We the People of the United States, in Order to form a more perfect Union,
establish Justice, insure domestic Tran-
quility, provide for the common defence, promote the
general Welfare, and secure the Blessings of Liberty
to ourselves and our Posterity, do ordain and establish
this Constitution for the United States of America.

ADVISORY COMMISSION ON
INTERGOVERNMENTAL RELATIONS

Sixth Annual Report

January 31, 1965 Washington D. C.
ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS
(Membership during 1964 and as of December 31, 1964)

Private Citizens:
Frank Bane, Virginia, Chairman
Thomas H. Eliot, Missouri, Vice Chairman; preceded by
Don Hummel, Arizona
Adelaide Walters, Mrs., North Carolina; preceded by Howard Bowen, Iowa

Members from United States Senate:
Sam J. Ervin, Jr., North Carolina
Karl E. Mundt, South Dakota
Edmund S. Muskie, Maine

Members from United States House of Representatives:
Florence F. Dwyer, Mrs., New Jersey
L. H. Fountain, North Carolina
Eugene J. Keogh, New York

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C. Douglas Dillon, New Jersey, Secretary of the Treasury
Robert C. Weaver, New York, Administrator, Housing and Home Finance Agency 2/

Governors:
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John Dempsey, Connecticut
Carl E. Sanders, Georgia
Robert E. Smylie, Idaho

Mayors:
Neal S. Blaisdell, Honolulu, Hawaii 3/
Herman W. Goldner, St. Petersburg, Florida
Arthur Naftalin, Minneapolis, Minnesota 3/
Raymond R. Tucker, St. Louis, Missouri 4/

Members from State Legislative Bodies:
Marion Crank, Representative, Arkansas; preceded by
Harry King Lowman, Representative, Kentucky
Graham S. Newell, Senator, Vermont 3/
Charles R. Weiner, Senator, Pennsylvania; preceded by John E. Powers,
Senator, Massachusetts

Elected County Officials:
Edward Connor, Wayne County, Michigan
Clair Donnenwirth, Plumas County, California
Barbara A. Wilcox, Mrs., Washington County, Oregon 4/

1/ Term expired 10/1/64.
2/ Term expired 10/9/64.
3/ Term expired 7/31/64.
4/ Term expired 10/9/64.
ADVISORY COMMISSION
ON
INTERGOVERNMENTAL
RELATIONS

SIXTH ANNUAL REPORT

JANUARY 31, 1965

WASHINGTON, D. C.

M-25
STAFF
(As of December 31, 1964)

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   Elizabeth C. Green, Administrative Assistant
   Frances D. Buckler, Secretary
   Francis X. Tippett, Statistical Assistant
   Sandra Osbourn, Librarian
   Dennis DuBrowa, Clerk-Typist

L. Laszlo Ecker-Racz, Assistant Director (Taxation and Finance)
   John Shannon, Senior Analyst
   Jacob M. Jaffe, Senior Analyst
   Robert W. Rafuse, Jr., Analyst
   Verlie Peters, Secretary
   Mary Hamrick, Secretary
   Lois H. Blaxton, Typist

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   James H. Pickford, Senior Analyst
   Betty A. Nicholson, Secretary
   Sonya B. Wetzel, Stenographer

Melvin W. Sneed, Assistant Director (Governmental Structure and Functions)
   Stuart Urbach, Senior Analyst
   Page L. Ingraham, Senior Analyst
   Esther Fried, Secretary
   Joanne Trundle, Stenographer
CONSULTANTS

William Anderson, Professor Emeritus of Political Science, University of Minnesota
John E. Bebout, Director, Urban Studies Center, Rutgers - The State University
Frederick L. Bird, Financial Consultant, Newtown, Connecticut
Charles F. Conlon, Executive Director, Federation of Tax Administrators
John J. Corson, Director, McKinsey and Company, Inc., and Professor of Public and International Affairs, Princeton University
George H. Deming, Director, Local Government Studies Center, Graduate School of Public Affairs, State University of New York, Albany
Wayne T. Geissinger, Attorney and Labor-Management Arbitrator, Columbus, Ohio
Daniel R. Grant, Professor of Political Science, Vanderbilt University
Clyde C. Hall, Public Information Consultant
Don Hummel, formerly Vice-Chairman of the Commission, Tucson, Arizona
Frank C. Moore, Chairman, Advisory Board of the Office for Local Government, State of New York
C. H. Morrissett, State Tax Commissioner, Commonwealth of Virginia
Roy H. Owsley, formerly Consultant to the City of Louisville, Kentucky
James K. Pollock, Murfin Professor of Political Science, University of Michigan, and former Vice-Chairman of the Commission
John E. Powers, Clerk, Supreme Judicial Court of Massachusetts, and formerly Member of the Commission
Ralph E. Rechel, Transportation Consultant, Washington, D. C.
H. Clyde Reeves, Vice President, University of Alabama and former Commissioner of Revenue, Commonwealth of Kentucky
Carl Shoup, Professor of Economics, Columbia University
Ronald B. Welch, Assistant Executive Secretary, Property Taxes, State Board of Equalization, Sacramento, California
Ray W. Wilson, Former City Manager, Phoenix, Arizona
Reuben A. Zubrow, Professor of Economics, University of Colorado
LETTER OF TRANSMITTAL

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

January 31, 1965

Dear Mr. President:

I have the honor to submit the Sixth Annual Report of the Advisory Commission on Intergovernmental Relations, pursuant to Public Law 86-380, which requires the submission of a report on or before January 31 of each year. As provided in the statute, a copy of this report is also being transmitted to the Vice President and to the Speaker of the House of Representatives.

Respectfully submitted,

Frank Bane
Chairman

The President
The White House
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I. SOME HIGHLIGHTS IN FEDERAL-STATE-LOCAL RELATIONS IN 1964

The following appear to be the most significant developments affecting intergovernmental relationships during the year.

