1966--generally States with local sales tax supplements or local income taxes (see Table 12).

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* In a strict sense the 1967 enactments in Nebraska and Michigan are the first bona fide adoptions of a State personal income tax since 1937 because the other adoptions were: Alaska in 1949 when it was a Territory; West Virginia in 1961, after having repealed an income tax in 1943; Indiana in 1963, in connection with a restructuring of its gross income tax. New Jersey's commuter income tax adopted in 1961 cannot be considered a general income tax.

** The six nonsales tax States are Alaska, Delaware, Montana, Oregon, New Hampshire and Vermont.

Low Elasticity of State-Local Revenues

Because States and localities do not make intensive use of the personal income tax with its high degree of responsiveness to economic growth, they have had to seek relentlessly for new tax sources in order to keep revenue yields abreast of steadily rising budget requirements. While State-local budgets have been rising at an annual rate of about 8 percent, the natural or automatic growth in the State-local tax base has been less than 4 percent. This helps explain why during the period 1959-1967, the States--in order to maintain balance between politically compelling expenditure demands and revenue resources--were forced to take more than 200 actions to institute or increase major State taxes (Table 16). Louisiana, which relies heavily on severance-type taxes, stands out as the only State that was able to avoid increasing at least one of the six major taxes. At the local level, property tax rates have climbed steadily--accounting for at least half of the $20 billion increase registered by this tax during the 1946-1966 period.

The intergovernmental fiscal significance of the tax elasticity concept ("automatic growth") must be underscored because States and localities rely heavily on levies (property and consumer taxes) that rank low compared to the Federal structure. In contrast, the National Government makes intensive use of the highly elastic income tax (Table 17). We have described the concept of "elasticity" elsewhere as follows:[15]

> Tax collections rise automatically whenever the gross national product increases, and when the GNP declines during a recession the yield of almost every tax suffers. This relationship exists because individuals' incomes and consumption expenditures, which are the sources of nearly all tax revenues, move in the same direction as the GNP. Apart from the influence of tax enforcement, the amount of tax collections, of course, depends upon the size of the base (consumer expenditures or income) and the tax rate: rate times base equals yield.
>
> The yield of each tax responds differently to changes in the GNP, and the concept that measures the degree of automatic responsiveness is called income elasticity. If an increase of 10 percent in the GNP is accompanied by a 10 percent rise in the proceeds of a particular tax (with no change in rate), the tax is said to have an income elasticity of 1. If the percentage change in yield is less than the percentage change in the GNP, the tax is inelastic (the ratio of the percentage changes has a value of less than 1). If the reverse is true the tax is elastic (income elasticity is greater than 1).
>
> The income elasticity of every tax is determined by the responsiveness of its base to changes in the gross national product. During 1964, for example, the GNP increased 6.6 percent, gasoline sales increased approximately 4 percent and consumer spending for goods and services rose 6.5 percent. On the basis of this information we would expect the income elasticity of a gasoline tax to be considerably less than that of a general sales tax, and this is, in fact, the case. When the behavior of its tax base has been defined, the income elasticity of a consumption tax is explained.

TABLE 14.--LOCAL TAX COLLECTIONS, BY MAJOR SOURCE, SELECTED YEARS, 1927-1966

Fiscal Year	Amount (In Millions)					
			Nonproperty taxes			
	Total	Property Taxes	Total	Sales and Gross Receipts	Income Taxes	All Other Taxes
1927	$ 4,479	$ 4,360	$ 119	$ 25	-	$ 94
1932	4,274	4,159	115	26	-	89
1934	3,933	3,803	130	30	-	100
1936	4,083	3,865	218	90	-	128
1938	4,473	4,196	277	120	-	157
1940	4,497	4,170	327	130	$ 19	178
1942	4,625	4,273	352	133	30	189
1944	4,703	4,361	342	136	31	175
1946	5,157	4,737	420	183	38	199
1948	6,599	5,850	749	400	51	298
1950	7,984	7,042	942	484	71	387
1952	9,466	8,282	1,185	627	93	465
1953	10,356	9,010	1,345	718	103	523
1954	10,978	9,577	1,401	703	129	569
1955	11,886	10,323	1,563	779	150	634
1956	12,992	11,282	1,710	889	164	657
1957	14,286	12,385	1,901	1,031	191	679
1958	15,461	13,514	1,946	1,079	215	652
1959	16,531	14,417	2,114	1,150	230	734
1960	18,081	15,798	2,283	1,339	254	692
1961	19,804	17,370	2,434	1,432	258	744
1962	20,993	18,414	2,579	1,456	309	815
1963	22,164	19,401	2,763	1,583	313	867
1964	23,542	20,519	3,023	1,806	376	841
1965	25,116	21,817	3,299	2,059	433	807
1966	27,361	23,836	3,525	2,041	472	1,012

TABLE 14 (CONCL'D).--LOCAL TAX COLLECTIONS, BY MAJOR SOURCE, SELECTED YEARS, 1927-1966

Fiscal Year	Percent Distribution					
			Nonproperty Taxes			
	Total	Property Taxes	Total	Sales and Gross Receipts	Income Taxes	All Other Taxes
1927	100%	97%	3%	1%	-	2%
1932	100	97	3	1	-	2
1934	100	97	3	1	-	3
1936	100	95	5	2	-	3
1938	100	94	6	3	-	4
1940	100	93	7	3	1/	4
1942	100	92	8	3	1%	4
1944	100	93	7	3	1	4
1946	100	92	8	4	1	4
1948	100	89	11	6	1	5
1950	100	88	12	7	1	5
1952	100	87	13	7	1	5
1953	100	87	13	6	1	5
1954	100	87	13	7	1	5
1955	100	87	13	7	1	5
1956	100	87	13	7	1	5
1957	100	87	13	7	1	5
1958	100	87	13	7	1	4
1959	100	87	13	7	1	4
1960	100	87	13	7	1	4
1961	100	88	12	7	1	4
1962	100	88	12	7	1	4
1963	100	88	12	7	1	4
1964	100	87	13	8	2	4
1965	100	87	13	8	2	3
1966	100	87	13	7	2	4

1/ Less than 0.5 percent.

Source: U.S. Bureau of the Census, _Historical Summary of Governmental Finances in the United States_ (1957 Census of Governments, Vol. IV, No. 3); and _Governmental Finances_ (annually since 1958).

TABLE 15.--LOCAL GOVERNMENT GENERAL REVENUE, BY TYPE OF GOVERNMENT, 1966

Type of Local Government	Total General Revenue	Tax Revenue				
			Property Taxes Only			
		Total	Amount	Percent Distribution	As Percent of General Revenue	As Percent of Total Tax Revenue
	------------(millions)---------					
Counties	$11,444	$ 5,324	$ 4,939	20.7%	43.2%	92.8%
Municipalities	17,262	9,798	6,879	28.9	39.9	70.2
School districts	20,946	10,237	10,102	42.2	48.2	98.7
Townships and special districts	4,618	2,003	1,916	8.0	41.5	95.7
Total	53,172 1/	27,361	23,836	100.0	44.8	87.1

1/ To eliminate duplication, transactions among local governments are excluded from local aggregate.

Source: U.S. Bureau of the Census, Governmental Finances in 1965-66.

TABLE 16.--STATES INCREASING TAX RATES AND ENACTING NEW TAXES, SELECTED TAXES, 1959-1967

State	Sales	Personal Income	Corporation Income	Motor Fuel	Cigarette	Alcoholic Beverage
Alabama	x	-	x	-	xxx	x
Alaska	-	x	-	xx	x	x
Arizona	x	x	x	xx	x	x
Arkansas	-	-	-	x	x	-
California	x	xx	xx	x	xx	xx
Colorado	x	x	x	x	Nx	x
Connecticut	x	-	x	-	xxx	x
Delaware	-	x	-	xx	xx	x
Florida	-	-	-	-	x	xx
Georgia	-	-	x	-	x	x
Hawaii	x	x	x	-	x	x
Idaho	N	xx	xx	x	xxx	xxx
Illinois	xxx	-	-	x	xxx	x
Indiana	N1/	N1/	N1/	-	xx	-
Iowa	x	xx	xx	x	xxxx	xx
Kansas	x	x	x	-	xx	xx
Kentucky	N	-	-	-	-	-
Louisiana	-	-	-	-	-	-
Maine	x	-	-	-	xx	xx
Maryland	-	x	x	x	x	-
Massachusetts	N	-	-	x	x	x
Michigan	x	N	N	-	x	x
Minnesota	N	xxx	xxx	xx	xxx	x
Mississippi	x	-	-	x3/	xx	N
Missouri	x	-	-	x	x	x
Montana	-	xxx	xx	x	-	x
Nebraska	N	N	N	x	xx	x
Nevada	-	-	-	-	x	x
N. Hampshire	-	-	-	x	xx	-
New Jersey	N	N2/	x	x	xxx	x
N. Mexico	x	x	x	xx	x	xx
New York	N	x	-	x	xx	x
N. Carolina	-	-	-	-	-	x
N. Dakota	xx	-	-	-	x	x
Ohio	x	-	-	x	xx	x

TABLE 16 (CONCL'D).--STATES INCREASING TAX RATES AND ENACTING NEW TAXES, SELECTED TAXES, 1959-1967

State	Sales	Personal Income	Corporation Income	Motor Fuel	Cigarette	Alcoholic Beverage
Oklahoma	-	-	-	-	xx	N
Oregon	-	-	-	x	N	-
Pennsylvania	xx	-	x	x	xx	x
Rhode Island	xxx	-	x	x	xx	-
S. Carolina	-	x	-	-	x	x
S. Dakota	x	-	-	-	xxx	x
Tennessee	-	-	xx	x 3/	xx	xx
Texas	N	-	-	-	xx	x
Utah	xx	x	x	-	x	-
Vermont	-	-	-	-	xxx	-
Virginia	N	-	-	x	N	x
Washington	xxx	-	-	xxx	xxx	x
W. Virginia	x	N	N	x	x	-
Wisconsin	N	xxxx	-	x	xxx	xx
Wyoming	xx	-	-	x	x	x 4/
District of Columbia	x	x	-	x	x	xx

Note: Each x indicates a tax increase enactment.
N indicates a new tax.

1/ Partly replaces the gross income tax.
2/ "Commuter" income tax.
3/ Increase in diesel fuel tax rate only.
4/ Beer tax increase declared unconstitutional (1963).

TABLE 17.--GROSS NATIONAL PRODUCT ELASTICITIES OF THE MAJOR CATEGORIES OF STATE GENERAL REVENUE

Revenue Source	Elasticity Estimates		
	Low	Medium	High
Property taxes	0.7	0.9	1.1
Income taxes			
Individual	1.5	1.65	1.8
Corporate	1.1	1.2	1.3
Sales taxes			
General	0.9	0.97	1.05
Motor fuel	0.4	0.5	0.6
Alcoholic beverages	0.4	0.5	0.6
Tobacco	0.3	0.35	0.4
Public utilities	0.9	0.95	1.0
Other	0.9	1.0	1.1
Auto license and registration	0.2	0.3	0.4
Death and gift taxes	1.0	1.1	1.2
All other taxes	0.6	0.65	0.7
Higher education fees	1.6	1.7	1.8
Hospital fees	1.3	1.4	1.5
Natural resources fees	0.9	1.0	1.1
Interest earnings	0.6	0.7	0.8
Miscellaneous fees and charges	0.6	0.7	0.8

Source: Advisory Commission on Intergovernmental Relations, Federal-State Coordination of Personal Income Taxes (ACIR, Washington, 1965), p. 42.

Political Vulnerability

Under the most favorable circumstances there are formidable obstacles to increasing tax rates. "Tax policy changes have a special character because rate and structural changes usually are bread-and-butter or gut issues. They involve the allocation or reallocation of money in voters' pockets. In most political situations, this sets off a panic signal in legislative halls and anxiety in politicians' hearts."[16/] Citizens have underscored this aversion by defeating candidates for public office who venture to say candidly that higher taxes will be needed to support expenditure programs desired by the electorate. A classic example was furnished by Governor Orville Freeman of Minnesota. According to Walter Heller, "he made a point of forthrightly telling the voters that there ain't no Santa Claus, that if they wanted the services, they would have to pay for them in higher taxes. And after the election, he woke up not Governor. . . ."[17/]

Recent political history is replete with such an eclipse of State political careers following tax actions. One investigator, who examined the fate of Governors attempting to succeed themselves or to run for higher office (U.S. Senator) in the 1958, 1960 and 1962 elections, concluded that "incumbency, which in virtually every other electoral office in the land, is an odds on advantage for reelection, is a liability in the office of the governor."[18/] The foreshortened careers of aspiring politicians who take on the task of being a State Tax Commissioner or local assessor also bespeaks the political unpopularity of taxes.

Occasionally, circumstances permit tax rate increases without threatening political careers. For example, after the Surgeon General's report linking the incidence of cancer with cigarette smoking, cigarette tax rate increases were enacted largely without fear of an accompanying adverse voter reaction. State cigarette tax rates could be, and were, catapulted to higher levels. In 1959, only two States imposed cigarette taxes of as much as 8 cents per pack. By 1967, 27 States had cigarette taxes of 8 cents or more per pack. Moreover--except for tobacco-growing North Carolina--the States (Arizona, Colorado and Oregon) that had not formerly taxed cigarettes enacted the tax, and in Oregon's case with direct approval of the voters.

Ironically, the cigarette tax has one of the lowest growth potentials; an increase of 10 percent in the gross national product appears to raise cigarette tax collections only by 3 or 4 percent. Thus while higher cigarette tax collections helped States meet revenue needs, the help was short lived in most States. To cover their rising revenue requirements more adequately, States generally had to make more intensive use of other consumer-type levies.

INTERSTATE COMPETITION FOR ECONOMIC GROWTH

As they relate to economic development, State-local policies have taken on an activist character since World War II. While States and localities are always concerned lest their taxes drive industry "out," this defensive psychology is now supplemented with aggressive tactics designed to bring industry "in." Lively concern for economic growth is also manifested in the spreading use of industrial development bonds by localities to finance plants for lease to private industry.

De-emphasis of Business Taxation

The concern for creating a favorable tax climate for industrial development stands out as an important force working for reduced State and local reliance on strictly business-type levies. The contribution of business taxes to total State and local tax collections has declined slowly from 36 percent to 30 percent between 1950 and 1965.[19]

The reasoning behind the mounting concern over the business tax competition issue has been described as follows:[20]

> This awareness of economic competitive effects has become much more acute in recent years. This is to be expected, for at least two reasons. First, the level of State and local taxes, relative to the size of the nation's economy, has increased sharply; tax differentials which were inconsequential when the levels of taxation were low can be of real consequence now. Second, the various parts of the country have become more alike economically and thus firms have a wider range of choice in their locational decisions. In some cases, especially within metropolitan areas, tax differentials can be among the only significant differences. Moreover, a government concerned for economic development finds that tax policy is just about the only locational factor which local decision-makers can affect.

While other State and local taxes were rising, the desire for economic growth apparently imposed an inflexible ceiling on corporate tax rates--an effective limit of 6 percent. In 1956, six States had corporate tax rates of 6 percent or more (well above the rate in most States) and did not permit Federal income tax payments as a deduction in arriving at income subject to State tax.* In the ensuing decade not one of these States increased its corporate tax rate and Mississippi's rate was cut to 3 percent. Yet, as a group, they took 39 affirmative tax increase actions: cigarettes--14 (including one new adoption); sales--8 (including two new adoptions); alcoholic beverages--8; and personal income tax--9. Although New Jersey and Minnesota recently hiked corporate taxes, the actions came at the time a new broad-based sales tax was adopted and business was relieved of part of its personal property tax burden.

In their efforts to attract rather than merely hold industry, States have formulated a variety of selective strategies designed to improve their tax image while holding to a minimum the potential revenue loss from business tax reduction. The Commission identified at least five varieties of selective business tax reduction policies in its recent report on State-Local Taxation and Industrial Location:

1. Property tax exemption for new industry;
2. Locally negotiated property tax concessions;
3. "Freeport" laws to minimize personal property tax loads;
4. Corporate income tax preferential write-off provisions;
5. Special sales tax exemptions for purchases for "new industry."

The fact that Delaware, New York and Pennsylvania do not tax tangible personal property spurred New Jersey into exempting inventories from taxation and taking over responsibility for assessing other forms of business personalty. Arizona, Connecticut, Michigan, Oregon and Wisconsin have all scaled down assessments on tangible personal property in recent years. Idaho, Maryland and Wyoming in 1967 adopted programs looking toward the eventual phase-out of the tax on inventories. Minnesota gives business the option of claiming exemption either for inventories or machinery and equipment. The difficulty of finding revenues to compensate local governments for the loss in personal property tax receipts retards similar action in other States.*

Although the States make relatively less use of business taxes now than they did 15 years ago, State tax practices have been subjected to increasingly critical attention by business. It has been particularly strident with respect to State methods of exacting taxes from the firms operating across State lines. In the light of the increasingly interdependent character of the economy, questions have been raised as to whether the country should continue to tolerate independent and varied State methods of exploiting the business tax field. The "Willis Subcommittee" issued a four-volume report proposing legislation that initially called for a uniform national set of rules to govern State imposition of corporate income, sales and use, gross receipts, and capital stock taxes; leaving to the States only the most basic options--to tax or not--and the rate determination.[21]

Industrial Development Bond Financing

Local governments in about 40 States are authorized to issue bonds to finance industrial plants for lease to private enterprise. This method of attracting industry is rapidly increasing, as is the size of individual local bond issues for this purpose. It is estimated that $1.3 billion worth of industrial development bonds was issued during 1967. Much of this debt has been issued by very small communities, with individual bond flotations running as high as $20 million, $50 million, and a few over $100 million. By the end of 1967, local governments had outstanding some $2 billion of industrial development debt, mainly in the form of revenue bonds, the interest on which is exempt from Federal income taxes.

In recent years, a number of abuses have been identified with industrial development bond financing, often attracting unfavorable public notice to the detriment of the public's regard for local government administration, particularly for the financial administration of the localities which participate in the practice. Some communities have used industrial development bonds to finance enterprises in excess of their employment needs, and which impose demands for public services that they cannot supply without overburdening their taxpayers and saddling themselves with excessive contingent liabilities in the form of debt service on the bonds.

The practice has been subject to other abuses: financing plants for national corporations with adequate credit resources; pirating established firms by one community from another; and enabling specially incorporated areas with relatively few residents to develop tax havens at the expense of neighboring communities. Abuse of the practice for private advantage tends to reflect on the tax exemption of municipal securities generally and has brought forth a rising demand that Congress curb the practice by Federal legislation.[22]

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* Alaska, Massachusetts, Mississippi, North Carolina, Oregon and Wisconsin.

RESTRICTED STATE AND LOCAL BORROWING AUTHORITY

The stringent legal constraints placed on the power of state legislative bodies to borrow money illustrate dramatically a popular mistrust of legislative judgment. This mistrust extends to local governments and hobbles the exercise of both their taxing and borrowing powers.[23/]

Broad legislative authority to borrow would enable States to participate in Federal programs, but this power is usually circumscribed severely (Table A-17). Only nine States can be said to allow their legislatures to borrow without restraint as to amount: Connecticut, Delaware, Louisiana, Maryland, Massachusetts, Minnesota, New Hampshire, Tennessee and Vermont. In the other cases, the amount the legislature may borrow is limited by the constitution, or by the requirement for electoral referendum approval or by both.

Constitutional limitations on State borrowing were spawned by the financial difficulties encountered by numerous States prior to 1845, when they overextended their debt position to finance internal improvements and were subsequently forced to default. The constitutional restrictions were an effort to guard against repetition of these conditions. After 1900, however, growing pressure to construct public improvements led some State legislatures to look for ways of circumventing the constitutional borrowing restraints. This produced a trend toward use of revenue bonds, public corporations, lease-purchase agreements, and reimbursement obligations. State debt created by these devices is called nonguaranteed debt, since the States do not pledge their general funds to repay it (Table A-18).

Use of nonguaranteed borrowing methods has had some important consequences. Since the State cannot pledge State credit or taxing power for bond retirement, it must pay higher interest rates. Moreover, in order to circumvent constitutional debt restrictions, States have to create special administrative organizations. In short, constitutional restrictions on general obligation borrowing can be evaded by nonguaranteed borrowing, but only at the expense of higher costs and administrative complexity.

LIMITED FEDERAL ACTION TO HARMONIZE THE INTERGOVERNMENTAL TAX SYSTEM

While the Federal, State, and local governments are free to exercise their separate taxing powers, constraints are necessarily imposed on them and especially on the Federal Government by virtue of the fact that taxes at all levels tend to converge on the same taxpayers. Currently, State and local taxes on property, income, motor fuels, and general sales taxes are deductible for Federal income tax purposes. In 1964, itemized State-local taxes amounting to $14 billion appeared on 26.5 million Federal tax returns. Deductibility of State and local taxes for Federal tax purposes involves a substantial tax reduction benefit; one that grows yearly as taxes increase and more taxpayers itemize their deductions. Assuming an average write-off of approximately 25 percent, the "cost" of itemization to the Federal Treasury in terms of individual income tax revenue foregone amounted to an estimated $3.5 billion in 1966.

The deductibility of State and local taxes for Federal income tax purposes is the most significant example of intergovernmental tax comity. Its purpose, however, is limited. It was seared into the original Federal Income Tax Act (1913) as protection against the possibility of income confiscation that might result from the uncoordinated exactions of Federal, State and local tax collectors.

The deductibility provisions continue to perform this limited protective function. Persons in the highest tax bracket are able to write off their State and local tax payments against their Federal liability at 70 cents on the dollar. Because the tax reduction benefit is a function of the marginal rate, the great mass of taxpayers in the 14 to 25 percent bracket receive relatively limited benefits from deductibility.24/

Only rarely has the National Government adopted a specific tax policy designed to reduce interstate tax competition. One instance occurred after World War I when Congressional consideration of the future of the Federal estate tax chanced to coincide with the advent of interstate tax competition for wealthy residents. One or two States had just begun to advertise immunity from death taxation in national journals. At least two had amended their constitutions to guarantee freedom from inheritance taxes to those who settled within their borders. State leadership was quick to recognize that unchecked interstate tax competition practiced by a few States would quickly spread to others and destroy this tax source for all of them.

Heeding the plea of State leaders, Congress agreed to substitute tax reduction and a Federal tax credit for repeal of the tax. This fixed a floor under State death taxes which effectively deterred interstate competition for wealthy residents. Each State was left free to collect death taxes not in excess of 80 percent of the Federal tax liability without adding to the net burden of its residents. Every State except Nevada imposes a tax at least equal to the maximum Federal credit. Today the credit continues to serve as a floor under State tax liability and to this extent prevents competitive tax reduction. It does not, however, prevent wide variations in State liabilities above the credit.

The States feel that their share of the yield of these taxes should be increased. Some are concerned because interstate tax differentials may intrude on decisions as to where people settle and do business; they would like a higher Federal tax credit to shelter their higher tax rates against interstate competition. Tax practitioners and administrators are critical of the excessive tax complexity and interstate variety. Students of taxation lament that heterogeneity mars the death tax structure's usefulness as an instrument of public policy.

With these considerations in mind, the Advisory Commission recommended that the Congress liberalize the tax credit provisions contingent on State "pick-up" of the enlarged Federal tax credit and on State adoption of the estate tax concept.25/

As State and local taxes mount and their regressive character cancels out less regressive Federal tax policies, the need for a more positive form of tax integration becomes more apparent (Appendix C). The Advisory Commission's recommendations calling for both larger estate tax credits and a partial personal income tax credit are offered as building blocks for a more positive tax coordination approach to fiscal federalism.

REGRESSIVE STATE AND LOCAL TAX SYSTEM

State tax policymakers are constantly forced to reconcile the potential tax overburdens that can develop from excessive reliance on levies of a regressive character with the potential harm to their citizens that can result from short-changing public needs.

The States have been especially sensitive to the regressivity issue in two specific areas: the local residential property tax, and the State and local general retail sales tax.

The basis for this sensitivity is revealed in the distribution of the estimated State and local sales and property tax burden by adjusted gross income classes (Table 18). From the standpoint of ability to pay, the general sales tax in its unadulterated form is an upside down revenue measure. The burden (especially if food is taxed) declines as income rises. The property tax is even more regressive and is particularly burdensome to the low income homeowner or renter. (However, if the sales tax and the property tax are coupled with an income tax credit arrangement as discussed subsequently, their regressive aspects can be mitigated substantially.)

Sales Tax Action

From the very beginning of the State sales tax movement, that tax encountered criticism because in concept at least, it applied to such necessities as food, clothing, shoes and drugs. While some States were able to counter this argument by pleading that the revenue would be spent on expenditures to help the poor, other States felt impelled to concede exemptions in order to obtain enactment. Fourteen States now exempt purchases of food for home consumption, and the District of Columbia taxes food at a preferential 1 percent rate whereas other sales are taxed at 3 percent. Twenty-one States provide complete or partial sales tax exemption for purchases of prescription drugs and medicine.

Recent tax credit innovations for the State sales tax have almost squared the revenue circle--that of maximizing consumer tax yields while minimizing the burden which these levies impose on low income families. Until recently only the costly approach--that of exempting food and drugs--was used to minimize regressivity of the general sales tax. Such exemptions can cut sales tax collections by as much as 25 percent or more where tax enforcement is not effective.

Income Tax Credits for Sales Tax Payments

In 1963 Indiana adopted personal income tax credits for food and drug tax payments with cash refunds for those persons with incomes either too low to take full advantage of the tax credit or with incomes below the filing requirement. Under the Indiana system each person is granted an $8 sales tax credit. This figure is based on an "assumed" food and drug purchase of $400 for each person multiplied by Indiana's 2 percent sales tax rate. Thus, a family of four is automatically entitled to a $32 reduction on its Indiana individual income tax or a cash refund of $32 if it has no State income tax liability.

This "first generation" Indiana type of flat rate tax credit helps on both the revenue and regressivity fronts. The income tax credit for sales tax

TABLE 18.--ESTIMATED TAX BURDEN FOR SELECTED DIRECT PERSONAL TAXES, BY AGI CLASS, 1964

Adjusted Gross Income Class	Number of Returns (thousands)	Federal Adjusted Gross Income		Grossed-up AGI Less an Allowance for Dependents	
		Amount (millions)	Distribution (Cumulative from Lowest AGI Class)	Amount[1/] (millions)	Distribution (Cumulative from Lowest AGI Class)
Under $2,000	14,250	$ 14,341	3.6%	$ 11,174	3.6%
$2,000 - $2,999	6,211	15,530	7.5	8,364	6.4
$3,000 - $3,999	6,125	21,449	12.9	12,888	10.6
$4,000 - $4,999	5,975	26,875	19.7	17,408	16.2
$5,000 - $5,999	5,748	31,590	27.7	21,266	23.2
$6,000 - $6,999	5,415	35,143	36.5	24,477	31.1
$7,000 - $7,999	4,838	36,213	45.7	26,291	39.7
$8,000 - $8,999	3,876	32,850	53.9	24,608	47.7
$9,000 - $9,999	3,027	28,692	61.2	22,283	55.0
$10,000 - $14,999	6,610	78,291	80.9	64,656	76.1
$15,000 - $19,999	1,460	24,833	87.2	22,041	83.2
$20,000 - $49,999	1,212	34,505	95.9	33,021	94.0
$50,000 - $99,999	159	10,463	98.5	10,999	97.6
$100,000 or more	37	7,437	100.4	9,691	100.7
No adjusted gross income	432	1,552[3/]	100.0	2,272[3/]	100.0
Total	65,376	396,660[4/]	100.0	306,893[4/]	100.0

TABLE 18 (CONT'D).--ESTIMATED TAX BURDEN FOR SELECTED DIRECT PERSONAL TAXES, BY AGI CLASS, 1964

Adjusted Gross Income Class	State and Local General Sales Taxes			
	Amount (millions)	Distribution (Cumulative from Lowest AGI Class)	As a Percent of Federal AGI	As a Percent of Grossed-up AGI Less Dependents
Under $2,000	$ 347	6.0%	2.4%	3.1%
$2,000 - $2,999	280	10.8	1.8	3.4
$3,000 - $3,999	389	17.5	1.8	3.0
$4,000 - $4,999	457	25.3	1.7	2.6
$5,000 - $5,999	521	34.3	1.6	2.4
$6,000 - $6,999	554	43.8	1.6	2.3
$7,000 - $7,999	550	53.3	1.5	2.1
$8,000 - $8,999	493	61.8	1.5	2.0
$9,000 - $9,999	429	69.1	1.5	1.9
$10,000 - $14,999	1,103	88.1	1.4	1.7
$15,000 - $19,999	302	93.3	1.2	1.4
$20,000 - $49,999	304	98.5	0.9	0.9
$50,000 - $99,999	58	99.5	0.6	0.5
$100,000 or more	28	100.0	0.4	0.3
No adjusted gross income	n.a.	-	-	n.a.
Total	5,814	100.0	1.5	1.9

TABLE 18 (CONCL'D).--ESTIMATED TAX BURDEN FOR SELECTED DIRECT PERSONAL TAXES, BY AGI CLASS, 1964

Adjusted Gross Income Class	State and Local Property Taxes 2/			
	Amount (millions)	Distribution (Cumulative from Lowest AGI Class)	As a Percent of: Federal AGI	As a Percent of: Grossed-up AGI Less Dependents
Under $2,000	$ 1,490	12.4%	10.4%	13.3%
$2,000 - $2,999	697	18.2	4.5	8.3
$3,000 - $3,999	729	24.3	3.4	5.7
$4,000 - $4,999	758	30.6	2.8	4.4
$5,000 - $5,999	818	37.4	2.6	3.8
$6,000 - $6,999	952	45.4	2.7	3.9
$7,000 - $7,999	1,014	53.8	2.8	3.9
$8,000 - $8,999	917	61.5	2.8	3.7
$9,000 - $9,999	803	68.1	2.8	3.6
$10,000 - $14,999	2,119	85.8	2.7	3.3
$15,000 - $19,999	647	91.2	2.6	2.9
$20,000 - $49,999	759	97.5	2.2	2.3
$50,000 - $99,999	179	99.0	1.7	1.6
$100,000 or more	118	100.0	1.6	1.2
No adjusted gross income	n.a.	-	-	n.a.
Total	12,000	100.0	3.0	3.9

n.a. -- Data not available.

1/ Grossed-up AGI = Federal adjusted gross income plus: excludable capital gains, OASDI benefits, and excludable dividends; less capital loss in excess of statutory limitations.
2/ Including an imputed residential property tax payment made by renters.
3/ Deficit.
4/ Adjusted gross income less deficit.

Source: Internal Revenue Service; *Statistics of Income, Individual Income Tax Returns, 1964*, and ACIR staff estimates based on individual income tax returns, 1964, unpublished IRS tables from 1963 returns, and Subproject B, (special tabulation by Treasury Department) of BLS 1960-61 *Consumer Expenditure Survey*.

payments definitely solves more administrative problems on the sales tax front than it creates on the income tax side. For example, the manager of a supermarket is not required to maintain two sets of sales records for tax exempt and taxable items and State sales tax administrators are freed from the tedious task of auditing retail sales transactions for possible violations of the exemption provisions. It largely eliminates the expensive leakage problem.

On the tax distribution side it can be readily seen that the flat rate credit converts the sales tax into a fairly proportional levy for the great mass of taxpayers in the lower and middle income brackets (Table 19).

The "second generation" diminishing sales tax credits are more sophisticated instruments for pulling the regressive stinger from the general sales tax (Table 19). Hawaii pioneered this approach in 1965 with its credits for consumer-type taxes ranging from $18 per qualified exemption for taxpayers having a modified adjusted gross income of less than $1,100 to $.45 per exemption for those with adjusted income of $6,300 or more. In 1967, Iowa came up with a vanishing sales tax credit against its State income tax liability. In this case the credit ranges from $12 for taxpayers having taxable income under $1,000 to no credit in those cases where taxable income exceeds $7,000 (Table 20).

This vanishing type credit scores high from the standpoint of maximizing tax yield. It also converts a regressive levy into a tax with some of the characteristics of a progressive revenue instrument (Table 19).

Residential Property Tax Relief

Although the value of the family residence served as a fairly good proxy of the ability to pay taxes in a rural society, total household income is a more precise measure of taxable capacity in our modern urban society.

This is illustrated by the hardship that the payment of residential property taxes imposes on low income households in general and on elderly householders in particular. With retirement, the flow of income drops sharply and a yearly property tax bill of, say, $500 that once could be taken in stride becomes a disproportionate claim on the income of an elderly couple living on a pension of $1,500 a year. By the same token, if the flow of income falls sharply as a result of the death or physical disability of the breadwinner, or unemployment, then again payment of the residential property tax can become an extraordinary tax burden.

The need for property tax relief for the elderly in particular is dramatically understood by the finding of the Wisconsin Tax Department that in 1965 over 5,000 elderly households were forced to turn over more than 20 percent of their total money income to the residential property tax collector.

This Wisconsin study also revealed that there were 841 households headed by elderly persons that were paying out <u>on the average</u> 55 percent of all of their total money income to the local property tax collector. These householders were obliged to draw on their savings to pay this tax on shelter. Compared to the average family's property tax burden--3 to 4 percent of household income, this situation not only violates the ability to pay principle, it produces a catastrophic family expense situation (Table 21).

TABLE 19.--ESTIMATED EFFECTIVE SALES TAX RATES FOR A 2 PERCENT SALES TAX UNDER ALTERNATIVE EXEMPTION PLANS, BY SELECTED INCOME CLASSES

Income Class	Average Family Size	Average Annual Income After Taxes	Alternative 1 No Exemption		Alternative 2 Exempting Food 1/		Alternative 3 $6 Credit per Person		Alternative 4 Diminishing Credit 2/	
			Sales Tax	Effective Rate	Sales Tax	Effective Rate	Sales Tax (After Credit)	Effective Rate	Sales Tax (After Credit)	Effective Rate
Under $1,000	1.2	$ 704	$ 14.90	2.12	$ 9.76	1.39	$ 7.70	1.09	$ 2.90	0.41
$1,000 - $1,999	1.6	1,532	23.02	1.50	13.90	0.91	13.42	0.88	7.02	0.46
$2,000 - $2,999	2.4	2,510	35.38	1.41	23.20	0.92	20.98	0.84	16.16	0.64
$3,000 - $3,999	2.5	3,480	45.88	1.32	31.04	0.89	30.88	0.89	25.88	0.74
$4,000 - $4,999	3.0	4,487	60.56	1.35	42.58	0.95	42.56	0.95	42.56	0.95
$5,000 - $5,999	3.4	5,476	71.52	1.30	50.40	0.92	51.12	0.93	51.12	0.93
$6,000 - $7,499	3.7	6,700	85.74	1.28	61.78	0.92	63.54	0.95	63.54	0.95
$7,500 - $9,999	4.0	8,557	106.04	1.24	79.06	0.92	82.04	0.96	90.04	1.05
$10,000 - $14,999	4.3	11,510	134.68	1.17	104.56	0.91	108.88	0.95	126.08	1.09
$15,000 and over	3.7	21,567	199.02	0.92	158.42	0.73	176.82	0.82	199.02	0.92

1/ Food prepared in the home.

2/ Diminishing credit per person equal to: $10 if average annual income after taxes is less than $2,000; $8 if between $2,000 and $3,999; $6 between $4,000 and $7,499; $4 between $7,500 and $9,999; $2 between $10,000 and $14,999; no credit if income is $15,000 or over.

Source: Analysis of alternative sales tax exemption plans prepared for the Indiana Senate Finance Committee by Charles F. Bonser, Resident Director, Commission on State Tax and Financing Policy, January 18, 1965.

TABLE 20.--STATE USE OF POSITIVE AND NEGATIVE PERSONAL INCOME TAX CREDITS TO MINIMIZE OR OFFSET THE REGRESSIVITY OF SALES AND PROPERTY TAXES[1]

State	Type of Credit	Year Adopted	Amount of Credit	Law	Administrative Procedure
Colorado	For sales tax paid on food	1965	$7 per personal exemption (exclusive of age and blindness)	Ch. 138, Art. 1 (Secs. 138-1-18 and 138-1-19 added by H.B. 1119, laws 1965, effective 6/1/65)	Credit to be claimed on income tax returns. For resident individuals without taxable income a refund will be granted on such forms or returns for refund as prescribed by the Director of Revenue.
Hawaii	For consumer-type taxes	1965	Varies, based on income[2]	Ch. 121 (Secs. 121-12-1 and 121-12-2 added by Act 155 laws 1965)	The director of taxation shall prepare and prescribe the appropriate form or forms to be used by taxpayers in filing claims for tax credits. The form shall be made an integral part of the individual net income tax return. In the event the sales tax credits exceed the amount of the income tax payments due, the excess of credits over payments due shall be refunded to the taxpayer.
Indiana	For sales tax paid on food and prescription drugs	1963	$8 per personal exemption (exclusive of age and blindness)	Ch. 50 (Ch. 30, Sec. 6d added by H.B. 1226, laws 1963, 1st sp. sess., effective 4/20/63)	Credit to be claimed on income tax returns. If an individual is not otherwise required to file a return, he may obtain a refund by filing a return, completing such return insofar as may be applicable, and claiming such refund.
Iowa	For sales tax paid	1967	Varies, based on income[3]	Ch. 422 (Sec. 18 added by H.B. 702, laws 1967)	Tax credit or refund to be claimed on income tax return. If an individual is not otherwise required to file a return, he may obtain a refund by furnishing the department of revenue with proof of his taxable income and the number of his personal exemptions.
Massachusetts	For consumer-type taxes	1966	$4 for taxpayer, $4 for spouse, if any, and $8 for each qualified dependent[4]	Ch. 62 (Sec. 6b added by Ch. 14, Acts 1966)	Same as Indiana
Minnesota	For senior citizen homestead relief	1967[5]	Varies with income from 75% to 10% of property tax or equivalent rent not to exceed $300 (maximum credit, $225)	Ch. 32 (H.B. 27), Art. VI	Tax credit or refund to be claimed on income tax return. Department of Taxation shall make available a separate schedule for information necessary to administration of this section and the schedule shall be attached and filed with the income tax return. Cash refund granted if property tax credit exceeds State personal income tax liability.
	Tax relief for renters	1967[6]	3.75% of the total amount paid by claimant as rent, not to exceed $45[7]	Ch. 32 (H.B. 27), Art. XVII	Same as above.
Nebraska	For sales tax paid on food	1967[8]	$7 per personal exemption (exclusive of age and blindness)	H.B. 377, laws 1967	Credit to be claimed on income tax returns. Refund will be allowed to the extent that credit exceeds income tax payable but no refund will be made for less than $2.

TABLE 20 (CONCL'D).--STATE USE OF POSITIVE AND NEGATIVE PERSONAL INCOME TAX CREDITS TO MINIMIZE OR OFFSET THE REGRESSIVITY OF SALES AND PROPERTY TAXES[1/]

State	Type of Credit	Year Adopted	Amount of Credit	Law	Administrative Procedure
Wisconsin	For senior citizen homestead tax relief	1963	Varies, based on income and amount of property tax or rental payment	Ch. 71 (Sec. 71.09(7)) added by Ch. 566 (A.B. 301) effective 6/10/64. Ch. 580 (A.B. 907) repealed and re-created Sec. 7109(7) effective Dec. 19, 1964	Tax credit or refund to be claimed on income tax return. The department of taxation shall make available a separate schedule which shall call for the information necessary to administering this section and such schedule shall be attached to and filed with the Wisconsin income tax form. Cash refund granted if property tax credit exceeds state personal income tax due.

1/ If a taxpayer has no state personal income tax liability or a tax liability insufficient to absorb the entire credit (a negative tax credit situation) he is entitled to the appropriate cash refund. If the taxpayer's state personal liability is equal to or greater than the tax credit, his personal income tax liability is reduced by the amount of the credit (a positive tax credit situation).

2/ The credits for consumer-type taxes are based on "modified adjusted gross income" (regular taxable income plus exempt income such as social security benefits, life insurance proceeds, etc.) and range from $18 per qualified exemption for taxpayers having a modified adjusted gross income of less than $1,100 to 45¢ per exemption where such income is $6,300 or more.

3/ Ranges from $12 per qualified exemption for taxpayers having taxable income under $1,000 to $0 where such income is over $7,000.

4/ Credits are only allowed if total taxable income of taxpayer and spouse, if any, does not exceed $5,000 for the taxable year.

5/ Applicable to property taxes accrued in 1967 and subsequent years. Credit may be claimed on 1967 income tax return and thereafter.

6/ Applicable to rent paid in 1968 and thereafter. Credit may be claimed on 1968 income tax return and thereafter.

7/ Elderly may choose this relief or senior citizen relief but not both.

8/ Applicable to taxes due on 1968 income and thereafter.

The case for property tax relief for the aged poor has been made in following terms:[26]

> For many years governments have provided so-called "old folks homes" at public expense for the needy aged. Some help for those who are equally needy but prefer a non-institutional way of life only extends this pattern. Poor elderly homeowners are not an object of misplaced sympathy. They may be recipients of small fixed incomes depleted by inflation and supplemented, perhaps inadequately if at all, by social security payments. Their demands for housing may be peculiarly inelastic because of inertia and sentimental attachment to family property. Housing often is an especially important item in their budgets. This makes them especially vulnerable to a rising property tax. Thus it is a constant concern, and they respond with avid opposition to every new bond issue and boost in the general property tax rate however meritorious.

Property Tax Relief Provisions

An affluent society is under obligation to so arrange its public finances that it is able to finance its public services without forcing low income households through the property tax wringer. Increasing recognition of this obligation is reflected in the growing body of State property tax relief legislation.

Tax relief provisions designed to cushion the effect of rising property tax levies on the elderly had been enacted in six States and considered in another 25 States by 1965.[27] Specific new relief proposals were made in 1967 by the Governors of Connecticut, Iowa, Kansas, Minnesota and Ohio.

The Wisconsin plan.--The most notable attempt to temper the regressivity of the property tax can be found in Wisconsin's 1964 tax credit plan that provides substantial property tax relief to low income elderly persons--both homeowners and renters meeting specified income criteria. Essentially, the Wisconsin legislature took the position that if an elderly householder had to turn over more than 5 percent of his total income to the residential property tax collector he was confronted with an extraordinary burden. Accordingly it provided that the amount in excess of 5 percent be either refunded by the State to the property owner or applied as a direct credit against his State income tax liability.[28]

The Wisconsin old age homestead relief program is financed solely from State funds and administered by the Income Tax Division of the Wisconsin State Tax Department. The State, not the local government, provides the property tax relief which currently approximates $5 million--less than one percent of the annual property tax take in that State--to approximately 60,000 beneficiaries.

This relatively modest outlay can be traced directly to the tight defenses built into the law. Property tax relief is extended only to low income households--those with incomes below $3,500 and in no case can the rebate exceed $300.

The actual relief comes in the form of positive and negative tax credits against the Wisconsin personal income tax, with the elderly permitted to credit excessive local property tax payments (essentially over 5 percent of household income) against their State income tax liability. Elderly renters are granted this relief also for it is assumed that 25 percent of their shelter payments go

TABLE 21.--PROPERTY TAX PAYMENTS[1/] AS A PERCENTAGE OF HOUSEHOLD INCOME OF LOW INCOME ELDERLY IN WISCONSIN, 1965

Household Income Class	Number of Households	Household Income[2/]	Property Tax Paid: Amount	Property Tax Paid: As a Percent of Household Income
		-----(thousands)	------	
0	119	0	$ 18.9	-
$1 - $499	841	$ 237.4	132.4	55.7%
$500 - $999	4,423	3,437.6	670.3	19.5
$1,000 - $1,499	9,725	12,101.6	1,807.0	14.9
$1,500 - $1,999	8,953	15,610.0	1,819.8	11.7
$2,000 - $2,499	6,645	14,774.8	1,566.6	10.6
$2,500 - $2,999	2,556	6,889.0	700.8	10.1
$3,000 - $3,499	156	468.0	39.1	8.3
Total	33,418	53,518.3	6,754.9	

1/ Renters are allowed to claim 25 percent of gross rent as the equivalent of the property tax payment.

2/ Household income includes social security and veterans' payments, railroad retirement and other pension and annuity benefits, interest on securities of the United States, workmen's compensation, loss of time insurance, alimony and support money, cash public assistance and relief, net income from out-of-State business or property.

Source: Wisconsin Tax Department, Special Tabulation.

into property taxes. Because the great majority of the beneficiaries have little or no Wisconsin income tax liability, they have in effect a negative tax credit and are entitled to a cash rebate.

This positive-negative tax credit approach is tailor-made to come to the relief of the low income persons who ordinarily receive no tax relief under present Federal and State income tax provisions that permit deduction of certain State and local tax payments from adjusted gross income.

If all 50 States followed Wisconsin's lead (Minnesota adopted a similar program in 1967), the action would go a long way toward eliminating one of the harshest features of our domestic tax system. For a cost of approximately $400 million, the States could "rifle in" homestead tax relief for all low income households--not just those headed by elderly persons. This estimate looks modest when compared to the estimated $2.3 billion revenue loss currently sustained by the U.S. Treasury in extending preferential tax treatment to the elderly, much of which can be traced to tax reduction benefits accorded to middle and upper income elderly through the operation of a double exemption and retirement income provisions.

In sharp contrast, the residential property tax relief described here goes to those who need it the most--to householders and renters carrying excessive residential property tax loads in relation to their limited household income.

Two arguments are often advanced for justifying State inaction on the tax equity front. First, there is the argument that as long as Uncle Sam pursues a highly progressive income tax policy this fact in itself compensates for the regressive State and local tax situation. More recently, regressive State and local expenditures tend to be "pro poor." Thus, the poor are alleged to be the major beneficiaries of regressive tax policies. These "offset" arguments only make good sense if there is both a high degree of congruity between Federal, State, and local tax policies and between tax burden and expenditure outlay patterns. A close look at the real world clearly reveals that congruence is more apparent than real. The elderly lady living on a $1,500 pension and paying a $300 tax on her residence, most of which goes for public education, can hardly take comfort in this form of tax-benefit logic--or in the fact that the rich are required to turn over a substantial percentage of their income to the Federal income tax collector.

The important thing, however, is to create political acceptance of the idea that an affluent society can afford to be "pro poor" in both its tax and expenditure practices. At the very least, a wealthy nation should be willing to pay the modest cost of a circuit-breaker system designed to protect low income families from tax overloads.

THE STATE SALES-INCOME TAX MOVEMENT

Unremitting expenditure needs at the State and local level, the need to keep State tax rates competitive, basic changes in tax philosophy, and significant tax credit innovations have all combined to propel the majority of the States into the dual consumption-income tax movement. The use of both broadly-based sales and personal income taxes is in fact becoming the standard by which State tax effort is judged.

State Tax Trends

A review of State tax trends suggests the gradual but inexorable build-up of forces pushing States toward greater utilization of both general sales and personal income taxes. Prior to 1930, a few pioneering States such as Wisconsin, Massachusetts, and New York had transformed the personal income tax into a going administrative concern, but for all practical purposes the general retail sales tax had yet to be "discovered."

The revolutionary impact of the Depression on State and local revenue systems created a fiscal crisis of such magnitude that it left in its wake 16 States levying both a general sales tax and a personal income tax. Between 1938 and 1960, however, only three States joined the dual tax ranks--Maryland in 1947, Georgia and South Carolina in 1951.

More recent trends reveal excessive pressures on State tax systems. During the last seven years, Kentucky, Wisconsin, Idaho, Massachusetts, New York, Virginia, Minnesota, Michigan, West Virginia and Indiana have adopted the "second" tax, while Nebraska adopted an integrated revenue package--a general sales and personal income tax. Except for Indiana, Michigan and West Virginia, all of the "second" tax enactments took place on the sales tax side of the ledger. Thus, in these last few years, the growing fiscal pressures increased the number of sales-personal income tax States by more than half, to 30.*

At the present time six States are without a sales tax: Alaska, Delaware, Montana, New Hampshire, Oregon and Vermont. Fifteen are without an income tax: Connecticut, Florida, Illinois, Maine, Nevada, New Hampshire, New Jersey, Ohio, Pennsylvania, Rhode Island, South Dakota, Tennessee, Texas, Washington and Wyoming.

Changing Tax Philosophy

In the past, sharp controversy could be expected to rage over the future course of State tax policy--whether to rely more heavily on general sales or personal income taxes. There now appears to be a definite State move in the direction of more balanced reliance on both forms of taxation. The supporters of the sales tax and the champions of the personal income tax have entered into a "marriage of convenience" to meet demands for additional State revenues. The importance of this reconciliation cannot be discounted because past conflicts had completely stymied the construction of a powerful and well-balanced State revenue system. The perennial sales versus income tax debate is now a luxury no State can afford.

The Commission has previously recommended that States make effective use of the personal income tax because this levy enjoys economic revenue growth potential. Recognizing that heavy Federal use of the personal income tax has precluded more extensive State use of this revenue source, the Commission has also recommended that the Congress amend the Internal Revenue Code on a prospective basis to give Federal income taxpayers an option to either (a) continue itemizing their income tax payments to State and local governments, or (b) claim

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* See Fig. 5, page 86.

a substantial percentage of such payments as a credit against their Federal income tax liability.*

The mobility of high income persons and capital and the growing State desire for economic development have combined to dull enthusiasm for highly progressive tax proposals. They have contributed to a growing consensus that the task of income redistribution by means of steeply progressive taxes is best left to the National Government with its superior jurisdictional reach.

If limited jurisdiction forecloses the adoption of highly progressive tax policies, however, the States' growing reliance on consumer taxes makes them increasingly vulnerable to regressive tax policies. To put the issue more bluntly, can a low income family be expected to turn over to the sales tax collector $1 for every $20 of food purchases? Here again we see a growing body of public opinion that favors either the outright exemption of food or some system of tax credits and cash refunds to minimize the regressivity of the retail sales tax.

High Quality State-Local Tax System

With these political and fiscal realities in mind, and in the light of previous Commission reports, it is possible to identify more precisely the characteristics of a "high quality" State-local tax system. The following should be emphasized:

State personal income tax.--A State can make effective and equitable use of the personal income tax if it meets at least three critical tests:

- To insure fairness, provides for personal exemptions at least as generous as those under the Federal income tax;
- To promote taxpayer convenience and administrative simplicity, employs withholding at the source and conforms the technical provisions of its law to Federal provisions; and
- To insure productivity, makes effective use of the income tax as evidenced by State tax collections equal to at least 20 percent of the Federal personal income tax collections in that State.

According to a recent calculation, only 11 of the 33 States with personal income taxes at that time met this last requirement in terms of the ratio of their collection to Federal tax collection:

Alaska	25.3%	New York	20.6%
Delaware	21.7	North Carolina	21.1
Hawaii	26.5	Oregon	31.5
Idaho	25.4	Utah	21.4
Minnesota	29.0	Vermont	30.4
		Wisconsin	32.8

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* In contrast to the ACIR optional approach, a recent tax recommendation made by the Committee for Economic Development calls for an integrated tax deduction --partial tax credit approach.29/

Income tax "musts," it should be noted, do not include graduated rates because a broad-based flat rate tax can both pack a heavy revenue punch and provide a substantial degree of progression when combined with personal exemptions. Personal exemptions protect the very poor from the exactions of the tax collector and they automatically adjust tax liability for size of family. The policy on graduate tax rates if best resolved by each State legislature in light of locally prevailing circumstances.

State sales and use tax.--States can make effective and fairly equiable use of a sales tax if three prime conditions are met:

- To insure productivity, the tax base employed covers most personal services as well as retail sale of tangible items;

- To insure tax fairness, some provision is made for "pulling the regressive stinger"--either an outright exemption of food and drug purchases or a system of income tax credits and cash refunds to shield subsistence income from the sales tax collector's reach.

- To promote taxpayer convenience and administrative simplicity, States must credit their taxpayers for sales and use taxes paid to other States; eliminate charges for audit of multistate firms; exchange audit and other information with one another;[30/] and permit local governments to "piggy-back" their levy on the State sales tax.[31/]

General sales taxes are authorized for local use in 15 States and in most of these there has been widespread adoption by the localities. Unless a State is willing to allow its localities to "piggy-back" a local supplement on to the State tax, it should be wary of extending this type of nonproperty taxing power to localities. States would be well advised to:

- Limit local nonproperty taxing powers to as large taxing areas as possible, ideally coinciding with the boundaries of trading and economic areas;

- Prescribe rules governing taxpayers, tax base, and rates, etc., uniformly applicable to all local taxing jurisdictions; and

- Provide technical assistance in administering and enforcing nonproperty taxes.

Local property tax--Any effort to create a more effective and equitable revenue system for State government must also come to grips with local property tax overburdens. By all odds, this $26 billion revenue producer stands out as the "sick giant" of our domestic revenue system--a fiscal pathology that can be traced to individual and group property taxpayer overburden situations.

Individual property taxpayer overburden situations can be traced to either:

(a) Over-assessment due to the lack of uniform valuation practices--an administrative matter; or

(b) Below average family income that raises an ability to pay issue.

Property owners as a group--those representing an entire local jurisdiction--can also be relatively overburdened by:

(a) Unusually high governmental costs due to poor management practices;

(b) An underdeveloped tax base due to the political fractionation of the metropolitan economic entity; or

(c) An anemic tax base or extraordinary expenditure demand or both caused by the heavy concentration of poor people within the jurisdiction.

Reducing the overburden due to unequal assessments.--Tax overburdens present perennial problems for those concerned with equitable local taxation. Part of the problem stems from the inherently difficult task of estimating the market value of taxable property. This assignment becomes even more difficult in areas experiencing rapid change in property values.

The possibility for overassessment and underassessment is greatly increased by two political facts. First, in many jurisdictions assessors are selected on the basis of their popularity on election day rather than for their technical ability in estimating the market value of taxable property. Second, there is the classic conflict between State assessment law and local assessment practice.

The laws of most States clearly imply that property is to be assessed for taxation at estimated market value. These State valuation directives have been flagrantly violated by the time-honored and pervasive practice of fractional valuation. On a nation-wide basis, real estate on the average is probably being assessed at approximately 30 percent of its current market value. To make matters worse, most State tax administrators lack the requisite political backing needed to equalize local assessment levels at any uniform percentage of current market value.

As a result of the inability of most States to enforce a uniform valuation standard, property owners are left in the dark when it comes to judging the fairness of their assessment. The so-called "public" tax roll becomes a convenient graveyard in which local assessors can bury their mistakes--properties both overassessed and underassessed.

To facilitate more uniform assessment of property, the Advisory Commission in a report on The Role of the States in Strengthening the Property Tax offered a detailed prescription for reducing the inequities caused by faulty assessment practices. Underpinning the 29 policy recommendations are the following major assumptions:

1. That the prevailing joint State-local system for administering the property tax can work with a reasonable degree of effectiveness only if the State tax department is given sufficient executive support, legal authority and professional stature to insure local compliance with State law calling for uniformity of tax treatment.

2. That professionalization of the assessment function can be achieved only if the assessor is removed from the elective process and selected on the basis of demonstrated ability to appraise property.

3. That the perennial conflict between State law calling for full value assessment and the local practice of fractional assessment can be resolved most expeditiously by permitting local assessment officials to assess at any uniform percentage of current market value above a specified minimum level provided this policy is reinforced with two important safeguards:

   (a) A full disclosure policy, requiring the State tax department to make annual county assessment ratio studies and to give property owners a full report on the fractional valuation policy adopted by county assessors and

   (b) An appeal provision to specifically authorize the introduction of State assessment ratio data by the taxpayer as evidence in appeals to review agencies on the issue of whether his assessment is inequitable.

Unfortunately, reforms on the property tax front appear to move along at a slow pace. Since June 1963, only two States, New Jersey and Tennessee, have taken action to professionalize the local assessment function. California's recent reform legislation clearly put that State at the head of the full-disclosure class. The 1966 legislation (Assembly Bill No. 80) directs the local assessor to supplement the routine notice of an assessment increase with two significant items of information, the assessment ratio and an estimate of the full cash value of the property. Arizona recently converted its existing appraisal and assessment standards division into an independent State agency, the Department of Property Valuation (Chapter 107, Acts of 1967 Legislature), strengthening the State's supervision of property tax administration. The same act set up a separate and totally independent Board of Property Tax Appeals, to be appointed by the Governor.

During the last few years, the judges, not the State legislators, have propelled the property tax reform movement. They are less willing to tolerate flagrant differences between State assessment law and local administrative practice. As a result of court mandated action, Kentucky now can claim the distinction of being the only State in the Nation where property is generally being assessed at full value. Under threat of judicial action, legislatures in several States have formally abandoned the full-value standard in favor of a fractional level that conforms most closely to prevailing administrative practice. Judicial intervention, however, is no substitute for a fundamental overhauling of the State and local assessment machinery--at best it represents a last resort type of action.

Reducing the tax overburden due to low family income.--If the local assessor could equalize tax assessments at full value or at some uniform percentage of market value, the payment of this tax would still impose excessive financial strain on certain low income property owners. As illustrated by the property tax burden data set forth above,* payment of the residential property tax can create extraordinary burdens for families once the flow of income falls sharply as a result of the loss of employment, retirement, or the death or physical disability of the breadwinner.

The most notable attempt to come to the aid of property owners deemed to be carrying excessive tax burden in relation to limited family income can be found in Wisconsin's 1964 tax credit plan that rebates to low income elderly persons--both homeowners and renters--that part of their tax payment that is in excess of 5% of household income. Because this tax relief program is financed from State funds and administered by the State tax department, it in no way erodes the local property tax base or interferes with the local assessment process.

Chapter 5

FEDERAL GRANT-IN-AID PROGRAMS— TRENDS AND PROBLEMS

Over the past century Federal grants-in-aid have emerged as the major factor in fiscal relationships within our Federal system. Responding to a steadily expanding national concern for the provision of new governmental services and the improvement or expansion of services traditionally provided by State and local governments, categorical grants have grown steadily in terms of programs affected, expenditures and the proportion of the national budget.

The categorical grant has been and is the predominant type of Federal intergovernmental transfer. It has enjoyed a perennial popularity; demonstrated its usefulness in coping with rural, depression-rooted and urban problems; and has clearly indicated its compatibility with the decentralized, open-access, pragmatic and pluralistic features of the American political system--especially as they are manifested in the Congress.

Only a dozen years ago, the Report to the President of the Commission on Intergovernmental Relations (the "Kestnbaum" Commission) declared: "As a result of many developments, the grant has become a fully matured device of cooperative government."1/ Since that time, the categorical grant has been even more heavily relied upon in connection with various critical domestic problems. But there is less certainty now about its efficacy as a mechanism for intergovernmental collaboration.

The increasing role of grants then compels a careful examination of the question: Can categorical grants-in-aid be used more effectively to maintain an equitable fiscal balance in the Federal system? To answer the question, it is necessary to look at the nature and scope of grants-in-aid; ascertain what effects they have on the effective functioning of local, State and National governments; and determine whether and how they can be improved as a mechanism for achieving a viable Federal system.

THE NATURE AND TYPES OF GRANTS-IN-AID

For purposes of this report, "Federal grant-in-aid" is defined as money paid or furnished to State or local governments to be used for specified purposes ("categories"), subject to conditions spelled out in statute or administrative regulations. Generally excluded from this definition are: (a) shared revenues, (b) payments of taxes or in lieu of taxes, (c) loans or repayable advances, and (d) payments for contractual services rendered by State or local government to the National Government.

Grants-in-aid are either formula grants or project grants. The former are distributed to all State (or indirectly to local) governments in accordance with a formula written into the enacting law. The recipients are entitled to these grants as a matter of "right," subject of course to the ceiling imposed by the amount of money (authorized and then actually) appropriated.

Grants to meet specific problems--project grants--on the other hand, are not necessarily spread uniformly among all States. Eligible jurisdictions are specified, but they must take the initiative in applying for the grant. Subject to legislative guidelines, and within funding limitations, Federal administrators use their judgment in making project grants, e.g., urban renewal grants or Neighborhood Youth Corps contracts. The funds appropriated for each program are usually small, which places a further premium on State and local initiative in requesting the funds and following up on applications.

Both project and formula grants usually contain a cost-sharing (matching) requirement. All of the latter and a few of the former also include formulas for apportionment of available amounts among the States or localities. Sometimes the apportionment formula contains a factor for equalizing the grants among the recipients on the basis of need (such as population) or fiscal capacity (usually per capita personal income). Matching or cost-sharing requirements are of two kinds: variable matching, reflecting differing abilities of the State or local recipient to support their aided functions; and fixed ratio matching under which each recipient is required to share the same proportion of program costs.

A distinction is made between categorical grants and block grants. Categorical grants are made for narrowly circumscribed purposes determined by the Congress to be of national concern. Examples are grants for sewage treatment facilities and old age assistance. Block grants are either unconditional fiscal grants to a specified level of government, or grants restricted to a broad program purpose, such as education and welfare. Some of the proposals now receiving wide national attention would distribute Federal revenue in the form of block grants. At present, all Federal grants are categorical grants, although money provided to the States under the Partnership in Health Act of 1966 is in some respects a block grant for health purposes.

DEVELOPMENT OF THE CATEGORICAL GRANT SYSTEM

The distinguishing features of the present categorical system of Federal grants-in-aid trace back to 1862 when Congress enacted the Morrill Act to assist the States in establishing and maintaining land-grant colleges. The grant was in the form of land, not money. The Morrill Act carefully specified the objectives of the grant, placed conditions on use of revenue derived from the sale of granted lands, and required annual reports. The pattern of categorical grants was thereby established: needed resources were provided in exchange for acceptance of certain national minimum standards for a specific purpose.

Later in the century, Federal aid in the form of annual money grants was extended in three program areas--beginning with agricultural experiment stations in 1887. In the second decade of the twentieth century, Congress enacted two major Federal assistance programs--one for highways and one for vocational education and rehabilitation. The latter has long stood as a major example of the use of a grant as a "stimulating" device. Its original purpose was to induce the States, through their local governments, to provide vocational training in certain skills in short supply because of demands placed on the economy by World War I. The vocational education program has also stood as a major example of the difficulties encountered in terminating or redirecting grant programs, once they have served their original purpose, since no major review and redirection of the vocational education program occurred until 1963.

In the "depression decade" of the 1930's the Federal Government launched a wide range of new welfare and economic security programs. These were designed not only to help individuals but also to alleviate the intense pressures on shrunken State and local resources. Other measures were inaugurated to provide low-rent public housing and improve health services. Many of these grants, especially those authorized by the Social Security Act of 1935, provided for extensive administrative supervision by the National Government, including the requirement, added in 1939, that State and local personnel participating in Federally aided programs of health, welfare and employment security be selected and administered under a merit system of personnel administration. About a half dozen of the depression-born grant programs that provided emergency relief of various kinds to States and localities expired in the late thirties and early forties. Seventeen of the presently existing basic grant categories, however, were enacted between 1933 and 1944.

The years following World War II were marked by a series of new categorical grants for health care, for education in selected fields, and for renewing the physical environment of urban areas. In the 1950's Federal aid for municipal sewage treatment plant construction was begun. In the 1960's major steps have been taken to broaden elementary, secondary and higher educational opportunities; to develop economically depressed areas; to help finance health services and medical care for the indigent, to launch a "war on poverty"; and, in 1966, to inaugurate a comprehensive physical, social and economic program to transform slum and blight-ridden cities into model neighborhoods. Few new grants were begun in 1967, but as this report goes to press, a new grant-in-aid program to assist State departments of agriculture in the inspection of meat products is being initiated.

Table 22 lists, in order of establishment, the grant-in-aid programs now in effect as reported in the Annual Report of the Secretary of the Treasury and the Special Analysis on Federal Aid of The Budget of the United States. These sources are used here because they provide dollar magnitudes. The individual grant programs shown, however, often include many separate authorizations; for example, the Federal aid highway program is counted as one unit even though it consists of four separate grant programs (interstate system, primary, secondary and urban extensions). The discussion of grant proliferation below, using data on the individual authorizations that make up many of the major categories shown in Table 22, gives a more accurate picture of the profusion of separate grants.

