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REPORT BY THE

# Comptroller General

OF THE UNITED STATES



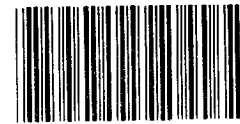
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## Perspectives On Intergovernmental Policy And Fiscal Relations

Relationships among Federal, State, and local governments have become increasingly complex as Federal funds to State and local governments have grown to an estimated \$82 billion in 1979--25.4 percent of total State and local expenditures, compared with 10 percent in 1955.

This report gives the General Accounting Office's perspectives on some intergovernmental issues, and offers a forecast of future developments concerning ways to improve the intergovernmental management system.



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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

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To the President of the Senate and the  
Speaker of the House of Representatives

( Interrelationships among Federal, State, and local governments have become increasingly complex as Federal funds to State and local governments have grown to an estimated \$82 billion in 1979. These Federal funds now account for about 25.4 percent of total State and local expenditures, compared with 10 percent in 1955.) Collectively, the Federal assistance system is an array of often conflicting activities and initiatives which defy understanding to all but the most serious students of the system. All programs have commendable objectives, but their growth has had detrimental side effects on the intergovernmental management system.

(The growing role of Federal funds and its implications for future roles and costs are forcing Federal, State, and local officials to become more concerned with Federal assistance programs. These concerns have led to increased efforts to rationalize the intergovernmental grant system, make grant requirements more uniform, and provide general management relief.)

This report outlines the General Accounting Office's intergovernmental work program, gives our perspectives on some of the major issues, and offers a forecast of future developments and trends shaping the intergovernmental agenda. We hope it will contribute to the dialogue--in the Congress, Federal agencies, and State and local governments--concerning ways to improve our intergovernmental management system.

We are sending copies of this report today to the Director, Office of Management and Budget, and to others concerned with the relationships among Federal, State, and local governments.

*Thomas B. Steeds*  
Comptroller General  
of the United States



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## ABBREVIATIONS

ACIR	Advisory Commission on Intergovernmental Relations
EEO	Equal Employment Opportunity
FAR	Federal Assistance Review
FMC	Federal Management Circular
GAO	General Accounting Office
GNP	Gross National Product
GSA	General Services Administration
IGA	Integrated Grant Administration Program
OMB	Office of Management and Budget

## CHAPTER 1

### INTRODUCTION

For over a century the Federal Government has provided assistance to State and local governments to accomplish specified national objectives and priorities in partnership with State and local governments. Federal assistance programs have been enacted for several reasons, including:

- To supplement State and local government funds to carry out projects which have regional or national goals and objectives.
- To equalize financial resources between geographical areas.
- To improve State and local administrative structures and operations.

Federal assistance encompasses grants, contracts, revenue sharing, loans, subsidies, insurance, and nonfinancial aids. Most Federal assistance has been in the form of grants. Through grants, the Federal Government has provided funds to and collaborated with State or local governments to administer programs bearing a strong national and State or local interest.

Federal assistance has and continues to generate controversy and intergovernmental tension. The fundamental tension in the system revolves around differences in priorities and objectives of the Federal, State, and local levels as each seeks to preserve its own autonomy and political prerogatives.

### HISTORY OF FEDERAL ASSISTANCE

In 1862 the Congress enacted the Morrill Act to help the States establish and maintain land-grant colleges. The act carefully specified the grant's objectives, placed conditions on the use of revenue derived from the sale of granted lands, and required annual reports. This established the pattern of categorical grants--providing needed resources for specific purposes--which remains the dominant feature of the assistance system.

Categorical grants rest on the concept of promoting acceptable or at least minimum levels of public services in areas of national concern by providing specific funds to solve specific problems. When a categorical grant is awarded, the Federal Government usually directly influences how the problem

in question will be approached. Both the Federal Government and State and local governments need to devote considerable attention to administrative detail even though it will result in high administrative costs. The high costs appear inevitable when assurance is needed that Federal funds appropriated to deal with specific problems of national concern are in fact directed toward solving those problems.

The 1960s and particularly the 1970s saw the Federal Government begin new approaches to providing assistance to State and local governments. The pattern of increasing assistance through narrowly defined categorical programs was altered with the enactment of broader purpose block grants and general revenue sharing. Conceptually, the block grant is not well defined. It has been associated with several inter-related and sometimes conflicting objectives. For a number of years, the consolidation of categorical programs into a block grant has been seen as a major step toward streamlining the fragmented Federal assistance system. More recently, the block grant has been viewed by some as a method of providing "no strings" aid to State and local governments and achieving greater decentralization of decisionmaking in broad functional areas.

There are currently five Federal programs which most observers agree embody the block grant approach. These five programs accounted for about 13 percent of the Federal outlays to State and local governments in fiscal year 1977, compared with 76 percent for categorical grants and 11 percent for general revenue sharing.

Enacted in 1972, general revenue sharing gives recipient governments a lot of flexibility in using funds with only general guidance from the Federal Government. State and local governments automatically receive revenue sharing funds, whereas they must apply or submit a plan for assistance under categorical or block grants. Revenue sharing represented the first major Federal step to underwrite the fiscal solvency of States and localities.

#### THE PROGRAM MAZE

The web of interrelationships among Federal, State, and local governments has become increasingly intricate as Federal funds have grown to account for about 25.4 percent of total State and local expenditures in 1979, compared with 10 percent in 1955. The Catalog of Federal Domestic Assistance published in May 1978 contains listings on 1,074 domestic programs and activities, of which 611 are available to State and local governments.

Collectively, the Federal assistance system is an array of often conflicting activities and initiatives which defy understanding to all but the most serious students of the system. All programs have commendable objectives, but their growth has had detrimental side effects on the intergovernmental management system.

During the 1960s, the explosion in the number of Federal programs made shortcomings in the system apparent. Studies showed that red tape, delays, and vast amounts of paperwork were characteristics common to most Federal programs. Each program often had its own unique requirements for application and administration. Because most new programs were developed without sufficient regard to existing programs, many requirements were inconsistent among related programs.

Anyone seeking to obtain and use Federal assistance found a veritable administrative maze. Applicants had to develop elaborate plans which often had little meaning. They were faced with lengthy forms and multiple reviews. Recipients endured extended waiting times, overlapping audits, and frequent detailed reporting--all adding to the cost, time, and frustration involved in receiving Federal assistance.

Perhaps more important, each program builds its own constituency, a phenomenon which tends to "Balkanize" the three levels of government. Local specialists in education, health, and housing, for example, interrelate with their counterparts at the State and Federal levels. In the process, elected State-local leadership--legislative bodies, mayors, county executives, and Governors--are often bypassed. In the long run, such bypassing can deal a deadly blow to the ultimate goal of effectively integrating the delivery of public services.

#### THE INTERGOVERNMENTAL DELIVERY STRUCTURE

The structure that delivers public services to over 200 million Americans at the local level consists of 56 Federal agencies, 50 States, the District of Columbia, 38,000 general purpose local governments, 15,000 independent school districts, 24,000 special districts and authorities, and over 600 areawide councils of governments. These units interact in various patterns and are interdependent in a system that has always been characterized by stress.

The purpose of the system may be to distribute resources efficiently and equitably always respecting local autonomy. In practice, however, governmental units at all levels compete for resources and jealously guard their prerogative to serve the interests of their constituents.



As more demands have been made on government at all levels, more conscious attention has been given to the roles and responsibilities of the units of government. Increased thought has been given to the intergovernmental system as a system.

Due to its national perspective, the Federal Government has taken the lead in assessing the grants system. It has considered whether it can and should manage the system, whether it should decentralize its agencies, whether functional Federal programs should be used to change relationships of governments within the system, and whether certain programs are inhibiting the system.

#### PREVIOUS FEDERAL EFFORTS TO SIMPLIFY THE SYSTEM

In recent years, several actions have been taken by the legislative and executive branches to improve assistance delivery to State and local governments. Simplification, uniformity, and decentralization are goals that have guided Federal efforts.

The Intergovernmental Cooperation Act of 1968 was enacted to improve the administration of grants to State and local governments and to achieve the fullest possible cooperation and coordination of activities among the levels of government. State and local governments and others were given the opportunity to review and comment on the consistency of proposed federally assisted projects with State, regional, and local policies.

In 1969, the President initiated the Federal Assistance Review (FAR), a Government-wide effort designed to place greater reliance on State and local governments; move Federal decisionmaking out of Washington, D.C., and closer to the people; and cut redtape. FAR did not overturn the categorical grant system written into law, but it reduced paperwork and the amount of time required for processing applications.

Another Federal initiative was the regionalization of most Federal domestic agencies throughout the United States. The regional structures of Federal organizations used to be a hodgepodge of historical and bureaucratic accidents. The structural disarray was ended by the establishment of 10 standard Federal regions for most of the domestic departments of the Federal Government, along with standard headquarters cities. In addition, a Federal Regional Council (consisting of representatives from the major grantmaking agencies) was

established in each of the regions. Armed with executive orders and support from the Office of Management and Budget (OMB), the regional councils were to function as coordinating bodies on matters spilling across organizational lines.

The Joint Funding Simplification Act, also a product of FAR, was signed into law in December 1974. This legislation authorizes Federal agencies, subject to regulations promulgated by the President, to use a single application, a single audit, and a single point of Federal contact for related aid programs which State and local governments want to plan and use together for a single project, even though the aid programs are administered by more than one Federal agency.

#### CURRENT ATTEMPTS AT REFORM

The Carter Administration and the 95th Congress have made considerable efforts to improve and simplify the assistance system, a task which will be a major and continuing process. Some would argue it is impossible, considering the number and variety of Federal programs, the vested interests supporting individual programs, the multiplicity of governments, and the inability to agree on the overall objective of the assistance system. But, like most existing intergovernmental policy directives and legislation, the more recent reform attempts will take time to materialize. The issues will be studied, debated, and haggled over for several years before policy positions are agreed to and adopted. Some of the more recent reform efforts of the executive and legislative branches follow.

#### Reforms directed by the President

The President has initiated several reforms, some of which are:

(1) Zero-base review of all Federal planning requirements accompanying Federal assistance programs, July 19, 1977.