Civil Rights

The civil rights issue continued in 1964 to be the major intergovernmental question confronting the Nation. Racial bombings, street riots, and other lawlessness imposed grave responsibilities upon law enforcement agencies and gave rise to basic questions regarding intergovernmental authority and responsibility for law enforcement. Passage by the Congress of the Civil Rights Act of 1964 (P.L. 88-352) is the most sweeping civil rights legislation ever enacted. Its provisions dealing with voting rights, discrimination in places of public accommodation, discrimination in public facilities and public education, and equal employment opportunity can be expected to have far-reaching effects on relationships among Federal, State, and local governments.

Legislative Apportionment

Repercussions from the April 1962 decision of the U. S. Supreme Court in Baker v. Carr, which had been widespread, were accentuated as the result of six far-reaching decisions handed down by the Court on June 15, 1964. In an Alabama case, and then in cases from Colorado, Delaware, Maryland, New York, and Virginia, the Supreme Court ruled that the representation in both houses of a bicameral State legislature must be based closely on population—that is, "one man, one vote." This set off a whole string of reapportionment actions, as well as the overturn of many actions that had been taken in the aftermath of Baker v. Carr.

Many State legislators objected to the use of Federal courts in ordering immediate reapportionment, and this, in turn, led to proposed Congressional action either to delay application of the orders of Federal courts or to amend the Constitution of the United States to take away the jurisdiction of Federal courts over State legislative apportionment procedures. The Congress adjourned without the passage of any measures of this kind.

Immediately ahead is the question of apportionment of seats on other legislative bodies, including county boards of supervisors, city councils, etc. Court proceedings have been brought in a number of instances to clarify these questions of representation.
Economic Opportunity Act of 1964

The Economic Opportunity Act of 1964 (P.L. 88-452) both in its approach to intergovernmental relations and in the scope of its provisions, has considerable impact upon Federal, State, and local governments. Although, as originally conceived, the proposed Act vested administrative authority almost entirely in the national government, the measure as finally enacted vested veto power with the State Governors over certain provisions of the Act. While this gives the States some discretion with regard to administration of the Act, it nevertheless represents another departure from the more traditional State plan arrangements which became predominant in earlier years in the administration of most Federal aid programs. Some features of the Economic Opportunity Act involve direct Federal-local relationships, subject only to the veto authority vested in the Governors over some such programs. Under the Act, the Federal relationships are not confined to units of government at the local level and may be with private organizations. Other Federal-local aid programs authorized by the Act involve the same kind of direct relationships but without the gubernatorial veto.

Federal Income Tax Reductions

Congressional action in February 1964 reducing Federal income taxes is having a major impact on the economy. By its effects on consumer and business income and spending the tax cut has boosted State and local tax collections. Then, too, State income tax collections have risen as lower Federal taxes have meant smaller deductions for many taxpayers who file State income tax returns. With further reductions in Federal income tax rates already on the books for 1965, State and local governments can look forward to continued short-range improvement in their revenue prospects.

Federal Grants-in-Aid

The 88th Congress continued to enact new and expanded grant-in-aid programs in its second session, after having approved eight new grant-in-aid programs during its first session. The following major new programs were enacted in the second session: (1) Assistance for library construction and extension of grants for library services to urban as well as rural areas (P.L. 88-269); (2) assistance for urban mass transportation (P.L. 88-365); (3) assistance for water resources research (P.L. 88-379); (4) assistance for planning coordinated health facilities on a regional basis, together with extension and expansion of assistance
for construction of hospital and medical facilities (P.L. 88-443); (5) assistance for carrying out various aspects of the Economic Opportunity Act of 1964 (P.L. 88-452); (6) assistance for construction of low-rent housing for domestic farm workers (P.L. 88-560); (7) assistance for training personnel and for research in community development (P.L. 88-560); (8) assistance for planning, acquisition, and development of outdoor recreational facilities (P.L. 88-578); and (9) assistance for construction of schools of nursing and for improvement of nurse training (P.L. 88-581).

Several trends are discernible in the new Federal grant-in-aid legislation enacted by the 88th Congress: (a) Recognition of variations in State fiscal capacity in the distribution of grant funds; (b) an increasing emphasis on "project grants" under which funds go directly to the aided State or local project, rather than allocation among the States on a formula basis; (c) provision by the Congress of safeguards against possible arbitrary exercise of administrative powers by Federal agencies in the administration of grant-in-aid programs by providing in the statute for judicial review of administrative actions; (d) increasing sentiment in favor of a review of new grants-in-aid at the end of five years -- a recommendation of the Advisory Commission in 1961; (e) greater attention to existing and new grant programs to meet urban public service needs; and (f) use of performance requirements to insure that Federally-aided projects are comprehensively planned and coordinated with other local and area-wide development activities.
II. CHANGES IN COMMISSION MEMBERSHIP AND STAFF

During 1964, the following changes occurred in Commission membership:

Chairman Bane, Governor Smylie, County Commissioner Connor, and Supervisor Donnenwirth were reappointed to new two-year terms by the President. Governor John Dempsey of Connecticut was named to the place formerly occupied by Governor Terry Sanford of North Carolina; Senator Charles R. Weiner of Pennsylvania was appointed to succeed Senator John E. Powers of Massachusetts; Speaker Marion Crank of Arkansas was named to succeed Speaker Harry King Lowman of Kentucky; Mayor Herman W. Goldner of St. Petersburg, Florida was appointed to the place formerly occupied by the late Mayor Arthur Selland of Fresno, California; Thomas H. Eliot of St. Louis, Missouri was appointed and named Vice-Chairman to succeed Don Hummel of Tucson, Arizona; and Mrs. Adelaide Walters of Chapel Hill, North Carolina was appointed to the place formerly occupied by Howard R. Bowen of Iowa.

Governor Anderson's term on the Commission will expire concurrently with the expiration of his term as Chief Executive for Kansas in early 1965.

One of the consultants to the Commission, Dr. Morton Grodzins, Professor of Political Science at the University of Chicago, passed away in March.

