e 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.

Seventh Annual Report

January 31, 1966 Washington D. C.
Private Citizens:
Frank Bane, Virginia, Chairman
Thomas H. Elliot, Missouri, Vice Chairman
Adelaide Walters, North Carolina

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

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

Executive Branch, Federal Government:
Henry H. Fowler, Virginia, Secretary of Treasury; preceded by
C. Douglas Dillon, New Jersey
Orville L. Freeman, Minnesota, Secretary of Agriculture
Robert C. Weaver, New York, Administrator, Housing and Home
Finance Agency

Governors:
John Dempsey, Connecticut
Nelson A. Rockefeller, New York; preceded by John Anderson, Jr.,
Kansas
Carl E. Sanders, Georgia
Robert E. Smylie, Idaho

Mayors:
Neal S. Blaisdell, Honolulu, Hawaii
Herman W. Goldner, St. Petersburg, Florida
Arthur Naftalin, Minneapolis, Minnesota
Richard C. Lee, New Haven, Connecticut; preceded by Raymond R.
Tucker, St. Louis, Missouri

Members from State Legislative Bodies:
Marion Crank, Representative, Arkansas
Charles R. Weiner, Senator, Pennsylvania
C. George DeStefano, Senator, Rhode Island

Elected County Officials:
Edward Connor, Wayne County, Michigan
Clair Donnenwirth, Plumas County, California 1/
Barbara A. Wilcox, Washington County, Oregon

1/ Deceased, 7/22/65
ADVISORY COMMISSION
ON
INTERGOVERNMENTAL
RELATIONS

SEVENTH ANNUAL REPORT

JANUARY 31, 1966
WASHINGTON, D. C.

M-28
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(As of December 31, 1965)

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Frances D. Buckler, Secretary
Francis X. Tippett, Statistical Assistant
Sandra Osbourn, Librarian
Lois F. Beam, Stenographer
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Don Hummel, formerly Vice-Chairman of the Commission, Tucson, Arizona
Eugene C. Lee, Vice President-Executive Assistant, and Associate Professor of Political Science, University of California, Berkeley
Frank C. Moore, Chairman, Advisory Board of the Office for Local Government, State of New York
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
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H. Clyde Reeves, Vice President, University of Alabama and former Commissioner of Revenue, Commonwealth of Kentucky
Carl Shoup, Professor of Economics, Columbia University
Melvin W. Sneed, Staff Assistant, Joint Committee on the Organization of the Congress
Ronald B. Welch, Assistant Executive Secretary, Property Taxes, State Board of Equalization, Sacramento, California
Reuben A. Zubrow, Professor of Economics, University of Colorado
January 31, 1966

Dear Mr. President:

I have the honor to submit the Seventh 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 INTERGOVERNMENTAL RELATIONS IN 1965

Through the years, the States in the Federal union have exercised rather unlimited autonomy, with relatively limited Federal involvement in four major areas of governmental activity: (1) the administration of election machinery and the prescription of voter qualifications in State and local elections; (2) the financing and administration of the public schools; (3) maintenance of law and order; and (4) maintenance of independent tax systems limited only by intergovernmental immunities and constitutional requirements relating to interstate and foreign commerce.

During 1965, through legislative, judicial, and executive action, the Federal Government entered three of these major fields in fairly substantial measure, and was on the verge of entering the fourth extending a trend which, through the years have involved all three levels of government in practically every area of governmental activity. As will be pointed out later, however, intergovernmental relations in 1965 did not all flow toward increased National power. A number of developments occurred pointing in other directions. First, however, note should be taken of the scope and manner of the involvement of the National Government in the four activities mentioned above.

Voting Rights Act of 1965

To enforce the 15th Amendment to the Constitution of the United States, the Congress enacted Public Law 89-110, approved by the President August 6, 1965. In its opening section, the Act states:

No voting qualification or prerequisite to voting, or standard, practice, or procedure shall be imposed or applied by any State or political subdivision to deny or abridge the right of any citizen of the United States to vote on account of race or color.

In brief, the Act provides for the appointment of Federal registrars to register eligible voters in any State or county in which, as of November 1, 1964, census figures indicated that less than 50% of the persons of voting age residing therein were registered, or that less than 50% of such persons voted in the Presidential election of 1964.

In effect, the Voting Rights Act temporarily replaces State law with Federal law in those areas where, for one reason or another, the registered electorate has been kept below 50%. As a practical matter,
this applies to six southern States and particular counties therein where voting by Negroes has been kept to a low percentage.

**Education**

Lack of educational opportunity has long been identified as one of the major causes of unemployment, poverty, delinquency, and crime in the United States. The Congress, through the enactment of Public Law 89-10—the Elementary and Secondary Education Act of 1965—has provided Federal financial assistance to elementary and secondary schools in a measure roughly commensurate with the proportion of economically disadvantaged children of school age. Federal funds may be used for furthering the education of these children in a variety of ways; they cannot be used to support programs of religious instruction, although through participation in joint programs with public schools and other means, parochial and other private schools will benefit under the Act. Neither can Federal funds under the Act be granted to school systems maintaining policies of racial segregation.

Additionally, the recent session of the Congress broadened previous methods of Federal aid to higher education, including the award of scholarships to needy students. The question of a Federal scholarship program had likewise been debated extensively since the end of World War II.

**Law Enforcement**

For the first time, the Federal Government is providing financial grants-in-aid for the improvement of State and local law enforcement activities. Grants authorized by Public Law 89-197 may be used for improving the quality of law enforcement and correctional personnel through training and other programs, and for the purpose of carrying on demonstration projects designed to introduce more effective methods for "increasing the security of person and property, controlling the incidence of lawlessness, and promoting respect for law."

In a related development, the President established a National Commission on Law Enforcement and Administration of Justice, charged with examining the general problem of law enforcement in the United States and the formulation of recommendations for improvement, including more effective relationships among law enforcement agencies at Federal, State and local levels of government.

**State Taxation of Interstate Commerce**

Concern with the States' increasing tax reach into interstate commerce gave rise to a Congressional mandate in 1959 for a thorough-
going study of the equities and intergovernmental relations involved. The study was undertaken by a special subcommittee of the Committee on the Judiciary of the House of Representatives under the chairmanship of Representative Willis (D., La.).

The Subcommittee completed its study in 1965 and issued a report entitled "State Taxation of Interstate Commerce." H. R. 11798, embodying the recommendations contained in the Subcommittee report, was introduced by Representative Willis toward the end of the first session of the 89th Congress. The proposed legislation would define State and local tax jurisdiction over multi-State firms and the allocation of their tax bases among the States.

Hearings on the bill are scheduled for early 1966.

The Atlas Case

In contrast to earlier years in which major changes in intergovernmental relations were spearheaded by judicial decisions, most of the initiative in 1965 came from the Congress. One exception was the judicial consideration of the extent to which Congress may legislate, and the Treasury Department may regulate the treatment of income derived from securities of State and local governments. In the case of the United States v. Atlas Life Insurance Company, the issue in litigation was the required proration of tax free reserves of life insurance companies between taxable and tax-exempt income under the Life Insurance Company Tax Act of 1959. The insurance company and its attorneys contended that the principle of proration involved, in effect, the Federal taxation of State and local securities, and therefore violated the principle of intergovernmental tax immunity. The Government contended that the immunity of municipal bond interest does not bar allocation of such interest received by an insurance company between exempt policyholder reserves and taxable company reserves, even though allocation results in a greater tax than if only taxable income were allocated to exempt policyholder reserves. The Government's case was sustained in the District Court, overruled in the Appellate Court, and finally sustained by the Supreme Court.

* * * * * * * * *

Despite Federal penetration of three activities heretofore reserved to the States, (elections, education and law enforcement) and a proposed Federal involvement in a fourth (State taxation of multi-State firms), many decisions were taken in the city halls and the State capitols pointing to the continued vitality of State and local government. Also as indicated below, State concern with problems of
urban areas continued to increase and much constructive legislation was enacted. It is still a question as to whether the States can and will move fast enough and vigorously enough in modernizing their constitutions and governmental structures and renovating their tax systems to enable them to play an adequately expanded role in 20th Century government.