In response to the President's directive, an OMB study group identified over 4,000 planning requirements attached to 162 Federal financial assistance programs administered by 17 Federal agencies. In a June 5, 1978, report to the President, OMB said the requirements varied greatly in methodology, governmental level of primary impact, utility, and importance. On June 21, 1978, the President directed the heads of executive departments and agencies to immediately eliminate, correct, and rewrite the identified planning requirements. OMB, on August 14, guided the agencies in reforming the planning requirements as directed by the President.

(2) Interagency Coordinating Council, March 27, 1978.

As part of the Administration's commitment to make more effective use of existing urban programs, the President created the Interagency Coordinating Council. The Council brings together high-level agency officials directly responsible for program operations to discuss needed improvements. The Council's main functions are

- to promote coordination among agencies as needed to carry out immediate program operations,
- to provide a coordinated multi-agency response to specific development strategies submitted by State and/or local governments, and
- to resolve conflicts in program operations.

The Council is confident that several of its initiatives will make significant improvements in the way Federal aid is delivered to State and local governments.

(3) Federal Aid Simplification initiatives, September 9, 1977,

A series of reforms was initiated by the President to improve the management of Federal aid and the partnership with State and local governments in five management areas-- application, reporting, and planning; financial management practices; audit procedures; requirements to fulfill national goals; and simplification of requirements. The purpose of the reforms is to cut the "bureaucratic red tape" in the Federal assistance system. In September 1978 the President reported on the Administration's progress during the past year to implement the Federal aid reform initiatives.

Legislative proposals

The 95th Congress was active in the grants reform area, as follows.

(1) Federal Grant and Cooperative Agreement Act of 1977, Public Law 95-224, February 3, 1978.

The act distinguishes between procurement and assistance relationships and requires Federal agencies to use contracts for procurement transactions, and grants or cooperative agreements for assistance transactions. Section 8 of the act requires OMB, in cooperation with the executive agencies, to conduct a 2-year study, to develop a better understanding of

alternative means of implementing Federal assistance programs, and to determine the feasibility of developing a comprehensive system of guidance for Federal assistance programs. This study should identify opportunities for simplifying and standardizing the assistance system.

(2) Federal Program Information Act, Public Law 95-220, December 28, 1977.

The act requires the Director of OMB to prepare and maintain a Federal Assistance Information Data Base on each domestic assistance program, conduct a study of existing agency information systems, and report to the Congress within 1 year on executive branch actions to implement the act and on OMB's recommendations for statutory changes.

(3) Proposed Intergovernmental Coordination Act of 1977.

The bills (H.R. 4406 and S. 892, 95th Congress) proposed a national policy on areawide planning and coordination and called for a stronger role for local elected officials in the implementation of Federal programs in their jurisdictions.

(4) Proposed Federal Assistance Paperwork Reduction Act.

The bill (S. 3267, 95th Congress) proposed to standardize national policy requirements associated with most assistance programs, such as citizen participation and equal employment opportunity (EEO).

(5) Proposed Federal System Reform Act of 1978.

The bill (S.3266, 95th Congress), among other things, sought to establish an Office of Intergovernmental Affairs in the Executive Office of the President as the focal point for all Federal assistance programs.

(6) Proposed Small Communities Act of 1978.

The bill (S. 3277, 95th Congress) contained several titles which, if reintroduced and enacted, would represent major steps toward improving Federal assistance administration and intergovernmental relations. Two titles are of particular importance--title III which encourages simplification and standardization in the administration of national policy requirements generally applicable to Federal assistance; and title XIII, which seeks to improve the financial management, including audits, of federally assisted programs administered by State and local governments.

## CHAPTER 2

### GAO'S APPROACH TO STUDYING

### INTERGOVERNMENTAL RELATIONS

Our approach in reviewing the intergovernmental assistance system is problem oriented rather than program oriented. The principal objective of our work is to promote more effective operation of the Federal assistance system by identifying and analyzing major causes of intergovernmental conflict and recommending ways for improvement. Special emphasis is placed on examining the impact of Federal policies and practices from the perspective of State and local governments.

Other major objectives of our reviews are to (1) explore the extent to which Federal assistance, as a system, is responsive to governments or areas most in need and (2) provide information to help the Congress assess alternative policies to distribute Federal aid to States and localities.

Our intergovernmental reviews normally cut across agency and program lines and are concerned with Federal policies and practices having broad applicability among various programs and agencies. For example, problems that local governments might be having in obtaining qualified medical personnel under a federally assisted health program would not be the subject of an intergovernmental review. However, local governments' problems in implementing effective health and other programs, caused by conflicting administrative requirements among Federal agencies, uncertainties about the level and timing of Federal funding, and difficulties in obtaining information about available Federal assistance, could be the subject of intergovernmental reviews.

Our intergovernmental work program includes evaluations of individual Federal programs if their principal objective is to provide general financial support for State and local governments. General revenue sharing and the New York City loan program are examples of such programs.

In practice, the Federal Government's ability to impose definite and enforceable policies on States and localities is extremely limited. At the same time, the Federal level must rely heavily on the State and local levels to carry out national domestic programs and policies.

The problems created by our complex intergovernmental system are enormous. We have, however, grouped the problems into basic research areas for study purposes. One area

concerns the need to standardize and simplify Federal assistance administrative requirements. Inconsistencies in policies, practices, and administrative requirements among Federal assistance programs create intergovernmental friction and affect the efficiency and effectiveness of the Federal assistance system.

Another area centers on the need to improve Federal, State, areawide, and local coordination. Since the activities of each level of government are interrelated, actions or inactions by one level affect the actions of the other levels. The sheer number of actors creates immense coordination problems which affect the efficiency and effectiveness of services provided to the public.

The methods used to distribute Federal assistance to State and local governments encompasses contracts, grants, loans, revenue sharing, and technical assistance and constitute a third research area. All the merits and deficiencies of each of these approaches are not, but should be, known if both Federal and grantee objectives are to be effectively met.

A final research area is to assess intergovernmental fiscal interaction and associated problems. It is continually questioned how, with the existing fragmented and often overlapping intergovernmental structure, Federal assistance can be distributed to reflect the inequalities among recipient State and local governments in fiscal capabilities and the needs of their citizens.

#### STANDARDIZING AND SIMPLIFYING ADMINISTRATIVE REQUIREMENTS OF THE FEDERAL ASSISTANCE SYSTEM

Inconsistencies in policies, practices, and administrative requirements of Federal and State funding agencies cause significant problems for State and local governments. There is general agreement that agency administrative requirements should be simplified and standardized where possible. The large number of assistance programs make the adoption of more standard requirements a major, long-term undertaking.

From the perspective of State and local governments, the complex and excessive administrative requirements attached to categorical grants are a major cause of intergovernmental friction. A number of studies have documented examples of administrative procedures and requirements which impede rather than assist in achieving program goals. Examples of the types

of problem areas identified by State and local governments include

- detailed, diverse, and burdensome reporting requirements;
- varied and confusing cost allowability standards;
- differing accounting requirements;
- slow reimbursement;
- arbitrary cost sharing practices; and
- time consuming and overlapping audits.

Simplification and standardization of Federal grant requirements have been encouraged by administrative regulations and in recent legislative proposals. OMB circulars now cover several fields of agency requirements, including administrative practices, cost principles, and audit procedures, that are crucial from the standpoint of State and local grant recipients.

In 1971, OMB Circular A-102, dealing with standard administrative practices, was issued after many months of careful analysis, negotiations, and interagency consultation. The circular attempts to standardize 15 areas of administration of grants to State and local governments and to keep Federal agencies from imposing unduly burdensome requirements. The circular contains standards for such areas as financial reporting, procurement, property management, grant payment procedures, cash depositories, and bonding and insurance.

A second circular, Federal Management Circular 74-4, establishes principles and standards for determining costs applicable to grants and contracts with State and local governments. The circular's principles provide the basis for uniformly determining allowable costs under Federal grants and contracts. It is intended to assure that federally assisted programs bear their fair share of both direct and indirect costs.

A third circular, Federal Management Circular 73-2, requires Federal agencies to consider cross-service auditing arrangements where one agency will conduct audits for another. State and local governments often have grants from several Federal agencies; therefore, effective use of the cross-service auditing arrangement would minimize any disruptive effect of Federal audits on their operations. The circular

also encourages Federal agencies to accept non-Federal audits whenever possible.

These three circulars, administered by OMB, attempt to increase uniformity in and simplify the processes of grant administration. A fourth circular attempts to assure that persons or businesses relocated under Federal assistance programs receive uniform treatment. The General Services Administration's (GSA) Federal Management Circular 74-8, issued to replace OMB Circular A-103, prescribes guidelines for agency implementation of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, Public Law 91-646.

On September 9, 1977, President Carter initiated a series of reforms to improve the management of Federal aid and the partnership with State and local governments in five management areas--application, reporting, and planning; financial management practices; audit procedures; requirements to fulfill national goals; and simplification of regulations. The purpose of the President's reforms is to cut the "bureaucratic red tape" in the Federal assistance system.

Perhaps the most important effort to improve grant management is the recently enacted Federal Grant and Cooperative Agreement Act of 1977 (Public Law 95-224, Feb. 3, 1978). Section 8 of the act requires OMB, in cooperation with the executive agencies, to conduct a 2-year study of Federal assistance programs and related administrative practices. This study should identify opportunities for simplifying and standardizing the assistance system.

#### Prior reviews

Under this research area, we have evaluated and reported on several ongoing Federal efforts to simplify grant administration:

--"Increased Intergovernmental Cooperation Needed for More Effective, Less Costly, Auditing of Government Programs" (B-176544, Apr. 8, 1974).

In this report to the Congress, we proposed that GSA and OMB take more positive steps to promote the use of State and local audits to satisfy Federal audit requirements.

--"Need for More Effective Cross-Service Auditing Arrangements" (FGMSD-77-55, Sept. 26, 1977).



We reported to the Congress that Federal agencies have not fully implemented Federal Management Circular 73-2 as it relates to cross-service audit arrangements. We recommended that OMB assess the feasibility and practicability of establishing a system to identify the universe of Federal grantees which can be subjected to cross-service auditing arrangements.