Table 22 indicates that of the total of 95 program categories, 10 were established prior to 1930; 17 during the period 1931-45, with all but one of these being initiated during the "depression decade"; 29 during the period 1946-

TABLE 22.--FEDERAL GRANTS-IN-AID TO STATE AND LOCAL GOVERNMENTS, 1966-1968, BY DATE OF ESTABLISHMENT

	Year Estab-lished	Federal Department or Agency Currently Administering Program	Amount of Grant		
			FY 1966	FY 1967 (Est.)	FY 1968 (Est.)
			(thousands)		
A. Established Prior to 1930					
Teaching materials for the blind	1879	Health, Education and Welfare	$ 935	$ 953	$ 1,150
Cooperative State experiment station service:					
Agricultural experiment stations	1887	Agriculture	50,301	57,006	64,100
Veterans' homes	1888	Veterans Administration	8,634	8,957	9,295
Land-grant colleges	1890	Health, Education and Welfare	14,500	1/	1/
Forestry cooperation	1911	Agriculture	16,526	17,290	17,280
Maritime academies or colleges	1911	Commerce	972	375	375
Federal extension service	1914	Agriculture	84,995	87,773	92,017
Federal-aid highways	1916	Transportation	3,923,743	3,926,800	3,802,700
Vocational education	1917	Health, Education and Welfare	128,938	220,737	227,961
Vocational rehabilitation	1920	Health, Education and Welfare	156,526	256,815	309,688
Subtotal, basic programs established prior to 1930			$4,386,070	2/	2/
B. Established During Period 1931-1945					
Agricultural commodity distribution					
CCC price-support donations	1933	Agriculture	114,853	185,465	193,024
Food stamp program	1933	Agriculture	65,353	131,399	184,000
Employment service and unemployment compensation and administration	1933	Labor	469,332	517,546	551,625
Indian education and welfare services	1934	Interior	10,019	9,452	9,952
Indian resources management	1934	Interior	862	947	947
Agricultural Marketing Service:					
Agricultural commodity distribution - removal of surplus	1935	Agriculture	112,044	139,020	168,137
Aid and services to needy families with children	1935	Health, Education and Welfare	1,215,829	1,299,800	1,368,900
Aid to the blind	1935	Health, Education and Welfare	51,163	52,300	52,700
Child welfare services	1935	Health, Education and Welfare	39,564	154,600	207,300
Community and environmental health activities - general health	1935	Health, Education and Welfare	14,906	3/	3/
Crippled children's services	1935	Health, Education and Welfare	37,158	4/	4/

TABLE 22 (CONT'D).--FEDERAL GRANTS-IN-AID TO STATE AND LOCAL GOVERNMENTS, 1966-1968, BY DATE OF ESTABLISHMENT

	Year Estab-lished	Federal Department or Agency Currently Administering Program	Amount of Grant FY 1966	FY 1967 (Est.)	FY 1968 (Est.)
			-------------	(thousands)	-----------
Maternal and child health services	1935	Health, Education and Welfare	$ 36,744	4/	4/
Old age assistance	1935	Health, Education and Welfare	1,161,029	$1,205,100	$1,170,100
Low-rent public housing	1937	Housing and Urban Development	225,516	249,055	277,679
Wildlife restoration	1937	Interior	15,666	18,421	17,959
Venereal disease control	1938	Health, Education and Welfare	5,194	5/	5/
Tuberculosis control	1944	Health, Education and Welfare	9,890	5/	5/
Subtotal, established 1931-1945			$3,585,122	2/	2/
C. Established During Period 1946-1960					
Agricultural commodity distributions - School lunch programs	1946	Agriculture	194,991	211,370	240,250
Agricultural marketing and research services	1946	Agriculture	3,414	3,443	3,242
Airport planning and development	1946	Transportation	53,989	54,000	59,000
Basic scientific research grants - Department of Agriculture	1946	Agriculture	2,950	1,000	1,000
Hospital and medical facilities: construction	1946	Health, Education and Welfare	194,911	219,911	230,400
Mental health activities (NIMH)	1946	Health, Education and Welfare	6,570	112,400	216,100
Disaster relief and repairs	1947	Office of Emergency Planning, Executive Office of the President	131,651	81,100	34,500
Cancer control and demonstrations	1948	Health, Education and Welfare	3,488	5/	5/
Heart disease control	1948	Health, Education and Welfare	7,249	5/	5/
Urban renewal	1949	Housing and Urban Development	316,569	361,254	447,507
Aid to permanently and totally disabled	1950	Health, Education and Welfare	338,272	375,900	416,600
Federally affected public schools - Maintenance and operation	1950	Health, Education and Welfare	333,974	360,000	360,170
Federally affected public schools - Construction	1950	Health, Education and Welfare	44,361	31,000	29,830
Fish restoration and management	1950	Interior	6,168	6,000	6,310
Civil Defense	1950	Defense	21,231	25,500	30,000

TABLE 22 (CONT'D).--FEDERAL GRANTS-IN-AID TO STATE AND LOCAL GOVERNMENTS, 1966-1968, BY DATE OF ESTABLISHMENT

	Year Estab-lished	Federal Department or Agency Currently Administering Program	Amount of Grant		
			FY 1966	FY 1967 (Est.)	FY 1968 (Est.)
			(thousands)		
State supervision of schools and training establishments	1952	Veterans Administration	$ 267	$ 1,515	$ 1,515
Agricultural commodity distribution - special milk program for children	1954	Agriculture	96,477	103,350	103,350
Soil Conservation Service: Watershed protection and flood prevention	1954	Agriculture	69,441	68,166	71,401
State and local preparedness planning	1954	Office of Emergency Planning, Executive Office of the President	897	716	167
Urban planning	1954	Housing and Urban Development	20,050	22,000	30,000
Health research facilities construction	1956	Health, Education and Welfare	133	6/	6/
Library services and construction	1956	Health, Education and Welfare	40,915	89,900	107,300
Waste treatment works construction	1956	Interior	81,478	83,000	152,000
Water pollution control	1956	Interior	6,170	8,960	18,242
Defense educational activities	1958	Health, Education and Welfare	84,860	104,330	32,259
Education of mentally retarded and other handicapped children	1958	Health, Education and Welfare	2,564	6,000	12,968
Forest and public lands highways	1958	Transportation	40,037	39,427	7/
National guard centers - construction	1958	Defense	3,044	700	2,700
Medical assistance for the aged	1960	Health, Education and Welfare	298,911	19,700	7,300
Subtotal, established 1946-1960			$2,405,032	2/	2/
D. Established During Period 1961 Through 1966					
Community health services, particularly for chronically ill and aged (excl. heart, cancer)	1961	Health, Education and Welfare	11,537	5/	5/
Open-space land preservation	1961	Housing and Urban Development	7,912	28,500	57,800
Public facilities grants and area redevelopment assistance 8/	1961	Commerce	6,889	50,600	131,800
Educational television	1962	Health, Education and Welfare	4,402	7,825	19,675
Manpower development and training	1962	Labor	21,998	30,000	40,000
Public works acceleration	1962	Commerce	87,033	35,700	-0-
Radiological health and institutional training	1962	Health, Education and Welfare	1,990	5/	5/
Air pollution control and prevention	1963	Health, Education and Welfare	622	5/	5/
Higher educational facilities - construction	1963	Health, Education and Welfare	1,289	1/	1/
Adult basic education	1964	Office of Economic Opportunity Health, Education and Welfare	21,131	13,900	-

TABLE 22 (CONT'D).--FEDERAL GRANTS-IN-AID TO STATE AND LOCAL GOVERNMENTS, 1966-1968
BY DATE OF ESTABLISHMENT

	Year Estab-lished	Federal Department or Agency Currently Administering Program	Amount of Grant FY 1966	FY 1967 (Est.)	FY 1968 (Est.)
			------------(thousands)------------		
Low-rent housing for domestic farm labor	1964	Agriculture	-	$ 6,000	$ 4,000
Communicable disease activities	1964	Health, Education and Welfare	$ 11,680	5/	5/
Community action programs	1964	Office of Economic Opportunity	326,085	568,000	796,000
Mass transportation	1964	Housing and Urban Development	15,373	55,900	108,700
Neighborhood Youth Corps	1964	Office of Economic Opportunity Labor	239,333	291,000	300,800
Work experience and training program	1964	Office of Economic Opportunity Health, Education and Welfare	74,357	124,800	97,000
Water resources research	1964	Interior	5,403	5,578	8,036
Commercial fisheries research and development	1964	Interior	422	3,215	4,385
Highway beautification and control of outdoor advertising	1965	Transportation	2,537	36,901	9/
Land and water conservation	1965	Interior	3,144	28,814	50,982
Appalachian highways	1965	Commerce	8,877	42,100	80,700
Elementary and secondary educational activities	1965	Health, Education and Welfare	815,099	1,219,900	1,422,841
Administration on aging	1965	Health, Education and Welfare	1,331	4,557	10,274
Medical assistance 10/	1965	Health, Education and Welfare	487,200	768,200	1,244,800
Dental services and resources	1965	Health, Education and Welfare	742	11/	11/
Promotion of arts and humanities	1965	National Foundation on Arts and Humanities	-	1,000	2,000
State technical services	1965	Commerce	1,341	3,500	7,100
Rural water and waste disposal grants	1965	Agriculture	96	40,900	30,000
National Teachers Corps	1965	Health, Education and Welfare		3,000	8,500
Higher educational activities	1965	Health, Education and Welfare	3,926	170,300 12/	245,300 12/
Equal educational opportunities program	1965	Health, Education and Welfare	2,651	3,500	15,900
Basic water and sewer facilities	1965	Housing and Urban Development	-	40,000	110,000
Neighborhood facilities	1965	Housing and Urban Development	-	3,000	15,000
Metropolitan development	1966	Housing and Urban Development	-	-	7,000
Demonstration cities	1966	Housing and Urban Development	-	5,250	147,000
Urban information services	1966	Housing and Urban Development	-	-	1,500
Highway beauty-safety trust fund	1966	Transportation	-	-	227,500
Office of Economic Opportunity Special Impact	1966	Office of Economic Opportunity	-	75,000	185,000
Office of Economic Opportunity Adult work training	1966	Office of Economic Opportunity	-		

TABLE 22 (CONCL'D).--FEDERAL GRANTS-IN-AID TO STATE AND LOCAL GOVERNMENTS, 1966-1968
BY DATE OF ESTABLISHMENT

	Year Estab-lished	Federal Department or Agency Currently Administering Program	Amount of Grant FY 1966	FY 1967 (Est.)	FY 1968 (Est.)
			------------(thousands)------------		
Health grants 13/					
Health manpower		Health, Education and Welfare	-	$ 47,510	$ 138,341
Disease prevention and environmental control		Health, Education and Welfare	-	72,800	49,600
Health services		Health, Education and Welfare	-	33,181	55,650
Mental health		Health, Education and Welfare	-	112,350	216,147
Comprehensive health planning and services		Health, Education and Welfare	-	3,991	105,686
Subtotal, established 1961-1966			$ 2,164,400	2/	2/
Grand total			$12,540,624	$14,867,219	$17,286,017

SUMMARY

	FY 1966
Basic program established--	
Prior to 1930	$ 4,386,070
1931 to 1945	3,585,122
1946 to 1960	2,405,032
1961 to 1966	2,164,400

Note: Excluded are shared revenues and certain minor grants, such as Department of State: East-West Cultural and Technical Interchange Center; grants limited to specific States, such as transitional grants to Alaska; and Federal payment to District of Columbia. Total for FY 1968 exceeds that shown in Special Analysis J, Budget of the United States, 1968, p. 161, because of difference in figures used for public assistance (see source note below).

1/ Included in higher educational activities.
2/ Not subtotaled because of account classification shifts.
3/ Included under health services at end of table.
4/ Included under child welfare services.
5/ Included under disease prevention and environmental health at end of table.
6/ Included under hospital and medical facilities construction.
7/ Reflects transfer to regular Federal-aid highways.
8/ Became Economic Development Administration in 1965.
9/ Reflects proposed establishment of a new Beauty-Safety trust fund.
10/ Includes "payments to medical vendors - other programs" as follows: 1966 - $285,194; 1967 - $118,200; 1968 - $48,600. See Budget of the U.S., 1968, Appendix, pp. 486-87.
11/ Included under health manpower at end of table.
12/ Starting in 1967, includes higher education construction and land grant colleges.
13/ This is the account classification for health grants for 1967 and 1968 used by the Bureau of the Budget in Special Analysis J, Budget of the U.S., 1968, p. 160.

Source: 1966 fiscal data: Table 84, Federal grants-in-aid to State and local governments and to individuals and private institutions within the States, fiscal year 1966, Part A., Annual Report of the Secretary of the Treasury, 1966; 1967 and 1968 fiscal data: Special Analysis J, Budget of the United States, 1968, with subsequent adjustments obtained from Bureau of the Budget Fiscal Analysis Section; public assistance figures for all three years were taken from Budget of the United States, 1968, Appendix, pp. 486-87.

1960; and 39 from 1961-1966. The amount of Federal grants-in-aid from budget and trust accounts in fiscal year 1968 was estimated in the 1968 Budget at $17.3 billion. Of the total of $12.6 billion actually spent in fiscal year 1966, $4.4 billion was from the pre-1930 grants;* $3.6 billion from the "depression era" grants; $2.4 billion from those established from 1945-1960; and $2.2 billion from those enacted from 1961 on. The bulk of the $4.7 billion increase from fiscal year 1966 to fiscal year 1968 was accounted for by the 39 programs added since 1960.

Shifts in program focus can also be traced in Fig. 13.** In 1950 and 1955, prior to the expansion of the Federal aid highway program, 60 to 65 percent of grant payments were for health, labor and welfare programs. Public assistance payments alone accounted for nearly half the total. Commerce and transportation activities comprised another 20 percent.

By 1960, with the infusion of more than $2-1/4 billion in additional highway grants from the Federal Aid Highway Act of 1956, commerce and transportation programs dominated Federal grant activities. More recently, aid programs have changed substantially in both number and kind. In the last four years, Congress has enacted several programs aimed primarily at broadening the scope of individual opportunity for educational and economic enhancement. The cumulative effect of these programs has been to place the principal emphasis of Federal aid once again on health, labor and welfare activities--as well as to give added impetus to education and housing and community development efforts. In 1968, it is estimated that these programs will account for two-thirds of total estimated aid payments.

The dollar trend in grants-in-aid since 1940, in terms of major functional areas, is shown in Fig. 14.***

FEDERAL AID IN RELATION TO FEDERAL AND STATE-LOCAL EXPENDITURES

The expansion of Federal aid to State and local governments has become an increasingly important factor in the finances of all levels of government. As seen in Fig. 15, Federal aid as a proportion of total Federal expenditures more than doubled in the past 13 years, rising from 4.6 percent in 1955 to an estimated 10.1 percent in 1968. Over 20 percent of total Federal payments for domestic programs will go as grants to State and local governments in 1968. The relative increase in the amount of Federal aid has not been quite as marked for the recipient State and local governments as it has for the Federal Government because of their efforts to expand State and local revenue resources. Still,

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* This was almost entirely ($3.9 billion) for Federal-aid highways, established in 1916 but greatly expanded in 1956 with the massive interstate program.

** For further detail, see Table A-19.

*** For further detail, see Table A-20.

Figure 13.

PERCENTAGE DISTRIBUTION OF FEDERAL AID PAYMENTS TO STATE AND LOCAL GOVERNMENTS, BY FUNCTION SELECTED YEARS, 1950 - 1968

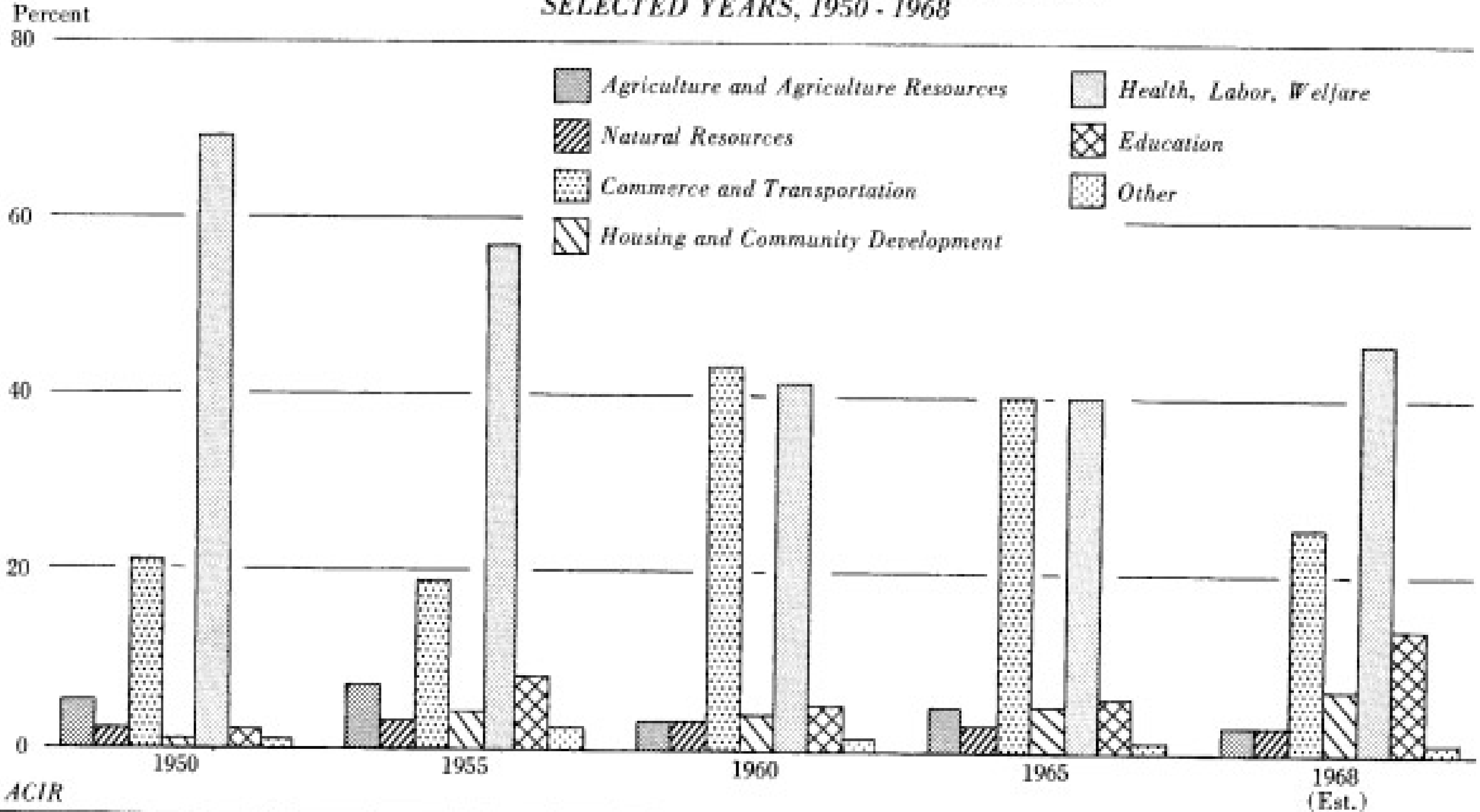

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Figure 14.

FEDERAL GRANTS-IN-AID TO STATE AND LOCAL GOVERNMENTS, BY MAJOR FUNCTIONAL CATEGORIES 1940 - 1968

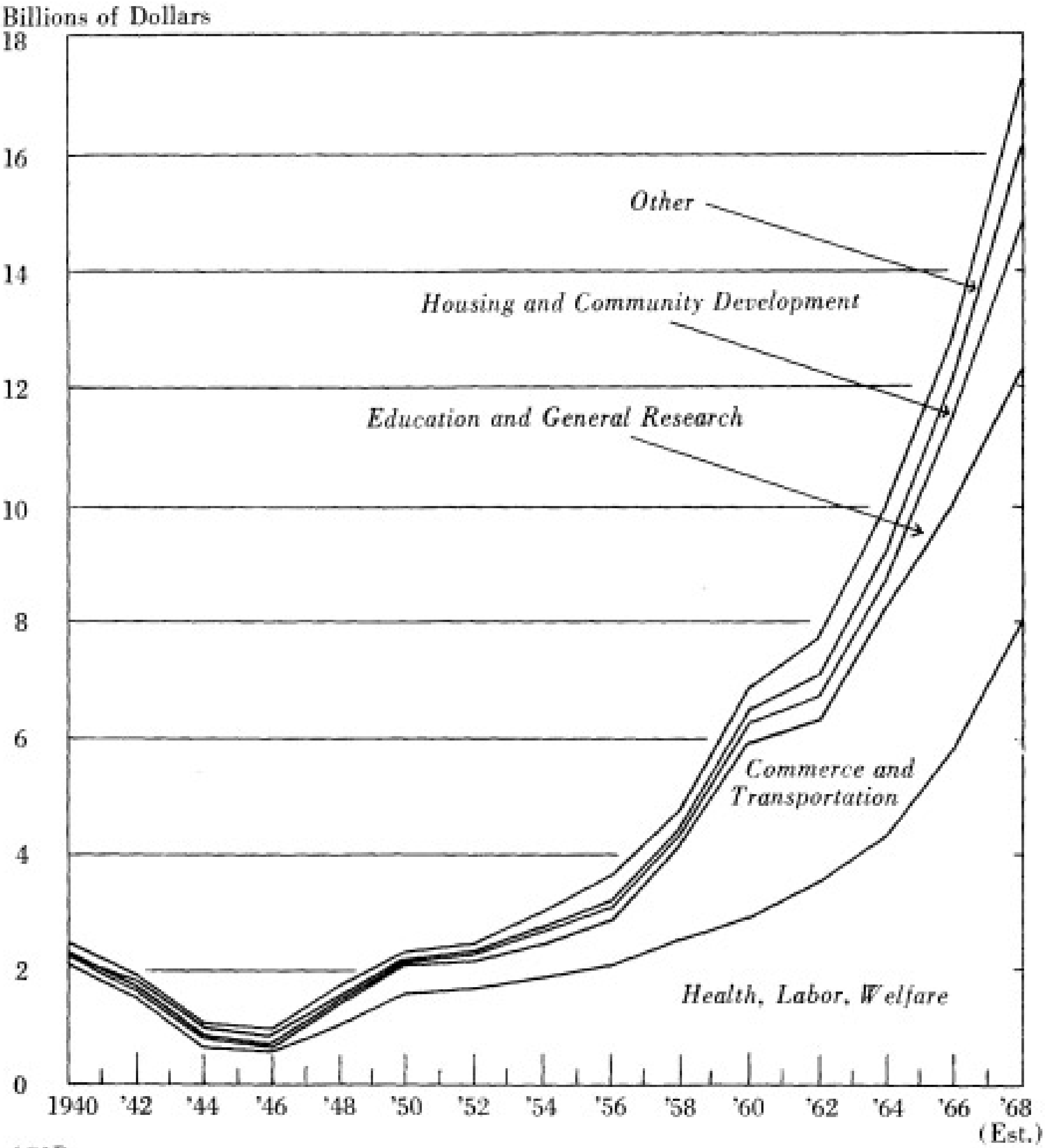

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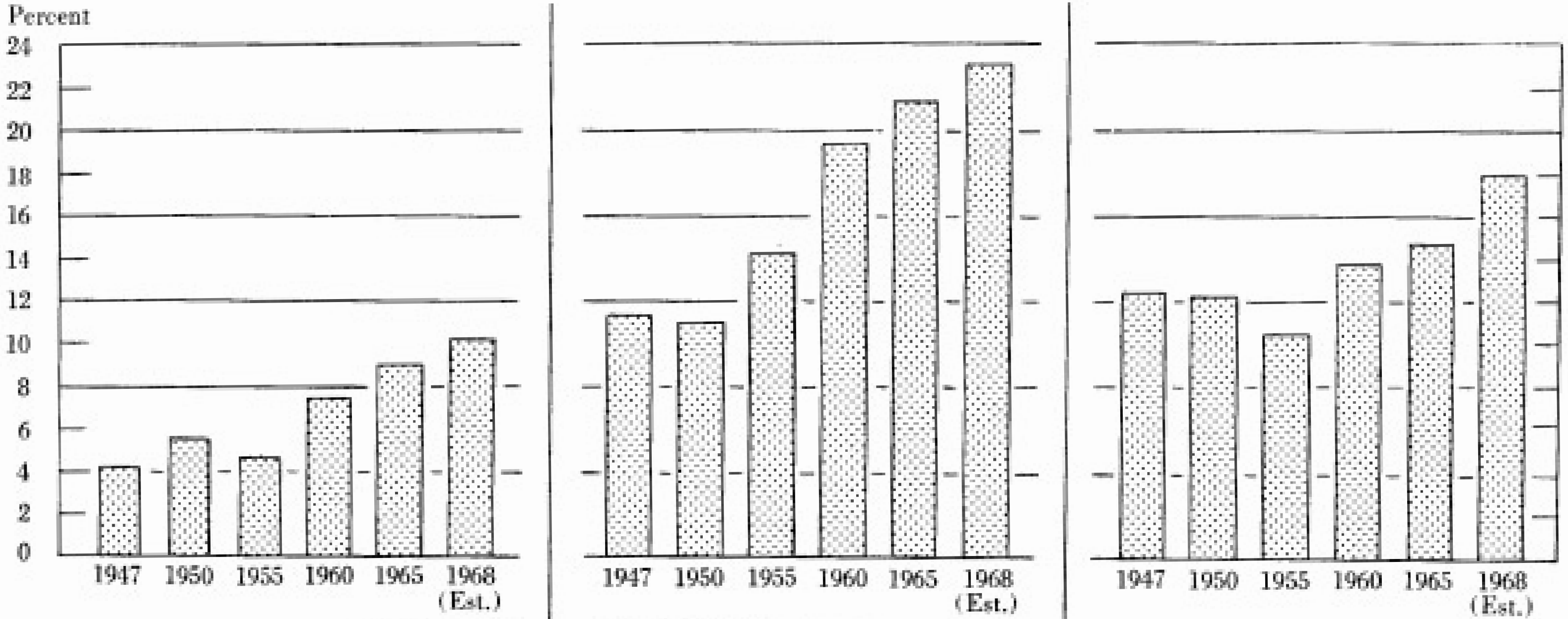
Figure 15.

FEDERAL AID EXPENDITURES IN RELATION TO TOTAL FEDERAL EXPENDITURES AND TO STATE-LOCAL REVENUE SELECTED YEARS, 1947-1968



AS A PERCENT OF TOTAL FEDERAL CASH PAYMENTS TO THE PUBLIC

AS A PERCENT OF FEDERAL DOMESTIC CASH PAYMENTS TO THE PUBLIC

AS A PERCENT OF STATE-LOCAL REVENUE

ACIR

Federal aid will represent an estimated 16-17 percent of State-local general revenue in 1967, compared to 11 percent a decade earlier.*

AN ECONOMIC JUSTIFICATION OF CATEGORICAL GRANTS

The evolution of the categorical grant-in-aid system indicates that it has grown as a consequence of Congressional determination (1) that the achievement of certain specific national objectives requires additional public expenditures, (2) that these expenditures should be made through State and local governments rather than directly by the National Government, and (3) that State and local governments lack the resources or motivation to make them on their own.

Congressional decisions to use the categorical grant were and are made in the crucible of the complex and frequently conflicting forces composing our political system. In its review of intergovernmental fiscal relations the (Kestnbaum) Commission on Intergovernmental Relations attempted to establish some explicit guidelines for Congress to consider when making these decisions:2/

1. A grant should be made or continued only for a clearly indicated and presently important national objective. . . .

2. Where national participation in an activity is determined to be desirable, the grant-in-aid should be employed only when it is found to be the most suitable form of national participation. . . .

3. Once it is decided that a grant-in-aid should be made, the grant should be carefully designed to achieve its specified objective. . . .

Certainly the most difficult issue raised in using these guidelines is, what is a "clearly indicated and presently important national objective?" The Kestnbaum Commission gave little guidance in answering this question except to caution that it calls for a "searching and selective test of the justification for National participation," and that "where the activity is one normally considered the primary responsibility of State and local governments, substantial evidence should be required that National participation is necessary in order to protect or to promote the national interest." In political terms, of course, any objective is manifestly and significantly national in character which survives the arduous, lengthy "testing process" that Congress provides with its polycentric power structure and limited majority norms.

Economists, however, offer a conceptual framework for determining a "clearly indicated and presently important national objective." This approach is based on the fact that provision of certain public services by State and local governments produces "spillovers" of costs and benefits to neighboring jurisdictions.3/

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* For further detail, see Table A-21.

Two kinds of benefits arise from government spending programs: those which flow directly to specific individuals, called private benefits, and those which accrue broadly to society as a whole, called social benefits. Both of these become "spillover" benefits whenever they are enjoyed by persons outside of the government jurisdiction that generated them. When this happens, local voters, lacking any financial contribution from outside beneficiaries, are likely to under-support the programs in question. Thus, the community has the choice of inequitably bearing the cost of benefits provided others, or of doing without a necessary public service, with consequent damage to the local economy. A grant-in-aid to compensate for these external benefits then is one way of avoiding fiscal inequity or inefficiency.

Public education provides a good illustration of spillover benefits. First, some of the most important of all educational benefits accrue broadly to everyone in the country. Second, certain educational benefits are private in nature, but these accrue to outsiders as well as insiders--in short, to anyone who associates in one way or another with the person who is educated. A third kind of external educational benefit results from our multiple level system of government. Citizens receiving a better education produce more goods and services and earn higher personal incomes than they would have otherwise. Taxation then diverts some of this extra buying power to all three levels of government and through them redistributes it to people in other jurisdictions.

Spillover costs likewise affect equity and the efficiency of the economy. Poorly educated persons who move cause increased welfare costs in their new place of residence. Water pollution is another dramatic example. If one municipality dumps its untreated sewage into a stream, its downstream neighbors are put to the expense of treating water taken from the stream or seeking another source of useable water.

While the analysis of external benefits and costs of State and local activities is still in a rudimentary stage, it is widely recognized that spillover benefits and costs exist and must be considered when financing various functional programs. It can be argued, moreover, that spillovers justify categorical grants, as distinguished from block grants, because spillovers vary widely among individual functional categories and the categorial approach facilitates selective treatment of these separate spillovers.

MAJOR RECENT TRENDS

The Proliferation of Grants

No doubt the most striking characteristic of the recent trend in the grant-in-aid system is proliferation and excessive categorization. Table 23 shows a count of individual grant authorizations for each of the years from 1962 through 1966. The tally covers, for example, 11 separate grants for health professions assistance, 10 for higher education, 8 for educational research and 7 for mental retardation. Fig. 16 shows the number of grant authorizations by individual departments and agencies at the beginning of 1967. Seventeen departments or agencies administer grants. Within 8 departments or agencies, 38 separate bureaus or offices have immediate responsibility for grant administration.*

TABLE 23.--NUMBER OF GRANT-IN-AID AUTHORIZATIONS

Date	Apportioned Formula Grants	Project Grants	Total
Cumulative through 1962	53	107	160
Added, 1963*	8	13	21
Added, 1964*	10	30	40
Added, 1965*	19	90	109
Added, 1966*	9	40	49
Total as of January 1, 1967	99	280	379

*The net change from the preceding line reflects expiration or repeal of earlier authorizations as well as addition of new authorizations.

Source: ACIR tabulation from various sources, including U.S. Congress, Senate, Subcommittees on Intergovernmental Relations, Catalog of Federal Aids to State and Local Governments and two Supplements; and Congressional Enactments, 89th Congress, Second Session.

The rapid expansion in number of grants has affected their role in partnership programs. From the point of view of the grant recipients--State and local governments--the sheer number, variety and complexity of grants make it all but impossible for eligible recipients to be fully aware of what aids are available, which Federal agencies administer them, and how they suit particular needs. A major complaint of State and local governments concerns this "information gap." One consequence has been that by July 1967, 13 States, 23 cities and one county had established Washington offices to keep track of grant programs and to conduct active follow-through with Federal agencies in expediting grant applications. Several cities, 300 counties and 46 States (as of July 1967) had established Federal aid coordinators.

"Grantsmanship" has become a popular new game in Washington, played most effectively by alert State and local governments. If they do not have Washington offices--or perhaps even if they do--they find many consultants at hand whose business it is to keep informed on available grant programs and help their clients in applying for them.

The multiplication of grants is underscored dramatically by the large number of different catalogs of available grants that have been assembed by

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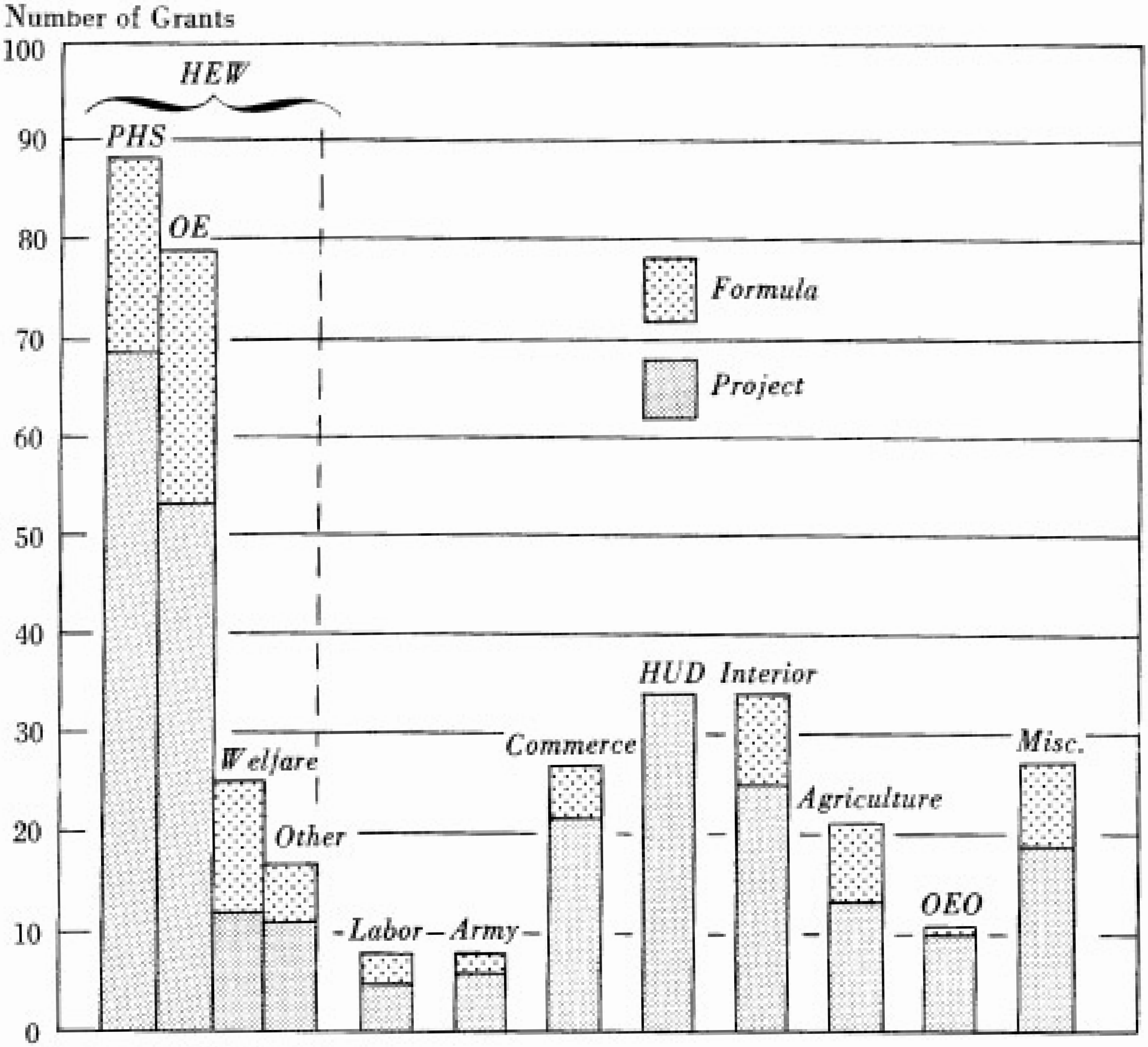
* For further detail, see Table A-22.

Figure 16.

NUMBER OF GRANTS BY ADMINISTERING DEPARTMENT OR AGENCY, BY FORMULA OR PROJECT, DECEMBER 31, 1966



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Federal agencies, national and State associations of public officials and private firms, none of which is truly comprehensive, despite the efforts of their compilers to make them so. Perhaps the crowning demonstration of the point is the fact that the ACIR in 1966 compiled a "catalog of catalogs" in an attempt to present a bibliography of information sources, and this catalog and its first supplement ran to 18 pages!

Another aspect of proliferation is the overlapping and duplication of grant programs, in such fields as water supply and sewage disposal, recreation, economic development, work training and poverty. The classic case is that of grants for water and sewer projects. No less than four such programs are available, administered by four different agencies: HUD, the Department of Agriculture (FHA), the Department of Interior (Water Pollution Control Administration) and the Department of Commerce (Economic Development Administration). The Office of Education (HEW) recently listed eight separate programs under six different laws authorizing grants to libraries. In 1966, Congress authorized HUD to make grants for historic preservation (acquisition of land and structures, and restoration) and for surveys of historic structures; the same year it also authorized the Department of Interior to make grants for historic properties preservation and for surveys and plans of such properties.

Excessive categorization and overlapping of grants create administrative problems at all levels and handicap the development of a coordinated attack on community problems. Operating agencies at the State and local levels usually are reasonably capable of keeping track of grant programs in their functional fields. Information available to chief executives may be very limited, however, making it difficult for them to fulfill their overall coordinating responsibilities.

State and local governments may be bewildered as to the differences between seemingly like programs or uncertain as to whether they are using the most appropriate program; on the other hand, they may exploit opportunities to play off one Federal agency against another. Confusion is aggravated by the existence of varying requirements under similar programs, which may cause applicants to seek the program which seems most attractive from the standpoint, say, of non-Federal matching required although overall considerations, such as the specific uses to which the money can be put, may make it less attractive.

Expanding Use of Project Grants

As indicated in Table 23, 280 or three-quarters of the 379 grant-in-aid programs in effect at the end of 1966 were of the "project" type. This compared with 107 or two-thirds of such programs at the end of 1962. Thus project grants represent a sizable majority of the total, and the proportion is on the increase. In dollar amounts, however, this type of grant amounted to only $2.8 billion of the total $12.6 billion for FY 1966.

Testifying at the 1966 hearings on "Creative Federalism," the Under Secretary of HEW, the department that administers over half the project grants, gave the following insight into the reasons for this trend:[4/]

> . . . as you now know we now have this whole development of project grants which do not require a State plan, which are not on a formula basis in the sense that the Secretary indicated, for dealing with the problems that are more diverse, of relationships not only with other governmental units, but even more particularly with non-governmental units such as

universities. This, I think, is a point that sometimes is not completely understood, that the project grant approach really has grown immeasurably in the last 15 years, because of the inflexibility of the State formula grant approach.

A recent examination of trends in HEW-administered programs also identified professionalism and the desire for innovation as other factors leading to emphasis on project grants:5/

> . . . states need not avail themselves of project grants; but they are attractive to professionals, rarely require matching, and frequently enable solid accomplishments. They are less a method of centralization than of federal leadership, together with the more advanced states, in program innovation and professional development. This developmental emphasis, like static standards, may reveal disparities among the states; but the former does so only implicitly, and looks more to progress than to uniformity. It thus supplements professionalism, enables some response to problems in the more metropolitan, professionalized, affluent states; and it sometimes leads to the elaboration and elevation of standards.
>
> . . . In principle, the project grant allowed a maximum of flexibility in the utilization of personnel, in combining public and private efforts, and in a selective program emphasis. At the same time, the combination of initiative from the project proposers and judgment by professional peers or departmental committee, provided an administrative technique responsive in differing measure to community developments, to professional progress, and to PHS (Public Health Service) objectives.

The project grant has been used extensively in grants to urban areas. To some extent this trend reflects the direct Federal-local nature of urban grants, bypassing the State which traditionally has been the geographic and political base for allocation of formula grants. In part, it reflects the fact that certain types of urban grants, such as urban renewal, place great stress on local initiative and local sensing of needs--factors that do not lend themselves to simple reflection in a formula. In part, however, it also indicates a failure to try to develop adequate measures of program need and fiscal capacity which are suitable for formulas for distributing funds among individual localities, and a failure by Congress to appropriate sufficient funds to meet the nationwide need.

In short, this increase in the number of project grants stems from diverse and overlapping developments, including:

- The national need to have research and development conducted by institutions--sometimes publicly supported--is not susceptible to an apportionment approach;

- The inflexibility of the State formula principle prevents a "rifling in" on new problem areas and tension points requiring maximum attention;

- Congressional reluctance to appropriate sufficient funds for particular program needs necessitates the more selective project grant device;

- Many program administrators and certain congressional committees have become increasingly conscious of the need for technical assistance and training programs for State and local units administering the functional grants falling under their jurisdiction, yet are unable to measure the specific needs of each unit in these areas;

- Similarly, many at the national level have adopted the parallel goal of stimulating innovative approaches--including research, experimentation and planning--in grant-aided as well as other functions;

- The absence of reliable data on fiscal capability and needs for various jurisdictional units within States precludes an apportionment-based grant for various locally-oriented programs.

The increasing reliance on project grants has important implications for the grant-in-aid system. It tends to diminish the National Government's certainty that Federal funds are being applied most effectively to meet nationally determined minimum requirements throughout the country. First, Congress leaves it to administrators to apply such distribution formulas, sometimes pursuant to legislative guidelines, imposing heavy pressure on administrators to weigh both program and political considerations in their decisions. Second, it places a premium upon the ability of applicants to know what aids are available, to prepare persuasive applications, and to expend the necessary efforts in following through to see that grants are forthcoming. By and large, this means that the State and local governments that are well organized and staffed will win the project grants. Yet they may have a relatively low index of need for the projects, or have a relatively high index of fiscal capacity with which to meet the need.

On the other hand, of course, it can be contended that placing reliance on State and local governments to exert themselves to obtain Federal grant moneys is an inevitable part of a system of shared powers. Unlike a unitary system, the Federal system values local initiative and discretion and it is only natural that some localities will fall behind others in their zeal and ability to obtain Federal grants. If uniformity of services is desired, reliance will need to be placed on the central government rather than the State and local governments.

Increasing Variety in Matching Ratios

Hand-in-hand with the multiplication of Federal grant programs has been a widening variation in Federal matching ratios employed. Table 24 shows the number of grants adopted or revised each year at various matching ratios.

In an effort to determine what, if any, were the specific reasons for the congressional decision to use particular matching ratios and apportionment formulas, the Commission staff examined Senate and House committee reports on legislation creating or revising 180 grants administered by the Department of Health, Education, and Welfare.* The research uncovered documented rationale for matching ratios in 21 instances. The explanations may be summarized as follows:

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* Differences in categorization of the grants largely account for the differences between this number and that shown for HEW in Table A-22.

TABLE 24.--MATCHING RATIOS, EXISTING PROGRAMS OF GRANTS-IN-AID TO STATE OR LOCAL GOVERNMENTAL UNITS AS OF CALENDAR YEARS OF ORIGIN

Federal Participation 1/	Number of Programs																		
	1879	1887	1888	1890	1911	1914	1916	1917	1920	1922	1930	1933	1935	1937	1944	1946	1948	1949	1950
20																			
25																1			
30															1				
33																			
33-40																			
33-67													1		1		1		
50		1	1		2	1	1	1	1		1		4		4	3	1		5
50-67																			
50-70																			
50-75																			
50-80																			
50-83													3						1
50-90																			
50-100																			
67																			
67-75																		1	
75													2	1					1
80																			
90																			
91																			
100	1			1	2						1	1	1		8	1	2		4
Some local										1			1	1					3
part or all declining 6/ variable																			
Total	1	1	1	1	4	1	1	1	1	1	2	1	12	2	14	5	4	1	14

TABLE 24 (CONT'D).--MATCHING RATIOS, EXISTING PROGRAMS OF GRANTS-IN-AID TO STATE OR LOCAL GOVERNMENTAL UNITS AS OF CALENDAR YEARS OF ORIGIN

Federal Participation[1/]	Number of Programs																	
	1951	1952	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966[2/]	1967[3,4/]	1968[5/]	Total
20															1			1
25																		1
30					1									1				3
33														1				1
33-40														1				1
33-67					2							2		2	2			11
50			1		3		6			1	2	3	9	12	10	1	1	75
50-67													1					1
50-70														1				1
50-75											1	1						2
50-80									1					2				3
50-83											1			1				6
50-90														2				2
50-100							1					1	1					3
67			1							1	1	2	2	4	6			17
67-75			1											1				3
75					1						1	3	1	9	4			23
80															3		3	6
90			1		1		1					1	5	7	2	2		20
91														1				1
100	2	1	4	1	9	1	10	1	4	5	9	3	16	41	19			148
Some local			1				3			2	1	2	2	10				27
part or all			4		1						1	1	2	3	6			18
declining[6/]												1	1	10				12
variable					1													1
Total	2	1	13	1	19	1	21	1	5	9	17	20	40	109	53	3	4	387[7/]

TABLE 24 (CONCL'D).--MATCHING RATIOS, EXISTING PROGRAMS OF GRANTS-IN-AID TO STATE OR LOCAL GOVERNMENTAL UNITS AS OF CALENDAR YEARS OF ORIGIN

Footnotes

1/ The following five programs were not included for the reasons indicated:
Education of deprived elementary school children, special incentives, 1965 (since repealed)
Redevelopment areas, occupational training, 1962 (expired)
Child welfare, day care centers, 1962 (expired)
College and research library resources, 1965 (not yet funded)
Residential vocational schools, 1963 (not yet funded).

2/ Included is Vocational Rehabilitation, basic support grants, which was enacted in 1920 at a 50% matching ratio which was changed to 75% as of July 1, 1965.

3/ Included are the following programs: language and area centers, enacted in 1958 at a 50% matching ratio, now "part or all" federally funded; MDTA weekly allowances and MDTA training programs, which were both enacted in 1962 at full Federal payment, now 90%; Appalachian regional commission's administrative expenses, enacted in 1965 at 100%, now 50%; and small irrigation projects, enacted in 1956 with a variable formula, now 50% matching.

4/ Under the new Comprehensive Health Services Act, P.L. 89-749, 20 programs went out of existence on July 1, 1967, replaced by the new act. They have been included in the table, as follows:

	1944	1946	1948	1956	1961	1963	1964	1965
50%	4	1	1				1	
67%					1	1		
91%								1
100%	7			1	1			1

5/ Included are the following programs: adult basic education, enacted in 1964 at 90%, now 50%; community action program training and program development, both enacted in 1964 at 90%, now to be 80%; and special programs for the chronically unemployed poor, enacted in 1965 at 90% and now to become 80%.

6/ The following programs have a matching ratio that declines during the period the grant is in effect:
Beginning at 100% Federal payment: vocational education work-study programs (1963); Appalachia, demonstration health facilities (1965); disaster area schools, operation (1965); and redevelopment areas, regional action planning commissions (1965).
Beginning at 90%: higher education work-study programs (1964); vocational rehabilitation, innovation grants (1965); and economic opportunity program, Neighborhood Youth Corps (1965).
Beginning at 75%: community mental health centers, initial personnel costs (1965); higher education, community services (1965); older Americans, community planning (1965); and vocational rehabilitation facilities, initial staffing (1965).
Beginning at 60%: medical libraries basic resources (1965).

7/ Total is larger than that shown in Table 23 because this table shows both original and revised ratios for programs whose ratios were changed by congressional action.

Source: U.S. Congress, Senate, Subcommittee on Intergovernmental Relations, Catalog of Federal Aids to State and Local Governments, and two Supplements; Grants-in-Aid and Other Financial Assistance Programs Administered by the U.S. Department of Health, Education, and Welfare (1966 Edition); U.S. Code; and 1966 enactments.

Education	Number of Grants
Legislative history gave reason for the choice of a particular figure	1
Gave reason for requiring no matching	2
Gave reason for requiring some matching but without specifying a particular amount	11
No explanation	55
Total	69

Health	
Provisions tied to those in an existing program	4
Federal share raised because eligible recipients fiscally unable to participate under previous ratio	2
No explanation	66
Total	72

Welfare and other	
Gave reason	1
No explanation	38
Total	39

While lacking a documented explanation of legislative reasons for establishment of Federal cost-sharing ratios for specific programs, it is possible to infer from the evolution of the grant-in-aid system some of the general forces that were at work.

The early grant programs were designed for equal sharing between the Federal and State governments. Since the 1930's, however, especially since World War II, grants often have built-in equalization-type formulas, with funds apportioned on the basis of program need and financial ability. Matching thus is in direct relation to States' and local governments' varying abilities to support the aided functions. Variable matching requirements for these programs are often based on the assumption that for all States combined the Federal contribution will approximate one-half of the program cost. In these cases, minimum and maximum percentages are provided, typically ranging from one-third to two-thirds of total program cost as the Federal share. The actual Federal share for any one State depends on some variant of the ratio of State to United States per capita income, figured usually on the basis of the previous three or five years' average personal income.

When Congress decided to increase the Federal share and depart from the traditional 50-50 sharing basis without variable matching, it may have sought to place a high priority on achievement of a particular national objective. The largest grant program--the interstate highway program enacted in 1956--was the first major departure of this kind. Its purpose was to underwrite construction of a national defense network of major roads connecting populous urban centers. More recently, Title I of the Elementary and Secondary Education Act (1965) provides unmatched grants (100 percent Federal) to local school districts for promoting educational services for culturally disadvantaged children. Grants for economic development (1965) may cover up to 80 percent of the cost of projects in areas of serious unemployment and general economic distress.

Different levels of Federal participation also can reflect different policy purposes of grants, that is, whether they are intended to stimulate State and local entry into or expansion of certain services; to provide continuing support of a function which the Federal Government may have helped to bring into being but which the State and local governments can now largely finance; or to finance pilot or demonstration projects. Continuing support grants are likely to receive a lesser level of Federal money than the other two types.

The Community Action Program and Demonstration Cities grants are outstanding recent examples of the tendency in the Federal grant system toward encouraging innovation and experimentation in the provision of public services and facilities. It is not surprising that such grants, authorized in many respects as "seed monies" to focus attention on a needed public service, are provided with a high Federal ratio of sharing. Other recent examples are air pollution services and demonstration (1963)--66-75 percent Federal share; solid waste disposal demonstrations (1965)--100 percent Federal, and work experience (under 1964 Economic Opportunity Act)--no specific non-Federal share.

Two additional reasons account for the present wide array of matching ratios. First, on the legislative side, programs have been authorized by separate functional committees of Congress without overall machinery or policy for a consistent approach, either among committees or within the same committee over a period of time. Second, there has been a similar lack at the top management level in the executive branch--specifically, in the Bureau of the Budget--of procedures and guidelines for logically based and interrelated matching ratios in Administration proposals for legislation.

The wide range of matching ratios raises a number of questions from the standpoint of Federal program policy and management and the impact upon State and local governments. One question is whether the present ratios properly represent actual differences in national interest in the various programs. Is the national interest in the work experience program, for example, really greater than that in basic grants for vocational rehabilitation to the extent of the 100-75 difference in their respective Federal percentages of costs?

The need for coordination is especially urgent in programs which are closely interrelated, as illustrated by the HEW grants. When related programs are administered by different local agencies and are supported by varying amounts of Federal dollars for each non-Federal dollar, the problems of working out effective coordination become even more difficult. For programs not so closely interrelated, State and local governments and the general public find it hard to understand widely varying formulas.

Another problem arising from variations in matching ratios concerns the effect on State and local expenditure decisions. State and local governments are induced to spend more of their resources on those programs with higher Federal matching. They tend to go for the "easy money." Particularly when combined with the similar effect of apportionment formulas, this can lead to a "skewing" of State and local budgets--away from an expenditure pattern they would otherwise prefer. Skewing that results from basic priority decisions that are reflected in matching and apportionment formulas can be defended, but skewing that is prompted by piecemeal grant enactments without reference to overall program needs is indefensible.

Finally, variations in matching ratios in similar or closely related programs--at best--raise serious questions about Federal consistency and equity and, at the worst, offer the temptation to applicants to "play off" one Federal agency against another. A few illustrations:

Library services:

Formula grants are available from the Office of Education to States for public library services pursuant to an approved State plan. Matching from non-Federal sources varies with average per capita income from 33 to 66 percent.6/

Formula grants are available to States from the Office of Education for school library resources, textbooks, and other instructional materials, pursuant to an approved State plan. Matching from non-Federal resources is not required.7/

Sewer and water facilities:

Project grants are available to local public bodies and agencies from HUD to finance projects for basic public water facilities, including works for storage, treatment purification, and distribution of water, and for basic public sewer facilities. Sewer facilities may not include "treatment works" aided by Interior (below). Federal share may not exceed 50 percent of development cost, except in certain circumstances it may go up to 90 percent for communities under 10,000 population.8/

Project grants are available from Interior to States and municipalities for waste treatment works construction. Federal share may not exceed 30 percent, but may be increased to 50 percent under certain conditions.9/

Project grants are available from Agriculture for works for development, storage, treatment, purification, or distribution of water, or collection, treatment, or disposal of waste in rural areas. Federal grant may not exceed 50 percent of development cost of project.10/

Surveys of Historic Structures:

Project grants are available to localities from HUD to make surveys of structures or sites which are of historic or architectural value. Federal grant may not exceed 66 percent of cost.11/

Project grants are available to States from Interior to prepare comprehensive statewide historic surveys for preservation, acquisition, and development of historic properties. Federal grant may not exceed 50 percent of cost.12/

There is also the case of relocation expenses involved in federally aided projects that displace persons and businesses. Under HUD programs localities are entitled to Federal reimbursement of 100 percent of such costs up to $25,000 per case, and thereafter according to the cost sharing formula of the basic program grant. Under federally aided highway programs, on the other hand, Federal reimbursement is 90 percent on interstate and 50 percent on primary-secondary programs, up to $200 per displaced family and $3,000 per displaced business, and no Federal sharing above those amounts.13/

The Development of Incentive Grants

A basic feature of categorical grants-in-aid is that prescribed conditions must be met if the applicant is to get a grant. In recent years a different approach has sometimes been used to encourage State and local governments to exceed minimum levels of program performance. The incentive grant rewards the recipient with more Federal money if it meets a standard or a degree of participation considered desirable, although not so urgent as to be required.

The Water Pollution Control Act, for example, has offered incentives for sewage treatment construction works grants since its enactment in 1956.14/ Major changes were made in 1965 15/ and 1966 16/ and the act now provides that the Federal share limitation of 30 percent shall be increased to a maximum of 40 percent if the State agrees to pay not less than 30 percent of the cost. Further, the Federal share can be increased to as much as 50 percent if the State pays at least 25 percent and if enforceable water quality standards have been established for both interstate and intrastate waters into which the project discharges. The basic grant can be increased by ten percent if the aided project conforms with an areawide comprehensive plan.

Another example of an incentive provision is found in the 1961 law authorizing grants for open space land preservation.17/ The then HHFA Administrator was authorized to make grants to States and local public bodies to help them take prompt action to preserve open-space land essential to the proper long-range development and welfare of the nation's urban areas. The Federal share could not exceed 20 percent of the total cost of acquisition, but could be increased to 30 percent if a recipient public body either exercised open-space preservation responsibilities for an urban area as a whole or participated in exercising such responsibilities for all or a substantial part of an urban area. The revision of this program in the Housing and Urban Development Act of 1965, however, dropped this incentive.18/

The Public Works and Economic Development Act authorizes Federal grants for public works and development facilities to areas which had substantial unemployment during the preceding calendar year. The amount of Federal grant assistance may be increased by not more than 10 percent of the aggregate cost if (1) the redevelopment area is within a designated economic development district and is actively participating in the economic development activities of the district, and (2) the project is consistent with an approved district overall economic development program. In no case can the Federal share exceed 80 percent.19/

The Federal Aid Highway Act of 1963 20/ provided that States which agreed, prior to July 1, 1965, to control advertising alongside highways in the Interstate System would be given an incentive payment of one-half of one percent of the cost of those portions of the System's projects to which national advertising control standards apply. This raised the Federal share to 90.5 percent for the affected construction.

The 1965 Highway Act Amendments 21/ allow the half percent incentive to continue for the 25 States that had taken advantage of it by June 30, 1965. For the other 25 States, beginning January 1, 1968, 10 percent of the apportionment which otherwise would be available will be withheld if a State has not made provision for effective control of advertising alongside interstate and primary system highways. The reduction applies not only to grants for the interstate and primary systems, but also to those for the secondary systems and urban extensions. Further, beginning January 1, 1968, 10 percent of a State's highway money will be withheld if the State has not provided for effective control of outdoor junkyards within 1,000 feet of right-of-way and visible from main traveled roadways.

Finally, the 1965 Elementary-Secondary Education Act[22] offered a special incentive for 1967 and 1968 to local educational agencies eligible to receive a basic grant for education of children from low-income families. The amount of the incentive depended on the extent of the previous year's increase in local public school expenditures from current revenues. The 1966 Amendments to the Elementary and Secondary Education Act, however, repealed this provision. The House Committee on Education and Labor explained that "While an incentive grant has theoretical merit, the one contained in the law has critical and non-correctable defects."[23] The Committee Report stated that the incentive grants would give windfalls to school districts before the stimulus of the Federal program could be felt; would produce an erratic effect; and would have no relationship to the basic grants.

Multi-Functional Grant Programs

The typical grant-in-aid, as the term "categorical" implies, is directed at a rather narrow objective. Yet recently, programs have been developed with broader objectives, ranging across the functional lines that traditionally separate the grant-administering agencies. This represents a "systems" approach--viewing problems in their totality rather than attacking their components separately. Such programs may involve a "packaging" of activities affecting a single geographic area, such as under the Appalachian Regional Commission, the Public Works and Economic Development Act, and the Model Cities Act, or activities affecting a particular clientele group, such as the community action program.

One of the earliest was the area redevelopment program, which provided Federal assistance to areas with substantial and persistent unemployment over an extended period.[24] To qualify for benefits under the act, an applicant was required to submit and have approved by the Secretary of Commerce an overall program for the economic development of the area. Types of assistance available to State or local governments for carrying out the overall program included planning grants; urban renewal grants; public facility grants and loans; Federal participation with State, local, or semipublic sources in industrial or commercial loans; occupational training or retraining programs; and technical assistance. The public works and economic development program,[25] which superseded the area redevelopment program, provides a generally similar grouping of existing grants for application to the development area. In addition, economic development projects of broader geographic significance may be planned and carried out through "economic development districts" and "economic development centers."

Somewhat similar in nature to the economic development program, but limited to a 12 State area, is the Appalachian Regional Development Program.[26] The Federal-State Commission in charge of the program serves as a channel for intergovernmental cooperation within the region. An application for a grant or any other assistance for a program or project may be made only by a State, a political subdivision, or a local development district, and must be approved by the Commission. Special authorizations are made for grants or assistance under existing grant programs, such as highway development, demonstration health facilities and sewage treatment works. In addition the Secretary of Commerce is authorized to use part of the appropriations for the Appalachian regional development program to supplement Federal grants-in-aid under other provisions of law.

The purpose is to enable the people, local communities, local development districts and States to take maximum advantage of Federal grant programs for which they are eligible but lack the required matching share.

The community action program authorized by the 1964 Economic Opportunity Act[27] provides the framework for tying together communitywide efforts in a multifront attack on poverty. It assigns to local community action agencies the primary responsibility for determining the priorities and channeling of grants and other antipoverty aids from various Federal agencies. "Conduct and administration grants" are to be used particularly for financing new and experimental programs, and these may fall within the scope of any Federal agency, whether it is Labor, Agriculture, or Health, Education, and Welfare.

The Demonstration Cities and Metropolitan Development Act of 1966[28] generally focuses on the poor and underprivileged as does the community action program but particularly those living in slum and blighted neighborhoods in cities of all sizes. It is designed to demonstrate how the living environment and the general welfare of people living in such neighborhoods can be substantially improved. It provides financial and technical assistance to enable cities to plan, develop and carry out comprehensive local programs containing new and imaginative proposals to develop "model" neighborhoods. The program seeks to channel into the demonstration areas those projects or activities financed under existing grants which closely relate to the physical, economic, or social needs of the model neighborhood. A special feature is the provision for additional grants to supplement the assistance available under the existing grant programs, up to a total Federal contribution of 80 percent.

Two grants-in-aid that cut across traditional program lines deal with the young and the aging. The Juvenile Delinquency and Youth Offenses Control Act[29] authorizes grants to help develop techniques for the prevention and control of juvenile delinquency and youth offenses, and to encourage coordination of such efforts among various governmental and nongovernmental agencies. Grants are allowed for demonstration and evaluation projects in program areas.

The Older Americans Act of 1965[30] authorizes grants to carry out State plans for community planning and coordination of programs for the aged, new demonstration programs or activities beneficial to older people, training special personnel and establishment of new or expansion of existing programs. Grants may be made for research and development projects for such purposes as studies of living patterns and conditions of older persons, and developing or demonstrating methods which may contribute to a more meaningful pattern of living for older persons. They may also be made for specialized pre-entry and in-service training.

Finally, the Secretary of HEW may provide appropriate consultative services and technical assistance to public or nonprofit private agencies, organizations and institutions.

Diversification of Eligible Grant Recipients

Federal grants started out exclusively as payments to States, sometimes with redistribution to local units. Grants now increasingly go directly to local governments and to private individuals and institutions.

Bypassing the States: "direct federalism."--Beginning with the low-rent public housing program in 1937, there has been a growing tendency to make grants directly to local units, either removing the States entirely as recipients or giving localities equal status with the States as eligible recipients. This trend, sometimes termed "direct federalism,"[31] has several distinguishing characteristics. First, to some extent it is a response to the problems of big cities thought to be neglected by States, and as such reflects the independent political role of large urban centers. Second, however, direct Federal-local grants have never been limited to the big cities; such grants as public housing, urban renewal, education and airports have substantially aided small localities and suburbs as well. Third, direct federalism is a way of pinpointing target areas. It is a reaction to the more conventional system of distributing Federal funds through State governments and reflects growing impatience with State and local boundaries. Finally, in most of these programs, national control of local performance is relatively close.[32]

The Bureau of the Census reports show that from 1944 to 1965 direct Federal grants to local government rose from $53 million to $1,155 million.

Table 25 lists 68 grants under which funds may be paid directly to local units of government. It identifies 12 programs (marked with asterisk) in which local governments are the sole recipients. It distinguishes between programs in which the State has no role in the grant process (col. I--38 programs) and those in which the States have some role (cols. II-VI--30 programs).

The table lists only grants in support of planning, operating, or construction activities. There is an additional large number of grants for training, research and demonstration purposes that may be made to local governments with no State channeling role.

Large-scale bypassing clearly is a fairly recent development: of the 38 programs in which the States have no role, 23 were enacted after 1960. Closely related to this growth in the number of direct Federal-local programs is the use of special purpose units of local government as eligible recipients. A 1964 Advisory Commission report on Federal urban development programs found that special districts were induced and sometimes even required by about a quarter of all such programs.[33] These units included public housing and urban renewal authorities, State and local planning agencies, local area redevelopment organizations and industrial development authorities.

<u>Private individuals and institutions: "private federalism</u>."--While grants to local governments bypass States and grants to special purpose districts and authorities bypass general purpose units of local government, a third category of grants bypasses both State and local governments. These are grants to individuals or specialized public agencies such as universities and official public groups. Such grants--which have been described as a manifestation of "private federalism"--are of the project type and are for the attainment of a specific purpose. They are given to individuals, nonprofit groups and institutions because they have special capabilities.

Closely allied to these grants are payments to nongovernmental and, in some instances, private profit-making firms to implement public programs, i.e., the Job Corps centers under the Economic Opportunity Act and specialized training or research tasks in the law enforcement program.

Unlike the standard formula-type grants which have been the chief device for distributing Federal funds among the States, grants to individuals are not subject to an apportionment formula. They are not counted in the Federal grant totals reported by the Secretary of the Treasury as payments to State and local

TABLE 25.--FEDERAL GRANTS-IN-AID TO LOCAL GOVERNMENTS FOR PLANNING, OPERATING AND CONSTRUCTION PURPOSES, 1966

Program	Year Estab-lished	Nature of the State Role, If Any, in Grant Process[1/]						Admin-istering Agency
		I	II	III	IV	V	VI	
1. Forest Service Cooperative State and Private Programs	1911						x	Agricul-ture
2. American Indian Education Financial Assistance	1934						x	Interior
3. American Indians--Finan-cial Assistance to School Districts	1934						x	Interior
4. Maternal and Infant Care Projects	1935						x	HEW
5. Flood Control	1936	x						Defense
6. Low-Rent Public Housing*	1937	x						HUD
7. Venereal Disease Control	1938	x						HEW
8. Drainage Improvement	1944	x						Defense
9. Tuberculosis Control	1944	x						HEW
10. Hospital and Medical Facili-ties Construction (Hill-Burton)	1946				x			HEW
11. Airport Development[2/]	1946	x					x	DOT
12. Disaster Relief	1947	x						OEP
13. Urban Renewal*	1949	x						HUD
14. Civil Defense	1950	x						Defense
15. Natural Disasters	1950	x						Defense
16. School Maintenance in Impacted Areas*	1950		x					HEW
17. School Construction in Impacted Areas*	1950		x					HEW
18. Urban Planning Assistance	1954		x	x				HUD
19. Recreation Facilities of Federal Water Resources Projects	1954	x						Defense
20. Water Pollution Control--Waste Treatment Works Construction	1956			x			x	Interior
21. Multi-Purpose Watershed Projects	1956			x				Agricul-ture
22. Water Quality Control	1956	x						Defense
23. Beach Erosion Control	1956	x						Defense
24. Water Supply Storage in Reservoirs	1958	x						Defense
25. Community Renewal*	1959	x						HUD
26. Rural Water and Waste Disposal Systems*	1961	x						Agricul-ture
27. Open-Space Land Preservation	1961	x						HUD
28. Community Health Services for Chronically Ill and Aged	1961	x						HEW
29. Educational Television	1962	x						HEW
30. Immunization	1962				x			HEW

TABLE 25 (CONT'D).--FEDERAL GRANTS-IN-AID TO LOCAL GOVERNMENTS FOR PLANNING, OPERATING AND CONSTRUCTION PURPOSES, 1966

Program	Year Estab-lished	Nature of the State Role, If Any, in Grant Process 1/ I	II	III	IV	V	VI	Admin-istering Agency
31. Migrant Health	1962		x					HEW
32. Cuban Refugee Assistance	1962	x						HEW
33. Air Pollution	1963	x						HEW
34. Community Mental Health Center: Construction	1963				x			HEW
35. Farm Labor Housing	1964			x				Agricul-ture
36. Urban Mass Transportation	1964			x			x	HUD
37. Assistance for Migrant and Seasonal Farm Workers	1964					x		OEO
38. Community Action Program	1964					x		OEO
39. Neighborhood Youth Corps	1964	x						Labor
40. Equal Employment Opportunity	1964	x						EEOC
41. Areawide Health Facilities Planning Grants	1964				x			HEW
42. Supplementary Educational Centers and Services*	1965			x				HEW
43. Disaster Assistance for Public Schools	1965	x						HEW
44. Aid for Educationally Deprived Children*	1965				x			HEW
45. Community Mental Health Centers: Initial Cost of Professional and Technical Personnel	1965						x	HEW
46. Medical Libraries Construc-tion	1965	x						HEW
47. Solid Waste Disposal	1965	x						HEW
48. Vocational Rehabilitation: Facilities and Workshops	1965			x	x			HEW
49. Older Americans: Research, Demonstration and Training	1965						x	HEW
50. Health of School and Pre-School Children	1965						x	HEW
51. Advance Acquisition of Land*	1965	x						HUD
52. Code Enforcement*	1965	x						HUD
53. Demolition of Unsound Structures*	1965	x						HUD
54. Neighborhood Facilities*	1965	x						HUD
55. Urban Beautification	1965	x						HUD
56. Water and Sewer	1965	x						HUD
57. Appalachian Regional De-velopment Program: Mining Area Restoration	1965		x		x			Interior
58. ARD Program: Sewage Treatment Works	1965		x		x			Interior
59. Law Enforcement Assistance	1965	x						Justice
60. Development Highways and Access Roads for Appala-chian Region	1965		x		x			DOT

TABLE 25 (CONCL'D).--FEDERAL GRANTS-IN-AID TO LOCAL GOVERNMENTS FOR PLANNING, OPERATING AND CONSTRUCTION PURPOSES, 1966

Program	Year Estab-lished	Nature of the State Role, If Any, in Grant Process 1/ I	II	III	IV	V	VI	Admin-istering Agency
61. Grants and Loans for Public Works and Development Facilities	1965				x			Commerce
62. Administration of Economic Development Programs in Appalachia	1965		x		x			Commerce
63. Supplemental Grants-in-Aid for Appalachia	1965		x					Commerce
64. Obnoxious Aquatic Plants	1965	x						Defense
65. Historic Preservation	1966	x						HUD
66. Model Cities*	1966	x						HUD
67. Supplementary Grants for Planned Metropolitan Development	1966	x						HUD
68. Clean Rivers Planning	1966						x	Interior

1/ Key:

I - No State role in grant process.
II - Applications made through State agencies.
III - Applications subject to review and recommendations by appropriate State bodies.
IV - Plan subject to approval by State bodies.
V - Plan subject to formal approval or rejection by governor.
VI - Other (for example, direct Federal aid to locality permitted by State agency, Federal formula grants distributed by State agency among local applicants).

2/ About one-half of the States require channeling of grants through State aviation agency.

*Local governments are sole recipients.

Source: U.S. Congress, Senate, Committee on Government Operations, Catalog of Federal Aids to State and Local Governments and supplements (Washington: Government Printing Office, 1964, '65, '66); ACIR, Impact of Federal Urban Development Programs on Local Government Organization and Planning (Washington, 1964); Department of HEW, Grants-in-Aid and Other Financial Assistance Programs (Washington, 1966); Information Center, OEO, Catalog of Federal Assistance Programs (Washington, 1967).

units (Table 22), but are designated as "Federal Aid Payments to Individuals and Private Institutions Within the States."

The great bulk of the payments falling under the heading of "private federalism" are made through the Department of Health, Education, and Welfare. Table 26 gives a general idea of the significance of these grants by showing for 282* HEW programs, tabulated as of January 1967, the number, by formula or project, that were available to various combinations of eligible recipients. Of the total, only 70--about 75 percent of all the HEW formula grants and 10 percent of the project grants--were limited to State or local governments.

It seems clear that the broadening of eligible governmental grant recipients has weakened the role of the States in the Federal grant system. Similarly, the inclusion of special purpose units of government as eligible recipients has tended to diminish the authority of units of general local government, as has the use of private and public nonprofit groups to carry on functions traditionally held to be those of local government, as in the community action program. Finally, making grants directly to private individuals and institutions, largely for research, development and training activities, cannot but help reduce the relative importance of both State and local government in federally funded activity.

The reasons for these developments are generally known. The failure of the States to respond to the needs of their urban areas led to the heavy Federal involvement in direct grants to local governments. Malapportioned legislatures and constitutional restrictions on State fiscal authority were doubtless underlying causes. As the Advisory Commission pointed out in its 1964 report on <u>The Impact of Federal Urban Development Programs on Local Government Organization and Planning</u>, Federal Government grants to special purpose districts evolved in many cases from a desire to assure professional performance of the function being assisted at a time when general-purpose units of local government often were unable to do the job because of staffing difficulties, local political problems and State-imposed limitations. In another report the Advisory Commission found a somewhat similar explanation for the Federal Government's action in making private nonprofit organizations eligible for community action funds.[34/] Limitations on the powers and structures of existing general purpose units of local government together with the reluctance of local political leaders to take on the poverty problem, frequently tinged with civil rights overtones, impelled Congress to leave open the option of reliance on a nongovernmental, communitywide coordinating agency. Finally, the reliance on "private federalism" occurs in project type grant programs directed toward specific research, development and training objectives for which individuals and institutions are qualified and in which there appears to be no obvious State or local governmental role. "Private federalism" no doubt also reflects an increasingly close relationship between the academic community and the Federal Government, and a conscious policy of involving the private sector in "creative federalism."