The following changes occurred in the professional staff of the Commission: (1) In April, Miss Joan Lief resigned as Librarian and was succeeded by C. W. Hill, who in turn resigned in September and was succeeded by Miss Sandra Osbourn, Library Assistant of the Washington Post; (2) Also in April, Robert K. Kinsey, Analyst, transferred to the Internal Revenue Service and was succeeded by Robert W. Rafuse, Analyst, who was Assistant Professor of Economics, University of Illinois; (3) In June, Miss Selma Mushkin, Senior Analyst, who served during the fiscal year 1964 as Project Director, Interagency Project on Economic Growth and Employment Opportunities, retired from the federal service as the Commission's work on this project was terminated and the work transferred to the joint auspices of The Council of State Governments and George Washington University; (4) Also in June, John Shannon joined the staff. He was a political scientist, Ford Urban Studies, University of Wisconsin, Fox Valley Center; (5) In August, William P. Maxam, Analyst, resigned to accept
an appointment as Associate Professor of Political Science at Indiana State College and was succeeded by Page L. Ingraham who came to the Commission from the staff of The Council of State Governments, where he served as Director of Research; and (6) In September, Bruce McDowell, Analyst, resigned to accept a position with the Washington Metropolitan Council of Governments and was succeeded by James H. Pickford who came to the Commission from the staff of the American Society of Planning Officials, where he served as Assistant Director.
For the period July 1, 1963 through June 30, 1964, the Commission operated on an appropriation of $385,000. For the fiscal year ending June 30, 1965, $395,000 was requested and appropriated by the Congress. A breakdown, by object of expenditure, of the Commission's budget for FY 1965 shows total obligations of $410,000. These estimates contemplate a supplemental appropriation request of $15,000 for FY 1965, bringing the FY 1965 appropriation to the level of $410,000. This is necessitated by the Government Employees Salary Reform Act of 1964.

<table>
<thead>
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<th>Object of Expenditure</th>
<th>Obligation</th>
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<tr>
<td>Personnel compensation</td>
<td>$301,000</td>
</tr>
<tr>
<td>Personnel benefits</td>
<td>22,000</td>
</tr>
<tr>
<td>Travel and transportation of persons</td>
<td>25,000</td>
</tr>
<tr>
<td>Rent, utilities, and communications</td>
<td>6,000</td>
</tr>
<tr>
<td>Printing and reproduction</td>
<td>32,000</td>
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<tr>
<td>Supplies and materials</td>
<td>5,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>1,000</td>
</tr>
<tr>
<td>Services of other agencies</td>
<td>18,000</td>
</tr>
<tr>
<td><strong>Total obligations</strong></td>
<td><strong>$410,000</strong></td>
</tr>
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Actual and estimated obligations by specific objects of expenditure for the fiscal years 1964, 1965, and 1966 are shown in Appendix A.

In the latter part of 1963, the Commission was requested by the Executive Branch of the Federal Government to undertake projections of State and local government expenditures over the next decade, as a part of an overall study being undertaken within the Executive Branch of projected rates of growth of the national economy as a whole. A total of $30,000 was transferred to the Commission against which the work involved in this project was charged. At the end of Fiscal Year 1964, it was concluded that since all or nearly all of the field work involved in the project devolved upon State budgetary and tax officials, the work could be carried on more suitably under the aegis of the Council of State Governments. Consequently as of July 1, 1964, the project was transferred to the Washington Office of the Council.
Since it exists as a continuing, rather than a temporary body, the Commission is able to approach its work selectively and to consider problems in depth. It feels no compulsion to cover the whole subject of intergovernmental relations within a fixed span of time. The Commission recognizes that its own value and place in the federal system will be determined by its ability to make constructive contributions that produce significant improvement in relationships among Federal, State, and local agencies of government. Therefore, the Commission considers the function of implementation just as important as the research and study function and devotes a significant share of its energies to stimulating and encouraging the adoption of its recommendations at National, State, and local levels of government.

Following is a summary of recent developments at the different levels of government with respect to recommendations submitted by the Commission.

A. National Government

Legislation introduced in, or acted upon by, the 88th Congress to carry out various Commission recommendations included the following subjects:

1. To make counties, regardless of population, eligible to receive Federal planning assistance grants, and to remove restrictions on the eligibility of joint projects (among two or more local governments) under the Public Facilities Loan Program. These changes were incorporated in the provisions of the Housing Amendments of 1964. (P.L. 88-560).

2. To amend the Water Pollution Control Act by further encouraging construction of water supply and sewage treatment facilities in metropolitan areas. (H.R. 9080 and certain sections of H.R. 3166; 5911; and S. 649). S. 649 passed the Senate, and as reported in the House contained the provisions recommended by the Commission. Congress adjourned without further action.

3. To amend the National Housing Act concerning regulation of water supply and sewage treatment facilities under FHA insured housing (H.R. 9078). The provisions of this bill were considered as amendments to the Housing Bill of 1964 but were defeated in committee.
4. To provide for periodic Congressional review of Federal grants-in-aid to State and local governments. (H.R. 7159; 7160; and S. 2114). S. 2114 passed the Senate without dissent and was favorably reported by the Intergovernmental Relations Subcommittee of the House Committee on Government Operations. Congress adjourned without taking further action.

5. Review of certain Federal grants-in-aid by metropolitan planning agencies. (H.R. 1910; 2618; and S. 855). S. 855 passed the Senate without dissent. No action was taken in the House.

6. Retrocession of legislative jurisdictions over certain Federal lands to the States. (H.R. 4068; 4433; and S. 815). Hearings held in Senate, but no further action was taken in either House.

7. Coordination of Federal and State inheritance and estate taxes. (H.R. 5039; 6206; 6207). No action was taken in either House.

8. Modification of public health grants-in-aid. (H.R. 2487; 6195; and S. 1051). No action was taken in either House.

9. Denying certain deductions for Federal income tax purposes to companies utilizing facilities constructed with funds from tax exempt municipal bonds when they also purchase such bonds. (H.R. 10412). No action was taken.

10. Although not specifically generated by the ACIR, the Senate adopted an amendment to H.R. 11865, the Social Security Amendments of 1964, which would largely implement a recommendation in the Commission's public assistance report, adopted at the May, 1964 meeting. The Commission recommended that patients in mental and tubercular institutions be eligible as recipients under the public assistance programs. Congress adjourned with the bill still in conference.