State Legislative Reapportionment and the Dirksen Amendment

1965 apparently saw the highwater mark of State opposition to Supreme Court decisions mandating the principle of "one man--one vote" for the apportionment of State legislatures. At the beginning of the year, a concerted drive was mounted for the enactment of identical resolutions by State legislatures calling upon the Congress to convene a constitutional convention for the purpose of proposing a constitutional amendment which would reserve to the States the option of apportioning one house of the legislature on factors other than population. About 30 States passed these resolutions--not all in identical form, however. Under Article VI of the U. S. Constitution, a constitutional convention is to be called if petitioned by two-thirds (34) of the States.

Concurrently, consideration was given in the United States Senate to a similar constitutional amendment sponsored by Senator Everett Dirksen of Illinois and a considerable number of other Senators. The "Dirksen Amendment" came to a vote in August, and although favored by a vote of 57-39, fell short of the two-thirds vote necessary for Congressional action on constitutional amendments. A parallel amendment rested in the House Judiciary Committee throughout the first session of the 89th Congress.

In the meantime, through the year, widespread reapportionment action was occurring in many States. Some 30 legislatures have now been formally apportioned on a population basis. Some States have already held State legislative elections for the first time on a one man--one vote basis.

Although sentiment adverse to the apportionment decisions of the Supreme Court still runs high in many States, the pressure upon the Congress for the initiation of a constitutional amendment decreases as more and more States fall into line with the Court decisions. Additionally, as reapportionment proceeds, the likelihood of ratification of a constitutional amendment would seem to diminish, even if one should be passed by the Congress.
In a number of States, both judicial and legislative action was undertaken in the reapportioning of representation on governing bodies of local governments. It is unclear at this juncture to what extent, if any, the Supreme Court reapportionment decisions under the 14th Amendment affect representation on local governing bodies. Irrespective of the judicial decisions, however, a number of reapportioned legislatures are exhibiting interest in legislation to revamp the makeup of local governing bodies on a population basis.

**State Legislative Interest in Urban Problems on the Up-Grade**

Concurrently with reapportionment, although not clearly as a direct result thereof, State legislation in 1965 continued to give increased attention to urban problems. Water supply, mass transportation, sewage and waste disposal, "slum" schools, and community colleges were among the urban functions accorded major attention. Additionally, as described in more detail later, legislatures enacted a considerable number of measures designed to equip local governments with the structure and the power necessary to cope with the growth and spread of population.

**States Act to Improve Intergovernmental Fiscal Relations**

State and local governments continued to be pressed last year to finance the demands for new, expanded, and more costly governmental services arising from a rapidly growing and increasingly urbanized population. Their expenditures, growing in recent years at an average annual eight percent rate, are fast approaching $100 billion. The need for more revenue was reflected during the past year in widespread State legislative activity bearing significantly on intergovernmental relations. This involved steps (1) to increase tax revenue for State administered functions and for aid to local governments; (2) to expand local financial capabilities; (3) to improve interstate tax relationships; and (4) to facilitate Federal-State fiscal relations.

**New and Higher State Taxes**

The largest number of State tax enactments involved increases in cigarette tax rates by 22 States, some by as much as 3 and 4 cents per package. Rates are now as high as 11 cents per pack in Texas and Washington and 10 cents in New York, Vermont and Wisconsin. If a proposed 4 cent cigarette tax is approved by the Oregon voters (to be effective July 1, 1966), only North Carolina will remain without such a tax. Retail sales taxes were raised by 8 States, and two additional States (Idaho and New York) joined the other 37 with Statewide general sales taxes. Eight States increased their personal income tax rates.
and seven, their corporate income taxes. Nebraska enacted new personal and corporation income taxes, to go into effect on January 1, 1967, if approved by the electorate. Three States (Delaware, Iowa, and Nebraska) adopted real estate transfer taxes in the wake of Congressional action eliminating the Federal tax (effective January 1, 1968) as part of the general excise tax reduction. Alcoholic beverage taxes were raised in 6 States and gasoline taxes in 9.

New Local Taxes

The States' increasing concern with local finances manifested itself in a number of ways. Many States increased State aid for education to raise teachers' salaries and to expand educational services. Local shares of State taxes were also increased. Concomitantly, a number of States provided additional non-property taxing powers to their local governments. In connection with its new 2 percent State sales tax, New York authorized local sales tax supplements ("piggy-back") up to 3 percent to accommodate existing as well as future local taxes. Wyoming also authorized local "piggy-back" sales taxes, bringing to 8 the number of States using this local sales tax supplement device. These local sales tax supplements simplify State-local tax administration and make it more effective. Alabama also moved in that direction by authorizing collection of city sales taxes by the State Department of Revenue. And Maryland provided for the levy of a sales tax supplement in Baltimore City, Baltimore County, and Anne Arundel County (comprising the bulk of the Baltimore Metropolitan Area) to be collected for the three jurisdictions by the State. The Maryland law requires all three jurisdictions to levy the tax supplement concurrently. Several other States have authorized local motor vehicle taxes (Arkansas and Montana), sales taxes on lodgings and restaurant meals (Arkansas and Utah), cigarette taxes (California), real estate transfer taxes (Delaware), and gasoline taxes (Nevada). State concern with local finances was also manifested in numerous tax and fiscal studies launched by 1965 State legislatures. Among them are studies in Alaska, California, Iowa, Florida, Georgia, Maryland, Missouri, New York, North Carolina, Ohio and Oregon.

Interstate Tax Cooperation

In the area of interstate tax relationships, six States and the District of Columbia adopted the "Uniform Division of Income Act" which provides for a standard three-factor formula (property, payrolls, and sales) for the allocations of income derived from interstate business activities for State income tax purposes. Similar steps were taken previously by five States in an effort to forestall Congressional mandates as to the State handling of taxation of interstate commerce.
(see discussion above). Along somewhat similar lines, Congress consented to interstate compacts for the uniform taxation of bus transportation. One compact, entered into by Maine, Massachusetts, New Hampshire, Maryland and Pennsylvania, provides for the proration of bus fuel taxes on the basis of the number of miles operated in each State. The other, which provides for the proration of bus registration fees on the same basis, has been joined by Connecticut, Maine, New Hampshire, Rhode Island, Vermont, Maryland, New York, and Pennsylvania. Congress has directed the District of Columbia to join both compacts.

**Income Tax Simplification**

Wisconsin moved toward simplification of its personal income tax by adopting the Federal definition of adjusted gross income (15 States now do so). A proposed amendment to the California constitution would authorize the State legislature to define income or the rate imposed on income by reference to any laws of the United States, for State income tax purposes. The Nebraska and North Dakota constitutions will be amended to do likewise, if approved by the voters.

**Cooperative Tax Enforcement**

Six States (Delaware, Hawaii, Michigan, New Jersey, Pennsylvania, and Vermont) signed cooperative agreements for the exchange of tax information with the Internal Revenue Service in 1965, bringing up to 40 the number of States that have entered into such agreements. In addition, plans moved forward during the year for participation by State tax enforcement personnel in training courses offered by IRS.

**Increased Activity in State Constitutional Revision**

Activated partially by the necessity to amend the legislative apportionment articles of State constitutions, a number of States have constitutional conventions or other constitutional revision activity well underway.

Constitutional revision commissions have been established in California, Florida, and Idaho. A similar commission created in Kentucky in 1963 is completing its work. A New Mexico constitutional revision commission has been active for several years. These commissions are charged with doing the preparatory work for either a constitutional convention or for the consideration by the legislature of a revised constitutional document or a series of amendments to submit to the people.
A constitutional convention was held in Connecticut and completed its work with a revised constitution which was approved in the November election. People of New York State voted in November 1965 to call a constitutional convention. A constitutional convention is now in session in Rhode Island.

