

SPECIAL ANALYSIS O

FEDERAL AID TO STATE AND LOCAL GOVERNMENTS

Most of the Nation's domestic public services are provided through a cooperative intergovernmental system, which weaves together the efforts of the National Government, the 50 States, and more than 80,000 units of local government. The Federal Government's chief role in this system is to provide the critical margin of resources and leadership in matters of nationwide concern.

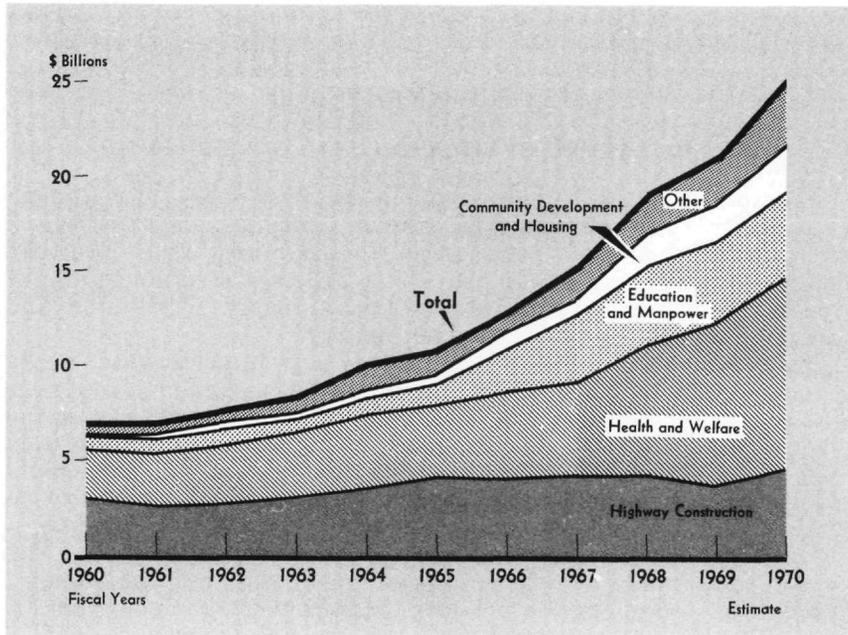
Federal financial aid to State and local governments, reaching an estimated \$25 billion in 1970, has undergone a period of unprecedented growth in the course of a decade. Nevertheless, States and their constituent local units of government traditionally raise from their own resources 4-5 times the amount of Federal aid, thus maintaining their independence and adding to the total of public services available to their citizens.

By tradition and preference, most domestic public services are actually *performed* at the level of government closest to the intended beneficiary, regardless of which level *finances* them. Including grants, States in 1967 administered 25% of civilian domestic services—mainly highways, higher education, and welfare; local governments provided 43%—predominantly elementary and secondary education; and the Federal Government provided 32%—primarily postal services, agriculture, and natural resource programs.

Federal aid supports this decentralized system by:

- Helping to provide the resources required by a growing, urbanized Nation of more than 200 million people;
- Relying on a revenue system which grows faster than the economy and raises revenue according to ability to pay—thus reducing pressures on State and local tax sources; and
- Providing stimulus and encouragement for innovation, improvement, and meeting national standards in essential programs.

Federal Aid to State and Local Governments



HIGHLIGHTS OF THE 1970 AID PROGRAM

The decade ending in 1970 will have witnessed a period of inter-governmental action unparalleled in the history of this country. From 1960 to 1970, Federal aid will have reached a cumulative total of more than \$135 billion, roughly half again as much as the cumulative amount provided from 1900 to 1960. In 1970:

- *Total Federal aid* to State and local governments is estimated to be \$25 billion, \$4.2 billion more than in 1969, and more than triple the amount in 1960. This is 73% faster than the rise in total Federal outlays for domestic purposes over the same decade.
- The *fastest growing* programs are those to provide decent medical care for the needy, to improve public facilities and services in our urban centers, and to upgrade the elementary and secondary educational opportunities available to children of low-income families. Combined, they are estimated to increase by approximately \$7 billion between 1960 and 1970.
- *Total aids for metropolitan or urban areas* have risen from \$5.6 billion in 1964 to an estimated \$16.7 billion in 1970. Thus, Federal aids benefiting urban areas have grown by about \$11.1 billion, nearly tripling in only 6 years. (Included in these amounts are grants to States which subsequently benefit urban areas. This topic is discussed in greater detail on pp. 211-212.)

- *Federal credit programs* will place increasing reliance on private financing, while providing net Government assistance of more than \$320 million after deduction of repayments and other receipts; and
- *New approaches* will include: (1) a proposed new Urban Development Bank, to help meet the rapidly growing capital needs of the Nation's urban areas; (2) new or recently approved financing methods for water and sewer lines in rural areas, construction of waste treatment facilities, and college housing and academic facilities; and (3) a number of other new departures discussed on page 214.