In addition, three items of proposed legislation not directly related to a Commission report were referred to the Commission for its views. In the first instance, the Commission specifically endorsed the bill and suggested minor amendments, some of which were included in the Senate-passed bill. In the latter two instances, the Commission endorsed the principle embodied in the proposed legislation. These were:

1. S. 1111. To establish a Federal Water Resources Council and to authorize creation of Federal-State river basin
planning commissions. The bill was passed by the Senate and favorably reported by the House Committee on Interior and Insular Affairs, but no further action was taken.

2. H.R. 5498 and S. 1600. To insure that when public lands in urban areas are sold they will be used in a manner consistent with development and zoning regulations of local government. H.R. 5498 passed and became P.L. 88-608.

3. H.R. 4702 and others, and S. 1033. To provide for the establishment of time uniformity. Reported by both House and Senate Committees, but no further action taken.

Most of the Commission's recommendations to the Congress have received the official support of one or more of the following national organizations: The Governors' Conference; Association of Attorneys General; National Association of Counties; American Municipal Association; U. S. Conference of Mayors; and the National Legislative Conference.

B. State and Local Government

Model State laws designed to implement a number of Commission recommendations have been drafted for State consideration. Most have been approved and incorporated by the Committee of State Officials on Suggested State Legislation of the Council of State Governments in its Program of Suggested State Legislation.

Following is an outline of State legislation enacted during the 1963-64 biennium that is the same, similar to, or embodies largely identical provisions to the drafts developed by the Commission. The 1963 coverage is complete, but reported action for 1964 is only partial.

1. Establishment of a State Office of Local Affairs.

2. Authorization for local units of government to contract with each other for the performance of governmental services.
   1964: South Dakota; and significantly broadening existing authority in Kentucky.
3. Authorization for transfer of functions from cities to counties or vice versa by action of the governing bodies involved.  

4. Authorization for establishment of metropolitan area planning commissions.  
   1963: General authority; Alabama, Hawaii, Iowa, Nebraska, North Dakota, Oregon, and Rhode Island. 
   In individual metropolitan areas; Illinois, Maryland, and Michigan.  
   1964: General authority; Virginia, Mississippi, and Louisiana.

5. Enactment of stricter standards for incorporation of new municipalities.  
   1963: California, Georgia, Kansas, Nevada, New Mexico, Ohio, Tennessee, and Washington.  
   1964: Virginia.

6. Authorizing local governments to invest and receive interest upon idle funds in excess of near-term operating needs.  
   1963: Iowa and Oklahoma; Significantly broadening existing authority in Montana.  
   1964: Georgia and Michigan.

7. Authorization for the establishment of metropolitan area study commissions.  
   1963: Oregon.

8. Granting authority to municipalities and counties to exercise planning, zoning, and subdivision control authority in urban fringe areas.  
   1963: Hawaii, Iowa, Montana, Nebraska, New Mexico, North Carolina, Texas, and Wisconsin.  
   1964: Kentucky.

9. Coordinating State programs affecting water resources development and water supply.  
   1963: Florida, Kansas, Oklahoma, and Texas.  
   1964: Vermont and Maryland.

10. Providing for intrastate reciprocal retirement coverage for State and local governments.

11. Increased State control over use of wells and septic tanks.
   1963: California and Nebraska.
   1964: Colorado.

12. Providing for the exercise by local units of government of "residual powers."
   1963: Proposed constitutional amendment to this effect passed Massachusetts Legislature. Successive passage by the next legislative session and approval by the people are necessary for final adoption.

13. State regulation of the issuance of industrial development bonds.
   1964: Hawaii.

With respect to certain other Commission recommendations, actual draft legislation was not proposed. However, the proposals were placed before the States in terms of suggested policies. Below is a summary of State legislative action consistent with such proposals.

1. Liberalization of municipal annexation laws.
   1963: California, Missouri, Nebraska, Nevada, and Wyoming.

2. State aid to urban transportation (State technical assistance or financial assistance, sometimes in the form of tax relief).

3. Providing for optional forms of local government (various types of legislation are included).
   Proposed Constitutional Amendment: (1963) Massachusetts and New Mexico.

4. Strengthening State water pollution control program.
1964: Vermont and Georgia.

5. Establishing a statewide retirement system
(only two States now have no such system).

Additional recommendations of the Commission recently have been converted into draft bill form and have been approved by the Committee on Suggested State Legislation of The Council of State Governments. These measures are being brought to the attention of State legislatures convening in 1965. The new draft bills cover the following subjects: Constitutional provision for exercise of "residual powers" by local units of government; authorization of optional forms of county government; control of creation, merger, and dissolution of special districts; supervision of special district activities; authorization for counties to establish subordinate taxing areas; improvement of property tax administration; and State channelization of Federal grant programs for urban development.

Public interest in the Commission's work is growing appreciably. Requests for copies of Commission reports have been increased to the point that reprinting of several reports have been necessary in order to meet the demand. Reports issued by the Commission are being actively sought for study by legislative and administrative agencies in the various States, university graduate seminars, and various organizations such as State leagues of women voters, chambers of commerce, labor organizations, and taxpayer associations.

In addition, the activities of the Commission receive moderate attention in the press and receive wide coverage in the publications of State leagues of municipalities and leagues of counties, as well as in publications of national organizations of State and local government such as the Council of State Governments, the American Municipal Association, the U. S. Conference of Mayors, the National Association of Counties, and the National Association of Tax Administrators.
A. The Role of Equalization in Federal Grants

1. Background

A distinguishing feature of our Federal form of government is that the division of revenue resources among the Federal, State, and local governments does not match their relative revenue requirements. The States and more particularly local governments are disadvantaged in comparison with the national government. The disparity between their relative resources and revenue requirements, moreover, is not likely to decline. The governmental services the public will be demanding in more variety and better quality as its standard of living continues to improve are the traditional responsibility of State and local governments, while the taxing devices available to these governments will be operating under increasingly more compelling restraints as interarea business competition grows more pervasive with the increased economic interdependence of all sections of the country.

The Commission has undertaken to identify the role of equalization in Federal grants, to answer the dual question: Under what conditions and to what extent should the distribution of Federal grants-in-aid among State and local governments recognize differences in their comparative capabilities to finance the aided programs out of their own resources?