The State constitutional revision commission in Wisconsin has recently voted to recommend the call of a constitutional convention as has a similar body in Maryland. In Utah the question of a constitutional convention will be before the voters at the 1966 general election. In Oklahoma a legislative council was directed by the 1965 legislature to undertake a constitutional revision study including the consideration of the calling of a convention. In North Dakota an interim committee of the legislature is at work on constitutional revision and in Louisiana a similar study is being conducted by the State Law Institute. A few other States, including Hawaii, New Jersey, and Tennessee, will be holding conventions largely restricted to reapportionment.

In a closely related development a group of corporation executives, labor leaders, educators and others, have formed a Citizens Conference on State Legislatures. The headquarters of this organization has been established in Kansas City, Missouri. The Interim Chairman of the Board of Trustees is Homer Wadsworth of Kansas City; the Executive Director is John Anderson, Jr., former Governor of Kansas and former member of the Advisory Commission on Intergovernmental Relations. The Conference is dedicated to the stimulation of "grass roots" activity designed to overhaul and modernize the legislative articles of State constitutions.

In a parallel development the National Municipal League and the American Assembly are planning a series of conferences in 1966 designed to highlight the major problem areas of State legislatures and the possibility of modernization thereof.

The modernization needs of State legislatures are well known: removal of restrictions on frequency and length of sessions; placing the legislators on a salaried basis sufficient to make the job of State legislator a "vocation" rather than an "avocation"; provision of year-round professional staff for legislative leaders and for major standing committees; provision of office facilities for the individual legislator and, concurrently with the foregoing, enactment of appropriate conflict of interest and code of ethics statutes relevant to legislative members and employees.
Still another noteworthy development is the launching of a two- year appraisal of State government with emphasis on the execution and the administration of State services. The project, financed by foundation grants and based at Duke University, is under the direction of Terry Sanford, former Governor of North Carolina and former member of the Advisory Commission on Intergovernmental Relations.

The burst of constitutional activity and the establishment of National groups organized to facilitate constructive action are encouraging to those who hold the revitalization of State government to be necessary if the States are to remain viable partners in the Federal system.

"Metropolitan" Reform Gathers Momentum

Developments at both the State and National level during 1965 highlight a quickening pace of successful efforts to increase intergovernmental cooperation in metropolitan areas and to simplify an overlapping and fragmentation of governmental structure in these areas. Some of the more significant developments were: formation in Southern California of an Association of Governments for the Los Angeles metropolitan area—paralleling the establishment of the Association of Bay Area Governments a few years earlier in the San Francisco region; activation by Governor Connally of Texas of a thorough-going study of problems of metropolitan structure in Texas to be followed by recommendations for State legislation; enactment in New Mexico of a new municipal code including authority to municipalities to annex by ordinance and establishing machinery closely controlling the formation of new municipalities and special districts; passage by the Utah legislature of a constitutional amendment to be voted upon by the people authorizing the creation of metropolitan government in the three counties of Utah containing a standard metropolitan statistical area; and amendment of the National Housing Act to permit the use of "section 701" funds to finance up to two-thirds of the operating costs of areawide councils of elected government officials. This legislation will undoubtedly lead to a strengthening of such councils where they exist and the formation of new councils in many of the major metropolitan areas. Federal agencies will be able to rely more and more upon these councils for formal and informal advice regarding grant-in-aid applications emanating from political subdivisions within the metropolitan areas.

Political Parties Begin Metropolitan Experiment

Paralleling the problem of fragmentation and consequent parochialism among numerous local governments in metropolitan areas has been a similar parochialism on the part of neighborhood and community political party activity in these areas.
Following the 1964 election, Craig Truax, the Republican National Committeeman from Pennsylvania, pointed out that at no time during the election campaign had Republican candidates for the U. S. Senate from the three States involved in the large Philadelphia metropolitan area conferred or made joint appearances before the voters of the metropolitan area to discuss such mutual problems as mass transportation, housing, and urban development. Consequently, Truax brought into being a council of party leaders and county chairmen drawn from the tri-State Philadelphia metropolitan area. This council was formed for the purpose of forming common "platform plans" regarding metropolitan problems which could be presented to the respective constituencies.

The Philadelphia experiment was succeeded by the formation of a Republican metropolitan council made up of the chairmen of the seven counties comprising the standard metropolitan statistical area of Minneapolis-St. Paul.

More recently, under the aegis of the Young Democratic Club of Prince Georges County, Maryland, and Congressman-at-Large Carlton Sickles, the first of a series of meetings was held of Democratic leaders from Virginia, Maryland, and the District of Columbia to discuss party policy on common metropolitan issues.

To the extent that the two major parties follow up these early beginnings, the processes of political decision-making and local governmental organization and planning in the large metropolitan areas will be considerably improved.

* * * * * * * *

In addition to the enactment of Federal programs embracing the three major areas of State and local activity described earlier, 1965 also saw the enactment and further evolution of a considerable number of aid programs and other developments of considerable future impact upon intergovernmental relations. Of possibly the greatest interest for all three levels of government was the dialogue begun in late 1964--and still continuing--as to ways and means of intergovernmental revenue sharing.

New Federal Grant Programs Multiply

Including those discussed earlier, approximately 25 new Federal grant programs, or major expansions of existing programs, were enacted by the First Session of the 89th Congress.
The new programs enacted included: Appalachian Regional Development Act (P. L. 89-4); Elementary and Secondary Education Act (P. L. 89-10); Expansion of Manpower Development and Training (P. L. 89-15); Community Planning for the Elderly (P. L. 89-73); Water Resources Planning (P. L. 89-80); Expansion of Public Assistance and Related Categorical Welfare Programs (P. L. 89-97); Expansion of Mental Retardation and Mental Health Aid Programs (P. L. 89-105); Expansion of Vaccination, Migratory Worker, and Other Health Programs (P. L. 89-109); Expansion of Health Research Facilities Construction Program (P. L. 89-115); Housing and Urban Development Act of 1965 including among other new aids, grants for basic water and sewer facilities and grants for neighborhood facilities (P. L. 89-117); Public Works and Economic Development Act (P. L. 89-136); State Technical Services Act (P. L. 89-182); Law Enforcement Assistance (P. L. 89-197); Arts-Humanities Foundation (P. L. 89-209); Water Pollution Control Act (P. L. 89-234); Heart Disease, Cancer, Stroke Amendments (P. L. 89-239); Construction of Waterworks and Sewage Disposal Plants in Rural Areas (P. L. 89-240); Economic Opportunity Act Amendments (P. L. 89-253); Solid Waste Disposal (P. L. 89-272); Highway Beautification (P. L. 89-285); Health Professions Educational Assistance Amendments (P. L. 89-290); Medical Library Facilities (P. L. 89-291); Higher Education Act (P. L. 89-329); Vocational Rehabilitation Act Amendments (P. L. 89-333); and Amendment of Watershed and Flood Prevention Act (P. L. 89-337).

The count of the number of programs obviously depends upon the extent to which "sub-programs" within a major enactment are counted separately.

The "Heller Plan"

There was considerable discussion during the year of a plan (first advanced by the then Chairman of the Council of Economic Advisors, Walter W. Heller) to share with the States part of future Federal surpluses. Such funds would be provided for the general purposes of the States (and through the States to their local governments), as distinguished from the present system of Federal grants-in-aid for specified functions. The Governors' Conference, at its July meeting, endorsed a study of such a proposal, as did the National Association of Counties. The idea has also been endorsed by members of Congress, including Senator Edward M. Kennedy (D., Mass.) and Senator Jacob K. Javits (R., N. Y.). S. 2619 was introduced by Senator Javits in the closing days of the first session of the 89th Congress to implement the general idea, but with some modification. This bill provides that an amount equivalent to one percent of the aggregate taxable income reported on Federal income tax returns be set aside for distribution.
among the States under an equalization formula. Funds received by the States and localities could be used only for "health, education, and welfare" purposes.

**Controversy Surrounds Poverty Program**

Aside from the civil rights area, perhaps the intergovernmental issue of greatest controversy during 1965 was the operation of the poverty program.

The central problem relates to the community action program and the degree to which the program and its leaders should be responsible to, or independent of, the legal structure and processes of municipal and county government in the large urban areas. Many mayors and county officials contend strongly that the program must be kept within the framework of general local government to maintain political responsiveness and accountability to the people and to avoid irresponsible activity, waste, and scandal.