SIGNIFICANT FEATURES OF THE 1970 AID PROGRAM

While the preceding section is designed as a broad overview, this portion of the analysis provides more detailed insights into the aid program for 1970.

Direct assistance.—The principal forms of direct financial assistance to States and localities are *grants*, *shared revenues*, and *loans*.

In 1970, Federal grants are estimated to reach \$24.7 billion, and shared revenues will account for an additional \$0.3 billion. Thus, grants will account for 99% of the total Federal aid in 1970. In addition, loans will provide some \$323 million in net assistance in 1970, not including the lending activity which is being encouraged in the private sector with Federal subsidies.

In total, Federal aid amounts to approximately 18% of State and local revenues—relieving them, in part, of the need for larger and more frequent tax increases, or increased borrowing requirements. In terms of direct cash flow, about seven-eighths of the total goes to the States, with the balance going to local jurisdictions. However, the State channels much of this Federal grant money into metropolitan areas, as discussed later in this analysis.

Indirect assistance.—Apart from direct Federal aid, many other Federal activities which are not included in this analysis affect the finances of State and local governments. For example, there are a number of assistance programs for which expenditure information cannot be obtained readily, such as State and local participation in Federal employee training programs, technical assistance and advice provided by a host of Federal agencies, and a number of related services. Similarly, States and localities have first call on obtaining (at relatively nominal costs), land and equipment of the Federal Government which is declared surplus to Federal needs.

State and local governments also receive special benefits through the tax system. For example, the interest cost savings to these units of government which result from exempting interest on State and local bonds from Federal income taxes have been estimated at \$1.8 billion in 1968. The Federal credit for payment of State inheritance and estate taxes has definitely encouraged States to make more effective use of this resource at a Federal revenue cost of \$300 million. Similarly, since taxpayers may deduct local property taxes from Federal taxable income, a portion of State and local taxes is offset

by a reduction in the taxpayers' Federal liability. In 1968, the value of this deduction in terms of tax savings to individuals was approximately \$1.8 billion. Finally, other State and local taxes can be deducted from Federal tax liability. These deductions amount to an additional \$2.8 billion—with nearly half accounted for by personal income taxes.

Major program changes for 1970.—In 1970, total outlays under existing and proposed programs for direct Federal aid to State and local governments are estimated to be \$4.2 billion more than for 1969 and \$6.4 billion more than the actual total for 1968.

The major *increases* in Federal expenditures for grants cover a number of important programs.

- Health and welfare grants will rise an estimated \$1.6 billion, as the Medicaid program is used more often, serves more people, and as additional States join in the program.
- Community development and housing outlays will exceed those in 1969 by almost \$900 million, as the concentrated community development activities of Model Cities and Community Action Agencies build up momentum, and urban renewal and public housing are increased to meet the needs of the cities.
- Education programs continue to rise, but at a slower rate than in earlier years, in part due to greater reliance on private credit markets.
- Commerce and transportation programs will increase by an estimated \$896 million over 1969, as the highway program takes on more of an urban emphasis.

Decreases are expected in 1970 for such grants as school aid for federally impacted areas (down \$206 million in budget authority), formula grants to States for school equipment and the like, and higher education construction—as more of the latter activity will be undertaken privately with the encouragement of Federal incentive payments.

Federal-aid programs by agency.—In 1970 the Department of Health, Education, and Welfare will spend approximately \$12.3 billion through its aid programs—about 49% of total Federal aid. Another 20%, or \$5.1 billion, will be accounted for by the Department of Transportation. The Office of Economic Opportunity and the Departments of Agriculture and Housing and Urban Development will finance an additional 21% of Federal-aid programs. The detailed table at the end of this analysis lists the various programs of Federal aid to State and local governments by function, type of aid, agency, and major program group.

Revised financing techniques.—In 1969 and 1970, a new financing approach will be used or proposed for a number of Federally-aided loan programs—mainly for construction. Instead of making a direct Federal loan or grant, even greater reliance than in the past will be placed on private markets for the initial capital. The Federal Govern-

Table O-1. FEDERAL-AID EXPENDITURES BY AGENCY (in millions of dollars)