- "Audit of the Procurement System of the State of Oregon" (PSAD-77-15, Jan. 10, 1977). "Procurement Practices of Cities Using Federal Grant Funds" (PSAD-77-88, Apr. 29, 1977). "Opportunities for Improvements in Local Government Procurement: Part 1 and Part 2" (PSAD-78-95, Aug. 1978).

For the above reports we studied the application of Federal Management Circular 74-7's property management and procurement practices and problems experienced in spending Federal grant funds. These staff studies provide overviews of city procurement practices and problems associated with Federal assistance funds.

- "Changes Needed in the Relocation Act to Achieve More Uniform Treatment of Persons Displaced by Federal Programs"(GGD-78-6, Mar. 8, 1978).

We reported to the Congress that the Federal Government has not provided uniform treatment to people displaced from their homes and businesses by Federal or federally assisted programs. We recommended that the Congress reconsider the coverage of the relocation act and provide for one set of Government-wide regulations to replace the multiple sets now issued by various Federal agencies. Bills were introduced in both houses of the 95th Congress to broaden the coverage of the act.

- "Federal Cost Principles Are Often Not Applied in Grants and Contracts With State and Local Governments" (GGD-78-111, Mar. 12, 1979).

This report discusses deficiencies in the implementation of Federal Management Circular 74-4 and its cost principles and the effects these deficiencies have on intergovernmental relations. Unfortunately, many Federal agencies and grantees do not adhere to

the principles, and continue applying non-standard and often inappropriate methods of charging costs. We recommended that OMB revise the circular and Federal agencies improve their day-to-day administration of the circular.

### Significant short-term issues

Issues remaining for study in the short range are framed in the following questions.

(1) How can Federal agency compliance with OMB circulars and Presidential directives for standardizing and simplifying the administrative processes of the assistance system be improved?

Given the number of grant programs and administering Federal agencies, effective implementation of central policy directives represents a very large and complex task. While progress is being made, a number of factors have hindered full implementation of OMB circulars. Some agencies argue that compliance would hamper effective administration of their programs; others point to program legislation which precludes compliance, and others say OMB's efforts to promote agency compliance have been limited. Effective implementation of the administrative initiatives will require continuing evaluation of compliance.

(2) Are the various policy requirements associated with most assistance programs, i.e., EEO, citizen participation, environmental impact, etc., achieving their purposes and can they be made more uniform?

The Federal Assistance Paperwork Reduction Act (S.3267, 95th Congress) proposed, among other things, to streamline and simplify the generally applicable requirements attached to Federal assistance programs. Similar legislation, if passed, would significantly alter Federal, State, and local relations.

The proposed legislation has considerable appeal and additional analyses are needed to identify similarities and differences among programs on selected Federal policy requirements and the degree of standardization which does or should exist.

(3) Are the objectives of the Federal Grant and Cooperative Agreement Act being achieved and are changes needed in the legislation?

The recently enacted Federal Grant and Cooperative Agreement Act mandates a study of Federal assistance programs. This study proposes to address the opportunities for simplifying and standardizing the assistance system. The findings, conclusions, and recommendations resulting from the study could significantly change the assistance system we know today.

(4) Are State legislatures precluded from effective involvement in the Federal assistance system?

State legislatures are taking a more active interest in Federal funds awarded to States. Issues which need to be addressed include (1) whether Federal grant policies and practices either explicitly or implicitly exclude State legislatures from meaningful involvement in the Federal assistance system and (2) if so, what alternative Federal policies and practices would bring about a neutral Federal position with regard to intra-State separation of powers and thus maximize the options available to stronger State legislatures demanding more involvement with Federal grants.

IMPROVING COORDINATION OF  
FEDERAL, STATE, AREAWIDE, AND  
LOCAL ACTIVITIES

The activities of all levels of government--Federal, State, areawide and local--are interrelated. Each level has to be conscious of the activities of the others, for each level's revenues and expenditures are conditioned significantly by the actions or inactions of other levels. If the number of actors was small, effective coordination of activities would not be a major problem. The fact is that large numbers exist and this makes effective coordination very difficult.

The intergovernmental actors include

- 56 Federal agencies;
- 10 Federal Regional Councils;
- 50 States, the District of Columbia, and several territories;
- 521 substate districts;
- 80,000 units of local government; and

--an unknown number of public and private nonprofit organizations, plus 1,074 Federal domestic assistance programs and activities under which the intergovernmental actors operate with billions of Federal dollars.

Since the early 1960s, most metropolitan areas experienced a mushrooming of single-purpose and multi-purpose districts supported by Federal grants. Across the country, over 4,000 geographic program areas are recognized under Federal assistance programs, including nearly 500 law enforcement planning regions, 250 air quality regions, and 115 economic development districts.

Federal and federally funded activities are found at all levels of government. These activities must be coordinated among all the levels so that services are provided to the public efficiently and effectively. The complexities of coordination are directly related to the number of Federal programs and the number of intergovernmental actors. Barring a massive reduction of these numbers, coordination will be extremely difficult. The methods of coordination should be as few in number as possible and should be simple. Ideally, strong focal points should be established and maintained at each of the levels to plan and coordinate all activities.

A number of Federal initiatives have been adopted to strengthen overall Federal, State, and local management; planning; and coordination of grant-related activities. The Intergovernmental Cooperation Act of 1968 proclaimed a national policy of intergovernmental coordination and cooperation. The objectives of Title IV of the act rest on the premise that the economic and social development of the Nation and the achievement of a satisfactory level of living depend upon the sound and orderly development of all areas, both urban and rural. The act requires that the President establish rules and regulations for uniform application in formulating, evaluating, and reviewing Federal programs and projects to insure orderly development.

Earlier legislation, the Demonstration Cities and Metropolitan Development Act of 1966, section 204, required that all applications for Federal planning and construction funds be submitted to areawide planning agencies for review. The Office of Management and Budget implemented the act, first through Circular A-82 and later through Circular A-95.

OMB Circular A-95 establishes procedures for coordinating Federal and federally assisted programs and projects with each other and with State, regional, and local plans and programs. The circular's four parts attempt to strengthen management

and comprehensive planning processes at the State, regional, and local levels.

Part I of the circular requires that under certain grant programs, proposals requesting Federal funds must first be submitted to State and areawide clearinghouses for review and comment in accordance with the objectives of the 1968 act. Part II requires that direct Federal development projects be coordinated with State and local governments, primarily through the clearinghouses.

A clearinghouse is a State or areawide agency that has been recognized by OMB as an appropriate agency to carry out the review and comment system for Federal and federally assisted projects. Many clearinghouses have two roles-- reviewing proposals in terms of impact and obtaining the views of other agencies and jurisdictions.

Part III of Circular A-95 provides an opportunity for Governors to review and comment on the relationship of State plans mandated under 65 Federal programs to other State plans or to the plans of affected areawide or local jurisdictions.

Part IV of A-95 encourages coordination of federally assisted planning activities at the substate level. Federal agencies are to use areawide planning agencies and common geographic boundaries for federally assisted planning at the substate district level.

OMB, through Circular A-85, provided that chief executives of State and local governments be given a reasonable opportunity to comment on major proposed Federal rules, regulations, standards, procedures and guidelines, and major organizational changes significantly affecting State and local governments. In March 1978 this circular was replaced by Executive Order 12044, which requires Federal agencies to develop specific plans for consultation with State and local governments in developing regulations.

Several other Federal mechanisms exist to coordinate activities affecting State and local governments, including:

- The Interagency Coordinating Council, composed of high-level agency officials with major program responsibilities in the key urban departments, which (1) serves as a catalyst for operational improvements cutting across department lines and (2) provides a coordinated Federal response to communities which develop comprehensive and multiyear projects. The Council replaced the Domestic Council, whose former

staff, under an Assistant to the President, continues to coordinate the development of domestic policy within the Interagency Coordinating Council.

--OMB's Intergovernmental Affairs Division, which has responsibility for several circulars requiring coordination of activities among all levels of government, and for conducting special projects, such as implementing the Grant and Cooperative Agreement Act.

--OMB's Financial Management Branch, which has responsibility for several circulars dealing with uniform administrative and financial management matters and for overseeing Federal implementation of other Presidential efforts to improve financial management.

--Federal Regional Councils, which are composed of representatives from the major grantmaking agencies in each of the 10 Standard Federal Regions, were established to improve coordination of the categorical grant system and to develop closer working relationships among Federal agencies and with State and local governments. On January 18, 1979, Councils came under the policy direction of the Interagency Coordinating Council. Prior to that, Councils were under the policy guidance of the now abolished Under Secretaries Group for Regional Operations.

--The Department of the Treasury which administers the grant-in-aid notification Treasury Circular 1082 (formerly OMB Circular A-98).

Effective coordination requires extensive and current information. Congress reacted to the need for better information on Federal assistance programs by passing the Federal Program Information Act (Public Law 95-220, Dec. 28, 1977). The act requires the Director of OMB to prepare and maintain a Federal Assistance Information Data Base on each domestic assistance program. The Director is to (1) make this information available to the public through computer terminals to the greatest extent practicable, (2) publish a Federal domestic assistance program catalog each year, (3) conduct a study of existing agency information systems, and (4) report to the Congress within 1 year after enactment of the act on, among other items, executive branch actions to implement the act and on OMB's recommendations for statutory changes.

Proposed amendments to the Intergovernmental Cooperation Act (S. 892 and H.R. 4406, 95th Congress) would have established national policy on areawide planning and coordination

and provided for Federal funding for intergovernmental reviews such as those conducted under A-95. The amendments called for a stronger role for local elected officials in the implementation of Federal programs in their jurisdictions by giving them powers of review and appointment. In return, local officials would be required to develop an areawide development guide which would be binding on local governments once adopted.

### Prior reviews

Under this research area, we evaluated and reported on several ongoing Federal efforts to improve coordination.

--"Improved Cooperation and Coordination Needed Among All Levels of Government--Office of Management and Budget Circular A-95" (GGD-75-52, Feb. 11, 1975).