On the other hand, many of those concerned with the administration of the program nationally and locally have contended that a considerable degree of autonomy must be maintained by the local community action agency in order that innovation and experimentation not be stifled.

Considerable controversy also swirled about the gubernatorial veto power over community action and certain other aspects of locally developed poverty program activities. The last session of the Congress restricted the gubernatorial veto by providing that, under certain circumstances, it can be set aside by the Director of the Office of Economic Opportunity.

**Rent Supplements**

One of the major elements in the so-called "metropolitan problem" in the United States today is the increasing disparity—economically, socially, and fiscally—between the central city and the suburbs. In some parts of the country lower income and nonwhite persons tend to congregate in the central city and in other parts of the country they tend to congregate in the suburbs. In either case, there is great resistance in many well-to-do suburban communities to permitting the construction of housing renting at a figure within the reach of low income families. Up to this time the only Federal aid available in this situation was in the form of capital grants for the construction of public housing units by a local housing agency. Many better-to-do communities have been loath to authorize the creation of such agencies.
The first session of the 89th Congress in the enactment of a rent supplement plan for low income groups will make possible the housing of low income people in the more prosperous communities in the future without running the gamut of issues and emotions connected with the construction of public housing. They can be housed in medium cost apartment buildings or other dwellings, constructed and operated by nonprofit corporations, with the difference between the economic rent and the amount the person is able to pay covered by a federally financed "rent supplement" within certain limitations. Assuming adequate appropriations, a vigorous application of the rent supplement policy may have a significant impact upon existing neighborhood patterns and the problem of "de facto" school segregation based on neighborhood lines.

Senate Passage of the Intergovernmental Cooperation Act of 1965

The Intergovernmental Cooperation Act of 1965, proposed by the Advisory Commission on Intergovernmental Relations, was passed by the Senate during the First Session of the 89th Congress. The most recent House version (H. R. 10212) by Congressman Sickles (D., Md.) incorporates most of the features of the Senate passed bill sponsored by Senator Muskie (D., Me.) and forty other Senators, and in addition, provides uniform relocation payments and advisory assistance for all Federal and federally aided public works programs.

Other features of the pending legislation would introduce additional flexibility at the State level in the handling of Federal grants-in-aid; provide for Congressional review of new grants at a designated period subsequent to initial enactment; strengthen planning requirements associated with Federal grants, particularly for urban development; authorize Federal departments and agencies to provide technical, training, and other services to State and local governments on a reimbursable basis; and provide closer cooperation between the Federal Government and local governments in the acquisition or disposal of real property.

Establishment of the Department of Housing and Urban Development

The creation of a "Department of Urban Affairs" has been urged by large city mayors and many other individuals and organizations over the past two decades as a way of giving recognition to the urbanization of the United States. The drive for such a department finally culminated in legislation in 1965. The Housing and Home Finance Agency was
given cabinet status with the constituent housing and urban renewal functions knit more closely together into a departmental structure.

While the creation of the Department does not directly and formally change any existing intergovernmental relationships, it is symbolically very important for the future status of the cities in our Federal system.

**Comprehensive Regional Transportation Planning**

In October 1962, Congress amended the Federal-Aid Highway Act to specify that after July 1, 1965, no Federal-aid projects could be approved in any urban area of more than fifty thousand population unless such projects were "based on a continuing comprehensive transportation planning process carried on cooperatively by States and local communities." This continuing transportation planning process is now underway in all 224 standard metropolitan statistical areas and in many smaller urban areas as well. It marks a new milestone in intergovernmental planning in that it requires planning cooperation among the local governments in the area and the State agency affected in the planning process, operates across the entire urbanized and urbanizing area, and directly links policymaking to implementation machinery.

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In summary, it might be observed that despite the great increase in scope of Federal activity in domestic affairs, the State and local share of the financial responsibility for domestic governmental services continues to increase.

One of our major domestic problems in this country is intergovernmental disparities—the clustering of population in the large urban centers along income and racial lines, with consequent problems of poverty and the maintenance of law and order. The role of the States in the Federal system continues to be in doubt. The major question is whether they can move fast enough and vigorously enough to keep ahead of the problems which confront them and their local governments. An important test of the viability of the States as real partners in the Federal system is their willingness to share with the Federal Government the financial costs incurred in meeting governmental responsibilities in the urban areas. If the States stand aside and do not participate in a massive financial way in these programs, the problems to which the funds are directed will eventually come to be viewed as primarily a Federal responsibility.
II. CONGRESSIONAL REVIEW OF FIVE YEAR RECORD OF THE COMMISSION

Beginning on May 25, 1965, three days of joint hearings were held by the Subcommittees on Intergovernmental Relations of the Senate and House Committees on Government Operations on the five year record of the Advisory Commission on Intergovernmental Relations and its future role.

Soon after its establishment five years ago, members of the Commission came to the conclusion that although its enabling statute treats the Commission as a "permanent body," the Commission's activities at an appropriate time should be evaluated by the Congress to see whether this experiment in the evolution of federalism was working out as the Congress intended. The Commission reaffirmed that decision late in 1964, and suggested to the Congressional committees that such an evaluation be conducted.

The purpose of the hearings as stated by the Committees was to see how successfully the machinery established by the enabling legislation has been operating, determine if the expectations of the Commission's sponsors and other interested parties had been met, and identify ways in which the Commission might more effectively contribute to the solution of emerging problems in the field of intergovernmental relations.

At the hearings the Commission presented testimony summarizing actions it had taken to date, described the 26 policy reports and the seven information reports issued, listed the recommendations of the Commission as contained in its policy reports, and provided a checklist of possible new problems and issues to which the Commission might address itself in the future. A record was provided on the implementation of recommendations made by the Commission, including listing of the endorsements of State legislative and policy recommendations by various organizations, identifying the State legislative enactments since 1963 along the lines of Commission recommendations, and documenting specific Federal legislation having the effect of implementing Commission proposals.

Based on five years experience under the Act, the Commission recommended that several changes, mostly technical, be made in its enabling legislation. These amendments would provide for: (1) elimination of gap in tenure of members; (2) changes in name of two organizations mentioned in the Act; (3) change in wording regarding compensation of certain members of the Commission; and (4) authority to receive contributions from State and local governments and organizations thereof, in addition to Congressional appropriations.
Testimony was received at the joint hearings from several members of the Congress, members of the Commission, witnesses representing the International City Managers' Association, the National Association of Counties, the U. S. Conference of Mayors, the National League of Cities, the New York State Office of Local Government, the Chamber of Commerce of the United States, the American Institute of Planners, and the National Association of Manufacturers, as well as a number of private individuals. Communications and statements were received from three Federal agencies, 11 State and local officials and organizations, including the Council of State Governments and the National Institute of Municipal Law Officers, 19 professional and public interest groups, and a number of private individuals.