Grants to Urban Areas

One of the most striking recent trends in Federal grants has been the increased flow of grant money to metropolitan areas. It is reinforced by the fact that major increases in Federal grants have occurred in housing and community

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* Inclusion of grants for which State and local governments are not eligible largely accounts for the difference between this figure and those shown for HEW earlier in this report.

TABLE 26.--DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE GRANTS, BY TYPE OF GRANT AND ELIGIBLE RECIPIENTS, JANUARY 1967

Eligible Recipients	Type of Grant: Formula	Project	Both Formula and Project	Total
States only	48	11	-	59
Universities* only	4	35	-	39
Other (private nonprofit)	2	48	-	50
Local governments only	2	4	-	6
States, universities	1	-	3	4
States, local governments	1	4	-	5
States, other	4	7	1	12
Universities, other	2	56	1	59
Local governments, other	1	-	-	1
States, universities, other	2	3	2	7
States, local governments, other	-	11	-	11
Universities, local governments, other	1	6	-	7
States, universities, local governments	-	3	-	3
States, universities, local governments, other	1	17	1	19
	69	205	8	282

*"Universities" used as shorthand for institutions of higher education.

Source: Department of Health, Education, and Welfare, January, 1967.

development, education and programs to assist the disadvantaged, all of which have their greatest impact in such areas.

Figure 17 shows the estimated amount of Federal aid payments in metropolitan areas (Standard Metropolitan Statistical Areas) by major function, for the years 1961, 1966 and 1968. More than $10 billion of the grant total of $17.4 billion will be spent in SMSA's in 1968 "to fill the growing gap between their needs and resources." This represents an increase of almost $6.5 billion or 165 percent over the comparable 1961 figure, and an increase of about three billion dollars since FY 1966.*

Administrative and Fiscal Requirements

Inflexibility of Federal administrative and fiscal requirements is one of the most common criticisms of the expanding grant-in-aid system, particularly by State and local officials.

From State and local officials[35/]--a State attorney general:--

> We have on many occasions seen complaints from members of State and local governments in administration of the programs. A consulting economist in (our State) states: "As a one-time administrator of the public assistance programs in (this State) under the Social Security Act, I can testify to the rigidity of Federal administrative authority which hampered both needed and desirable flexibility."

A State budget officer:

> Federal requirements for specific forms of organization of State and local governments to comply with Federal grants regulations has seriously hampered the flexibility of State and local organization structure.

A county official:

> The 701 planning program has in many instances harmed the planning of a city. Consulting planners spend too much time wading through red tape.

From Federal officials[36/]--Secretary Weaver of HUD:

> Certain Federal laws require the establishment of single State agencies or counterpart local institutions, thus often reducing the ability of State and local governments to organize in the way they may deem best.**

An Executive Branch survey team reported last year that a major complaint about Federal administrative regulations is their rigidity. An extreme

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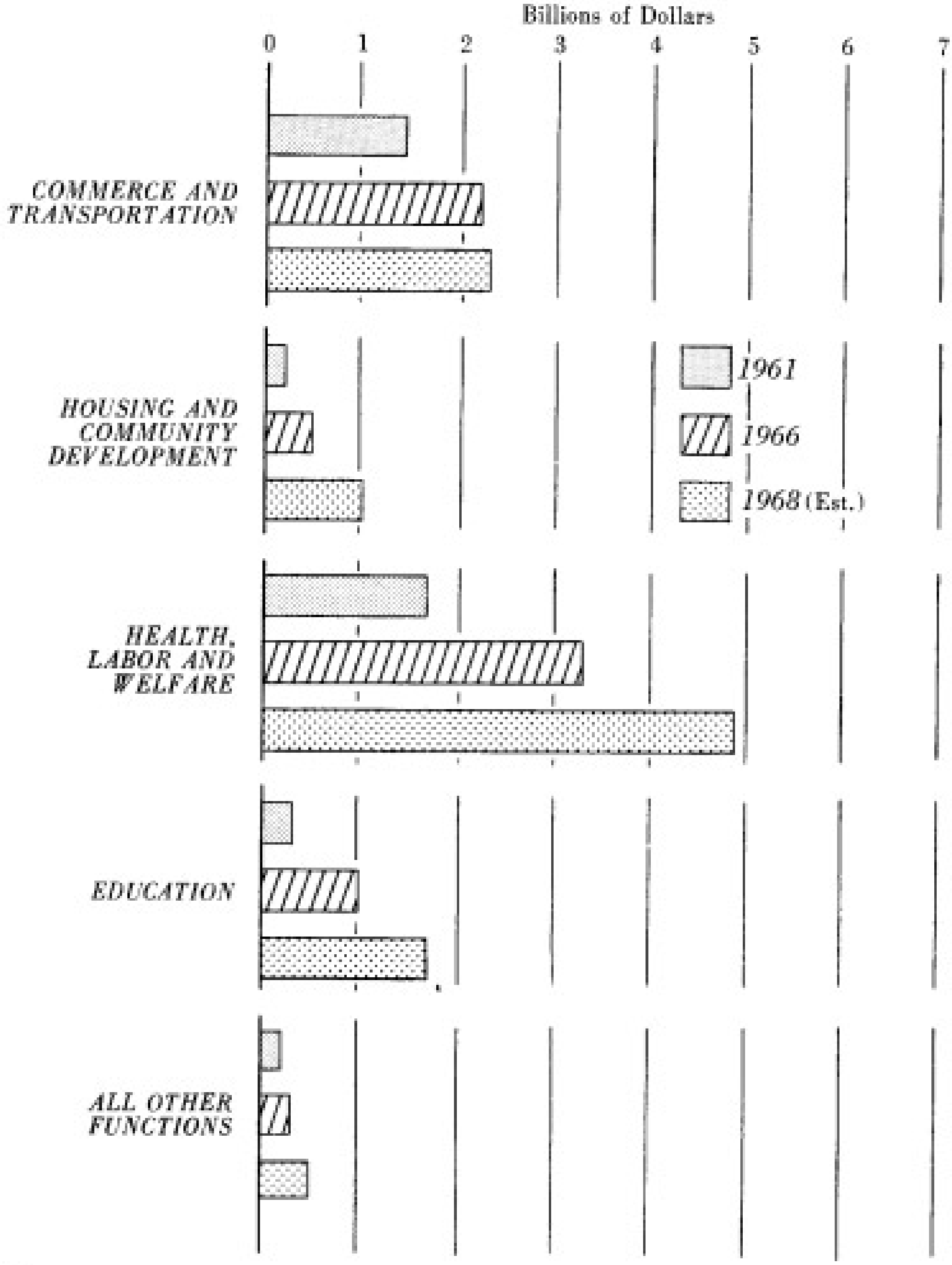
* For further detail, see Table A-23.

** In contrast to Secretary Weaver's comment are the views of middle management officials of Federal departments and agencies: "While the 'single agency' concept may produce significant reorganizational problems at the State level, little awareness of this difficulty was indicated by these Federal administrators."[37/]

Figure 17.

*FEDERAL AID PAYMENTS IN URBAN AREAS * BY MAJOR FUNCTION (Budget and Trust Accounts)*



* *Standard metropolitan statistical areas*

Source: Special Analysis J, Budget of the United States, 1968, p. 155.

but minor example of this occurred in one city which was asked to prepare a map showing all municipal "public improvements" and the program's administrative manual defined "public improvements" to include street lights and fire plugs. Considerable time was spent in reaching agreement that this requirement was unreasonable since it would be impossible to show all of these facilities on a map.

Some Washington-established standards and guidelines, including some in statutes, are unrealistic for implementing programs, especially in small towns and rural areas. Witness the South Carolina case study: population standards for Community Health Centers--75,000 to 200,000--miss the State's cities on both ends of the scale; the "workable program" concept is too rigid in its application to small communities; the "measure" of poverty, $3,000, has been criticized as not well suited to South Carolina where the costs of living in small towns and rural areas are very low and where even some State employees are paid at no more than that rate; the 50 percent limitation on use of 701 funds for mapping purposes is delaying comprehensive planning in the city of Columbia; some personnel standards cannot be met in today's labor market at salaries State agencies can pay; and standards for admission of trainees to summer institutes shut out the less qualified teachers who most need training.

The "single State agency" requirement is one of the most frequently criticized administrative standards. It requires either that a "single State agency" must be named to administer or supervise a grant-in-aid program or that a State agency be named as the "sole agency" for this purpose.

In the 1950's the (Kestnbaum) Commission on Intergovernmental Relations and the Council of State Governments concluded that this requirement initially had helped bring about greater integration of State administration on an agency or functional basis in such program areas as in the Federal Highway Act of 1916 and the Social Security Act of 1935. At the same time, the Council of State Governments found that the single agency rule in recent years has become the most important Federal deterrent to integrating related major functions in State administrative organization in some seven major grant-in-aid areas.[38]

With the accelerated pace of change in governmental programs, State governments need more elbow room to adapt their administrative structures to new circumstances. A further premium is placed on flexibility by the increasing practice of "packaging" governmental programs on an interfunctional or interdisciplinary basis, as in the manpower field. Yet, as of 1965, grant legislation for at least one-third of the programs contained this single State agency requirement,[39] and at least three States--Oregon, Wisconsin and Hawaii--had reorganizational efforts thwarted by it.

In a 1964 report on controls associated with Federal grants for public assistance, the Advisory Commission recommended giving the Secretary of HEW discretion to waive the single State agency requirement for the public assistance titles when he is certain that the objectives of the program will not be endangered.[40] Title II of the proposed Intergovernmental Cooperation Act of 1967 would make such a waiver available to all departments and agencies and programs.[41]

Fiscal reporting and accounting requirements have also contributed to tension in the administration of grant programs. In a 1963 survey of State and local officials by the Senate Subcommittee on Intergovernmental Relations, respondents were asked:[42] "Have variations among Federal agency requirements and differences between Federal and State requirements for the accounting of grant funds and the reporting of expenditures therefor caused difficulties in administering grants-in-aid?" Half the replies were "Yes." Three-quarters of the officials indicated an affirmative response to the question: "Should Congress consider legislation designed to enable uniform accounting and audit programs to be prescribed for grants?"43/

The Subcommittee survey also asked: "Have variations in the frequency, intensity and methodology of audits among Federal agency requirements and differences between Federal and State requirements caused difficulties in administering grants-in-aid?"44/ About 40 percent said "Yes." Finally, the officials were queried: "Should Congress consider legislation dispensing with the post-audit of grants by individual Federal agencies and the acceptance in lieu thereof of the audit report by the State auditing authority, provided (1) the State post-audit meets the Comptroller General's standards of adequacy and integrity and (2) the Comptroller General exercises the right of spot audits?"45/ Six out of seven respondents endorsed this proposal.

In its subsequent survey of Federal grant-administering officials,46/ the Subcommittee asked Federal administrators a similar battery of questions concerning the need for greater uniformity in accounting and auditing procedures, and then asked the General Accounting Office (GAO) to comment on the responses. Nine out of ten respondents felt that variations in audit requirements do not cause difficulties in State and local administration of their particular programs. Six out of ten thought all Federal aid programs should not be subjected to uniform accounting and audit procedures. A comparable proportion also opposed dispensing with departmental post-audits where a State's post-audit system meets the Comptroller General's standards and the Comptroller General exercises the right of spot audits.

The GAO felt the last question raises certain problems, since it assumes that the Comptroller General has prescribed auditing standards for guidance of State audit agencies, when such is not the case. Dispensing with Federal agency audits and reliance on GAO spot audits "would be an interference with, and dilution of, the primary responsibility of the Federal agencies to manage their programs," according to GAO and "would tend to impair the objectivity of our Office as an independent reviewer of Federal agency management performance."47/

In commenting on the GAO's observations, the Subcommittee report stated:48/

> The GAO analysis assumed that the Comptroller should not prescribe general standards for the guidance of State audit agencies. This is good basic doctrine in the field of Federal-State relations. But the Subcommittee's view is that the question is different when it involves standards for the guidance of State agencies which audit the application of Federal funds. The question is also different when State and local officials indicate that this procedure would simplify the financial administration of such funds. These were the bases for asking this question.

General improvement in the consistency and flexibility of administrative requirements in grant programs is a major objective of a new procedure initiated by President Johnson on November 11, 1966. In a special memorandum, the President requested the Director of the Bureau of the Budget and the heads

TABLE 27.--NUMBER OF FEDERAL GRANT-IN-AID PROGRAMS WITH PLANNING REQUIREMENT FOR STATE AND LOCAL GOVERNMENT RECIPIENTS, BY YEAR OF ESTABLISHMENT AND TYPE OF PLANNING REQUIREMENT

Year Planning Requirement Established	Planning Requirement: State Plan	Project Plan	Other 1/	Total
1917	1			1
1920	1			1
1933	2			2
1935	3			3
1936	3			3
1946	1			1
1949		1 2/		1
1950	2			2
1951	2			2
1956	2 3/	1		3
1958	2			2
1961	3	1 4/	1	5
1962	4			4
1963	5			5
1964	5	2	2	9
1965	17 5/	2	9	28
1966	8	1 6/	1	10
Total	61	8	13	82
Summary				
1917-1960	19	2	0	21
1961-1966	42	6	13	61
Total	61	8	13	82

1/ Includes (a) ten programs that require project conformity with comprehensive areawide plan and functional areawide plan: open space land preservation (1961), mass transportation - technical studies, mass transportation - capital improvement (1964), highways, solid waste disposal, basic water and sewer facilities, rural water and waste disposal facilities, advance acquisition of land, neighborhood facilities (1965), and planned metropolitan development (1966); (b) two programs that require project conformity with comprehensive areawide plan: urban beautification and open-space land in built-up areas (1965); and (c) one that requires both State and project planning: Appalachian Regional Commission (1965).

TABLE 27 (CONCL'D).--NUMBER OF FEDERAL GRANT-IN-AID PROGRAMS WITH PLANNING REQUIREMENT FOR STATE AND LOCAL GOVERNMENT RECIPIENTS, BY YEAR OF ESTABLISHMENT AND TYPE OF PLANNING REQUIREMENT

Footnotes (Cont'd)

2/ Urban renewal projects also must conform with comprehensive areawide plans.

3/ Includes waste treatment works program which also requires projects to conform with comprehensive areawide plans.

4/ Economic development projects also must conform with comprehensive areawide plans.

5/ Includes Water Resources Council which also requires projects to conform with comprehensive areawide plans.

6/ Model cities projects also must conform to comprehensive areawide plans and functional areawide plans.

Source: U.S. Congress, Senate, Committee on Government Operations, Subcommittee on Intergovernmental Relations, Hearings, Creative Federalism, Part 1, 89th Cong., 2d Sess., pp. 435-445.

of major departments and agencies engaged in programs affecting State and local governments "to take steps to afford representatives of the chief executives of State and local government the opportunity to advise and consult in the development and execution of programs which directly affect the conduct of State and local affairs."[49/] The Bureau of the Budget in cooperation with departments and agencies, national associations of State and local officials, and the Advisory Commission formulated a procedure whereby proposed administrative directives and revisions would be submitted for review and comment by State and local officials' groups before final promulgation, with the Advisory Commission serving as secretariat.[50/]

Another step toward minimizing the effect of rigid grant requirements is the effort to achieve simplification of grant applications and joint funding. In discussing the problems of the complex categorical grant system in his 1967 message on the "Quality of American Government," President Johnson declared:[51/]

> [We] should make it possible, through general legislation, for federal agencies to combine related grants into a single financial package thus simplifying the financial and administrative procedures--without disturbing, however, the separate authorizations, appropriations, and substantive requirements for each grant-in-aid program.

The Bureau of the Budget submitted a proposed "Joint Simplification Act of 1967" to Congress in August 1967, which was introduced as H.R. 12631.

As noted earlier, an increasingly common characteristic of new Federal efforts to help State and local governments is the use of a "package" approach, that groups grant funds from various programs and departments, as illustrated by the community action program and the Model Cities Act. The different requirements and standards of the individual programs raise obstacles to such packaging. The proposed legislation seeks to remove or simplify these administrative and technical impediments to consideration, processing, approval and administration of "package" projects.

Planning Requirements

The number and variety of requirements for planning as a condition of grants-in-aid have expanded markedly in recent years. Table 27, based on a Budget Bureau tabulation in November 1966, shows the growth in the number of types of such requirements.

Of 82 grant-in-aid programs, the planning requirements for just 21 were enacted by 1960. Nineteen of the 21 called for State plans, usually in the health, education and welfare field, such as for vocational education, categorical public assistance, and hospital and medical facilities construction.

Among the 61 planning requirements enacted after 1960, 43* call for State plans, largely program plans in the field of educational services, including programs for the aged, education of disadvantaged children, State departments of education, supplementary educational centers and services, work-study for vocational students, school library resources, and vocational rehabilitation--all

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* Including Appalachian Regional Commission which requires project plan as well and is included in the "other" column of Table 27.

enacted in 1965; and library services to the physically handicapped, State institutional library services, interlibrary cooperation, comprehensive State health planning, and comprehensive public health services, enacted in 1966.

Of the remaining 18 programs with planning requirements enacted after 1960, six call for project plans: public works and development facilities (EDA), supplementary education centers and services, model cities, commercial fisheries and wildlife service, small irrigation projects, and community action programs. One--the Appalachian Regional Commission--requires both State plans and project plans. The remaining 11 do not require a State or project plan, but stipulate that the aided project be in conformity with an areawide comprehensive plan (urban beautification, and provision of open-space land in built-up areas) or with both an areawide comprehensive plan and an areawide functional plan (open-space land preservation, mass transportation--technical studies, mass transportation--capital improvements, solid waste disposal, basic water and sewer services, rural water and waste disposal facilities, advance acquisition of land, neighborhood facilities, and planned metropolitan development).*

This recent trend toward requiring conformity with a comprehensive plan parallels, of course, the growth in grants for physical development programs, particularly in urban areas. Thus, of the 18 programs enacted in the past six years which have non-State planning requirements, all but three (supplementary education centers and services, commercial fisheries and wildlife, and community action programs) involve physical development to a major degree. These 15 vary, however, with respect to whether they require conformity to a functional areawide plan or comprehensive areawide plan, or both, as well as to the type of conformity to a comprehensive areawide plan required. Table 28 shows these variations for all grant-in-aid programs with such a requirement, including the two adopted prior to 1961.

In a 1964 study,[52] the Advisory Commission analyzed in depth the variations in planning requirements attached to 43 Federal aid programs affecting urban development in effect in 1962.** The study concluded:[53]

> Although planning requirements are almost universally imposed in one form or another by the programs surveyed, the largest number of programs that do so actively promote functional planning only, and do not relate the aided function with other functions designed to achieve orderly development of the entire area.

The Director of the Bureau of the Budget recently noted that one of the major administrative and intergovernmental problems arises from the fact that[54]

> . . . certain planning requirements necessarily demanded as a condition of grants may be overlapping.

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* Highways and model cities, listed among programs requiring project plans, also require conformity with areawide comprehensive and functional plans.
** Unlike the programs included in Table 28, the 43 included 14 loan, revenue-sharing or lease programs, as well as a number of grant programs that had no planning requirement whatsoever.

TABLE 28.--FEDERAL URBAN DEVELOPMENT GRANTS PROGRAMS, VARIATIONS IN AREAWIDE PLANNING REQUIREMENTS

		Conformity Required With--			
			Comprehensive Areawide Plan		
Program	Year Established	Functional Areawide Plan	Comprehensive Areawide Planning Requirement	Conformity Where Plan Exists	Must Contribute to Execution of Plan
Urban renewal	1949	x	x		
Waste treatment works	1956		x		
Open-space land preservation	1961	x	x		x
Public works and economic development	1961		x		
Highways	1962	x	x		
Mass transportation--technical studies	1964	x	x		x
Mass transportation--capital improvement	1964	x	x		x
Rural water and waste disposal facilities	1965	x	x		
Solid waste disposal	1965	x		x	
Basic water and sewer facilities	1965	x		x	
Advance acquisition of land	1965	x			x
Urban beautification	1965				x
Open-space land in built-up areas	1965				x
Neighborhood facilities	1965	x		x	
Model cities	1966	x		x	
Planned metropolitan development	1966	x	x	x	x

Source: Creative Federalism, op. cit., pp. 435-445.

This duplication can defeat the very purpose for which planning is sought. Such requirements may themselves become a significant generator of confusion and have an adverse effect on program policy and execution. In addition, confusion may result unless specific functional planning is related to certain general plans in any given area. In some areas we may be overplanning, while serious planning gaps exist elsewhere.

This is not to say, however, that planning requirements are unwarranted--they are essential for program success. But they need to be rationalized.

A greater degree of rationalization in metropolitan areas can be expected under Section 204 of the Demonstration Cities and Metropolitan Development Act of 1966.[55] This provision requires that local applications for specified urban development projects from such areas be submitted for review and comment to the areawide planning agency before being acted on by the Federal grant agency. The comments shall include "information concerning the extent to which the project is consistent with comprehensive planning developed or in the process of development for the metropolitan area. . . ." Eleven of the 16 programs in Table 28 are among those directly affected by this requirement. The provision went into effect on July 1, 1967.

Another problem arising from the multiplication of planning requirements occurs in Federal grant programs for development of less urbanized areas involving one or more counties. The Economic Development Administration, Appalachian Regional Commission, and Community Action Program all have planning requirements likely to apply to the same geographic area. The Farmers Home Administration administers grants for rural water and waste disposal facilities projects which must conform to areawide comprehensive functional plans. The States also, under the spur of increasing interest in State economic and resources development, have established their own regional or areawide programs. The coming together of all these programs with their different planning requirements and different geographic bases for administration has been a source of irritation to States and local communities.

Taking into account these criticisms and a recommendation of the Advisory Commission contained in its 1966 report on Intergovernmental Relations in the Poverty Program, President Johnson in September 1966 requested the heads of departments and agencies administering development planning grants to work with the Director of the Bureau of the Budget "to insure the fullest coordination in fixing the boundaries of multi-jurisdictional planning units assisted by the Federal Government."[56] Subsequently, the Bureau of the Budget issued a circular instructing the agencies to set up a checkpoint procedure whereby, to the extent feasible, they will try to use common planning boundaries, statistics, and staff, and will strive to harmonize separate functional plans and comprehensive planning for the area.[57]

Still another problem stemming from Federal planning requirements is more a case of Federal omission than one of too many planning conditions. It concerns State planning requirements, the most prevalent type in Federal grant programs. A State plan is basically an outline, in some detail, of essential elements of a program that the State agrees to carry out. Yet, the individual program plans have little if any relationship to the operations or planning of operations of State government, and Federal grant programs have not required these State functional plans to be in conformity with a comprehensive State plan. Some encouragement in this direction has come recently, however, with extension of the Department of Housing and Urban Development's "701" urban planning program to include aid for comprehensive State planning. This may serve to bring the functional plans for physical improvement, economic development, social welfare, and other State activities into a rational relationship in meeting State and national goals.

Headquarters-Field Office Relations

In the past five years, four new systems of regional offices have been established as a consequence of newly enacted grant-in-aid legislation: Bureau of Outdoor Recreation (1962), Office of Economic Opportunity (1964), Neighborhood Youth Corps (Department of Labor, 1964) and the Economic Development Administration (Department of Commerce, 1965). Prior to 1962, separate regional structures already existed for eight grant-administering departments or agencies: Forestry Service (Agriculture), Bureau of Public Roads (Commerce), Office of Civil Defense (Defense), Health, Education, and Welfare, Bureau of Employment Security (Labor), Housing and Home Finance Agency (now HUD), Federal Aviation Agency and Small Business Administration.

Wide variations exist among these 12 regional office structures in the number of regions, the number and identity of the States that constitute the individual regions and the cities in which regional offices are located. Figure 18 indicates that State and local governments of 38 States and the District of Columbia have to deal with regional offices in five or more different city locations. Kentucky has to deal with ten different regional office locations, and Ohio, Pennsylvania, Virginia and West Virginia have nine regional contact points.

Table A-24 shows the States by area of the country and the number of different regional office locations that State and local governments deal with. States of the Southeastern area are clearly better off in terms of variations in Federal regional office structure, and the Far West is not far behind.

Commenting upon this regional setup, an Executive Branch task force reported:

> Even in a city such as San Francisco, which is one of the few having a real concentration of field offices, key agencies such as EDA are not represented, thereby creating problems of communication and exchange of information on common regional problems.
>
> In major cities such as Seattle and Nashville, the few Federal offices are severely handicapped in attempting to provide information and any kind of coordinated approach to solving local problems by the fact that most offices are located elsewhere.
>
> Variations in boundaries and office locations, of course, cause confusion at the local level and produce a tendency to try to deal directly with Washington.

These facts underscore what Senator Edmund S. Muskie in November 1966 identified as "a problem for the State official or the mayor of a large city who

Figure 18.

NUMBER OF REGIONAL OFFICES OF FEDERAL GRANT-ADMINISTERING DEPARTMENTS: EACH IN A DIFFERENT CITY, SERVING EACH STATE

ACIR

finds that he must deal with a number of widely scattered regional offices in his negotiations with the Federal Government."58/ At the other end of the Federal-State-local pipeline the scattering of regional offices raises obstacles to Federal agencies coordinating in the field. Certainly such coordinating instruments as Federal Executive Boards could function more effectively if the representatives of Federal agencies were posted in fewer locations.

The development of inconsistent patterns of regional offices reflects the existence of Congressional pressure on individual departments; an unplanned growth of departments and agencies and their subunits in response to different needs in different periods of our history; and the failure to make a concerted effort to bring some order out of the confusion. The chaotic results prompted President Johnson to state in his 1967 "Quality of Government" message:59/

> Each major federal department and agency works through a series of regional or field offices. These offices are the vital links between Washington and people in States, cities, and townships across America. Whether our programs are effective often depends on the quality of administration in these field offices.
>
> Yet, for all their importance, there has been only infrequent critical analysis of their roles and performance.
>
> The cause of intergovernmental cooperation is poorly served when these offices are out of touch with local needs, or when their geographic boundaries overlap or are inconsistent.

The President charged the Director of the Bureau of the Budget to undertake a comprehensive review of the Federal field office structure and recommend a plan for restructuring them before 1969.

Other aspects of headquarters-regional relationships add to the difficulties of interprogram coordination. Some Federal agencies, such as HUD, OEO, and EDA, are empowered to deal directly with local governments. Others, particularly HEW agencies, may deal only with the States. When the law further requires dealing with only a specified State agency, the resultant rigidities make a coordinated Federal attack on local problems all but impossible.

Regional offices of Federal agencies sometimes do not have adequate delegated authority to cope with interagency and intergovernmental coordination problems in the field. Where decision-making is not decentralized, the field offices merely add another layer of review, a potential delay, with the result that State and local grant applicants must spend an inordinate amount of time tracking down their applications through various echelons of the Federal bureaucracy. This contributes to "grantsmanship" and encourages the establishment of outside groups whose sole service to State and local government is to "bird-dog" grant applications.

Applications for grants under some programs may go directly from State and local governments to Washington, without touching base with regional offices. One result, for example, is that these offices cannot cooperate with OEO field offices when the latter, as part of a checkpoint procedure for determining availability of funds in other programs for carrying out poverty program objectives, seek to learn what is going on in a given community under these programs. Coordination has to be achieved in Washington before it can be achieved in the field.

Summary

The general objectives of the categorical grant-in-aid system might be regarded as: (1) achieving a minimum program level in specific functional fields throughout the country; and (2) doing so in such a way as to strengthen State and local governments. It seems clear, however, that the system itself, and particularly some of its newer features, are causing problems that handicap these objectives. State and local governments, bewildered by the proliferation of grants, complexity of requirements, and actual or seeming duplication and overlapping, complain of an "information gap." Multiplying and different planning requirements foster confusion rather than coordination. States feel they are losing their grip over public affairs within their jurisdiction due to the increasing practice of direct Federal-local grants. Both State and local governments feel a similar loss with the rise of grants to private individuals and institutions. The goals of equalization, if ever a very strong objective of the grant system, are no nearer achievement than some six or eight years ago, partly because of the trend toward project rather than formula grants.

To complete this survey of the Federal grant-in-aid system, we now turn to an analysis of (1) machinery in the National Government for managing it; (2) the system's effect on State and local government; and (3) some of the characteristics of State and local government that are themselves responsible for diluting the effectiveness of the Federal grants.

FEDERAL MACHINERY FOR DEVELOPING AND MANAGING GRANTS-IN-AID

Why hasn't the Federal Government done a better job in developing and administering the grant-in-aid system? Why has it not held down the number of grants, avoided duplication in programs, achieved simplification of administrative requirements, maintained consistency among planning requirements, avoided bypassing State and local governments and particularly general purpose units of government? To attempt some answers to these and other questions we look at the several centers of policy and administrative responsibility in the Executive Branch, as well as the Legislative Branch.

In the Executive Branch, ultimate responsibility for administration of grant programs rests with the President and this, of course, is just one of his many duties. It competes for the President's time and attention against the demands of his role as head of State, chief foreign affairs initiator and spokesman, Commander-in-Chief, chief administrator of explorations in space, head of his political party and chief administrator of direct Federal programs.

The President, of course, has much of the executive apparatus of the Federal Government to assist him in administering grant programs. This machinery provides assistance at various levels of policy determination and program administration--all at various distances from the Executive Office of the President.

The Bureau of the Budget

Chief of these and close to him is the Bureau of the Budget. Established by the Budget and Accounting Act of 1921 within the Treasury Department, the Bureau was transferred to the Executive Office of the President in 1939, where its role in effect became that of direct consultant to the President on administrative policy, national fiscal policy, program evaluation and legislative coordination. It performed the function of a central civilian planning unit for defense organization, with four regional offices. Among the responsibilities assigned to this field service were coordination of Federal field programs and consultation with State and local officials regarding Federal relationships. The field offices were discontinued in 1953 as an economy measure.*

In 1950, Congress passed the Budget and Accounting Procedures Act, which--among other things--authorized the President to use the Bureau of the Budget to develop better organization, coordination and management in the Executive Branch. The Bureau's Division of Administrative Management was reorganized in 1952, however, leaving only about one-third of the division's personnel in the successor Office of Management and Organization. Some argue that this reduced the Bureau's capacity to deal with interdepartmental planning and coordination, while at the same time strengthening its analytical capabilities on a function-by-function basis.

The Bureau's overall management role declined thereafter with greater emphasis on accounting aspects, negative controls, and more routine approaches--without much effort to encourage long-range planning. A task force of the second Hoover Commission was led to comment in 1955:61/

> The Bureau's concept of its broader role as the managerial arm of the President has been limited. This is particularly true of the area of financial management. The primary emphasis on budget mechanics has tended to obscure the Bureau's broader responsiblities. The Bureau's present title, organization, staffing and operating methods stress its budget responsibilities and subordinate its overall management and policy functions. The Bureau has not provided the financial management assistance required of it nor is its management group staffed to review and promote improved financial management organization and practices throughout the executive agencies. In order to carry out its management responsibilities the Bureau of the Budget should be revitalized.

In the 1960's the Bureau's influence and activity have shown a marked revival in fiscal policy and program effectiveness. In his testimony before the Senate Subcommittee on Intergovernmental Relations in 1966, its Director cited leading examples of the Bureau's recent efforts to cope with problems of management and coordination.62/

Another major reorganization of the Bureau occurred in 1967, one of the principal objectives of which was to marshal its resources so as to bring greatest attention to those fiscal and administrative areas most sensitive to the achievement of Administration policy objectives.

<u>Government organization</u>.--This is one of the Bureau's primary staff responsibilities. In 1965 and 1966 it assisted in establishing two new departments: Housing and Urban Development and Transportation. It has also made

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* In 1966 the Bureau of the Budget requested appropriations to establish on an experimental basis six new field offices, but was turned down by Congress.60/

progress in helping to reorganize parts of the sprawling Department of Health, Education, and Welfare, including the Public Health Service and the Office of Education.

Factfinding surveys of intergovernmental problems.--Five broad field surveys were made by Bureau staff in the summer of 1966 in selected States to identify the nature of problems encountered by State and local officials in dealing with the Federal Government. Bureau staff was joined by representatives of HUD, HEW, OEO, Labor and Agriculture, and officials of national associations of public officials.

Categorical grant programs.--In cooperation with the Secretary of HEW, the Bureau launched an examination of HEW categorical grants with a view to proposing consolidation and simplification. This is a follow-up to the Comprehensive Health Planning and Health Services Act of 1966, which melded a dozen or more previously separate grants, and a response to the President's directive enunciated in his "Quality of Government" message. The Bureau has been analyzing the array of Federal planning requirements which State and local governments must meet to qualify for Federal assistance, again with an eye to potential consolidation and simplification.

Planning jurisdictions and boundaries.--At the direction of the President, the Bureau issued a circular A-80 to affected departments and agencies directing them to coordinate with each other in fixing the boundaries of multi-jurisdictional planning and development units and to make these consistent with established State planning districts and regions.

Federal, State, and local statistics.--The Bureau was working with the Advisory Commission on Intergovernmental Relations and national associations of public officials to improve the system for collection and exchange of comparative data.

Planning, programming, and budgeting.--At the direction of the President, the Bureau began an intensive effort to introduce the planning, programming and budgeting system (PPBS) into the management of executive departments and agencies. In 1966 the Bureau also cooperated in staging PPBS demonstration projects in five States, five counties, and five cities, in cooperation with the organizations representing State and local governments. The object was to demonstrate its potential for improving intergovernmental planning and for strengthening the hands of Governors and Mayors in managing their public business by modern methods.

Arrangements for consultation with State and local officials.--In November 1966 the President directed the Director of the Bureau of the Budget to work with Federal departments and agencies, the Advisory Commission on Intergovernmental Relations and public interest groups representing State and local governments to afford representatives of the chief executives of those governments "the opportunity to advise and consult in the development and execution of programs which directly affect the conduct of State and local affairs." Budget Bureau Circular A-85 established the procedure in mid-summer 1967.

Coordination and consultation among Federal agencies.--A number of other efforts are conducted on a day-to-day basis including the review of proposed legislation from the standpoint of its effect on administration; the review of budget requests and program operations, taking account of actual or potential interagency disagreements, policy differences and program overlaps, and devoting staff time to resolution of such problems; staff visits to the field, yielding feedback on how well or poorly programs are being conducted, and why; and appointment by the Director of a policy-level Assistant Director who is giving most of his time to problems of intergovernmental relations.63/

The reorganization of the Bureau in mid-1967 was geared to further strengthen its capabilities in these and other assigned areas.

Practically all of the grant-related activities of the Bureau of the Budget depend on the Bureau's information gathering, storage, and retrieval system. At the 1966 hearings on government electronic data processing systems, Budget Bureau spokesmen summarized the use of computers by Federal agencies and reviewed the efforts to improve the management of electronic data processing activities. They estimated that on June 30, 1966, there were 2,620 computers in use in Federal activities, costing $1,038 million for FY 1966, and requiring about 71,200 man-years for annual operations.64/ Apparently little or none of this burgeoning computer capability, however, was being used directly by the Bureau of the Budget for management and control of grant-in-aid activities. Thus, the Bureau does not have the benefit of modern information systems technology in gathering, storing and retrieving such grant-in-aid data as matching ratios and apportionment formulas, planning requirements, eligible recipients, dollar amounts of grants disbursed by recipient and location, and State and local tax rates, personal income and other relevant State and local economic and fiscal data.

The management of grants-in-aid is only one portion of the President's function of coordinating and managing the many diverse activities of the Executive Branch. Modern computer technology should be available to assist him in the planning, management and control of all phases of Federal administrative operations.

This resource, of course, directly relates to Budget's effort to introduce PPBS. A report by the Committee for Economic Development in early 1966 on the total Federal budget process commended such efforts by the Executive Branch as "constructive," but emphasized the need for follow-through by all departments and agencies to overcome grave weaknesses in the Federal budget process, both Congressional and executive. Among the major shortcomings, which affect the entire management effort and include Budget's role in grant-in-aid administration, the CED listed:65/

- Too little attention to longer-range planning.
- Too much stress on detail and not enough on the broader picture.
- Most spending plans focus on the agencies and their subdivisions rather than on the functions performed and programs projected.
- Organizational objectives are seldom well-defined in specific measurable terms.
- The structural organization of the Executive Branch is not well-adapted to current needs.

- Use of the budgetary process to improve operational effectiveness falls short of its potential, particularly in execution of the enacted budget and in evaluation or comparative appraisal of agency performances.

- The puzzling problem of achieving rational balance in allocating scarce resources among competing functional fields remains unsolved.

The mid-1967 reorganization of the Bureau was directed toward some of the problem areas specified by the CED study.

Coordination Through White House Staff

While the Bureau of the Budget has been the President's chief instrument for management coordination, several Presidents have designated members of the White House staff to assist specifically in coordinating programs involving intergovernmental relations.[66] In 1940-41, President Franklin D. Roosevelt assigned the task to James McReynolds and Guy Moffat. Both assignments were short lived partly because of line administrators' skill in resisting top-level attempts to develop uniform policies and procedure and to coordinate programs. In 1947 President Truman named former President Hoover to head the Commission on Organization of the Executive Branch of the Government (Hoover Commission). The Commission subsequently published a brief report on Federal-State relations, which gave some attention to grants-in-aid.

In 1956 President Eisenhower appointed Meyer Kestnbaum, formerly Chairman of the Commission on Intergovernmental Relations, to follow up on recommendations of the second Hoover Commission and of his own Commission. The same year former Governor Howard Pyle of Arizona was appointed Deputy Assistant to the President for Intergovernmental Relations, with the specific mandate of maintaining liaison with organizations of public officials; setting up ad hoc working committees among Federal officials; and developing periodic reports and recommendations on the National Government's relations with State and local governments. One offshoot of this White House activity was creation in 1957 of a Joint Federal-State Action Committee made up of Governors and Federal officials. The Committee examined the relationships between taxes and grants with a view to proposing possible reallocation of functions and revenues between the Federal Government and the States. Its few recommendations were not adopted.

President Kennedy appointed a Special Assistant to the President for Intergovernmental Relations (former Congressman Brooks Hays, who continued to serve President Johnson in the same capacity until early 1964). A "troika" consisting of the Chairman of the Civil Service Commission, the Executive Assistant Director of the Bureau of the Budget and a Special Assistant to the President were instrumental in the President's formally establishing the Federal Executive Boards in November 1961.

President Johnson has appointed a number of task forces which have focused on issues involving governmental reorganization and intergovernmental relations, such as the development of the Economic Opportunity Act and the Demonstration Cities and Metropolitan Development Act and establishment of the new

Department of Housing and Urban Development. These task forces, whose membership and recommendations have not been widely publicized, have included not only Executive Office staff members and top-level departmental officials, but also private citizens, State and local officials, and members of the academic community. Finally, President Johnson has given the Vice President and the Director of the Office of Emergency Planning the assignment of establishing lines of communication with mayors, county executives, governors and State legislators.

Regarding the use of special White House staff for management coordination by Presidents Truman, Eisenhower and Kennedy, the Director of the Bureau of the Budget commented as follows to the Senate Subcommittee on Intergovernmental Relations: "While these assistants rendered useful services, they touched upon a very small fraction of the traffic of intergovernmental relations. The real problems seldom got beyond the agency level because program and financial responsibility rests there."67/ It is necessary then to turn to the departmental and agency level to identify some of the key problems in managing the grant-in-aid system.

Grant Administration in Departments and Agencies

The strength of departmental and agency coordination activity depends to a large extent on the Secretary's or agency head's appreciation of the need for coordination and of its relationship to his management position, and on the administrative resources he devotes to meeting that need. Until quite recently, the record of department and agency heads' understanding of the political and intergovernmental implications of ineffective intradepartmental program coordination gave little basis for optimism that their units would or could cope successfully with the problems of intra-agency, interagency, or interlevel coordination of grants-in-aid. At the important assistant secretary level the focus was chiefly on functional responsibilities, and usually the top management person with across-the-department responsibilities was the assistant secretary of administration or the comptroller.* In either case, the emphasis was on problems of fiscal management rather than intra-agency coordination of the several grant-in-aid programs impacting on State and local governments. While there was some interest in intra-agency program coordination, there was practically no emphasis on coordination of programs between departments.

At the same time there was a strong centrifugal force pulling against coordination within and among grant programs: the functional specialists who are by and large the core of the bureaucratic structure--especially bureau chiefs and a thick and powerful layer of "middle management." The attitudes of these

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* Institutionalization of intergovernmental relations responsibility high in departmental echelons is a recent innovation. This was revealed by the President's Memorandum of November 11, 1966, on advice and consultation with State and local officials. In carrying out the memorandum the Director of the Bureau of the Budget requested each of the affected department and agency heads to name an official, "preferably at the assistant secretary level, to work closely with the Executive Office on intergovernmental matters and to assure that the President's instructions of November 11, 1966, are carried out effectively within the agency both in letter and in spirit." (Letter from Director of the Bureau of the Budget to departments and agencies affected by Presidential Memorandum of November 11, 1966 (multilith), p. 2.) When these officials were named, it was apparent that only three of the ten line departments or agencies--OEO, HUD and HEW--had such offices in existence prior to that time.

officials were probed in a 1965 study by the Senate Subcommittee on Intergovernmental Relations.[68] This survey examined the attitudes of middle management on 77 questions touching on the trends, trouble spots, and operations of Federal-State-local relations. The Subcommittee found four behavioral themes recurring throughout the replies of the 108 responding bureau and division chiefs:

> Functionalism, or the respondents' preoccupation with protecting and promoting the purposes of their individual programs, was the most important single conditioner of their comments. Professionalism, or the deep commitment to the merit system principle and to the technical and ethical standards of the specialized group to which they belong, underlay their answers to nearly all the questions on State organization and intergovernmental personnel. "Standpattism", the rigid defense of traditional practices, procedures, and principles, was reflected in their responses to questions on Federal aids, financial administration, and metropolitan area problems. And fourth, marking their replies to all sections of the questionnaire, was indifference, or "the cavalier dismissal of serious questions and topics as being irrelevant or unimportant."

The Subcommittee saw in these answers by middle management grant-in-aid officials a theory of federalism which identifies three major sources of conflict in contemporary Federal-State-local relations: (1) professionalism at the higher level versus a lesser degree of professionalism at the other levels; (2) professional program administrators versus elected policy-makers at all levels; and (3) administrators of individual aid programs versus intergovernmental reformers.

Because this bureaucratic theory of federalism is an operating precept as well as a descriptive interpretation, the Subcommittee concluded:

> It produces its own areas of conflict:
>
> (1) Professional administrators of one aid program versus the professional administrators of others;
>
> (2) Specialized middle management versus generalized top management; and
>
> (3) Conservative bureau heads versus innovators seeking to strengthen other components of the federal system--the States, our metropolitan communities, and the decision-making process at all levels.[69]

Weak direction from the top of the department or agency and the separatist effects of narrow functionalism raise serious obstacles to effective management coordination in any circumstances. The problem has been heightened by the recent rapid growth in number and complexity of grants-in-aid, including the wider use of direct Federal-local relationships and Federal-nongovernmental relationships. An additional premium has been put on coordination by the introduction of new programs that require for their success the "packaging" of many separate programs administered by several existing departments.

"Creative Federalism" Hearings

The hearings on "creative federalism" conducted by the Senate Subcommittee on Intergovernmental Relations in the fall of 1966 offered some insight into the degree to which major grant-administering departments have sought to establish institutional and operating arrangements to overcome "functionalism" and other obstacles to effective coordination within and among departments.70/ The hearings were generated by two Senate bills. The first, S.3509, was introduced by the Subcommittee Chairman, Senator Muskie, and proposed establishment of a special unit in the Executive Office of the President, called a National Intergovernmental Affairs Council (NIAC). The Council would be chaired by the President and composed of Cabinet officials and agency heads whose activities have a major impact on Federal aid to States and localities and concern intergovernmental relations. It would have an Executive Secretary directly responsible to the President and a "working secretariat" of experts and generalists in program management which would be independent of the agencies and directly responsible to the Executive Secretary. After policy decisions were made, the operating departments would be responsible for carrying them out, but the Executive Secretary would be directly accountable to the President for seeing that the job was done in a timely and effective manner. The hope was that controversies could be resolved between department and agency heads and the Executive Secretary, but appeal could be made to the President if necessary. "The main point," Senator Muskie stated, "is that the President would have a special assistant and an institution through which he could pull the Federal establishment together and direct smoother intergovernmental implementation of Federal aid programs.71/

The second proposal on which the hearings focused was Senate Joint Resolution 187, introduced by Senator Edward Kennedy of Massachusetts, authorizing the Advisory Commission on Intergovernmental Relations to investigate and report on the feasibility and design of an information system to help States and localities implement federally assisted programs more effectively. The system was also intended to provide the Congress and the President with a better measure of State and local needs and performance under the grant system.

Three sets of questions posed by Chairman Muskie at the outset of the testimony of the department heads set the stage for the first phase of these hearings:72/

- How well are Federal departments coordinating their programs and services both within their agencies and with other departments and agencies?

- What is the status of both intradepartmental and interdepartmental coordination at the regional level?

- What are Federal departments and their bureaus and divisions doing to develop more favorable cooperative relationships between the Federal Government and State and local leaders?

Oral testimony was received from representatives of six major departments or agencies administering grants-in-aid: HEW, HUD, OEO, Labor, Interior and Commerce. (The Secretary of Agriculture submitted material in writing, commenting on the two bills before the Subcommittee and listing interagency interdepartmental committees in which his Department participated.) All indicated they were aware of and concerned about the problems of coordination in managing grant programs and all acknowledged that, while they are making constant efforts to deal effectively with the problem, they are far from bringing it fully under control. Interagency agreements were found to be a proliferating vehicle for interdepartmental coordination, particularly among HEW, HUD and OEO and Agriculture.73/ Recent years, however, have been marked by experimentation with new coordination mechanisms: establishment of an assistant director for intergovernmental relations in the new Department of Housing and Urban Development; the model cities approach of giving incentives for melding resources from many different programs and departments in a coordinated attack on the complex problems of individual areas; the urban convener order; the new instruments of OEO, including the community action program, preference provisions, the Assistant Director for Interagency Relations, the information center, checkpoint procedures, numerous advisory councils, the tying together of manpower resources at the Federal level and also at the local level through the Manpower Administration and the President's Committee on Manpower; and the office of intergovernmental relations and the director of field coordination in HEW. Some of the newer devices are as yet unproven--such as the preference provisions in OEO and the urban "convener"--and in any case, no one device of all those used, new and old, makes more than a partial contribution to the enormous problems of overall coordination: within agencies, among agencies, and with other levels of government.

After hearing testimony of representatives of HUD, OEO, and Labor, Senator Muskie summed up his reactions:74/

> It has become clear that there is a problem of proliferating programming and planning in these areas. It is even clearer that the problem of any meaningful coordination of these programs increases as we reach State and local levels. But the one thing that has struck me by the testimony is the weak--and in some instances, hopeless--way these agencies are coping with the matter of intergovernmental coordination.
>
> Interagency committees and councils are formed, but there are few meetings, generally attended by subordinates. Interagency agreements or treaties are made, but the ones we have been looking at are more directed to keeping one agency out of another's function than to putting the functions together in an effective package.
>
> Responsibility for intradepartmental and interdepartmental coordination and intergovernmental contacts has been delegated down the line to subordinate policy officials.
>
> At the higher level, Cabinet officers are being given "convener" powers to convene meetings with other Cabinet officials of equal, if not greater rank, to develop coordinating policies. But there is no working secretariat either to develop the agenda or to monitor the implementation and effectiveness of the policy, if any policy comes out of such meeting.*

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* For the views of State and local officials on the problems of management in the Federal grant-administering agencies, expressed at the "Creative Federalism" hearings and elsewhere, see below, "The Impact of Grant Programs on State and Local Governmental Organization and Administration."

Headquarters-Field Office Relationships

Confusion and complexity in the field office structures of grant-administering agencies and the inadequate decentralization of authority to regional offices were described earlier, and their negative effect on coordinated administration was underscored.

Effective machinery to overcome problems of field coordination created by differences in delegations of authority and field structure does not exist at regional and other levels although efforts have been made to provide it. During World War II, the Bureau of the Budget established four field offices to (1) advise Federal field officials in achieving better coordination and interagency relations in the field; (2) consult with State and local officials on Federal programs; (3) suggest improvement in using equipment and supplies; and (4) make administrative studies and recommendations for more efficiency, and report to headquarters problems requiring study, action, or policy guidance.[75] Due to meager appropriations, however, staff facilities available in each field office were limited and plans to set up additional offices were never implemented. In 1953 the Congress denied funds for the field offices and they were terminated. Apparently some members of Congress were suspicious of the role of the staff arm of the President reaching into cities outside of Washington.

One observer summarized the major innovations of the Bureau's field offices as follows:[76]

> [The] direct and personal representation of the Executive Office of the President; well-serviced communication lines between Washington and the field; and a strong assurance to Federal field offices that the Bureau would not attempt to interfere with the normal relationships within departments and agencies. The lack of support for the offices in Congress can be seen as an indication of their success. . . .

On November 10, 1961, President Kennedy issued a memorandum establishing Federal Executive Boards comprising field representatives from executive departments and designating the Chairman of the Civil Service Commission to be responsible for overseeing their creation and operations.[77] The Boards operate within four general categories of activities:

1. Provision of a forum for interchange of information about programs and management methods and problems between Washington and the field and among field elements in the area.

2. Coordinated approaches to development and operation of programs which have common characteristics.

3. Liaison relationship with State and local officials to contribute to understanding and support of the roles and purposes of their respective governmental jurisdictions and aid in resolving problems.

4. Referral of problems that cannot be solved locally to the national level for attention.

FEB's are functioning in 15 major centers of Federal activity, such as New York, Chicago, Atlanta, Delaware, Fort Worth and San Francisco. Each member of the Boards is designated by the head of the department or agency he represents. A typical board includes 40 to 100 members and operates through a policy committee elected from the membership and a number of working committees. The chairmanship tends to rotate from agency to agency. A survey of activities of Federal Executive Boards in 1965 found that group activity items reported by nine or more Boards included charitable fund-raising and government bond drives, cooperative personnel and training programs, coordinated public information programs, equal opportunity programs, and management improvement studies.[78]

A private survey in early 1966 summed up the record of the Federal Executive Boards as follows:[79]

> The Federal Executive Boards experience has made several major contributions to the development of effective patterns of coordination: White House support for coordination of Federal field activities . . .; preservation of high prestige in the membership of the Boards; improved communication between Washington and the field; and support and servicing by a neutral agency--the Civil Service Commission.
>
> The FEB's also have developed a number of problems: membership on committees tends to be based on the individual qualifications of the member designated rather than on the broad program responsibilities of the agency he represents; it has been difficult to encourage the informal power structure of regional office officials (the "dean of Federal officials") to take an active leadership role in the work of the Boards; the performance of the Boards has been very uneven both geographically and functionally; the Boards have been limited in their operations to the city in which they are located and cannot attempt to cover the States encompassed in the varying regional patterns represented; and few of the Boards have moved effectively into substantive problems of interprogram coordination.
>
> Washington-level support for the Boards has been good. . . . (Emphasis added.)

The shortcomings of the FEB's in interprogram coordination have been attributed to their unwieldy size; the rotating chairmanship; the fact that the chairman is just one among equals and that the Board becomes just another interagency committee without leadership force; and the lack of staff to develop agendas and provide follow-through. It has been proposed that Bureau of the Budget field offices, if established, might provide staffing.

Improved field coordination of the programs of one department--HUD--is the aim of the metropolitan expediter authorized by Section 203 of the Demonstration Cities and Metropolitan Development Act of 1966.[80] The Secretary of HUD is authorized to appoint such expediters on request of local officials. Their function is to provide information, data, and assistance to local authorities, private individuals, and others within the metropolitan area and to Federal field personnel with respect to HUD programs and related programs of other Federal departments. They do not, however, take the place of the regional office in screening and forwarding local applications to Washington. Before the metropolitan expediter proposal became law, his function was summarized by an authority who had a leading role in developing the concept: "I look upon him [the expediter] essentially as a catalyst and convener for Federal interests; a generator of ideas in the region; and a stimulator of local collaboration and participation.[81] However, the future of the metropolitan expediter approach was thrown into serious question by the refusal of the first session of the 90th Congress to appropriate any funds for this activity. Some believe that many of the objectives of the expediters can be achieved through regular technical assistance activities of the Department.

Another approach to strengthening headquarters-field relations is decentralization of more authority to the regional offices. An Executive Branch survey team found that the lack of delegated authority is a source of confusion for local officials and a factor preventing an effective Federal approach to solving local problems. Where field officials have little authority to approve projects, the field installations represent additional layers of review (many people can say "no" to a project or delay it, but only one person can say "yes"). State and local people feel they have to spend too much time tracking down the status of their applications through the bureaucratic labyrinth.

Some departmental spokesmen in the "Creative Federalism" hearings indicated their departments had taken steps to devolve more authority to the regional offices. In December 1965, OEO delegated authority for final approval of community action program applications to its field offices, except for those over certain specified dollar amounts. HUD has delegated complete authority for final processing of applications to the regional administrators for nine of its grant programs: urban planning, open-space land, urban beautification, rehabilitation loans, college housing loans, basic water and sewer facilities grants, public facility loans, advance acquisition of land and advances for public works planning.

Yet delegation has not proceeded as far as it might. A recent report by an advisory committee on HEW's relationships with State health agencies concluded that previous attempts in various agencies to revamp and strengthen regional offices have been relatively fruitless.[82] It noted with approval the Surgeon General's intention to delegate to the Regional Health Director responsibility for grant management and authority to approve State plans under the Partnership in Health Act. The Committee felt that additional measures were needed to involve the Regional Director intimately in all HEW relations with States in order to relate health, education, and social welfare services to each other and to the total needs of the States. To this end, it recommended:[83]

1. Authority for approval or disapproval of comprehensive State health plans, and amendments to such plans be delegated to the Regional Directors, with the proviso that State governments can appeal adverse decisions to the Secretary of HEW.

2. Greater authority to effect coordination among related programs at the regional level, including authority to employ and reassign personnel within the region, be delegated to Regional Directors.

3. A firm practice be initiated by the Secretary of HEW that neither he nor the commissioners of HEW agencies will act on requests from State or local governmental officials without consulting with the Regional Director.

4. The Regional Director be directed to plan and make regular visits with the Governors and with the mayors of major cities to discuss relevant HEW activities, including health matters, so that the Governors and mayors may develop fuller confidence in the Regional Directors, and may be expected to deal with them first more often than in the past.

5. Contingency funds be provided so that each Regional Director (without approval of specific actions at headquarters) may assist States in emergencies and may stimulate innovative projects.

6. The FDA districts be realigned to relate better to other health activities and to function under the HEW Regional Director, insofar as that is practicable.

The Role of Congress

In looking for the sources of difficulty in achieving better manageability of the categorical grant system, one cannot lose sight of the fact that the whole system operates under general and detailed authorization and direction from Congress and its many functional committees. The system has grown up as a Congressional response to specific public needs that are brought to its attention over a period of time. The splitting off of grants into narrow categories, instead of blocks or general sharing of Federal revenue, reflects the desire of Congress to achieve specific objectives. In many cases, Congress has written into the law itself the requirements that must be met by State and local grant applications. The Model Cities Act, for example, requires as a condition of eligibility that applicants for a comprehensive city demonstration program grant must be able to show that the program is consistent with comprehensive planning for the entire urban or metropolitan area. On the other hand, the same act prohibits the Secretary of HUD from requiring as a condition of such a grant that the applicant city have a school bussing program in effect.[84]

One writer has described Congress's role in administration as follows:[85]

> Although the general public does not fully realize it, a major share of the time, energy, and attention of members of Congress is devoted to activities that, properly speaking, are of an administrative managerial character. Defining the authority and prescribing procedures of administrative agencies, making funds available to them under terms and specifications deemed appropriate, examining required reports on their activities, employing the inquisitorial authority available to supplement such reports and taking up the complaints, inquiries and requests of their constituents with the appropriate officials are activities to which members of Congress devote a major portion of their time.

Recognizing that a heavy responsibility for administrative supervision rests in its hands, Congress in reorganizing its committee system through the Congressional Reorganization Act of 1946 followed the principle of setting up its standing committees to parallel the major administrative branches of the executive department. Moreover, it specifically charged each standing committee to "exercise continuous watchfulness of the execution by the administrative agencies concerned of all laws, the subject matter of which is within the jurisdiction of such committee."

An officer in the middle ranges of the administrative hierarchy accordingly looks to Congress, and particularly to members of the standing committee having special charge over his department's affairs, as well as to his executive superiors, for his cues and directives on what he should do and how he should do it. Indeed, he is likely to find he has more frequent contacts with those members of Congress who have reason to interest themselves in the operations of his office than he has with the higher officials on the executive side of government.

A specific example of Congressional responsibility for some of the troubles of the grant system was given by Senator Muskie in the "creative federalism" hearings in a discussion with Secretary Udall on the confusion over the number of programs dealing with control of water pollution.86/

> . . . I would agree with you that part of the proliferation and confusion is the result of congressional action. Whether it can always be justified or not depends upon the individual cases. In this respect, for example, I am partly responsible for some of this proliferation--for reasons which I did not entirely control.
>
> It might be of interest to make them a matter of record. The suggestion that the Federal Government provide support for the building of water and sewer facilities as contrasted with sewage treatment grants came in the 1965 Housing Act, and, as originally advanced, that program would have covered, not only water and sewer facilities, but also sewage treatment plants, so that we would have had sewage treatment plants in two departments. I felt that the water and sewer grants themselves should go into the same department where the sewage treatment plant program was, but I could not convince the executive agencies so we ended up, at least, focusing the collection sewers in one agency and the treatment plants in another agency, and since I was on both committees, it satisfied my jurisdictional problems. But also, I think, it made it an easier legislative task to enact both programs by having them in separate bills. That was particularly true of the Housing Act, because the Housing Act covers such a multiplicity of sins that one extra does not show up as much as it might in a bill that focused on one program. So congressional action is also responsible.

Congress exercises its major control over administration through its control over the government's purse. It can be argued that Congress's failure to exercise this control effectively is another important reason for some of the problems in grant-in-aid administration. This conclusion emerged from the 1966 final report of the Joint Committee on the Organization of the Congress.87/

The Committee noted that improvements in the executive phase of the budget process, as in the preparation and presentation of the executive budget and the development of more sophisticated techniques of budget analysis, make Congressional control of fiscal policy more difficult. Yet, it found certain needs must be met if Congress is going to equip itself to insure effective exercise of its constitutional responsibilities in this field. The major needs include: (1) access by the individual member to all relevant budget information needed to make more rational judgments on the spending level of competing programs; (2) more emphasis in the appropriations process on the budget as a whole and on review of major programs; (3) more effective use of the General Accounting Office as an arm of Congress in the budget evaluation process as well as in the post-audit function; and (4) greater awareness on the part of legislative committees of the importance of their roles in fiscal control, and establishment of adequate procedures to further that role.88/

Congress has given specific attention recently to the need for better budgetary and other information required to discharge its legislative responsibility for authorizing funding and overseeing the various components of the grant-in-aid system. In 1966 the Joint Committee on the Organization of the Congress recommended that, in cooperation with the Executive Branch, an effort be started toward design of a governmentwide budgetary data system, and that to facilitate Congressional use of automatic data processing capabilities and modern evaluation techniques, the General Accounting Office should develop systems design and cost-benefit analysis capabilities. The Committee stated: 89/

> We are in the age of the computer. . . . Congress must begin now to take the action which will eventually enable it to benefit from these modern informational techniques.
>
> Our budgetary process urgently requires the systematic employment of modern automatic data processing techniques. Extensive use of these techniques can provide the government with essential fiscal and budgetary data, vastly improve the evaluation of these data, and make this information more accessible to individual members.

S. 355, introduced in 1967 by Senator Monroney for the Special Committee on the Organization of the Congress, provides that the Comptroller General, the Secretary of the Treasury and the Director of the Bureau of the Budget "shall develop, establish and maintain, for use by all Federal agencies, a standardized information and data processing system for budgetary and fiscal data."* In addition, Senator Ribicoff in June 1967 introduced a bill (S. 1929) to establish a Commission on Legislative Evaluation to make a thorough study of how best to establish a scientific system for evaluation of the programs that the Congress enacts. In his accompanying introductory remarks, he stated:90/

> . . . there are many reasons why an Office of Legislative Evaluation is important to our Nation. It would break the information monopoly of the executive branch and help restore the Congress to its rightful role as a full and equal partner in our Government. It would assist congressional committees in conducting hearings by providing them with accurate and relevant information upon which to base public discussions.

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* Sec. 202.

General Accounting Office Responsibilities

The General Accounting Office, a staff arm of the Congress, was created to assist the Congress in providing legislative control over the receipt, disbursement, and application of public funds. Its principal functions are in the fields of auditing, accounting, claims settlement, legal decisions, special assistance to the Congress and records management and services.

The GAO's audit responsibilities carry with them a responsibility to report to the Congress information obtained in the audits. In his annual report to the Congress, or in special reports, the Comptroller General is required to make recommendations looking to greater economy or efficiency in public expenditures. Thus, the GAO has an incomparable opportunity to observe the operation of the grant-in-aid system and to make suggestions for improving its functioning.

Implicit in the recommendations of the Joint Committee on the Reorganization of the Congress are criticisms of the General Accounting Office and the use that Congress has made of it. 91/ GAO has never had funds or guidelines for making expenditure analyses provided by the 1946 legislative reorganization act. GAO representatives have not been available to discuss their audit reports with the membership and staff of appropriations committees. The Bureau of the Budget requires administrative agencies to report within 60 days on GAO findings, and on actions taken pursuant to them. Yet Congress imposes no such requirement on agencies to report on GAO findings to appropriations committees, when the agencies are defending their appropriation requests.

The Committee for Economic Development criticized Congress' failure to use the GAO effectively in review and appraisal of agency performance in executing Congressional policy decisions:92/

> The two Government Operations Committees could be most useful in reviewing interagency programs and functions since each legislative committee has limited jurisdiction. If they are to play a significant role, we believe these two committees will be required to agree on explicit directions to the Comptroller General to guide him in the use of his staff on matters of primary importance to Congress.

The CED also found fault with the GAO's failure to conduct broad evaluations of administrative performance on its own.93/

> For purposes of thoroughgoing and comprehensive evaluation of agency activities, however, there are serious deficiencies in GAO's operations. Its reports--totaling several hundred each year in response to specific congressional requests and agency inquiries--are narrowly focused. They provide only spot-check evidence, in strictly monetary terms, concerning general levels of efficiency. They are an effective check against illegal and dishonest use of appropriated funds, but they provide no governmentwide view of agency financial operations.

Summary

In recent years there has been measurable improvement in the National Government's determination and action to bring order to the burgeoning categorical grant-in-aid system and to reduce the intergovernmental frictions that it has engendered. Notable are:

- The President's assignment of the Vice President and the Director of the Office of Emergency Planning to the task of maintaining close communication with chief executives of State and local governments;

- The revived interest of the Bureau of the Budget in management coordination, its efforts toward development and use of PPBS governmentwide, and its introduction of new tools for intergovernmental coordination;

- The growing awareness among several key department and agency heads of the problems of grant administration and intergovernmental relations;

- The establishment through legislation and administrative directive of new organization and procedural mechanisms to cope with those problems;

- The probing hearings of the Senate Subcommittee on Intergovernmental Relations and the Senate Subcommittee on Executive Reorganization; and

- The study and recommendations of the Joint Congressional Committee on Legislative Reorganization.

On the negative side, however, the past history of the Bureau of the Budget warrants skepticism, despite its recent stirrings, that it can be, or wishes to be, the top-level mechanism that is needed for effective governmentwide management of the pervasive grant-in-aid system. Further, not all department and agency heads have appreciated the need for improved grant management and intergovernmental relations; nor have they exhibited a determination to institute policies and machinery for meeting these needs. The new tools for interdepartmental and interlevel coordination have not yet proven their potency. Moreover, with their ingrained attitudes of functional specialism, middle management officials continue to offer formidable resistance to Presidential and Secretary-level efforts to bring about simplification and interlevel coordination in the grant system. Finally, improvement of the legislative role in overhauling the categorical grant system faces the inherent difficulties of achieving more consistency among the functional committees in originating and revising grant programs, and of overcoming the long-standing resistance of the General Accounting Office to fulfilling the role of legislative monitor of executive management and organization.

THE IMPACT OF GRANT PROGRAMS ON STATE AND LOCAL GOVERNMENTAL ORGANIZATION AND ADMINISTRATION

Introduction

The relationship between State administrative organization and capability and grant-in-aid program responsibilities exercised by the State has become a matter of paramount concern. Grant program requirements and responsibilities have been a two-edged sword in their impact upon State government. On one hand they have served to encourage improvement in a number of administrative practices, including personnel administration, training and professionalization, and to foster more rational agency organization in aided program areas. On the other hand, they have strengthened bureaucratic functionalism; tended to weaken top-level coordination of related programs and activities, and aggravated the already dispersed character of most State government organization. Some grants have bolstered State line agencies to the disadvantage of the Governor's position, and have conflicted with attempts to strengthen his role as overall coordinator of State programs. Furthermore, specific grant-in-aid requirements, while strengthening discrete features of State government organizations have also served to thwart State-initiated efforts at general reorganization.

Evidence of this contradictory program emphasis can be discerned in two staff studies done for the 1955 Kestnbaum Commission on Intergovernmental Relations. The final Commission report to the President, however, makes no mention of the impact problem and the "General Analysis" chapter of one of the Kestnbaum survey reports concludes that "a reading of the State chapters suggests that the overall impact of Federal grants has had relatively little adverse effect in a majority of the States studied. In other words the political complaints on this score have been exaggerated."94/ For more than half of the States surveyed there was no evidence to indicate that Federal aid had a significant influence on State organizational structure.

The comments of a number of the Commission's field reporters, on the other hand, clearly indicated that one reason for this lack of identifiable impact was the fragmented organizational pattern in State governments characterized by the large number of administrative units and independently elected department heads. Furthermore, careful analysis of these individual State reports reveals some disquieting signs concerning the administrative impact of Federal grants. As a 1962 report to the National Governors' Conference commented on the findings of the Kestnbaum Commission: ". . . In the majority of States where Federal aid influence was discernible, it contributed to disorganization or inhibited reorganization."95/ One field commentator for the Kestnbaum Commission described the confused division of executive responsibility in his State government and warned that the impact of Federal grants accentuated this administrative pluralism. Another reporter found strong evidence of a tendency to remove the Federal grant administering agencies still further from the control and supervision of the Governor.

Logic would suggest that the recent increase in the number of separate grant programs and individual authorizations would further emphasize these influences and available evidence appears to support this conclusion. Increased functionalism and an accompanying weakening of some governors' control over aided program areas can be identified. A rather striking thread running through opinion surveys of public officials is program administrators' preoccupation with their own program. One survey, The Federal System as Seen by Federal Aid Officials revealed the satisfaction of these officials with their direct ties to their State or local counterparts, and their disinterest in coordination.96/

Surveys of the views of State and local officials, while not as conclusive, seem to indicate a parallel attitude at the State and local level and provide additional insights into the phenomenon identified as "vertical functional autocracies" by the Kestnbaum Commission. A 1963 study by the Senate

Subcommittee on Intergovernmental Relations reported that by an almost 2 to 1 margin State and local officials responding to a questionnaire--chiefly top management executives--felt that the present system of Federal grants-in-aid caused an imbalance in their programs of governmental services.97/ Over half of those replying were troubled by Federal regulations hampering the flexibility of State and local organizational structure. In a recent study conducted by a University of Iowa team, half of the State line-agency program administrators responding acknowledged that grant-aided agencies were less subject to supervision and control by the governor and legislature than non-aided departments.98/

The foregoing suggests that many public officials and expert observers believe (1) that the impact of Federal aid on State and local administration has changed in recent years and (2) this change has created special problems for top policymakers at the State and local levels. It is in order, therefore, to examine in some detail the following questions:

- What kinds of problems are Federal grant programs creating for State and local officials?
- How well equipped are governors to direct State administration and policymaking generally and the federally aided sector specifically?
- How well equipped are State legislatures to cope with the growing role of Federal grants in State programs and finances? and
- What effect has Federal aid had on State-local relations and on local organization and administration?*

Trends and Problems as Seen by State and Local Officers

Governors and the grant system.--The impact of Federal grant programs on executive responsibilities for policy and administration in State government is considerable. Such grants, after all, provide a substantial portion of the total revenue of a good many States, and overall, as much as 24 percent of total general revenue of all 50 States in 1965, as seen in Fig. 19.