In our report to the Congress on Circular A-95 we noted that parties which may be affected by proposed federally assisted projects did not always have a chance to review and comment because: (1) projects which had significant impact on area and community development were not subject to the review and comment system prescribed by the circular and (2) participants in the review and comment processes were confused as to which projects were covered, when projects were to be submitted, how much time they had for review, and when the process was completed. In two of the three States reviewed, more than half of the proposed projects were not submitted for review and comment before application was made for Federal assistance. OMB devoted only limited staff to administering Circular A-95.

--"Federally Assisted Areawide Planning: Need to Simplify Policies and Practices (GGD-77-24, Mar. 28, 1977).

We reported to the Congress on the lack of coordination among federally assisted planning programs which take on an areawide (more than one government or jurisdiction) approach to community problems. Our report showed that Federal planning programs are characterized by overlap, duplication, limited coordination, and inconsistent policy and administrative requirements. We recommended that (1) the number of programs be reduced, (2) OMB revise Part IV of Circular A-95, and (3) Congress enact proposed legislation

which would establish a national policy on areawide planning.

- "States Need, But Are Not Getting, Full Information on Federal Financial Assistance Received" (GGD-75-55, Mar. 4, 1975).

In this report we assessed the performance of OMB and the Federal agencies in implementing section 201 of the Intergovernmental Cooperation Act of 1968. This section requires Federal agencies to give States information on grants awarded to them and their political subdivisions. We recommended amending legislation to require Federal agencies to provide each State with data on financial assistance provided, rather than just grant awards. Also, OMB and the agencies should use existing internal information systems to provide the financial assistance data indicated above.

- "The Linkages Between Federally Assisted Implementation Programs and Plans" (GGD-78-66, Apr. 27, 1978).

This report provided information on the linkages between federally assisted planning and implementation programs. The specific problems with the current array of Federal programs seem to be that (1) federally assisted comprehensive planning is not performed in all broad governmental functions and is not linked to all implementation programs; (2) many narrow-scope programs fund both planning and implementation, making it difficult to link such program-specific planning with other related implementation programs; and (3) a large number of implementation programs and dollars are not linked in any way to a federally assisted plan or planning process.

- "State and Local Governments' Views on Technical Assistance" (GGD-78-58, July 12, 1978).

This staff study sought to obtain a representative view from the State and local sector on (1) their needs for Federal technical assistance and (2) the responsiveness of Federal programs in meeting their needs. Overall, State and local officials gave a mixed evaluation of Federal efforts. On the positive side, some who received relatively large amounts of Federal technical assistance saw a need for more. On the negative side, a majority neither received nor felt they needed



much technical assistance from the Federal level. A reluctance to become involved with the Federal level because of complexities and regulatory problems associated with Federal assistance emerged as one of the key concerns of State and local officials. The study also clearly demonstrated the importance of effective and aggressive implementation of the information system mandated by the Program Information Act.

--"Assessment of Federal Regional Councils" (B-178319, Jan. 31, 1974).

This report addressed the ineffectiveness of Federal Regional Councils. Councils were impeded by factors such as member agencies' lack of decentralized decisionmaking authority, limits on the authority of the council chairmen, and an absence of formalized standards for planning work and reporting progress.

--"Decentralization vs. Centralization of Federal Agencies" (GGD-78-71, May 25, 1978).

In a review of various Federal agency reorganization activities which occurred since January 1977, we found no clear trend emerging from agency reorganizations to either centralize or decentralize Federal decisionmaking authority.

--"State and Local Government Productivity Improvement: What is the Federal Role?" (GGD-78-104, Dec. 6, 1978).

In our report, we concluded that the Federal Government could most effectively improve State and local productivity through a two-fold strategy: (1) changing the Federal grants system to remove negative barriers and providing more positive incentives for improved productivity in aided functions and (2) developing a more coordinated Federal program to improve the capacity of State and local management.

#### Significant short-term issues

Issues for study in the short term are defined in the following questions.

(1) How can Federal coordination mechanisms be improved and strengthened?

OMB Circular A-95 represents a key process to coordinate domestic initiatives and to strengthen the planning and management capacity of State and local governments. Taking advantage of the opportunities offered by A-95 depends heavily on the resources and zeal which each level of government uses to make the process work. Continued dedication to the process and periodic studies of compliance appear necessary to maintain this highly desirable and important coordination mechanism.

The Federal Government's formal organization for intergovernmental relations should be studied. The primary focus would be on assessing the progress Federal agencies have made in (1) implementing the President's recent initiatives to establish intergovernmental focal points in the agencies and in (2) improving their consultation with State and local governments when regulations are revised or developed. Issues for consideration would include (1) the coordination role of OMB and (2) the desirability of creating a more structured approach in Federal agencies to implement intergovernmental management initiatives of the Executive Office of the President.

(2) How can the Federal level do a more effective job in providing program information to the State and local sectors?

OMB's task force study, mandated by the Federal Program Information Act, found no "glaring deficiencies" in the Federal grant information system but did identify weaknesses at the implementation level that needed corrective actions. OMB concluded that current policies should be enforced rather than revised and that sufficient resources exist for making most of the necessary improvements in the system.

Further study is needed concerning the way Federal domestic assistance is classified into "programs." The several different classifications that exist result in a wide-ranging count of the number of Federal assistance programs. To effectuate Federal assistance reform and to make access to Federal program information easier, the Federal Government will have to determine "when a program is a program" and compile, maintain, and consistently use the program classification inventory throughout the Federal domestic assistance system.

(3) Can federally assisted planning programs serve as a more forceful catalyst to effective coordination?

More research is needed on the relationships that now exist between federally assisted planning programs and federally assisted implementation programs. Public administration theory places great emphasis on the planning/budgetary aspects of management and the need to implement projects in accordance with such plans/budgets. To do otherwise would be a waste of both planning and implementation funds.

#### REFORMING THE FEDERAL ASSISTANCE SYSTEM

Federal assistance is an inclusive term encompassing grants, revenue sharing, contracts, loans, subsidies, insurance, and non-financial aids. Since the majority of Federal assistance has taken the form of grants, our studies have focused on the way grants are delivered to and used by State and local governments.

There are several ways to classify the different approaches of Federal assistance. One approach divides the programs by scope--categorical grants, block grants, and general revenue sharing. Although there will always be areas of some overlap, categorical grants, as the term implies, are used for specifically defined needs. Block grants are broader in purpose, focusing on functional areas such as manpower training and community development, and provide State and local governments with greater flexibility in the allocation of resources to meet their needs.

Beyond block grants there is general revenue sharing which is best characterized as a general support payment rather than as a type of grant. The Federal Government initiated this new approach of providing general financial assistance to State and local governments in 1972. Such assistance has grown to about \$6.8 billion annually and is allocated by a complex set of formulas to State governments and to about 38,000 general-purpose local governments. Generally, the amount each government receives depends upon its population, tax effort, and per capita income. In contrast with most other Federal assistance, very few restrictions were placed on the use of revenue sharing funds because the Congress intended that recipient governments have sufficient flexibility to use the funds for what they considered to be their most vital needs.

A second basis for distinguishing among the assistance approaches is the criteria for distribution--formula or discretion. In the case of formula grants, funds are distributed among all eligible recipients on the basis of a criterion, usually prescribed in the authorizing legislation. In contrast, discretionary grants require prospective grantees to

submit specific proposals to Federal agencies for consideration. Federal agencies, in turn, review all proposals and select those which have the most merit. In many cases, State agencies act on behalf of Federal agencies in reviewing and selecting proposals, but the discretionary principle still applies.

A third way of classifying Federal assistance is by objective--stimulate (encourage grantees to venture into new service areas) or support (supplement funding of on-going services). The middle 1960s produced a host of public service programs, like the Office of Economic Opportunity's poverty programs, for problems that local governments had not previously addressed. New stimulative programs continue to be funded through research, demonstration, and seed money programs. On the other hand, Federal funds support traditional State and local government basic services like education, health, and transportation. The Federal funds supplement the governments' own source of revenues and generally represent a minor contribution toward program costs.

The last and most recent classification of Federal assistance concerns the contractual mechanism for delivering assistance--grant or cooperative agreement. The degree of Federal management involvement in a given program, from little involvement under grants to heavy involvement under cooperative agreements, dictates the appropriate contractual mechanism for classifying assistance. The purpose for classifying transactions is to more clearly pinpoint responsibility and to clarify the application of contract law. Existing legislation requires all Federal transactions to be classified as either grants, cooperative agreements, or contracts.

In addition to definitional problems, the intergovernmental waters are muddied by the role of the States in administering Federal grant programs. States frequently change the rules of the game in midstream when passing Federal grants through to their political subdivisions. Thus, Federal formula block grants to States often are transformed into discretionary categorical grants to local governments from the State.

Thus, a mix of methods exists for providing Federal assistance. Each has unique characteristics and an important role to play in providing Federal assistance. However, the exact nature of and reasons for similarities and differences in individual programs, both between and within each approach, and their relative costs, effectiveness, advantages, and disadvantages, have not been systematically analyzed and are not well understood.

The sheer number of assistance programs and their different classifications make it extremely difficult for grantees to use this assistance effectively. The frequently proposed solution to the problems resulting from the multiplicity of functional Federal programs is improved coordination of program planning and administration. However, this must be viewed as a short-range objective because of the high degree of coordination needed for achieving program effectiveness.

The categorical approach to Federal assistance has come under increasing criticism in recent years. It has been characterized as unwieldy and, on a cost-benefit basis, unproductive. State and local governments, the Advisory Commission on Intergovernmental Relations, and our staff have advocated further program consolidations and block grants.

Our political system tends to favor categorical grant programs because they are easier to track and legislation addressing a specific need holds far more political appeal than broader purpose block type programs. Any effort to incorporate categorical programs into a broader purpose program is interpreted as an attack on the congressional committees who created the programs, the agencies who administer them, and the clientele groups who prosper. Accordingly, the few proposals that have been made by past Administrations experienced limited success.

For similar reasons, proposals for government reorganization have experienced limited success. Evidence exists, however, that the prospects are brighter for reorganization on both the legislative and executive sides. The Reorganization Act of 1977 (Public Law 95-17), gave the President general authority to initiate changes in the organization of the executive branch. Under that authority, the President can propose certain reorganizations that will go into effect automatically unless disapproved by the Congress within 60 days.