2. Recommendations

At its 16th meeting in January, 1964, the Commission approved a comprehensive report on this subject, including the following recommendations:

a. The national policy considerations which require Federal grant programs require also that, with important qualifications, the distribution of Federal grants among the States take account of the relative inequalities in the fiscal capacities of the States (together with their local governments) in such a way as to facilitate the narrowing of disparities among program
levels in the various States.

b. The equalizing aim of Federal grant distributions should be limited to the functions and services specifically related to and involved in national objectives and only to the minimum service levels consistent with these national objectives.

c. Explicit equalization provisions are inappropriate to several categories of grants, including (1) planning and demonstration grants, (2) stimulation grants, (3) grants to meet localized emergencies, and (4) grants which cover substantially all of the program costs. Apart from these exceptions, Federal grant distributions should reflect differences in the States' relative fiscal capacities to support the particular program or services at the required minimum level. This conclusion is subject to the overriding qualification that where program need is proportionate to relative State fiscal capacity, the objectives of an equalization grant can be met without use of an explicit equalizing provision.

d. To the extent practicable equalization provisions, introduced through both allocation and matching requirements, should aim for a reasonably uniform level of minimum program performance in every State; that uniformity in the mechanics of the equalization provisions is preferred over variety; and that statutory specification is preferable to administrative discretion.

e. Departments and agencies charged with the administration of Federal grant programs should be required by the President to review periodically (1) the adequacy of the need indexes employed in their respective grant programs, and (2) the appropriateness of their equalization provisions, and that this review be coordinated by the Bureau of the Budget. Also this requirement may be coordinated with
the periodic Congressional review of grants-in-aid recommended in an earlier report of the Commission and embodied in legislation pending before the Congress.

f. The President, through his Executive Office, should provide for the development of plans and procedures to assemble the data required for improving measures of State relative fiscal capacity and tax effort for use, to the extent practicable, on a government-wide basis and to collect and tabulate such necessary data on a continuing basis.

B. Impact of Federal Urban Development Programs on Local Government Organization and Planning

1. Background

The Federal Government is now administering over 40 separate programs of financial aid for urban development, involving some 13 departments and agencies. Increasing national awareness of urbanization's accelerated pace during the past decade and a half is reflected in the fact that more than half of these grants-in-aid, loans, insurance, shared revenue, and direct operating programs were enacted subsequent to 1950.

The impact of these Federal programs on our local governments has generated considerable discussion and some controversy at all levels. Little systematic study and attention, however, has been directed to two significant intergovernmental aspects of these programs. First, to what extent do these urban financial aids promote the creation of special districts or otherwise affect the structure of local government? And second, to what extent do they employ performance standards requiring coordination of Federally-aided projects with local comprehensive development plans and decisionmaking?

2. Recommendations

At its 16th meeting in January, 1964, the Commission approved a report on this general subject, including the following recommendations:

a. (1) All organizational limitations which require or promote special purpose units of
local government to the disadvantage of
general purpose units of local government
(i.e., municipalities, towns, and counties),
be removed from Federal aid programs for
urban development.

(2) General purpose units of government be
favored as Federal aid recipients, other
factors being equal; and

(3) Special purpose units of government be
required to coordinate their Federal aid
activities with general purpose government;

b. Joint participation by local governmental
units having common program objectives
affecting the development of an urban area
overlapping existing political boundaries be
authorized and encouraged;

c. Federal grants-in-aid for urban development
be channeled through the States in cases
where a State (1) provides appropriate ad-
ministrative machinery to carry out relevant
responsibilities, and (2) provides significant
financial contributions and, when appropriate,
technical assistance to the local governments
concerned; 1/

d. Effective planning at the local levels be
required and promoted to the extent appro-
priate in all Federal aid programs
significantly affecting urban development;

e. Eligibility requirements for Federal urban
planning assistance, under Section 701 of
the Housing Act of 1954, be broadened to
include all municipalities and counties over
50,000 population which are undergoing rapid
urbanization;

1/ Mr. Hummel, Dr. Weaver and Mayors Blaisdell, Naftalin and Tucker
did not concur in this recommendation.
f. Legislation be enacted by the Congress to establish the principle of Federal inter-agency coordination, and this principle be implemented by preparing and adopting a unified urban development policy within the Executive Branch;

g. State governments assume their proper responsibilities for assisting and facilitating urban development; and

h. Legislation be enacted by the States to encourage joint undertakings by political subdivisions having common program objectives affecting the development of an urban area overlapping existing political boundaries.

C. Statutory and Administrative Controls Associated with Federal Grants for Public Assistance

1. Background

Under the terms of its enabling Act, the Commission is charged with a continuing responsibility to "Give critical attention to the conditions and controls involved in the administration of Federal grant programs." In its study of the public assistance programs, the Commission concluded that there have been points of friction in Federal-State relations and expressed the belief that Federal controls associated with the administration of grant programs should be kept to a minimum sufficient to assure a satisfactory performance consistent with the national purposes of the program, and to provide proper accountability for the expenditure of Federal funds. Both the Federal statutory provisions and any implementing regulations governing a grant program should be developed with the desirability in mind of strengthening State and local government administration and should be carefully weighed against this objective before they are approved.

2. Recommendations

At its 17th meeting in May, 1964, the Commission approved a report on this subject, recommending that the Congress amend the Social Security Act:
a. To provide for judicial review of decisions of the Secretary of Health, Education, and Welfare regarding conformity of State public assistance plans with the Act; 2/

b. To provide the Secretary with discretion for declaring parts of State public assistance plans out of conformity with the Act; 3/

c. To give the Secretary 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; 3/

d. To establish a permanent Public Assistance Advisory Council to advise the Secretary on proposed legislation, administrative regulations, and other related matters; 3/

e. To remove the prohibitions in the Act denying Federal participation in assistance payments to needy individuals who are patients in institutions as a result of a diagnosis of tuberculosis or psychosis. 4/

D. The Problem of Special Districts in American Government

1. Background

The steady increase in the use of special districts and authorities as devices of American government has given rise to serious problems in many States and raises fundamental questions about the structure of local government. In its study of the problem, the Commission found that the establishment of special districts

2/ Secretary Celebrezze, Administrator Weaver and Mayor Naftalin did not concur in this recommendation.