Over a decade ago, Colman Ransone, in his thorough study of the governorship, pointed out that the policy implications of the Federal grant-in-aid system may narrow the options of a Governor and thus circumscribe his role as policy initiator. Even though the programs themselves benefit the State,

> ". . . the presence or absence of a Federal grant-in-aid program in a given field is a powerful factor which conditions the legislature and the Governor in making policy decisions. In practice, therefore, the Governor finds that his policy decisions are conditioned by the policy decisions which have been made in Washington. . . .99/

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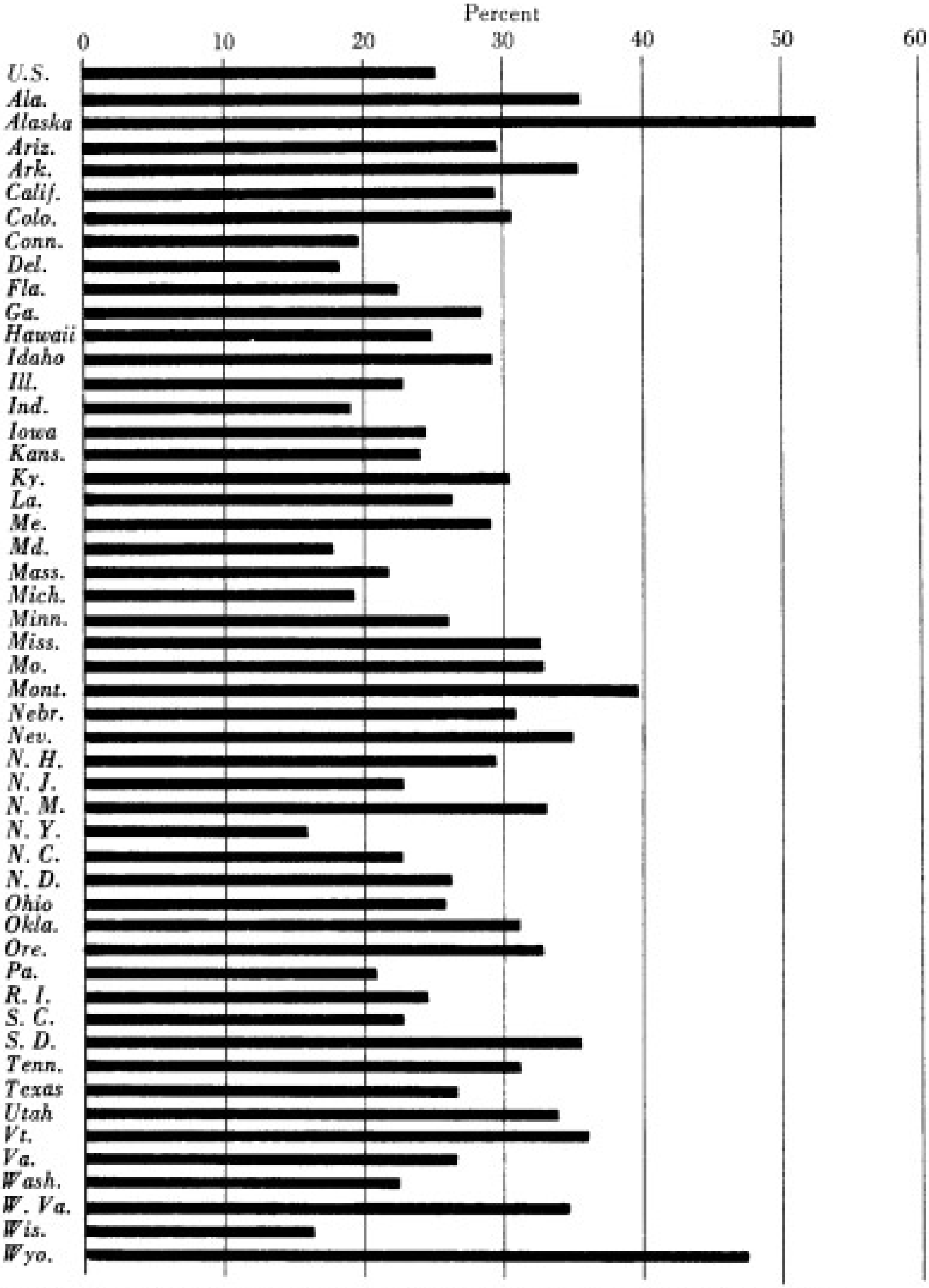
* For a bibliographic note on the impact of Federal grants-in-aid on State and local government, see Appendix E.

Figure 19.

FEDERAL AID AS A PERCENTAGE OF TOTAL STATE GENERAL REVENUE, BY STATE, 1966



Source: U.S. Bureau of the Census, Compendium of State Government Finances in 1966.

Ransone also explored the administrative consequences of Federal grants-in-aid from the Governor's viewpoint:[100]

> From the administrative point of view a Federal grant-in-aid program may tend to weaken the Governor's channels of communication with agencies which receive Federal funds and to weaken his control over those agencies. The pattern of administration which has developed in some of these programs involves a good deal of direct contact between individuals at the State level and the agency of the Federal Government which supervises the program. The Governor, to a considerable extent, is bypassed in this line of communication and finds that his control over both policy and management of the agencies which administer these programs at the State level is weakened considerably.

One of the few attempts to probe systematically the gubernatorial attitudes on grant-in-aid issues was undertaken by the House Subcommittee on Intergovernmental Relations in its 1957 questionnaire survey.[101] Among the battery of questions posed to Governors were detailed questions in four functional areas --employment security, highways, public health and welfare. Although there is some question about the extent to which the responses reflected the views of the Governors rather than the program officials, all of the Subcommittee's questionnaires were cleared through the offices of the 32 Governors participating in the survey.

Table 29 indicates that a majority of the Governors responding favored expansion in public welfare and highway programs. A substantial portion supported expansion in public health and employment security programs. A majority expressed satisfaction with existing Federal supervision. Only a minority favored transferring some program responsibilities to provide a greater State role. Suggested general reforms included permitting fund transfer between program categories, substituting a block grant for separate categorical grants and Federal action to improve program administration. Among the kinds of specific action most often mentioned were: (1) delegating more authority to field offices--particularly project approval; (2) leaving the details of administration to the States by reducing the extent and the degree of Federal supervision; (3) simplifying administrative procedures and reducing reporting requirements; and (4) consulting with appropriate State officials before adopting rules, regulations and standards which materially affect State programs.

Professor Deil S. Wright attempted to document further the Governor's varying perspectives on Federal-State relations in 1966. He found, between 1946 through 1966, that 160 formal policy resolutions were passed by the Governor's Conference. Wright classified each of these resolutions according to the policy action called for: Did the resolution urge more Federal activity or less? Did it call for more State activity, more local activity, or more interstate action?

TABLE 29.--RESPONSES OF GOVERNORS ON SELECTED FEDERAL GRANT-IN-AID PROGRAMS, 1957

Program	Adequacy of Program					Federal Supervision		Transfer Responsibility				Legislation Urgently Needed			Administrative Measures Needed		
	Total States*	Adequate	Expand	Reduce	Eliminate	Satisfactory	Unsatisfactory	Yes to Federal	Yes to State	Yes to Local	No	Yes to Federal	Yes to State	No	Yes to Federal	Yes to State	No
Public welfare	32	9	17	1	1	21	6	2	7	-	19	24	1	1	20	3	2
Highways	26	1	15	-	-	19	1	-	8	1	10	12	-	3	9	3	2
Public health	22	7	10	-	-	15	5	-	4	3	7	17	-	2	14	3	2
Employment security	21	6	8	-	-	13	4	1	9	-	10	14	1	-	13	2	1

*Replies to individual questions may not add to total for program because respondents did not answer all questions in every case.

Source: U.S., Congress, House, Replies From State and Local Governments To Questionnaire on Intergovernmental Relations, Sixth Report of the Committee on Government Operations (Washington: Government Printing Office, June 17, 1957), p. 4.

TABLE 30.--RESOLUTIONS OF THE GOVERNORS' CONFERENCE
BY TYPE OF ACTIVITY RECOMMENDED, 1946-1966

Type of Activity Recommended	Number of Resolutions
Less Federal activity	26
More Federal activity	68
More State activity	73
More interstate activity	34
	216*

*Adds to more than 160 because of double-counting.

Source: Deil S. Wright, "Federal Grants-In-Aid: Perspectives and Alternatives" (unpublished manuscript), Chapter VI, pp. 19-20.

Wright's general analysis of these resolutions highlights the somewhat ambivalent perspective of the Governors on Federal grants-in-aid found in the House Subcommittee survey. The resolutions were about evenly divided between those calling for greater expansion of certain grant programs and those criticizing implementation requirements. Most Governors did not appear to wish to turn the clock back on Federal-State programs but were concerned about the impact of these joint programs on their political and administrative leadership roles.

Views of other State officials.--A 1948 Council of State Governments study based on a questionnaire sent to approximately 500 State administrators of federally aided programs found that over three-fourths of the 250 respondents believed the amount of Federal aid received should be increased.[102] On the other hand, only half felt the system of Federal grants should be expanded to include new programs.

Over 70 percent indicated that Federal aid did not tend to unbalance overall State programs. Almost 90 percent favored State budgeting and control of Federal aid funds thereby making Federal aid funds subject to the same financial control as State funds, and almost three-fourths appeared satisfied with the provisions for State matching. Nearly 70 percent of the State respondents were content with the 1948 apportionment provisions in grant programs and a slightly larger proportion agreed that fund allocations for their programs were satisfactory.[103]

Three questions in this survey were the same as those posed in a 1928 survey undertaken by the National Municipal League and were included to compare possible changes in attitudes over the 20 year period:

(1) Have Federal grants stimulated State activity with respect to aided programs?

(2) Has Federal supervision improved State standards of administration and service?

(3) Has Federal aid led to Federal interference in State affairs?

The following table indicates the comparative responses.

TABLE 31.--RESPONSES OF STATE ADMINISTRATORS TO QUESTIONS ON FEDERAL AID, 1928 AND 1948

Questions	1928 Number of Replies	1928 "Yes" Number	1928 "Yes" Percent	1948 Number of Replies	1948 "Yes" Number	1948 "Yes" Percent
Question 1*	264	240	90.9%	325	305	93.8%
Question 2*	264	181	68.6	317	223	70.3
Question 3*	264	16	6.1	321	115**	35.8

*See text for above questions.
**Including 28 replies which stated that interference was not burdensome.

Source: The Council of State Governments, <u>Federal Grants-in-Aid</u>, Report of the Committee on Federal Grants-in-Aid (Chicago, 1949), p. 280.

While no basic change in attitude was discovered with respect to the first two questions, the third produced a significant shift in opinion. Very few State officials felt in 1928 that Federal aid led to Federal interference in State affairs, but over one-third of the 1948 respondents believed that it had.

The 1957 and 1958 hearings held by the House Intergovernmental Relations Subcommittee covered a number of intergovernmental problems, including grants-in-aid. In summarizing its extensive hearing record on grants-in-aid, the Subcommittee found: favorable nationwide acceptance of the grant-in-aid principle and of most grant-in-aid programs; weaknesses in State government helped facilitate the growth of Federal grant activities; the growth of Federal activities was taking place because the States, by constitutional and statutory means, had restricted their own powers and those of their political subdivisions; and officials of State and local governments indicated a fairly high degree of satisfaction with Federal participation in existing grant programs, but much of the dissatisfaction concerned grant programs using narrow categories to promote special objectives within a general field of activity.[104]

The 1963 survey of the Senate Subcommittee on Intergovernmental Relations solicited the views of State and local officials "concerning the nature of and possible solution to contemporary problems confronting our federal system."[105] A questionnaire, distributed to 6,000 State and local officials, explored three major areas of Federal-State-local relations: Federal grants-in-aid, taxation and revenue, and metropolitan problems. Total returns represented less than an 8 percent response rate and indicates some of the complex problems of gauging grassroots official opinion in the field of intergovernmental relations.

The Subcommittee report found that two middle opinion groups--the "moderate conservatives" and "moderate liberals"--representing over 75 percent of the respondents, while differing ideologically, often shared a common outlook on many specific problems. They believed that the Federal Government's role tended to dominate the three-level system to the detriment of State and local government. At the same time they saw the need for a number of new grants-in-aid and greater emphasis on collaboration in developing program innovations. Most felt that Federal organizational requirements for State and local governments were too rigid. Further, they urged use of incentive grants by the Federal Government to induce State and local governments to adopt new organizational forms. The Subcommittee observed that:[106]

> The underlying factor explaining these . . . positions is the desire on the part of these respondents to simultaneously achieve expanded organizational autonomy vis-a-vis the Federal agencies, a simplification and greater standardization of Federal accounting and auditing practices in the grant-in-aid area, and a strengthening--even with Federal assistance--of their own administrative structures and practices. Though the particular means of implementing these three objectives are not always consistent with one another, all are viewed as necessary ways of invigorating the State and local governments.

Specific features of the Federal grant-in-aid system received many criticisms although most of these State and local officials just as vigorously supported the grant-in-aid principle. Two-thirds of those responding felt that Federal grants had caused an unbalance in services carried out by other levels of government. Many felt that the equalization factor had been carried about as far as it should be. Virtually all agreed that more uniformity was needed in the apportionment and matching formulas of grant programs and that Congress should standardize definitions of frequently used terms in grant legislation.

There were, however, sharp differences of opinion between State and local officials on the State's role in the grant-in-aid system. On the question of whether all Federal grants to local governments should be channeled through State governments, opposition was indicated by 74 percent of the Mayors and 62 percent of the city managers, while county officials divided equally on the question.[107] On the other hand, 64 percent of the school board members and almost all State officials (98 percent) supported such channeling. Generally, local officials from jurisdictions over 50,000 population rejected more strongly the idea that the existing network of direct Federal-local relationships is undesirable than those officials representing smaller communities.

Another 1963 survey, conducted by Professors Deil S. Wright and Richard L. McAnow, probed the views of State executives administering grants, as well as other agency heads.[108] Of the nearly 1,400 persons surveyed, 933 responded and of these nearly one-third served with departments where Federal aid constituted 50 percent of more of the budget. The views of these State grant administrators are highlighted in Table 32.

The authors' analysis of the first question--the stimulative character of Federal grants--pointed out that despite the lack of objective data, a majority of these State executives believed that the fiscal effects of Federal grant programs are stimulative. This survey, however, revealed considerably less than the 90 percent-plus affirmative responses disclosed in the 1928 and 1948 surveys. In a later study Wright concluded that even though the definition of stimulation was more precise in his 1963 survey, Federal grants are no longer perceived by State officials as being as stimulative as they once were:[109]

> Given the expansions in scope and the large consistent financial increases in Federal grants, these altered perceptions by State executives probably reflect some actual changes in the effects of grants on State programs.

On the second question, the Wright-McAnow survey verified an administrative problem often cited in earlier surveys as a source of difficulty to State executives, with the uncertainty or difficulty of estimating Federal aid funds being noted by two-fifths of the respondents.

TABLE 32.--VIEWS OF STATE GRANT ADMINISTRATORS ON FEDERAL GRANTS-IN-AID, 1963

Questions	National Percentage Responding "Yes"
1. Do Federal funds increase the amount of funds raised by the State?	52%
2. Does Federal aid seem uncertain and difficult to estimate?	40
3. Is your agency less subject to supervision and control by the Governor and legislature because of Federal aid?	50
4. If Federal aid did not have restrictions on how the money is spent would you allocate the funds differently from the way they are presently spent?	54

Source: Deil S. Wright and Richard L. McAnow, "American State Administrators: Study Code and Marginal Tabulations for the State Administrative Officials Questionnaire," Department of Political Science and Institute of Public Affairs, The University of Iowa, Iowa City, Iowa, January, 1965, 40 pp., mimeo.

The third question sought to determine the extent of line agency administrators' independence from top policy control. One-half of the respondents freely acknowledged that where Federal aid programs were involved, they were less subject to the supervision and control of State policy as established by the Governor and legislature. Wright pointed out that "it would be difficult to imagine a clearer demonstration of policy and administrative impact of Federal grants on the organization and functioning of State government than the admission of autonomy by half or more of State grant administrators.[110]

The last question in the Wright-McAnow study revealed that a majority of State executives believed that present program distributions distort the allocation of State fiscal resources.

In commenting on the fairly even overall division of opinion regarding the effects and relationships engendered by Federal grants, Wright concluded:[111/]

> [The State Executive] perceives benefits accruing from grants but finds their constraints, complications, and consequences far less than desirable. This conflict situation prevails with respect to both individual executive roles and the aggregate character of grant administration at the State level.

A more recent survey of State opinion on this subject was undertaken by the Council of State Governments for the National Association of State Budget Officers. Based on an open-ended questionnaire, this report listed 69 types of impediments under 13 major headings as reported by 23 States. The major difficulties with respect to the impact of Federal grant-in-aid programs on State organization and administration were summarized as follows:[112/]

- Excessive program categorization hinders overall planning and coordination; the relatively narrow categories do not always lend themselves singly or collectively to broad State needs.

- Lack of coordination exists among Federal agencies; many Federal grant administering agencies have similar and overlapping functions, deal with the same State and local agencies, and have different procedures and requirements.

- Certain Federal requirements conflict with State constitutional or legal provisions.

- Arbitrary standards or requirements characterize many grant programs. Diversity among the States is not recognized adequately in the formulation of many Federal standards or regulations.

- Merit system requirements do not allow flexibility in personnel management. Such requirements in certain grant-in-aid programs have tended to perpetuate a rigid civil service philosophy to the exclusion of new ideas in hiring and retaining the most competent employees.

- The inordinate length of time required by some Federal agencies to render a final decision on applications makes it difficult for States to plan and program. Delays in reporting the actual allotments further complicate State program planning.

- Timing problems are created in that many Federal programs enacted by Congress in the Fall are retroactive to July of that fiscal year, thereby providing insufficient time for States to plan and implement the program. Some Federal grants allot funds six months or more before the State can get enabling legislation passed to receive and match the funds. This is further complicated by the fact that many State legislatures still meet only every two years.

- Reporting requirements are detailed and burdensome. State program and fiscal reports to the administering Federal unit are a considerable burden when required in excessive number or detail, or in great variation in format and frequency.

- The single agency requirement in several Federal grant programs frequently restricts the discretion of Governors and legislatures in administrative organization.

- State agencies which have overall jurisdiction over certain fields are ignored in the increasing number of Federal programs which deal directly with local governments and this creates administrative and policy problems at the State and local levels.

- Federal program audits frequently require State agencies to retain records for an excessive period and give little or no recognition to State systems of comparable quality.

The Council report concluded that while many of the responses indicated that Federal program requirements are often excessive:[113]

> The listing of problems. . . should not obscure the fact that, within the framework of the categorical grant system, much satisfaction also exists. Many State administrators reported that they were generally satisfied with their relations with national administrators. The fact that Federal aid programs have worked successfully for 50 years would indicate that there are more satisfactions than complaints.

Unofficial findings that underscore several of the above observations stem from the many trips of Farris Bryant, Director of the Office of Emergency Planning, and his interagency team of Federal officials to the States. Inadequate funding, poor consultation, meager grant-in-aid information, excessive categorization and overlapping, "bypassing," timing and the "skewing" effect of grant programs on State budgets--these and many other grant-related problems came up during the course of these unique dialogues among Federal administrators, Governors and State administrators in the field.

<u>Views of local officials</u>.--At the State level the complex and frequently confusing set of relationships involved in Federal grant administration has produced strong and varying reactions. Two recent surveys of local officials, however, indicate that, in general, difficulties encountered by the local governments are fairly specific and should be considered in the context of an overall pragmatic acceptance and implicit endorsement of Federal aid programs.

The 1963 survey by the Senate Subcommittee on Intergovernmental Relations placed three-fourths of all the respondents in a broad "middling" category that was willing to accept--as a matter of practical necessity--Federal grants as a basic method of alleviating certain common problems.[114] A somewhat higher proportion of the responding officials from general local governments than from State governments fell in this group. Most of the local executives preferring an anti-centralist and pro-devolution policy regarding grant programs came from smaller jurisdictions or were city managers. General acceptance of the middle ground in no way precluded specific criticism of existing arrangements and relationships, however. For example, more than three-fifths of the local general government respondents felt that the present system of Federal grants-in-aid caused an imbalance of emphasis in State and local programs of governmental services. Moreover, half felt that Federal grant-in-aid organizational requirements hampered the flexibility of State and local governmental structure. At the same time, by nearly a two-to-one margin, local general governmental respondents rejected the notion that there are too many instances of direct national-local relationships.

A 1966 survey of city managers undertaken by the International City Managers' Association revealed the type of grant management problems that confront local government administrators.[115] A general theme running through all of the responses stressed the need for improved communication between Federal and local officials. Of specific concern was the need to have timely information on new programs and similar programs administered by different agencies at the Federal level. Lack of coordination among various programs with the same or related objectives was also cited as a basic difficulty in a number of responses. The managers felt that there appeared to be very little effort among various departments and agencies to relate similar programs to each other and to planning efforts undertaken in other areas.

Several managers said that inadequate understanding of local government organization and procedures was evident in the development of grant programs and supporting guidelines. Many alleged that too many Federal administrators simply do not know very much generally about cities and particularly about the differences among cities caused by State laws, charters and local politices. They contended that the Federal Government too often is concerned with the adoption of particular structures to accomplish certain objectives. The requirement for citizen advisory committees was cited as a major example of this. The desirability of operating Federal programs through existing units of general local government--rather than encouraging creation of special districts or special-purpose semi-autonomous agencies--was also stressed. Many managers suggested that grant programs could be more effective if they were directly geared to broad community objectives rather than to narrow, specific programs.

Particular concern was expressed regarding the budgeting difficulties created by uncertainty surrounding the inauguration of new programs and the slow processing of grant applications under existing programs. The extended period for the development of implementing rules and guidelines coupled with the difficulty in receiving definitive information concerning the status of applications was cited as a major factor injecting uncertainty into the local budgeting process.

Testimony by Mayors during the second phase, February and March 1967, hearings before the Senate Subcommittee on Intergovernmental Relations on "Creative Federalism" also reflected a general acceptance of basic Federal grant concepts, while identifying some specific problems created.[116] The need for local program coordination and good comprehensive planning was emphasized. Some endorsed the concept of a single comprehensive plan tying together various functional planning requirements, and serving as the basis for initial eligibility for all Federal programs. The need for predictable funding and timely indication of the status of applications for grants was mentioned and reliance on general units of local government was urged.

The Mayors' testimony during these hearings and local officials' replies to the earlier Senate Subcommittee survey both reflected a general feeling that States must make a greater effort to assist their local governments. More than half of the local government respondents expressed reluctance to have all Federal aid channeled through State government. Some qualified their response by indicating that channeling could serve to encourage a stronger role for the States in dealing with the problems of local governments. One big-city Mayor testifying before the Muskie Subcommittee felt that State involvement had to be far greater to earn communities' confidence. Some Mayors were rather vehement in opposition to any State involvement whatever in Federal grants for urban development.

* * * * *

These various attitudinal surveys suggest that:

(1) With the increase in the number and magnitude of grants, the belief has grown among State and local officials that Federal aid has led to greater Federal interference, especially in purely administrative matters, and is tending to exert a less stimulative and more coercive impact.

(2) Concurrently, there has come a growing acceptance of the grant-in-aid principle, but accompanied by a desire for a number of specific reforms in the system--including greater flexibility in organizational, personnel and fiscal reporting requirements; greater uniformity in matching and apportionment formulas; broader categories; improved intra-agency, interagency and interlevel coordination; and greater certainty and better timing in Federal grant funding practices.

(3) With growing grant involvement in various new areas, the attitudinal cleavage between line agency program administrators and political decision-makers has become more pronounced; many federally aided State program administrators feel they are less subject to gubernatorial and legislative controls than their nonaided colleagues; Federal aid administrators at the middle management level are becoming more concerned with the professional and organizational well-being of their State counterparts, are not particularly sympathetic to the management and policy needs of Governors and local executives, and sometimes are not fully cognizant of the policy and political milieu in which their own Cabinet Secretary must operate.

(4) Finally, with the increase of Federal-local grant programs, a divergence of opinion has emerged between State and local officials with respect to the States' role in grant-in-aid operations.

The source of many State and local difficulties with the Federal grant system lies to a great extent at the Federal level, as indicated by these views of State and local officials and the earlier analysis of grants-in-aid and Federal administrative machinery. Yet the Federal grant system is, after all, one of shared intergovernmental responsibilities. It is relevant, therefore, to examine which State and local governments' role in administering the grant system needs to be strengthened. We first view the role of the Governor and the State legislature.

The Governor's Role

The evolution of the governorship has been described as proceeding from "the detested minion of rural power, to stepson of legislative domination, to popular figurehead, to effective executive."117/

Early State constitutions reflected the almost universal distrust of the chief executive that resulted from the conflicts between the Royal Governors and elected legislative bodies during the pre-Revolutionary period. This anti-gubernatorial bias of most State constitutions grew with the Jacksonian emphasis on rotation-in-office and direct election of various officials, the separate, multi-member commissions spawned by post Civil War reformers, and finally the renewed direct democracy drive of the progressives. It generally was reflected in short terms of office, restrictions upon eligibility for re-election, the election of lesser executives, restraints on the Governor's appointive and removal power and limited veto authority.

Gradually, however, the trend to legislative domination was reversed and the governorship began to acquire new status. Legislative abuses in the late nineteenth century resulted in constitutional restrictions upon legislative action and public acceptance of the Governor's duty to take an active part in the legislative process. The administrative reorganization movement in the early decades of the twentieth century also strengthened the office of the Governor. The first reform movement attacked the proliferation of State governmental agencies; it was soon followed by efforts to lengthen the Governor's term of office and increase his appointive and removal powers. More recently, reform has focused on the management role of the Governor, particularly in the fiscal area, and this resulted in expanded gubernatorial authority for budget preparation and execution.

The Governor's role now is conditioned by a complex "set of relationships to other parts of the governmental and political system--to the legislature, to the heads of major departments, to the bureaucracy, to his political party and to the opposition party, to the press, to the electorate, to a variety of interest groups."118/ He is expected to be a policy leader and chief administrator. The former involves developing programs, dramatizing their significance and seeking their enactment. The latter role involves providing leadership in seeing that policies are established on a continuing basis and carried out properly. No Governor can ignore either role safely; popular expectations and his own political position combine to assure gubernatorial commitment.

<u>Leadership in grant coordination</u>.--A number of Governors have exerted leadership in recent years in dealing with the Federal Government on matters of Federal-State coordination of grant-in-aid programs as was noted previously. Forty-six States have established liaison units to coordinate Federal programs. These units vary greatly in structure and power. The State planning agencies in Delaware, Georgia and North Carolina have been assigned the responsibility for coordination. Some States, including New York and Rhode Island, have established an interdepartmental committee or task force on a continuing or <u>ad hoc</u> basis to make studies and recommendations to the Governor and legislature. In others, such as Connecticut, Illinois, Louisiana and Vermont, the Governor has designated an official in his office or in the department of administration to

coordinate efforts. To complement these efforts, 13 States as of July 1967 had established an office in Washington, D.C.

To expedite coordination a number of States require agencies to obtain the approval of the Governor before entering into grant negotiations with the Federal Government. This procedure provides an indication of the pattern of control the Governor has in participating in Federal grants.[119]

In 18 States the approval of the Governor is required and in 18 it is not. The situation varies in ten States where gubernatorial approval is required only sometime. In four States some other form of approval is prescribed--approval of the budget commission, of the Governor and the legislature, of the Governor and the budget commission or of the budget and control board. New York requires State agencies--since 1966--to notify the State Director of the Budget, the Chairman of the Senate Finance Committee and the Chairman of the Assembly Ways and Means Committee of all applications, contracts agreements or plans for utilizing Federal funds. New Jersey has a similar procedure.

Other Governors have issued executive orders requiring each State agency applying for Federal funds to file with their offices a report on the purpose and planned use of the grant, the most recent being Maine and Delaware (1967). At least two States have enacted legislation concerning the problem of solicitation of Federal grants by line agencies. In Virginia, pursuant to 1962 legislation, the Governor must give his written consent and approval to any State agency soliciting or accepting Federal grants. In 1961, the legislature of West Virginia prescribed approval by the Commissioner of Finance and Administration of any transaction contemplating State matching of Federal funds.

Finally, as a group the Governors through the National Governors' Conference have moved to strengthen their position vis-a-vis the large and growing volume of Federal grants to States. The Conference in March 1967 opened an Office of Federal-State Relations in Washington to provide liaison between the Governors and State agency heads and their Federal counterparts on a number of special subjects of intergovernmental concern.

The overall powers of the Governor.--Despite these constructive efforts, the findings of the field trips of the Federal Office of Emergency Planning and of Bureau of the Budget task forces suggest that much more needs to be done to improve the Governor's position in the management of federally aided State programs. His role here clearly relates to the broader administrative question of the degree to which he is truly the chief executive.

The chief executive's overall leadership position depends in large part on State constitutional structure. Effective leadership is conditioned by the length of his term and eligibility for reelection, and by the extent to which he shares executive power with other elected officials. It is affected by his appointment and removal powers, control over finance and personnel and other direct administrative authority. It is influenced by his formal legislative powers--especially the item veto.

In considering what needs to be done to strengthen the Governor's position in the management of federally aided State programs, therefore, it is necessary to look at the major legal provisions--particularly constitutional--that define his formal powers as chief executive.

The "long ballot."--A Governor's policy-initiating and top management roles depend to a great extent on his authority to appoint executive agency heads. Strong appointive powers over heads of State agencies responsible for administering Federal grant programs put him in a much better position to coordinate and program the multitude of Federal grants on the basis of the State's overall needs.

In practice, this authority is often circumscribed by the "long ballot"--the election by the voters of many State administrative officials. It is further restricted in some States by the legislature's election of one or more administrative officials.

Table 33 shows that while many States have made progress in reducing the number of administrative officials elected by the voters or the legislature, the number in most States is still large. It ranges from 1 (New Jersey and Tennessee) to 110 (North Carolina), with the median falling between 8 and 9. For popularly elected officials alone, the range is from 1 to 36 (Michigan) and the median is 8.

In many States such elected officials as the attorney general, treasurer, secretary of state, auditor, superintendent of education and public utilities commissioner tend to head agencies or departments that were established several decades ago. Some of these agencies, however, now receive grant funds, especially the State educational agency. Other more recently established agencies, such as health, welfare, highways and conservation, tend to be headed by appointive officials and usually receive a major portion of their operating funds from Federal assistance programs.

Table 34 ranks the States according to the number of agencies headed by a single elected administrator or by an elected board governing the policies and top appointments of such agencies. Elected officials of public utility commissions and judicial agencies have been excluded.* As distinguished from Table 33, this table emphasizes the number of agencies that are headed by elected individuals or boards and thus removed from the Governor's power of appointment.

Variations in the appointive power.--The Governor's power to appoint administrative heads is not a uniformly potent tool for influencing program administration because the constitution and statutes may modify the way he can use it. The range of these modifications is as follows:[120]

- The Governor has full appointive powers--the Governor alone appoints the agency heads in charge of the function; no confirmation required.

- The Governor has substantial appointive powers--the Governor appoints the official subject to confirmation or approval by the Senate, either house, both houses, a departmental board of a council. The Governor also has substantial appointive powers if the official is appointed by a board, commission, or agency head subject to the approval of the Governor. Finally, the Governor may influence the appointment if it is made by an agency head who is selected by the Governor and serves at his pleasure.

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* Sixteen States have elected public utility commissions.

TABLE 33.--STATE OFFICIALS SELECTED BY POPULAR AND LEGISLATIVE ELECTION, 1967

State	Total State Elective Officials*			
	Governors, Lt. Governors and Heads of Single-Headed Agencies--Elected at Large	Board Members		
		Elected At Large	Elected by District	Elected by Legislature
Alabama	8			
Alaska	2 1/			
Arizona	7	3		
Arkansas	7			
California	7		4	
Colorado	5	6	5	
Connecticut	6			
Delaware	6			
Florida	6			
Georgia	9			
Hawaii	2 2/	11		
Idaho	8			
Illinois	7	6		
Indiana	7			
Iowa	7			
Kansas	9			
Kentucky	8			
Louisiana	11		11	
Maine	1 3/			7
Maryland	3			
Massachusetts	6		8	
Michigan	4	32		
Minnesota	6			12
Mississippi	10		3	
Missouri	6			
Montana	7			
Nebraska	6		12	
Nevada	8		10	
New Hampshire	1		5	
New Jersey	1			

TABLE 33 (CONCL'D).--STATE OFFICIALS SELECTED BY POPULAR AND LEGISLATIVE ELECTION, 1967

State	Total State Elective Officials*			
	Governors, Lt. Governors and Heads of Single-Headed Agencies--Elected at Large	Board Members		
		Elected At Large	Elected by District	Elected by Legislature
New Mexico	7 2/		10	
New York	4 2/			13
North Carolina	10			100
North Dakota	11			
Ohio	6		23	
Oklahoma	12	4		
Oregon	6			
Pennsylvania	5			
Rhode Island	5			
South Carolina	9			10
South Dakota	8			
Tennessee	1			
Texas	7		21	
Utah	5		5	
Vermont	6			9
Virginia	3			
Washington	9			
West Virginia	6			
Wisconsin	6			
Wyoming	5			

1/ Governor and Secretary of State elected on same ticket.
2/ Governor and Lieutenant Governor elected on same ticket.
3/ Four additional department heads are elected by the legislature.

* Officials of public utility commissions and judicial agencies are not included in tabulation.

Source: *The Book of the States*, Vol. XV, p. 151, and Vol. XVI, pp. 137-41 (Chicago: The Council of State Governments; *Elective Offices of State and Local Governments*, 1967, Preliminary Report, August 67/CG-P-1 (Washington: Bureau of the Census).

TABLE 34.--STATES WITH AGENCY ADMINISTRATIVE HEADS (SINGLE OR BOARD) SELECTED BY POPULAR OR LEGISLATIVE ELECTION,* 1967

Up to Three Elected Administrative Heads

Alaska	Maryland	Tennessee
Hawaii	New Jersey	Virginia

Four to Five Elected Administrative Heads

Connecticut	New Hampshire	Utah
Delaware	New York	Vermont
Florida	Oregon	West Virginia
Maine	Pennsylvania	Wisconsin
Missouri	Rhode Island	Wyoming

Six to Seven Elected Administrative Heads

Alabama	Illinois	Minnesota
Arizona	Indiana	Montana
Arkansas	Iowa	Nebraska
California	Kentucky	New Mexico
Colorado	Massachusetts	Ohio
Idaho	Michigan	South Dakota
		Texas

More Than Seven Elected Administrative Heads

Georgia	Mississippi	North Dakota
Kansas	Nevada	Oklahoma
Louisiana	North Carolina	South Carolina
		Washington

*Governors, public utility commissions and judicial agencies and officials are not included in determining State rankings. For purposes of developing an index, boards are counted as one.

Source: The Book of the States, Vol. XV, p. 151, and Vol. XVI, pp. 137-141 (Chicago: The Council of State Governments); Elective Offices of State and Local Governments, Census of Governments 1967, Preliminary Report, August 67/CG-P-1 (Washington: Bureau of the Census).

- The Governor has limited appointive powers--the appointment is made by a department, board, commission or council without approval by the Governor. Also included in this category are appointments--requiring Senate approval--made by an agency head who himself was not selected or approved by the Governor.

- The Governor has no appointive powers--the official is popularly elected or the appointment is made under civil service procedures with the Governor exercising little or no discretion. This category also includes instances where the official is elected by the legislature.

Application of this classification system to the appointment procedures governing the selection of the heads of certain key agencies provides one index of the Governor's formal power in this area, as indicated in Table 35. The six line functions are heavily involved in Federal grant programs.

TABLE 35.--GENERAL STATE RANKINGS OF GOVERNORS' FORMAL POWER TO APPOINT HEADS OF SELECTED AGENCIES,* 1966

	Very Strong		
California	Kentucky	Pennsylvania	Virginia
Indiana	Maryland	Tennessee	Washington
	Strong		
Alabama	Illinois	Nevada	Rhode Island
Alaska	Kansas	New Hampshire	South Dakota
Arkansas	Louisiana	New Jersey	Utah
Connecticut	Massachusetts	New York	Vermont
Georgia	Michigan	North Carolina	West Virginia
Hawaii	Minnesota	North Dakota	
Idaho	Nebraska	Ohio	
	Medium		
Florida	Maine	New Mexico	Wyoming
Iowa	Missouri	Texas	
	Weak		
Arizona	Mississippi	Oklahoma	South Carolina
Colorado	Montana	Oregon	Wisconsin
Delaware			

*State agencies analyzed are budget, public instruction, health, mental health, welfare, highways and conservation-natural resources.

Source: Based on data from Council of State Governments, Book of the States, 1965-1966; and 1966-1967.

Governors of 34 States are accorded "strong" or "very strong" powers of appointment over State budget units and key agencies administering Federal grant programs. In eight of these States the Governor is provided with "very strong" formal appointive powers. The chief exception is his power over the appointment of the head of public instruction. In 16 States the Governor's formal appointive powers range from "weak" to "medium"; here the Governor may have more difficulty in coordinating Federal grant programs. While the ranking of the States in Table 35 underscores many of the variations in formal appointive practice, two-thirds of the Governors do have substantial or full power over the heads of these agencies.

All of the States that have undertaken major State governmental revisions in the last 50 years rate highly in this table. The pioneer in sweeping State administrative reform, Illinois (1917), still ranks high. California, Indiana, Kentucky and Tennessee fall in the top category, because their Governors in most instances appoint agency heads without legislative approval. Of this group, Tennessee's chief executive is given the most complete appointive powers; none of his appointments to top posts in the seven agencies surveyed is subject to legislative confirmation. Among the other seven highest ranking States, the Governor's power is somewhat more restricted, especially in the field of education, with the head of this functional agency either popularly elected or appointed subject to legislative confirmation. In some instances for these top seven States, the heads of the health, mental health or welfare agencies are selected by departmental boards, with or without the Governor's approval.

Overall, it is not surprising to find the greatest limitations placed on the Governors in their appointments of the heads of the State educational agency. In 45 States, the Governors' appointive powers for this function are restricted or nonexistent. By way of contrast, in welfare, the Governor has full or substantial appointive powers in 31 States; in health, he has comparable power in 30 States; for highways in 29; for mental health in 25; and for conservation and natural resources in 24 States. A summary of the Governors' power to appoint the heads of the six functional agencies is provided in Table 36.* The most common limit for all categories is where the agency heads are appointed by a departmental board or commission.

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* For further details, see Tables A-25 through A-31.

TABLE 36.--NUMBER OF GOVERNORS EXERCISING VARIOUS DEGREES OF APPOINTIVE POWERS OVER HEADS OF SELECTED FUNCTIONAL AGENCIES, 1966

	Public Instruction	Health	Mental Health	Welfare	Highways	Conservation-Natural Resources
Full	1	8	5	8	11	8
Substantial	4	22	20	23	18	16
Limited	22	18	19	16	16	12
None	23	1	-	1	2	-
Other*	-	1	6	2	23	14

*No information is available or no single agency or individual is assigned responsibility for function.

Source: Based on data from Book of the States, 1964-1965, pp. 142-150; Book of the States, 1966-1967, pp. 137-143.

A number of extra-legal factors, of course, tend to modify these various ratings. Probably the most important is the extent to which a Governor or gubernatorial candidate influences the selection of his party's candidates for the office of public instruction and other elective posts. In many States such office holders are members of the Governor's "team." On the other hand, it is not unusual to find that these lesser executive officials have developed considerable independent potential support, and in these instances the Governor's influence is less pronounced. He may also find his authority restricted by special interest groups who traditionally have been a determining factor in appointments as well as in program and expenditure policies.

Administrative boards and commissions; agency proliferation.--Another factor tending to weaken the Governor's formal authority over State administration is the large number of multi-member boards and commissions administering State programs. Frequently their membership is bipartisan, with fixed and overlapping terms. Sometimes, moreover, the terms are longer than the Governor's. This administrative pattern is commonly found in the health and welfare agencies and in a fairly large number of highway departments. Finally, the Governor's influence over boards or commissions is diminished by the extent to which their members are elected or appointed by someone else. On the other hand, he may exert some influence by his own membership on the board or commission.

In the summer of 1967 the National Governors' Conference, at the request of the Advisory Commission on Intergovernmental Relations, surveyed the number of State departments and agencies, the method of selection of their heads, and the number of agencies involved in administering Federal grant funds. For the 45 States responding, over one-half of the agencies were administered by boards or commissions, as shown in Table 37. Of these, about two-thirds were bodies whose members were all appointed by the Governor. The degree of their control by the Governor, however, depended on factors noted earlier, e.g., the extent of overlapping terms and the length of members' terms. Finally, on the average, the Governor himself served on 4 of the 36 boards or commissions.

TABLE 37.--AVERAGE NUMBER OF ADMINISTRATIVE AGENCIES IN 45 STATES, BY TYPE OF HEAD AND METHOD OF SELECTION, 1967

Item	All Agencies	Agencies Administering Federal Grants 1/
Single-headed agency		
Appointed by Governor	18	8
Elected or otherwise named	13	4
Subtotal	31	12
Board or commission		
All members appointed by Governor	24	7
Some members appointed by Governor	6	1
Members elected or otherwise named	6	2
Subtotal	36	10
Number on which Governor served	4	n.a.
Total	67	22

n.a. = Data not available.

1/ Based on usable responses from 40 States.

Source: Questionnaire addressed to State executive office by National Governors' Conference, Summer 1967.

Thus, in 23 States covered in a 1950 survey, only two had fewer than 50 agencies, nine had over 100, and the average number was 91. In contrast, the 1967 Governors' Conference survey showed that of the same 23 States, nine had fewer than 50 agencies, four had over 100, and the average number was 70. Seventeen showed a reduction, five an increase, and one no change.*

The pressures for separatism in administrative activity in the executive branch have been well summarized by Professor Willbern:122/ the "normal" drive for agency autonomy; a tradition of separate responsibility to the electorate; "reform" movements for special functions; clientele and interest group attitudes; professionalism; functionalism--close program ties between State and Federal grant-in-aid administrators; political divisions between the legislature and the governor; and dissatisfaction with State political processes. Many people believe the system does not produce qualified and responsible elective leaders. Interest group politics, "independent" boards and commissions, professionalism, and program loyalties thus become the basic means of achieving or advancing political, social, and economic goals.

Veto.--The Governor's veto power over bills passed by the legislature is another factor affecting his formal strength. While the veto power does not directly control administration, it gives the Governor authority to reject proposals of agency heads who have bypassed him to obtain support of the legislature. The item veto is especially useful in such circumstances.123/ Moreover, it can also serve as a weapon to ward off arbitrary legislative encroachments on the executive branch.

Except in North Carolina, the Governors are all accorded veto powers. The effectiveness of the executive veto power depends upon the presence of the following elements:124/

(1) Five or more days for the Governor's consideration of bills during sessions.

(2) Ten or more days for consideration for bills after adjournment.

(3) Two-thirds of the elected members of the legislature to override a veto.

(4) Pocket veto--bills die after adjournment unless signed.

(5) Item veto of appropriation bills or parts of all bills.

(6) Power to reduce items of appropriation bills.

(7) Governor may submit amendments to bills and return them to legislature.

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* For State-by-State detail, see Tables A-32 and A-33.

A higher proportion of single-headed than multi-headed agencies administered Federal grants, as indicated in the right hand column of Table 37. Thus, the diffusion of gubernatorial power through multi-headed agencies was less serious in the control of grant-aided programs than in State programs generally.*

Table 37 reveals another facet of State government which fosters administrative pluralism--the great number of separate departments and agencies. The average for the 45 responding States in 1967 was 67. (It should be noted, however, that insofar as span of control is concerned, the average Governor has considerably fewer separate administrative agencies to cope with than does the President of the U.S.)

York Willbern has described the forces causing proliferation of administrative agencies:121/

> Despite some evidence of distrust, Americans have not hesitated to use government in a great many ways. When a social problem of any consequence appears, the reaction of the people frequently is "Let there be a law" on the subject. Soon thereafter, and sometimes at the same time, the reaction is "Let there be an agency." As new functions develop and segments of the old functions become more important, new agencies are created and old ones divided.*

Yet the trend, at least since 1950, has been toward a marked reduction in number of State agencies, as indicated in Table 38.

TABLE 38.--ADMINISTRATIVE AGENCIES IN 23 STATES,*
1950 AND 1967

	1950	1967
Number of States with		
Fewer than 50 agencies	2	9
More than 100 agencies	9	4
Average number of agencies, 23 States	91	70

*Alabama, Colorado, Connecticut, Delaware, Florida, Georgia, Illinois, Iowa, Kentucky, Louisiana, Maryland, Minnesota, Nevada, New Hampshire, North Dakota, Ohio, Oregon, Pennsylvania, South Dakota, Tennessee, Texas, Wisconsin, Wyoming.

Source: 1950 data: Council of State Governments, Reorganizing State Government (Chicago, 1950), p. 12. 1967 data: Questionnaire addressed to State executive offices by National Governors' Conference, Summer 1967.

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* For State-by-State detail, see Tables A-32 and A-33.

In Table 39 the States are classified according to the strength of their Governor's veto powers, gauged by the above criteria. If a State provides its Governor with five or more of the seven elements, the Governor is considered to have "Very Strong" veto powers; if four are provided, the State falls in the "Strong" category; if three are present, the State is placed in the "Medium" category; and if less than three are granted, the State comes under the "Weak" classification.

The formal veto powers of the Governor, of course, must be considered within the total governmental and political context. The Governor of North Carolina, though he has no veto power, is not necessarily in a "weaker" position than his fellow chief executives. The degree to which a Governor, with or without certain formal powers, influences the legislature on matters of policy, is a major factor in measuring his real strength as a chief executive.125/

TABLE 39.--GOVERNOR'S VETO POWERS, 1966

Very Strong	Strong	Medium	Weak
Alabama	Arizona	Arkansas	Indiana
Alaska	Colorado	Connecticut	Iowa
California	Delaware	Florida	Maine
Hawaii	Georgia	Idaho	Nebraska
Michigan	Illinois	Kansas	New Hampshire
Missouri	Louisiana	Kentucky	North Carolina*
New Jersey	Massachusetts	Maryland	Rhode Island
New York	Mississippi	Minnesota	South Carolina
Oklahoma	Montana	Nevada	Vermont
Pennsylvania	Tennessee	New Mexico	West Virginia
Virginia	Utah	North Dakota	
Washington	Wisconsin	Ohio	
		Oregon	
		South Dakota	
		Texas	
		Wyoming	

*No veto power.

Source: Based on data from Council of State Governments, Book of the States, 1966-1967, p. 60, and rating system adopted from F. W. Prescott, "The Executive Veto in the American States," Western Political Quarterly III, 1950, pp. 98-112.

Term of office.--Another measure of a Governor's formal strength is the length of time he can expect to be in office. Governors' terms of office today range from two to four years. At present, and for the first time, more than one-third of the States have four-year gubernatorial terms with no limitations on reelection. An additional one-sixth have a two-year term with unlimited succession. The remainder have either two- or four-year terms with limitations.

In States with four-year terms the Governor has a better opportunity to develop his policy role. A long term observer of State government has noted the practical consequences of constitutional barriers to gubernatorial reelection:126/

> A governor reasonably confident of long tenure in office is more likely to be interested in long-range development of the State; he can afford to take an interest in ten-year plans, in initiating projects whose benefits will not appear for several years (for example, highway or school construction programs), in planting seeds of policy ideas that will not grow to command popular and legislative majorities until several years of widespread discussion have passed. On the other hand, a governor whose vision is confined by a four-year limit on his period of service is likely to see his influence wane in the last year or two of his term; the ban on a second four years may thus reduce his period of practical power to two or three years. This is because he will already have dispensed most of the rewards at his disposal (patronage appointments, local projects, etc.) and so will have lost bargaining power with the men whose support he needs and who adapt their behavior to prospective rewards and deprivations.

A study of average tenure in office over a 44-year period (1914-1958) showed that no Governor could expect eight or more years in office.127/ In 31 percent of the States the Governor served from 3 to 3.9 years; in 27 percent, from 5 to 5.9 years; in 25 percent, 4 years; in 10 percent, from 4.1 to 4.9 years; and in 7 percent of the States, under 3 years. In contrast, elective secretaries of state served much longer terms, with the average running to over ten years.

In Table 40 the States are ranked according to the tenure potential of the governor. The 40 States with 4-year terms are accorded a higher rating than any 2-year term State, regardless of the limitation on the number of terms.

In recent years, the trend is toward increasing the Governor's term. During 1966 and the early part of 1967, the constitutions of Louisiana, Oklahoma, Pennsylvania and Wisconsin were amended to permit the Governors to serve two 4-year terms. Each State except Wisconsin formerly restricted the Governor to a single 4-year term; Wisconsin's Governor had a 2-year term, with no limitation.

Budget-making.--The strength of the Governor's control over administrative agencies may be gauged in part by his formal power in the budget-making process. The opportunity for the Governor to take the initiative in proposing policies--especially on grants-in-aid--is generally encompassed in budget decisions--the power to give or withhold operating funds, propose tax rates and tax policy, and determine the general scale of State activity.

The executive budget, now used in 45 States, is considered a device to strengthen the position of the Governor.128/ Actual practice in each State having an executive budget system, however, does not necessarily assure the Governor unrestricted freedom in making executive-phase budgetary proposals or in maintaining control subsequently over budget execution. The Governor's actual role will be influenced by his skill of selection and continuing relationships with

TABLE 40.--GOVERNORS' TERM OF OFFICE, SUCCESSION, 1967

Four-Year-Term, Unlimited Succession (18 States)

California	Illinois	Nebraska	Utah
Colorado	Massachusetts	Nevada	Washington
Connecticut	Michigan	New York	Wisconsin
Hawaii	Minnesota	North Dakota	Wyoming
Idaho	Montana		

Four Year-Term, Limited to Two Terms (11 States)

Alaska	Maine	New Jersey	Oregon
Delaware	Maryland	Ohio	Pennsylvania
Louisiana	Missouri	Oklahoma	

Four-Year-Term, Cannot Succeed Self (11 States)

Alabama	Indiana	North Carolina	Virginia
Florida	Kentucky	South Carolina	West Virginia
Georgia	Mississippi	Tennessee	

Two-Year-Term, Unlimited Succession (8 States)

Arizona	Iowa	New Hampshire	Texas
Arkansas	Kansas	Rhode Island	Vermont

Two-Year-Term, Limited to Two Terms (2 States)

New Mexico	South Dakota

Source: Council of State Governments, Book of the States, 1966-1967, p. 137, updated as of June 1967.

heads of executive branch agencies. It will depend on the presence or absence of certain legislative or constitutional restrictions, including: exemption of certain agencies and activities from central budget review; traditional relationships between agency heads and the legislature; and the amount of time available for budget preparation before submission to the legislature. The Governor's (and the legislature's) discretion may also be hampered by past decisions that tie up State money in special funds dedicated for special purposes, payment of debt service, employee retirement costs, matching costs for Federal grants or employee pay-increment plans.

Nevertheless, several indices may be used to measure the Governor's formal strength in budget-making:*

- The degree to which the Governor, or an agency directly responsible to him, has the responsibility for preparing the budget.
- The restrictions placed on agencies regarding requests to the legislature for amounts beyond those recommended by the State's budget-making authority.
- The practice, in keeping with the principle of executive budgeting, of submitting only the approved or revised agency spending requests to the legislature.
- The Governor's authority to transfer funds within agencies among appropriation items.

In Table 41 the States have been grouped according to authority granted the Governor under these four indices of the budget-making power. The indices, however, are not weighted equally; the "final legal budget-making authority" of the Governor is given five points on a ten-point scale; State practice in prohibiting agencies from requesting additional funds from the legislature is assigned three points; and the final two indices--presentation of revised agency requests and Governor's authority to transfer funds within agencies--are given one point each.

Five States--California, Hawaii, Maryland, New York and Tennessee--received the highest possible ranking. Each provides the Governor maximum powers in the four areas selected for assessing his strength in the budget-making process.

Reorganization authority.--One way to facilitate reorganization of State government structure and strengthen the Governor's role as chief administrator, is to authorize him to submit reorganization plans, subject to legislative veto. This links responsibility for the efficient day-to-day operation of the government with the power to propose revision of antiquated structure and methods. On the national level, the Reorganization Act of 1949, as amended, provides the President with such authority.

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* There are other indices that could be used in measuring gubernatorial budget-making powers, but these four are significant and data for the 50 States are available for each of them.

TABLE 41.--GOVERNOR'S POWER IN BUDGET-MAKING PROCESS, 1966

Very Strong (7 States)

California	New York	Rhode Island
Hawaii	Pennsylvania	Tennessee
Maryland		

Strong (9 States)

Alaska	Missouri	New Mexico
Connecticut	Nebraska	South Dakota
Minnesota	New Jersey	Vermont

Medium (30 States)

Alabama	Kentucky	Ohio
Arizona	Louisiana	Oklahoma
Colorado	Maine	Oregon
Delaware	Massachusetts	Texas
Georgia	Michigan	Utah
Idaho	Montana	Virginia
Illinois	Nevada	Washington
Indiana	New Hampshire	West Virginia
Iowa	North Carolina	Wisconsin
Kansas	North Dakota	Wyoming

Weak (4 States)

Arkansas	Mississippi
Florida	South Carolina

Source: Based on data from Council of State Governments, Budgeting By States (Chicago, 1967) and Tax Foundation, Inc., State Expenditure Controls: An Evaluation (Supplement), 1965, pp. 13-14, using indices developed by ACIR staff (see text).

In seven States, a version of this plan is now in effect. In its "pure" form, the Governor presents a reorganization plan to the legislature and the proposal goes into effect unless the legislature takes action to disapprove it within an allotted period. Thus, the usual legislative procedure is reversed. Instead of an executive veto over legislative enactment, a legislative veto over executive initiative is made possible. This procedure has been described by its friends as "an attempt to put inertia and indecision on the side of change,"129/ and by its enemies as "executive legislation."

This pure form exists in only three States (Alaska, Massachusetts and Michigan), where the procedure is authorized by the State constitution. In three States (South Carolina, Pennsylvania and Kentucky) positive legislative approval of a reorganization proposal is required to put it into effect. In the seventh State, Georgia, the pure form exists along with a later version requiring legislative approval (by the unofficial ruling of the State Attorney General, both versions are legally in effect).

In two additional States and in Puerto Rico, the plan was once in existence but has now lapsed, either through expiration of its temporary authority or, as in New Hampshire, through a State Supreme Court holding of unconstitutionality. Twelve other States have officially considered it, ten since 1958.

This procedure's record of accomplishment is mixed. Alaska has used it several times, once to create two new departments. Puerto Rico, which also employed it in the pure form, has compiled the most impressive record. Thirteen of fourteen proposals were accepted by its legislature in 1950, in a comprehensive reorganization intended to enable the island to perform effectively under its new Commonwealth status, but the authority was then allowed to expire, since no further need was felt. In Pennsylvania, where such reorganization is limited to the subdepartment level, five out of eight proposals were approved by the legislature in 1955 and none of this type have been submitted since. In the remaining States, the pattern appears to have shifted. Where reorganization is desired, it is introduced as a regular legislative bill. Since positive legislative approval is required in three of the States, this shift comes as no surprise. Conceivably, the existence of the procedure may act as a stimulus to legislative approval of reorganization.

Reluctance to use the technique has been laid to "prevailing legislative suspicion of and resentment toward a procedure that reverses the usual executive and legislative roles."130/ It has been argued that the rural-urban legislative disproportion, now being corrected by reapportionment, has been a major factor sustaining this resentment. Accordingly, as the effects of reapportionment begin to register, and as States from time to time revise their constitutions, there may be opportunities for wider use of this procedure.

It might be noted that the recent Constitutional Convention in New York included the procedure in the new constitutional document submitted to the voters; the entire document was rejected at the polls, however.

Statewide planning.--Comprehensive statewide planning has become a more "respectable" and popular concept in the past few years, and this has benefited some Governors. In 1960 only 19 States had established statewide planning agencies; in 1966 the count was 46, but their administrative position and activities varied greatly. Until recently, their principal concern was industrial development, but many States now are broadening the scope of their planning process.

A stimulus to this shift has been the "Section 701" urban planning assistance grant program administered by the Department of Housing and Urban Development, which in 1961 was expanded to provide aid to State governments for statewide and interstate planning.

The variations in the individual State planning operations are well highlighted in a recent study of 14 States by David K. Hartley. This survey identified ten different functions:[131]

(1) Assistance on policy formulation for long-term statewide development. In nearly all the States this was a direct legislative mandate. The closer the planning agency was to the Governor, the more substantive was its involvement.

(2) Specialized research in matters related to development. For the most part, this was undertaken by the particular State department involved in program administration--such as the highway department. However, some common statistical material, such as demographic projections, were produced by the central agency. Some States maintain a statewide information system and data bank in their planning agencies.

(3) A central information system for the public, local governments, and other State agencies. Every one of the 14 States operates such a system. The older planning bodies regard it as central to all their other functions, and the newer ones expect it to accelerate rapidly in the next several years.

(4) Technical and financial planning aid to local and regional authorities. Local aid is rendered by all State planning bodies, and in many important programs the State administers Federal financial aid to local planning efforts, which provides a strong lever.

(5) The preparation of a comprehensive statewide development program. All 14 States reported this as a key responsibility, although the comprehensiveness was affected by the absence of major elements of State development--typically, by the independent planning of highways.

(6) Coordination of the functional plans made by other departments. The longer a State planning program has been operating, the more likely it is to be able to review and coordinate the detailed plans made by other departments.

(7) Coordination of the State's capital budget. Some coordination goes on in every State but certain State departments are not included in the process and submit independent capital budgets to the legislature.

(8) Coordination of applications for Federal aid and required statewide plans. Although only six of the 14 States studied in the AIP report indicated that the State planning agency

undertook this coordination, it was widely recognized that the need for such action was growing steadily.

(9) Providing planning services to line agencies. Only limited aid is provided, principally in the direction of encouraging the line agencies to undertake program planning and budgeting.

(10) Information or services to legislature. This is regarded as secondary, where it exists at all, to the major goal of service to the executive.

The planning unit's administrative location and relationship to the Governor follows no fixed pattern. Sixteen of the 44 planning units covered in a 1967 survey are located in the State department of development; in another 16 States, the function is performed by a staff unit attached to the office of the Governor; in five, it is done by a separate planning agency; in five, by the department of finance or administration; and in two, by an interdepartmental committee.*

The earlier Hartley study concluded that the Governor should enjoy a close or fairly close relationship with the planning unit. The overall administrative pattern for the 44, summarized above, would suggest, however, that a number of the Governors are not in this favorable position.

Assessment of Governor's role.--From the preceding analysis, five indices have been selected to gauge the formal strength of each Governor--the number of other elected executive officials, appointive power for selected major State agencies, veto power, term of office, and budget-making power. When combined as in Fig. 20, they provide an overall view of the Governors' formal administrative position. Each index has been weighted or assigned a value on a 100 scale as follows: number of elected State officials--20; power of appointment--20; veto power--10; term of office--25; and budget-making power--25.

The results suggest a relationship between the size of population and the formal strength of the Governor. The populous States, with the exception of Texas, all give their Governors a strong role over the executive branch. Moreover, States with the newest constitutions--Alaska and Hawaii--also rank high, as well as several more sparsely populated States that have a strong tradition of political competition between two parties. While political factors have not been subject to detailed scrutiny here, these summary findings suggest that States with complete or substantial one-party dominance are less inclined generally to provide the Governor with explicit controls over State administration. This tentative finding corresponds with that of an earlier comparative study of the formal powers of the Governors:132/

> The more highly competitive States tend to concentrate power in the hands of the Governor. . . . Political characteristics are, of course, related to the size of the State and its degree of urbanism. Yet party competition may be the critical

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* Compiled by the Council of State Planning Agencies, Washington, D.C., as of June 1967.

Figure 20.

COMPOSITE INDEX OF THE GOVERNOR'S AUTHORITY

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factor--the need for parties to make their mark in a competitive political situation. The principal aberrations from the graduation of power according to size are those States out of line in terms of competition as well.

As has been stressed throughout the gubernatorial section of this portion of the report, there is no necessary relationship between the formal powers of a Governor and the degree of influence he actually wields. The business of administering an urban, highly populous State can be an arduous assignment, one requiring a more ordered system of controls over the executive branch. Yet such formal powers may not be necessary for the Governor to influence State policy and administration in smaller, less urban States. Governors with strong formal powers are more likely to be able to exercise effective direction and control. These summary findings concerning Governors' formal authority, therefore, cannot be ignored, especially if the various claims regarding the negative impact features of Federal grants are to be taken seriously. Many of these features, after all, go to the heart of the question of the Governors' formal administrative authority.

This summary analysis of formal gubernatorial powers highlights great variations as well as many similarities in State practice. In brief, it can be stated that within the American federal system no Governor approaches the President of the United States in terms of comparable constitutional authority and not too many of them enjoy executive power comparable to the Mayors of the Nation's largest cities.

The Legislature's Role

State legislatures are as affected by the impact of Federal grant programs as the executive branches and the Governors. Their lawmaking, administrative oversight, and fiscal functions--and in some instances the constitutional amending role--are all conditioned to a greater or lesser degree by the grant-in-aid system. Does a State authorize its localities to participate in a grant program; does a State itself join in various grant programs; is its bureaucracy structured and empowered to implement joint action programs; is the Governor provided adequate management controls over the executive branch; to what extent is a program matched with State funds--these are but a few of the critical grant-related questions which State legislatures alone can decide. These responsibilities are merely part of the greater role which has fallen to State legislatures in this rapidly changing era of mushrooming State functions, larger State budgets, expanding State personnel and more intricate intergovernmental relations.

The purpose here is to ascertain to what extent the legislatures are in an adequate position formally to deal with, deliberate on, and decide these basic questions of State policy. To have raised this issue a century or more ago would have been inconceivable, for the most conspicuous feature of the first State constitutions was the preeminent position assigned the State legislature. The impact of Jacksonian democracy and the aftermath of the panic of 1837 produced some limits on legislative power to incur State debt. The major phase of shackling the legislature, however, occurred during the short space of about 15 years following the Civil War when voters in several States revolted against their legislatures and placed in the State constitutions a variety of restrictions and impediments to legislative activity. A century later many of these shackles still bind and to strike them off is the underlying motive of various current nationwide reform efforts.

Despite the many restrictions imposed in the 1870's and 1880's the States continued to provide practically all domestic government in this country until around World War I, when the Federal Government began to stir. During the war years, two major grant programs were enacted and since then the total number of grant programs has increased to over 379 and continues to mount. The issue arises then: Do the legislatures have the time, the tools, and the organization to come to grips with the many questions of policy, administration and finance that the grant-in-aid system has produced?

Time and continuity.--Adequate time and continuity of attention are two factors influencing the legislatures' capacity to deal with these questions. At the end of World War II only 4 States had annual regular sessions, while today 14 legislatures do and another 6 meet annually with off-year sessions limited to budget or fiscal problems. In addition, the odd-numbered year sessions of the Tennessee General Assembly can be reconvened in the following year, if desired.* The other 29 State legislatures still meet for regular sessions on a biennial basis.

Most State legislatures are restricted as to length of session. Eight States with annual sessions, and nine with biennial, have no limitations on the length of the sessions. All others have some limitations. Table 42 groups the States according to the frequency and length of legislative sessions.

To what extent do the legislatures themselves have control over calling special sessions and determining the subjects thereof, and what limits are placed on their length? As indicated in Table 43, only 12 State legislatures may call themselves into session. Twenty-one may determine subjects. Only nine may both call themselves into session and determine subjects. In 28 States there is no limitation on the duration of a special session once it has convened. In nine States, the legislature has no authority to call itself into session, cannot determine subjects and cannot meet beyond a certain period.

With reference to tenure, as indicated by Fig. 21, in Alabama, Louisiana, Maryland, Mississippi and Nebraska, all members are elected to 4-year terms. Of the remaining States, 33 have 2-year House terms and 4-year Senate terms; 12 have 2-year terms for both chambers.

Although the noncontinuous character of most State legislatures is frequently cited as a major weakness, its negative impact perhaps may be exaggerated. A recent survey of State agency heads indicated that 44 percent of the respondents felt that their legislatures exercised greater control over their agencies' affairs than the Governor, while a little less than one-third listed the Governor as having greater authority and 22 percent rated them about the same.[133] At the same time, only 20 percent felt that the legislature was basically more sympathetic to their agency goals and 55 percent indicated the Governor had a better understanding. In a similar vein, less than one-fourth preferred legislative to gubernatorial or other controls.

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* In 1967, the Vermont legislature also adjourned its biennial session to reconvene on January 3, 1968. The example of Tennessee and Vermont may provide a precedent which other States now meeting only every other year may choose to follow.

TABLE 42.--FREQUENCY AND LENGTH OF STATE LEGISLATIVE SESSIONS, 1967

Frequency	Limitation on Length of Regular Sessions: Unlimited	90 or More Days	60-90 Days	Less Than 60 Days
Annual regular sessions	Alaska California Kansas Massachusetts Michigan New Jersey New York Pennsylvania	Oklahoma Tennessee	Arizona Maryland Rhode Island	Georgia South Carolina
Annual regular and budget sessions		Colorado Delaware	Hawaii Louisiana New Mexico West Virginia	
Biennial sessions	Illinois Iowa Maine Mississippi Nebraska Ohio Oregon Vermont Wisconsin	Connecticut Minnesota Missouri New Hampshire North Carolina Texas	Arkansas Florida Indiana Kentucky Montana Nevada North Dakota Utah Virginia Washington	Alabama Idaho South Dakota Wyoming

Source: Adapted from Council of State Governments, American State Legislatures: Their Structures and Procedures (Chicago, 1967), p. 6.

TABLE 43.--STATE LEGISLATIVE CONTROL OVER SPECIAL SESSIONS, 1967

Legislature May Call; May Determine Subject; No Limitation on Length

Connecticut	Massachusetts

Legislature May Call; May Determine Subject

Alaska	Arizona	Georgia
New Hampshire	New Mexico	Tennessee
Virginia		

Legislature May Call; No Limitation on Length

Nebraska
West Virginia

May Determine Subject; No Limitation

Iowa	Kansas	Maine
Minnesota	New Jersey	North Dakota
Oregon	South Carolina	South Dakota
Vermont	Washington	Wyoming

May Determine Subject

Alabama	Florida	Indiana
Maryland	North Carolina	

No Limitation on Length

California	Colorado	Illinois
Kentucky	Michigan	Mississippi
New York	Ohio	Oklahoma
Pennsylvania	Rhode Island	Wisconsin

Legislature May Call

Louisiana

Legislature Has No Authority

Arkansas	Delaware	Hawaii
Idaho	Missouri	Montana
Nevada	Texas	Utah

Source: Adapted from Council of State Governments, American State Legislatures: Their Structures and Procedures (Chicago, 1967).

Figure 21.