#### Prior reviews

In previous reports to the Congress, we have examined some of the different Federal assistance approaches, their effectiveness, and their costs. Summaries of these reports follow.

### Different funding approaches

- "The Federal Government Should But Doesn't Know the Cost of Administering Its Assistance Programs" (GGD-77-78, Feb. 14, 1978).

In this report, we recommended that OMB take the lead in finding the best way to collect information which could be used to evaluate the administrative efficiency of categorical and block grant programs and to strengthen the administration of assistance programs. Because the actual costs of administering Federal programs were not known, we estimated the costs incurred by Federal, State, and local levels responsible for administering 72 selected categorical and block assistance programs, and found that the costs varied significantly.

- "The Integrated Grant Administration Program--An Experiment in Joint Funding" (GGD-75-90, Jan. 19, 1976).

The Integrated Grant Administration Program (IGA) was experimentally conducted to demonstrate the principles of joint funding. A principal objective of IGA was to permit grantees to package several related Federal categorical programs to carry out a single project. We concluded that coordination and commitment on the part of participating Federal agencies was lacking and, as a result, the program failed to achieve its full potential. The IGA program was formalized with the passage of the Joint Funding Simplification Act of 1974.

### Consolidating programs

- "Study of Federal Programs For Manpower Services For the Disadvantaged in the District of Columbia" (B-146879, Jan. 30, 1973).
- "Study of Programs For Health Services In Outpatient Health Centers in the District of Columbia" (B-118638, July 31, 1973).
- "Study of Child Care Activities in the District of Columbia, Chicago, Ill., and St. Louis, Mo." (B-174895, Jan 24, 1972, Nov. 17, 1972).
- "Federally Assisted Areawide Planning: Need to Simplify Policies and Practices" (GGD-77-24, Mar. 28, 1977).

In these reports issued over the past several years, we cited program consolidation as a means for achieving a more comprehensive and effective system for delivering services. The reports addressed the multiplicity of Federal programs and the complex and confusing delivery systems which resulted from many Federal programs serving similar purposes.

- "Fundamental Changes Are Needed in Federal Assistance to State and Local Governments" (GGD-75-75, Aug. 19, 1975).

We recommended that a mechanism for facilitating the legislative consolidation of programs be enacted and that the executive branch be assigned specific responsibilities in conducting studies and proposing consolidation plans. We also stated in the report that we have studied and are continuing to study the need for changes in Federal assistance programs and will continue to recommend specific consolidations.

- "Making Future Transportation Decisions: Intermodal Planning Needed" (CED-78-14, Mar. 16, 1978).

This report addresses federally assisted transportation planning programs. The report recommended that to promote intermodal planning, the Secretary of Transportation should seek (1) congressional legislation to consolidate Federal airport, highway, railroad, and transit planning grants and (2) merge the Transportation Department's modal planning staffs into a single, all-modal unit.

#### General Revenue Sharing

We issued numerous revenue sharing reports to the Congress from 1973 through 1976 dealing with matters ranging from the impact of the funds to the effectiveness of certain provisions in the act. In addition to the major reports listed below, we issued 25 letter reports in response to requests by committee chairman or individual members of the Congress and commented formally on 35 bills that proposed revisions to the Revenue Sharing Act.

- "Revenue Sharing: Its Use By and Impact on State Governments" (B-146285), Aug. 2, 1973).
- "Revenue Sharing: Its Use By and Impact on Local Governments" (B-146285, Apr. 25, 1974).

- "Revenue Sharing and Local Government Modernization--  
A Conference Report" (GGD-75-60, Apr. 17, 1975).
- "Case Studies of Revenue Sharing in 26 Local  
Governments" (GGD-75-77 & GGD-75-77A-Z, July 21,  
1975).
- "Revenue Sharing: An Opportunity for Improved  
Public Awareness of State and Local Government  
Operations" (GGD-76-2, Sept. 9, 1975).
- "Adjusted Taxes: An Incomplete and Inaccurate  
Measure for Revenue Sharing Allocations" (GGD-76-  
12, Oct. 28, 1975).
- "Revenue Sharing Fund Impact on Midwestern Town-  
ships and New England Counties" (GGD-76-59,  
Apr. 22, 1976).
- "Changes Needed in Revenue Sharing Act for Indian  
Tribes and Alaskan Native Villages" (GGD-76-64,  
May 27, 1976).
- "Nondiscrimination Provision of the Revenue Sharing  
Act Should Be Strengthened and Better Enforced"  
(GGD-76-80, June 2, 1976).
- "Revenue Sharing Act Audit Requirements Should Be  
Changed" (GGD-76-90, July 30, 1976).

A general theme of our reports was that flexibility inherent in the revenue sharing program has made it extremely difficult, if not impossible, to measure the impact of the funds on specific activities and programs of the recipient State and local governments. Partially as a result of our reports, testimony, and work with committee staff on renewal legislation, the 1976 amendments to the Revenue Sharing Act eliminated ineffective restrictions on the use of the funds and expanded several requirements to apply, in certain cases, to all of a recipient government's resources.

These changes resulted in strengthening the act's provisions that affect the impact of the program on

- citizens' involvement in their government's plans,
- civil rights practices of recipient governments,



- accountability of State and local government officials to their citizenry and the Federal Government,
- the quality and extent of audits of State and local governments, and
- the operations of State and local governments.

Some of our recommended changes--those that affected the eligibility of governments to receive revenue sharing or that would change the amount of funds received by eligible governments--were not made. Some committee members, although agreeing in substance with these latter recommendations, expressed concern that the loss of revenue sharing funds might cause extreme financial difficulties for governments affected by these changes.

#### Antirecession program

In 1976, under the antirecession assistance program, the Federal Government began distributing additional financial assistance to State and certain general-purpose local governments that had unemployment rates exceeding 4.5 percent. Funds were distributed based on a formula which considered the governments' unemployment rates and the amount of revenue sharing they received.

The act directed the Comptroller General to investigate the impact of the antirecession assistance funds on the operations of State and local governments and the national economy. GAO was to consult with and coordinate its work with the Congressional Budget Office and the Advisory Commission on Intergovernmental Relations because of other studies these organizations were required to conduct. The results of GAO's investigations were to be reported to the Congress by July 21, 1977.

In March 1977, we testified before the House Subcommittee on Intergovernmental Relations and Human Resources, Committee on Government Operations, on the work we had performed on the antirecession program. This testimony was instrumental in Congress' decision to renew the program for only 1 year (through Sept. 30, 1978) rather than the proposed 5-year extension. About \$2.84 billion had been distributed to State and local governments during the 17-month period ending April 30, 1978.

On July 20, 1977, we issued a summary report on the antirecession program in time to satisfy our statutory

mandate. Several other reports were also issued. A listing of our major antirecession reports follows:

- "Antirecession Assistance Is Helping But Distribution Formula Needs Reassessment" (GGD-77-76, July 20, 1977).
- "Antirecession Assistance--An Evaluation" (PAD-78-20, Nov. 29, 1977).
- "Impact of Antirecession Assistance Payments on 15 State Governments" (GGD-77-69, Feb. 22, 1978).
- "Impact of Antirecession Assistance Payments on 16 County Governments" (GGD-77-60, Feb. 22, 1978).
- "Impact of Antirecession Assistance Payments on 21 City Governments" (GGD-77-70, Feb. 22, 1978).
- "Impact of Antirecession Assistance on 52 Governments--An Update" (GGD-78-56, May 1, 1978).
- "Impact of Antirecession Assistance on 52 Governments--An Update" (GGD-78-56-A, May 1, 1978, 15 State Governments Case Studies).
- "Impact of Antirecession Assistance on 52 Governments--An Update" (GGD-78-56-B, May 1, 1978, 16 County Governments Case Studies).
- "Impact of Antirecession Assistance on 52 Governments--An Update" (GGD-78-56-C, May 1, 1978, 21 City Governments Case Studies).

These reports suggested ways that the existing antirecession assistance program could be improved. The last report, issued May 1, 1978, was prepared pursuant to a request from a subcommittee to update our antirecession work, since the program would again be coming up for renewal. The report presented several alternatives the Congress had when it considered renewal or replacement of the program which was due to expire on September 30, 1978. In addition, we issued two letter reports to congressional subcommittee chairmen on specific aspects of the program and commented on two bills that proposed revisions to the antirecession program.

Several bills were introduced to extend and change the antirecession assistance program or to replace it with another form of general financial assistance. The specific

objectives of this assistance, the basis used to determine eligibility and to allocate the funds to State and local governments, and the number and types of governments that are intended to receive the funds varied considerably from one proposed bill to another. The fiscal year 1979 budget designated \$1.04 billion for either extending the anti-recession assistance program or for replacing it. The program, however, was not renewed for fiscal year 1979.

#### Significant short-term issues

Issues remaining for study in the short-term are phrased in the following questions.

(1) How can the Federal Government be encouraged to take further actions to consolidate duplicative and overlapping assistance programs?

Our long-standing position is that the consolidation of fragmented and restrictive programs is fundamental to improving the administration of Federal assistance programs at all levels of government. The proliferation of Federal assistance programs has resulted in a large number of narrowly defined categorical programs which are restricted as to over-all purpose and fragmented as to administering organizations' responsibilities.

The list of apparently overlapping Federal programs is extensive. Several leading candidates for consolidation studies include employment training programs, food assistance programs, Indian housing programs, education programs, and housing rehabilitation programs.

Attention should be focused on examining the various Federal assistance programs to determine what consolidations or reorganizations are necessary to accomplish one or more of the following purposes:

- To promote better administration and more effective planning.
- To improve coordination.
- To eliminate overlap and duplication.
- To promote economy, efficiency, and effectiveness to the fullest extent consistent with the achievement of program goals.

(2) What are the strengths and weaknesses of the various approaches to the delivery of Federal assistance?

OMB is heading a massive interagency study designed to develop a better understanding of alternative means of implementing Federal assistance programs. This study is being carried out pursuant to the recently enacted Federal Grant and Cooperative Agreement Act, and will likely identify several matters warranting additional review. Much research is needed to improve our understanding of the impact and influences that the various Federal delivery system approaches have on the State-local sector.

