

Summary

Report of the Task Force on Intergovernmental Fiscal Relations
Chairman: Richard P. Nathan

This report presents the view that the time has come for a major reform of intergovernmental fiscal relations. The prime need is for deemphasis of the categorical grant-in-aid approach and for stress instead on policies leading to responsible decentralization. A special Presidential message on this subject early in the new Administration is suggested. The report presents background material on the need for this reform, a group of principles to guide reform, and a series of specific proposals, the most important of which is the inclusion of revenue sharing in the fiscal 1970 budget.

The report's recommendations are based on the premises that state-local public service needs are high and rising; that state-local tax systems are strained and that major tax sources have inequitable features; that the use of the Federal tax system to aid state and local governments is essential; that the present Federal aid system has critical deficiencies; and that the administrative machinery for achieving public purposes requires strengthening at all levels of government.

To pursue responsible decentralization, the report sees a need for:

- (1) Strong Presidential leadership, to be promoted through strengthening the Executive Office, to develop and ensure implementation of policies.

- (2) Encouragement of state and local involvement and acceptance of responsibility in problem-solving and program administration.
- (3) Coordination among community participation programs.
- (4) An advisory role for state and local governments in the administration of specific tax incentive programs.

The report recommends nine measures for overhauling the categorical grant-in-aid system: (1) legislation authorizing the President to submit grant consolidation plans, the plans to become effective unless rejected by either House within 90 days; it is suggested that consolidation is needed especially in the areas of water and sewer facilities and vocational education; (2) legislation authorizing single applications for joint funding of projects deriving funds from several federal sources; (3) legislation authorizing the transfer by executives of the recipient jurisdiction of up to one-tenth of the funds received in any one grant category to other programs funded by the same federal agency; (4) the establishment of guidelines on the use of major types of federal grants; (5) simplification of matching and apportionment formulas; (6) legislation to encourage more comprehensive planning, especially in relation to urban problems (revision of Section 701 of the 1954 Housing Act is specifically recommended); (7) authorization in grant legislation for Department heads and the Comptroller General to accept the results of state and local accounting and auditing when those results meet

appropriate standards; (8) better timing of aid fund appropriations so that state and local governments can plan and budget effectively; (9) extension of provisions for pre-financing (such as now exist in the highway and water pollution programs) to permit contingent approval of projects beyond currently available Federal authorizations.

The report offers proposals for revising Federal aid programs in two specific areas, manpower and welfare. In the manpower area, the report recommends a study to establish criteria for selecting localities in which to operate comprehensive manpower programs; programs would be comprehensive and administration would be decentralized. In the area of welfare, the report recommends: (1) a study to consider making the AFDC-UP program mandatory; (2) a study to consider the development of minimum national standards for AFDC-UP, with cost-of-living adjustments; and (3) a study to consider administration by the Social Security system of other public assistance programs (aged, blind, disabled), with general revenue financing for those covered.

The report recommends that the fiscal 1970 budget include a program for sharing one-half of one percent (0.5 percent) of taxable income reported on individual tax returns (estimate: \$1.75 billion) with state and local governments. It recommends that a major portion of these funds be allocated on the basis of population. The use of tax credits as an alternative to revenue sharing is discussed, but no recommendations are offered.

The report also recommends panels to study block grants, especially in the areas of higher education and elementary and

secondary education.

It is also recommended that a study be made of the desirability of legislation authorizing state-local imposition of a surtax on those residing within a particular SMSA, the proceeds to be distributed in accordance with state law to political units within the SMSA.

Support for cooperative arrangements for Federal collection of state and some local taxes is also recommended.

Finally, the report notes that the Model Cities program offers advances in the development of an intergovernmental strategy for an urban society through its encouragement of executive leadership within local government, its offering of multifunctional Federal grants, and its encouragement of coordination of programs by Federal agencies and state governments to achieve locally defined objectives. It notes that the Community Action Program is based on sound concepts but should be restructured -- perhaps by placing its administration in HUD rather than OEO -- so that it does not function in competition with established state and local governmental institutions. The report finds merit in certain aspects of the Community Self Development Act, but cautions against accepting proposals that would utilize the funds of Community Development Corporations to finance and operate public-service programs.