Early in 1966 separate reports on the record of the Commission are expected to be made by the Senate and House Intergovernmental Relations Subcommittees, including possibly amendments to the Commission's statute.
III. PROGRESS IN IMPLEMENTING RECOMMENDATIONS OF THE COMMISSION

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

Federal Legislation Enacted

The first session of the 89th Congress implemented the following recommendations of the Commission:

1. To amend the Water Pollution Control Act by (a) providing an additional Federal matching incentive for the development of sewage disposal systems on a regional basis, and (b) increasing dollar ceilings upon individual projects so that Federal construction assistance is not unduly limited in case of large city projects. These amendments were incorporated in P. L. 89-234. (Recommended in Intergovernmental Responsibilities for Water Supply and Sewage Disposal in Metropolitan Areas, October 1962)

2. To provide that FHA and VA loan insurance and loans be withheld from residential subdivisions not serviced by community water and sewer facilities unless such service is found to be economically infeasible. This proposal is designed to discourage the use of wells and septic tanks in built up urban areas. The proposal was incorporated in the Housing Act of 1965 (P. L. 89-117). (Recommended in Intergovernmental Responsibilities for Water Supply and Sewage Disposal in Metropolitan Areas, October 1962)
3. To provide mortgage insurance for site preparation and development including water and sewer lines and systems. Sections 1001 and 1002 of P. L. 89-117 provide that the FHA Commissioner is authorized to insure first mortgages covering land to be developed and improvements to be made. (Recommended in Intergovernmental Responsibilities for Water Supply and Sewage Disposal in Metropolitan Areas, October 1962)

4. To encourage the formation of voluntary councils of elected officials in metropolitan areas. The Commission has proposed State legislation on this subject. Additionally, Section 1102(g) of P. L. 89-117 makes such councils eligible for "701" financial assistance. (Recommended in Alternative Approaches to Governmental Reorganization in Metropolitan Areas, June 1962)

5. To amend the Manpower Development and Training Act to remove the "Head of Household" requirements for persons displaced by Federal, State, and local projects or programs so that widows or widowers without families can qualify. This amendment is contained in Public Law 89-15. (Recommended in Metropolitan Social and Economic Disparities: Implications for Intergovernmental Relations in Central Cities and Suburbs, January 1965)

6. To amend the Public Assistance titles of the Social Security Act so as to permit judicial review of certain Federal administrative decisions regarding the conformity of State plans. This amendment was included in the "Medicare Bill" (P. L. 89-97). (Recommended in Statutory and Administrative Controls Associated with Federal Grants for Public Assistance, May 1964)

7. To amend the Social Security Act to eliminate previous restrictions on Federal participation in assistance payments to patients in mental and tubercular institutions. This amendment was likewise incorporated in P. L. 89-97. (Recommended in Statutory and Administrative Controls Associated with Federal Grants for Public Assistance, May 1964)

8. To repeal the Federal tax on real estate transfers. Elimination of this tax was included in the Excise Tax Reduction Act of 1965. Pursuant to the Commission's recommendation, the Congress made repeal of the Federal tax effective January 1, 1968, to allow State legislatures time to consider enacting such a tax to become effective with removal of the Federal tax. (Recommended in The Intergovernmental Aspects of Documentary Taxes, September 1964)
9. In the interest of reducing intergovernmental barriers, to amend Federal Housing legislation to facilitate provision, rehabilitation, and use of existing private housing for low income families. An amendment to this effect was included in the Administration's program and was included in Section 502, P. L. 89-117. Additionally, Section 103 authorizes and directs local public housing agencies to negotiate rental arrangements with private owners so as to provide suitable housing to low income families. (Recommended in Metropolitan Social and Economic Disparities: Implications for Intergovernmental Relations in Central Cities and Suburbs, January 1965)

10. To authorize the subsidy of rents of low income families in existing private housing (in order to make more feasible the spreading of low income housing through metropolitan areas rather than concentrating it). Although rent subsidies to low income families were not contained in the Administration's housing bill—being directed instead to low middle income people—the Congress limited such subsidies to low income persons (Section 101, P. L. 89-117). (Recommended in Metropolitan Social and Economic Disparities: Implications for Intergovernmental Relations in Central Cities and Suburbs, January 1965)

11. To provide Federal financial assistance to private non-profit organizations to enable them to provide subsidized housing to low income families. Section 101 of P. L. 89-117 authorizes such financial assistance via the rent subsidy arrangement. (Recommended in Metropolitan Social and Economic Disparities: Implications for Intergovernmental Relations in Central Cities and Suburbs, January 1965)

12. Two other Commission recommendations dealing with the public facility loan program of the Housing and Home Finance Agency—to make the loans for water and sewer facilities available to jurisdictions with populations over 50,000 and to authorize deferral of principal payments in order that future growth needs could be more nearly met through initial installations—were largely rendered unnecessary through the provision in P. L. 89-117 of a grant program for water and sewer facilities. One of the requirements is that the project must be designed so that an adequate capacity will be available to service greater needs of the area. However, it should be noted at this point that another Commission recommendation—to the effect that no general program of Federal grants and aids for local water supply and distribution should be inaugurated—was rejected by the Congress in providing for the new program just described. (Recommended in Intergovernmental Responsibilities for Water Supply and Sewage Disposal in Metropolitan Areas, October 1962)
13. To remove existing limitations on nonresidential construction under the Federal Urban Renewal Program. Section 308 of P. L. 89-117 raises from 30 to 35 percent the portion of new urban renewal grant authority which may be used for nonresidential purposes. This is a step in the direction of the Commission recommendation. (Recommended in Metropolitan Social and Economic Disparities: Implications for Intergovernmental Relations in Central Cities and Suburbs, January 1965)

Federal Legislation in Process

In addition to the foregoing, legislation to carry out other Commission recommendations is pending at various stages in the Congress.

1. Legislation to provide for greater uniformity with regard to daylight saving time has passed the Senate (S. 1404); House action is expected early in 1966. (Recommended by the Commission January 1964)

2. An omnibus Intergovernmental Cooperation Act of 1965 implementing the following Commission recommendations has passed the Senate (S. 561 by Senator Muskie, D., Me., and forty other Senators) and is pending in the House Committee on Government Operations:

   a. Provision of more uniform administration of grant programs and increased flexibility in connection with single State agency requirement in Federal grant-in-aid programs. (Recommended by the Commission January 1965)

   b. Congressional review of new Federal grant-in-aid programs at the end of five years or other congressionally specified period. (Recommended in Periodic Congressional Reassessment of Federal Grants-in-Aid to State and Local Governments, June 1961)

   c. Review and comment by metropolitan planning agencies of applications for certain Federal grants-in-aid from local units of government within metropolitan areas. (Recommended in Governmental Structure, Organization, and Planning in Metropolitan Areas, July 1961)

   d. Encouragement of the eligibility of general purpose units of government and joint undertakings by two or more units in the use of Federal grants.
3. Establishment of a uniform policy of relocation payments and advisory assistance to persons displaced by Federal and federally aided programs (S. 1681, Muskie, D., Me.). Senate hearings have been completed on S. 1681 and Senate passage is expected shortly. On the House side H. R. 10212 (Sickles, D., Md.) encompassing the provisions of the proposed Intergovernmental Cooperation Act described above, also includes the provisions of S. 1681. (Recommended in Relocation: Unequal Treatment of People and Businesses Displaced by Governments, January 1965)

4. Provision of increased flexibility at the State level in the handling of Federal grants-in-aid for certain Public Health Services. S. 1023, H. R. 4610, and H. R. 2602 have been referred to the respective committees. Further congressional action is awaiting proposals of the Administration regarding the problem of extreme categorization of health grants. (Recommended in Modification of Federal Grants-in-Aid for Public Health Services, January 1961)

5. Authorization for Federal agencies to retrocede to the States certain jurisdiction over Federal properties. S. 1007 and H. R. 278 have been referred to the respective committees on Government Operations, but no hearings have been scheduled. (Recommended in State and Local Taxation of Privately Owned Property Located on Federal Areas, June 1961)

6. Amendment of the Internal Revenue Code to disallow for income tax purposes the deduction of rent paid for the use of municipally financed industrial plants under certain conditions. H. R. 324 to carry out this recommendation has been referred to the Committee on Ways and Means. (Recommended in Industrial Development Bond Financing, June 1963)

7. Amendment of the Federal estate tax to increase the Federal credit allowed for death taxes paid to States. H. R. 323, 2604, and 2408 are pending in the Committee on Ways and Means. No hearings have been held. (Recommended in Coordination of State and Federal Inheritance, Estate, and Gift Taxes, January 1961)

B. State and Local Government

Legislation similar to draft bills developed by the Commission or consistent with Commission recommendations was adopted in thirty-nine
States during the 1964-65 biennium. Following is a list of the State legislation similar to, or embodying provisions similar to, the draft bills developed by the Commission to implement its recommendations. These draft bills appear in the Commission's 1966 State Legislative Program. The coverage below is complete for 1964 but only partial for 1965.

1. Authorization for local units of government to exercise functions jointly or to contract with one another for the performance of functions.  
   1964: South Dakota; and significantly broadening existing authority in Kentucky.  
   1965: Iowa, Oklahoma, Utah; and broadening and clarifying existing authority in Nevada.