Studies are also needed to assess the results of two major changes made by the 1976 revenue sharing amendments to increase accountability of revenue sharing recipients to the Federal Government and to their citizenry. These studies could consist of (1) an evaluation of the cost and benefits of the requirement that all governments receiving at least \$25,000 annually have an independent audit of all their funds in accordance with generally accepted auditing standards published by GAO and (2) a review of the implementation and effectiveness of the act's public participation provisions which require recipients to publish and hold hearings on their entire budget and the impact that revenue sharing has on their budgets.

(3) What has been the Federal experience with joint funding?

The Joint Funding Simplification Act will expire in early 1980. The experience so far indicates that Federal agencies have made little progress in correcting the problems identified in prior reviews. In fact, a lesser number of projects have been funded under the act when compared to the number funded during the experimental phase. Evaluation of the progress and problems under this legislation are needed to assist the Congress in determining whether the legislation should be extended.

#### ASSESSING INTERGOVERNMENTAL FISCAL INTERACTION AND PROBLEMS

An emerging and increasingly important question is being raised, "How can the distribution of Federal grants be improved to reflect inequalities among recipient State and local governments in fiscal capabilities and the needs of their citizens?" This question applies to differences in metropolitan areas, differences between urban and rural

areas, differences between regions of the United States, and differences between States and territories.

In addition to the central city, the "typical" metropolitan area is now made up of 84 units of general and special purpose local governments, including 2 counties; 13 townships; 20 municipalities; 18 school districts; and 31 special districts and authorities for such things as fire protection, mosquito control, pollution abatement, housing, and sewers.

This fragmented, although often overlapping, structure has allowed local governments to levy their own taxes to support desired service levels. Upper and middle income citizens, fleeing from the central city to escape school integration, high taxes, and rising crime or for other reasons, have been able to incorporate enclaves on the urban fringe. By zoning in high income families and "clean" industries, the fringe enclaves have often garnered sufficient fiscal capacity to provide a high level of public services, but the central city is left with an eroding tax base and an increasing proportion of high cost citizens.

The question of Federal policy in this area has been brought to the forefront by New York City's financial difficulties. The Federal and State roles in the City have become a major issue on the intergovernmental scene.

Historically, the interests and needs of rural and urban societies have differed. Federal programs have been designed to direct assistance to both the small rural communities and the large, densely populated urban centers. A growing concern exists that the tax exempt status of land and facilities owned by the Federal Government imposes an unfair and unequal burden on local governments, making it increasingly difficult for them to provide basic public services. Some have argued that if Federal ownership of land and buildings is in the national interest, then the economic burden should not be borne by local taxpayers and governments but by all U.S. residents.

In 1976, the Congress authorized payments to State and local governments for certain Federal lands located in their jurisdictions, but these payments were not considered adequate to compensate them for taxes lost. Proposals have been made to compensate State and local governments, both rural and urban, for other Federal holdings such as GSA lands and buildings, military reservations, and fish and game refuges.

U.S. territories are eligible for certain types of Federal assistance. The Federal Government has been promoting self-determination for the territories. Because of inadequate economic bases, insufficient numbers of qualified managers and skilled and semi-skilled laborers, the lack of long-range planning, and the increasing demands for more governmental services, the territories progress toward self-determination has been slow. Although substantial Federal financial assistance has been sent to the territories, its effectiveness has been minimized and the lack of efforts to attack the territories' real problems has led some to conclude that the Federal Government has been following a policy of "benign neglect."

#### Prior reviews

We have monitored New York City's progress and problems in resolving its financial difficulties, and reported on its accounting systems reforms, the status of the City's efforts, and the long-range fiscal and economic outlook for the City. We also issued a report containing Federal options for increasing support of New York City. The review identified ways to increase the impact of Federal programs and activities on New York City, and identified policy, fiscal, or programmatic decisions of Federal agencies which impact adversely on the City. A listing of our major reports on New York City follows.

- "Revisions Needed to New York City's Emergency Financial Plan" (GGD-76-94, June 28, 1976).
- "Assessment of New York City's Performance and Prospects Under Its 3-Year Emergency Financial Plan" (GGD-77-40, Apr. 4, 1977).
- "New York City's Efforts to Improve Its Accounting Systems" (FGMSD-77-15, Apr. 4, 1977).
- "Report on New York City's Budget Increases" (GGD-77-61, June 13, 1977).
- "The Long-Term Fiscal Outlook for New York City" (PAD-77-1, Apr. 4, 1977).
- "Analysis of Operating Expenses in New York City's Fiscal Year 1978 Capital Budget" (GGD-78-13, Nov. 15, 1977).

--"Budgetary Impact and Accounting Treatment of  
Costs of New York City Labor Settlement"  
(GGD-78-98, July 26, 1978).

In response to our report (GGD-77-80, Sept. 13, 1977) describing the economic, managerial, and fiscal problems of the Territory of Guam, the Secretary of the Interior has reorganized Interior's Office of Territorial Affairs and its Government Comptroller's Office in Guam to emphasize and facilitate their provision of technical assistance to territories. The Secretary also submitted draft legislation to the Congress that will strengthen the auditing role of the government comptrollers for Guam and the Virgin Islands.

Also, the draft legislation specifically authorizes Interior to provide technical assistance to Guam, the Northern Marianas, the Virgin Islands, American Samoa, and the Trust Territories of the Pacific Islands.

We have also issued several letter reports in response to congressional requests that we inquire into fiscal problems caused by Federal Government activities within the jurisdictional boundaries of certain local governments. As an example, one report (GGD-78-41, Jan. 27, 1978) described alternatives available to a county government and the Congress to increase county revenues when large portions of county land are owned by the Federal Government and are thereby exempt from property taxes.

Our study of changing patterns of Federal aid to State and local governments (PAD-78-15, Dec. 20, 1977) analyzed the distribution of Federal aid by State and region. Two primary trends were identified: Federal aid per capita is distributed more uniformly than 7 years ago, and the Northeast has begun to receive a larger proportion of Federal aid than it pays in Federal personal income taxes, suggesting a response to declining economic conditions.

The passage of Proposition 13 in the recent California referendum prompted requests for us to inquire into the impact the resulting loss of local government revenue on the types and amounts of Federal assistance flowing to local governments in California and on the amount of Federal taxes collected in California. Our reports (GGD-78-99, 100 & 101, Aug. 10, 1978) on Proposition 13 found that Federal funds to California may result in changing the revenue and expenditure patterns that presently exist both for individual governments and between levels of government. These changes may alter the demand for certain Federal assistance and thereby

affect the amount of Federal assistance distributed to other State and local governments.

### Significant short-term issues

Issues remaining for study in the short-term are phrased in the following questions.

(1) To what extent are local governments dependent on Federal assistance?

Considerable concern that our older cities are rapidly becoming budgetary wards of the Federal Government is being expressed. For several selected cities, studies should be made to inquire into the extent and nature of their dependence on Federal aid for funding operating expenses over the past 10 or 15 years.

(2) Does Federal assistance provided to the U.S. territories differ drastically from that provided to the States?

It is likely that the Puerto Rican people will be asked in 1981 to indicate their preference for statehood, continued commonwealth status, or independence. To assist the Commonwealth of Puerto Rico and the Congress in considering the desirability of statehood or other status, studies of the economic base, revenue capacity, expenditure requirements, and service needs of Puerto Rico are needed to address issues such as:

- Reaction of business community to full fiscal treatment and the resulting elimination of tax exemptions.
- Changes in flow of Federal funds if Puerto Rico is treated as a State in all Federal grant and revenue programs.
- Impact the business community's reaction and Federal aid changes might have on the Puerto Rico government and economy as well as the effect of changes in tax laws which currently exempt certain Puerto Rican residents and industries from income and certain other taxes.
- Analysis of financial relationship of Hawaii and Alaska to Federal Government immediately before and after they became States and present political status of all territories.



(3) What are the long-term impacts of tax initiatives, such as Proposition 13, on State and local government participation in Federal programs?

While the initial reporting shows minor effects of Proposition 13 for several reasons, additional studies are needed to ascertain how local governments are reacting to the reduced property tax revenues they will have available and how local government actions will affect the amount and types of Federal aid they receive. Such work should identify specific actions being taken at the local level to raise additional revenues or reduce expenditures and provide a basis for studying the intergovernmental fiscal changes that result.

## CHAPTER 3

### OUTLOOK OF INTERGOVERNMENTAL RELATIONS

Observers have remarked that the last 10 years have seen the emergence of a different intergovernmental system. Its evolution is an outgrowth of the partnership principles of President Johnson's Creative Federalism and the attempted devolution of authority to State and local governments in President Nixon's New Federalism. Due to anticipated changes in political alignments, social attachments, and economic arrangements over the next 5 to 10 years, it would be reasonable to expect the relationship among levels of government to change in response. The new system is seen as being shaped and even determined by the inclusion of programs to bolster the national economy, as well as the operations of State and local governments.

With the growing clamor for a balanced Federal budget, the role of the Federal Government in providing financial assistance to State and local governments may be changing. To balance the Federal budget, some have advocated cutting back or eliminating certain Federal assistance programs, particularly those offering general financial assistance. Along this line, the Congress recently turned down the reauthorization of the antirecession assistance program, and discussions are beginning about the future of the General Revenue Sharing program. It is too early to tell whether the Federal role in providing financial assistance to State and local governments will be significantly redefined. Given the level of fiscal reliance of the State-local sector on Federal assistance, Federal retrenchment would be extremely difficult. Perhaps a more realistic short-term forecast would be one of growth in Federal assistance programs but at a much slower rate than we have seen over the past two decades.

#### THE FUNDAMENTAL TENSION: DIFFERENT OBJECTIVES

In pursuing its own programmatic objectives, the assertion of Federal prerogatives will generate much intergovernmental conflict over the next decade. Intergovernmental relations will be characterized by a fundamental tension between the increasing mutual interdependence among all levels of government and the desire of each level to preserve its own autonomy and political prerogatives. With the increasing nationalization of the American economy and culture, we can expect more complex problems to be laid at the Federal doorstep. In dealing with its growing agenda of problems, the Federal Government will be relying on State and local

governments to help implement and support programs of national concern. In turn, State and local governments will become increasingly dependent on Federal funds. Depending on the structural characteristics of programs, the priorities and programs of State and local governments could increasingly reflect Federal decisions.