LENGTH OF TERM OF STATE LEGISLATORS
JUNE 1967

4-year term, all members | *4-year term Senate, 2-year term House* | *2-year term, all members*

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TABLE 44.--GENERAL STAFF ASSISTANCE FOR STATE LEGISLATURES, 1967

State	General Membership		Leadership	
	Research Assistants	Clerical	Technical	Clerical
Alabama				
Alaska				
Arizona		ND		7
Arkansas		ND		
California	120	666	13	21
Colorado			11	6
Connecticut			4	4
Delaware				
Florida		244		
Georgia		16	3	5
Hawaii	some	ND	10	17
Idaho		ND		5
Illinois	2	54	6	12
Indiana	4	33	3	8
Iowa		2		
Kansas		ND	ND	NR
Kentucky		ND	3	5
Louisiana			ND	
Maine		2		5
Maryland		5	5	
Massachusetts		ND	*	*
Michigan		66	10	11
Minnesota				3
Mississippi	ND	ND	NR	NR
Missouri	ND	ND		
Montana		30		
Nebraska		ND		
Nevada				
New Hampshire		18		2
New Jersey	**	**	**	**
New Mexico	some	14		
New York	varies	ND	NR	NR
North Carolina				2
North Dakota		11		
Ohio		7	3	5

TABLE 44 (CONCL'D).--GENERAL STAFF ASSISTANCE FOR STATE LEGISLATURES, 1967

State	General Membership		Leadership	
	Research Assistants	Clerical	Technical	Clerical
Oklahoma	some	43	NR	NR
Oregon		90	2	4
Pennsylvania	2	ND		
Rhode Island			2	2
South Carolina	ND	ND		2
South Dakota		ND		2
Tennessee		ND		
Texas		393	2	2
Utah		ND		2
Vermont				
Virginia		20		2
Washington		45	2	20
West Virginia		ND	3	10
Wisconsin	4	23	1	8
Wyoming		72		2

ND = Not determinable from survey.
NR = No reply.

* Classified.
**Allowance for staff

Source: Based on Calvin W. Clark, _A Survey of Legislative Services in the Fifty States_ (Citizens Conference on State Legislatures, April 1967), Table 13, pp. 53-54.

TABLE 45.--FISCAL SERVICES PROVIDED BY STATE LEGISLATIVE SERVICE AGENCIES, 1967

Budget Review and Analysis, Continuous Study of Revenue and Expenditures, and Legislative Post-Audit

Alaska	Michigan	Rhode Island
Arkansas	Nevada	Tennessee
California	New Hampshire	Texas
Colorado	New Jersey	Utah
Florida	New Mexico	Washington
Illinois	Oklahoma	West Virginia
Louisiana	Pennsylvania	Wisconsin
Maine		

Budget Review and Analysis and Continuous Study of Revenue and Expenditures

Idaho	Indiana	Iowa
Maryland	Massachusetts	Minnesota
Mississippi	Missouri	Nebraska
Ohio	Oregon	

Budget Review and Analysis and Legislative Post-Audit

Hawaii	North Dakota	South Dakota

Continuous Study of Revenues and Expenditures and Legislative Post-Audit

Virginia

Continuous Study of Revenues and Expenditures

Kansas

Post-Audit

Alabama	Arizona	Connecticut
Georgia	Kentucky	

No Fiscal Services

Delaware	Montana	New York*
North Carolina	South Carolina	Vermont
Wyoming		

*The New York Legislature's fiscal committees are served by fiscal staffs of their own.

Source: Based on Clark, op. cit., Table 9, pp. 40-41.

Staff.--One of the most critical factors conditioning the capacity of legislative leaders, committees, and individual members to respond to their growing responsibilities is staff. As one authority put it:[134] ". . . Legislators probably feel more strongly about being provided inadequate staff and assistance than about low salaries and inadequate allowances for direct, out-of-pocket expenses of their daily work. For most legislators no experience is more frustrating than the enormous gap between what constituents and public seem to expect and what they see as possible to do with the facilities available. . . ."

A major attempt to fill the gap in professional staff has been the development of permanent legislative service agencies, most notably the growth of legislative councils. By the close of 1966, 44 States had established legislative councils and most of the others had alternative arrangements. California and New York use well-staffed interim committees, while Hawaii and Oregon use special interim committees, sometimes drawing for staff assistance on permanent service agencies. The West Virginia Joint Committee on Government Finance undertakes some substantive studies on its own initiative and conducts studies requested by the legislature, and the Mississippi legislature has established special interim study committees from time to time.

In 40 States, according to a recent study of the Council of State Governments, secretarial assistance is given to all standing committees, but in the remaining, such assistance is limited to committees on finance, appropriation, ways and means and judiciary. Fiscal committees in all States have clerical assistance.[135] The Citizens Conference on State Legislatures reports that only seven legislatures provide most standing committees with funds for some technical staffing: California, Hawaii, Michigan, Minnesota, Ohio, Texas and New York.[136] As shown in Table 44, in at least ten States, some research assistance is provided to the general membership. Clerical assistance is provided to legislative leaders in 29 States, and some technical assistance is provided in 19.

The staff question--especially as it concerns standing committees--is closely related to the continuity problem discussed earlier. If committee staff disappears when the session adjourns and all that remains in the interim is the legislative council, the legislature as a whole and certainly its major standing committees are relatively impotent to deal effectively with grant-related problems. At present, only California and New York have major standing committees staffed on a year-round basis.

The noncontinuous character of most State legislatures also prevents greater attention by legislators and staffs to the initial development of grant programs in the Congress. Rarely do State legislators testify at committee hearings and otherwise participate in the early stages of Federal legislation in a manner similar to the present active role of many local officials and some Governors.

Budget review and fiscal services.--Since the appropriation of funds is the most important and complicated legislative function, several legislatures have built up additional staff services for budget review and study of revenues and expenditures. A 1967 survey by the Citizens Conference on State Legislatures reports three basic categories of legislative fiscal services: (1) budget review and analysis; (2) continuous study of revenues and expenditures; and (3) legislative post-audit.[137] Table 45 groups those State legislative service agencies which provide these services either singly or in combination. Twenty-two provide all three services; 15 have two of the three services; and six provide only one service. In seven States no direct fiscal service is provided by the legislative service agency. In terms of personnel, 15 States have five or more staff performing budget and fiscal review--in addition to the post-audit function.

The fiscal cycle.--A principal task of State executives and legislatures nowadays is to take into account the availability of Federal grants when preparing their budgets. This is sometimes difficult because of uncertainty as to the amount of Federal funds that might be allocated to a State for a particular program--not to mention when they will be available. The State and Federal budget cycles further complicate this task. Since most of the major grant programs require some matching on the part of the State, this portion can represent a significant element in a State budget. Ideally, the legislature would be able to make a sound estimate of available Federal funds for the succeeding fiscal, or in case of biennial sessions, for the two succeeding fiscal years.

Obviously, a reasonable estimate is unlikely if, by the time the legislature must adopt a budget, Congress or the appropriate Federal agency has not determined the various amounts to be allocated among the States. Legislatures which have annual regular sessions have an obvious advantage in this regard over those which meet biennially, although the use of special sessions can overcome some of the disadvantages of the biennial session.

Frequently, Congress does not take final action on appropriations and new programs until late fall, well after individual State agencies have submitted their requests to the budget-making authority. Furthermore, where the final allocation of appropriations depends upon the action of a Federal agency, even more time has elapsed before the State can take account of the allocation in its budget proposals. Figs. 22 and 23 show the State budget cycle patterns as they relate to the legislature's role.

Generally, the executive budget-making authority reviews budget requests during the fall and submits the proposed budget to the legislature when it convenes in the following January--or shortly thereafter. In 1967, for example, all but six of the regular session legislatures convened in January. North Carolina, Hawaii and Tennessee assembled in February, Florida in April, and Alabama and Louisiana in May. In two States (Mississippi and Oregon) the budget was submitted to members of the legislature on December 1 before the session. In Kentucky, the budget is submitted to the legislature as the Governor desires.

Do the States have sufficient time to work on their budgets after congressional and Federal administrative decisions on allocations and programs are made? The most time-consuming phase of the process is the executive preparation of the budget which begins in some States as early as August and must be finished by the next January or February. With late congressional action in the fall not uncommon, and with Federal agency decisions, where required, coming even later, the State budget-making authority may be forced to submit to the legislature a budget that is incomplete or inadequate in certain program areas dependent upon Federal aid. Presumably, the necessary information on Federal allocations would be available to most legislative sessions by the time final action on the budget is necessary. But even so, this time lag may force hurried guesses and perhaps failure to budget for some programs at all, especially new ones.

State executives have raised questions with the Office of Emergency Planning's field trip staff concerning the Federal fiscal cycle and grant timing practices. Moreover, this problem has bothered State budget officers enough to

Figure 22.

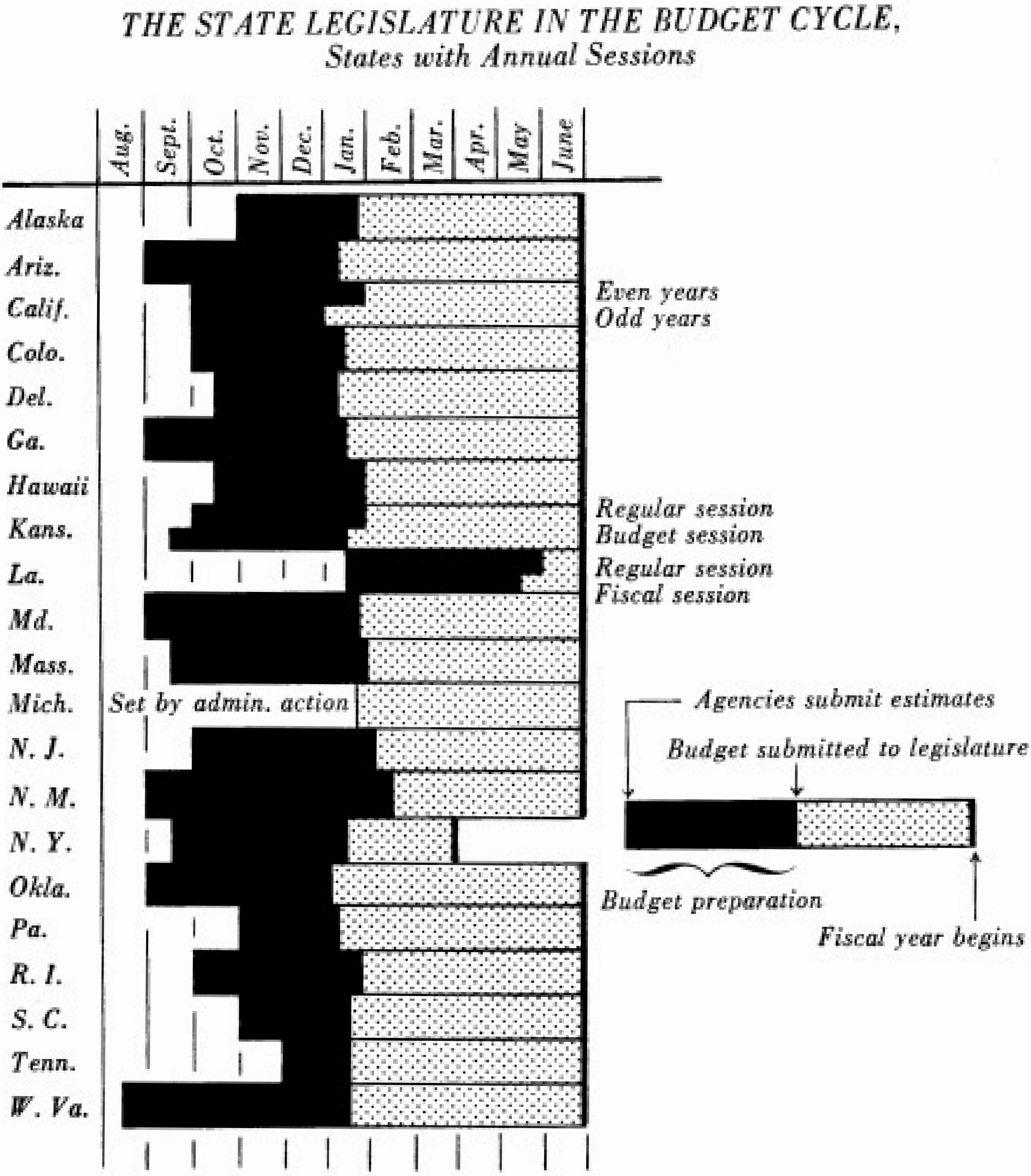
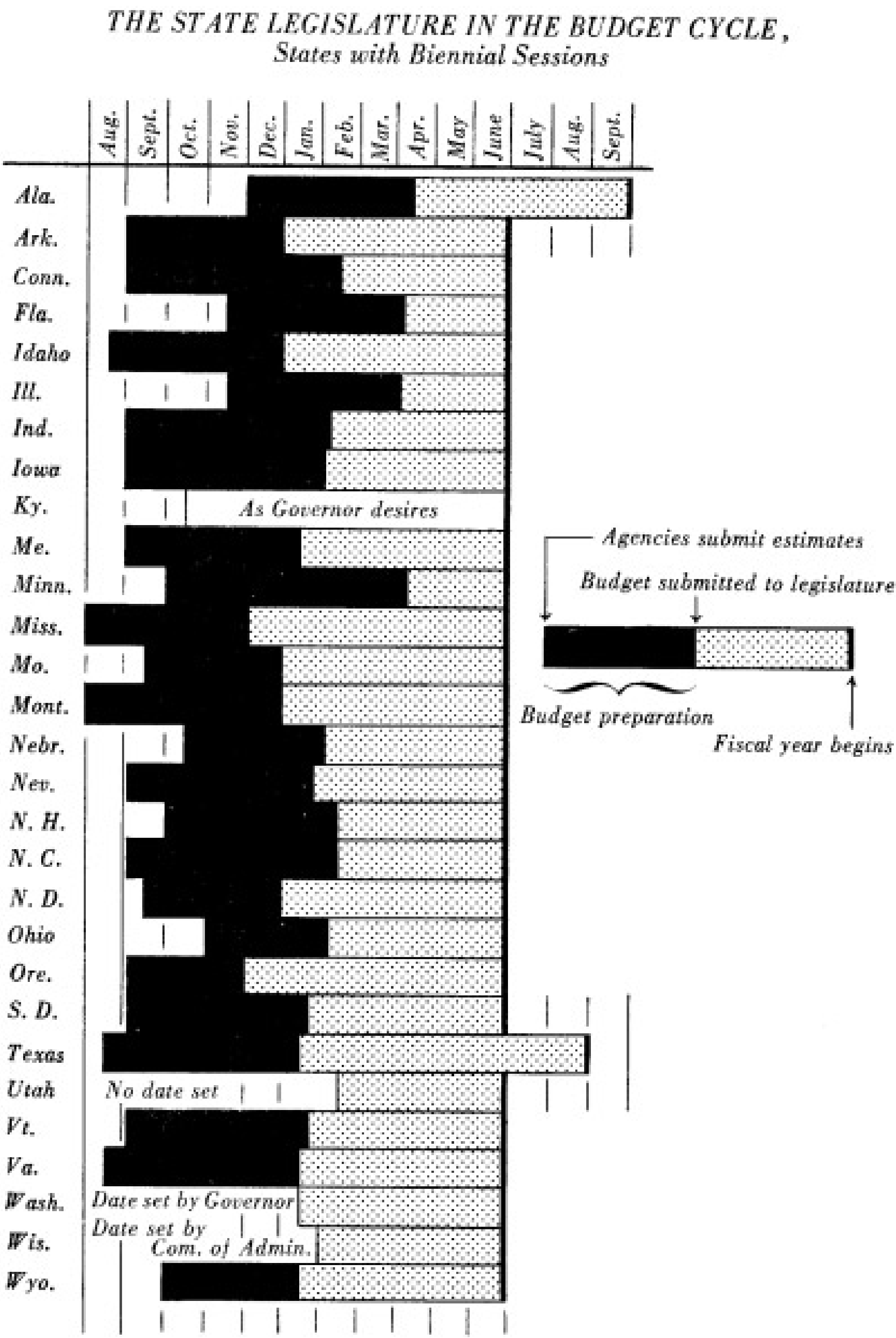

THE STATE LEGISLATURE IN THE BUDGET CYCLE,
States with Annual Sessions
Aug.
Sept.
Oct.
Nov.
Dec.
Jan.
Feb.
Mar.
Apr.
May
June
Alaska
Ariz.
Calif.
Even years
Odd years
Colo.
Del.
Ga.
Hawaii
Kans.
Regular session
Budget session
La.
Regular session
Fiscal session
Md.
Mass.
Mich.
Set by admin. action
N. J.
N. M.
N. Y.
Okla.
Pa.
R. I.
S. C.
Tenn.
W. Va.
Agencies submit estimates
Budget submitted to legislature
Budget preparation
Fiscal year begins

Figure 23.


THE STATE LEGISLATURE IN THE BUDGET CYCLE,
States with Biennial Sessions
Aug.
Sept.
Oct.
Nov.
Dec.
Jan.
Feb.
Mar.
Apr.
May
June
July
Aug.
Sept.
Ala.
Ark.
Conn.
Fla.
Idaho
Ill.
Ind.
Iowa
Ky.
As Governor desires
Me.
Minn.
Miss.
Mo.
Mont.
Nebr.
Nev.
N. H.
N. C.
N. D.
Ohio
Ore.
S. D.
Texas
Utah
No date set
Vt.
Va.
Wash.
Date set by Governor
Wis.
Date set by Com. of Admin.
Wyo.
Agencies submit estimates
Budget submitted to legislature
Budget preparation
Fiscal year begins

prompt suggestions that State budget cycles be rephased to help overcome some of the difficulties.

In the 29 States which still budget on a biennial basis, the problem, of course, is further aggravated by the added 12-month delay. Legislators in these States cannot anticipate the new programs, nor forecast the amount of Federal funds that will be available during the second fiscal year.

Legislatures that meet only biennially then are usually faced with all the new Federal grant legislation enacted by two sessions of Congress. Major Federal and State executive actions may also require consideration. The accumulation of nearly two years' production of Federal programs seems to demand more than biennial attention by State legislatures, most of which are not staffed to keep track of developments between sessions.

Summary.--In a 1963 report, the Committee on Organization of Legislative Services of the National Legislative Conference had much to say about the legislature's budget review and fiscal analysis functions. The Committee's recommendations may be briefly summarized as follows:[138]

Budget Review and Analysis

1. Each State should provide adequate staff to make effective the legislature's control over the appropriating process.

2. Legislative fiscal responsibility should be a continuing function.

3. The legislature has an obligation to make its intent unmistakably clear with respect to the appropriation act.

4. Each bill which would affect income or appropriations should be accompanied by an estimate of its fiscal impact. These estimates should be reviewed by the legislative budget review agency.

5. Legislative budget review staff should have access to State departments for the purpose of ascertaining their budget requirements.

Post Audit

1. Post audit of State fiscal operations should be organized and controlled so that the legislature will obtain information of the kind and at the times that it or its audit committee specifies.

2. The post auditor should be made subject to legislative control and supervision.

3. The legislature should establish a continuing joint audit committee to specify the scope and types of audits desired as guides to the post auditor, and to receive and act upon the post-audit reports.

The earlier analysis suggests that about half of the States now utilize at least a majority of these seven elements of good legislative fiscal control. Perhaps the most important element in the State legislative process, however, is the continuity of legislative attention to State affairs generally and grant-in-aid matters specifically. The degree of continuity varies greatly among the States--as we have seen. Only eight have annual regular sessions of unlimited duration, in short, have the same authority as Congress in this area. Thirteen others have annual regular or budget sessions, but are restricted in length. The remaining 29 legislatures still meet biennially, with 20 having varying limitations.

As was noted earlier, State administrative heads are fully aware of the legislatures' ultimate control over their finances and program authority, but many resent it and this in itself indicates the need for more careful exercise of legislative responsibility in the fiscal, oversight, and law-making processes. Continuity may not be crucial to remind State agency heads of the legislature's role, but it is critical to the effective performance of its overall policymaking function and its new, expanding role with reference to grants-in-aid.

The Impact of Federal Grant Programs Upon Local Government

Local governments in the United States receive Federal grant assistance --sometimes directly supplemented by State aid--under a wide and often bewildering range of different programs and authorizations with varying provisions and requirements. They qualify as direct recipients of aid under at least 68 of the 379 separate Federal grant programs (available January 1, 1967). In 12 of these programs the local governments are the only eligible recipients, in the other 56 public and private institutions and individuals also qualify.

Local governments may also receive Federal assistance under some of the 311 other programs, depending upon patterns of functional responsibilities and on provisions of State plans and legislation. For example, in those States where local governments have highway and welfare responsibilities, they may receive Federal aid funds through the State. Urban planning assistance for communities of under 50,000, while administered and allocated by a State agency and not directly available to local governments, can be used only for assistance to local governments. Aid available under the Hill-Burton hospital construction program, on the other hand, depends on the provisions of the required State plan and may go directly to local governments via an application approved by a State agency or indirectly through allocation by the State. The circumstances under which Federal aid to the States is, in turn, transferred to localities clearly vary considerably from program to program.

All grants for which local governments are directly eligible are project grants. One consequence of the separate project grant approach has been to produce strong competition among the local jurisdictions for Federal grant assistance. Such competition can be healthy, of course, and stimulate a high level of performance. On the other hand, it can foster "grantsmanship" and place a premium on large and specialized staffs knowledgeable in the techniques of obtaining grant assistance--a capability which may not necessarily have a direct correlation with the need for the assistance and which medium-sized and small jurisdictions frequently have difficulty meeting.

State involvement in the administration of Federal grant assistance to local governments arises primarily in three ways: (1) State authorizing or facilitating action may be necessary for local participation; (2) the State may be directly involved in administering the grant program; and (3) States may provide a share of the required non-Federal matching funds. All of these relationships are of vital and continuing concern to local governmental officials. Some indication of their views on these relationships and other grant-related topics was provided in the earlier summary of surveys of State and local officials.

State authorization and facilitation.--Local governments derive their authority to participate in the Federal grant-in-aid programs from the State. The source of such authority can be either constitutional or statutory. As a general matter for conventional urban functions, the basic legal instrument which establishes municipalities and towns provides adequate authority for participation in grant programs, especially in those States where either constitutional or statutory home rule powers are available.

The extent of participatory authority varies considerably according to different types of local governments. Jurisdictions with only limited urban powers may not be able to participate in urban programs without additional specific action by the legislature. This is true for counties in a considerable, but decreasing number of States. Generally, however, for conventional functions within the normal range of responsibilities of local governments, additional specific authorization is not usually needed.

Yet two problems remain: first, specific authorizations may be required for new programs and there are jurisdictions, such as rural counties, not customarily empowered to undertake service programs even of a more traditional nature; second, existing State laws and regulations may present impediments to local participation.

State-authorizing legislation for participation of local governments in urban renewal programs illustrates the problem where other than traditional urban functions are involved. Although the urban renewal program was originally established in 1949, it was not until 1957 that as many as three-fourths of the States authorized local governments to participate. At the present time only two States (Louisiana and South Carolina) do not authorize participation by their local governments in Federal grants for urban renewal.* Yet, in a number of cases the authorization does not extend to all types of local governments nor for all of the purposes encompassed under the low-rent public housing and urban renewal programs.

Those programs which primarily serve to bring together a number of existing functions for a coordinated attack on a major problem can present special difficulties in those States with limited local authority dependent upon legislative action. At the 1967 "Creative Federalism" hearings one Mayor testified: ". . . We are forced, as are other local officials, to present legislation every time we need authority to undertake a new program. For example, I have had to file a bill which would permit us to qualify for the model cities program."139/

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* Florida and Maryland authorize urban renewal activity by special separate acts for each jurisdiction. However, such authorization has been widespread in each State.

Another type of State legislative authorization which may be lacking was alluded to by Secretary Robert C. Weaver in his 1966 testimony in the same set of hearings:[140]

> In many States, however, communities lack clear and positive legislative authorization to work together in the joint planning and carrying out of areawide programs. Consequently, in many local areas ad hoc working arrangements among communities and operating agencies have had to be established for areawide programming and developmental coordination.

This lack can become of increasing concern to local governments since several Federal grant programs now either require joint action under certain circumstances or provide additional matching as an encouragement for it. Under the highway aid program, for example, areawide transportation planning must be effected in metropolitan areas desiring to qualify for aid. Under the metropolitan development title of the 1966 Demonstration Cities and Metropolitan Development Act a higher proportion of matching will be available for joint projects.

A different kind of problem is presented by State legislation which hampers local government participation in programs for which basic authorization exists. For example, the Advisory Commission in its study of _Intergovernmental Relations in the Poverty Program_ discovered that State legislation and administrative regulations presented a number of barriers to the coordinated administration of the poverty program by local governments. These included restrictive licensing standards of day-care centers; welfare regulations which discourage recipients from receiving job training; prohibitions against public agencies contributing funds to private nonprofit community action agencies; residence requirements or practices which hinder the initiation of work experience programs; laws which prevent the use of public school facilities for preschool (Head Start) children; and overly restrictive standards for the utilization of nonprofessional and subprofessional educational personnel.

State financial assistance.--It is difficult to assess the State's role in assisting local governments to meet the matching requirements in Federal grant programs because of the diverse forms that such assistance may take. As the Advisory Commission observed in its _Eighth Annual Report_, however, "wholesale involvement and participation by the States in the functions of urban government continue to be the exception rather than the rule."

Any discussion of State financial assistance to local governments for the non-Federal matching share of grant assistance programs must be placed in the total context of the varying allocation of revenue sources and program responsibilities among levels of government. Earlier in this report in examining "The Size, Shape, and Significant Features of Fiscal Federalism," these varying relationships were described.

During the period from 1942 to 1957 there was some shift from local to State financing of general government services. Between 1957 and 1966, however, both the State and local portions fell because of the sharp increase of Federal aid funds. If Federal funds are excluded, a clearer picture emerges showing for the Nation as a whole a small shift from local to State financing between 1942 and 1957, and a static situation between 1957 and 1966 but with some regional variations. The pattern of State aid to local governments was generally the same, i.e., a slight increase between 1942 and 1957 and a static situation from 1957 to 1966. The major exception was in the field of education where State aid on a nationwide basis continued to increase over the whole period from 1942 to 1966. One particularly significant factor in the revenue picture that should be mentioned is the extent to which States may authorize local governments to levy nonproperty taxes as an alternative to the provision of direct State aid. Those States in which nonproperty taxes provide a significant percentage of total local tax revenue include the following: Alabama (47.2%), Alaska (26.2%), New York (25.3%), Pennsylvania (24.6%), New Mexico (24.1%), Louisiana (23.6%), Virginia (22.9%), Hawaii (22.4%), Kentucky (21.2%), Mississippi (19.8%), Missouri (18.2%), Nevada (18.0%) and Tennessee (17.6%).

State financial assistance to local governments for grant-in-aid matching purposes may range all the way from specific programs directly designed to supplement local matching, to broad general provision of new revenue sources to finance local matching obligations. Furthermore, the basic distribution of functional responsibilities among levels of government varies widely from State to State. In a number of States some of the important federally aided program responsibilities are lodged primarily or exclusively at the State level.

Although the development has been gradual, there has been significant action by States in assuming additional or total responsibility for certain functions. North Carolina, for example, assumed predominant responsibility for general public education a number of years ago; Rhode Island recently assumed major public health responsibility; West Virginia has taken over the complete responsibility for road building and Delaware, Kentucky and Virginia have assumed a portion of it. The Commonwealth of Massachusetts in 1967 was the latest State to relieve localities of all welfare costs, including general assistance. There is considerable agitation in a number of other States where major public welfare burdens still fall on local governments to follow a similar course.

Aside from general State aid and the provision of new revenue sources, State financial assistance to local governments to supplement Federal grants can take two more direct forms. It can either be specifically identified and related to Federal grant programs or it can be made available for program or functional areas for which there is also Federal grant assistance and therefore be used by local governments to supplement such Federal aid.

Table 46 identifies six basically urban programs where State aid supplements local funds to help meet the matching share of the Federal program. As mentioned earlier, the Federal Water Pollution Control Act provides incentives for those States granting at least 25 percent toward construction costs of local sewage treatment facilities. As of September 1967, 20 States had acted to supplement local costs while action was pending in five other States. Thirty-six States were providing aid to local governments for airport construction and a significant number of earmarked taxes for support of this program. Eleven assisted in the local costs of the Federal urban renewal program; ten in urban mass transportation; and seven in water and sewer facility projects. Finally, only four supplemented local funds for hospital and medical facilities.

Deep financial involvement by the States in "buying into" Federal-local programs continues to be the exception rather than the rule, but perhaps a trend in the other direction is beginning. The incentive provisions of the waste treatment works construction program, designed to encourage State financial participation, appear to have been successful in terms of securing fairly widespread State action because the number of States participating financially in municipal sewage plant construction numbered only 8 at the time of enactment of the Federal Water Quality Act of 1965; it has now grown to 20.

TABLE 46.--STATE AID TO LOCALITIES SUPPLEMENTING THE LOCAL CONTRIBUTION UNDER SELECTED FEDERAL GRANT PROGRAMS, DECEMBER 1967

State	Waste Treatment Works	Airport Construction	Hospital Construction	Urban Renewal[1/]	Water and Sewer Facilities	Urban Mass Transportation
Alabama		x*	x			
Alaska		x[2/]		x[3/]		
Arizona		x				
Arkansas						
California		x*	x	x		x
Colorado	x					
Connecticut	x	x[4/]		x	x[5/]	x
Delaware	x				x[5/]	
Florida						
Georgia	x	x	x			
Hawaii		x[4/]		x[3/]		
Idaho		x*				
Illinois		x		x[3/]		
Indiana	x				x[6/]	
Iowa		x				
Kansas						
Kentucky		x				
Louisiana						
Maine	x	x			x[6/]	
Maryland	x	x[7/]			x[6/]	
Massachusetts	x	x		x		x
Michigan		x[4/]				
Minnesota		x*				
Mississippi		x*				
Missouri	x	x				x
Montana		x*				
Nebraska		x*				
Nevada						
New Hampshire	x	x*				
New Jersey	x			x		x
New Mexico						
New York	x			x	x	x
North Carolina		x	x			
North Dakota		x				
Ohio		x[7/]				

TABLE 46 (CONCL'D).--STATE AID TO LOCALITIES SUPPLEMENTING THE LOCAL CONTRIBUTION UNDER SELECTED FEDERAL GRANT PROGRAMS, DECEMBER 1967

State	Waste Treatment Works	Airport Construction	Hospital Construction	Urban Renewal 1/	Water and Sewer Facilities	Urban Mass Transportation
Oklahoma		x				
Oregon	x	x*				
Pennsylvania	x	x* 4/		x	x	x
Rhode Island	x	x 2/		x		x
South Carolina		x				
South Dakota		x*				
Tennessee	x	x				
Texas	x	x				
Utah		x*				
Vermont	x	x			x 8/	
Virginia		x*				
Washington	x					x
West Virginia						
Wisconsin	x	x*		x	x 9/	
Wyoming		x				

1/ Typically provides one-half of local contribution.
2/ Owns all or most of the airports.
3/ Provides or has provided aid in specified instances.
4/ Owns and operates some of the airports.
5/ Sewer only.
6/ Loans only.
7/ Bond issue.
8/ Only in cases of proven hardship.
9/ Limited application.

*Some or all aid from aviation-related taxes and revenue.

Source: Data obtained from administering Federal agencies.

State channeling of Federal aid.--Local governments are among the eligible recipients directly or indirectly for a substantial portion of the 379 Federal grant programs. Sixty-eight of these grant programs go directly to local government while the rest are administered through the states. State involvement or channeling may take two major forms. It may consist solely of review and comment or approval of applications going directly from local governments to the Federal agency, or there may be more State involvement and initiative through a State plan, State allocation of available funds within the State, or State determination of eligible projects and priorities. Table 25* identifies the Federal grant-in-aid programs for which local governments are direct recipients wi . no State involvement and those direct Federal-local programs which in one way or another are channeled through the States.

The precise nature and significance of State involvement or channeling in Federal grant programs varies considerably, reflecting both differing Federal and State requirements and procedures. An earlier Commission report, Impact of Federal Urban Development Programs on Local Government Organization and Planning, includes a general discussion of channeling in those 11 programs for which it was required out of the 43 programs of financial aid for urban development available at the end of 1962. The arrangements described for the programs illustrate the forms that State channeling can take.[141] Nearly one-half of the programs required a State plan which served as the primary instrument for channeling.

State technical assistance and agencies for local affairs.--States can fulfill an important role in local administration of Federally aided programs by providing technical assistance, thereby complementing the provision of financial assistance. Steadily increasing urbanization and the attendant demand for more and better governmental services have placed new and heavy burdens on all governments, including local governments. Some States have responded to this crisis in local public services by initiating or increasing technical aid to their beleaguered municipalities. The extent of this technical aid varies broadly--by function and by State.

Some States provide technical assistance to local governments in program areas which are eligible for Federal assistance. This is true, for example, of public health, crime control, water supply and sewage disposal and public education. Assistance is most frequently provided in the form of technical or professional skills or expensive and specialized equipment, as in the case of engineering, planning, laboratory and testing facilities and services.

Usually, it is difficult to relate directly the technical assistance rendered to Federal grant programs. In some cases, however, such State assistance is clearly provided as part of their involvement in the administration of Federal grants to localities. State agencies may provide engineering and planning assistance to local jurisdictions undertaking projects under the flood control and small watershed grant program. Perhaps the most usual and complete services occur in connection with the urban planning assistance program for cities and counties under 50,000 population: where localities develop their own plans and projects using Federal grant assistance, State consultation is required and in some States a considerable portion of the technical work may be provided directly by the State agency.

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* See above, page 168.

Planning assistance may also be provided to localities in connection with programs for which a State plan is required. State hospital planning agencies, for example, may work with localities in developing specific building plans for projects to be assisted under the Hill-Burton grant program. Similarly States may make engineering and planning assistance available in connection with their administration of the Federal Water Pollution Control Agency's program of grants for sewage disposal projects. One of the basic objectives of the Elementary and Secondary Education Act is to improve State services to local school districts.

A major recent development in a considerable number of States has been the establishment of special agencies for urban or local affairs to assist in coordinating and providing services to local governments. Such agencies provide services and have responsibilities not directly related to technical assistance and their technical services are not confined to federally aided programs. They do serve, however, as a specific focal point in State government to which local governments can turn both for the direct provision of technical services and for information regarding the availability of services from other agencies. They can help the States fulfill their role in the administration of Federal grant programs; they serve as clearinghouses for information regarding both State and Federal grant-in-aid programs; they can assist in the development of plans, projects, and applications for Federal assistance; and finally they can meet needs for technical assistance not otherwise provided.

Some of the earliest State agencies providing technical services were located at State universities. The Municipal Technical Advisory Service at the University of Tennessee and the Institute of Government at North Carolina are among early examples. Others were the bureaus established in agencies responsible for financial supervision of local governments. Such bureaus ultimately provided not only financial supervision but also technical assistance in connection with meeting specific financial requirements and also for broader purposes. The two major examples were the former Bureau of Municipal Affairs in the Department of Internal Affairs in Pennsylvania and the Division of Local Government in the Department of the Treasury in New Jersey.

In New York, a somewhat different approach was taken in 1959 by establishing an independent Office of Local Government with fairly general functions. The office--among other duties--acts as a clearinghouse of information for local governments regarding Federal and State services and grants which are available to them and assists them in making applications and contracts. In the same year the Local Affairs Agency in the Office of the Governor in Alaska was established. Similar agencies have since been established in Rhode Island, Tennessee, California, Colorado, Illinois, Wisconsin, Minnesota and Vermont.*

Another pattern has emerged in Pennsylvania and New Jersey with the establishment of strong, independent line departments of community affairs. These departments brought together the existing agencies for local affairs and also a number of substantive program responsibilities related to local governments, including the administration of grant programs in a number of areas such as poverty, urban renewal, public housing, and planning assistance. Recent action in Missouri, Connecticut, Ohio and Washington established similar units. These agencies provide a strong focal point in State government for developing a coordinated

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* See Table A-34 for a more complete analysis of the functions performed by the various offices of local affairs.

approach to local government including the channeling of Federal grant funds under programs where this is provided for.

It should be noted that Title IX of the Demonstration Cities and Metropolitan Development Act of 1966 established a new program of grants for urban information and technical assistance services. Its purpose is to assist States in making information available on urban needs and assistance programs and activities and to provide technical assistance to small communities.

Local government planning.--As with the States, the significance of sound, effective local planning is particularly apparent in relation to the impact of grant programs. The planning process along with budgeting can provide an independent evaluation of the needs for specific programs and help develop a balance among alternative local demands. A measure of order and focus can be imposed at the local level on the frequently overlapping and sometimes conflicting Federal programs if an adequate planning and budgeting operation exists.

The 701 urban local planning assistance program constitutes Federal recognition of this potential. This program was originally designed primarily to provide the planning necessary for effective use of urban development programs such as urban renewal, redevelopment, low-income public housing and public works facilities. It now provides support for much broader and more significant planning activities.

Historically, the original focus of local planning was primarily on the physical development of the community. The more recent trend places increased emphasis on social and economic factors and the interrelationships between physical and human development or renewal. Moreover, with increasing urbanization many public programs and facilities have large service areas, going well beyond the borders of the traditional planning jurisdictions and concerns.

Federal policies and grant programs have reflected these trends. While continuing to support physical planning implemented through land use controls and program planning by line agencies, certain grant provisions now encourage and support the development of more comprehensive concepts. The community renewal program, for example, has been encouraged as a method of bringing together in a single planning process such interrelated developments as urban renewal, redevelopment, low income public housing, and other programs. An areawide transportation planning program for metropolitan areas is now required for Federal highway aid for such areas. As mentioned earlier, Section 204 of the Demonstration Cities and Metropolitan Development Act of 1966 requires review by an areawide planning agency of applications in a number of grant programs affecting urban development. Finally, under the sewage treatment construction works grant administered by the Federal Water Pollution Control Agency, the basic grant can be increased by 10 percent if the aided project conforms to an areawide comprehensive plan.

There are four major types of local planning agencies in the country today: city and municipal planning commissions, county planning agencies, metropolitan area planning commissions and regional planning agencies. At the outset, it should be noted that there is some overlap among these planning agencies. For single-county metropolitan areas, a county planning agency is for all practical purposes a metropolitan area planning agency. In some States, joint city-county planning agencies are encouraged and, in single county metropolitan areas, they frequently also serve as metropolitan area planning agencies. Although there is separate authorizing legislation in some States for metropolitan area planning commissions and for other regional planning commissions outside of metropolitan areas, still other States make no distinction between them and the regional metropolitcan area categories coincide.

The extent of the various types of planning agencies in the country has been highlighted in some recent surveys. The Municipal Yearbook-1965 reports that of cities over 10,000 population, nearly 1,300 of 1,400 indicated that they had an official planning agency. Only about one-third of the cities, however, had full-time professional staff. One-fifth spent less than $1,000 annually on planning. Among the larger cities reporting, the proportion having official agencies with full-time staff was higher; of 114 cities over 100,000, 105 reported having official planning agencies and 97 reported having full-time staff.[142/]

In the fall of 1966 the American Institute of Planners and the Office of Regional Economic Development (now Office of Regional Development Planning) surveyed the 50 States regarding the extent of areawide planning, including counties, regions and metropolitan areas.[143/] The survey found county planning activity in nearly 30 percent of the Nation's 3,000 counties and slightly over 100 metropolitan and regional planning agencies (including 8 interstate) in 34 States. Three-fourths of the 231 metropolitan areas have some form of areawide planning agency. Of these, approximately two-thirds are single county SMSA's with a countywide planning agency including both county and city-county agencies.

Local coordination of grant programs.--The planning and budgeting process in local government is one of the major elements in coordinating Federal grant assistance with overall local objectives. The other major element is the development of organizational and structural techniques designed to facilitate coordinated administration in the implementation of the planning and budgeting process.

As in State government, efforts to adapt local administrative organization to provide better coordination of Federal grant administration have followed two major courses. The most widely used approach has been the appointment or designation of a specific position for Federal aid coordination. The other approach, which has broader general objectives, has been restructuring of departments and agencies which results in bringing together under one administration the programs upon which Federal grants have their major impact.

The assignment of responsibility for Federal aid coordination to a specific individual or office has included the appointment of a development administrator, an assistant to the chief executive, a Federal liaison or Federal-city coordinator, or a county development coordinator. The appointment of a Washington representative might also be considered to fall in this category.

A recent International City Managers' Association report summarizes the results of a survey which identified these approaches.[144/] In New Haven, Connecticut, a development administrator is responsible for planning and development for the entire city. Among his duties are the review and evaluation of Federal program information with appropriate departments and the coordination of Federal-local program activities. Several cities reported the establishment of a specific position for coordination: in Des Moines, Iowa, for example, there is an administrative assistant for Federal municipal coordination in the Office of the City Manager; in Denver, a Federal liaison officer has been established in the Office of the Mayor; and in Oklahoma City, there is a Federal city program coordinator.

While specific functions of these officials vary from city to city, they generally include the channeling, evaluation, and review of Federal program information; evaluation of the specific impact of Federal programs on local plans, objectives and budget; and review and processing of grant applications. Several cities reported that in addition to the overall planning responsibility and its coordinating effect on Federal grants for urban development, the city planning department was specifically assigned the responsibility of coordinating Federal aid information and grant applications. In addition, as noted earlier, several large cities have established a Washington office to facilitate liaison with Federal agencies and assist in the coordination of Federal grant activities at the local level.

Currently, over 300 counties have appointed or designated a county development coordinator with responsibility for coordinating activities dealing with Federal and State assistance. Approximately one-fourth of the coordinators are assigned full-time to this responsibility and the remainder serve primarily in another capacity. Approximately one-third are in the county executive or administrator's office, a little less than a third in the planning department, and the rest about evenly distributed among the budget or finance department, an economic development agency or other departments. The county development coordinators assume responsibilities generally similar to those described for the Federal aid and development coordinators in cities. A significant organizational development in a number of cities, undertaken with a more fundamental objective than the coordination of Federal assistance, has accomplished this purpose by bringing together under a single agency a number of the most important federally aided programs. A number of cities have consolidated their planning and urban development programs into a single municipal development department and, more recently, human resource agencies have been formed to deal with welfare, poverty and related programs. This approach parallels the formation at the State level of similar agencies, departments of community development and human resource agencies. This organizational approach is, of course, also the basis for the establishment of the Federal Departments of Housing and Urban Development and Health, Education, and Welfare.

A survey conducted by the American Society of Planning Officials in August 1964 provides information regarding several departments of community development.[145/] At that time experiments in the direction of administrative integration of development were primarily directed toward a combination of planning and urban renewal. In some States, particularly in a number of Michigan cities, the urban renewal function has been the responsibility of the planning agency from the start. In other cities planning and urban renewal are initiated within a combined department.

Experience seems to indicate an extension of the organization trend, which began with Baltimore, of pyramiding related functions under urban renewal--the new ingredient being the addition of the city planning function, thus bringing together in one agency a range of responsibilities for functions which includes programs frequently aided by Federal grants. Another step in this general direction was taken with the establishment of the Human Resources Administration in New York City combining welfare, youth, employment and antipoverty functions. These reorganizations provide an administrative mechanism for coordination of Federal grant programs at the local level.

Federal grants and special districts.--The provisions of Federal grant legislation have created special organizational and structural problems for local governments. Two were identified in the Commission's earlier study on the Impact of Federal Urban Development Programs on Local Government Organization and Planning; about a quarter of Federal programs affecting urban development induce or even require special districts for their administration, and most Federal aid programs considered did not serve to encourage areawide jurisdiction and even created a preference for or required limited local jurisdictions.[146]

One of the problems facing local government in the United States in its efforts to provide an adequate level of increasingly urban-type functions has been the diffusion of authority for certain functions among a number of single or limited purpose special districts. Frequently functions which are closely related to the whole fabric of local government responsibility such as water and sewer facilities, urban renewal and fire protection are outside the jurisdiction of the general local government most immediately responsible to its residents. Historically there are a number of reasons for the use and proliferation of special purpose districts including financial and functional limitations on the powers of general local governments.[147] A number of Federal grant programs include the special purpose districts among eligible recipients for grants, several actually encourage their use and a few even require it.

Federal policies in this connection have frequently reflected a pragmatic approach to determining organizational requirements for eligibility. The primary interest has been to assure professional quality performance of the function and the achievement of specific program objectives. At the time grant programs were inaugurated, limitations on general purpose units of government served to encourage the use of specific functional adjustments in local government organization as a basis for grant assistance. Among the examples of Federal grants providing encouragement for the establishment of what could be called counterpart special purpose organizations in local jurisdictions are the following: (1) the reclamation program requires establishment of independent irrigation or water user districts under certain circumstances; (2) programs of public housing and to a lesser extent urban renewal have been largely administered through independent or semi-independent local authorities due to the preference of Federal officials during the formative years; and (3) loans for rural housing, farm labor, and senior citizen housing and farm development and conservation require approval by federally appointed county committees of local farmers.

<u>Federal grants and interlocal cooperation</u>.--The Advisory Commission's reports on <u>The Impact of Federal Urban Development Programs on Local Government Organization and Planning</u> and on <u>State Constitutional and Statutory Restrictions Upon the Structural, Functional, and Personnel Powers of Local Government</u> pointed out that certain grants-in-aid flowing to small units of local government may tend to underwrite units which are uneconomical in size. Some Federal requirements or incentives may serve to encourage geographic isolation of individual general purpose governments by underwriting projects and programs that could not otherwise be undertaken by a single government. Grant programs, on the other hand, could provide positive encouragement for joint projects.

<u>Substandard urban development</u>.--The National League of Cities/National Association of Counties Committee on Substandard Urban Development in Rural Areas pointed out the undesirable impact of some grant programs on local government. In those areas where projects qualifying for assistance under basically rural-oriented grant programs impinge upon areas where rapid urbanization is taking place, the differing standards and needs of rural and urban development are brought into sharp focus. Rural utility districts, for example, qualifying under the rural water and waste disposal facilities grant program have built water and sewer systems using mains too small to be integrated into the areawide water supply and sewage disposal system which will be required when more intensive urbanization takes place.

TRENDS AND PROBLEMS—A RECAPITULATION

The categorical grant-in-aid, the principal tool of fiscal federalism during the past century, has had a near-explosive growth in recent years, in terms of numbers, dollars and effects on Federal-State-local relationships. The outstanding characteristics of this growth have been:

- The proliferation and excessive categorization of grants;
- The expanding use of project grants;
- An increasing variety and inconsistency in matching ratios;
- The development of multi-functional grant programs, cutting across "disciplines" and departments;
- The trend toward bypassing the States with direct Federal-local relations ("direct federalism") and bypassing both State and local governments ("private federalism");
- A growing emphasis on grants to urban areas;
- Multiplication and inconsistency of planning requirements;
- Failure to rationalize Federal field organization and devolve significant grant authority to regional offices.

The categorical grant system, and particularly some of these recently acquired features, are causing severe intergovernmental strains. Probably the number one complaint by State and local governments is the "information gap": what grants are available, who administers them, etc. Multiple and inconsistent planning requirements cause confusion. States feel they are being elbowed out of their rightful position at the fulcrum of the federal system by the trend toward direct Federal-local grants and the increased reliance on project grants. Finally, the trend toward "private federalism" makes both State and local governments uneasy.

The National government has had to come to grips with some of the frictions generated by the grant-in-aid system and has taken promising actions to try to lubricate the friction points, including:

- Top Administration establishment and maintenance, through the Vice President and the Office of Emergency Planning, clear channels of communication with Governors, Mayors, State legislators, county officials and other officials;
- The Bureau of the Budget's rekindled interest in intergovernmental coordination;
- Actions by key department and agency heads to deal positively with intergovernmental problems, including establishment of high-echelon offices for intergovernmental relations;

- Aroused concern in Congress, expressed in the holding of various sets of hearings on the problems of grant administration.

On the negative side of the Federal picture, however:

- Full awareness of the intergovernmental and interagency implications of their respective grant-in-aid programs has by no means penetrated all domestic Federal departments and agencies;

- New techniques of interagency coordination are still only in the testing stage;

- Middle-management functional specialists continue to be guided by "tunnel vision";

- There is still doubt whether Congress will strengthen its procedures and its use of the General Accounting Office in order to better discharge its role in the review and overhaul of the grant structure.

The changing impact of Federal aid on State and local administration over the last two decades has created special problems for top policy-makers at the State and local levels:

- Most State and local officials believe that the increasing number of grant programs has led to greater Federal interference in their administrative and policy roles and has tended generally to be less stimulative and more coercive.

- The grant-in-aid principle is accepted by State and local officials, but specific reforms are desired, including greater flexibility in organizational, personnel, and fiscal requirements; greater uniformity in matching and apportionment formulas; broader categories; better program coordination; and greater certainty in Federal grant funding practices.

- Grants, in many cases, have accentuated the cleavage between line agency administrators and political decision-makers and between the States and their localities.

- The Governors in many States lack formal administrative authority to cope with the negative features of Federal grants in the State executive branch.

- The lawmaking, administrative oversight and fiscal functions of the State legislature are conditioned to a greater or lesser degree by the grant-in-aid system and many State lawmaking bodies do not have the time, the tools or the organization to assume effective legislative leadership.

- State authorization for local governments to participate in Federal grant programs generally has been good, but direct fiscal involvement by States in Federal-local programs, while improving continues to be the exception, rather than the rule.

- The extent to which States provide technical assistance to help their local jurisdictions varies broadly but generally much more effort could be made.

Appendix A

SUPPLEMENTARY STATISTICAL DATA

TABLE A-1.--GOVERNMENT EXPENDITURE, NATIONAL INCOME AND PRODUCT ACCOUNTS BASIS, 1946, 1956 AND 1966

Item	Amount			Percent Increase		Percent of GNP		
	1966	1956	1946	1946-1966	1956-1966	1966	1956	1946
	--------(billions)--------							
All governments, total[1/]	$209.9	$104.1	$ 45.5	361%	102%	28.2%	24.8%	21.8%
Defense, international and space research[2/]	78.4	47.2	20.5	282	66	10.5	11.3	9.8
Civilian-domestic	131.5	56.9	24.9	428	131	17.7	13.6	12.0
Federal Government, total	142.9	71.8	35.6	301	99	19.2	17.1	17.1
Grants-in-aid	14.8	3.3	1.1	1,245	348	2.0	0.8	0.5
Direct expenditure, total	128.1	68.5	34.5	271	87	17.2	16.3	16.5
Defense, international and space research[2/]	78.4	47.2	20.5	282	66	10.5	11.3	9.8
Civilian-domestic	49.7	21.3	13.9	258	133	6.7	5.1	6.7
State and local governments[3/]	81.8	35.6	11.0	644	130	11.0	8.5	5.3
Exhibit:								
Gross national product	743.3	419.2	208.5	256	77	-	-	-

1/ Excludes intergovernmental transactions.
2/ Includes an estimated portion of the net interest (77-78%) that is attributable to defense, international and space research activity.
3/ All civilian domestic.

Source: U.S. Department of Commerce, Office of Business Economics, The National Income and Product Accounts of the United States, 1929-1965 (Washington, D.C.: U.S. Government Printing Office, August 1966); and Survey of Current Business, July 1967 (1966 data partially estimated).

TABLE A-2.--STATE PROPORTION OF STATE AND LOCAL DIRECT GENERAL EXPENDITURE, FOR SPECIFIED FUNCTIONS, BY STATES AND REGIONS, 1966
(Percents)

State and Region	Total Direct General Expenditure	Education: Total	Education: Higher Education	Education: Other	Highways	Public Welfare	Health and Hospitals
United States	35.2%	22.7%	88.1%	4.7%	67.5%	46.4%	50.2%
New England	39.3	19.7	99.7	5.5	73.4	43.5	72.4
Maine	53.1	29.8	100.0	11.3	73.4	90.0	85.1
New Hampshire	47.7	26.1	100.0	5.3	73.0	68.9	82.8
Vermont	61.1	41.7	100.0	9.4	80.5	83.9	90.0
Massachusetts	30.4	15.7	99.3	3.9	64.1	9.0	63.2
Rhode Island	48.8	26.5	100.0	8.8	79.6	89.9	88.5
Connecticut	44.1	16.6	100.0	5.6	82.4	89.8	86.4
Mideast	27.9	16.0	81.6	6.0	62.4	21.7	48.2
New York	22.9	15.2	69.0	6.3	53.5	1.5	40.3
New Jersey	24.1	12.8	100.0	2.3	61.6	10.9	43.1
Pennsylvania	38.7	18.7	97.0	9.0	79.8	81.8	81.1
Delaware	49.9	29.5	100.0	10.1	57.4	100.0	94.5
Maryland	31.8	17.8	90.1	1.8	65.3	2.0	71.8
Great Lakes	32.0	24.4	91.4	2.2	56.4	49.0	49.7
Michigan	33.2	28.6	90.8	2.3	53.2	63.5	45.4
Ohio	29.5	17.5	80.4	1.4	65.6	34.5	46.0
Indiana	34.7	26.9	100.0	1.8	63.5	8.6	48.4
Illinois	33.5	23.0	93.8	2.9	57.2	71.8	60.3
Wisconsin	29.1	29.3	95.0	2.7	33.7	18.4	41.4
Plains	37.9	25.5	94.5	2.4	63.5	52.3	57.1
Minnesota	32.0	26.7	100.0	1.6	59.0	3.5	57.5
Iowa	39.1	27.3	96.3	3.4	54.4	81.1	53.7
Missouri	40.6	20.1	87.5	1.9	76.9	96.9	48.7
North Dakota	49.0	30.0	97.2	3.0	60.5	88.3	90.3
South Dakota	50.6	28.3	100.0	3.0	73.5	89.3	88.3
Nebraska	34.7	25.9	88.9	3.8	58.8	9.5	60.2
Kansas	36.7	27.5	92.5	2.3	63.4	8.6	65.6
Southeast	44.4	26.6	91.8	7.2	78.6	83.2	50.0
Virginia	42.8	21.5	100.0	4.4	88.4	12.2	85.6
West Virginia	58.7	27.3	100.0	4.8	96.3	95.7	71.5
Kentucky	53.6	30.9	82.5	11.5	91.1	96.0	58.0
Tennessee	42.7	27.8	100.0	5.2	73.6	94.7	39.0
North Carolina	39.9	28.2	90.2	6.5	85.1	12.1	58.6
South Carolina	49.1	28.3	100.0	12.7	86.4	91.5	47.7
Georgia	40.1	25.5	97.8	6.3	68.1	90.9	30.0
Florida	34.4	18.4	72.0	4.1	72.5	88.1	39.4
Alabama	48.7	36.8	100.0	16.2	67.8	98.4	42.0
Mississippi	43.0	27.4	79.7	6.7	60.2	97.6	33.7
Louisiana	51.8	28.6	98.9	7.2	77.4	99.7	81.1
Arkansas	49.4	30.0	100.0	7.1	80.1	99.1	57.9

TABLE A-2 (CONCL'D).--STATE PROPORTION OF STATE AND LOCAL DIRECT GENERAL EXPENDITURE, FOR SPECIFIED FUNCTIONS, BY STATES AND REGIONS, 1966
(Percents)

State and Region	Total Direct General Expenditure	Education: Total	Education: Higher Education	Education: Other	Highways	Public Welfare	Health and Hospitals
United States	35.2%	22.7%	88.1%	4.7%	67.5%	46.4%	50.2%
Southwest	40.7	25.3	91.5	3.4	70.6	97.1	47.8
Oklahoma	51.6	32.3	99.8	2.5	68.0	99.0	56.7
Texas	35.7	21.0	87.6	2.6	68.0	96.0	46.8
New Mexico	52.7	34.5	100.0	4.6	85.5	99.7	42.5
Arizona	41.6	30.8	89.0	5.3	74.7	92.9	42.1
Rocky Mountain	43.8	30.6	94.2	4.2	77.0	46.2	59.8
Montana	49.1	28.4	98.6	2.8	77.4	76.2	57.7
Idaho	47.9	25.0	86.2	4.5	72.9	87.4	51.4
Wyoming	52.6	32.2	84.1	7.0	87.9	10.6	36.2
Colorado	35.7	29.7	93.4	3.4	66.9	20.7	67.4
Utah	50.0	35.1	100.0	5.5	86.1	97.0	61.6
Far West[1/]	31.6	20.0	75.4	2.5	65.9	15.3	40.0
Washington	42.6	31.2	88.7	5.5	67.7	99.6	56.4
Oregon	44.3	28.7	93.5	3.4	68.2	94.9	67.2
Nevada	37.8	20.1	100.0	3.1	79.0	84.6	24.3
California	28.8	17.4	69.8	2.0	64.5	1.9	37.1
Alaska	66.8	40.1	100.0	22.0	93.0	100.0	90.9
Hawaii	70.4	92.3	100.0	88.9	66.4	99.5	76.5

1/ Excluding Alaska and Hawaii.

Source: U.S. Bureau of the Census, Governmental Finances in 1965-66.

TABLE A-3.--PER CAPITA PERSONAL INCOME, DOLLAR AMOUNTS, AND AMOUNTS RELATED TO THE UNITED STATES AVERAGE, BY STATES AND REGIONS, 1948, 1952 AND 1966

	Per Capita Personal Income				Per Capita Personal Income Related to U.S. Average		
State and Region	1948	1952	1966	Percent Increase 1948-1966	1948	1952	1966
United States	$1,430	$1,733	$2,963	107.2%	100	100	100
New England	1,494	1,865	3,239	116.8	104	108	109
Maine	1,235	1,411	2,477	100.6	86	81	84
New Hampshire	1,285	1,557	2,808	118.5	90	90	95
Vermont	1,134	1,323	2,595	128.8	79	76	88
Massachusetts	1,500	1,866	3,271	118.1	105	108	110
Rhode Island	1,493	1,803	3,047	104.1	104	104	103
Connecticut	1,713	2,263	3,690	115.4	120	131	125
Mideast	1,648	1,985	3,325	101.8	115	115	112
New York	1,797	2,067	3,497	94.6	126	119	118
New Jersey	1,689	2,133	3,445	104.0	118	123	116
Pennsylvania	1,431	1,773	2,968	107.4	100	102	100
Delaware	1,721	2,293	3,529	105.1	120	132	119
Maryland	1,467	1,888	3,204	118.4	103	109	108
District of Columbia	1,957	2,457	3,948	101.7	137	142	133
Great Lakes	1,603	1,937	3,229	101.4	112	112	109
Michigan	1,560	1,962	3,269	109.6	109	113	110
Ohio	1,558	1,927	3,056	96.1	109	111	103
Indiana	1,451	1,766	3,076	112.0	101	102	104
Illinois	1,815	2,078	3,532	94.6	127	120	119
Wisconsin	1,419	1,756	2,973	109.5	99	101	100
Plains	1,444	1,624	2,847	97.2	101	94	96
Minnesota	1,432	1,592	2,904	102.8	100	92	98
Iowa	1,589	1,652	2,992	88.3	111	95	101
Missouri	1,389	1,656	2,817	102.8	97	96	95
North Dakota	1,402	1,217	2,384	70.0	98	70	80
South Dakota	1,497	1,272	2,420	61.7	105	73	82
Nebraska	1,509	1,668	2,905	92.5	106	96	98
Kansas	1,334	1,782	2,862	114.5	93	103	97
Southeast	984	1,213	2,287	132.4	69	70	77
Virginia	1,130	1,470	2,605	130.5	79	85	88
West Virginia	1,120	1,258	2,176	94.3	78	73	73
Kentucky	990	1,228	2,246	126.9	69	71	76
Tennessee	944	1,137	2,227	135.9	66	66	75
North Carolina	973	1,181	2,277	134.0	68	68	77
South Carolina	891	1,160	2,052	130.3	62	67	69
Georgia	968	1,241	2,379	145.8	68	72	80
Florida	1,180	1,443	2,614	121.5	83	83	88
Alabama	866	1,071	2,066	138.6	61	62	70
Mississippi	789	886	1,777	125.2	55	51	60
Louisiana	1,032	1,279	2,277	120.6	72	74	77
Arkansas	875	992	2,010	129.7	61	57	68

TABLE A-3 (CONCL'D).--PER CAPITA PERSONAL INCOME, DOLLAR AMOUNTS, AND AMOUNTS RELATED TO THE UNITED STATES AVERAGE, BY STATES AND REGIONS, 1948, 1952 AND 1966

State and Region	Per Capita Personal Income 1948	1952	1966	Percent Increase 1948-1966	Per Capita Personal Income Related to U.S. Average 1948	1952	1966
United States	$1,430	$1,733	$2,963	107.2%	100	100	100
Southwest	1,187	1,513	2,520	112.3	83	87	85
Oklahoma	1,144	1,391	2,462	115.2	80	80	83
Texas	1,189	1,544	2,542	113.8	83	89	86
New Mexico	1,084	1,366	2,385	120.0	76	79	80
Arizona	1,274	1,662	2,544	99.7	89	96	86
Rocky Mountain	1,419	1,727	2,697	90.1	99	100	91
Montana	1,616	1,786	2,623	62.3	113	103	89
Idaho	1,316	1,588	2,445	85.8	92	92	83
Wyoming	1,595	1,867	2,739	71.7	112	108	92
Colorado	1,433	1,830	2,916	103.5	100	106	98
Utah	1,240	1,541	2,485	100.4	87	89	84
Far West	1,715	2,103	3,384	97.3	120	121	114
Washington	1,600	1,919	3,222	101.4	112	111	109
Oregon	1,621	1,875	2,908	79.4	113	108	98
Nevada	1,814	2,431	3,497	92.8	127	140	118
California	1,752	2,167	3,457	97.3	123	125	117
Alaska	n.a.	2,614	3,421	n.a.	n.a.	151	115
Hawaii	1,407	1,747	3,124	122.0	98	101	105

n.a. = Data not available.

Source: U.S. Department of Commerce, Office of Business Economics, Survey of Current Business, August, 1967.

TABLE A-4.--PERCENT DISTRIBUTION OF FAMILIES BY INCOME LEVEL, BY STATES AND REGIONS, 1959

	Percent Distribution of Families					
State and Region	Total	Under $3,000	$3,000 to $4,999	$5,000 to $9,999	$10,000 to $14,999	$15,000 and Over
United States	100.0%	21.4%	20.5%	43.1%	10.5%	4.6%
Northeast	100.0	14.2	20.0	47.9	12.2	5.7
North Central	100.0	18.7	19.6	46.2	11.0	4.5
South	100.0	33.0	22.9	33.8	7.0	3.3
West	100.0	15.7	18.1	47.2	13.4	5.6
New England						
Maine	100.0	22.8	29.0	40.5	5.6	2.0
New Hampshire	100.0	15.2	25.1	48.3	8.1	3.2
Vermont	100.0	23.1	28.5	39.6	6.3	2.7
Massachusetts	100.0	12.5	19.9	50.6	11.8	5.2
Rhode Island	100.0	16.7	24.3	47.3	8.3	3.5
Connecticut	100.0	9.8	15.9	52.2	14.7	7.3
Mideast						
New York	100.0	13.8	19.0	47.3	13.2	6.7
New Jersey	100.0	11.4	16.3	50.2	15.1	6.9
Pennsylvania	100.0	16.9	22.8	46.4	9.8	4.1
Delaware	100.0	16.0	19.6	44.8	12.8	6.8
Maryland	100.0	15.3	19.1	45.8	13.9	5.9
District of Columbia	100.0	17.3	22.6	38.4	13.7	8.0
Great Lakes						
Michigan	100.0	15.8	17.6	49.4	12.7	4.7
Ohio	100.0	15.7	18.4	49.7	11.7	4.5
Indiana	100.0	18.0	21.2	46.7	10.4	3.7
Illinois	100.0	15.0	16.5	48.2	14.2	6.3
Wisconsin	100.0	17.4	19.8	48.6	10.3	4.1
Plains						
Minnesota	100.0	21.4	21.2	44.4	9.2	3.8
Iowa	100.0	25.3	23.8	40.3	7.5	3.2
Missouri	100.0	27.0	21.5	39.7	8.1	3.7
North Dakota	100.0	28.8	27.8	35.0	6.1	2.4
South Dakota	100.0	33.5	26.1	32.8	5.4	2.2
Nebraska	100.0	26.1	25.8	38.1	7.1	3.1
Kansas	100.0	22.3	23.8	41.9	8.3	3.7

TABLE A-4 (CONCL'D).--PERCENT DISTRIBUTION OF FAMILIES BY INCOME LEVEL, BY STATES AND REGIONS, 1959

State and Region	Total	Under $3,000	$3,000 to $4,999	$5,000 to $9,999	$10,999 to $14,999	$15,000 and Over
	Percent Distribution of Families					
United States	100.0%	21.4%	20.5%	43.1%	10.5%	4.6%
Southeast						
Virginia	100.0	27.9	22.5	36.4	10.3	2.9
West Virginia	100.0	32.6	22.4	36.6	6.1	2.3
Kentucky	100.0	38.1	22.7	31.2	5.5	2.5
Tennessee	100.0	38.3	23.4	30.5	5.3	2.4
North Carolina	100.0	37.1	25.2	30.6	4.7	2.2
South Carolina	100.0	39.5	23.7	30.2	4.6	2.0
Georgia	100.0	35.6	23.2	32.0	6.4	2.8
Florida	100.0	28.4	24.9	35.5	7.3	3.9
Alabama	100.0	39.1	22.6	30.4	5.7	2.2
Mississippi	100.0	51.6	20.5	22.7	3.6	1.6
Louisiana	100.0	35.6	22.3	32.2	6.8	3.1
Arkansas	100.0	47.7	23.0	23.8	3.7	1.7
Southwest						
Oklahoma	100.0	30.9	23.5	35.5	6.9	3.2
Texas	100.0	28.7	22.5	36.9	8.0	3.8
New Mexico	100.0	24.3	21.4	39.9	10.3	3.9
Arizona	100.0	21.3	21.6	42.7	9.9	4.6
Rocky Mountain						
Montana	100.0	20.2	24.1	44.2	8.3	3.2
Idaho	100.0	20.8	25.5	43.1	7.7	2.8
Wyoming	100.0	16.5	21.7	47.3	10.5	4.1
Colorado	100.0	18.3	21.5	45.6	10.4	4.2
Utah	100.0	14.8	21.3	50.2	10.3	3.5
Far West						
Washington	100.0	15.2	18.2	49.9	12.2	4.4
Oregon	100.0	17.1	20.2	48.8	9.9	4.0
Nevada	100.0	12.3	17.6	48.2	15.6	6.4
California	100.0	14.1	16.2	47.9	15.3	6.5
Alaska	100.0	14.6	15.7	39.9	20.6	9.3
Hawaii	100.0	12.9	21.9	43.1	15.1	6.9

Source: U.S. Bureau of Census; U.S. Census of Population, 1960, Vol. I, Part I.