3/ Secretary Celebrezze did not concur in this recommendation.

4/ Secretary Celebrezze and Mayor Goldner did not concur in this recommendation.
creates many intergovernmental problems and is frequently an uneconomical means of providing services. Perhaps most important, their use has tended to distort the political processes through which the competing demands for the local revenue dollar are evaluated and balanced. The Commission believes that this distortion has hampered the effective coordination of local governmental services as a whole.

The multiplicity of special districts often prevents the citizen from knowing the nature of governmental acts being taken in his community. Frequently, no unit of general government within a State or a locality is fully aware of the various aspects of special district activity. The programs of many districts appear to be completely independent from, and uncoordinated with, similar programs of general government. There is duplication of administrative burdens, and costs of borrowing for capital construction often are excessively high due to heavy use of revenue bond financing.

After an analysis of the historic and current role of special districts, the Commission believes it to be apparent that many have outlived their usefulness, that many statutes permitting the creation of districts decades ago are of questionable value today, and that steps should be taken to permit general government to absorb the functions of special districts in many instances.

2. Recommendations

At its 17th meeting in May, 1964, the Commission approved a comprehensive report on this subject, including the following recommendations:

a. No special district should be created prior to review and approval of the proposed district by an agency consisting of representatives of city and county government in the county within which the proposed district will operate. Creation of districts undertaking functions of statewide concern also should be approved by an appropriate State agency;

b. Prior to granting consent to creation of a special district, the existing municipalities, counties, and districts performing the same function which would be undertaken by the proposed district should be given an
opportunity to indicate an ability and willingness to provide the service within the territory of the proposed district and, where such willingness and ability is expressed, the proposed district should not be created;

c. Activities of existing and subsequently created special districts should be coordinated with the activities of units of general government, specifically: (1) proposed acquisition of title to land by a district should be approved by the unit of general local government within which the land lies; and (2) proposed district capital improvements should be submitted to the appropriate unit or units of general local government for comment prior to final action on the proposal by the governing body of the district. Where the district is performing a function that directly affects a program conducted by the State, approval and review also should be required by the State agency responsible for the State program involved;

d. A designated State agency and the county governing body should be informed of the creation of all special districts within respective county borders;

e. To the extent practicable, special district budgets and accounts should be formulated and maintained according to uniform procedures and that State or private audits of district accounts be made at regular intervals;

f. Counties and municipalities, when sending out their tax bills or providing receipts to individual property owners, should itemize special district property taxes and special assessments levied against the property;
g. Simple procedures should be provided under State law for consolidation, merger, or dissolution of special districts. Such procedures should permit an appropriate unit of general government to assume responsibility for the function of the special district and should also permit consolidation or merger of districts performing the same or similar functions.

h. Service charges or tolls levied by special districts should be reviewed and approved by a State agency where such charges or tolls are not reviewed and approved by the governing body of a unit of general government;

i. Counties should be authorized by State law to establish subordinate taxing areas in parts of their territory to enable these governments to provide and finance a governmental service in a portion of the county.

E. The Intergovernmental Aspects of Documentary Taxes

1. Background

Documentary taxes, which contribute some $300 million of the more than $130 billion in taxes collected by all governments, consist primarily of taxes on the issuance and transfer of corporate stocks and bonds, on real estate transfers, and on mortgages.

In its study of these taxes, the Commission concluded that no action is indicated with respect to the overlapping of State and Federal documentary taxes on stock transfers. The duplication is largely limited to one State (New York). The compliance burden for taxpayers is minimized by the collection of both taxes through security exchanges and clearinghouses. On the other hand, State withdrawal from the field could be "purchased" only at substantial cost to the U. S. Treasury.

However, with respect to the documentary taxes on real estate transfers, the Commission found considerable overlapping among Federal, State, and local governments. These taxes, generally at nominal rates, have little revenue significance for the Federal
Government and serve no Federal regulatory purpose, but are a potential revenue source for State and local governments. The Federal tax is entirely self-assessed with little or no enforcement effort. Exclusion of assumed mortgages from the Federal tax base and inadequate enforcement often result in spotty taxpayer compliance, so that the by-product use of Federal tax stamps attached to deed documents for State property tax administration is severely limited. On the other hand, the real estate transfer tax is one of the few that can be enforced efficiently at the local level. For these reasons, the Commission recommends that the Federal tax on real estate transfers be repealed, and that the States consider using such a tax either at the State or local level.

2. Recommendation

At its 18th meeting in September, 1964, the Commission approved a report on this subject, with the following two recommendations:

a. Congress should amend Chapter 34 of the Internal Revenue Code to repeal the stamp tax on conveyances, such repeal to be effective three years after its enactment; and 5/

b. When the Federal tax on real estate transfers is repealed, those States without such a tax should consider it for use at either the State or local level. The States considering real estate transfer taxes are urged to fortify tax administration by requiring local officials charged with the recordation of transfers of title to verify that the transfer tax had been paid.

5/ Secretary Dillon took no position on this recommendation because of current Treasury review of entire Federal excise tax system.
F. State-Federal Overlapping in Cigarette Taxes

1. Background

State-Federal overlapping in cigarette taxation is now nearly nationwide. It extends over 48 States (all except North Carolina and Oregon) representing over 96 percent of the Nation's population. In many areas of the country, tax overlapping has taken on a three-ply character now that certain local governments also tax cigarette sales.

This combination of taxes is now producing $3.5 billion, about 60 percent accruing to the Federal Government.

Concern with this area of tax overlapping stems from administrative considerations. The States are employing an enforcement procedure which is a hundred times costlier than that used by the Federal Government to collect about 60 percent as much revenue.