2. Authorization for establishment of metropolitan area (or regional) planning commissions.  
   1964: Virginia.  
   1965: West Virginia.

3. Authorization for local governments to invest and receive interest on idle funds.  
   1964: Georgia and Michigan.  
   1965: Broadening authority in Minnesota.

4. Granting authority to municipalities and counties to exercise planning, zoning, and subdivision control authority in urban fringe areas.  
   1964: Kentucky.

5. Coordination of State programs affecting water resources development and water supply.  
   1964: Vermont and Maryland.

   1964: Virginia.

7. Increased State control over use of wells and septic tanks.  
   1964: Colorado.

8. State regulation of the issuance of industrial development bonds.  
   1964: Hawaii.  
   1965: Maine.
9. Regulation of special district formation and alteration.
   1965: California, New Mexico.

10. Provision for the exercise by local units of government of "residual powers."
    1965: Massachusetts; passage for the second time of proposed constitutional amendment to this effect, to be voted on by the people.

In a number of instances, the specific language included in the Commission drafts or substantial portions of them were incorporated into the enactments. In others, significant modifications were made to adjust to individual State situations; but the essential principles and approach contained in the draft were retained.

Actual draft language has not been proposed in the case of some Commission recommendations. However, policies were recommended to the States. The following listing summarizes action taken in the States consistent with Commission proposals. In some cases, States have taken actions consistent with Commission proposals but along lines differing from those incorporated in draft bills prepared by the Commission. Such action is also included in the following listing:

1. Authorization and encouragement of councils of public officials.

2. Authorization for creation of metropolitan charter commissions.
   1965: Florida (in form of constitutional amendment applying to one metropolitan area and subject to voter approval in November, 1966 election); and Utah (in form of constitutional amendment applying to all metropolitan areas, subject to approval in November, 1966 election).

3. Establishment of a State agency for local affairs.
   1965: California (in modified form, through the establishment of a permanent Intergovernmental Council on Urban Growth).

4. Authorization for establishment of metropolitan (and regional) planning commissions.
   1964: Louisiana and Mississippi.
5. State financial assistance for local planning.

6. Adoption of interstate compacts for inter-state metropolitan (and regional) planning commissions.

7. State aid for urban transportation (State technical or financial assistance).
   1964: Massachusetts and Rhode Island.

8. Authorization for local government to form authorities for the management of areawide transportation facilities.
   1964: California and Virginia.
   1965: California, Georgia, and Illinois.

9. Adoption of interstate compact for mass transportation planning in interstate metropolitan areas.
   1965: Connecticut, Kansas, Maryland, Missouri, New Jersey, and New York.

10. Strengthening State water pollution control programs.
    1964: Vermont.

11. Increased State control over use of wells and septic tanks.
    1965: Indiana.

12. Strengthened State-local water supply programs.
    1964: Indiana, Kentucky, and Vermont.

13. Coordination of State programs affecting water resources development and supply.
    1965: Texas.

14. Broad grants of functional powers to local governments.
    1965: Georgia.
15. Regulation of special district formation and alteration.
   1965: Oregon.

16. Provision of vocational education on an areawide basis.
   1965: South Dakota.

17. Restricting zoning authority to counties and larger municipalities in metropolitan areas.
   1965: Indiana.

18. Adoption of real estate transfer tax.
   1965: Delaware, Iowa, and Nebraska.

19. Use of State collection for broad-based local tax (sales).

    1964: Louisiana and Kentucky.
    1965: Georgia and South Dakota.

21. Conduct of evaluation studies of the local property tax.
    1964: Michigan.

22. Authorization for counties to provide public housing services.
    1965: Oklahoma, Nebraska, and Colorado.

23. Authorization for counties to provide urban renewal services.
    1965: Idaho and Utah.

24. Authorization for local governments to acquire and preserve "open space."
    1965: California and Maine.

25. Uniform policy in relocating people and businesses displaced by government programs.
New draft State legislative proposals have been prepared pursuant to reports adopted during the past year. Most of them have been approved by the Committee on Suggested State Legislation of the Council of State Governments. They are incorporated in the Commission's 1966 State Legislative Program.

The new draft bills cover the following subjects:

The repeal of State constitutional and statutory restrictions on local property taxing and borrowing powers; adoption of a real estate transfer tax; control of water well and individual sewage disposal systems (revised); county review and supersession of local planning and zoning authority; uniform relocation assistance under State and local programs; areawide vocational education; establishment of regional councils of public officials; authorization of county urban renewal activities; State financial participation in and standards for general assistance; State technical services for local government on a reimbursable basis; uniform standard and daylight saving time; and adoption of model codes by reference.
IV. NEW REPORTS AND RECOMMENDATIONS ADOPTED BY THE COMMISSION DURING THE YEAR

A. Relocation: Unequal Treatment of People and Businesses Displaced by Governments

1. Background

Governmental displacement of persons and businesses is substantial particularly with respect to federally aided urban renewal and highway programs and local code enforcement. All indications are that it will continue to grow. Municipal officials of 100 cities over 100,000 population estimate an average yearly displacement in the next two years of 125,000 families and 16,000 businesses. Great inconsistencies exist in legislative provisions for relocation payments, advisory assistance and assurance of the availability of standard housing; these inconsistencies are felt most keenly in the large urban areas and by low income, nonwhite families. Large families and the elderly present other relocation problems. Among small businesses, those owned and operated by the elderly constitute a major problem. The worst problem of all in relocating families and individuals is the shortage of standard housing for low income groups.

2. Recommendations

At its 19th meeting in January, 1965, the Commission approved a report on this subject and recommended that:

a. The Congress establish and executive agencies implement a uniform policy of relocation payments and advisory assistance for persons and businesses displaced by grant-in-aid or direct Federal programs.

b. Each State establish a uniform policy within the State covering relocation assistance and relocation payments for persons and businesses displaced by State and local programs.

c. The Congress and State legislatures assign to administrative agencies responsibility for determining the amount of relocation payments, subject to specific statutory maximums.
d. The Congress require State and local governments administering Federal grant-in-aid programs, before proceeding with any property acquisition that displaces people, to assure that there is a method for temporary relocation and that standard housing units in sufficient quantities at a comparable location, within their financial means are or will be available and that the States enact legislation with a similar requirement for State and local agencies.

e. Under Federal grant-in-aid programs, the full costs of payments to any person for relocating a family, and the costs of payments up to $25,000 to any person relocating a business be completely reimbursed by the Federal Government; and the costs of business relocation payments in excess of that amount be shared on the basis of the cost-sharing formula governing the particular program.

f. The States share in local governments' costs of providing relocation payments and services in programs for which localities receive State or Federal grants to which the State contributes part of the local share.

g. The Small Business Administration Act be broadened to authorize disaster loans to small business concerns that suffer substantial economic injury as a result of a construction program conducted by State and local governments or that are adversely affected but not actually displaced by government property takings.

h. Congress amend the Manpower Development and Training Act to permit widow and widower owners of displaced firms to be eligible for manpower retraining allowances.

i. Federal, State, and local governments authorize and encourage all agencies causing displacements in urban areas to centralize
the responsibility for all aspects of relocation programs in a single agency which is part of the regular administrative organization in each major urban jurisdiction.

j. Cities in metropolitan areas with relocation staff and experience offer to contract to provide relocation services and areawide studies of housing needs and resources for all local governments and agencies operating in the area and that smaller units, where necessary, undertake to provide such services and studies jointly.

k. States and regional organizations assist local governments in planning for relocation through such means as technical assistance in preparation of workable programs and community renewal programs; where States make urban renewal capital grants, advances therefrom should be provided for relocation planning.

l. Federal and State governments require their departments and agencies and special districts causing displacement to give advance notice at the earliest practicable time to local units of general government of any construction programs which will displace persons and businesses.

B. Federal-State Coordination of Personal Income Taxes

1. Background

In this report the Commission turned its attention to improving the fiscal strength of State and local government, a problem that demands continuing study. Strong State and local government responsive to the needs of its citizens is the foundation of an enduring federal form of government, and financial capability limits governmental strength.