Yet, States and local governments can be expected to resist this growing Federal influence and to continually assert their claims to autonomy, especially when Federal policy is too innovative or costly. This assertion of State and local prerogatives can take many forms including fiscal supplanting of Federal funds, refusing to participate in new Federal grant programs, rejecting full adoption of Federal "seed money" grants when Federal funds expire, and directly challenging Federal laws and regulations establishing standards. Therefore, Federal efforts to secure effective implementation and oversight of its programs will tend to be threatened.

#### FUTURE TRENDS

Future developments in the intergovernmental system will have four sets of trends. These trends will be heavily influenced by several basic forces discussed later in this chapter. The trends, as we see them, are:

- Increased management reform, as executive and legislative bodies at all levels try to get a handle on the maze of Federal assistance programs,
- Structural changes, as the competing pressures for fragmentation and centralization are sorted out,
- Further extension of Federal involvement in State and local affairs, as Federal assistance goes to more local government units for purposes previously the exclusive function of local governments, and
- Changing focus of Federal assistance, as Federal aid is used to subsidize general operations of State and local governments on a continuing basis as opposed to encouraging new categorical efforts in areas of Federal priority.

## Management developments

Executive and legislative branches at all levels are taking actions to exert more control and oversight over their program officials (bureaucracies) in the administration of Federal funds. State and local governments have become concerned about the many conditions that now come with Federal aid. These governments are disturbed because they feel that various nonprogrammatic grant conditions are overly intrusive and duplicative. State executives and legislatures are starting to look more closely at Federal grants with a jaundiced eye and are beginning to question whether grants should be accepted. This is causing some internal State disagreements among Governors and legislatures as each asserts their prerogatives.

The President and the Congress most probably will continue taking steps to change Federal agency administrative organizational structures and procedures to distribute Federal assistance. Many such efforts in the past have been reactions to the perception that OMB is unable and/or unwilling to control the responses and actions of the Federal agencies. Our reports and ACIR reports have said OMB's leadership role should be strengthened. Congressional staffs, State and local officials, and the staff of the officials' national associations have on occasion been critical of OMB's lack of responsiveness.

The President, in requiring Federal agencies to establish an intergovernmental focal point, has specified initiatives for cutting red tape and for making the Federal agencies more responsive. Many of these initiatives are in areas already covered by OMB circulars. Such steps are consistent with efforts by prior Presidents. They represent a continuing Federal response to State and local complaints about non-uniform conditions attached to Federal grants.

The Congress has also taken steps to simplify grant administration. It passed the Federal Grant and Cooperative Agreement Act to rationalize relationships between the Federal Government and the grantee community and to regularize Federal involvement in State and local management of Federal assistance. The recently passed Federal Program Information Act is an attempt to improve information flows to the State-local sector on Federal assistance programs. Legislation introduced last year in the Senate sought to standardize many of the generally applicable conditions (e.g. civil rights) that are attached to Federal assistance programs.

Governors are starting to use their independent grant review mechanisms to examine the need for Federal grants.

Sometimes they refuse the grants. Although this happens only occasionally now, indications are that it will become more frequent. State legislatures have also become more active in deciding which Federal funds are to be sought, and how these funds will be spent. Federal officials may be interfering with this trend by abetting State executive branch actions that seek to reduce the role of the legislatures. This may be contrasted to recent direct Federal programs to localities which have emphasized the role of elected officials.

### Structural developments

The Federal system has experienced structural changes, such as centralization and regionalization. At this time, it is not clear what direction such structural shifts will take and what their overall effect will be. We suspect, however, that intergovernmental relations will become more structured and formalized, regardless of specific patterns that emerge.

At the same time, conflict may increase among competing governments because more hands will be after a limited amount of dollars. The debate over measurement of need will continue and become more acute, which could affect formulas used to distribute Federal funds.

We probably are moving towards a different system where the emphasis on increasing the policy role of general purpose governments and generalists in Federal grants will intensify. The Federal Government will attempt to speak as one government to a grantee on, for example, civil rights, and that grantee will be the State or local government, not one of its departments. The Federal Government has already placed such requirements in the General Revenue Sharing Act by requiring all funds of the government to be audited. OMB has also incorporated similar provisions in several of its management circulars by providing for one Federal agency to speak for the Federal Government. A similar concept is incorporated in a proposed Grant Reform bill.

Planning processes are likely to become more orderly as the Federal Government sorts out how planning will be done and links that planning to operating funds. We have recommended strengthening areawide planning to facilitate coordination and avoid duplication or gaps in service delivery. Legislation introduced last year seeks to strengthen areawide planning by requiring one overall areawide development plan.

States will continue to play a major, if unrecognized, role in distributing Federal assistance. The power positions of Federal, State, and local governments are becoming blurred because of increasing Federal-local links, and conflicting direct State-local links. States are in a lesser but still powerful position as a direct recipient of about 70 percent of all Federal aid to States and local governments. States, in turn, pass most of this aid on to local governments. Such pass-through provisions allow States to continue to play the role of a power broker. Although newer Federal programs have used direct links to local governments, States have been seeking a greater role as the traditional middleman in these programs and are being heard by the President and Congress. It is not clear to what extent the State role will increase; however, we can be sure that local governments will resist the State presence, even though they are constitutionally and legally creatures of the State.

Federal actions to provide program information to State and local governments will increase disclosure of how much Federal assistance is given to each level of government. This knowledge will likely increase conflicts over the Federal assistance distribution. A variation of this conflict is already present in the formula and open-ended categorical grants, block grants, and general revenue sharing. These programs contain substate allocation formulas which have caused great efforts to influence the design of the formulas and the eligibility criteria. Better information may also stimulate further regional competition and conflict. Attempts to satisfy competing interests may well lead to increases in Federal assistance and put pressure on hold-the-line budget policy.

#### Extension of Federal assistance

The Federal Government will be more and more involved in responsibilities that formerly were the domain of State and local governments. At the same time, this Federal aid will be going to a greater number of governments.

The eligibility and entitlement provisions of a number of recent programs have extended Federal assistance to all local general governments, school districts, and many special districts and substate regional units. Federal dollars are also being given for many activities that until recently were considered State-local responsibilities of less than national significance. In some cases, Federal grants have caused grantees to provide services to other units of governments, as in community development and manpower.

Through its regulatory programs, the Federal Government is becoming increasingly involved in areas that were once exclusively covered by the States through their police powers, e.g., occupational safety and health and public health regulations. The combination of increased dollars and more units receiving these dollars is likely to result in a substantial increase in the ability of the Federal Government to influence and direct State-local affairs.

### Changing focus of Federal assistance

The focus of Federal assistance also appears to be changing. Programs which earlier stressed innovation, demonstration, or technology transfer will be giving way to multi-purpose general support for governmental services to meet the continuing demands for services in the face of mounting taxpayer revolts. The new types of Federal assistance--general revenue sharing, block grants, and the former counter-cyclical program--substantially affect intergovernmental relations as well as the recipient governments. Much of this money is directly available to local governments and can be used for general purpose expenditures on a continuing basis. In short, these funds, although labeled (and in fact may be) temporary in some cases, are going to be around in some form for years to come. The practical effect of this money is to subsidize local government operations.

### SHAPING FORCES

(Changes in the future of intergovernmental relations discussed above will, we believe, be heavily influenced by the following basic forces:

- ① --The problems facing society --As new public issues emerge, e.g., energy crisis and fiscal crisis of the cities, the intergovernmental system becomes a central vehicle for the Federal response (nationalization), but the countervailing force of federalism persists. As a result, the nature of intergovernmental relations itself may be changed.
- ② --The process and structure of Federal, State and local governments --Internal changes in the management capacity and systems of each level of government have significant consequences for intergovernmental relations itself. Development of more sophisticated central management staffs, more professional legislative bodies, and areawide councils of government will have an impact.

③ --The size and scope of the public sector --The work-load, resources, and public demand for services will largely determine the future level of Federal grants to State and local governments as well as State and local budgetary conditions. Shifting public preferences for public services and tolerance for increased taxation will determine the future fiscal shape of the public sector.

The future currents of change may be predicted (albeit with some trepidation), but the overall direction of the intergovernmental system is difficult to chart. For example, while increasing nationalization in the private sector may bring about new Federal involvement in traditional areas of State and local concern, this trend may also spawn a counter-active quest for community identification which could lead to greater State and local government autonomy.

The problems facing society--  
nationalization vs. federalism

(Nationalization of the country's industrial structure and mass communications, as well as the increased mobility of the American people, is breaking down subnational loyalties to State and local communities.) Sociologists have observed that allegiances in modern society tend to be transferred from geographic-based entities to nationwide organizations and interest groups. Furthermore, with the increasing division of labor or specialization characterizing our complex technological society, highly specialized groups form with their own idioms and political claims.

(These twin forces of nationalization and specialization have fostered unprecedented growth in the scope of Federal programs and regulation. Issues that once were the preserve of State and local governments increasingly become national concerns,) e.g., criminal justice, occupational safety, and health. (These nationalizing trends are reflected in growing demands for uniformity among States in regulatory policy and service levels,) e.g., uniform welfare benefits. Voter participation in national elections is far higher than State and local elections, reflecting a greater popular interest in national concerns.

With the increasing specialization and complexity of society comes a growing interdependence among all of its parts. This fuels demand for greater centralization and further Federal control in new areas, such as environmental policy or energy production. The need for increased levels of regulation is underscored by the fact that actions of States, localities, or the private sector have detrimental



side effects which can only be controlled at the national level, e.g., air pollution. The counterpart of specialization at the Federal policy level is the special interest group and the categorical grant.

On the other hand, the need for subnational attachments remains. The recent rekindling of sectional rivalries between different regions in the U.S. for Federal funds reflects the continuing vitality of American federalism. As a countervailing force to nationalization--or perhaps as a result of nationalization--some scholars have noted that Americans continue in their "quest for community" at the subnational level. Interest in community control within large cities and expanded citizen participation continues, culminating in such measures as widespread State adoption of "sunshine" statutes opening up State legislative and regulatory activities to public participation.