Because the Federal Government collects its cigarette tax directly from a small number of manufacturers (six firms account for more than 99 percent of the sales) and employs a semi-monthly return system thereby eliminating the need to rely on the costly procedure of affixing tax stamps, its collection cost is minimal -- less than one thirtieth of one percent of the revenue yield. In sharp contrast, the States' average collection cost is approximately five percent because they collect from thousands of jobbers, wholesalers, and retailers and generally rely on an enforcement procedure which requires the affixing of stamps to individual packs of cigarettes, a procedure for which distributors are compensated.

2. Recommendations

At its 18th meeting in September, 1964, the Commission approved a report on this subject, including the following recommendations:

a. That the Governors direct their tax policy officials (possibly through the instrumentality of the Governors' Conference and the Federation of Tax Administrators) to explore with representatives of the tobacco industry the procedures that would be required to place the cigarette tax on a return basis at the manufacturing level in such a way that the burden on the industry
would be minimized; and 6/

b. That the Treasury Department, Internal Revenue Service, participate in this exploration, which should include the potential scope of Federal-State administrative cooperation.

G. Metropolitan Social and Economic Disparities: Implications for Intergovernmental Relations in Central Cities and Suburbs

1. Background

A draft report before the Commission at the end of 1964 seeks to examine such questions as: Who lives in the central cities and corresponding suburban rings of each metropolitan area? What are the fiscal resources in our central cities and suburbs? How do governmental expenditures differ among these jurisdictions? What changes, if any, should be made in Federal, State, and local policies regarding such social and economic disparities, and what specific legislative and administrative actions should be taken to implement those changes?

2. Recommendations

At its 18th meeting in September, 1964 the Commission considered the draft report and tentatively adopted a number of proposals. The draft report now before the Commission for final consideration includes the following recommendations, among others:

a. That each local governmental unit and agency within metropolitan areas, whether central city or suburban, ascertain, analyze, and give recognition to economic and social disparities affecting its programs. Federal planning aids for urban development, including "Section 701" urban planning assistance and comprehensive transportation planning, should specifically authorize and encourage economic

6/ Congressman Fountain registered a further comment in connection with this recommendation.
and social policy planning for the community as a basic justification for physical planning.

b. That State legislation be enacted to restrict zoning authority in metropolitan areas to larger municipalities and to county government and to require that such zoning authority be exercised in a manner as to permit a wide range of housing prices within the area covered by such city or county. It is also recommended that metropolitan planning agencies prepare plans and ordinances for adoption by individual local governments in the area, such plans to provide for an appropriately wide range of housing prices.

c. That (1) the enactment by the States of legislation authorizing the adoption of uniform housing, building, zoning, and platting codes within metropolitan areas, and (2) action by local governments to utilize such authority.

d. That diversification and geographic dispersal of housing for low income groups be encouraged by amending Federal housing legislation, and where necessary, State public housing statutes to (1) facilitate purchase, rehabilitation, and lease of existing private housing by local public housing authorities; (2) authorize subsidizing of rents of low income families in existing private housing; and (3) permit financial assistance to private non-profit organizations to enable them to provide subsidized housing for low income families.

e. That the appropriate Federal and State agencies accelerate the adoption of cooperative agreements for the enforcement of Federal and State laws and regulations forbidding discrimination in housing.

f. That the Congress remove existing limitations on non-residential renewal from the Federal
urban renewal program.

g. That Governors of the several States and the Secretary of Labor take steps to assure that public employment services are provided to all job applicants and employees within metropolitan area labor markets regardless of State lines; these steps should include interstate agreements and action by the Secretary to assure himself that such arrangements are being effectively carried out as a condition to Federal grants for employment security administration.

h. That States enact legislation authorizing counties in metropolitan areas to provide urban renewal and public housing services to unincorporated areas and small municipalities, and further provide for financial and technical assistance to the counties as well as municipalities for establishing such services and coordinating their administration especially in multi-county metropolitan areas.

i. That States enact legislation authorizing and encouraging areawide coordination and administration -- through county governments or other appropriate means -- of vocational education and retraining programs within metropolitan areas.

j. That each State examine its present system of grants and shared taxes and remove all features that aggravate differences in local fiscal capacity to deal with service requirements in metropolitan areas and that encourage or support the proliferation of local governments within such areas.
VI. OTHER REPORTS

In addition to reports containing specific recommendations for administrative or legislative action designed to remove or remedy specific "friction points" in Federal-State-local relations, the Commission from time to time issues "information reports" designed to provide helpful data to State and local governments or otherwise to facilitate intergovernmental relations.

One such information report, reissued by the Commission during the year, was Tax Overlapping in the United States, 1964. This report documents the principal taxes involved in local, State, and Federal fiscal relations.

Public Law 380 of the 86th Congress requires the Commission to recommend, within the framework of the Constitution, the most desirable allocation of revenues among the several levels of government as well as methods of coordinating and simplifying their tax laws.

The Tax Overlapping report seeks to bring together the more important basic data germane to these problems. The number of taxing jurisdictions in the United States exceeds 80,000 and together they employ most types of taxes. Only the more prevalent of these and only those involved in intergovernmental relations are covered in the report.

Taxation in the United States, particularly at the local and State levels, is continually changing, and a volume of this nature requires periodic updating. The present report represents a revised and expanded version of a publication issued under the same title in September 1961. The additions include a chapter on interstate variations in State and local tax systems, one on property taxes, some historical tax-rate tables, and data on State-collected taxes shared with local governments.

An additional information report prepared during the year was State Technical Assistance on Local Debt Management and its release is expected in early 1965.

Also issued during the year was a compilation of the 1965 State Legislative Program of the Advisory Commission on Intergovernmental Relations. The Commission seeks to implement its legislative recommendations to the States by translating them into legislative
language for consideration by the 50 State legislatures. This
document contains 35 legislative proposals in the form of draft
bills and policy statements to implement the recommendations for
State legislation approved by the Commission through June 30, 1964.
The proposals are presented under three subject matter headings:
A. Taxation and Finance. B. Urban Problems. C. Other Inter-
governmental Problems. Each of these subject areas is introduced
by a statement summarizing the broad objectives of the Commission's
recommendations. Each legislative draft, in turn, is preceded by
a brief explanation of its content.