The personal income tax, has now been used by the Federal Government and by some States for a half century. Its appearance in local tax systems is more recent. The annual revenue contribution of this tax has now reached $50 billion at the Federal and $4 billion at the State and local level.
Continuing economic prosperity and national policies to sustain that prosperity are focusing public attention on the revenue responsiveness of the personal income tax to economic growth at a time when political leadership in all parts of the country is preoccupied with acceptable ways to relieve the persistent revenue pressure on State and local governments. Simultaneously, reductions in Federal tax rates at least open up the possibility that the States' elbow room in the income tax field is being enlarged.

In this context, the Commission considered several interrelated questions:

a. What should be the role of the personal income tax in State tax systems and what part, if any, should the Federal Government play in facilitating that role?

b. What should be the relationship between the structure and administration of State and Federal taxes?

c. How can income tax relationships among the States and between State and local governments be improved?

2. Recommendations

At its 21st meeting in October, 1965, the Commission approved a report on this subject including the following recommendations:

a. That in formulating their tax policies States without the personal income tax give early and careful consideration to its adoption and that those presently employing a relatively ineffective income tax strengthen it. 1/

b. That the Congress amend the Internal Revenue Code to give Federal income taxpayers an option to either continue itemizing income tax

1/ Senators Ervin and Mundt and Congressmen Dwyer and Fountain and Governor Dempsey dissented from this recommendation.
payments to State and local governments or to claim a substantial percentage of such payments as a credit against Federal liability. 2/

c. That the States endeavor to bring their income tax laws into harmony with the Federal definition of adjusted gross income.

d. That the Congress authorize the Internal Revenue Service and that State legislatures authorize their Governors to enter into mutually acceptable agreements for Federal collection of State income taxes.

e. That all States continue to allow credit to their residents for personal income taxes paid to other States and that those States now allowing a nonresident credit repeal such provision.

f. That the States adopt a uniform definition of "residence" for personal income tax purposes and that the State tax agency be authorized to enter into reciprocal agreements to eliminate potential double taxation resulting from conflict in the interpretation of "residence."

g. That personal income should be taxed at the State rather than the local level but if local income taxes are also levied they should only be authorized in the form of a supplement to be administered with the State tax. 3/

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2/ Secretary Fowler did not vote on this recommendation. Governor Dempsey abstained from this and succeeding recommendations in the report.

3/ Representative Crank dissented in part from this recommendation.
C. Metropolitan Social and Economic Disparities: Implications for Intergovernmental Relations in Central Cities and Suburbs

1. Background

In its study of this subject, the Commission examined 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 19th meeting in January 1965, the Commission approved a report on this subject. The Commission recommended that:

a. Each local governmental unit and agency within metropolitan areas, ascertain, analyze, and give recognition to economic and social disparities affecting its programs. Federal planning aids for urban development should specifically authorize and encourage economic and social policy planning for the community as a basic justification for physical planning.

b. State legislation be enacted restricting zoning authority in metropolitan areas to larger municipalities and to county government to encourage a wide range of housing prices, and that metropolitan planning agencies prepare plans and ordinances for adoption by local governments reflecting this objective.

c. States enact legislation authorizing the adoption of uniform housing, building, zoning, and platting codes within metropolitan areas, and that local governments utilize such authority.
d. To encourage diversification and geographic dispersal of housing for low income groups, Federal and, where necessary, State legislation be amended to (1) facilitate use of existing private housing by local public housing authorities; (2) authorize subsidizing of rents of low income families in existing private housing; 1/ and (3) permit financial assistance to private nonprofit organizations to enable them to provide subsidized housing for low income families.

e. 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. The Congress remove existing limitations on nonresidential renewal from the Federal urban renewal program.

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

h. States enact legislation authorizing counties in metropolitan areas to provide urban renewal and public housing services to unincorporated areas and small municipalities and that States provide financial and technical assistance.

1/ Governor Anderson, Mayor Goldner and Mrs. Wilcox did not concur in the endorsement of rent subsidies.
i. 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. States enact legislation authorizing the use of taxing powers by responsible areawide metropolitan service agencies carrying on functions not solely financed by user charges.

k. 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 the proliferation of local governments within such areas.

l. States consider the merit of using State grant funds to equalize local property tax loads among local jurisdictions in metropolitan areas.

m. Each State make a critical review of its present school grant formula to insure that it provides for an educational level below which no community should fall and that it contains factors designed to measure local tax effort and diverse community educational requirements.

n. The States finance at least one-half of the cost of general assistance welfare programs, accompanied by adoption of State standards for such programs.

o. Local governments in metropolitan areas negotiating the sharing of costs for areawide urban services utilize cost-benefit studies as a basis for such negotiations.

p. The States and the Federal Government develop standards of measurement of costs and benefits for areawide services that they support through grant and loan programs.
V. CURRENT AND FUTURE WORK PROGRAM

Work is currently underway on the following subjects:

A. State Taxation of Interstate Commerce

Anticipating that Congressional Committees will request the Commission's views on H. R. 11798, (Willis, D.-La.) which would broaden and make more explicit the rules governing State taxation of interstate commerce, the staff is submitting a paper on this subject to the Commission in January, 1966. This paper analyzes the recommendations of the Willis Subcommittee as embodied in the provisions of H. R. 11798, and marshals the pros and cons of alternative approaches to some of the key problems explored by the Subcommittee. The staff paper is intended to serve as the basis for Commission consideration of the policy issues raised by the proposed legislation.

B. Intergovernmental Responsibility for Building Codes and Regulations

Building regulations are administered and enforced by thousands of local jurisdictions in the United States. The purpose of such codes is to establish minimum safeguards in the construction of buildings, to insure that occupants are protected from fire hazards or the collapse of a structure, and to prohibit practices that might lead to unhealthy or unsanitary conditions.

During the past decade, impressive gains have been made in the provision of housing for our growing population and facilities for business and industry. Simultaneously, the introduction of important innovations covering areas ranging from finance to technology have materially changed the building industry.

Much has been written about the impact of local building code restrictions on the technology and economics of building. Most of the material has been critical. The fact that codes vary so greatly from place to place and that many local jurisdictions are enforcing obsolete requirements, it is claimed, reduces incentives to advance new building materials and construction methods. The mere existence of more than 5,000 different local codes presents a formidable barrier to the development of a broadly based building industry. It is difficult for any building organization or manufacturer of building products to take advantage of the economies of mass production that have contributed so significantly to other sectors of the economy.
In a broad sense, the basic problem is to determine the proper role of, and ways in which, local, State, and the Federal governments and the building industry can more effectively deal with the inter-governmental problems of building code modernization and uniformity. This study is directed toward identifying and analyzing the inter-governmental problems of building code preparation and administration, including increasing the amount of research for housing and building construction, eliminating distortions created by existing legislative and administrative actions, removing obstacles to free movement and free operation of market forces, and providing more effective administration.

A draft report on this subject will be ready for submission to the Commission in January, 1966.

C. 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 business 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 State taxation of multi-State firms. Academic work in the form of both doctoral theses and research projects has also been done.

The fact that State and local policymakers are drafting tax and fiscal policies calculated to encourage industrial location and expansion suggests that, in their view at least, taxes are a factor in industrial location. In order to promote the long-range interests of our Federal system, this study has for its objective to explore ways for minimizing the destructiveness of this "new war between the States." Specifically, is it possible at the Federal level to design policies that will make States less vulnerable to tax competition? Is it possible at the State level to design property tax policy that will promote rather than fragment the metropolitan community? Is it possible to shape the other principal taxes at the several levels to these ends?