As opposed to nationalization, this force may lead to broader Federal recognition of regional, State, and/or local differences in enforcing regulations and administering grant programs.

The process and structure of Federal, State, and local governments--generalists vs. specialists

In contrast with the growing specialization noted earlier and the fragmentation within State and local governments spawned by the Federal categorical grants system, a new coalition of State and local general managers has begun to assert its interest and demand for a greater role in Federal grant policy. The growing dependence on Federal funds with its implications for future costs and roles is forcing State and local managers to become more concerned with ultimate impacts and long-range consequences of Federal funds received. In addition to the realization that no such thing as a 100 percent federally funded project exists, State and local managers have faced taxpayer revolts.

With their increased sophistication and professional analytic staffs, central managers now can compete with their functional agency specialists in the analysis and management of Federal grant programs. As a result of more systematic determination of State priorities and analysis of total grant costs, some States and localities are rejecting participation in major Federal grant programs.

These central managers have formed a powerful coalition which has exerted its influence at the Federal level through strengthened public interest groups. In fact, this coalition has joined forces with sympathetic central executive

branch managers and congressional staff agencies in a common effort to rationalize the grants system, make grant requirements more uniform, and provide general management relief.

The Federal Government has sporadically bolstered their position through policies like those embodied in OMB Circulars A-87 and A-95. There is reason to believe that this alliance will grow stronger in the future and constitute a powerful force working for Federal grant reform. The new alliance may conflict with the efforts of programmatic special interest groups seeking to impose through Federal intervention a variety of special standards and conditions on State and local governments.

The ultimate effect of this new alliance can be seen in the reorientation of Federal assistance. The perceived social crisis of the 1960s spawned the creation of many Federal social categorical grant programs. In the 1970s, the burden of responding to these problems and the self-generated demands, expectations, and constituencies created by earlier Federal initiatives have precipitated a governmental crisis in key cities and States.

The Federal Government has been reducing pressures on these governments through General Revenue Sharing, Antirecession Assistance, Comprehensive Employment and Training Act, and the President's proposed Urban Policy. From this perspective, the New York City Seasonal Financing Act represents only a specification of what has become a new Federal policy thrust--to help central managers deal with perceived increased demands and fiscal pressure, in part generated by Federal programs. Thus, Federal programs beget other Federal programs.

While we are moving forward with general government assistance, this will not necessarily reduce the numbers of categorical grant programs. In our political system, they are compatible, not mutually exclusive. In fact, substantial pressures exist from national special interest groups, congressional committees, and Federal agencies to retain and increase categorical grant programs to maximize their control over the use of Federal funds and ensure effective program implementation.

#### The size and scope of the public sector--growth or no growth

As State and local revenue sources diversify, more reliance is placed on revenue sources like income and sales taxes that are sensitive to cycles of the national economy. The Congressional Budget Office found that a 1 percent increase in unemployment would reduce aggregate State and

local revenues by \$6 billion. Because the State and local sector now comprises 15 percent of GNP and because it is more sensitive to national fluctuations, State and local government fiscal behavior and national macroeconomic policy will become more interdependent. As a result, the effects of a national economic downturn on State and local budgets and the effects of State and local countercyclical policies on national economic recovery will receive more attention from national policy makers.

General fiscal pressure on State and local governments-- State and local spending growth has slowed over the past 3 years. We can expect a continuing slowdown because of reduced school enrollments and taxpayer revolts. Any projection of future State and local fiscal positions is highly contingent on changes in the economy, public tastes for public services, and public tolerance for increased rates of taxation.

If the taxpayer revolt intensifies, and if the Nation's appetite for public services is not proportionately reduced, the Federal Government may be expected to fill the gap with more assistance to State and local governments. Federal regulations and requirements that impose increased costs on State and local governments will come under increasing State and local scrutiny, e.g. matching requirements, environmental regulations, and unemployment insurance.

Secular decline of central cities--The inability of many of our larger cities to support existing services with a dwindling tax base will continue, especially in the Northeast and Great Lakes areas. Severe population and job losses combined with a surplus of dependent groups make these cities fiscally untenable without either large short-term Federal and/or State assistance or drastic reductions in service levels.

While the Federal Government seems committed to general subsidies of State and local governments, discomfort occurs on both sides with the results of this strategy. Many large declining cities have grown very dependent on Federal funds for their fiscal viability--in some cities, Federal funds comprise over a third of their total revenues. Because the potential Federal influence is so large, these cities will be most likely to resist Federal controls and guidelines through fiscal substitution and circumvention of eligibility guidelines. However, due to the large Federal investment, the Federal Government may increasingly demand more controls in exchange.

Due to this problem, Federal interest in long-term strategies for central city revival and self-sufficiency will intensify. The President's Urban Policy proposals place heavy emphasis on economic development as the best long-term strategy for central city revival. Metropolitan-wide fiscal burden sharing and engaging State resources in solving urban problems are strategies which will likely receive increased attention. Productivity improvement is another long-term strategy for central city fiscal survival.

Future levels, distribution of Federal funds--It is very difficult for Presidents or Congress to hold levels of Federal funds below the prior year's level. Future increases will be a function of changes in Federal budgetary policy and the increasing scope of Federal involvement in society.

Distribution of Federal funds will continue to be shaped by conflicting forces. Northeastern States and hard-pressed cities will continue to press for "targeting" Federal assistance to areas of need, while the need to gain political support will force wider and more even distribution of funds. However, formula elements previously discriminating against hard-pressed cities and States, e.g., per capita income, will come under increasing question.

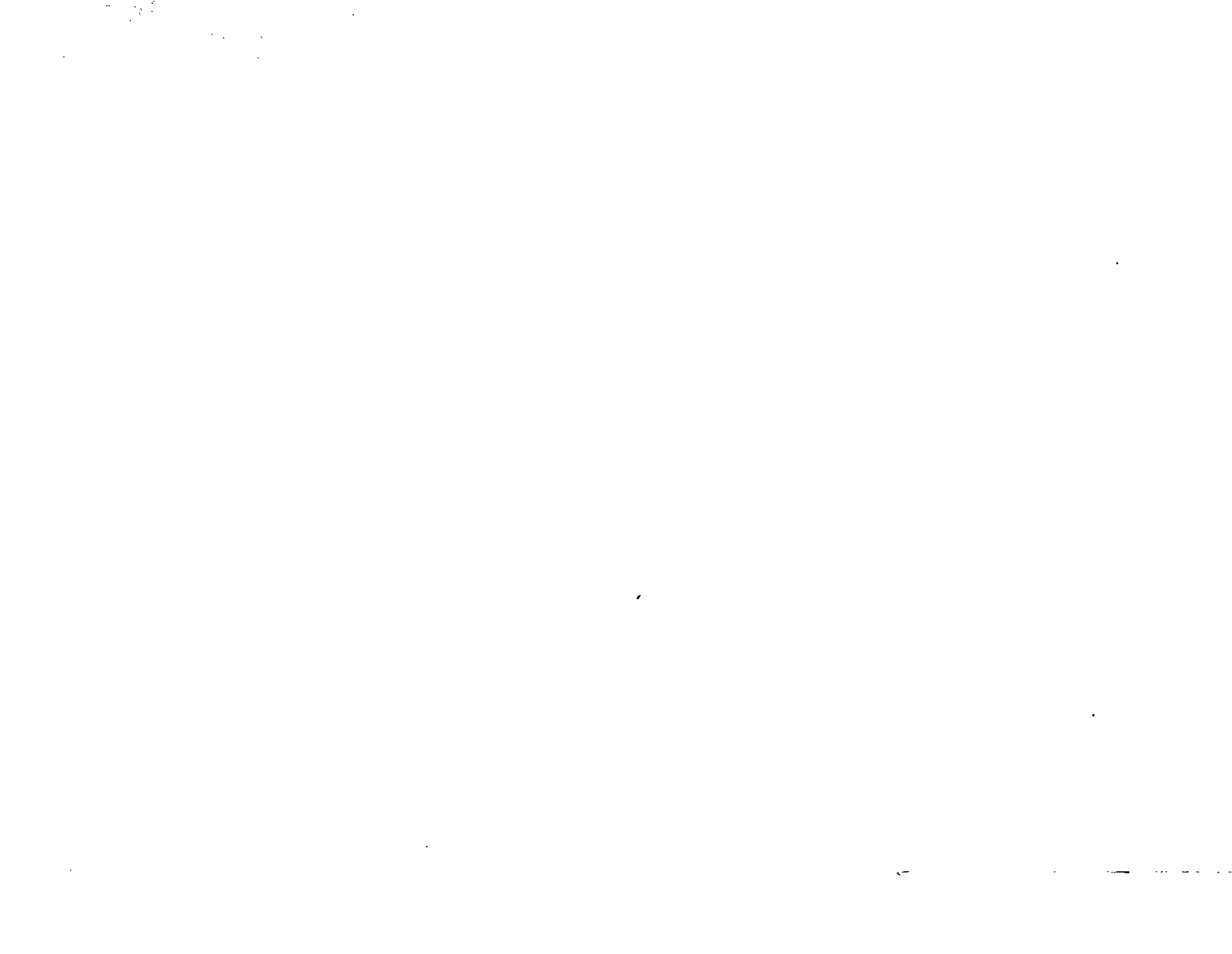
The role of the States in the distribution of Federal funds to subgrantees will be increasingly scrutinized, and pressure will be exerted on States to ensure that substate distribution of funds conforms to Federal objectives.

Subnational intergovernmental relations--The States will increasingly be asked to conform to Federal policies in the distribution of their own funds to local governments, especially in dealing with urban areas. In this sense, State-local fiscal relations will become increasingly dominated by Federal policies.

The States will continue to assume fiscal responsibility for local governmental functions, as they have been doing over the past 10 years. Thus, while States are being bypassed more by Federal assistance, they will continue to be an important source of fiscal relief for local governments.

There will be pressure on local governments in metropolitan areas to share central city fiscal burdens. While this has occurred in several areas, the barriers to metropolitan government remain formidable. However, ad hoc consolidation or coordination will continue to occur through formulation of single purpose districts, coordination among districts, and strengthened areawide planning.

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