Most of the Commission's proposals for State legislation have
been submitted for consideration by the Committee of State Officials
on Suggested State Legislation of the Council of State Governments.
The Committee consists of members of Commissions on Interstate
Cooperation, Commissions on Uniform State Laws, Attorneys General,
and legislative officials. All but five of the Advisory Commission's
proposals for State legislation have been approved by the Committee.
National organizations of State and local public officials also
have endorsed many of the Commission's legislative proposals or have
adopted resolutions endorsing their objectives.

The Commission presents its proposals for State legislation in
the cited volume in the hope that it will serve as a useful reference
aid for State legislators, State legislative service agencies, State
municipal leagues, associations of county officials and others
interested in strengthening the legislative framework of State-local
relations.
VII. CURRENT AND FUTURE WORK PROGRAM

Work is currently under way or in the planning stage with respect to the following subjects.

A. **Intergovernmental Responsibilities for Relocation of Displaced Persons and Businesses Due to Government Programs**

1. **Background**

   This is a study of Federal, State, and local government programs which necessitate the relocation of families and businesses; the laws, policies, and practices in providing for relocation, and their effects; and the intergovernmental aspects of problems arising in the most expeditious and equitable handling of relocation.

   The purpose of this study is to identify the nature and seriousness of relocation problems, including the lack of uniformity among governmental programs; appraise the pertinent governmental policies and programs; and suggest ways in which these policies and programs can be strengthened to help Federal, State, and local government deal effectively and equitably with relocation. Emphasis is to be on the intergovernmental aspects of relocation problems and the proposed changes in governmental programs and policies.

   A draft report on this subject was submitted to the Commission in December, 1964 and is now under consideration.

B. **Effect of Tax and Expenditure Practices on Location of Industry and Economic Development**

   The problem is to determine the effect upon industrial location and expansion of State and local taxes levied directly on industrial establishments.

   There has been a great deal of research in this area in recent years. Individual States such as California and North Carolina have sponsored investigations of this problem. The Congress has been examining the overlapping of State corporate income taxes. Academic work in the form of both doctoral theses and research projects has also been done.

   The basic hypothesis is that taxes, like any other business costs, do influence business decisions. The extent of the influence
is the question to be determined. The study has employed interviews with business and government officials. In addition, tabulations of State and local tax costs made by the Internal Revenue Service and computation of hypothetical tax bills are used.

A draft report on this subject will be considered by the Commission in the spring of 1965.

C. Coordination of Federal, State, and Local Personal Income Taxes

Personal income is now taxed by 36 States, District of Columbia, and local governments in 6 States. In recent years an increasing number of States have adopted Federal Revenue Code definitions for an increasing number of their provisions. Important progress has been made also in administrative cooperation. These developments should contribute to the feasibility of better interlevel tax coordination in behalf of simplification, ease of taxpayer compliance, reduced costs of administration, and improved revenue yield. This project seeks to develop a program in these directions; for example (a) uniform definitions of taxable income; and (b) similarity in formats of Federal and State tax return forms. It will also consider how further Federal tax reductions might best be structured in the interest of constructive Federal-State income tax relationships.

A draft report on this subject will be ready for the Commission before mid-1965.

D. Intergovernmental Responsibilities for Law Enforcement

Law enforcement in the United States is a shared responsibility among National, State, and local levels of government. The Federal-State relationship has been explored frequently in connection with legislation considered at various times by the Congress, designed to attack "interstate crime." The State-local aspects of law enforcement have received less attention, although grave problems have arisen.

The study seeks to analyze the major patterns of Federal-State-local relations in law enforcement as they have evolved since the formation of the country and as they exist at present. It is intended to identify current problems and intergovernmental friction points and suggest possible alternative solutions.

Preliminary plans delimit the study to traditional criminal law enforcement activities and to those procedures in which public
officials and law enforcement officers participate prior to actual court proceedings.

A draft report on this subject will be considered by the Commission during calendar year 1965.
VIII. OTHER COMMISSION ACTIVITIES

The Commission performed a number of other activities in 1964 designed to carry out its statutory responsibilities for technical assistance in the review of proposed legislation and encouraging discussion of emerging public problems. Also, Commission members and staff made presentations at the 1964 conventions of the major organizations of governmental officials as well as other groups concerned with intergovernmental aspects of public policy issues, taxation and finance, and urban area problems.

Comments and advice were rendered to the Executive Branch and Congress on various legislative proposals. Other activities included: Sponsorship by the University of Massachusetts, the New England Council, and the Advisory Commission of a New England Conference on State-Local Relations at Amherst, Massachusetts in June; lectures to State conducted "schools" for local assessors; testimony before State legislative committees at their request; and collaboration with the National Committee for Time Uniformity in its efforts to promote greater consistency among units of government in the observance of daylight saving time.

Also, a joint State legislative information effort was initiated with the American Institute of Planners in which the Commission and the State Chapter of the American Institute of Planners will cooperatively identify priority State legislation that can contribute to the implementation of comprehensive urban development plans. The Commission's staff, while participating with the newly formed American Municipal Association-National Association of Counties' Task Force on Substandard Urban Development, will render assistance in helping identify Federal programs that may be contributing to this substandard urban expansion.
APPENDIX A

OBLIGATIONS OF THE ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS
FOR FISCAL YEARS 1964, 1965, and 1966

<table>
<thead>
<tr>
<th>Object Classification (In thousands of dollars)</th>
<th>FY 1964 actual</th>
<th>FY 1965 estimate</th>
<th>FY 1966 estimate</th>
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<td>Rent, utilities, and communications</td>
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<td><strong>$410 2/</strong></td>
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1/ Includes $2,000 reimbursement for a Commission employee detailed to another agency.

2/ These estimates contemplate a supplemental appropriation request of $15,000 for fiscal year 1965, bringing the FY 1965 appropriation to the level of $410,000. This is necessitated by the Government Employees Salary Reform Act of 1965.

1/ Single copies of reports may be obtained from the Advisory Commission on Intergovernmental Relations Washington, D. C., 20575, without charge. Multiple copies of items marked with asterisk (*) may be purchased from the Superintendent of Documents, Government Printing Office, Washington, D. C., 20402.