A draft report on this subject will be considered by the Commission in the spring of 1966.
D. Intergovernmental Relations in the Poverty Program

The purpose of the project is to study the intergovernmental features of the programs initiated under the Economic Opportunity Act of 1964 and certain other Federal programs that bear directly on the administration of the Act. The role played by Federal, State, and local governments in each of the programs established by the Economic Opportunity Act will be examined with a view to identifying ways in which each government can most effectively contribute toward the objectives of the Act. This will include (a) an evaluation of the extent to which each level of government is able to marshal its unique resources, and (b) an identification of the ways in which intergovernmental frictions among and between levels of governments and private institutions can be minimized. The emphasis of the study will be on an evaluation of the governmental machinery employed, rather than on the substantive provisions of the Act or the national objectives established by the Congress. The resulting report with alternative recommendations to the several levels of government is expected to be presented for review and action by the Commission in the spring of 1966.
VI. OTHER COMMISSION ACTIVITIES

The Commission performed a number of other activities in 1965 designed to carry out its statutory responsibilities for technical assistance in the review of proposed legislation and encouraging discussion of emerging public problems. Staff members testified before committees of Congress and of State legislatures on legislative proposals derived from or affected by Commission recommendations. Commission members and staff made presentations at the 1965 conventions of the major organizations of governmental officials, as well as business, professional and citizen groups concerned with intergovernmental aspects of public policy issues, taxation and finance, and urban area problems. Additionally, Commission members and staff appeared before a number of annual statewide meetings of similar organizations and groups.

Also, the joint State legislative information effort was continued with the American Institute of Planners in which the Commission and the State Chapter of the American Institute of Planners cooperatively identify priority State legislation that can contribute to the implementation of comprehensive urban development plans. The Commission's staff, working with the National League of Cities-National Association of Counties' Task Force on Substandard Urban Development, assist in identifying Federal programs that may be contributing to this substandard urban expansion.

New Commission Publications on Metropolitan Areas

The Commission currently has a contract with the Department of City Planning of the Massachusetts Institute of Technology to prepare a report which will consolidate and reflect Commission policies and reports on intergovernmental relations in metropolitan areas. The objective of this effort is a synthesis of the Commission's publications in this field within one volume with significant reference to such questions as:

What is the situation in metropolitan areas today regarding governmental structure and organization, finances, residential patterns, social and economic relationships, and the provision of services to people? What are the major inadequacies of intergovernmental relations in metropolitan areas and what are the trends? How are urban services administered? Examine some specific urban problems such as water and sewage supply and relocation. What are the organizational alternatives? What are the politics of reorganization? What is the Com-
mission philosphy that is evolving on metropolitan areas? What should the President and Congress, the Governors and Legislatures, the Mayors and County Officials, do including examples of better current practices?

The National League of Cities has contracted to develop a handbook on interlocal cooperation for the use of local officials considering interlocal agreements and contracting. The handbook will review the potentialities of interlocal cooperative agreements and contracts, summarizing illustrative examples of experience and will particularly emphasize considerations that enter into the actual drafting of agreements and contracts. Where feasible, sample language will be given and in other cases, general discussion of major considerations that should go into drafting will be presented. The handbook is intended both for local government council or board members and executives considering the possible use of agreements and contracts and for the administrators actually engaged in negotiating them.

The Commission had earlier prepared a Directory of Federal Statistics for Metropolitan Areas. This document is essentially a tabular index, by major and detailed subject, to all data regularly published by the Federal Government for standard metropolitan statistical areas and their constituent geographic units. Its purpose is to bridge the communication gap between a large segment of data-gathering agencies, the Federal Government, and State and local officials and other users of statistical information for metropolitan areas. This document, although only three years old, is rapidly becoming out of date. The Bureau of the Census with the concurrence of the Bureau of the Budget has now agreed to update, expand, and publish the Directory as a regular Census Bureau document.

In addition, the Urban Renewal Administration of the Department of Housing and Urban Development has issued a planning agency letter authorizing the use of funds under the Urban Planning Assistance grant program for preparation of directories of State statistics relating to metropolitan areas. Such a document would serve as a State counterpart to the Commission's Directory of Federal Statistics for Metropolitan Areas. This State directory would be a reference document that identifies, by general subject matter, tabular detail, area, source, and frequency of publication, the statistics regularly published by State departments and agencies, certain State and National commercial firms and university research bureaus.
Stimulation of Urban Research

The Commission is charged in its Act with encouraging discussion and study at an early stage of emerging public problems that are likely to require intergovernmental cooperation. Because of the Commission's special interest in urban area problems, it sponsored and chaired a preliminary planning conference on research and development information on urban problems held on October 11, 1965. This meeting was held to determine the feasibility of a more formal conference on information resources in the field of urban research to advise and assist the Science Information Exchange of the National Science Foundation in initiating a program to make available, on a more orderly and continuing basis, information on urban research in the United States currently in process. The preliminary conference helped indicate the parameters of urban research, develop a classification system for the subject matter falling under this general heading, and identify potential users of a centralized body of current information on urban research.

In addition, the Science Information Exchange is currently preparing for the Commission a report on all research currently underway in the field of intergovernmental relations, including problems of government in metropolitan areas. This report will contain a summary of each project in the Science Information Exchange files on this subject, the names of the principal investigators, completion dates, and amount of funds involved. This will be published as a Commission document.
VII. CHANGES IN COMMISSION MEMBERSHIP AND STAFF

During 1965, the following changes occurred in Commission membership.

Clair Donnenwirth of Portola, California, who had served with distinction as a member of the Commission since its establishment in 1959, passed away July 22 of a heart ailment.

Governor John Anderson, Jr.'s, term expired when his term of office as Governor expired January 13. His place on the Commission was taken by Governor Nelson A. Rockefeller of New York on November 10. Secretary of Agriculture, Orville L. Freeman, was appointed February 4 to take the place of Health, Education, and Welfare Secretary, Anthony J. Celebrezze, whose term on the Commission had expired October 1, 1964. Secretary of Treasury, Henry H. Fowler, was appointed May 11 to take the place of his predecessor, C. Douglas Dillon, whose term on the Commission expired March 26.

C. George DeStefano, Senate Minority Leader, Rhode Island, was appointed February 4 to take the place of Graham S. Newell of the State Senate of Vermont, whose term of office on the Commission had expired July 31, 1964. Mayor Richard C. Lee of New Haven was appointed May 11 to take the place of former Mayor R. Tucker of St. Louis, whose term on the Commission expired in the latter part of 1964.

The following changes occurred in the professional staff of the Commission.

Stuart Urbach, Senior Analyst on the staff who had the principal staff responsibility for two of the Commission's major reports (Apportionment of State Legislatures, and the Problem of Special Districts in American Government) passed away in August.

Robert A. Aleshire was appointed to fill the vacancy resulting from Mr. Urbach's untimely death. He came to the Commission from the Housing and Home Finance Agency.

Melvin Sneed, Assistant Director, resigned in April to accept a position on the staff of the Joint Committee on the Organization of the Congress. Following his departure, the former three sections of the Commission's staff were consolidated into two--Governmental Structure and Functions under Norman Beckman and Taxation and Finance under L. L. Ecker-Racz.
Will S. Myers, Jr., Analyst, came to the Commission from the D. C. Government to succeed Robert W. Rafuse, Jr., who resigned to accept an appointment as Assistant Professor at the George Washington University.
VIII. APPROPRIATIONS AND BUDGET

For the period July 1, 1964, through June 30, 1965, the Commission operated on an appropriation of $410,000.

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<th>Category</th>
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<tr>
<td>Personnel compensation</td>
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<td>Travel and transportation of persons</td>
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<td>Rent, communications and utilities</td>
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<td>Printing and reproduction</td>
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<td>Other services</td>
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<td>Supplies and materials</td>
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<td><strong>Total Obligations</strong></td>
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Actual and estimated obligations by specific objects of expenditure for the fiscal years 1965, 1966, and 1967 are shown in Appendix A.
### APPENDIX A

**OBLIGATIONS OF THE ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS FOR FISCAL YEARS 1965, 1966, and 1967**

**Object Classification (In thousands of dollars)**

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<th>Item</th>
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<th>FY 1967</th>
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<td>Personnel Compensation</td>
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<td>Other services</td>
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<td>Services of other agencies</td>
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<td>Equipment</td>
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<td><strong>$410</strong></td>
<td><strong>$428</strong></td>
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PUBLISHED REPORTS OF THE ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS


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