TABLE A-5.--PERCENTAGE DISTRIBUTION OF STATE AND LOCAL GENERAL EXPENDITURE BY SOURCE OF FINANCING, BY STATE, 1942, 1957 AND 1966

State and Region	1966				1957				1942		
	Total	Federal Funds	State Funds	Local Funds	Total	Federal Funds	State Funds	Local Funds	Federal Funds	State Funds	Local Funds
United States	100.0%	15.8%	40.2%	44.0%	100.0%	9.5%	42.3%	48.2%	9.3%	40.2%	50.5%
New England	100.0	15.0	38.2	46.9	100.0	6.6	46.6	46.8	8.0	34.9	57.1
Maine	100.0	20.6	40.5	38.9	100.0	11.5	45.6	42.9	10.2	43.5	46.3
New Hampshire	100.0	15.2	37.3	47.5	100.0	7.6	44.4	48.0	10.1	38.4	51.5
Vermont	100.0	27.2	42.1	30.7	100.0	12.1	48.7	39.2	12.2	43.3	44.5
Massachusetts	100.0	14.1	34.4	51.5	100.0	6.2	43.8	49.9	7.9	33.0	59.1
Rhode Island	100.0	17.0	45.4	37.7	100.0	11.2	44.3	44.5	6.6	29.1	64.3
Connecticut	100.0	12.5	41.9	45.6	100.0	4.1	52.8	43.0	6.7	36.3	57.0
Mideast	100.0	10.8	39.0	50.2	100.0	5.8	37.5	56.6	6.3	34.8	59.0
New York	100.0	8.6	41.9	49.5	100.0	5.3	35.9	58.8	4.5	34.0	61.4
New Jersey	100.0	10.6	24.7	64.7	100.0	4.2	28.9	66.8	4.6	26.6	68.8
Pennsylvania	100.0	13.9	41.4	44.7	100.0	6.5	44.3	49.2	9.2	41.9	48.9
Delaware	100.0	13.3	57.5	29.1	100.0	7.8	71.9	20.3	10.6	61.6	27.8
Maryland	100.0	12.1	45.9	42.0	100.0	7.2	48.5	44.3	7.3	39.1	53.6
District of Columbia	100.0	26.3	-	73.7	100.0	19.0	-	81.0	15.7	-	84.3
Great Lakes	100.0	12.8	40.3	47.0	100.0	6.9	41.4	51.8	8.7	41.2	50.1
Michigan	100.0	12.6	43.2	44.2	100.0	7.1	50.0	43.0	7.9	45.5	46.6
Ohio	100.0	14.3	35.4	50.3	100.0	7.2	40.3	52.4	9.5	47.3	43.2
Indiana	100.0	12.2	44.7	43.2	100.0	6.1	45.4	48.5	10.0	43.3	46.7
Illinois	100.0	13.0	36.0	51.0	100.0	6.7	32.4	60.9	8.0	31.5	60.5
Wisconsin	100.0	10.1	48.8	41.1	100.0	6.8	41.9	51.3	8.6	43.5	48.0
Plains	100.0	17.6	36.1	46.3	100.0	11.6	39.1	49.3	11.8	40.7	47.5
Minnesota	100.0	16.9	35.8	47.3	100.0	9.2	38.5	52.4	11.3	44.6	44.1
Iowa	100.0	14.9	37.5	47.7	100.0	9.5	42.8	47.7	8.6	41.9	49.6
Missouri	100.0	21.0	35.4	43.7	100.0	15.6	35.0	49.4	13.7	38.0	48.3
North Dakota	100.0	18.2	42.7	39.1	100.0	12.4	45.9	41.7	11.9	51.2	36.9
South Dakota	100.0	21.6	35.6	42.8	100.0	16.3	37.0	46.7	13.5	37.3	49.2
Nebraska	100.0	15.9	29.9	54.2	100.0	11.6	33.1	55.3	13.0	33.2	53.8
Kansas	100.0	16.1	37.6	46.2	100.0	10.2	43.3	46.5	12.4	38.9	48.7
Southeast	100.0	20.9	45.1	34.0	100.0	13.7	50.7	35.6	11.5	51.4	37.1
Virginia	100.0	18.3	42.6	39.1	100.0	9.0	50.3	40.6	9.5	52.5	38.1
West Virginia	100.0	27.2	49.8	23.0	100.0	12.3	57.2	30.5	11.4	58.8	29.7
Kentucky	100.0	23.3	48.1	28.6	100.0	14.3	47.4	38.3	12.7	45.5	41.8
Tennessee	100.0	21.5	43.2	35.3	100.0	14.6	47.3	38.1	11.7	43.7	44.6
North Carolina	100.0	18.3	52.0	29.7	100.0	16.3	51.7	32.0	10.3	56.4	33.3

TABLE A-5 (CONCL'D).--PERCENTAGE DISTRIBUTION OF STATE AND LOCAL GENERAL EXPENDITURE BY SOURCE OF FINANCING, BY STATE, 1942, 1957 AND 1966

State and Region	1966 Total	1966 Federal Funds	1966 State Funds	1966 Local Funds	1957 Total	1957 Federal Funds	1957 State Funds	1957 Local Funds	1942 Federal Funds	1942 State Funds	1942 Local Funds
United States	100.0%	15.8%	40.2%	44.0%	100.0%	9.5%	42.3%	48.2%	9.3%	40.2%	50.5%
Southeast (cont'd)											
South Carolina	100.0	19.6	52.1	28.2	100.0	12.9	56.5	30.6	15.2	57.5	27.3
Georgia	100.0	21.0	40.9	38.0	100.0	13.8	48.0	38.2	11.3	44.4	44.3
Florida	100.0	14.3	39.2	46.5	100.0	9.3	44.2	46.5	8.9	43.4	47.7
Alabama	100.0	27.5	44.4	28.1	100.0	18.1	50.6	31.3	11.8	48.9	39.3
Mississippi	100.0	23.4	41.8	34.8	100.0	18.0	48.9	33.2	16.5	49.7	33.8
Louisiana	100.0	22.3	51.9	25.8	100.0	13.9	60.3	25.8	10.0	60.1	29.8
Arkansas	100.0	27.4	40.6	32.0	100.0	19.2	49.7	31.1	14.2	55.5	30.3
Southwest	100.0	19.8	40.3	39.9	100.0	14.0	42.4	43.6	12.9	47.3	39.8
Oklahoma	100.0	23.5	45.7	30.7	100.0	16.4	53.2	30.4	16.8	50.4	32.8
Texas	100.0	17.0	37.4	45.6	100.0	12.5	37.0	50.5	10.5	42.6	46.9
New Mexico	100.0	31.4	48.1	20.6	100.0	23.9	55.0	21.1	15.2	66.1	18.7
Arizona	100.0	20.2	41.7	38.1	100.0	11.5	46.7	41.8	17.2	60.1	22.7
Rocky Mountain	100.0	22.5	39.1	38.3	100.0	16.1	39.7	44.3	16.6	39.1	44.3
Montana	100.0	24.8	34.7	40.5	100.0	17.3	35.1	47.6	17.3	35.1	47.6
Idaho	100.0	20.9	43.0	36.1	100.0	15.5	39.7	44.8	15.8	38.3	45.9
Wyoming	100.0	32.6	36.1	31.4	100.0	25.9	36.0	38.2	18.5	39.8	41.6
Colorado	100.0	19.6	36.7	43.7	100.0	14.3	41.0	44.7	16.7	39.6	43.7
Utah	100.0	23.2	46.2	30.6	100.0	14.3	42.8	42.9	19.4	43.1	37.6
Far West 1/	100.0	16.7	39.0	44.3	100.0	10.8	41.2	48.0	10.7	37.0	52.3
Washington	100.0	17.8	47.1	35.1	100.0	10.2	54.6	35.3	13.7	40.1	46.3
Oregon	100.0	22.3	38.4	39.3	100.0	14.3	42.9	42.9	10.8	31.1	58.1
Nevada	100.0	19.3	34.0	46.6	100.0	17.0	40.8	42.2	29.5	25.3	45.2
California	100.0	16.0	38.1	45.9	100.0	10.4	38.6	50.9	9.5	37.3	53.2
Alaska	100.0	40.4	38.7	20.9	100.0	24.2	43.1	32.7	n.a.	n.a.	n.a.
Hawaii	100.0	20.6	55.2	24.2	100.0	12.3	63.3	24.4	n.a.	n.a.	n.a.

n.a. = Data not available.

1/ Excluding Alaska and Hawaii.

Source: U.S. Bureau of the Census, Historical Statistics on Governmental Finances and Employment (1962 Census of Governments, Vol. VI, No. 4); Governmental Finances in 1965-66.

TABLE A-6.--STATE AID TO LOCAL GOVERNMENTS, BY FUNCTION, BY STATES AND REGIONS, 1966

State and Region	Amount (Millions) Total	General Local Government Support	Education	Highways	Public Welfare	Health and Hospitals	All Other	Percent of Total General Local Government Support	Education	Highways	Public Welfare	Health and Hospitals	All Other
United States	$16,847.9	$1,281.0	$10,176.7	$1,725.2	$2,881.6	$274.6	$508.8	7.6%	60.4%	10.2%	17.1%	1.6%	3.0%
New England	693.9	97.3	282.8	30.7	226.3	6.8	50.1	14.0	40.8	4.4	32.6	1.0	7.2
Maine	35.5	0.8	29.1	3.9	0.8	0.1	0.8	2.3	82.0	11.0	2.3	0.3	2.3
New Hampshire	12.2	2.9	7.9	0.4	*	0.6	0.4	23.8	64.8	3.3	0.3	4.9	3.3
Vermont	21.3	*	14.3	5.4	0.5	-	1.1	**	67.1	25.4	2.3	-	5.2
Massachusetts	453.5	85.3	90.0	14.5	217.1	5.3	41.3	18.8	19.8	3.2	47.9	1.2	9.1
Rhode Island	44.1	7.2	31.7	0.4	3.9	0.7	0.3	16.3	71.9	0.9	8.8	1.6	0.7
Connecticut	127.3	1.1	109.8	6.1	4.0	0.1	6.2	0.9	86.3	4.8	3.1	0.1	4.9
Mideast	4,103.7	280.5	2,434.1	224.6	907.6	108.4	148.2	6.8	59.3	5.5	22.1	2.6	3.6
New York	2,647.9	206.4	1,457.6	103.7	710.6	75.3	94.3 1/	7.8	55.0	3.9	26.8	2.8	3.6
New Jersey	307.2	3.5	166.7	15.8	95.0	18.4	7.7	1.1	54.3	5.1	30.9	6.0	2.5
Pennsylvania	725.2	6.1	586.2	56.3	28.3	11.6	36.6	0.8	80.8	7.8	3.9	1.6	5.0
Delaware	55.3	-	51.9	2.1	0.5	-	0.8	-	93.9	3.8	0.9	-	1.4
Maryland	368.1	64.5	171.7	46.7	73.2	3.1	8.8	17.5	46.6	12.7	19.9	0.8	2.4
Great Lakes	3,061.2	446.7	1,562.6	601.6	391.0	42.4	16.9	14.6	51.0	19.7	12.8	1.4	0.6
Michigan	878.5	94.6	535.8	155.3	76.2	13.5	3.1	10.8	61.0	17.7	8.7	1.5	0.4
Ohio	687.1	72.8	306.9	156.7	140.9	4.4	5.3	10.6	44.7	22.8	20.5	0.6	0.8
Indiana	401.7	16.9	256.7	77.2	45.6	2.7	2.6	4.2	63.9	19.2	11.4	0.7	0.6
Illinois	507.3	-	316.7	124.6	60.9	2.6	2.6	-	62.4	24.6	12.0	0.5	0.5
Wisconsin	586.6	262.4	146.5	87.8	67.4	19.2	3.3	44.7	25.0	15.0	11.5	3.3	0.6
Plains	1,135.0	78.1	675.6	170.1	174.3	6.8	30.4	6.9	59.5	15.0	15.4	0.6	2.7
Minnesota	396.4	22.3	220.5	45.5	91.7	0.9	15.6	5.6	55.6	11.5	23.1	0.2	3.9
Iowa	190.1	36.6	84.4	60.9	1.4	1.6	5.2	19.3	44.4	32.0	0.7	0.8	2.7
Missouri	228.6	4.2	198.5	18.8	0.4	2.1	4.6	1.8	86.8	8.2	0.2	0.9	2.0
North Dakota	38.1	1.4	25.6	9.3	0.7	0.1	1.0	3.7	67.2	24.4	1.8	0.3	2.6
South Dakota	26.5	1.8	21.7	2.1	0.1	0.2	0.7	6.8	81.9	7.9	0.4	0.8	2.6
Nebraska	65.9	1.1	13.7	20.0	29.1	0.2	1.9	1.7	20.8	30.3	44.2	0.3	2.9
Kansas	189.4	10.7	111.2	13.5	50.9	1.7	1.4	5.6	58.7	7.1	26.9	0.9	0.7

TABLE A-6 (CONCL'D).--STATE AID TO LOCAL GOVERNMENTS, BY FUNCTION, BY STATES AND REGIONS, 1966

	Amount (Millions)							Percent of Total					
State and Region	Total	General Local Government Support	Education	Highways	Public Welfare	Health and Hospitals	All Other	General Local Government Support	Education	Highways	Public Welfare	Health and Hospitals	All Other
United States	$16,847.9	$1,281.0	$10,176.7	$1,725.2	$2,881.6	$274.6	$508.8	7.6%	60.4%	10.2%	17.1%	1.6%	3.0%
Southeast	3,114.5	168.4	2,456.3	245.4	125.7	55.5	63.2	5.4	78.9	7.9	4.0	1.8	2.0
Virginia	241.2	14.1	165.0	15.6	35.1	2.5	8.9	5.8	68.4	6.5	14.6	1.0	3.7
West Virginia	110.6	-	108.3	-	0.9	0.6	0.8	-	97.9	-	0.8	0.5	0.7
Kentucky	177.4	2.1	161.3	2.6	-	4.6	6.9	1.2	90.9	1.5	-	2.6	3.9
Tennessee	257.6	20.5	186.7	44.4	0.1	3.5	2.3	8.0	72.5	17.2	**	1.4	0.9
North Carolina	487.8	23.3	365.4	8.8	81.7	6.0	2.6	4.8	74.9	1.8	16.7	1.2	0.5
South Carolina	168.8	18.1	133.8	9.2	-	6.6	1.0	10.7	79.3	5.5	-	3.9	0.6
Georgia	337.5	-	292.7	26.8	7.9	9.4	0.7	-	86.7	7.9	2.3	2.8	0.2
Florida	378.4	0.3	332.1	16.2	-	5.3	24.4	0.1	87.8	4.3	-	1.4	6.4
Alabama	274.9	6.9	214.0	43.6	-	7.8	2.6	2.5	77.8	15.9	-	2.8	0.9
Mississippi	185.6	14.3	128.4	34.2	-	3.9	4.8	7.7	69.2	18.4	-	2.1	2.6
Louisiana	365.0	61.9	273.3	19.9	-	3.2	6.8	17.0	74.9	5.5	-	0.9	1.9
Arkansas	129.7	6.9	95.3	24.1	-	2.1	1.4	5.3	73.5	18.6	-	1.6	1.1
Southwest	1,117.4	43.2	980.9	74.6	-	4.4	14.2	3.9	87.8	6.7	-	0.4	1.3
Oklahoma	185.2	2.2	133.6	43.6	-	0.8	5.0	1.2	72.1	23.5	-	0.4	2.7
Texas	649.7	0.1	633.1	7.7	-	2.9	5.9	**	97.4	1.2	-	0.4	0.9
New Mexico	122.7	3.5	112.1	5.3	-	0.1	1.7	2.9	91.4	4.3	-	0.1	1.4
Arizona	159.8	37.4	102.1	18.0	-	0.6	1.6	23.4	63.9	11.3	-	0.4	1.0
Rocky Mountain	407.3	8.5	259.6	38.9	76.5	4.1	19.7	2.1	63.7	9.6	18.8	1.0	4.8
Montana	32.9	-	30.5	-	-	0.2	2.2	-	92.7	-	-	0.6	6.7
Idaho	50.4	3.4	36.3	9.5	-	0.9	0.3	6.7	77.0	18.8	-	1.8	0.6
Wyoming	35.7	3.9	22.9	2.7	5.1	0.7	0.4	10.9	64.1	7.6	14.3	2.0	1.1
Colorado	197.1	0.2	85.4	22.6	71.4	1.7	15.8	0.1	43.2	11.5	36.2	0.9	8.0
Utah	91.2	1.0	84.5	4.1	-	0.6	1.0	1.1	92.7	4.5	-	0.7	1.1
Far West 2/	3,164.5	146.3	1,493.7	339.5	980.1	45.8	159.3	4.6	47.2	10.7	31.0	1.4	5.0
Washington	307.4	16.8	222.8	37.9	8.4	3.7	17.9	5.5	72.5	12.3	2.7	1.2	5.8
Oregon	161.9	21.3	96.8	38.6	1.4	0.7	3.2	13.2	59.8	23.8	0.9	0.4	2.0
Nevada	40.9	4.7	31.1	4.8	-	0.1	0.3	11.5	76.0	11.7	-	0.2	0.7
California	2,634.3	103.5	1,143.0	258.2	970.5	41.3	137.9 3/	3.9	43.1	9.7	36.6	1.6	5.2
Alaska	27.9	2.3	22.3	-	-	-	3.4	8.2	79.9	-	-	-	12.2
Hawaii	22.4	9.4	9.1	-	-	0.5	3.5	42.0	40.6	-	-	2.2	15.6

1/ Includes $36.3 million, housing subsidies, almost entirely to cities.
2/ Excluding Alaska and Hawaii.
3/ Includes $91.5 million, distribution of motor vehicle license fees to cities.

*Less than $50,000.
**Less than 0.05 percent.

Source: U.S. Bureau of the Census, State Government Finances in 1966 and Governmental Finances in 1963-66.

TABLE A-7.--PERCENTAGE DISTRIBUTION OF STATE AND LOCAL GENERAL EXPENDITURE FROM OWN REVENUE SOURCES, BY LEVEL OF GOVERNMENT, BY STATE, 1942, 1957 AND 1966

	1966		1957		1942	
State and Region	State Funds	Local Funds	State Funds	Local Funds	State Funds	Local Funds
United States	47.8%	52.2%	46.8%	53.2%	44.3%	55.7%
New England	44.9	55.1	49.9	50.1	37.9	62.1
Maine	51.0	49.0	51.5	48.5	48.5	51.5
New Hampshire	44.0	56.0	48.1	51.9	42.8	57.2
Vermont	57.9	42.1	55.3	44.7	49.5	50.5
Massachusetts	40.1	59.9	46.7	53.3	35.8	64.2
Rhode Island	54.6	45.4	49.9	50.1	31.2	68.8
Connecticut	47.9	52.1	55.1	44.9	38.9	61.1
Mideast	43.8	56.2	39.8	60.2	37.1	62.9
New York	45.8	54.2	37.9	62.1	35.7	64.3
New Jersey	27.7	72.3	30.2	69.8	27.9	72.1
Pennsylvania	48.1	51.9	47.4	52.6	46.1	53.9
Delaware	66.4	33.6	78.0	22.0	68.8	31.2
Maryland	52.2	47.8	52.2	47.8	42.2	57.8
District of Columbia	-	100.0	-	100.0	-	100.0
Great Lakes	46.2	53.8	44.4	55.6	45.1	54.9
Michigan	49.5	50.5	53.8	46.2	49.4	50.6
Ohio	41.3	58.7	43.5	56.5	52.3	47.7
Indiana	50.9	49.1	48.4	51.6	48.2	51.8
Illinois	41.4	58.6	34.7	65.3	34.2	65.8
Wisconsin	54.3	45.7	45.0	55.0	47.5	52.5
Plains	43.8	56.2	44.2	55.8	46.1	53.9
Minnesota	43.1	56.9	42.4	57.6	50.2	49.8
Iowa	44.0	56.0	47.3	52.7	45.8	54.2
Missouri	44.7	55.3	41.5	58.5	44.0	56.0
North Dakota	52.2	47.8	52.4	47.6	58.2	41.8
South Dakota	45.4	54.6	44.2	55.8	43.2	56.8
Nebraska	35.5	64.5	37.5	62.5	37.8	62.2
Kansas	44.9	55.1	48.3	51.7	44.4	55.6
Southeast	57.0	43.0	58.8	41.2	58.0	42.0
Virginia	52.2	47.8	55.3	44.7	58.0	42.0
West Virginia	68.4	31.6	65.2	34.8	66.4	33.6
Kentucky	62.8	37.2	55.3	44.7	52.1	47.9
Tennessee	55.0	45.0	55.4	44.6	49.6	50.4
North Carolina	63.7	36.3	61.8	38.2	62.9	37.1
South Carolina	64.9	35.1	64.9	35.1	67.8	32.2
Georgia	51.8	48.2	55.7	44.3	50.0	50.0
Florida	45.7	54.3	48.7	51.3	47.6	52.4
Alabama	61.2	38.8	61.8	38.2	55.4	44.6
Mississippi	54.5	45.5	59.6	40.4	59.5	40.5
Louisiana	66.8	33.2	70.1	29.9	66.8	33.2
Arkansas	56.0	44.0	61.5	38.5	64.6	35.4

TABLE A-7 (CONCL'D).--PERCENTAGE DISTRIBUTION OF STATE AND LOCAL GENERAL EXPENDITURE FROM OWN REVENUE SOURCES, BY LEVEL OF GOVERNMENT, BY STATE, 1942, 1957 AND 1966

State and Region	1966 State Funds	1966 Local Funds	1957 State Funds	1957 Local Funds	1942 State Funds	1942 Local Funds
United States	47.8%	52.2%	46.8%	53.2%	44.3%	55.7%
Southwest	50.2	49.8	49.3	50.7	54.3	45.7
Oklahoma	59.8	40.2	63.6	36.4	60.6	39.4
Texas	45.0	55.0	42.2	57.8	47.6	52.4
New Mexico	70.0	30.0	72.3	27.7	77.7	22.3
Arizona	52.3	47.7	52.7	47.3	72.7	27.3
Rocky Mountain	50.5	49.5	47.2	52.8	46.7	53.3
Montana	46.2	53.8	42.5	57.5	40.0	60.0
Idaho	54.4	45.6	47.0	53.0	45.5	54.5
Wyoming	53.5	46.5	48.5	51.5	48.6	51.4
Colorado	45.7	54.3	47.9	52.1	47.6	52.4
Utah	60.2	39.8	49.9	50.1	53.5	46.5
Far West 1/	46.8	53.2	46.2	53.8	41.4	58.6
Washington	57.3	42.7	60.7	39.3	46.4	53.6
Oregon	49.4	50.6	50.0	50.0	34.8	65.2
Nevada	42.2	57.8	49.1	50.9	35.5	64.5
California	45.3	54.7	43.1	56.9	41.2	58.8
Alaska	64.9	35.1	56.9	43.1	n.a.	n.a.
Hawaii	69.5	30.5	72.2	27.8	n.a.	n.a.

n.a. = Data not available.

1/ Excluding Alaska and Hawaii.

Source: U.S. Bureau of the Census, Historical Statistics on Governmental Finances and Employment (1962 Census of Governments, Vol. VI, No. 4); and Governmental Finances in 1965-66.

TABLE A-6.--STATE AND LOCAL EXPENDITURE FOR EDUCATION, BY GOVERNMENTAL SOURCE OF FINANCING, BY STATE, 1966

State and Region	Amount		Percent Financed From--			Estimated Per Pupil Public School Expenditure, 1966[1/]
	Total (millions)	Per Capita	Federal Aid	State Funds	Local Funds	
United States	$33,286.9	$170	9.4%	45.2%	45.4%	$532
New England	1,567.9	140	7.8	31.2	61.0	544
Maine	118.9	121	13.0	43.0	44.0	410
New Hampshire	92.7	138	9.6	26.0	64.4	479
Vermont	67.4	166	12.8	50.3	36.9	507
Massachusetts	717.7	133	7.3	22.6	70.2	530
Rhode Island	137.4	153	11.1	41.6	47.3	576
Connecticut	433.8	151	5.0	37.0	57.9	637
Mideast	7,071.6	170	5.2	45.8	69.0	709
New York	3,466.5	190	2.9	54.6	42.5	876
New Jersey	1,016.4	147	7.7	22.4	69.9	662
Pennsylvania	1,750.6	151	5.6	46.1	48.3	565
Delaware	116.8	228	5.4	69.2	25.5	580
Maryland	624.3	173	11.5	37.1	51.4	552
District of Columbia	97.0	120	16.9	*	83.1	578
Great Lakes	6,913.4	180	7.5	39.9	52.6	538
Michigan	1,728.4	206	8.3	51.6	40.1	523
Ohio	1,613.7	157	6.9	30.3	62.9	503
Indiana	961.6	196	7.5	46.2	46.2	512
Illinois	1,739.6	162	7.0	34.6	58.5	591
Wisconsin	870.1	209	8.1	38.2	53.7	523
Plains	2,789.9	176	9.9	40.7	49.4	515
Minnesota	707.3	198	8.5	49.5	42.0	577
Iowa	545.8	199	11.5	31.5	57.0	549
Missouri	657.6	146	8.6	42.5	48.9	485
North Dakota	124.1	191	11.1	41.8	47.1	460
South Dakota	128.4	188	12.5	35.9	51.6	504
Nebraska	240.9	165	9.7	23.9	66.4	419
Kansas	386.0	172	11.2	46.6	42.2	511
Southeast	5,766.2	135	13.8	57.3	28.9	390
Virginia	660.3	147	10.7	40.0	49.2	424
West Virginia	249.1	139	14.3	57.3	28.4	367
Kentucky	413.3	130	17.4	54.1	28.5	375
Tennessee	472.1	122	13.6	55.7	30.8	361
North Carolina	685.6	137	12.3	69.6	18.0	379
South Carolina	305.2	118	14.6	59.1	26.3	349
Georgia	590.2	132	14.7	61.9	23.4	384
Florida	867.2	148	11.0	49.2	39.7	439
Alabama	473.0	134	19.3	65.1	15.7	355
Mississippi	274.2	118	16.3	58.4	25.3	317
Louisiana	536.0	149	11.8	68.2	20.0	481
Arkansas	260.0	123	17.8	53.0	29.2	376
Southwest	2,613.4	165	12.7	52.3	35.0	471
Oklahoma	413.2	168	14.0	53.5	32.5	481
Texas	1,617.5	150	11.1	50.8	38.2	449[2/]
New Mexico	262.6	237	18.9	65.8	15.3	578
Arizona	340.1	210	14.4	48.5	37.1	514
Rocky Mountain	1,058.0	225	10.9	46.6	42.5	494
Montana	133.7	190	9.6	44.1	46.4	567
Idaho	112.6	162	9.3	50.3	40.4	400
Wyoming	90.6	275	11.3	47.9	40.8	551
Colorado	463.4	234	11.4	39.2	49.4	513
Utah	257.7	256	11.1	59.3	29.6	459
Far West[3/]	5,296.4	218	10.0	39.9	50.1	580
Washington	618.1	207	11.5	57.8	30.7	556
Oregon	436.5	223	10.8	40.6	48.6	612
Nevada	96.7	213	10.7	46.6	42.7	528
California	4,145.1	219	9.7	36.9	53.4	582
Alaska	75.1	276	40.9	44.3	14.8	775
Hawaii	136.7	188	25.4	74.6	-	515

1/ Average current expenditure per pupil in average daily attendance.
2/ Excludes kindergarten and nursery schools.
3/ Excluding Alaska and Hawaii.

Source: Compiled by ACIR staff from various reports of the Governments Division, U.S. Bureau of the Census; from Treasury Department, Annual Report of the Secretary (various years); and from the Department of Health, Education, and Welfare, Office of Education, Fall 1965 Statistics of Public Schools.

TABLE A-9.--STATE FINANCING OF STATE AND LOCAL EXPENDITURE FOR EDUCATION
FROM OWN SOURCES, BY STATE, 1942, 1957 AND 1966

State and Region	Total, 1966		Total, Excluding Higher Education					
	Amount (millions)	Percent State Financed	Amount 1966	Amount 1957	Amount 1942	Percent State Financed 1966	Percent State Financed 1957	Percent State Financed 1942
			----------(millions)----------					
United States	$30,161.2	49.9%	$23,938.2	$11,628.1	$2,157.9	40.4%	37.8%	34.5
New England	1,445.6	33.8	1,230.1	654.3	149.0	22.3	17.9	11.1
Maine	103.4	49.4	80.3	47.2	11.4	34.9	21.2	23.7
New Hampshire	83.8	28.8	66.2	32.7	6.9	9.8	6.4	7.2
Vermont	58.8	57.7	38.7	23.9	5.5	35.7	25.9	25.5
Massachusetts	665.6	24.3	580.6	318.9	76.9	13.3	16.7	10.4
Rhode Island	122.1	46.8	98.4	43.1	13.5	33.9	19.7	9.6
Connecticut	411.9	39.0	365.9	188.5	34.8	31.3	19.7	7.5
Mideast	6,703.1	48.3	5,845.7	2,685.0	615.2	43.7	37.5	32.9
New York	3,367.6	56.2	2,894.5	1,301.9	303.4	54.3	37.7	40.5
New Jersey	938.5	24.3	842.9	405.0	96.4	15.7	19.9	22.9
Pennsylvania	1,653.1	48.8	1,479.6	715.1	175.5	43.2	49.8	27.5
Delaware	110.6	73.1	87.1	35.0	4.3	65.8	82.9	97.7
Maryland	552.7	41.9	462.5	191.3	22.6	33.0	26.5	23.0
District of Columbia	80.6	-	79.1	36.7	13.0	-	-	-
Great Lakes	6,394.0	43.1	4,907.0	2,417.1	476.0	28.9	27.1	29.6
Michigan	1,584.3	56.2	1,154.2	602.5	96.3	44.0	44.9	48.3
Ohio	1,502.8	32.5	1,195.1	628.5	120.2	20.6	22.8	41.0
Indiana	889.0	50.0	679.5	297.3	54.0	34.6	28.1	34.4
Illinois	1,618.3	37.2	1,288.6	642.0	149.6	22.9	18.3	11.6
Wisconsin	799.6	41.5	589.6	246.8	55.9	22.8	16.4	16.3
Plains	2,513.9	45.2	1,924.7	1,018.5	212.1	30.5	25.6	24.9
Minnesota	647.3	54.1	501.9	264.7	47.5	40.8	33.4	37.5
Iowa	482.7	35.6	372.0	199.8	44.4	17.8	18.4	2.0
Missouri	600.9	46.5	476.9	242.3	51.1	36.3	32.0	42.5
North Dakota	110.4	47.0	78.4	39.3	10.9	26.7	28.2	30.3
South Dakota	112.3	41.1	82.6	44.1	11.6	19.9	12.2	22.4
Nebraska	217.4	26.4	161.6	85.0	19.0	5.4	7.9	6.3
Kansas	342.9	32.5	251.3	143.3	27.6	38.4	24.1	19.2
Southeast	4,970.0	66.5	3,801.0	1,925.5	298.0	59.0	56.0	52.1
Virginia	589.4	44.8	489.2	185.1	28.7	33.5	36.4	37.3
West Virginia	213.6	66.9	159.5	100.3	29.1	55.6	58.9	53.6
Kentucky	341.3	65.5	239.2	132.4	26.3	59.1	36.2	39.2
Tennessee	408.2	64.4	308.2	164.1	27.8	52.8	48.7	37.4
North Carolina	601.0	79.4	447.4	241.2	36.5	76.3	64.2	82.5
South Carolina	260.7	69.2	210.4	133.0	18.2	61.8	62.6	53.3
Georgia	505.2	72.6	393.1	217.0	29.0	65.5	66.4	32.1
Florida	771.5	55.3	614.2	245.6	24.6	52.2	48.3	52.8
Alabama	381.8	80.6	280.6	141.0	22.4	73.6	67.5	47.8
Mississippi	229.4	69.7	159.6	81.9	14.9	66.4	64.0	41.6
Louisiana	472.6	77.4	355.3	214.8	27.9	70.3	67.4	59.1
Arkansas	197.3	64.5	144.3	69.1	12.6	51.4	44.4	35.6
Southwest	2,281.7	59.9	1,728.7	909.8	126.1	50.2	44.6	37.1
Oklahoma	355.3	62.2	249.5	144.9	31.8	46.3	41.1	45.0
Texas	1,438.4	57.1	1,134.5	596.8	77.3	49.4	44.3	38.6
New Mexico	196.8	81.1	140.0	64.3	7.6	73.5	78.8	75.0
Arizona	291.2	56.7	204.7	94.8	9.4	44.0	28.2	71.3
Rocky Mountain	942.8	52.3	681.7	312.1	55.8	36.7	27.3	21.9
Montana	121.0	48.8	88.7	52.6	11.6	30.7	24.3	25.0
Idaho	102.1	55.4	75.5	41.7	9.1	44.9	25.2	29.0
Wyoming	80.4	54.0	54.3	29.3	5.3	40.5	43.3	20.8
Colorado	410.3	44.3	301.3	121.8	19.6	27.0	21.7	10.7
Utah	229.0	66.7	161.9	66.7	10.0	52.9	34.3	34.0
Far West[1/]	4,756.7	44.3	3,711.3	1,655.8	225.7	36.9	45.2	44.8
Washington	547.3	65.3	394.8	227.2	34.2	57.4	54.2	56.1
Oregon	389.3	45.5	296.3	146.9	16.9	31.0	28.1	0.6
Nevada	86.4	52.2	71.9	19.1	2.8	42.6	52.4	25.0
California	3,743.7	40.9	2,948.3	1,262.6	171.8	34.6	45.5	47.2
Alaska	44.4	75.0	33.5	15.7	n.a.	66.9	74.5	n.a.
Hawaii	99.0	100.0	74.5	43.3	n.a.	100.0	81.1	n.a.

n.a. = Date not available.

1/ Excluding Alaska and Hawaii.

Source: Compiled by ACIR staff from various reports of the Governments Division, U.S. Bureau of the Census; and from Treasury Department, Annual Report of the Secretary (various years).

TABLE A-10.--STATE AND LOCAL EXPENDITURE FOR PUBLIC WELFARE, BY GOVERNMENTAL SOURCE OF FINANCING, BY STATE, 1966

State and Region	Amount: Total (millions)	Amount: Per Capita	Percent Financed From--: Federal Aid	Percent Financed From--: State Funds	Percent Financed From--: Local Funds	Average Monthly Benefit Payments, July 1966: AFDC 1/	Average Monthly Benefit Payments, July 1966: OAA 2/
United States	$6,757.4	$35	53.1%	35.5%	11.4%	$36.40	$73.57
New England	472.9	42	42.7	47.8	9.5	45.25	87.87
Maine	32.0	33	55.0	35.0	10.0	29.70	51.05
New Hampshire	19.0	28	29.5	27.4	43.2	48.21	120.58
Vermont	14.9	37	49.7	31.5	18.8	29.05	57.73
Massachusetts	265.1	49	42.3	48.6	9.1	50.10	101.31
Rhode Island	43.6	49	41.3	57.6	1.1	38.93	54.57
Connecticut	98.3	34	42.0	51.9	6.0	45.43	67.44
Mideast	1,446.9	35	44.1	40.9	15.0	44.72	73.53
New York	843.9	46	41.1	44.6	14.3	50.83	75.60
New Jersey	146.9	21	41.9	31.2	26.9	51.47	74.19
Pennsylvania	332.2	29	50.1	40.2	9.7	32.00	72.12
Delaware	12.7	25	41.7	39.4	18.9	30.31	73.96
Maryland	76.1	21	56.9	41.3	1.8	36.02	57.28
District of Columbia	35.1	43	41.3	-	58.7	33.57	94.57
Great Lakes	1,039.7	27	45.6	40.9	13.4	37.05	72.82
Michigan	215.2	26	53.0	45.9	1.1	35.58	84.58
Ohio	275.9	27	43.8	41.7	14.5	33.14	78.59
Indiana	77.6	16	48.2	19.2	32.6	33.11	102.50
Illinois	346.0	32	45.8	43.6	10.7	40.64	55.57
Wisconsin	125.0	30	35.2	36.7	28.1	42.77	40.72
Plains	545.3	34	55.4	27.3	17.4	34.91	75.25
Minnesota	147.5	41	50.6	15.0	34.4	46.89	52.62
Iowa	88.7	32	44.8	29.1	26.2	41.03	100.25
Missouri	167.9	37	65.0	32.2	2.9	25.27	74.55
North Dakota	21.4	33	56.1	30.8	12.6	41.23	65.64
South Dakota	19.7	29	53.8	36.0	10.2	33.95	78.58
Nebraska	35.8	25	56.7	34.1	9.2	28.61	46.47
Kansas	64.3	29	55.2	32.5	12.1	40.16	99.63
Southeast	1,220.8	29	69.0	23.7	7.2	21.00	62.28
Virginia	62.3	14	48.2	20.4	31.5	26.24	76.44
West Virginia	64.9	36	67.3	29.4	3.2	24.44	44.91
Kentucky	107.8	34	62.4	33.6	3.9	27.83	56.23
Tennessee	89.5	23	70.2	21.0	8.8	27.30	70.45
North Carolina	116.9	23	72.6	8.0	19.3	26.31	64.41
South Carolina	41.4	16	65.7	25.6	8.7	16.04	53.48
Georgia	126.8	28	73.2	21.0	5.9	24.07	60.17
Florida	130.4	22	65.9	22.2	11.9	16.06	64.64
Alabama	128.3	36	74.2	24.2	1.6	12.70	72.25
Mississippi	73.6	32	70.4	26.9	2.6	7.90	39.68
Louisiana	208.5	58	70.7	29.0	0.3	23.78	65.74
Arkansas	70.4	36	76.3	22.9	1.0	17.91	66.69
Southwest	510.4	32	68.1	29.0	2.9	30.44	74.09
Oklahoma	172.8	70	65.2	33.8	1.0	34.00	76.17
Texas	262.7	24	72.2	23.8	4.0	26.88	73.84
New Mexico	36.7	36	64.6	35.1	0.3	35.25	79.15
Arizona	38.2	24	56.5	36.4	7.1	28.47	62.18
Rocky Mountain	182.6	39	50.5	36.6	12.9	38.98	83.22
Montana	20.2	29	45.5	20.8	33.2	36.74	77.72
Idaho	19.9	29	51.8	35.7	12.6	39.23	61.26
Wyoming	8.5	26	42.4	28.2	29.4	40.35	89.46
Colorado	103.9	53	50.8	38.6	10.5	40.32	88.86
Utah	30.1	30	53.8	43.2	3.0	36.38	53.32
Far West 3/	1,311.6	54	51.6	37.2	11.2	42.96	93.16
Washington	112.7	38	52.8	47.2	-	41.96	63.34
Oregon	61.2	31	48.2	37.1	14.9	40.62	63.59
Nevada	9.1	20	40.7	42.9	16.5	32.52	82.82
California	1,128.6	60	51.8	36.1	12.1	43.25	97.46
Alaska	7.4	27	39.2	60.8	-	35.18	90.19
Hawaii	20.0	28	41.5	58.5	-	43.22	71.64

1/ Aid to Families with Dependent Children--average payment per recipient (including vendor payments for medical care).
2/ Old-Age Assistance--average payment per recipient (including vendor payments for medical care).
3/ Excluding Alaska and Hawaii.

Source: Compiled by ACIR staff from various reports of the Governments Division, U.S. Bureau of the Census; from Treasury Department, Annual Report of the Secretary (various years); and from Department of Health, Education, and Welfare, Social Security Administration, Social Security Bulletin, November 1966.

TABLE A-11.--STATE FINANCING OF STATE AND LOCAL EXPENDITURE FOR PUBLIC WELFARE FROM OWN SOURCES, BY STATE, 1942, 1957 AND 1966

State and Region	Amount			Percent State Financed		
	1966	1957	1942	1966	1957	1942
	(millions)					
United States	$3,169.7	$1,940.0	$865.4	75.7%	71.8%	61.4%
New England	270.9	168.7	75.8	83.4	65.9	52.2
Maine	14.4	10.0	5.3	77.8	76.0	77.4
New Hampshire	13.4	7.7	4.1	38.8	46.8	26.8
Vermont	7.5	4.4	1.8	62.7	70.5	55.6
Massachusetts	153.0	100.7	48.0	84.2	53.3	52.5
Rhode Island	25.6	13.2	4.1	98.0	93.2	73.2
Connecticut	57.0	32.7	12.5	89.5	94.5	41.6
Mideast	808.8	419.4	269.8	73.2	56.1	52.1
New York	496.8	242.0	168.8	75.7	52.9	37.0
New Jersey	85.4	39.0	17.9	53.7	46.2	55.3
Pennsylvania	165.8	111.9	73.5	80.5	69.3	86.1
Delaware	7.4	3.5	1.0	67.6	77.1	70.0
Maryland	32.8	15.9	6.3	95.7	57.2	69.8
District of Columbia	20.6	7.1	2.3	-	-	-
Great Lakes	565.1	390.3	204.0	75.3	73.1	68.1
Michigan	101.2	78.4	41.1	97.6	75.8	57.9
Ohio	155.0	112.6	45.2	74.3	78.2	92.0
Indiana	40.2	31.5	24.1	37.1	26.8	35.3
Illinois	187.7	120.2	72.9	80.3	92.5	77.8
Wisconsin	81.0	47.6	20.7	56.7	39.5	40.1
Plains	263.5	181.2	84.1	61.1	62.4	64.8
Minnesota	72.9	45.3	20.9	30.3	16.1	56.9
Iowa	49.0	34.7	17.0	52.7	64.0	58.2
Missouri	58.8	53.7	19.8	91.8	95.0	90.4
North Dakota	9.4	7.4	3.5	70.2	73.0	54.3
South Dakota	9.1	4.6	3.8	78.0	63.0	68.4
Nebraska	15.5	10.1	6.9	78.7	87.1	78.3
Kansas	28.8	25.4	12.2	72.6	60.6	40.2
Southeast	378.1	248.4	72.1	76.6	84.8	73.1
Virginia	32.3	11.6	4.8	51.8	55.2	50.0
West Virginia	21.2	13.1	9.0	90.1	85.5	87.8
Kentucky	40.5	17.0	6.5	89.4	79.4	64.6
Tennessee	26.7	16.2	7.1	70.4	72.8	63.4
North Carolina	32.0	15.1	5.9	29.4	41.1	40.7
South Carolina	14.2	8.8	2.7	74.6	87.5	85.2
Georgia	34.0	29.0	6.9	78.2	85.5	66.7
Florida	44.3	26.6	6.9	76.6	77.4	79.7
Alabama	33.1	25.0	4.9	93.7	97.2	61.2
Mississippi	21.8	12.7	2.9	95.2	93.7	72.4
Louisiana	61.0	61.9	11.5	99.0	99.2	95.7
Arkansas	16.8	11.4	3.0	95.8	94.7	93.3
Southwest	162.8	119.0	36.1	90.8	93.5	87.3
Oklahoma	60.1	53.2	15.3	97.1	97.4	88.2
Texas	73.1	50.1	15.4	85.6	88.6	83.1
New Mexico	13.0	7.3	1.5	99.2	98.6	98.2
Arizona	16.6	8.4	3.9	83.7	97.6	94.9
Rocky Mountain	90.5	70.9	29.5	73.8	90.3	79.7
Montana	11.0	8.0	5.0	38.2	65.0	42.0
Idaho	9.6	5.3	3.2	74.0	83.0	71.9
Wyoming	4.9	3.2	1.2	49.0	65.6	75.0
Colorado	51.1	45.4	14.3	78.5	96.5	88.1
Utah	13.9	9.0	5.8	93.5	94.4	96.6
Far West 1/	636.3	334.5	93.9	76.9	76.4	53.0
Washington	53.2	62.2	19.3	100.0	100.0	100.0
Oregon	31.7	25.7	7.0	71.6	75.9	61.4
Nevada	5.4	2.4	0.9	72.2	66.7	33.3
California	544.0	244.2	66.7	74.9	67.5	37.9
Alaska	4.5	2.7	n.a.	100.0	99.0	n.a.
Hawaii	11.7	4.9	n.a.	100.0	83.7	n.a.

n.a. = Data not available.

1/ Excluding Alaska and Hawaii

Source: Compiled by ACIR staff from various reports of the Governments Division, U.S. Bureau of the Census; from Treasury Department, Annual Report of the Secretary (various years).

TABLE A-12.--STATE AND LOCAL EXPENDITURE FOR HEALTH AND HOSPITALS, BY GOVERNMENTAL SOURCE OF FINANCING, BY STATE, 1966

State and Region	Amount		Percent Financed From--		
	Total (millions)	Per Capita	Federal Aid	State Funds	Local Funds
United States	$5,910.6	$30	4.6%	48.6%	46.8%
New England	344.3	31	4.5	69.2	26.3
Maine	17.4	18	5.7	79.3	14.9
New Hampshire	14.5	21	5.5	81.4	13.1
Vermont	9.0	22	12.2	77.8	10.0
Massachusetts	207.3	39	2.3	62.3	35.4
Rhode Island	22.6	25	17.3	74.3	8.4
Connecticut	73.5	26	5.2	81.4	13.5
Mideast	1,616.9	39	2.0	51.5	46.5
New York	990.5	54	1.0	46.8	52.2
New Jersey	171.5	25	3.3	38.3	58.4
Pennsylvania	242.9	21	4.0	81.9	14.1
Delaware	14.6	28	9.6	84.9	5.5
Maryland	132.5	37	3.0	69.1	27.8
District of Columbia	64.9	80	3.5	-	96.5
Great Lakes	1,110.1	29	3.4	48.7	47.8
Michigan	328.4	38	3.8	42.9	53.4
Ohio	221.6	22	4.0	43.5	52.5
Indiana	130.3	26	2.9	46.6	50.6
Illinois	316.0	29	3.1	57.9	39.0
Wisconsin	123.8	30	3.2	52.0	44.9
Plains	422.0	27	4.7	46.2	49.2
Minnesota	118.4	33	4.1	47.4	48.6
Iowa	73.9	27	3.8	34.0	62.2
Missouri	118.8	26	4.5	45.0	50.4
North Dakota	10.3	16	9.7	81.6	8.7
South Dakota	7.7	11	10.4	66.2	23.4
Nebraska	34.2	23	4.7	28.4	67.0
Kansas	58.7	26	5.6	62.9	31.5
Southeast	1,125.5	26	8.5	44.9	46.6
Virginia	94.2	21	7.0	78.2	14.8
West Virginia	32.6	18	8.6	63.5	28.2
Kentucky	67.6	21	13.0	51.8	35.1
Tennessee	115.1	29	6.9	32.4	60.7
North Carolina	113.3	23	9.3	54.5	36.2
South Carolina	59.3	23	14.8	41.7	43.5
Georgia	164.3	37	6.0	29.8	64.3
Florida	208.8	35	6.5	31.1	62.4
Alabama	81.0	23	10.5	40.6	48.9
Mississippi	64.6	28	9.3	30.3	60.4
Louisiana	88.5	25	8.5	76.3	15.3
Arkansas	38.2	20	13.6	49.7	36.4
Southwest	329.6	21	7.5	41.4	51.1
Oklahoma	59.8	24	5.5	51.7	42.8
Texas	214.7	20	8.2	39.9	51.9
New Mexico	27.3	27	9.2	32.2	58.6
Arizona	27.8	17	5.0	39.2	55.8
Rocky Mountain	126.8	27	8.3	54.2	37.5
Montana	13.7	20	11.7	47.4	41.6
Idaho	17.7	26	14.7	39.0	46.3
Wyoming	14.1	43	7.8	33.3	58.9
Colorado	62.3	32	5.5	64.7	30.0
Utah	19.0	19	10.0	54.7	35.3
Far West 1/	798.3	33	3.8	41.4	54.7
Washington	64.5	22	5.7	56.4	37.7
Oregon	46.0	24	6.7	61.7	31.5
Nevada	22.6	50	7.5	17.7	74.8
California	665.2	35	3.3	39.4	57.3
Alaska	7.7	28	13.0	77.9	9.1
Hawaii	29.4	41	10.2	68.0	22.1

1/ Excluding Alaska and Hawaii.

Source: Compiled by ACIR staff from various reports of the Governments Division, U.S. Bureau of the Census; and from Treasury Department, Annual Report of the Secretary (various years).

TABLE A-13.--STATE FINANCING OF STATE AND LOCAL EXPENDITURE FOR HEALTH AND HOSPITALS FROM OWN SOURCES, BY STATE, 1942, 1957 AND 1966

State and Region	Amount 1966	Amount 1957	Amount 1942	Percent State Financed 1966	Percent State Financed 1957	Percent State Financed 1942
	(millions)					
United States	$5,638.4	$3,023.4	$566.4	51.0%	51.3%	50.0%
New England	328.9	227.7	52.6	72.5	64.5	62.0
Maine	16.4	10.3	2.7	84.1	81.6	85.2
New Hampshire	13.7	9.2	2.6	86.1	68.5	80.8
Vermont	7.9	5.3	1.1	88.6	84.9	81.8
Massachusetts	202.5	144.2	33.2	63.8	54.4	52.1
Rhode Island	18.7	12.8	3.3	89.8	85.2	69.7
Connecticut	69.7	45.9	9.7	85.8	83.4	79.4
Mideast	1,583.8	866.8	206.4	52.5	56.0	46.5
New York	980.5	521.6	122.4	47.3	52.7	45.4
New Jersey	165.8	102.0	33.3	39.6	32.7	29.3
Pennsylvania	233.3	151.8	34.0	85.3	85.9	71.5
Delaware	13.2	7.1	1.5	93.9	95.8	86.7
Maryland	128.5	56.6	8.6	71.3	69.4	57.0
District of Columbia	62.6	27.7	6.4	-	-	-
Great Lakes	1,072.2	595.2	115.9	50.5	48.8	46.2
Michigan	306.4	181.8	33.1	44.5	49.5	51.1
Ohio	212.8	132.5	23.9	45.3	46.0	35.1
Indiana	126.5	69.4	11.1	48.0	52.2	45.0
Illinois	306.3	139.5	32.3	59.7	52.3	54.2
Wisconsin	119.9	72.0	15.5	53.7	43.1	36.8
Plains	402.3	228.4	42.7	48.4	42.8	53.6
Minnesota	113.6	72.2	10.7	49.4	40.0	54.2
Iowa	71.1	34.4	10.0	35.3	24.4	51.0
Missouri	113.4	55.5	12.8	47.2	40.9	35.2
North Dakota	9.3	5.7	1.3	90.3	80.7	100.0
South Dakota	6.9	5.3	1.5	73.9	47.2	66.7
Nebraska	32.6	19.8	2.8	29.8	41.4	78.6
Kansas	55.4	35.5	3.6	66.6	63.1	83.3
Southeast	1,029.6	476.4	68.6	49.1	51.9	62.7
Virginia	87.6	50.3	8.0	84.1	76.9	75.0
West Virginia	29.8	15.6	5.5	69.5	47.4	76.4
Kentucky	58.8	28.2	4.4	59.5	50.4	61.4
Tennessee	105.3	45.2	7.4	34.9	37.2	41.9
North Carolina	102.8	50.8	6.5	60.1	57.3	50.8
South Carolina	50.5	29.3	5.1	48.9	44.0	49.0
Georgia	154.5	66.4	6.4	31.7	39.9	46.9
Florida	195.2	78.6	7.1	33.4	37.8	46.5
Alabama	72.5	29.0	3.2	45.4	48.6	65.6
Mississippi	58.6	20.5	2.7	33.4	45.9	85.2
Louisiana	81.0	46.2	9.7	83.3	85.1	85.6
Arkansas	33.0	16.3	2.6	57.6	57.1	84.6
Southwest	304.8	146.6	17.5	44.7	49.8	60.0
Oklahoma	56.5	24.3	4.2	54.7	69.1	81.0
Texas	197.1	99.2	11.0	43.5	46.2	52.7
New Mexico	24.8	10.8	0.9	35.5	48.1	77.8
Arizona	26.4	12.3	1.4	41.3	42.3	42.9
Rocky Mountain	116.4	60.8	9.6	59.1	49.7	59.4
Montana	12.1	8.1	1.5	53.7	65.4	66.7
Idaho	15.1	9.2	0.8	45.7	41.3	62.5
Wyoming	13.0	7.3	0.9	36.2	24.7	55.6
Colorado	58.9	26.7	4.8	68.4	57.3	60.4
Utah	17.1	9.5	1.6	60.8	42.1	50.0
Far West 1/	767.6	405.0	53.1	43.1	41.7	36.3
Washington	60.8	43.8	6.9	59.9	48.6	42.0
Oregon	42.9	22.4	3.5	66.2	65.2	62.9
Nevada	20.9	7.5	1.0	19.1	17.3	20.0
California	643.1	331.3	41.7	40.7	39.7	33.6
Alaska	6.7	1.4	n.a.	89.6	85.7	n.a.
Hawaii	26.4	15.1	n.a.	75.8	72.2	n.a.

n.a. = Data not available.

1/ Excluding Alaska and Hawaii.

Source: Compiled by ACIR staff from various reports of the Governments Division, U.S. Bureau of the Census; and from Treasury Department, Annual Report of the Secretary (various years).

TABLE A-14.--STATE AND LOCAL EXPENDITURE FOR HIGHWAYS, BY GOVERNMENTAL SOURCE OF FINANCING, BY STATE, 1966

State and Region	Amount		Percent Financed From--		
	Total (millions)	Per Capita	Federal Aid	State Funds	Local Funds
United States	$12,770.0	$ 65	31.3%	48.7%	20.0%
New England	757.7	68	29.2	47.2	23.6
Maine	83.4	85	34.3	41.1	24.6
New Hampshire	63.3	93	27.5	44.9	27.6
Vermont	54.8	135	52.2	37.4	10.4
Massachusetts	284.0	53	27.8	41.3	30.8
Rhode Island	58.9	66	23.1	57.3	19.7
Connecticut	213.3	74	25.3	57.8	16.9
Mideast	2,194.8	53	24.3	48.8	27.0
New York	929.2	51	21.3	43.3	35.4
New Jersey	330.1	48	19.7	46.1	34.2
Pennsylvania	624.1	54	30.6	57.5	12.0
Delaware	71.6	140	30.9	29.5	39.7
Maryland	197.9	55	18.6	68.6	12.7
District of Columbia	41.9	52	48.0	-	52.0
Great Lakes	2,240.5	58	28.1	52.9	19.0
Michigan	442.1	53	28.7	56.3	15.0
Ohio	676.1	66	31.5	56.4	12.1
Indiana	288.0	59	31.1	58.5	10.4
Illinois	511.0	48	28.9	51.0	20.2
Wisconsin	323.3	78	16.2	39.3	44.5
Plains	1,322.3	83	31.8	42.2	25.7
Minnesota	312.1	87	33.1	38.8	28.1
Iowa	263.1	96	20.3	55.1	24.6
Missouri	280.3	62	46.9	35.9	17.2
North Dakota	67.8	104	33.9	36.7	29.4
South Dakota	87.3	128	36.9	36.3	26.9
Nebraska	123.8	85	27.1	45.7	27.2
Kansas	187.9	84	25.2	41.5	33.3
Southeast	2,759.1	65	34.5	52.2	13.3
Virginia	360.2	80	41.5	50.6	7.9
West Virginia	167.7	93	41.3	55.0	3.7
Kentucky	224.2	70	30.4	61.8	7.9
Tennessee	289.8	75	35.2	53.2	11.5
North Carolina	226.4	45	24.1	64.4	11.4
South Carolina	120.9	47	34.1	59.1	6.9
Georgia	232.0	52	37.5	42.0	20.5
Florida	342.3	58	25.4	51.7	22.9
Alabama	236.6	67	42.6	42.1	15.3
Mississippi	167.2	72	32.3	46.4	21.3
Louisiana	266.6	74	32.1	50.2	17.7
Arkansas	125.2	64	43.0	56.2	0.8
Southwest	1,096.0	69	32.7	43.6	23.7
Oklahoma	173.0	70	28.3	63.5	8.3
Texas	681.8	63	26.9	41.4	31.7
New Mexico	110.6	108	55.1	34.8	10.1
Arizona	130.6	81	49.5	36.6	13.8
Rocky Mountain	490.7	104	46.9	37.5	15.7
Montana	102.2	146	49.8	27.4	23.0
Idaho	70.9	102	41.9	43.3	14.8
Wyoming	75.3	229	50.2	40.8	8.9
Colorado	145.8	74	37.6	44.2	18.2
Utah	96.5	96	59.0	31.2	9.8
Far West 1/	1,794.6	74	32.1	51.3	16.6
Washington	243.2	82	37.9	44.5	17.6
Oregon	183.2	94	47.7	40.9	11.4
Nevada	65.8	145	54.0	32.4	13.7
California	1,302.4	69	27.7	55.0	17.3
Alaska	74.2	273	68.3	24.7	6.9
Hawaii	40.5	56	44.4	22.0	33.3

1/ Excluding Alaska and Hawaii.

Source: Compiled by ACIR staff from various reports of the Governments Division, U.S. Bureau of the Census; and from Treasury Department, Annual Report of the Secretary (various years).

TABLE A-15.--STATE FINANCING OF STATE AND LOCAL EXPENDITURE FOR HIGHWAYS FROM OWN SOURCES, BY STATE, 1942, 1957 AND 1966

State and Region	Amount			Percent State Financed		
	1966	1957	1942	1966	1957	1942
	(millions)					
United States	$8,777.9	$6,869.9	$1,319.5	70.9%	71.2%	67.7%
New England	536.4	652.9	97.8	66.6	77.9	65.6
Maine	54.8	45.9	13.5	62.6	67.8	57.0
New Hampshire	45.9	38.6	9.0	61.9	73.1	57.8
Vermont	26.2	23.5	5.7	78.2	68.5	77.2
Massachusetts	205.0	280.7	35.3	57.3	73.7	59.8
Rhode Island	45.3	26.0	6.2	74.4	68.1	40.3
Connecticut	159.3	238.2	28.1	77.3	87.6	82.9
Mideast	1,662.4	1,337.1	298.5	64.4	63.1	60.6
New York	731.7	604.4	128.5	55.0	50.1	38.9
New Jersey	265.1	208.4	36.0	57.4	58.8	65.8
Pennsylvania	433.3	339.0	104.5	82.8	78.8	81.7
Delaware	49.5	19.6	2.7	42.6	93.9	100.0
Maryland	161.1	151.9	21.7	84.3	87.0	88.5
District of Columbia	21.8	13.8	5.1	-	-	-
Great Lakes	1,611.2	1,424.8	277.3	73.6	71.0	80.7
Michigan	315.1	326.5	59.4	79.0	80.0	83.7
Ohio	463.4	375.6	74.9	82.3	79.8	94.3
Indiana	198.3	153.4	38.5	85.0	86.2	96.4
Illinois	363.5	380.9	59.2	71.7	59.0	67.9
Wisconsin	270.9	188.4	45.3	46.8	49.2	57.6
Plains	898.1	717.4	155.5	62.1	62.0	64.8
Minnesota	208.7	152.5	40.7	58.0	54.0	64.6
Iowa	209.7	161.7	36.0	69.1	70.7	75.3
Missouri	148.9	118.5	25.8	67.6	58.9	55.8
North Dakota	44.8	37.1	7.4	55.6	53.9	70.3
South Dakota	55.1	40.5	8.2	57.5	54.8	51.2
Nebraska	90.3	57.3	15.1	62.7	60.0	64.9
Kansas	140.5	149.8	22.3	55.5	67.9	61.4
Southeast	1,806.8	1,224.4	240.1	79.7	79.5	85.8
Virginia	210.7	163.2	28.7	86.5	80.5	90.9
West Virginia	98.5	55.1	21.0	93.7	90.9	90.5
Kentucky	156.1	91.2	22.5	88.7	86.4	79.6
Tennessee	187.9	103.0	22.5	82.2	80.1	82.2
North Carolina	171.8	100.9	24.2	84.9	86.0	86.4
South Carolina	79.7	50.8	16.3	89.7	86.0	100.0
Georgia	144.9	106.9	20.1	67.2	72.9	87.1
Florida	255.5	184.8	21.1	69.3	80.5	95.7
Alabama	135.9	113.5	19.6	73.2	71.5	87.8
Mississippi	113.2	68.8	15.7	68.6	68.2	77.1
Louisiana	181.1	135.8	21.1	73.9	77.1	64.5
Arkansas	71.4	50.4	7.3	98.6	80.6	80.1
Southwest	737.8	511.7	91.9	64.8	68.8	71.7
Oklahoma	124.1	101.7	18.7	88.5	91.8	90.9
Texas	498.2	332.7	60.2	56.6	59.0	61.3
New Mexico	49.7	33.7	6.5	77.5	88.7	92.3
Arizona	65.9	43.6	6.5	72.5	73.6	92.3
Rocky Mountain	260.6	179.2	39.1	70.5	69.1	67.5
Montana	51.3	34.7	9.5	54.4	51.6	53.7
Idaho	41.2	29.6	7.6	74.5	74.3	63.2
Wyoming	37.5	18.4	4.0	81.9	79.9	80.0
Colorado	91.0	71.3	12.0	70.8	72.2	74.2
Utah	39.6	25.2	6.0	76.0	70.4	73.3
Far West 1/	1,219.0	794.4	119.6	75.6	77.5	75.7
Washington	151.1	143.2	19.2	71.7	73.7	86.5
Oregon	95.8	81.6	19.8	78.3	74.6	72.2
Nevada	30.3	13.5	2.5	70.3	84.4	68.0
California	941.8	556.1	78.1	76.1	78.7	74.1
Alaska	23.4	4.2	n.a.	78.2	59.5	n.a.
Hawaii	22.4	23.7	n.a.	39.7	67.9	n.a.

n.a. = Data not available.

1/ Excluding Alaska and Hawaii.

Source: Compiled by ACIR staff from various reports of the Governments Division, U.S. Bureau of the Census; and from Treasury Department, Annual Report of the Secretary (various years).

TABLE A-16.--PERCENTAGE DISTRIBUTION OF FEDERAL, STATE AND LOCAL TAX COLLECTIONS, BY SOURCE, SELECTED YEARS, 1913-1966

Tax	1913	1922	1932	1942	1952	1957	1962	1965	1966
1. Federal, State and Local									
Property taxes	58.7%	45.0%	56.2%	21.8%	10.9%	13.0%	15.4%	15.6%	15.3%
Consumer taxes	29.5	17.7	18.6	27.8	19.8	20.9	21.7	21.7	19.9
Income and death and gift taxes	2.6	30.5	16.9	43.3	65.8	62.1	58.9	57.8	59.3
Individual income	-	1/	6.0	16.7	36.6	37.9	39.3	36.5	37.4
Corporation income	1.5	1/	8.5	24.0	27.9	22.5	17.6	18.9	20.0
Death and gift	1.0 est.	2.8	2.4	2.6	1.3	1.7	2.0	2.4	1.9
All other taxes	9.3	6.9	8.3	7.1	3.4	4.0	3.9	4.9	5.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
2. Federal									
Consumer taxes	92.4	34.2	40.4	27.9	15.6	15.9	16.3	16.8	14.1
Income and death and gift taxes	5.3	61.6	57.6	68.1	83.6	83.3	82.8	82.1	85.1
Individual income	-	1/	22.3	26.1	46.7	51.0	55.4	52.1	53.3
Corporation income	5.3	1/	33.0	38.5	35.5	30.3	24.9	27.2	28.9
Death and gift	-	4.1	2.3	3.4	1.4	2.0	2.5	2.9	2.9
All other taxes	2.3	4.2	2.0	4.0	0.7	0.8	0.9	1.0	0.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
3. State									
Property tax	46.5	36.7	17.4	6.8	3.8	3.3	3.1	2.9	2.8
Consumer taxes	18.3	14.1	38.4	56.8	58.1	58.1	58.5	57.6	58.0
General sales and gross receipts	-	-	0.4	16.2	22.6	23.2	24.9	25.7	26.8
Income and death and gift taxes	7.6	18.2	15.9	16.1	19.9	19.9	22.1	24.3	24.3
Individual income	-	4.5	3.9	6.4	9.3	10.8	13.3	14.0	14.6
Corporation income	-	6.1	4.2	6.9	8.5	6.8	6.4	7.4	6.9
Death and gift	7.6 est.	7.5	7.8	2.8	2.1	2.3	2.5	2.8	2.8
All other taxes	27.6	30.9	28.3	20.3	18.2	18.8	16.2	15.2	14.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
4. Local									
Property tax	91.1	96.9	97.3	92.4	87.5	86.7	87.7	86.9	87.1
Consumer tax	0.2	0.7	0.6	2.9	6.6	7.2	6.9	8.2	7.5
Income and death and gift taxes	-	-	-	0.2	0.9	1.3	1.5	1.7	1.7
Individual income	-	-	-	0.6	0.9	1.3	1.5	1.7	1.7
Corporation income	-	-	-	2/	2/	2/	2/	2/	2/
Death and gift				3/	3/	3/	3/	3/	3/
All other taxes	8.6	2.5	2.1	4.2	5.0	4.8	3.9	3.2	3.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1/ Allocation between individual and corporation not available
2/ Minor amount of local corporation income taxes included with individuals.
3/ Minor amount of local death and gift taxes included in "all other taxes."

Source: Prepared by ACIR staff from U.S. Department of Commerce, Bureau of Census data.

TABLE A-17.--STATE CONSTITUTIONAL LIMITATIONS ON STATE BORROWING

State	No Limitations	Legislative Borrowing Power Limits: For Casual Deficits or Extraordinary Expenses Only	Legislative Borrowing Power Limits: For Any or Other Purpose	Legislative Borrowing Power Limits: Referendum Required To Create Debt	Exceptions to Limits: Referendum Required To Exceed Limit	Exceptions to Limits: Limit May Be Exceeded: For Refunding Purpose	Exceptions to Limits: Limit May Be Exceeded: For Defense of State or Nation	Exceptions to Limits: Limit May Be Exceeded: For Other Purpose	Per Capita Total Debt 1966
United States									$151.57
Alabama		$3,000,000[24]				x	x[1]		142.71
Alaska			[2]	x		x	x		463.90
Arizona		350,000					x		28.24
Arkansas					x	x			34.18
California			$300,000		x[3]		x		222.48
Colorado		100,000	50,000	x[4]			x	x[5]	62.63
Connecticut	x		[20]						429.24
Delaware	x[6]					x	x		653.23
Florida			[9,21]	x		x	x		133.82
Georgia		500,000	3,500,000[22]			x	x		132.42
Hawaii			60,000,000[23]			x	x	x	423.71
Idaho			2,000,000		x[3]		x		22.51
Illinois		250,000			x[3]		x		107.26
Indiana			[21]				x		107.68
Iowa		250,000			x		x		25.63
Kansas			1,000,000		x[3]		x		111.80
Kentucky		500,000			x[3]	x	x		263.67
Louisiana	x[1]						x		179.85
Maine			2,000,000		x		x		163.29
Maryland	x[2]	500,000[3]					x	x[8]	225.14
Massachusetts	x[1]						x	x[8]	329.19
Michigan			250,000				x	x[5]	113.35
Minnesota	x[1]	250,000					x	x[8]	90.22
Mississippi			[10]						113.41
Missouri		1,000,000			x[3]	x			30.55

TABLE A-17 (CONT'D).--STATE CONSTITUTIONAL LIMITATIONS ON STATE BORROWING

State	No Limitations	Legislative Borrowing Power Limits: For Casual Deficits or Extraordinary Expenses Only	Legislative Borrowing Power Limits: For Any or Other Purpose	Legislative Borrowing Power Limits: Referendum Required To Create Debt	Exceptions to Limits: Referendum Required To Exceed Limit	Exceptions to Limits: Limit May Be Exceeded: For Refunding Purpose	Exceptions to Limits: Limit May Be Exceeded: For Defense of State or Nation	Exceptions to Limits: Limit May Be Exceeded: For Other Purpose	Per Capita Total Debt 1966
Montana			$100,000		x[3]		x		$107.37
Nebraska		$100,000					x		45.13
Nevada			[11]				x		35.11
New Hampshire	x[2]								197.21
New Jersey			[5]		x[3]		x		148.36
New Mexico		200,000[11]			x[3]	x	x		123.07
New York				x[3]		x	x	x[8]	250.34
North Carolina		[13]	[14]		x	x	x	x	54.87
North Dakota			2,000,000[3]				x	x	38.19
Ohio		750,000				x	x		100.15
Oklahoma			500,000	x[3]			x	x	169.29
Oregon			50,000[15]				x	x[16,11]	231.49
Pennsylvania		1,000,000				x	x	x[16]	169.59
Rhode Island			50,000		x		x	x[8]	278.48
South Carolina		[14]		x[17,3]					92.29
South Dakota		100,000[3]	[11,1]			x	x		27.89
Tennessee	x[2]								59.51
Texas		200,000				x	x		56.73
Utah			[11]				x		106.55
Vermont	x[2]								191.48
Virginia		[14]	[11]	x[18]		x	x		61.40
Washington		400,000		x[18,3]			x		186.15
West Virginia		[14]				x	x		208.04
Wisconsin		100,000[3]					x		79.52
Wyoming			[11]		x[19]		x		75.55

TABLE A-17 (CONCL'D).--STATE CONSTITUTIONAL LIMITATIONS ON STATE BORROWING

Footnotes

1/ Requires approval by two-thirds of (each house of) legislature.
2/ Requires approval by simple legislative majority.
3/ Provision must be made for payment of interest and/or principal at time of borrowing.
4/ Refers solely to receipts from 3-mill levy against State-assessed valuation for erection of State buildings.
5/ May create additional debt for purposes of highway construction and improvement.
6/ Requires approval by three-fourths of legislature.
7/ Bonds for up to two-thirds of bonded indebtedness paid off in previous biennium do not require referendum.
8/ For tax or revenue anticipation loans.
9/ Requires approval of three-fifths of legislature.
10/ Bonded indebtedness cannot be in excess of 1-1/2 times the sum of all revenue collected in the State during any one of the four preceding fiscal years.
11/ Limitation in terms of percentage of assessed valuation of property.
12/ Limitation in terms of percentage at total annual appropriation.
13/ Creation of debt limited to two-thirds the amount by which the State's outstanding indebtedness has been reduced during the preceding biennium.
14/ May borrow for this purpose by no maximum specified.
15/ Debt created for rehabilitation and acquisition of forest lands may not exceed 3/16 of 1 percent of the cash value of all State property taxed on ad valorem basis.
16/ For road construction and maintenance.
17/ Referendum not required for debt created for "ordinary purposes of State government." Any referendum requires two-thirds approval.
18/ Referendum required for all purposes other than casual deficits, extraordinary expenditures, and other special exceptions.
19/ Referendum required for creation of debt in excess of amount of taxes for current fiscal year.
20/ Debt is not to exceed 4-1/2 times the total tax receipts of the State during the previous fiscal year.
21/ Refers solely to pledging of specific revenues through bonds by individual agencies.
22/ Solely for the payment of State public school teachers.
23/ Further debt (such that the total debt does not exceed 15 percent of the total of assessed State property values) may be created by a two-thirds vote in each house.
24/ Governor authorizes debt up to $300,000.

Source: Legislative Drafting Research Fund of Columbia University, Constitution of the United States, National and State, Vols. 1 and 2, Dobbs Ferry, New York, Oceana Publications, Inc., 1962; James A. Heins, Constitutional Restrictions Against State Debt, Madison, Wisconsin, University of Wisconsin Press, 1963; Tax Foundation, Inc., State Expenditure Exhibits; An Evaluation and Supplement, New York, 1965.

TABLE A-18.--LONG-TERM INDEBTEDNESS OF STATE AND LOCAL GOVERNMENTS BY CHARACTER OF DEBT AND BY MAJOR PURPOSE, END OF FISCAL YEARS, 1957, 1962 AND 1965-1966

	1965-1966			1962			1957		
	State and Local	State	Local	State and Local	State	Local	State and Local	State	Local
					Amount (Millions)				
Total long-term debt	$101,000	$28,504	$72,497	$77,543	$21,612	$55,931	$50,845	$13,522	$37,323
By character									
Full-faith and credit	59,800	12,709	47,091	48,321	10,313	38,008	32,577	6,490	26,087
Nonguaranteed	41,200	15,795	25,405	29,222	11,300	17,923	18,268	7,032	11,236
By purpose									
State institutions of higher education	4,143	4,143	-	2,012	2,012	-	706	706	-
State highways	10,763	10,763	-	9,659	9,659	-	7,336	7,336	-
Local schools	24,851	2,522	22,329	20,004	1,885	18,119	12,488	1,026	11,461
Local utilities	16,917	-	16,917	12,280	-	12,280	9,231	-	9,231
All other	44,325	11,075	33,250	33,588	8,056	25,532	21,084	4,454	16,631
					Percent Distribution				
Total long-term debt	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
By character									
Full-faith and credit	59.2	44.6	65.0	62.3	47.7	68.0	64.1	48.0	69.9
Nonguaranteed	40.8	55.4	35.0	37.7	52.3	32.0	35.9	52.0	30.1
By purpose									
State institutions of higher education	4.1	14.5	-	2.6	9.3	-	1.4	5.2	-
State highways	10.7	37.8	-	12.5	44.7	-	14.4	54.3	-
Local schools	24.6	8.8	30.8	25.8	8.7	32.4	24.6	7.6	30.7
Local utilities	16.7	-	23.3	15.8	-	22.0	18.2	-	24.7
All other	43.9	38.9	45.9	43.3	37.3	45.6	41.5	32.9	44.5

Source: U.S. Bureau of the Census, Compendium of Government Finances (1957 Census of Governments, Vol. III, No. 5, and 1962 Census of Governments, Vol. IV, No. 4); and Government Finances in 1965-66.

TABLE A-19.--PERCENTAGE DISTRIBUTION OF FEDERAL AID PAYMENTS TO STATE AND LOCAL GOVERNMENTS, BY FUNCTION, SELECTED YEARS

Function	Actual 1950	1955	1960	1965	Estimate 1968
Agriculture and agricultural resources	5%	7%	3%	5%	3%
Natural resources	2	3	3	3	3
Commerce and transportation	21	19	43	40	25
Housing and community development	1	4	4	5	7
Health, labor, and welfare	69	57	41	40	46
Education	2	8	5	6	14
Other	1	2	1	1	1
Total	100%	100%	100%	100%	100%

Source: Bureau of the Budget, Special Analysis J, "Federal Aid to State and Local Government," Budget of the United States, 1968, p. 147.

TABLE A-20.--FEDERAL GRANTS-IN-AID TO STATE AND LOCAL GOVERNMENTS, BY YEAR AND MAJOR FUNCTIONAL CATEGORIES, 1902-1968
(Thousands)

Year	Veterans Service and Benefits	Health, Welfare and Labor	Education and General Research	Agriculture and Agricultural Resources	Other Natural Resources	Commerce and Transportation	Housing and Community Development[1]	National Defense and International Affairs	General Government	Total
1902	$ 1,005	-	$ 1,210	$ 786	-	-	-	-	-	$ 3,001
1912	1,152	-	2,510	1,593	-	-	-	-	-	5,255
1920	1,095	$ 1,759	4,637	5,912	-	$ 20,483	-	-	-	33,886
1925	706	1,509	8,473	7,300	$ 346	95,412	-	-	-	113,746
1930	575	746	10,010	11,875	1,318	79,839	-	-	-	104,363
1935	499	2,243,671	12,622	12,694	1,511	326[2]	-	-	-	2,271,323
1940	1,368	2,066,362	24,444	143,113	6,392	153,519	-	-	-	2,395,198
1941	1,432	1,771,307	25,213	110,129	4,120	165,900	$ 10,747	$ 165	-	2,089,013
1942	1,375	1,506,514	25,521	77,519	4,518	160,105	50,022[3]	122	-	1,825,696
1943	1,176	902,582	26,056	47,690	9,005	181,435	124,412[3]	257	-	1,292,613
1944	1,181	616,151	25,479	66,319	7,359	152,350	140,320[3]	175	-	1,009,334
1945	1,194	570,176	24,956	81,862	7,473	89,234	134,947[3]	186	-	910,048
1946	20,238	567,873	25,308	92,427	8,274	75,868	110,637[3]	-	-	900,625
1947	59,182	902,093	32,170	65,116	9,754	208,204	401,677[3]	-	-	1,678,196
1948	84,977	1,024,882	37,134	70,940	11,473	333,550	65,911[3]	-	-	1,628,887
1949	31,587	1,231,538	36,921	86,631	13,997	433,641	20,584	-	-	1,854,899
1950	15,277	1,562,252	38,614	106,276	16,957	465,352	21,654	-	-	2,226,382
1951	8,998	1,637,185	48,814	98,344	17,740	426,489	18,281	-	-	2,255,851
1952	6,636	1,661,957	122,234	83,865	19,755	468,565	24,534	-	$ 5,391	2,392,957
1953	6,326	1,811,136	230,958	97,337	22,771	557,731	47,653	-	7,161	2,781,073
1954	6,863	1,890,389	203,210	213,173	24,938	561,523	80,776	-	6,300	2,987,172
1955	7,686	1,854,170	239,303	247,730	25,932	619,569	125,955	-	5,930	3,126,275
1956	8,091	2,109,270	208,672	389,277	26,606	777,574	116,033	-	5,132	3,641,655
1957	8,217	2,178,892	204,570	381,786	26,577	898,477	137,882	-	6,083	3,942,484
1958	8,326	2,523,430	165,881	278,195	31,330	1,590,897	153,043	-	7,503	4,758,605
1959	8,316	2,777,160	296,747	322,470	34,481	2,689,379	213,402	-	6,373	6,348,328
1960	7,880	2,923,591	363,558	275,268	35,335	3,009,916	256,725	-	17,343	6,889,616
1961	9,000	3,123,100	378,200	398,100	33,400	2,688,800	311,900	13,900	15,600	6,972,000
1962	8,500	3,540,000	405,200	537,800	34,700	2,841,900	354,500	23,400	21,900	7,767,900
1963	8,200	3,813,400	465,200	521,400	53,900	3,092,600	400,200	47,700	25,500	8,428,100
1964	7,600	4,259,100	479,400	656,000	44,900	3,978,600	452,100	39,100	52,500	9,969,300
1965	8,100	4,477,400	610,300	517,600	107,100	4,386,000	559,200	37,700	15,800	10,719,200
1966	8,900	5,781,300	1,524,700	368,700	226,900	4,158,700	626,200	31,500	33,800	12,760,700
1967(est.)	11,400	7,012,400	2,228,500	525,100	261,300	4,196,300	828,200	33,100	48,100	15,144,500
1968(est.)	15,000	8,042,000	2,497,900	559,000	405,300	4,313,800	1,274,300	38,900	70,100	17,216,300

1/ Some housing funds included in Commerce and Transportation for years prior to 1941.
2/ Federal aid highway program financed for this year out of emergency relief funds.
3/ In these years, included large amounts of veterans housing and defense community facilities.
Source: Drawn from tabulations made in early years by the Labor and Welfare Division, Bureau of the Budget, and for more recent years from special analyses dealing with grants-in-aid accompanying the President's Budget.

TABLE A-21.-- FEDERAL AID EXPENDITURES IN RELATION TO TOTAL FEDERAL EXPENDITURES AND TO STATE-LOCAL REVENUE, 1947-1968

		As a Percent of		
Fiscal Year	Amount 1/ (millions)	Total Cash Payments to the Public 2/	Domestic Cash Payments to the Public 3/	State-Local Revenue
1947 4/	$ 1,668 5/	4.2%	11.4% 6/	12.4% 7/
1948	1,631 5/	4.8	11.4 8/	10.6 9/
1949	1,876 10/	4.7	10.7	11.1
1950	2,254	5.6	10.9	12.2
1951	2,287	5.1	15.2	11.1
1952	2,431	3.7	13.9	10.7
1953	2,832	3.8	14.3	11.6
1954	3,052	4.5	14.1	11.7
1955	3,257 11/	4.6	14.1	10.4
1956	3,724	5.1	14.4	10.6
1957	4,039	5.0	14.5	10.5
1958	4,935	5.9	16.3	12.0
1959	6,669	7.0	19.4	14.6
1960	7,040	7.5	19.3	13.8
1961	7,112	7.1	16.9	13.2
1962	7,893	7.3	17.3	13.5
1963	8,634	7.6	19.0	13.7
1964	10,141	8.4	21.1	14.8
1965	10,904	8.9	21.3	14.7
1966	12,960	9.4	21.4 12/	15.6
1967 (est.)	15,366	9.6	21.9	16-17
1968 (est.)	17,439	10.1	23.0	(12)

TABLE A-21 (CONCL'D).--FEDERAL AID EXPENDITURES IN RELATION TO TOTAL FEDERAL EXPENDITURES AND TO STATE-LOCAL REVENUE, 1947-1968

Footnotes

1/ This figure represents the total expenditures for aid to State and local governments, budget and trust accounts, excluding loans and repayable advances. Note: According to William Robinson of the Bureau of the Budget, the Bureau recently updated its historical figures for the years 1955, 1960 and 1965. The figures in this column have been obtained in each case from the annual budget document of two years later. Owing to the recent updating, the figures obtained for those particular years will not quite tally (budget 1957 figures for 1955: $3,204 million; revised figures for 1955 is $3,257 million). Eventually the Bureau hopes to update all its historical figures but at the moment they can only be derived from the annual documents, except for 1955, 1960 and 1965.

2/ The percentage figures from 1947 through 1954 are based on figures obtained from the Bureau of the Budget annual compilations (two years after the fact). The figures for the balance of the column are taken from Special Analysis J., Budget of the United States, 1967.

3/ Excludes payments for national defense, space, international affairs and finance, and a portion of the interest on the national debt attributed to defense.

4/ Federal payments to State and local governments were broken down by the Bureau of the Budget only since 1947.

5/ The figures for 1947 and 1948 were obtained from the Budget of the United States Government for the fiscal year ending June 30, 1950, U.S. Government Printing Office, Special Analysis: Federal Aid to State and Local Governments. Repayable advances have been subtracted; evidently loans did not figure in this amount.

6/ The Bureau of the Census has not published domestic cash payment figures for 1947, 1949 and 1951. They have been calculated by taking a figure from the annual Budget compilations and removing that part of the interest on the national debt attributable to defense, according to a percentage for each of those years worked up by ACIR.

7/ State and local revenue was not calculated for the years 1947, 1949 and 1951. Figures shown here were derived by averaging in each case the figure for the year before and the year after.

8/ The figures for 1948, 1950 and 1952 through 1965 were developed by ACIR on the basis of the Bureau of the Census publications.

9/ The figures for 1948, 1950 and 1952 through 1954 were obtained from Historical Statistics on Governmental Finances and Employment, Census of Governments 1962, Vol. VI (Topical Studies) No. 4, U.S. Department of Commerce, Bureau of the Census. The figures from 1955 through 1967 estimated are taken from Special Analysis J, Budget of the United States, 1967.

10/ The figures for the years 1949 through 1954 were obtained from the budget document for two years later, in each case. Loans and repayable advances have been excluded.

11/ The figures for 1955 through 1968 estimated are taken from Table J-2, Special Analysis J, Budget of the United States, 1967, excluding loans and repayable advances.

12/ The percentages for 1966 and 1967 are based on figures obtained from the Budget for 1968, using a percentage calculated by ACIR for the allocation of interest on the national debt for defense purposes.

TABLE A-22.--NUMBER OF GRANT AUTHORIZATIONS, BY ADMINISTERING DEPARTMENT OR AGENCY, BY FORMULA OR PROJECT, DECEMBER 31, 1966[1/]

Department	Formula	Project	Total
Health, Education and Welfare			
Public Health Service	19	69	88
Office of Education	25	54	79
Welfare Administration	13	12	25
Other	6	11	17
Department of Labor	3	5	8
Department of the Army	2	6	8
Department of Commerce	5	22	27
Housing and Urban Development	-	34	34
Department of Interior	9	25	34
Department of Agriculture	8	13	21
Office of Economic Opportunity	1	10	11
Miscellaneous	8	19	27
Total	99	280	379

1/ This table includes the 20 Public Health Service programs replaced, as of July 1, 1967, under the new Comprehensive Health Services Act.

Source: Prepared by ACIR staff from various sources, including Catalog of Federal Aids to State and Local Governments and Supplements, op. cit., and congressional enactments, Eighty-Ninth Congress, Second Session.

TABLE A-23.--FEDERAL AID PAYMENTS IN URBAN AREAS, 1961, 1966 AND 1968
(Budget and trust accounts in millions)1/

Function and Program	Actual 1961	Actual 1966	Estimate
National defense (civil defense and National Guard centers)	$ 10	$ 20	$ 26
Agriculture and agricultural resources	155	149	235
Natural resources	54	105	200
Commerce and transportation			
Highways	1,398	2,138	2,176
Economic development		2	36
Airports	36	30	33
Other	1	52	6
Housing and community development			
Public housing	105	169	208
Water and sewer facilities			61
Urban renewal	106	235	336
Model cities			132
Urban transportation		14	98
District of Columbia	25	44	71
Other	2	23	100
Health, labor and welfare			
Office of Economic Opportunity		449	1,010
School lunch, special milk, food stamp	131	196	290
Hospital construction	48	75	95
Community health	33	127	450
Public assistance (including medical care)	1,170	1,905	2,243
Vocational rehabilitation	37	108	211
Employment security and manpower training	303	417	501
Other	21	47	101
Education			
Elementary and secondary	222	895	1,292
Higher education	5	37	172
Vocational education	28	90	160
Other	3	27	80
Other functions		*	6
Total aids to urban areas	$3,893	$7,354	$10,329

1/ Excludes loans and repayable advances.

*Less than $0.05 million.

Source: Special Analysis J, Federal Aid to State and Local Government, Budget of the United States, 1968, p. 155.

TABLE A-24.--NUMBER OF DIFFERENT CITY LOCATIONS OF FEDERAL REGIONAL OFFICES SERVING INDIVIDUAL STATES

New England			
Connecticut	8	New Hampshire	8
Maine	8	Rhode Island	8
Massachusetts	8	Vermont	6
New York-New Jersey-Pennsylvania-Delaware			
Delaware	8	New York	7
New Jersey	7	Pennsylvania	9
Mid-Atlantic			
District of Columbia	8	North Carolina	6
Kentucky	10	Virginia	9
Maryland	8	West Virginia	9
Southeast			
Alabama	3	Mississippi	3
Florida	3	South Carolina	3
Georgia	3	Tennessee	3
Midwest			
Illinois	7	Ohio	9
Indiana	7	Wisconsin	7
Michigan	8		
Plains			
Iowa	5	Nebraska	3
Kansas	4	North Dakota	5
Minnesota	6	South Dakota	3
Missouri	7		
Southwest			
Arkansas	5	Oklahoma	6
Louisiana	5	Texas	6
New Mexico	7		
Rocky Mountain			
Colorado	5	Utah	8
Idaho	8	Wyoming	5
Montana	8		
Far West			
Alaska	5	Nevada	4
Arizona	5	Oregon	5
California	4	Washington	5
Hawaii	3		

Source: Office of the Federal Register, United States Government Organization Manual, 1967-68; various agency documents.

TABLE A-25.--APPOINTIVE POWER OF GOVERNOR FOR HEAD OF AGENCY RESPONSIBLE FOR BUDGET PREPARATION

Full Appointive Power (24 States)

Alabama	Kansas	Nevada	Pennsylvania
Arkansas	Kentucky	New Mexico	Tennessee
California	Louisiana	New York	Texas
Georgia	Maryland	North Carolina	Virginia
Idaho	Michigan	Oklahoma	Washington
Indiana	Montana	Oregon	Wyoming

Substantial Appointive Power (22 States)

Alaska	Iowa	Missouri	Rhode Island
Arizona	Illinois	Nebraska	South Dakota
Delaware	Maine	New Hampshire	Utah
Florida	Massachusetts	New Jersey	Vermont
Hawaii	Minnesota	North Dakota	West Virginia
		Ohio	Wisconsin

Limited Appointive Power (1 State)

South Carolina

No Appointive Power (3 States)

Colorado 1/ Connecticut 1/ Mississippi

1/ Selection is made in accordance with Civil Service Act.

Source: Council of State Governments, Book of the States, 1965-1966 and 1966-1967.

TABLE A-26.--APPOINTIVE POWER OF GOVERNOR FOR HEAD OF STATE EDUCATION AGENCY

Full Appointive Power (1 State)

Tennessee

Substantial Appointive Power (4 States)

Alaska	Pennsylvania
New Jersey	Vermont

Limited Appointive Power (22 States)

Arkansas	Iowa	Minnesota	Ohio
Colorado	Maine	Missouri	Rhode Island
Connecticut	Maryland	Nebraska	Texas
Delaware	Massachusetts	Nevada	Utah
Hawaii	Michigan	New Hampshire	Virginia
		New Mexico	West Virginia

No Appointive Power (23 States)

Alabama	Illinois	Montana	South Carolina
Arizona	Indiana	New York	South Dakota
California	Kansas	North Carolina	Washington
Florida	Kentucky	North Dakota	Wisconsin
Georgia	Louisiana	Oklahoma	Wyoming
Idaho	Mississippi	Oregon	

Source: Council of State Governments, Book of the States, 1965-1966 and 1966-1967.

TABLE A-27.--APPOINTIVE POWER OF GOVERNOR FOR HEAD OF HEALTH AGENCY[1/]

Full Appointive Power (8 States)

California	North Dakota
Florida	Tennessee
Indiana	Virginia
Maryland	Washington

Substantial Appointive Power (22 States)

Alaska	Iowa	Missouri	Pennsylvania
Arkansas	Louisiana	Nevada	Rhode Island
Connecticut	Maine	New Hampshire	South Carolina
Hawaii	Massachusetts	New Jersey	South Dakota
Illinois	Michigan	New York	Utah
		Ohio	Vermont

Limited Appointive Power (18 States)

Alabama	Kentucky	New Mexico	West Virginia
Arizona	Minnesota	North Carolina	Wisconsin
Delaware	Mississippi	Oklahoma	Wyoming
Florida	Montana	Oregon	
Idaho	Nebraska	Texas	

No Appointive Power (1 State)

Colorado[2/]

1/ No information available for Kansas.
2/ Selection is made in accordance with Civil Service Act.

Source: Council of State Governments, Book of the States, 1965-1966 and 1966-1967.

TABLE A-28.--APPOINTIVE POWER OF GOVERNOR FOR HEAD OF MENTAL HEALTH AGENCY[1/]

Full Appointive Power (5 States)

California	Maryland
Illinois	Tennessee
Kentucky	

Substantial Appointive Power (20 States)

Alaska	Illinois	Nevada	Ohio
Arkansas	Massachusetts	New Hampshire	Vermont
Colorado	Michigan	New Jersey	Virginia
Connecticut	Minnesota	New York	Washington
Hawaii	Nebraska	North Carolina	West Virginia

Limited Appointive Power (19 States)

Alabama	Idaho	New Mexico	Texas
Arizona	Iowa	Oklahoma	Utah
Delaware	Maine	Oregon	Wisconsin
Florida	Missouri	South Carolina	Wyoming
Georgia	Montana	South Dakota	

No Appointive Power

None

1/ Responsibility for mental health is assigned to another official in four States; no information available for Kansas, Louisiana, Mississippi, North Dakota, Pennsylvania and Rhode Island.

Source: Council of State Governments, Book of the States, 1965-1966 and 1966-1967.

TABLE A-29.--APPOINTIVE POWER OF GOVERNOR FOR HEAD OF WELFARE AGENCY[1/]

Full Appointive Power (8 States)

Arkansas	Kentucky
Georgia	South Dakota
Idaho	Tennessee
Indiana	Washington

Substantial Appointive Power (23 States)

Alaska	Maine	Nebraska	Rhode Island
California	Massachusetts	New Hampshire	Utah
Connecticut	Michigan	New York	Vermont
Hawaii	Minnesota	North Carolina	Virginia
Illinois	Mississippi	Ohio	West Virginia
Iowa	Missouri	Pennsylvania	

Limited Appointive Power (16 States)

Alabama	Louisiana	New Jersey	Oregon
Arizona	Maryland	New Mexico	South Carolina
Delaware	Montana	North Dakota	Texas
Florida	Nevada	Oklahoma	Wyoming

No Appointive Power (1 State)

Colorado[2/]

1/ Responsible for welfare is assigned to another official in two States; no information available for Kansas and Wisconsin.
2/ Selection is made in accordance with Civil Service Act.

Source: Council of State Governments, Book of the States, 1965-1966 and 1966-1967.

TABLE A-30.--APPOINTIVE POWER OF GOVERNOR FOR HEAD OF STATE HIGHWAY DEPARTMENT[1/]

Full Appointive Power (11 States)

Alabama	Kentucky	North Carolina
California	Maryland	North Dakota
Georgia	Massachusetts	Tennessee
Indiana	New Hampshire	

Substantial Appointive Power (18 States)

Alaska	Nebraska	Pennsylvania	West Virginia
Connecticut	New Jersey	Rhode Island	Wisconsin
Florida	New Mexico	Utah	
Hawaii	New York	Vermont	
Illinois	Ohio	Virginia	
Minnesota			

Limited Appointive Power (16 States)

Arizona	Louisiana	Nevada	South Dakota
Arkansas	Michigan	Oklahoma	Texas
Idaho	Missouri	Oregon	Washington
Iowa	Montana	South Carolina	Wyoming

No Appointive Power (2 States)

Colorado[2/]	Mississippi

1/ Responsibility for highways assigned to another official in five States; no information available for Delaware, Kansas and Maine.
2/ Selection made in accordance with Civil Service Act.

Source: Council of State Governments, Book of the States, 1965-1966 and 1966-1967.

TABLE A-31.--APPOINTIVE POWER OF GOVERNOR FOR HEAD OF CONSERVATION, NATURAL RESOURCES AGENCY[1]

Full Appointive Power (8 States)

Alabama	Nevada
California	North Carolina
Indiana	Tennessee
Kentucky	Washington

Substantial Appointive Power (16 States)

Alaska	Illinois	New Jersey	Vermont
Colorado	Louisiana	New York	Virginia
Connecticut	Minnesota	Ohio	West Virginia
Hawaii	New Hampshire	Pennsylvania	Wyoming

Limited Appointive Power (12 States)

Delaware	Massachusetts	Oklahoma
Florida	Michigan	South Carolina
Iowa	Missouri	Texas
Maryland	Nebraska	Wisconsin

No Appointive Power

None

1/ No single official or agency has been assigned the conservation, natural resources function in eight States: Arkansas, Georgia, Montana, Idaho, New Mexico, Oregon, Rhode Island and Utah; no information available for Arizona, Kansas, Maine, Mississippi, North Dakota and South Dakota.

Source: Council of State Governments, Book of the States, 1965-1966 and 1966-1967.

TABLE A-32.--NUMBER OF STATE ADMINISTRATIVE AGENCIES, 1950 and 1967, AND METHOD OF SELECTION OF AGENCY HEAD, 1967

State	1950 Total Number of Agencies	1967 Total Number of Agencies	1967 Single Head: Appointed by Governor	1967 Single Head: Elected or Otherwise Selected	1967 Board or Commission Head: All Appointed by Governor	1967 Board or Commission Head: Some Appointed by Governor	1967 Board or Commission Head: Elected or Otherwise Selected	1967 Board or Commission Head: Number On Which Governor Serves
Average	91	67	18	13	24	6	6	4
Alabama	117	32	14	18	-	-	-	-
Alaska		17	17	-	-	-	-	-
Arizona		n.a.						
Arkansas		72	15	8	29	11	9	2
California		47	32	8	4	-	3	-
Colorado	140	127	5	58	47	12	5	3
Connecticut	172	55	16	4	27	6	2	5
Delaware	76	114	5	19	80	10	-	10
Florida	87	80	4	7	45	5	19	17
Georgia	29	41	12	15	11	1	2	-
Hawaii		n.a.						
Idaho		36	18	1	16	-	1	1
Illinois	75	43	23	6	13	-	1	1
Indiana		61	32	9	19	1	-	-
Iowa	87	53	11	8	23	2	9	5
Kansas		78	17	8	36	4	13	2
Kentucky	93	57	23	6	23	4	1	5
Louisiana	102	240	17	13	120	57	33	26
Maine		28	17	4	7	-	-	-
Maryland	56	56	18	10	24	2	2	2
Massachusetts		96	11	4	40	25	16	--
Michigan		19	10	2	6	-	1	1
Minnesota	101	39	20	6	11	1	1	1
Mississippi		n.a.						
Missouri		22	11	6	5	-	-	-
Montana		n.a.						
Nebraska		69	18	12	25	3	11	2
Nevada	104	60	18	37	4	-	1	1
New Hampshire	84	42	13	3	23	2	1	1
New Jersey		27	16	-	11	-	-	1
New Mexico		122	23	34	58	5	2	9
New York		41	35	1	6	-	1	-
North Carolina		65	7	10	29	7	12	-
North Dakota	75	82	16	7	19	31	9	22
Ohio	122	60	23	6	29	-	2	-
Oklahoma		136	11	39	44	11	31	-
Oregon	110	33	10	7	12	-	4	2
Pennsylvania	49	32	18	5	9	-	-	-
Rhode Island		30	15	5	6	4	-	1
South Carolina		n.a.						
South Dakota	64	162	90	63	1	4	4	3
Tennessee	87	28	19	3	5	-	1	-
Texas	124	73	14	13	37	2	7	1
Utah		21	2	5	11	2	1	-
Vermont		30	7	5	18	-	-	1
Virginia		67	23	1	39	2	2	-
Washington		189	20	70	40	-	59	-
West Virginia		116	28	23	37	21	7	10
Wisconsin	71	28	10	2	9	7	-	1
Wyoming	76	67	13	22	20	4	8	24

n.a. = Data not available.

Source: Data for 1950 from Council of State Governments, Reorganizing State Government (Chicago, 1950), p. 12; data for 1967 from questionnaire addressed to State executive offices by National Governors' Conference, 1967.

TABLE A-33.--NUMBER OF STATE ADMINISTRATIVE AGENCIES RECEIVING FEDERAL AID FUNDS, AND METHOD OF SELECTION OF AGENCY HEAD, 1967

State	Total Number of Agencies	Agencies Receiving Federal Aid Funds: Number of Agencies	Single Head: Number of Agencies	Single Head: Appointed by Governor	Single Head: Elected or Otherwise Named	Board or Commission Head: Number of Agencies	Board or Commission Head: All Appointed by Governor	Board or Commission Head: Some Appointed by Governor	Board or Commission Head: Elected or Otherwise Named
Average	67	22	12	8	4	10	7	1	2
Alabama	32	13	13	7	6	-	-	-	-
Alaska	17	17	17	17	-	-	-	-	-
Arizona	n.a.								
Arkansas	72	36	9	8	1	18	10	6	2
California	47	19	18	16	2	1	1	-	-
Colorado	127	39	26	3	23	13	9	4	-
Connecticut	55	27	9	9	-	18	12	5	1
Delaware	114	35	24	5	19	n.a.	n.a.	n.a.	n.a.
Florida	80	29	4	1	3	25	14	3	8
Georgia	41	15	10	4	6	5	4	-	1
Hawaii	n.a.								
Idaho	36	21	7	6	1	14	13	-	1
Illinois	43	22	16	14	2	6	6	-	-
Indiana	61	20	19	15	4	1	1	-	-
Iowa	53	12	5	4	1	12	12	-	-
Kansas	78	24	6	4	2	18	12	-	6
Kentucky	57	17	16	13	3	1	1	-	-
Louisiana	240	22	6	4	2	16	11	4	1
Maine	28	15	10	10	-	5	5	-	-
Maryland	56	19	6	6	-	13	12	1	-
Massachusetts	96	33	7	7	-	26	14	7	5
Michigan	19	14	8	8	-	6	5	-	1
Minnesota	39	15	11	11	-	4	4	-	-
Mississippi	n.a.								
Missouri	22	15	10	10	-	5	5	-	-
Montana	n.a.								
Nebraska	69	17	9	8	1	8	5	-	3
Nevada	60	18	17	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
New Hampshire	42	28	10	9	1	18	16	2	-
New Jersey	27	11	10	10	-	1	1	-	-
New Mexico	122	31	10	5	5	21	20	1	-
New York	41	24	21	21	-	3	2	-	1
North Carolina	65	35	4	3	1	31	14	5	12
North Dakota	82	19	6	6	-	13	6	5	2
Ohio	60	21	14	13	1	7	6	-	1
Oklahoma	136	33	21	6	15	12	11	1	-
Oregon	33	19	5	n.a.	n.a.	14	n.a.	n.a.	n.a.
Pennsylvania	32	16	13	11	2	3	3	-	-
Rhode Island	30	14	11	9	2	3	2	1	-
South Carolina	n.a.								
South Dakota	162	15	15	7	8	-	-	-	-
Tennessee	28	14	11	11	-	3	3	-	-
Texas	73	14	2	-	2	12	10	-	2
Utah	21	16	3	2	1	13	11	1	1
Vermont	30	22	6	5	1	16	n.a.	n.a.	n.a.
Virginia	67	24	11	11	-	13	13	-	-
Washington	289	62	51	13	38	11	7	-	4
West Virginia	116	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Wisconsin	28	15	5	4	1	10	6	4	-
Wyoming	67	18	11	2	9	7	7	-	-

n.a. = Data not available.

Source: Questionnaire addressed to State executive offices, 1967, National Governors' Conference. Averages for all columns under "Single Head" and "Board or Commission" are computed for the 40 States from which usable replies were received.

TABLE A-34.--SUMMARY OF INFORMATION ON EXISTING STATE OFFICES OF LOCAL AFFAIRS

State:	New York	Alaska	Rhode Island
Name of agency:	Office for Local Government	Local Affairs Agency	Division of Local and Metropolitan Government
Year established:	1959	1959	1961
Location:	Within the Executive Department	Office of the Governor	Department of Administration
Functions			
Advisory, coordinating and technical assistance			
Fiscal advice	x	x	x
Municipal management	x	x	x
Engineering and public works	x	x	
Legal aspects of intrastate government relations	x	x	
Research, statistics and information collection	x	x	x
Personnel training	x*	x	x
Boundary and fringe problems		x	
Assist Governor in coordinating State activities affecting locals	x	x	x
Recommend programs and legislation	x	x	
Interlocal cooperation	x	x	x
Financial assistance			
Supervise local finances*			x
Planning functions			
Statewide planning			
Local planning assistance		x	
Coordinate with regional pplanning	x	x	
Coordinate with Statewide planning			
Program responsibility			
Urban renewal and redevelopment			
Poverty			
Housing			
Area redevelopment		x1/	
Statutory citations:	N.Y. Consolidated Laws, Ch. 335	A.S. 44.19, 180 et seq., Sec. 14, Art. X of constitution	P.L. 1961, Ch. 93

*The State Comptroller, an elective officer, supervises certain aspects of local fiscal affairs; audits and examines them on a continuing basis; maintains a State data bank on local governments; and advises and gives technical assistance on matters of law and finance. (N.Y. Consolidated Laws, Ch. 24).

TABLE A-34 (CONT'D).--SUMMARY OF INFORMATION ON EXISTING STATE OFFICES OF LOCAL AFFAIRS

State:	Tennessee	California	Pennsylvania
Name of agency:	Office of Local Government	Intergovernmental Council on Urban Growth[2/]	Department of Community Affairs
Year established:	1963	1963	1966
Location	Office of Comptroller of Treasury	Office of Governor	Independent Administrative Department
Functions			
Advisory, coordinating and technical assistance			
Fiscal advice			x
Municipal management			x
Engineering and public works			
Legal aspects of intrastate government relations			
Research, statistics and information collection	x	x	x
Personnel training			x
Boundary and fringe problems			
Assist Governor in coordinating State activities affecting locals	x	x	x
Recommend programs and legislation		x	x
Interlocal cooperation	x	x	x
Financial assistance			x
Supervise local finances			x
Planning functions			
Statewide planning			
Local planning assistance			x
Coordinate with regional planning			x
Coordinate with statewide planning		x	x
Program responsibility			
Urban renewal and redevelopment			x
Poverty			x
Housing			x
Area redevelopment			x
Statutory citations:	Laws, 1963, Ch. 205	Ch. 1809, 1963 Stats.; Ch. 823, 1965 Stats.	Reorganization Plan 2, Act 582, 1965, Regular Session (approved 2/1/66)

TABLE A-34 (CONT'D).--SUMMARY OF INFORMATION ON EXISTING STATE OFFICES OF LOCAL AFFAIRS

State:	Colorado	Illinois	New Jersey	Washington
Name of agency:	Division of Local Government	Office of Local Government	Department of Community Affairs	Planning and Community Affairs
Year established:	1966	1966	1966	1967
Location:	Executive Department	Office of the Governor	Department in the Executive Branch	Office of the Governor
Functions				
Advisory, coordinating and technical assistance				
Fiscal advice	x			
Municipal management			x	
Engineering and public works			x	x
Legal aspects of intrastate government relations	x		x	
Research, statistics and information collection	x	x	x	x
Personnel training	x		x	
Boundary and fringe problems				x
Assist Governor in coordinating State activities affecting locals	x	x	x	x
Recommend programs and legislation	x	x	x	x
Interlocal cooperation	x		x	x
Financial assistance			x	x 3/
Supervise local finances			x	
Planning functions				
Statewide planning			x	x
Local planning assistance			x	x
Coordinate with regional planning			x	x
Coordinate with statewide planning			x	x
Program responsibility				
Urban renewal and redevelopment			x	4/
Poverty			x	4/
Housing			x	4/
Area redevelopment			x	4/
Statutory citations:	S.B. 23, 1966	H.B. 2194, 1965 (Appropriation Act)	Assembly Bill 861, 1966	H.B. 78, 1967

TABLE A-34 (CONT'D).--SUMMARY OF INFORMATION ON EXISTING STATE OFFICES OF LOCAL AFFAIRS

State:	Missouri	Ohio	Wisconsin
Name of agency:	Department of Community Affairs[1,5]	Department of Urban Affairs	Department of Local Affairs and Development
Year established:	1967	1967	1967
Location:	Independent Administrative Department	Independent Administrative Department	Independent Executive Department
Functions			
Advisory, coordinating and technical assistance			
Fiscal advice	x	x	x
Municipal management	x	x	x
Engineering and public works	x		
Legal aspects of intrastate government relations	x		x
Research, statistics and information collection	x	x	x
Personnel training	x		
Boundary and fringe problems			x
Assist Governor in coordinating State activities affecting locals	x	x	x
Recommend programs and legislation	x	x	x
Interlocal cooperation	x	x	x
Financial assistance			
Supervise local finances			
Planning functions			
Statewide planning	x		
Local planning assistance	x	x[6]	x
Coordinate with regional planning	x	x	x
Coordinate with statewide planning	x		x
Program responsibility			
Urban renewal and redevelopment	x		
Poverty		x	x
Housing			
Area redevelopment	x	x[6]	
Statutory citations:	H.B. 129, 1967	Substitute H.B. 495, 1967	S.B. 135, 1967

TABLE A-34 (CONT'D).--SUMMARY OF INFORMATION ON EXISTING STATE OFFICES OF LOCAL AFFAIRS

State:	Connecticut	Minnesota	Vermont
Name of agency:	Department of Community Affairs	Office of Local and Urban Affairs	Office of Local Affairs[1,7]
Year established:	1967	1967	1967
Location:	Independent Administrative Department	Office in State Planning Agency	Office of the Governor
Functions			
Advisory, coordinating and technical assistance			
Fiscal advice			x
Municipal management	x	x	x
Engineering and public works	x		x
Legal aspects of intrastate government relations			
Research, statistics and information collection	x	x	x
Personnel training			
Boundary and fringe problems			
Assist Governor in coordinating State activities affecting locals	x	x	x
Recommend programs and legislation	x		x
Interlocal cooperation			
Financial assistance	x[3]		
Supervise local finances			
Planning functions			
Statewide planning	x		x
Local planning assistance	x		x
Coordinate with regional planning	x	x	x
Coordinate with statewide planning	x		x
Program responsibility			
Urban renewal and redevelopment	x		
Poverty	x		
Housing	x		x
Area redevelopment			
Statutory citations:	P.A. 522, 1967	Secs. 4.11, 4.12, 4.13, 4.16, 1965; Ch. 898, 1967	Executive Authority, 1967,[7] Appropriations Act

TABLE A-34 (CONCL'D).--SUMMARY OF INFORMATION ON EXISTING STATE OFFICES OF LOCAL AFFAIRS

Footnotes

1/ Refers to administration of the Rural Redevelopment Fund.

2/ Department and Commission of Housing and Community Development administers other programs, notably those of direct administration (poverty program, housing, etc.) rather than those of supervision and assistance. It renders advice on fiscal problems related to its programs, collects statistics and recommends legislation.

3/ All State financial aid to localities for urban renewal, poverty programs, mass transit, etc., is channeled at the discretion of the director (or commissioner) of the agency (or department).

4/ The Washington State agency is given responsibility for "Administration or coordination of state programs and projects relating to community affairs for the planning and carrying out of the acquisition, preservation, use and development of land and provision of public facilities and services for fully carrying out the state's role in related federal grant or loan programs."

5/ Effective October 15, 1967.

6/ Refers solely to the functions of the Ohio Office of Appalachia within the Department of Urban Affairs.

7/ The Vermont Office was set up by executive authority only and is awaiting statutory authority to undertake the functions proposed.

Source: Prepared by ACIR.

Appendix B

REVENUE SHARING

TABLE B-1.--A STAFF ANALYSIS OF SIX ALTERNATIVE WAYS OF DISTRI

SIX ALTERNATIVES	FEDERAL TAX EFFECT	INTERSTATE EQUALIZATION EFFECT	OVERALL TAX BURDEN EFFECT	EFFECTIVENESS OF PLAN FROM A STATE AND LOCAL STANDPOINT	FEDERAL INVOLVEM IN STATE & LOC EXPENDITURE DECISIONS
COMPENSATORY FISCAL APPROACH--cut Federal income tax or reduce the national debt or both depending on economic conditions.	Federal income taxpayers could expect further reductions in tax liability.	No significant effect.	The overall Federal-State-local tax system would be less progressive because the Nation would be required to place increasing reliance on proportional and regressive State and local taxes to finance rising domestic needs.	Least efficient because direct benefits accrue to individual Federal income taxpayers--indirect benefit to the extent that a compensatory fiscal policy promotes greater economic activity and expands the State and local tax base. Can affect willingness to raise State and local taxes either way.	None
TAX CREDIT OPTION APPROACH--provide Federal income taxpayers a more generous write-off of their State and local taxes with an option plan permitting them either to itemize their State and local tax payments (as they can do now) or receive a tax credit for State and local tax payments in excess of __% of their net taxable income.	Persons in the low and middle tax brackets carrying above average State and local tax loads would receive the most benefit. Persons in the high tax brackets now enjoy a liberal write-off privilege through itemization.	No significant effect. 1/	The overall effect slightly more progressive because (a) low and middle income tax bracket taxpayers receive larger write-offs, and (b) State and local governments would be encouraged to place more reliance on income taxes in order to maximize tax credit possibilities.	More efficient than outright tax cut only to extent that tax credits overcome resistance to higher State and local tax rates. Much less efficient than sharing or grant approaches because direct aid is to taxpayers rather than to governments.	None
TAX SHARING APPROACH--distribute to the States a designated percentage of the Federal tax revenue on the basis of collection.	None	High income States with high tax payments would receive the largest shares.	No marked change in the tax incidence picture unless Federal dollars actually replace State and local revenue sources. In that case, there is a slight progressive effect.	An efficient aid mechanism because States are left free to allocate the funds among competing needs. Local governments' benefit dependent on how they share in the funds.	None
UNCONDITIONAL GRANT APPROACH--through a permanent Trust Fund, distribute among the States for general government purposes, on a per capita basis, an amount equal to 1% or 2% of the Federal income tax base (proposal of President's Task Force on Intergovernmental Fiscal Cooperation).	None	Moderately equalizing.	No marked change in the tax incidence picture unless Federal dollars actually replace State and local revenue sources. In that case, there is a slight progressive effect.	An efficient aid mechanism because States are left free to allocate the funds among competing needs. Local governments' benefit dependent on how they share in the funds.	None
CONDITIONAL GRANT APPROACH--expand present type of conditional grant-in-aid programs to finance specific functions.	None	A mild to considerable effect depending on function aided and the factors cranked into equalization formula.	No marked change in the tax incidence picture unless need for State and local matching funds requires increases in regressive type taxes.	A fairly efficient aid mechanism. Both State and local governments are directly benefited but because of their specific expenditure focus, conditional grants tend to distort allocation of funds among programs.	Considerable
DIRECT FEDERAL EXPENDITURE APPROACH--step up direct Federal expenditure for such programs as river and harbor construction projects; or launch new programs to deal with domestic problems of an interstate character, such as air pollution and mass transportation.	None	Mild to considerable effect depending on type of beneficiary and locus of expenditure.	No marked change in the tax incidence picture. Distribution of benefits for construction type projects likely to be less favorable to low income groups than expenditures on social purposes.	An indirect aid to the extent that direct Federal activity relieves State and local governments of the responsibility for financing the program. Far less effective than tax sharing or grant approaches.	Little or none

1/ These shortcomings could be remedied and a significant degree of inter-area equalization could be effected by a system of negative tax credits (cash rebates) and allowances for imputed property tax

ALYSIS OF SIX ALTERNATIVE WAYS OF DISTRIBUTING A FEDERAL SURPLUS

EFFECTIVENESS OF PLAN FROM A STATE AND LOCAL STANDPOINT	FEDERAL INVOLVEMENT IN STATE & LOCAL EXPENDITURE DECISIONS	INTERGOVERNMENTAL RELATIONS EFFECT	TECHNICAL EVALUATION	POLITICAL EVALUATION
Least efficient because direct benefits accrue to individual Federal income taxpayers--indirect benefit to the extent that a compensatory fiscal policy promotes greater economic activity and expands the State and local tax base. Can affect willingness to raise State and local taxes either way.	None	Federal role somewhat diminished by the relinquishment of effective control of part of its fiscal resources and State and local government roles commensurately enhanced.	The most efficient plan if the objective is to reduce (1) Federal income tax burden, (2) Federal role in relation to State and local governments and (3) the progressiveness of the total Federal-State-local tax system. From a State and local aid standpoint, quite inefficient.	Probably the first choice of most political conservatives and the most objectionable course of action from a liberal point of view.
More efficient than outright tax cut only to extent that tax credits overcome resistance to higher State and local tax rates. Much less efficient than sharing or grant approaches because direct aid is to taxpayers rather than to governments.	None	Federal role somewhat diminished--State and local governments somewhat enhanced because a more liberal write-off of State and local taxes could help to overcome resistance to higher State and local taxes.	The most efficient approach if the objective is to cut the Federal income tax while increasing the progressiveness of the tax system and maximizing indirect benefits of Federal tax reduction to State and local governments. However, it provides no benefit for persons at lowest income level with no Federal tax and renters could write-off State and local sales and income taxes but not the property tax. It has no significant equalization effect. 1/	Probable appeal for many political conservatives and moderates (a) as compromise position between straight Federal tax cut and plans calling for greater Federal aid to State and local governments and (b) as a tax reform measure placing all Federal income taxpayers in a better position to write-off "excessive" State and local tax payments. Despite its progressivity feature, this approach would probably be opposed by most liberals as inefficient when contrasted to direct forms of Federal aid to State and local governments.
An efficient aid mechanism because States are left free to allocate the funds among competing needs. Local governments' benefit dependent on how they share in the funds.	None	Federal role diminished; States' role enhanced because these governments determine how funds would be spent.	The most efficient aid plan if the objective is to shift a part of the rising costs of State and local services to a nationwide income tax without reducing the States' established responsibility for allocating public funds among competing needs. The tax sharing approach ignores the equalization issue.	This approach would probably be opposed by most liberals because it tends to aggravate the fiscal disparity as between wealthy and poor States. Some difficulty may be encountered in proving that State and local fiscal needs warrant general purpose Federal support. Probably the third choice of most conservatives.
An efficient aid mechanism because States are left free to allocate the funds among competing needs. Local governments' benefit dependent on how they share in the funds.	None	Federal role diminished; States' role enhanced because these governments determine how funds would be spent.	The most efficient aid plan if the objective is to shift a part of the rising costs of State and local services to a nationwide income tax without reducing the States' established responsibility for allocating public funds among competing needs. The unconditional grant approach provides for a moderate degree of interstate equalization.	Because of its middle-of-the road position, it could pick up support from the left and the right as a compromise measure despite the novel character of this aid plan. Some difficulty may be encountered in proving that State and local fiscal needs warrant general purpose Federal support.
A fairly efficient aid mechanism. Both State and local governments are directly benefited but because of their specific expenditure focus, conditional grants tend to distort allocation of funds among programs.	Considerable	Federal role definitely enhanced in relation to State and local governments.	The most efficient aid plan if the objective is to help State and local governments to finance specific programs. While this approach has equalization possibilities, it tends to distort allocation of funds among programs.	Due to its Federal control and equalization possibilities this approach receives considerable political support from most liberals. Because of its time-tested character, it also enjoys a certain measure of general political acceptance not accorded to tax credit and unconditional grant proposals. Political conservatives can be expected to resist this approach since it would increase Federal involvement in State and local affairs and might preclude a Federal income tax cut.
An indirect aid to the extent that direct Federal activity relieves State and local governments of the responsibility for financing the program. Far less effective than tax sharing or grant approaches.	Little or none	Federal role definitely enhanced in relation to State and local governments.	The most efficient approach if the objective is to bring direct Federal action to bear on the solution of a national domestic problem. From a State and local aid standpoint, quite inefficient.	Strong political appeal for liberals particularly if direct Federal expenditures fall in the social welfare category. Conservatives can be expected to oppose since it would increase Federal control on the domestic front and might preclude a Federal income tax cut.

its (cash rebates) and allowances for imputed property taxes paid by renters.

TABLE B-1.--A STAFF ANALYSIS OF SIX ALTERNATIVE WAYS OF DISTRIB

SIX ALTERNATIVES	FEDERAL TAX EFFECT	INTERSTATE EQUALIZATION EFFECT	OVERALL TAX BURDEN EFFECT	EFFECTIVENESS OF PLAN FROM A STATE AND LOCAL STANDPOINT	FEDERAL INVOLVEME IN STATE & LOCA EXPENDITURE DECISIONS
COMPENSATORY FISCAL APPROACH--cut Federal income tax or reduce the national debt or both depending on economic conditions.	Federal income taxpayers could expect further reductions in tax liability.	No significant effect.	The overall Federal-State-local tax system would be less progressive because the Nation would be required to place increasing reliance on proportional and regressive State and local taxes to finance rising domestic needs.	Least efficient because direct benefits accrue to individual Federal income taxpayers--indirect benefit to the extent that a compensatory fiscal policy promotes greater economic activity and expands the State and local tax base. Can affect willingness to raise State and local taxes either way.	None
TAX CREDIT OPTION APPROACH--provide Federal income taxpayers a more generous write-off of their State and local taxes with an option plan permitting them either to itemize their State and local tax payments (as they can do now) or receive a tax credit for State and local tax payments in excess of __% of their net taxable income.	Persons in the low and middle tax brackets carrying above average State and local tax loads would receive the most benefit. Persons in the high tax brackets now enjoy a liberal write-off privilege through itemization.	No significant effect. 1/	The overall effect slightly more progressive because (a) low and middle income tax bracket taxpayers receive larger write-offs, and (b) State and local governments would be encouraged to place more reliance on income taxes in order to maximize tax credit possibilities.	More efficient than outright tax cut only to extent that tax credits overcome resistance to higher State and local tax rates. Much less efficient than sharing or grant approaches because direct aid is to taxpayers rather than to governments.	None
TAX SHARING APPROACH--distribute to the States a designated percentage of the Federal tax revenue on the basis of collection.	None	High income States with high tax payments would receive the largest shares.	No marked change in the tax incidence picture unless Federal dollars actually replace State and local revenue sources. In that case, there is a slight progressive effect.	An efficient aid mechanism because States are left free to allocate the funds among competing needs. Local governments' benefit dependent on how they share in the funds.	None
UNCONDITIONAL GRANT APPROACH--through a permanent Trust Fund, distribute among the States for general government purposes, on a per capita basis, an amount equal to 1% or 2% of the Federal income tax base (proposal of President's Task Force on Intergovernmental Fiscal Cooperation).	None	Moderately equalizing.	No marked change in the tax incidence picture unless Federal dollars actually replace State and local revenue sources. In that case, there is a slight progressive effect.	An efficient aid mechanism because States are left free to allocate the funds among competing needs. Local governments' benefit dependent on how they share in the funds.	None
CONDITIONAL GRANT APPROACH--expand present type of conditional grant-in-aid programs to finance specific functions.	None	A mild to considerable effect depending on function aided and the factors cranked into equalization formula.	No marked change in the tax incidence picture unless need for State and local matching funds requires increases in regressive type taxes.	A fairly efficient aid mechanism. Both State and local governments are directly benefited but because of their specific expenditure focus, conditional grants tend to distort allocation of funds among programs.	Considerable
DIRECT FEDERAL EXPENDITURE APPROACH--step up direct Federal expenditure for such programs as river and harbor construction projects; or launch new programs to deal with domestic problems of an interstate character, such as air pollution and mass transportation.	None	Mild to considerable effect depending on type of beneficiary and locus of expenditure.	No marked change in the tax incidence picture. Distribution of benefits for construction type projects likely to be less favorable to low income groups than expenditures on social purposes.	An indirect aid to the extent that direct Federal activity relieves State and local governments of the responsibility for financing the program. Far less effective than tax sharing or grant approaches.	Little or none

1/ These shortcomings could be remedied and a significant degree of inter-area equalization could be effected by a system of negative tax credits (cash rebates) and allowances for imputed property taxe

ALYSIS OF SIX ALTERNATIVE WAYS OF DISTRIBUTING A FEDERAL SURPLUS

EFFECTIVENESS OF PLAN FROM A STATE AND LOCAL STANDPOINT	FEDERAL INVOLVEMENT IN STATE & LOCAL EXPENDITURE DECISIONS	INTERGOVERNMENTAL RELATIONS EFFECT	TECHNICAL EVALUATION	POLITICAL EVALUATION
Least efficient because direct benefits accrue to individual Federal income taxpayers--indirect benefit to the extent that a compensatory fiscal policy promotes greater economic activity and expands the State and local tax base. Can affect willingness to raise State and local taxes either way.	None	Federal role somewhat diminished by the relinquishment of effective control of part of its fiscal resources and State and local government roles commensurately enhanced.	The most efficient plan if the objective is to reduce (1) Federal income tax burden, (2) Federal role in relation to State and local governments and (3) the progressiveness of the total Federal-State-local tax system. From a State and local aid standpoint, quite inefficient.	Probably the first choice of most political conservatives and the most objectionable course of action from a liberal point of view.
More efficient than outright tax cut only to extent that tax credits overcome resistance to higher State and local tax rates. Much less efficient than sharing or grant approaches because direct aid is to taxpayers rather than to governments.	None	Federal role somewhat diminished--State and local governments somewhat enhanced because a more liberal write-off of State and local taxes could help to overcome resistance to higher State and local taxes.	The most efficient approach if the objective is to cut the Federal income tax while increasing the progressiveness of the tax system and maximizing indirect benefits of Federal tax reduction to State and local governments.1/ However, it provides no benefit for persons at lowest income level with no Federal tax and renters could write-off State and local sales and income taxes but not the property tax. It has no significant equalization effect.1/	Probable appeal for many political conservatives and moderates (a) as compromise position between straight Federal tax cut and plans calling for greater Federal aid to State and local governments and (b) as a tax reform measure placing all Federal income taxpayers in a better position to write-off "excessive" State and local tax payments. Despite its progressivity feature, this approach would probably be opposed by most liberals as inefficient when contrasted to direct forms of Federal aid to State and local governments.
An efficient aid mechanism because States are left free to allocate the funds among competing needs. Local governments' benefit dependent on how they share in the funds.	None	Federal role diminished; States' role enhanced because these governments determine how funds would be spent.	The most efficient aid plan if the objective is to shift a part of the rising costs of State and local services to a nationwide income tax without reducing the States' established responsibility for allocating public funds among competing needs. The tax sharing approach ignores the equalization issue.	This approach would probably be opposed by most liberals because it tends to aggravate the fiscal disparity as between wealthy and poor States. Some difficulty may be encountered in proving that State and local fiscal needs warrant general purpose Federal support. Probably the third choice of most conservatives.
An efficient aid mechanism because States are left free to allocate the funds among competing needs. Local governments' benefit dependent on how they share in the funds.	None	Federal role diminished; States' role enhanced because these governments determine how funds would be spent.	The most efficient aid plan if the objective is to shift a part of the rising costs of State and local services to a nationwide income tax without reducing the States' established responsibility for allocating public funds among competing needs. The unconditional grant approach provides for a moderate degree of interstate equalization.	Because of its middle-of-the road position, it could pick up support from the left and the right as a compromise measure despite the novel character of this aid plan. Some difficulty may be encountered in proving that State and local fiscal needs warrant general purpose Federal support.
A fairly efficient aid mechanism. Both State and local governments are directly benefited but because of their specific expenditure focus, conditional grants tend to distort allocation of funds among programs.	Considerable	Federal role definitely enhanced in relation to State and local governments.	The most efficient aid plan if the objective is to help State and local governments to finance specific programs. While this approach has equalization possibilities, it tends to distort allocation of funds among programs.	Due to its Federal control and equalization possibilities this approach receives considerable political support from most liberals. Because of its time-tested character, it also enjoys a certain measure of general political acceptance not accorded to tax credit and unconditional grant proposals. Political conservatives can be expected to resist this approach since it would increase Federal involvement in State and local affairs and might preclude a Federal income tax cut.
An indirect aid to the extent that direct Federal activity relieves State and local governments of the responsibility for financing the program. Far less effective than tax sharing or grant approaches.	Little or none	Federal role definitely enhanced in relation to State and local governments.	The most efficient approach if the objective is to bring direct Federal action to bear on the solution of a national domestic problem. From a State and local aid standpoint, quite inefficient.	Strong political appeal for liberals particularly if direct Federal expenditures fall in the social welfare category. Conservatives can be expected to oppose since it would increase Federal control on the domestic front and might preclude a Federal income tax cut.

its (cash rebates) and allowances for imputed property taxes paid by renters.

TABLE B-2.--PROPOSALS FOR SHARING FEDERAL REVENUES WITH STATE

Bills and Resolutions Introduced in the 90th Congress for General Sta

A BILLS AND RESOLUTIONS (Type of financial support)	B SHARING BASIS (Cost Estimate)	C ALLOCATION FACTORS Population	Per Capita Income	Revenue Effort	Origin of Collection	D BASIS FOR STATE BY STATE DISTRIBUTIONS (Congressional Record citation for States' shares)	E PROVISION FOR LOCAL SHARING
1A H.R. 3127 Fascell (D) (General)	1B Three percent of taxes collected on personal income excluding employment taxes. ($1.7 billion)				1C X	1D Three percent of taxes collected on personal income excluding employment taxes returned quarterly to State within which it is collected. (C.R. H. 414, January 19, 1967)	1E None.
2A H.R. 4070 Goodell (R) and 22 others 1/ (General)	2B Three percent of total receipts of individual income taxes increasing by 1% yearly to 5%, except amount will never be less than preceding year. ($1.7 billion)	X	X	X	2C	2D Ninety percent of fund on product of population and tax effort ratio. Ten percent of fund to 17 States with lowest per capita income on product of population and reciprocal of per capita income. (C.R. H. 775, January 30, 1967)	2E Formula determined by each State but 45% of State allocation must go to local governments, with no State expenditure controls except State may specify portions to be used for educational purposes.
3A H.R. 4080 Berry (R) and 16 others 2/ (General)	3B Three percent of total receipts of individual income taxes increasing by 1% yearly to 5%, except amount will never be less than preceding year. ($1.7 billion)	X	X	X	3C	3D Ninety percent of fund on product of population and tax effort ratio. Ten percent of fund to 17 States with lowest per capita income on product of population and reciprocal of per capita income. (C.R. H. 775, January 30, 1967)	3E Formula determined by each State but 45% of State allocation must go to local governments, with no State expenditure controls except State may specify portions to be used for educational purposes.
4A H.R. 4252 Lloyd (R) (General)	4B Three percent of total receipts of individual income taxes increasing by 1% yearly to 5%, except amount will never be less than preceding year. ($1.7 billion)	X	X	X	4C	4D Ninety percent of fund on product of population and tax effort ratio. Ten percent of fund to States with below national average per capita income based on product of population and reciprocal of per capita income.	4E Formula determined by each State but 45% of State allocation must go to local governments, with no State expenditure controls except State may specify portions to be used for educational purposes.
5A H.R. 5113 Whalley (R) (General)	5B Five percent of all income taxes collected on individual and corporate incomes. ($4.3 billion)				5C X	5D Five percent of corporate and individual income taxes collected returned quarterly to State within which it is collected.	5E None.
6A H.R. 5255 Derwinski (R) (50% General) (50% Education)	6B One percent of individual and corporate income taxes collected in States. ($.9 billion)				6C X	6D One percent of all income taxes collected on individual and corporate incomes under Federal statutes returned to State in which collected.	6E None.
7A H.R. 5450 Laird (R) and 3 others 3/ (General)	7B Five percent of total receipts from individual income taxes. ($2.8 billion)	X	X	X	7C	7D Ninety percent on product of population and tax effort ratio. Ten percent to 17 lowest per capita income States on product of population and reciprocal of per capita income. (C.R. H. 1340, February 15, 1967)	7E None.

HARING FEDERAL REVENUES WITH STATE AND LOCAL GOVERNMENTS

the 90th Congress for General State and Local Government Support

E PROVISION FOR LOCAL SHARING	F EXPENDITURE CONTROL PROVISIONS	G RELATION TO FEDERAL GRANT-IN-AID PROGRAMS	H SPECIAL CONDITIONS OR FEATURES
1E None.	1F None.	1G No specific provision.	1H None.
2E Formula determined by each State but 45% of State allocation must go to local governments, with no State expenditure controls except State may specify portions to be used for educational purposes.	2F Council on Tax Sharing to review State plans, may withdraw funds upon complaint of Secretary of the Treasury (subject to judicial review). Annual report to Congress and President. Full review by Congress in fourth year.	2G No specific provision, but legislative preamble to bill states: [funds to be] "derived from cutback in projected new expansion of grant-in-aid programs and as a substitute for portions of existing grant-in-aid expenditures."	2H Five percent of State allocation to be used for executive management improvement at States' discretion. Establishes Council on Tax Sharing with supervisory capacity over distribution of funds to States.
3E Formula determined by each State but 45% of State allocation must go to local governments, with no State expenditure controls except State may specify portions to be used for educational purposes.	3F Council on Tax Sharing to review State plans, may withdraw funds upon complaint of Secretary of the Treasury (subject to judicial review). Annual Report to Congress and President. Full review by Congress in fourth year.	3G No specific provision.	3H Five percent of State allocation to be used for executive management improvement at States' discretion. Establishes Council on Tax Sharing with supervisory capacity over distribution of funds to States.
4E Formula determined by each State but 45% of State allocation must go to local governments, with no State expenditure controls except State may specify portions to be used for educational purposes.	4F Council on Tax Sharing to review State plans, may withdraw funds upon complaint of Secretary of the Treasury (subject to judicial review). Annual report to Congress and President. Full review by Congress in fourth year.	4G No specific provision, but legislative preamble to bill states: [funds to be] "derived from cutback in projected new expansion of grant-in-aid programs and as a substitute for portions of existing grant-in-aid expenditures."	4H Five percent of State allocation to be used for executive management improvement at States' discretion. Establishes Council on Tax Sharing with supervisory capacity over distribution of funds to States.
5E None.	5F None.	5G No specific provision.	5H None.
6E None.	6F Each State treasurer must certify 50% of funds will be used for educational purposes and remaining 50% for general use.	6G No specific provision.	6H 50% for education, 50% for general use. No restrictions or controls on either half of funds.
7E None.	7F Council on Tax Sharing to prescribe and review information to be furnished by the States; may withdraw funds upon complaint of Secretary of Treasury (subject to judicial review). Annual Report by Council to President and Congress. Full Congressional review during fourth year of program.	7G Cut-back.	7H Five percent of State allocation to be used for executive management improvement at States' discretion. Federal income tax credit for State and local taxes paid by individuals. Begins at 10% credit for State and local taxes of all types and increases 10% a year up to 40%.

TABLE B-2 (CONT'D).--PROPOSALS FOR SHARING FEDERAL REVENUES WITH

Bills and Resolutions Introduced in the 90th Congress for Specified S

BILLS AND RESOLUTIONS (Type of financial support) A	SHARING BASIS (Cost Estimate) B	ALLOCATION FACTORS: Population	Per Capita Income	Revenue Effort	Origin of Collection C	BASIS FOR STATE BY STATE DISTRIBUTIONS (Congressional Record citation for States' shares) D	PROVISION FOR LOCAL SHARING
8A H.R. 5507 Tunney (D) (General)	8B Two percent of aggregate taxable income reported on individual tax returns for preceding year. ($5.1 billion)	X	X		8C	8D Eighty-five percent on population; fifteen percent to 17 lowest per capita income States on population.	None.
9A H.R. 7176 Langen (R) (General)	9B Five percent of total receipts from individual income taxes during preceding fiscal year. ($2.8 billion)	X	X	X	9C	9D Ninety percent on population and tax effort ratio; ten percent to 17 lowest per capita income States on product of population and reciprocal of per capita income.	None.
10A H.R. 8424 Gardner (R) (50% General) (50% Education)	10B One percent of total receipts of individual income taxes increasing 1% yearly up to 5%. ($.9 billion)	X	X	X	10C	10D Ninety percent on population and tax effort ratio; ten percent to 17 lowest per capita income States on product of population and reciprocal of per capita income.	25% of State allocation must go to political subdivisions on basis of priority programs as set forth by each subdivision with no restrictions on use of funds.
11A H.J. Res. 216 (Constitutional Amendment) Thompson (Ga.) (R) (General)	11B Two percent of all taxes collected under XVI. Amendment increasing 2% a year up to 10%. ($1.7 billion)	X			11C	11D Population.	Formula determined by each State but governor mus certify six months after beginning of each fiscal year that minimum of 50% of State allocation will go to political subdivisions with no conditions, if not State funds will be cut 50%.
12A S. 673 Tydings (D) (General)	12B Actual amount determined each year by Commission on Federalism based on allotment to States of 1% of aggregate revenue paid (or withheld for credit against payment) on individual and corporate income tax plus an amount equivalent to two-fifths of total allocations to all qualifying metropolitan areas. ($.9 billion)	X		X	12C	12D Population except where State tax effort ratio (including the efforts of any political subdivision) is below national average. Three-fifths of total metropolitan allocations deducted from State total thereby leaving two-fifths of local allocations as an "indirect" State "bonus." (C.R. S. 914, January 25, 1967)	Any metropolitan area of 1.5 million persons may request directly to Commission on Federalism for local allocation when jurisdictions representing substantially all the population of the area agre on and submit to the Commission a plan for expend tures with relationship to overall plan for area State. Allocation based on total State allocatio and ratio of metropolitan area to State populatio
13A S. 694 Scott (R) and 4 others 4/ (General)	13B One percent of aggregate taxable income reported on individual income taxes except amount will never be less than previous yerr. ($2.5 billion)	X			13C	13D Population. (C.R. S. 945, January 26, 1967)	None.
14A S. 779 Hollings (D) (General)	14B Three percent of net individual income tax revenues increasing .5% yearly up to 5% except amount may never be less than previous year. ($1.7 billion)	X	X	X	14C	14D Eighty percent on population and relative revenue effort. Twenty percent to States with below average per capita income based on population and per capita income. (C.R. S. 1156, January 31, 1967)	None.

FOR SHARING FEDERAL REVENUES WITH STATE AND LOCAL GOVERNMENTS

the 90th Congress for Specified State and Local Government Support

E PROVISION FOR LOCAL SHARING	F EXPENDITURE CONTROL PROVISIONS	G RELATION TO FEDERAL GRANT-IN-AID PROGRAMS	H SPECIAL CONDITIONS OR FEATURES
8E None.	8F Report to Congress each year by Secretary of Treasury and full study by Senate and House once each Congress.	8G No specific provision.	8H None.
9E None.	9F Council on Revenue Sharing establishes rules and regulations for States; may withhold revenue-sharing payments subject to judicial review; annual report to President and Congress; full Congressional review fourth year of operation.	9G Cut-back.	9H Five percent of State allocation to be used for executive management improvement at States' discretion. Establishes Council on Revenue Sharing with supervisory capacity over distribution of funds to States.
10E 25% of State allocation must go to political subdivisions on basis of priority programs as set forth by each subdivision with no restrictions on use of funds.	10F Governor submits annual spending plan to Comptroller General. State may be declared ineligible for funds if plan not approved, subject to hearing and judicial review if necessary. Full review by Congress in fourth year. State must undertake to use 50% of funds for improvement of elementary and secondary education, distribute 25% to political subdivisions and use 25% for general needs of the State.	10G Cut-back.	10H 50% of funds for elementary and secondary education; 25% of funds for political subdivisions; 25% of funds for general State needs. President and Comptroller General must submit to Congress comprehensive report on entire program end of third fiscal year.
11E Formula determined by each State but governor must certify six months after beginning of each fiscal year that minimum of 50% of State allocation will go to political subdivisions with no conditions, if not State funds will be cut 50%.	11F Congress may enforce law by "appropriate legislation."	11G No specific provision.	11H Amendment to Constitution requiring ratification by 3/4 of the States within 7 years. Prohibits use of funds for programs in which discrimination by race, creed, or color exists.
12E Any metropolitan area of 1.5 million persons may request directly to Commission on Federalism for a local allocation when jurisdictions representing substantially all the population of the area agree on and submit to the Commission a plan for expenditures with relationship to overall plan for area or State. Allocation based on total State allocation and ratio of metropolitan area to State population.	12F Comprehensive expenditure plan including relationship to overall plan for metropolitan area or State must be submitted each year by State or locality to the Commission before any allocation made. Commission acts in advisory capacity only. No direct adverse effects if State reports Federal money spent in manner not contemplated by plan. Commission to report and evaluate entire program annually before Congress.	12G No specific provision.	12H Title VI Civil Rights Act 1964 applicable; Davis-Bacon Act applicable. Creates Commission on Federalism with supervisory capacity over distribution of funds to States.
13E None.	13F State spending plan required including plan for any local government receiving funds; funds may be withdrawn from any State or local government for non-compliance with law; Secretary of Treasury submits annual report to Congress with recommendations for changes. Full study conducted by Senate and House minimum of once each Congress.	13G No specific provision.	13H Title VI of Civil Rights Act 1964 applicable. Funds may not be used for (1) highways, (2) property tax relief, (3) debt service, (4) administrative expenses.
14E None.	14F State plan submitted each year but for informational purposes only, Secretary of the Treasury summarizes all State plans and reports in annual report to Congressional Joint Committee on Tax Sharing.	14G No specific provision.	14H Creates a Joint Committee on Tax Sharing in Congress to conduct a continuous study and review of the operation of the Act.

TABLE B-2 (CONT'D).--PROPOSALS FOR SHARING FEDERAL REVENUES WITH STA

Bills and Resolutions Introduced in the 90th Congress for Specified State

A BILLS AND RESOLUTIONS (Type of financial support)	B SHARING BASIS (Cost Estimate)	C ALLOCATION FACTORS Population	Per Capita Income	Revenue Effort	Origin of Collection	D BASIS FOR STATE BY STATE DISTRIBUTIONS (*Congressional Record* citation for States' shares)	E PROVISION FOR LOCAL SHARING
15A S. 1236 Baker (R) and 15 other Senators and 1 Congressman 5/ (General)	15B One percent of net Federal tax revenue after deduction of expenditures for national defense and servicing and interest on the public debt; plus any extra amounts Congress may appropriate to the trust fund from time to time. ($.5 billion)	X	X	X	15C	15D A formula based on the product obtained by multiplying total amount appropriated to trust fund by product of per capita income-population ratio and revenue effort percentage using population, per capita income, and tax effort. (C.R. S. 3448, March 9, 1967)	15E None.
16A S. 1708 Smathers (D) and 1 Congressman 6/ (General)	16B One-half of net revenues derived from each tax imposed on alcoholic beverages and tobacco. ($3.0 billion)				16C X	16D An amount equal to one-half of net revenues derived from each tax imposed on alcoholic beverages and tobacco transferred quarterly to States on basis of retail sales.	16E None.
17A S. 2172 Mundt (R) (General)	17B One percent of total taxable income reported on individual and corporate incomes increasing .5% a year up to 2%, except amount will never be less than preceding year. ($3.6 billion)	X	X	X	17C	17D Eighty-five percent on population and relative revenue effort, fifteen percent to States below average per capita income based on degree below average. State allotment may not exceed 12% of total fund. (C.R. S. 10393, July 27, 1967)	17E Formula determined by State but 49% of State allocation must go to political subdivisions with no restrictions on use except that State may specify the portions to be used for educational purposes.
18A H.R. 198 Andrews (R) (N. Dakota) (Education)	18B One percent of Federal income taxes (other than self-employment income taxes), estate and gift taxes and all custom duties collected increasing 1% a year up to 5%. ($.9 billion)	Special Factors (see next column)			18C	18D Fifty percent on three year average of percent of students enrolled in elementary and secondary schools times percent of gross personal income spent on such education. Fifty percent on number of students enrolled in public elementary and secondary schools.	18E None.
19A H.R. 219 Bates (R) (Education)	19B 2.04% of income tax receipts for the preceding fiscal year. ($1.1 billion)				19C X	19D Two percent of income tax receipts collected in the State during preceding fiscal year.	19E None.
20A H.R. 308 Brock (R) and 4 others 7/ (Education)	20B One percent of Federal income taxes (other than self-employment income taxes), estate and gift taxes and all custom duties collected increasing 1% a year up to 5%. ($.9 billion)	Special Factors (see next column)			20C	20D Fifty percent on percent of students enrolled in public elementary and secondary schools times percent of gross personal income spent on public elementary and secondary education. Fifty percent on number of students enrolled in public elementary and secondary schools in State.	20E None.
21A H.R. 1334 Talcott (R) (Education)	21B One percent of Federal income taxes (other than self-employment income taxes), and estate and gift taxes collected increasing 1% a year up to 5%. ($.9 billion)	Special Factors (see next column)			21C	21D Fifty percent on percent of students enrolled in public elementary and secondary schools times percent of gross personal income spent on public elementary and secondary education. Fifty percent on number of students enrolled in public elementary and secondary schools in State.	21E None.

SHARING FEDERAL REVENUES WITH STATE AND LOCAL GOVERNMENTS

90th Congress for Specified State and Local Government Support

E PROVISION FOR LOCAL SHARING	F EXPENDITURE CONTROL PROVISIONS	G RELATION TO FEDERAL GRANT-IN-AID PROGRAMS	H SPECIAL CONDITIONS OR FEATURES
15E None.	15F State spending plan required including any distribution to political subdivisions. Other information may be required by Council on Tax Sharing. Council may withdraw funds from State subject to judicial review. Annual report to President and Congress. Periodic review by Congress.	15G No specific provision.	15H Establishes Council on Tax Sharing with supervisory capacity over distribution of funds to States.
16E None.	16F None.	16G No specific provision.	16H None.
17E Formula determined by State but 45% of State allocation must go to political subdivisions with no restrictions on use except that State may specify the portions to be used for educational purposes.	17F States must use accurate accounting procedures. Council on Revenue Sharing prescribes, by rules and regulations, the information and data to be furnished by States. Council makes annual report to Congress and President, with full review by each Congress. Revenue Sharing payments may be withheld subject to judicial review.	17G No specific provision.	17H Maximum of five percent of State allocation to be used for research and planning in executive management improvement at States' discretion. Establishes Council on Revenue Sharing with supervisory capacity over distribution of funds to States. Funds may not be used for (1) highways, (2) property tax relief, (3) debt service, (4) administrative expenses, (5) disaster relief.
18E None.	18F State spending plan submitted to Comptroller General--approved if funds are spent on public elementary and secondary education.	18G No specific provision.	18H Idle funds in the Educational Assistance Trust Fund are to be invested. Davis-Bacon Act applicable. Funds to be used for elementary and secondary education only.
19E None.	19F None.	19G No specific provision.	19H Funds to be used for any purpose for which funds appropriated by the State legislature for elementary and secondary education can be used; 2% of total may go to Puerto Rico, Guam, American Samoa, Virgin Islands; balance in trust fund at end of year reverts back to general fund.
20E None.	20F State spending plan submitted to Comptroller General--approved if funds are spent on public elementary and secondary education.	20G No specific provision.	20H Idle funds in the Educational Assistance Trust Fund are to be invested. Davis-Bacon Act applicable. Funds to be used for elementary and secondary education only.
21E None.	21F State spending plan submittes to Comptroller General--approved if funds are spent on public elementary and secondary education.	21G No specific provision.	21H Idle funds in the Educational Assistance Trust Fund are to be invested. Davis-Bacon Act applicable. Funds to be used for elementary and secondary education only.

TABLE B-2 (CONT'D).--PROPOSALS FOR SHARING FEDERAL REVENUES WITH ST

Bills and Resolutions Introduced in the 90th Congress for Specified Stat

A BILLS AND RESOLUTIONS (Type of financial support)	B SHARING BASIS (Cost Estimate)	C ALLOCATION FACTORS Population	Per Capita Income	Revenue Effort	Origin of Collection	D BASIS FOR STATE BY STATE DISTRIBUTIONS (Congressional Record citation for States' shares)	PROVISION FOR LOCAL SHARING
22A H.R. 453 Cunningham (R) and 1 other 8/ (Health, Education and Welfare)	22B Five percent of income taxes collected on corporations, individuals and withholding tax on income of nonresident aliens and foreign corporations plus withholding on wages of individuals. ($4.3 billion)				22C X	22D Five percent of individual and corporate income taxes collected and withholding tax on income of nonresident aliens and foreign corporations plus withholding on wages of individuals returned to State in which collected.	None.
23A H.R. 525 Dwyer (R) and 2 others 9/ (Health, Education and Welfare)	23B One percent of aggregate taxable income reported on individual income tax returns. ($2.5 billion)	X	X	X	23C	23D Eighty percent on population and relative revenue effort. Twenty percent to 13 lowest per capita income States on per capita income and weighted population. No State's allotment may exceed 12% of total of fund.	An amount not less than average amount of State appropriations to locality for last 5 years weighted against percent of total appropriations; must go only to general units of local government
24A H.R. 1166 Reuss (D) (Government Modernization and General Program Financing)	24B $50,000,000 straight appropriation for initial planning grants; then $5,000,000,000 annually for three years for block grants.	X	X	X	24C	24D $250,000 minimum to each State with balance of $50,000,000 distributed on basis of population; $5,000,000,000 allocated 80% on population and maximum of 20% to low income States based on poverty level, urbanization, and tax effort, as determined by Advisory Commission on Intergovernmental Relations.	Must pass on 50% of State grants to local governments in an equitable manner approved by Regional Coordinating Committee and Advisory Commission on Intergovernmental Relations.
25A H.R. 1180 Robison (R) (Education)	25B Two percent of taxes collected during preceding year on individual and corporate incomes. ($1.7 billion)	X	X		25C	25D Fifty percent on population. Fifty percent on population and relative per capita income.	None.
26A H.R. 1343 and H.R. 1349 Teague (D) (Texas) (Education)	26B One percent of income taxes collected on corporate and individual incomes. ($.9 billion)				26C X	26D One percent of income taxes collected on individual and corporate incomes returned to State of origin.	None.
27A H.R. 2429 Whitten (D) (Roads and Schools)	27B Five percent of all Federal income taxes collected. ($4.3 billion)				27C X	27D Five percent of all income taxes collected transferred annually by District Director of Internal Revenue Service back to State in which collected.	None.
28A H.R. 4475 Gurney (R) (Law Enforcement)	28B An amount which bears same proportion to $700 million as aggregate individual taxable income bears to aggregate individual taxable income for fiscal 1967. (About 1% of personal Federal income tax). ($.6 billion)	Special Factors (see next column)			28C	28D The lesser of (1) amount necessary to carry out approved program of law enforcement or (2) amount based on fund balance, urban population and per capita law enforcement costs.	None.

SHARING FEDERAL REVENUES WITH STATE AND LOCAL GOVERNMENTS

90th Congress for Specified State and Local Government Support

E PROVISION FOR LOCAL SHARING	F EXPENDITURE CONTROL PROVISIONS	G RELATION TO FEDERAL GRANT-IN-AID PROGRAMS	H SPECIAL CONDITIONS OR FEATURES
22E None.	22F None.	22G Optional cut-back.	22H Senate and House Appropriation Committees are authorized to reduce the aggregate amount which would otherwise be granted to the several States for health, education, and welfare by an amount which does not exceed the amount the States would receive each year. Funds to be used for health, education, welfare programs only.
23E An amount not less than average amount of State appropriations to locality for last 5 years weighted against percent of total appropriations; must go only to general units of local government.	23F Plan must be submitted to Secretary of Treasury or Comptroller General--funds may be withdrawn if not spent in compliance with law. Annual Report to Congress by Secretary of Treasury. Complete study by Senate and House once each Congress.	23G No specific provision.	23H Title VI Civil Rights Act, 1964 applicable. Funds to be used for health, education, and welfare.
24E Must pass on 50% of State grants to local governments in an equitable manner approved by Regional Coordinating Committee and Advisory Commission on Intergovernmental Relations.	24F Extensive controls and review of State plans established through Regional Coordinating Committees for State Modern Governments' Programs and the Advisory Commission on Intergovernmental Relations with Reports going to Congress and President. Power to reject, revise or completely develop initial State plans vested in Regional Committee, with final plan approval by ACIR.	24G No specific provision.	24H Specific requirements for each State plan for modernization of State and local government. Establishes elaborate review procedures for State plans subject to approval of Regional Committee and the Advisory Commission on Intergovernmental Relations. Final block grant distributed by President to only those States with approved plans. Funds used (1) to modernize State and local government, (2) general program financing.
25E None.	25F State must certify that accurate records and accounting procedures will be used. Funds may be withdrawn for expenditure violations by U. S. Commissioner of Education (subject to judicial review).	25G No specific provision.	25H Funds for education only; may not differ more than 10% from total State and local expenditures for public elementary and secondary education; 2% maximum of total funds to Guam, Puerto Rico, Samoa, and Virgin Islands.
26E None.	26F None.	26G No specific provision.	26H Funds to be used for educational purposes only. H.R. 1343 - Education & Labor Committee H.R. 1349 - Ways & Means Committee
27E None.	27F None.	27G No specific provision.	27H Funds to be used for roads and schools only.
28E None.	28F Comprehensive plan must be submitted by governor to State legislature for approval then to Comptroller General for approval. Subject to judicial review.	28G No specific provision.	28H Davis-Bacon Act applicable. Funds used for law enforcement purposes only.

TABLE B-2 (CONCL'D).--PROPOSALS FOR SHARING FEDERAL REVENUES W

Bills and Resolutions Introduced in the 90th Congress for Specifie

A BILLS AND RESOLUTIONS (Type of financial support)	B SHARING BASIS (Cost Estimate)	C ALLOCATION FACTORS Population	 Per Capita Income	 Revenue Effort	 Origin of Collection	D BASIS FOR STATE BY STATE DISTRIBUTIONS (Congressional Record citation for States' shares)	PROVISION FOR LOCAL SHARING
29A H.R. 9935 Clausen, Don H. (R) (Education)	29B One percent of Federal income taxes (other than self-employment income taxes), estate and gift taxes and all custom duties collected increasing 1% a year up to 5%. ($.9 billion)	Special Factors (see next column)			29C	29D Fifty percent on percent of students enrolled in public elementary and secondary schools times percent of gross personal income spent on public elementary and secondary education. Fifty percent on number of students enrolled in public elementary and secondary schools in State.	None.
30A H.R. 10868 Ashbrook (R) (Education)	30B Two percent of all income taxes collected on individual incomes. ($1.1 billion)				30C X	30D One percent of all income taxes collected on individual incomes returned quarterly to State of origin.	None.
31A H.J. Res. 90 Poff (R) (Education)	31B One percent of all income taxes collected on corporate and individual incomes. ($.9 billion)				31C X	31D One percent of income taxes collected on individual and corporate incomes returned to State of origin.	None.
32A S. 482 Javits (R) and 6 other Senators and 3 Congressmen 10/ (Health, Education and Welfare)	32B One percent of taxable income reported on individual income tax returns increasing by .5% each year up to 2%. ($8.5 billion)	X	X	X	32C	32D Eighty-five percent on population and relative revenue effort, fifteen percent to States below average per capita income based on degree below average. State allotment may not exceed 12% of total fund. (C.R. S. 438, January 18, 1967)	Plan required each year for local sharin population, population density, per capi local costs and other "relevant factors.
33A S. 1140 Miller (R) (Education)	33B Two percent of total Federal tax collection received during preceding fiscal year. ($2.1 billion)	Special Factors (see next column)			33C	33D Population between ages of 5 and 20, per capita income and cost of living. States below average per capita income get increase and States above average have allocation reduced. States with below average cost of living index get a reduction and those with above average index get an increase.	None.

1/ Republicans -- Button (H.R. 4071), Cederberg (H.R. 4072), Cramer (H.R. 4073), Ford (Gerald R.) (H.R. 4074), May (Mrs.) (H.R. 4075), Miller (Ohio) (H.R. 4076), Roudebush (H.R. 4077), Stanton (H.R. 4078), Wylder (H.R. 4079), Williams (Pa.) (H.R. 4206), Rhodes (Ariz.) (H.R. 4448), Andrews (N.D.) (H.R. 4696), Bray (H.R. 4700), Brotzman (H.R. 4848), Dellenback (H.R. 4858), Johnson (Pa.) (H.R. 4876), Kyl (H.R. 4881), Gubser (H.R. 5064), Hosmer (H.R. 5068), Hunt (H.R. 5446), Harvey (H.R. 5618), Mosher (H.R. 11122)

2/ Republicans -- Bolton (Mrs.) (H.R. 4081), Broomfield (H.R. 4082), Broyhill (Va.) (H.R. 4083), Chamberlain (H.R. 4084), Duncan (H.R. 4085), Fino (H.R. 4086), Harsha (H.R. 4087), Keith (H.R. 4088), Scott (H.R. 4089), Steiger (H.R. 4090), Zion (H.R. 4091), Erlenborn (H.R. 4226), Eshleman (H.R. 4227), Shriver (H.R. 4277), Teague (Cal.) (H.R. 4784), Quillen (H.R. 5985)

3/ Republicans -- Derwinski (H.R. 5999), Nelsen (H.R. 8342)
Democrats -- Lennon (H.R. 6040)

4/ Republicans -- Baker. Bennett. Javits, Pearson

SHARING FEDERAL REVENUES WITH STATE AND LOCAL GOVERNMENTS

90th Congress for Specified State and Local Government Support

PROVISION FOR LOCAL SHARING (E)	EXPENDITURE CONTROL PROVISIONS (F)	RELATION TO FEDERAL GRANT-IN-AID PROGRAMS (G)	SPECIAL CONDITIONS OR FEATURES (H)
29E None.	29F State spending plan submitted to Comptroller General--approved if funds are spent on public elementary and secondary education.	29G No specific provision.	29H Idle funds in the Educational Assistance Trust Fund are to be invested. Davis-Bacon Act applicable. Funds to be used for elementary and secondary education only. Provisions made for Federal income tax credit for State and local taxes paid by individuals. Begins at 10% credit for State and local taxes of all types and increases 10% a year up to 40%.
30E None.	30F None.	30G No specific provision.	30H Two percent of all income taxes collected on individual incomes deemed to be revenue for State of origin; one percent of taxes collected transferred quarterly. Presumably designed to take into account FICA and refund payments.
31E None.	31F None.	31G No specific provision.	31H Funds to be used for educational purposes only.
32E Plan required each year for local sharing based on population, population density, per capita income, local costs and other "relevant factors."	32F State spending plan required each year including plan for local sharing; if State does not comply with law, funds may be reduced or canceled. Annual report to Congress by Secretary of Treasury and full review once each Congress.	32G No specific provision.	32H Title VI of Civil Rights Act 1964 applicable. Funds for Health, Education, and Welfare only. No funds spent on (1) highways, (2) administrative expenses, (3) property tax relief, (4) debt service, (5) disaster relief.
33E None.	33F States must certify adequate accounting procedures. Funds may be withdrawn if law violated. Annual report to Congress by Secretary of Treasury.	33G No specific provision.	33H Funds for education only--elementary through higher education. Title VI of Civil Rights Act of 1964 applicable.

(H.R. 4076),
D.) (H.R. 4696),
ner (H.R. 5068),

H.R. 4086),
H.R. 4227),

5/ Republicans -- Carlson, Cooper, Cotton, Dominick, Fannin, Griffin, Hansen, Hruska, Javits, Morton, Pearson, Percy, Scott, Tower, Young (N.D.)
Representative: Wampler (H.R. 8469)

6/ Democrats -- Pascell (H.R. 10516)

7/ Republicans -- Buchanan (H.R. 2055), Duncan (H.R. 3957), Kuykendall (H.R. 4248), Durney (H.R. 6015)

8/ Republicans -- Laird (H.R. 784)

9/ Republicans -- Halpern (H.R. 667)
Democrats -- Donohue (H.R. 4107)

10/ Republicans -- Baker, Carlson, Cooper, Dominick, Scott, Young (N.D.); Representatives: Reid (N.Y.) (H.R. 2900), Morse (H.R. 4260)
Democrats -- Representative Pepper (H.R. 6946)

TABLE B-3.--AMOUNT OF STATE SHARE OF $1 BILLION OF GENERAL FEDERAL AID UNDER SELECTED ALLOCATION FACTORS
(Millions)

State and Region	Per Capita (July 1, 1966) Unadjusted	Per Capita (July 1, 1966) Adjusted for Per Capita Personal Income[1/]	Per Capita (July 1, 1966) Adjusted for State-Local Tax Effort[1/]	Per State-Local Revenue Dollar (1965) Unadjusted	Per State-Local Revenue Dollar (1965) Adjusted for State-Local Tax Effort[1/]
United States	$1,000.0	$1,000.0	$1,000.0	$1,000.0	$1,000.0
New England	57.3	51.7	57.0	61.7	60.0
Maine	5.0	5.8	5.4	4.5	4.7
New Hampshire	3.5	3.7	3.1	2.9	2.6
Vermont	2.1	2.4	2.6	2.2	2.7
Massachusetts	27.5	24.0	28.2	31.5	31.6
Rhode Island	4.6	4.3	4.4	4.6	4.4
Connecticut	14.7	11.5	13.2	16.1	14.1
Mideast	212.8	182.6	217.0	247.3	253.5
New York	93.2	75.5	109.5	131.3	151.3
New Jersey	35.2	28.9	30.4	35.5	30.0
Pennsylvania	59.1	57.1	54.7	55.1	49.9
Delaware	2.6	2.0	2.4	3.0	2.8
Maryland	18.4	16.2	16.7	17.9	15.9
District of Columbia	4.1	2.9	3.3	4.5	3.6
Great Lakes	196.5	175.5	181.6	196.4	179.8
Michigan	42.8	37.7	43.0	46.5	45.8
Ohio	52.6	49.4	43.9	45.0	36.8
Indiana	25.1	23.4	23.9	24.5	22.9
Illinois	54.7	44.3	45.6	55.3	45.2
Wisconsin	21.2	20.7	25.1	25.0	29.1
Plains	81.0	82.1	84.0	79.9	82.1
Minnesota	18.3	18.2	21.7	20.8	24.1
Iowa	14.0	18.9	15.4	14.9	16.0
Missouri	23.0	22.9	20.1	19.5	16.7
North Dakota	3.3	3.9	3.8	3.2	3.7
South Dakota	3.5	4.2	4.2	3.3	3.8
Nebraska	7.4	7.4	6.5	6.3	5.4
Kansas	11.5	11.6	12.3	11.9	12.4
Southeast	218.3	280.3	207.8	156.5	146.8
Virginia	23.0	25.2	18.7	16.4	13.1
West Virginia	9.2	12.1	9.0	6.8	6.6
Kentucky	16.3	21.2	14.6	10.9	9.6

TABLE B-3 (CONCL'D).--AMOUNT OF STATE SHARE OF $1 BILLION OF GENERAL FEDERAL AID UNDER SELECTED ALLOCATION FACTORS
(Millions)

State and Region	Per Capita (July 1, 1966) Unadjusted	Per Capita (July 1, 1966) Adjusted for Per Capita Personal Income 1/	Per Capita (July 1, 1966) Adjusted for State-Local Tax Effort 1/	Per State-Local Revenue Dollar (1965) Unadjusted	Per State-Local Revenue Dollar (1965) Adjusted for State-Local Tax Effort 1/
United States	$1,000.0	$1,000.0	$1,000.0	$1,000.0	$1,000.0
Southeast (cont'd)					
Tennessee	19.8	26.1	18.3	13.4	12.1
North Carolina	25.5	33.1	24.3	18.1	16.9
South Carolina	13.2	18.9	12.1	8.0	7.2
Georgia	22.8	28.0	21.1	16.2	14.7
Florida	30.3	33.1	30.4	26.4	26.0
Alabama	18.0	25.0	16.5	11.3	10.1
Mississippi	11.9	19.6	13.3	7.7	8.4
Louisiana	18.4	23.6	20.5	15.3	16.7
Arkansas	10.0	14.4	9.0	6.1	5.4
Southwest	80.9	94.3	79.1	66.3	64.2
Oklahoma	12.5	14.5	12.5	10.5	10.2
Texas	54.9	62.3	50.7	42.6	38.6
New Mexico	5.2	6.3	6.0	4.9	5.6
Arizona	8.3	11.2	9.8	8.4	9.8
Rocky Mountain	24.0	25.2	26.9	24.9	27.2
Montana	3.6	4.0	4.1	3.6	4.0
Idaho	3.5	3.9	3.8	3.3	3.6
Wyoming	1.7	1.7	1.9	1.8	2.0
Colorado	10.1	9.9	11.4	11.2	12.3
Utah	5.1	5.7	5.7	4.9	5.3
Far West	124.1	103.9	141.5	161.5	181.2
Washington	15.2	13.9	16.1	17.2	17.8
Oregon	10.0	9.6	10.5	10.4	10.6
Nevada	2.3	1.8	2.3	2.8	2.9
California	96.6	78.6	112.6	131.2	149.9
Alaska	1.4	1.2	1.1	1.2	0.9
Hawaii	3.7	3.4	4.0	4.1	4.3

1/ Distributed on basis of total population adjusted to reflect States' per capita personal income deviation from U.S. average.
2/ Adjusted to reflect deviation in State and local effort relative to U.S. average. Tax effort equals total State and local tax collections as a percent of State personal income.

TABLE B-4.--STATE, LOCAL AND SELECTED CITY SHARES OF $4 BILLION SUPPORT GRANT
(Millions)

State and Region	Total State and Local[1/]	State[2/]	Local[2/]	Selected Cities: City	Selected Cities: Grant[3/]	Percent of: Local Share	Percent of: State Population
United States	$4,000.0	$2,098.4	$1,900.4				
New England	227.6	103.1	124.5				
Maine	21.6	11.0	10.6				
New Hampshire	12.4	4.5	7.9				
Vermont	10.4	6.0	4.4				
Massachusetts	112.8	47.2	65.6	Boston	$ 15.3	23.3%	13.8%
Rhode Island	17.6	9.4	8.2	Providence	5.9	72.0	64.4
Connecticut	52.8	25.0	27.8				
Mideast	868.0	389.5	478.5				
New York	438.0	186.8	251.4	New York City	153.8	61.2	44.7
New Jersey	121.6	36.4	85.2	Newark	9.9	11.6	5.9
Pennsylvania	218.8	120.6	98.2	Philadelphia	29.9	30.4	17.8
Delaware	9.6	7.6	2.0				
Maryland	66.8	38.3	28.5	Baltimore	12.0	42.1	27.4
District of Columbia	13.2	-	13.2				
Great Lakes	726.0	359.8	366.2				
Michigan	172.0	96.0	76.0	Detroit	20.4	26.7	20.4
Ohio	175.6	78.8	96.8	Cleveland	10.8	11.2	8.0
Indiana	95.6	49.3	46.3	Indianapolis	6.5	14.0	10.9
Illinois	182.4	78.4	104.0	Chicago	53.5	51.4	33.4
Wisconsin	100.4	57.3	43.1	Milwaukee	11.0	25.5	
Plains	336.0	155.4	180.6				
Minnesota	86.8	42.4	44.4	Minneapolis-St. Paul	13.4	30.2	18.6
Iowa	61.6	26.8	34.8				
Missouri	80.4	41.5	38.9	St. Louis	12.2	31.4	15.6
North Dakota	15.2	7.7	7.5				
South Dakota	16.8	6.4	10.4				
Nebraska	26.0	9.2	16.8				
Kansas	49.2	21.4	27.8				

TABLE B-4 (CONCL'D).--STATE, LOCAL AND SELECTED CITY SHARES OF $4 BILLION SUPPORT GRANT
(Millions)

State and Region	Total State and Local 1/	State 2/	Local 2/	Selected Cities: City	Grant 3/	Percent of Local Share	Percent of State Population
United States	$4,000.0	$2,098.4	$1,900.4				
Southeast	831.2	557.8	273.4				
Virginia	74.8	42.6	32.2				
West Virginia	36.0	25.0	11.0				
Kentucky	58.4	41.1	17.3	Louisville	$ 4.2	24.3%	12.4%
Tennessee	73.2	46.2	27.0				
North Carolina	97.2	72.3	24.9				
South Carolina	48.4	36.6	11.8				
Georgia	84.4	55.7	28.7	Atlanta	7.7	26.8	12.5
Florida	121.6	68.6	53.0	Tampa-St. Petersburg	7.3	13.8	8.9
Alabama	66.0	47.9	18.1				
Mississippi	53.2	35.9	17.3				
Louisiana	82.0	60.8	21.2	New Orleans	6.4	30.2	18.6
Arkansas	36.0	25.1	10.9				
Southwest	316.0	183.3	132.7				
Oklahoma	50.0	33.4	16.6				
Texas	202.8	110.1	92.7	Houston	12.7	13.7	10.6
New Mexico	24.0	18.1	5.9				
Arizona	39.2	21.7	17.5				
Rocky Mountain	107.6	53.8	53.8				
Montana	16.4	7.0	9.4				
Idaho	15.2	8.3	6.9				
Wyoming	7.6	3.9	3.7				
Colorado	45.6	21.3	24.3	Denver	7.6	31.3	25.6
Utah	22.8	13.3	9.5				
Far West	566.0	280.9	285.1				
Washington	64.4	44.0	20.4	Seattle	4.9	24.0	19.0
Oregon	42.0	22.0	20.0	Portland	6.0	30.0	20.2
Nevada	9.2	5.0	4.2				
California	450.4	209.9	240.5	Los Angeles	45.7	19.0	16.9
Alaska	4.4	3.1	1.3				
Hawaii	16.0	11.7	4.3				

1/ Distribution of $4 billion on the basis of population adjusted for State-local tax effort.
2/ Distributed on basis of State and local percentage of State-local tax collections.
3/ Distributed on basis of local government noneducational expenditure.

Appendix C

PROPOSALS FOR FEDERAL TAX CREDITS FOR STATE AND LOCAL TAX PAYMENTS IN 90TH CONGRESS

Bills	Basis for Credit (Types of State and Local Taxes)	Description of Credit Technique	Other Special Features
H.R. 1047, Poff (R)	State and local school taxes (enacted after adoption of act) against Federal income tax.	Individual taxpayer may claim credit equal to additional State and local school taxes paid or accrued within the taxable year (i.e., taxes imposed after date of enactment of this legislation).	
H.R. 1415, Ullman (D)	State and local income taxes against Federal income tax.	Individual taxpayer may claim a credit equal to 40% of State and local income taxes paid or accrued in lieu of deducting such taxes. (To implement an ACIR recommendation).	
S. 1743, Pearson (R)	State and local income taxes against Federal income tax.	Individual taxpayer may claim a credit equal to 50% of the State and local income taxes paid or accrued for the taxable year. (To implement an ACIR recommendation).	
H.R. 4461, Dingell (D); H.R. 7855, J. G. O'Hara (D)	State and local income taxes against Federal income tax.	Individual taxpayer may claim a credit equal to total of the State and local income taxes paid during year except amount may not exceed 5% of total Federal tax reduced by sum of other credits.	
H.R. 5450, Laird (R); H.R. 5599, Derwinski (R); H.R. 6040, Lennon (D); H.R. 8342, Nelsen (R)	State and local taxes against Federal income tax.	Individual taxpayer may claim a credit equal to 10% of all State and local taxes paid or accrued during year in lieu of deducting such taxes. Credit increases 10% each year up to 40%.	If individual's net tax obligation is less than the amount of credit which he can claim the tax obligation is zero. Entire credit system part of general revenue-sharing bill.
H.R. 5598, Curtis (R)	Taxes for support of public educational institutions against Federal income taxes.	Individual taxpayer may claim a credit (not in excess of $100) equal to sum of 50% (a) taxes (other than real property taxes) paid or accrued for support of public educational institutions (b) real property taxes imposed on individual as owner, occupant or tenant. Alternative credit (not in excess of $200) equal to $50 times number of personal exemptions for students below college level provided credit equals or exceeds first alternative but not amount of tax imposed.	Credit provisions part of larger bill providing variety of "educational incentives."
H.R. 7071, Pino (R)	State and local income taxes paid during year against Federal income tax.	Individual taxpayer may claim a credit equal to total of State and local income taxes paid during year except amount may not exceed 20% of total Federal tax reduced by sum of other credits.	
H.R. 7945, Tenzer (D)	Residential real property taxes against Federal income tax.	Individual taxpayer may claim a credit equal to three quarters of his "base average"--which is 80% of the amount by which his local residential real property taxes exceed 5% of his household income.	

Bills	Basis for Credit (Types of State and Local Taxes)	Description of Credit Technique	Other Special Features
H.R. 8329, Fountain (D); H.R. 8351, Ullman (D)	Estate taxes paid to States against Federal estate tax.	In lieu of credit authorized for estate, inheritance, legacy or succession taxes, the tax imposed by the transfer of the taxable estate may be credited with the amount of any estate tax actually paid to any State in respect to any property included in the gross estate. Maximum amounts of credit are established ranging from 2.4% to taxable estate under $5,000 to $1.5 million plus 16% of excess over $12 million for taxable estates valued over $12 million. (To implement an ACIR recommendation).	The general purpose of the legislation is to increase the stability of the States' revenues by providing a relatively high credit in the lower brackets and a low credit in high brackets--thus leaving the taxing of large estates mainly to Federal government.
H.R. 9935, Clausen (R)	Same as H.R. 5450 against Federal income tax.	Same as H.R. 5450.	Revenue-sharing limited to elementary and secondary education.
H.R. 10257, Betts (R)	Real property taxes against Federal income tax.	Individual taxpayer may claim a credit equal to the amount of taxes on real property paid or accrued for support of public elementary and secondary education during taxable year. Credit may not exceed lesser of $100 or total Federal tax reduced by other credits.	Part of larger bill providing credits for tuition and fees for higher education or for occupational training and exempting from income tax certain scholarships, fellowships, etc.

Appendix D

STATE-LOCAL UNUTILIZED TAX POTENTIAL AND TAX UTILIZATION RATE COMPUTATIONS FOR PERSONAL INCOME, SALES AND PROPERTY TAXES

Personal Income Tax

1. Ten States with heaviest personal income tax yield per $1,000 of personal income (1966 yield per $1,000 of 1965 State personal income):

State	Amount per $1,000 Personal Income
Delaware	$ 29.27
Wisconsin	28.34
Oregon	27.55
Hawaii	23.32
Minnesota	23.30
Vermont	23.10
Alaska	22.61
New York	21.41
Idaho	17.59
North Carolina	16.39
	$232.88
Average yield per $1,000 of personal income	$ 23.29

2. Potential gross personal income tax yield = $23.29 x State personal income:

   Example:

   $23.29 per $1,000 x $1.7 billion (Delaware's personal income) = $40 million
   $23.29 per $1,000 x $10.1 billion (North Carolina's personal income = $235 million

3. Computation of $6 per capita credit in lieu of food exemption in sales tax:

   Example:

   $6 x 512,000 (Delaware's population) = $3 million
   $6 x 5,000,000 (North Carolina's population) = $30 million

4. Potential net personal income tax yield:

Example:

Delaware: $40 million - $3 million = $37 million
North Carolina: $235 million - $30 million = $205 million

5. Percentage 1966 actual State personal income tax yield is of potential yield:

Example:

Delaware: $50 million ÷ $37 million = 135 percent
North Carolina: $165 million ÷ $205 million = 80 percent

Sales and Property Taxes

Calculations of the State-local sales and property tax potentials and utilization rates were analogous to those used for the personal income tax. In 1966 the ten heaviest user States for these taxes were:

SALES AND PROPERTY TAX REVENUE PER $1,000 OF PERSONAL INCOME FOR TEN HEAVIEST STATE-LOCAL USERS, 1966

State	General Sales and Use*	State	Property
New Mexico	$ 36.87	South Dakota	$ 68.92
Washington	34.13	Nebraska	67.41
Arizona	32.41	Montana	66.54
Alabama	29.58	Wyoming	66.20
Utah	29.47	California	62.58
Wyoming	27.25	Massachusetts	62.42
Michigan	26.28	Minnesota	62.24
Tennessee	25.55	Iowa	60.60
Georgia	23.97	New Hampshire	60.31
Arkansas	23.57	Arizona	59.71
	$289.08		$636.93
Average	$ 28.91		$ 63.69

*Includes local collections.

For purposes of determining the combined utilization rate for the three major tax sources, the dollar differences between actual and potential yields were netted out and related to the sum of the potential yield for the State. Thus, Delaware's 135 percent utilization of the personal income tax is offset by its zero utilization of the sales tax and 30 percent utilization of the property tax with the net result that Delaware shows only 43 percent utilization of its calculated income, sales and property tax capacity (Table D-2). By the same token, North Carolina's 80 percent utilization of the personal income tax, its 65 percent utilization of the sales tax and 42 percent utilization of the property tax result in a 55 percent utilization of its calculated capacity.

Data for the analysis were drawn from Census reports for 1966, the latest year available, and supplemented by staff estimates where detail on local collections were not available in Census publications.

A number of State legislatures enacted substantial changes in the three major tax sources in 1967 which will alter the utilization rates in future years. Staff estimates of the effects are shown in Table D-3. Major tax changes may increase the utilization rate significantly or leave it about the same depending upon whether the tax change will result in a net addition to State-local revenue, as in California, or leave the State-local tax yield about the same, as in Minnesota where a new sales tax was enacted to provide relief from the property tax.

TABLE D-1.--POTENTIAL STATE-LOCAL YIELD FROM INCOME, GENERAL SALES AND PROPERTY TAXES BASED UPON CURRENT RELIANCE OF THE HEAVIEST STATE-LOCAL USERS OF EACH TAX, BY STATE, 1966
(Millions)

State	Potential Combined Tax Yield	Over-utilization (-) or Under-utilization Based on Actual Yield of-- Income	Sales	Property	Combined
United States	$60,504	$6,487	$5,748	$9,222	$21,457
Alabama	751	79	-4	308	383
Alaska	97	-1	19	35	53
Arizona	423	55	-13	15	57
Arkansas	403	44	20	132	196
California	6,835	829	334	67	1,230
Colorado	600	41	31	27	99
Connecticut	1,098	207	142	149	498
Delaware	195	-12	49	76	113
District of Columbia	339	24	44	101	169
Florida	1,591	291	123	310	724
Georgia	1,072	114	47	330	491
Hawaii	231	-4	-34	72	34
Idaho	189	6	20	27	53
Illinois	3,981	749	264	612	1,625
Indiana	1,584	150	121	200	471
Iowa	839	69	99	23	191
Kansas	673	51	58	45	154
Kentucky	733	27	61	248	336
Louisiana	831	119	44	279	442
Maine	254	46	13	21	80
Maryland	1,207	65	180	238	483
Massachusetts	1,863	95	363	20	478
Michigan	2,851	488	66	462	1,016
Minnesota	1,080	-21	275	14	268
Mississippi	415	62	-48	119	133
Missouri	1,360	137	102	327	566
Montana	195	15	50	-5	60
Nebraska	435	80	111	-15	176
Nevada	164	30	19	30	79
New Hampshire	195	34	50	6	90
New Jersey	2,503	460	412	115	987
New Mexico	252	33	-18	80	95
New York	6,769	2	452	734	1,188
North Carolina	1,137	40	103	371	514
North Dakota	169	22	19	11	52

TABLE D-1 (CONCL'D).--POTENTIAL STATE-LOCAL YIELD FROM INCOME, GENERAL SALES AND PROPERTY TAXES BASED UPON CURRENT RELIANCE OF THE HEAVIEST STATE-LOCAL USERS OF EACH TAX, BY STATE, 1966
(Millions)

State	Potential Combined Tax Yield	Over-utilization (-) or Under-utilization Based on Actual Yield of--			
		Income	Sales	Property	Combined
Ohio	$ 3,297	$ 513	$ 484	$ 550	$ 1,547
Oklahoma	635	86	83	166	335
Oregon	609	-34	155	64	185
Pennsylvania	3,619	472	321	1,010	1,803
Rhode Island	287	54	27	45	126
South Carolina	530	41	30	198	269
South Dakota	172	31	17	-8	40
Tennessee	876	150	26	272	448
Texas	2,805	512	475	502	1,489
Utah	266	11	-1	31	41
Vermont	106	-2	27	12	37
Virginia	1,212	57	289	341	687
Washington	983	183	-45	239	377
West Virginia	415	51	51	136	238
Wisconsin	1,282	-82	234	82	234
Wyoming	96	18	1	-2	17

Source: ACIR Staff computations based on Bureau of the Census, Governmental Finances Series.

TABLE D-2.--STATE-LOCAL FISCAL CAPACITY UTILIZATION RATES FOR MAJOR TAXES BY STATE, 1966
(Actual Tax Yield as a Percent of Potential Yield)

State and Region	Personal Income	General Sales and Use Tax	Property	Combined Rate	Combined Index (U.S. Avg.=100)
U.S. average	42%	63%	73%	65%	100%
New England					
Maine	0	80	86	69	106
New Hampshire	6	0	95	54	83
Vermont 1/	110	0	79	65	100
Massachusetts	72	23	98	74	114
Rhode Island 1/	0	63	72	56	86
Connecticut	0	49	77	55	85
Mideast					
New York 1/	100	74	81	82	126
New Jersey	2	35	92	61	94
Pennsylvania	30	65	50	50	77
Delaware	135	0	30	43	66
Maryland 1/	71	41	65	60	92
District of Columbia 1/	63	49	47	50	77
Great Lakes					
Michigan 1/	8	91	71	64	98
Ohio	19	42	70	53	82
Indiana 1/	49	70	77	70	108
Illinois 1/	0	74	72	59	91
Wisconsin	134	28	89	82	126
Plains					
Minnesota 1/	111	0	98	75	115
Iowa 1/	56	54	95	77	118
Missouri	46	71	57	58	89
North Dakota 1/	29	56	89	69	106
South Dakota	0	61	108	77	118
Nebraska 1/	0	0	106	60	92
Kansas 1/	59	66	88	77	118
Southeast					
Virginia 1/	74	6	50	43	66
West Virginia	32	52	42	43	66
Kentucky	80	68	40	63	97
Tennessee	5	88	45	49	75
North Carolina 1/	80	65	42	55	85
South Carolina	56	78	34	49	75
Georgia	41	83	45	54	83
Florida	0	70	65	54	83
Alabama	41	102	27	49	75
Mississippi	14	145	50	68	105
Louisiana 1/	20	79	41	47	72
Arkansas	38	81	42	51	78

TABLE D-2 (CONCL'D).--STATE-LOCAL FISCAL CAPACITY UTILIZATION RATES FOR MAJOR TAXES BY STATE, 1966
(Actual Tax Yield as a Percent of Potential Yield)

State and Region	Personal Income	General Sales and Use Tax	Property	Combined	
				Rate	Index (U.S. Avg.=100)
U.S. average	42%	63%	73%	65%	100%
Southwest					
Oklahoma	26	49	54	47	72
Texas1/	0	34	68	47	72
New Mexico	28	128	43	62	95
Arizona	28	112	94	87	134
Rocky Mountain					
Montana	58	0	104	69	106
Idaho	83	58	74	72	111
Wyoming1/	0	96	104	82	126
Colorado	63	80	92	84	129
Utah	78	101	79	85	131
Far West					
Washington1/	0	118	56	62	95
Oregon	130	0	81	70	108
Nevada1/	0	55	68	52	80
California1/	35	81	98	82	126
Alaska	106	24	34	45	69
Hawaii1/	110	158	44	85	131

1/ See supplemental table of the effect of recent major State tax action on the combined rate.

Source: ACIR Staff computations derived from Bureau of the Census data reported in the 1966 Governmental Finances series of publications. For methodology see text and appendix.

TABLE D-3.--ESTIMATE OF THE EFFECT OF RECENT MAJOR STATE TAX ENACTMENTS ON THE STATE-LOCAL FISCAL CAPACITY UTILIZATION RATE
(As of January 1, 1968)

State and Region	Personal Income Tax	General Sales and Use Tax	Property	Estimated New Combined Rate 1/
New England				
Maine		Increased		n.a.
Vermont	Increased			69
Massachusetts	Increased			n.a.
Rhode Island		Increased		59
Mideast				
New York	New local			86
Maryland	Increased			71
Pennsylvania	Increased			n.a.
District of Columbia	Increased			56
Great Lakes				
Michigan	New State		Decreased	69
Indiana	Decreased		Decreased	67
Illinois		Increased		64
Ohio		Increased State and local		n.a.
Plains				
Minnesota		New State	Decreased	75
Iowa	Increased	Increased		85
North Dakota		Increased		75
Nebraska	New State	New State	Decreased	74
Kansas	Decreased			76
Southeast				
Virginia		New State and local		70
North Carolina	Decreased			54
Louisiana		Increased local		48
Southwest				
Oklahoma		New local		51
Arizona	Increased			n.a.
Rocky Mountain				
Montana	Increased			n.a.
Wyoming		State replaces local		82
Far West				
Washington		Increased		65
Nevada		Increased		59
California	Increased	Increased		93
Hawaii	Decreased			84

n.a. = Data not available.

1/ Actual tax yield as a percent of potential yield.

Source: ACIR Staff computations.

Appendix E

BIBLIOGRAPHICAL NOTE ON IMPACT OF FEDERAL GRANTS-IN-AID ON STATE AND LOCAL GOVERNMENT

The literature of Federal-State-local relations abounds with articles on Federal grants-in-aid but the impact problem has not received extensive coverage. One of the earliest studies was a sampling of the opinions of 264 State officials on Federal aid made by the National Municipal League in 1928. (Report of the Committee on Federal Aid to the States of the National Municipal League, Supplement to the National Municipal Review, Vol. XVII, No. 10, October, 1928). Another pioneer work by V. O. Key, Jr., The Administration of Federal Grants-in-Aid, was published in 1937 (Chicago: Public Administration Service). The Council of State Governments' Committee on Federal Grants-in-Aid in 1948 published an important study on one aspect of the administrative problem of Federal aids on State budgetary procedures. (Council of State Governments, Federal Grants-in-Aid: Report of the Committee on Federal Grants-in-Aid, Chicago, 1949). The (Kestnbaum) Commission on Intergovernmental Relations studied certain aspects of the impact of Federal Grants-in-aid on State administration. Two of the Commission's survey reports contained even more material on the administrative impact of grants. More importantly, the studies examined the overall impact of Federal aid on the structure and functioning of State and local government.

The Advisory Commission on Intergovernmental Relations has studied more limited aspects of administrative problems in particular fields. (Advisory Commission on Intergovernmental Relations: Periodic Congressional Reassessment of Federal Grants-in-Aid to State and Local Governments, 1961; The Role of Equalization in Federal Grants, 1964; and Statutory and Administrative Controls Associated with Federal Grants for Public Assistance.)

Three more recent reports of the Council of State Governments examined Federal-State Relations in the grant-in-aid field. A 1962 study examined the impact of Federal statutory and administrative requirements on State government structure and organization. (Council of State Governments, State Government and Organization and Federal Grant-in-Aid Program Requirements, a report to the Governor's Conference, Hershey, Pennsylvania, Chicago, 1962). A 1966 study identified restrictive provisions in present Federal grant-in-aid legislation and regulations that impede administrative practices in the States. (Council of State Governments, Federal Grant-in-Aid Requirements Impeding State Administration Chicago, 1966). A sequel to this study, published in 1967, attempts to identify the costs to the States, monetary or otherwise, that result from delays in receiving Federal appropriations or authorizations. (Council of State Governments, Cost to the States Resulting From Delays in Authorization or Appropriation of Federal Grants-in-Aid, Chicago, 1967).

Finally, Congress itself has contributed to the literature in the field of Federal grants-in-aid to State governments. In 1956 the House Intergovernmental Relations Subcommittee sought the views of Federal agencies on the adequacy of existing grant programs and their comments on relevant recommendations of the Kestnbaum Commission. (Staff Report on Replies from Federal Agencies to Questionnaire on Intergovernmental Relations, Intergovernmental Relations Subcommittee of the Committee on Government Operations, U.S. Congress, House, 84th Cong., 2d Sess., August 1956). The following year the House Subcommittee published replies received from the executive agencies of State and local governments. (Replies from State and Local Governments to Questionnaire on Intergovernmental Relations, Sixth Report of the Committee on Government Operations, June 17, 1957). In 1958 the Subcommittee submitted the final document in its series of studies on intergovernmental relationships to its parent committee--the Committee on Government Operations. This report placed special emphasis on Federal grant-in-aid programs and made a series of recommendations for improving the Federal grant structure. (Federal-State-Local Relations, Federal Grants-in-Aid, Thirtieth Report by the Committee on Government Operations, August 8, 1958).

The Senate Subcommittee on Intergovernmental Relations has also made a significant contribution to the literature. Its first report in 1963 was a systematic effort to obtain the views of State and local officials regarding administrative problems in Federal grant-in-aid programs. U.S., Congress, Senate, The Federal System as Seen by State and Local Officials, Results of a Questionnaire Dealing with Intergovernmental Relations, A Study Prepared by the Staff of the Subcommittee on Intergovernmental Relations of the Committee on Government Operations Washington: Government Printing Office, 1963). Two years later the Senate Subcommittee published the results of its questionnaire survey of Federal aid administrators directly responsible for programs of assistance to State and local units of government. The questionnaire was designed to obtain the view of Federal officials on proposals emerging from the earlier responses of State and local officials as well as to identify areas of conflict as seen by Federal administrators. (U.S., Congress, Senate, The Federal System as Seen by Federal Aid Officials, Results of a Questionnaire Dealing with Intergovernmental Relations, A Study Prepared by the Subcommittee on Intergovernmental Relations of the Committee on Government Operations, Washington: Government Printing Office, December 15, 1965.)

Appendix F

DEVELOPING SPECIFIC CONSOLIDATION PROPOSALS

A major step in drafting any proposal for reducing the number of separate grants is finding "common denominators" around which a workable consolidation can be built. Grants can be classified on many bases, any one or more of which may be appropriate in a particular instance. The principal bases appear to be:

Major function and subfunction.--The Budget of the U.S. Government for any year contains a full list of major functions and subfunctions.

Agriculture and agriculatural resources
  Agricultural land and water resources

Commerce and transportation
  Ground transportation

Housing and community development
  Public housing programs

Health, labor and welfare
  Health services and research
  Public assistance
  Economic opportunity programs

Education
  Assistance for higher education

Process or activity.--One such classification prepared by HEW lists research, training, services, planning and facilities.

Purpose.--Stimulation or continuing support of the activity or demonstration.

Recipient.--State government, local government, private non-profit organization, educational institution or individuals.

Clientele, or principal beneficiary of aided service; for example, farmers, city government, mentally retarded, aged and youth.

Area.--For example, a particular State or region, rural or urban communities.

Method of distribution.--By formula allocation or by project, pursuant to application.

Matching ratio.--By financial participation from Federal and non-Federal sources.

Administering department or agency and subunit, such as bureau, service or office.

Obviously the more often two or more grants are grouped together when classified according to these nine factors, the more they lend themselves to a workable consolidation. This would be the case, for example, if two or more grants had the same function, involved planning, were administered by the same agency and subunit, were available to the same recipients and were directed to the same clientele.

In addition to the problem of choosing the bases for classification, consolidation must reconcile differing administrative requirements which have been attached to assure compliance with national objectives and efficient management. These include auditing, accounting, reporting, planning and merit system standards. Differences among these requirements, however, are not likely to raise as many obstacles to consolidation as differences in the aforementioned classification bases.

Developing defensible consolidations means getting down to the pick-and-shovel details of categorical grants, some of which are suggested above. Moreover, the justification for specific consolidations changes with program and administration reorganizations. Careful study by functional specialists, management generalists and others is required. Such an examination of the hundreds of categorical grants is beyond the scope of this study. Nevertheless the Commission staff has developed the following list of possible consolidations that seem well worth exploring.

ILLUSTRATION OF GROUPINGS OF GRANT-IN-AID PROGRAMS WITH POSSIBLE POTENTIAL FOR CONSOLIDATION

This table illustrates the possibilities for consolidating existing categorical grants on the basis of common denominators, described in the accompanying text. Individual grants may appear in more than one grouping. It is not contended that any or all of these consolidations are feasible exactly as presented, yet they appear to be likely candidates. They are in addition to the two recommended consolidations for vocational education and water and sewer facilities (discussed in Chapter 2). See key at end of table for explanation of symbols used.

Group	Program Title	Subfunction 1/	Agency	Purpose 2/	Process 3/	Recipient 4/	Clientele 5/	Method 6/	Matching Ratio 7/
1.	Forestry Cooperation								
	Tree Planting, Land Acquisition	Forestry Cooperation	Agriculture	SC	FS	ES	Private owners, States	F	50%
	Fire Prevention	"		S	S	S	Private owners, States	F	50%
	Insect and Disease Prevention	"		S	S	SO	Private owners, States	F	Some local
2.	Game Recreation								
	Wildlife Restoration	Fish and Wildlife Resources	Interior	SC	FRS	S	-	F	75%
	Fish Restoration and Management	"		SC	FRS	S	-	F	75%
3.	Medical Facilities								
	Area-wide Planning	Hospital and Medical Facilities	HEW	S	P	S	-	P	50%
	Facilities (Hill-Burton)	"	HEW	S	F	SOP	-	F	33-67%
	Mental Retardation Community Facilities	Mental Retardation Facilities	HEW	S	F	SOPL	Mentally retarded	F	33-67%
	Mental Retardation Research Facilities	"	HEW	S	F	PO	Mentally retarded	P	75%
	Mental Retardation Research Facilities; University-Affiliated	"	HEW	S	F	EOP	Mentally retarded	P	75%
	Community Mental Health Center	Community Mental Health Center	HEW	S	F	S	-	F	33-67%

ILLUSTRATION OF GROUPINGS OF GRANT-IN-AID PROGRAMS WITH POSSIBLE POTENTIAL FOR CONSOLIDATION (CONT'D)

Group	Program Title	Subfunction 1/	Agency	Purpose 2/	Process 3/	Recipient 4/	Clientele 5/	Method 6/	Matching Ratio 7/
4.	Mental Retardation, Problems Research								
	Planning	Mental Retardation Planning	HEW	S	P	S	Mentally retarded	F	75%
	Construction of Research Centers	Mental Retardation Facilities	HEW	S	F	SOP	Mentally retarded	P	75%
	University-Affiliated Research Centers	"	HEW	S	F	SOP	Mentally retarded	P	75%
	Training Physicians and Allied Health Personnel	Health-Related Training Grants	HEW	S	T	E	Mentally retarded	P	100%
5.	Mental Retardation Care								
	Planning	Mental Retardation Planning	HEW	S	P	S	Mentally retarded	F	75%
	Facilities, University-Affiliated	Mental Retardation Facilities	HEW	S	F	EOP	Mentally retarded	P	75%
	Facilities	"	HEW	S	F	SOPL	Mentally retarded	F	33-67%
	Research Centers	Mental Retardation Facilities	HEW	S	F	OP	Mentally retarded	P	75%
	Community Services	Community and Environmental Health Activities	HEW	S	S	SOP	Mentally retarded	F/P	67%
	General Health	"	HEW	SC	PS	SLO	Mentally retarded	F	50%
	Training Physicians and Allied Personnel	Health Professions Education	HEW	S	T	E	Mentally retarded	P	100%
6.	Adult Basic Education								
	Community Services and Continuing Education	Community Services and Continuing Education	OE-HEW	SDC	TSR	E	Adults	F	75% Declining
	Instruction and Teacher Training	Elementary and Secondary Education	OE-HEW	SDC	TS	ESLOP	Adults	F	90% Declining
7.	Handicapped Children								
	Teacher Training	Education of Handicapped Children	OE-HEW	CS	T	S	Handicapped children	F	100%
	Teacher Fellowships	"	OE-HEW	S	T	ES	Handicapped children	P	100%

ILLUSTRATION OF GROUPINGS OF GRANT-IN-AID PROGRAMS WITH POSSIBLE POTENTIAL FOR CONSOLIDATION (CONT'D)

Group	Program Title	Subfunction 1/	Agency	Purpose 2/	Process 3/	Recipient 4/	Clientele 5/	Method 6/	Matching Ratio 7/
7.	Handicapped Children (Cont'd)								
	Construction and Operation of Research Facilities	Education of Handicapped Children	OE-HEW	SD	SFR	E	Handicapped children	P	100%
	Educational Research on Handicapped Children	"	OE-HEW	SD	R	SLEO	Handicapped children	P	100%
8.	Vocational Training								
	MDTA Weekly Allowances	MDTA	Labor/OE-HEW	C	S	S	Unemployed adults	P	100%
	MDTA Training, Research, Experimentation, Demonstration and Job Development	"	Labor/OE-HEW	C	T	S	Unemployed adults	P	90%
	Work Training (Neighborhood Youth Corps)	Economic Opportunity Program	Labor	SD	T	SLP	Unemployed adults	P	90% Declining
9.	Child Health and Welfare								
	Maternity and Infant Care	Maternal and Child Health	HEW	C	S	SL	Mothers and children	P	Part
	Health of School and Preschool Children	"	HEW	C	S	S	Children	P	75%
	Research: Maternal and Child Health and Crippled Children	"	HEW	SC	R	EOP	Mothers, children, crippled children	P	100%
	Maternal and Child Health Services	"	HEW	C	S	S	Mothers and children	P	Part
	Special Projects, Maternal and Child Health	"	HEW	SD	S	SE	Mothers and children	P	75%
10.	Vocational Rehabilitation								
	Program Planning	Vocational Rehabilitation	VRA-HEW	S	P	SOP	Handicapped	P	100%
	Facilities Planning	"	VRA-HEW	S	P	SOP	Handicapped	P	Part
	Facilities Construction	"	VRA-HEW	S	F	OP	Handicapped	P	33-67%
	Initial Staffing	"	VRA-HEW	S	S	OP	Handicapped	P	75% Declining
	Research, Training Centers	"	VRA-HEW	S	FS	SOP	Handicapped	P	Part

ILLUSTRATION OF GROUPINGS OF GRANT-IN-AID PROGRAMS WITH POSSIBLE POTENTIAL FOR CONSOLIDATION (CONT'D)

Group	Program Title	Subfunction 1/	Agency	Purpose 2/	Process 3/	Recipient 4/	Clientele 5/	Method 6/	Matching Ratio 7/
10.	Vocational Rehabilitation (Cont'd)								
	Basic Support	Vocational Rehabilitation	VRA-HEW	C	STF	S	Handicapped	F	75%
	Training Service	"	VRA-HEW	C	T	SOP	Handicapped	P	90%
	Training	"	VRA-HEW	S	T	SOP	Handicapped	P	Part
	Research and Demonstration	"	VRA-HEW	D	R	SOP	Handicapped	P	Part
	Innovation	"	VRA-HEW	D	S	S	Handicapped	F	90% Declining
	Extension and Improvement of Services	"	VRA-HEW	D	S	S	Handicapped	F	75%
	Workshop Improvement	"	VRA-HEW	S	S	SOP	Handicapped	F	90%

An alternative approach to the foregoing consolidations on a functional basis is a grouping by process (such as research, training) within a department or agency. Some of the existing categories shown under the following possible groupings have been included in functional groupings above.

Group	Program Title	Subfunction 1/	Agency	Purpose 2/	Process 3/	Recipient 4/	Clientele 5/	Method 6/	Matching Ratio 7/
11.	Educational Research								
	Cooperative Research	Educational Research, Survey and Demonstration	OE-HEW	SC	R	IEPO	-	P	Some local
	Regional Facilities for Cooperative Research: Construction and Operation	"	OE-HEW	S	FR	EOP	-	P	Some local
	Training for Research	"	OE-HEW	S	TR	EOP	-	P	Some local
	Library Research and Demonstrations	"	OE-HEW	SD	TR	EOP	-	P	100%
	Educational Media and Training for Deaf	"	OE-HEW	SC	R	SO	Deaf	P	100%
12.	Agricultural Research								
	Applied Research	Agricultural Applied Research	Agriculture	C	R	SEPI	-	P	Part
	Marketing Research	Agricultural Marketing Research	Agriculture	C	R	S	-	P	50%

ILLUSTRATION OF GROUPINGS OF GRANT-IN-AID PROGRAMS WITH POSSIBLE POTENTIAL FOR CONSOLIDATION (CONT'D)

Group	Program Title	Subfunction[1]	Agency	Purpose[2]	Process[3]	Recipient[4]	Clientele[5]	Method[6]	Matching Ratio[7]
12.	Agricultural Research (Cont'd)								
	Cooperative Agricultural and Forestry Research	Forestry Research	Agriculture	SC	R	SE	-	P	50%
13.	Child Welfare Research								
	Child Welfare Research and Development	Child Welfare	HEW	S	R	EOP	Children	P	Part
	Maternal, Child Health, Crippled Children Research	Maternal and Child Health Service	HEW	SC	R	EOP	Mothers, children	P	100%
14.	Water Resources Research								
	Clean Water Restoration, Research and Development	Water Pollution Control	Interior	S	R	SLG	-	P	Part or all
	Water Pollution, Research and Development	"	Interior	S	R	SLG	-	P	50%
	Commercial Fishing, Research and Development	Commercial Fishing, Research and Development	Interior	S	R	S	Commercial fishermen	F	75%
	Jellyfish Research, Control	Fishery Resources, Management	Interior	S	R	SC	Commercial fishermen	P	50%
	Oyster Propagation, Research	Oyster Propagation, Research	Interior	SC	R	S	Commercial fishermen	P	67%
	Saline Water, Research and Development	Saline Water, Research and Development	Interior	SC	R	SLO	-	P	100%
	Resources Institutes	Water Resources Research	Interior	S	R	SE	-	F/P	50-100%
	Additional Projects	"	Interior	S	R	SLEOP	-	P	Part or all
15.	Teacher Training								
	Adult Education	Elementary and Secondary Education	OE-HEW	SCD	T	ESLOP	Adults	P	90% Declining
	Educational Media Personnel	ETV, Related Media	OE-HEW	SC	T	ESO	Teachers	P	100%
	NDEA Fellowships	Science and Science Teaching	OE-HEW	S	T	E	Teachers	P	100%
	NDEA-12 Institutes	"	OE-HEW	S	T	E	Teachers	P	100%

ILLUSTRATION OF GROUPINGS OF GRANT-IN-AID PROGRAMS WITH POSSIBLE POTENTIAL FOR CONSOLIDATION (CONT'D)

Group	Program Title	Subfunction 1/	Agency	Purpose 2/	Process 3/	Recipient 4/	Clientele 5/	Method 6/	Matching Ratio 7/
15.	Teacher Training (Cont'd)								
	Fellowships, Developing Institute	Higher Education	OE-HEW	S	T	E	Teachers	F	100%
	Teaching Handicapped Fellowships	Educating Handicapped	OE-HEW	S	T	ES	Teachers	F	100%
	Handicapped; personnel Training	"	OE-HEW	C	T	S	Teachers	F	100%
	Arts and Humanities Instruction	Arts and Humanities Teaching	OE-HEW	S	T	E	Teachers	F	100%
	Librarians	Library Services	OE-HEW	S	T	E	Librarians	F	100%
16.	Health Professions Training								
	Cancer Control	Health-Related Training	PHS-HEW	S	T	SLPE	Technical and Professional health personnel	F	100%
	Health Professional Scholarship	"	PHS-HEW	C	T	E	Technical and professional health personnel	F	100%
	Medical Libraries Training	Medical Librarian	PHS-HEW	S	T	E	Medical librarian	F	100%
	Nursing Research and Fellowships	Nurse Training	PHS-HEW	S	T	E	Nursing student	F	100%
	Nurse Training - Diploma Schools (formula)	"	PHS-HEW	SC	T	E	Nursing student	F	100%
	Nurse Training - Diploma Schools	"	PHS-HEW	SC	T	E	Nursing student	F	100%
	Nurse Training Traineeships	"	PHS-HEW	S	T	EOP	Nursing student	F	100%
	Nurse Training Opportunity Grants	"	PHS-HEW	S	T	E	Nursing student	F	Part
	Public Health Personnel Traineeships	Health Professions Education	PHS-HEW		T	E	Health professions	F	100%
	Public Health Personnel Graduate	"	PHS-HEW	SC	T	EOP	Health professions	F	100%

ILLUSTRATION OF GROUPINGS OF GRANT-IN-AID PROGRAMS WITH POSSIBLE POTENTIAL FOR CONSOLIDATION (CONT'D)

Group	Program Title	Subfunction1/	Agency	Purpose2/	Process3/	Recipient4/	Clientele5/	Method6/	Matching Ratio7/
17.	Public Assistance								
	Administration	Public Assistance	HEW, Social and Rehabilitation Service Administration	C	ST	SL	General	F	50%
	Prevention, Rehabilitation, Personnel Training	"	HEW, Social and Rehabilitation Service Administration	C	ST	SL	General	F	75%
	Demonstration and Research	"	HEW, Social and Rehabilitation Service Administration	SD	R	SL	General	F	Part of all
	Cooperative Research	"	HEW, Social and Rehabilitation Service Administration	SD	R	SOP	General	F	Part
	Aid to Families with Dependent Children (AFDC)	"	HEW, Social and Rehabilitation Service Administration	C	S	S	Families with children	F	50-83%
	Old Age Assistance (OAA)*	"	HEW, Social and Rehabilitation Service Administration	C	S	S	Aged	F	50-83%
	Aid to Permanently and Total Disabled (APTD)*	"	HEW, Social and Rehabilitation Service Administration	C	S	S	Disabled	F	50-83%
	Aid to the Blind (AB)*	"	HEW, Social and Rehabilitation Service Administration	C	S	S	Blind	F	50-83%
	*Combined Plan, OAA, APTD, AB	"	HEW, Social and Rehabilitation Service Administration	C	S	S	Aged, blind, disabled	F	50-83%
	Medical Assistance to AFDC Recipients, the Aged, Blind, and Disabled (Title XIX or "Medicaid")	"	HEW, Social and Rehabilitation Service Administration	C	S	S	Families with children; aged, blind, disabled	F	50-83%

ILLUSTRATION OF GROUPINGS OF GRANT-IN-AID PROGRAMS WITH POSSIBLE POTENTIAL FOR CONSOLIDATION (CONCL'D)

Group	Program Title	Subfunction 1/	Agency	Purpose 2/	Process 3/	Recipient 4/	Clientele 5/	Method 6/	Matching Ratio 7/
17.	Public Assistance (Cont'd)								
	Medical Assistance to Aged (old Kerr-Mills; to be replaced by Medicaid by 1970)	Public Assistance	HEW, Social and Rehabilitation Service Administration	C	S	S	Aged	F	50-80%
	Repatriates	"	HEW, Social and Rehabilitation Service Administration	C	S	SLO	General	P	100%
	Refugee Assistance (Cuban)	"	HEW, Social and Rehabilitation Service Administration	C	S	SL	General	P	100%

Key: 1/ Follows Table 19, Budget of the U.S. Government 1968, pp. 456-459.

2/ S = stimulation; C = continuing support; D = demonstration.

3/ F = facilities; P = planning; R = research; S = services; T = training.

4/ E = educational institution; I = individual; L = local government; P = private nonprofit organization; s = State government; G = group of States; O = other public agencies.

5/ Unless specified, clientele represents citizens in general.

6/ F = formula apportionment; P = project; F/P = formula and project.

7/ Percentage indicates Federal share, unless otherwise specified.

Staff used judgment in determining whether grant was stimulative or for continued support. Congressional intent is often unclear, and grants often start with a stimulative purpose and become support grants.

Appendix G

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7/ Robert E. Weintraub, Options for Meeting the Revenue Needs of City Governments (Santa Barbara: Tempo, General Electric Company, January, 1967).

CHAPTER 4

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