Agency	1968 actual	1969 estimate	1970 estimate
Executive Office of the President.....	.2	.2	*
Funds appropriated to the President:			
Economic opportunity programs.....	1,422.9	1,360.1	1,327.2
Other (primarily Appalachia).....	134.1	260.5	303.7
Department of Agriculture.....	1,223.2	1,592.5	1,839.6
Department of Commerce.....	118.0	162.3	179.0
Department of Defense:			
Military.....	27.3	29.6	32.4
Civil.....	17.5	27.5	15.2
Department of Health, Education, and Welfare.....	9,261.5	10,421.4	12,262.6
Department of Housing and Urban Development.....	932.8	1,283.2	2,214.0
Department of the Interior.....	350.5	452.3	504.3
Department of Justice.....	5.9	26.3	179.9
Department of Labor.....	611.2	649.1	711.0
Department of State.....	5.9	5.5	5.6
Department of Transportation.....	4,272.2	4,266.5	5,102.6
Treasury Department.....	98.3	108.4	114.1
Veterans Administration.....	12.9	21.3	21.0
National Capital region ¹	77.0	113.2	171.7
Other.....	27.9	33.0	45.4
Total outlays for Federal aid.....	18,599.3	20,812.8	25,029.2

*Less than \$500 thousand.

¹ Includes Federal payments to the District of Columbia in the following amounts: 1968, \$64 million; 1969, \$96 million; 1970, \$112 million.

ment will encourage the private sector to make such loans by subsidizing the interest cost to bring it down to a level which provides greater benefits to the loan recipient; and/or guaranteeing either the entire obligation, or that portion of the principal and interest for which the interest is subject to Federal income taxation. This type of credit mechanism considerably reduces the impact on the Federal budget because: (a) the full value of the loan is financed privately, in most instances; (b) the Federal share of amortization costs comes due over a period of years rather than all at once; and (c) in many cases, the interest received by the investor is subject to Federal income taxation—which reduces the net cost for the Federal budget (after adjustment for revenues) as compared to financing in the tax-exempt market.

This debt service approach is similar to one used in the public housing program for a number of years. Legislation enacted in 1968 provided authority for this purpose for both the college housing and academic facility programs. Proposed legislation in 1970 would extend the use of this device to include (a) water and sewer lines in rural areas; (b) construction of waste treatment works; (c) hospital construction; and (d) construction of mass transportation facilities in the National Capital area.

In some instances the regular grant or loan program will continue in existence and the interest subsidy approach will be used as a supplement.

GROWTH AND DEVELOPMENT OF FEDERAL AIDS

The birth of Federal aid to State and local governments actually predates the Constitution. Under the Articles of Confederation in 1785, Congress provided grants of Federal land to support education in the Northwest Territory. This policy was reaffirmed in 1787—the same year that the historic convention adopted the Constitution of the United States.

The early years of the 20th century saw aid extended for agriculture, highways, and limited social welfare programs. However, it was not until the economic crisis of the Thirties that Federal aid reached any significant scale—exceeding \$1 billion for the first time. At that time a broad array of welfare, housing, and economic security programs was inaugurated.

The post-World War II period witnessed a further expansion of health and housing programs and a greatly augmented highway construction effort.

Recently, landmark programs have been undertaken on behalf of the poor and their blighted urban environments.

Legacy of the sixties.—Beginning in the early years of the 1960's. the Nation undertook a concerted response to the needs of the poor and to the challenges of human investment which technology and urbanization thrust upon governmental—particularly urban—institutions. These challenges are mirrored in the substance of social legislation enacted in the last 6 years:

- The Elementary and Secondary Education Act of 1965, to provide a better education for children of low-income families.
- The establishment of the Department of Housing and Urban Development to coordinate the Federal effort in our urban centers, and a significant surge in funds for community development.
- The passage of the Economic Opportunity Act—to purge poverty and to engage the energies and ideas of the local community in solving their own problems through the launching of 1,000 Community Action Agencies.
- The enactment of the Model Cities program, in which 150 cities are concentrating Federal, State, local and private resources in the solution of social and physical problems of large neighborhoods.
- The enactment of Medicaid and the expansion of public assistance to provide health care, services, and cash assistance to those Americans who have been left far behind in the country's general economic advance.
- The mounting of a national manpower program, through the Manpower Development and Training Act and several Economic Opportunity programs—combining the efforts of the business community and the public sector to provide training and job opportunities.

- The enactment in the Federal Aid Highway Act of 1968 providing significant improvements in urban highway transportation and an expanded relocation assistance program for people and businesses displaced by highways.

The basic thrust of these programs reflects the growing priority being given to human resource development. Moreover, each of these endeavors is a grant—involving Federal aid and State and local administration. For example, dramatic increases in Federal aids are estimated to occur between 1964 and 1970 in the following important areas of domestic concern:

- *Health and welfare* grants will rise some \$6.3 billion—or 168%, mainly for public assistance benefits and Medicaid;
- *Education and manpower* will increase by an estimated 364%, or nearly \$3.5 billion; and
- *Community development and housing* outlays are expected to grow by some \$2.3 billion, or 546%.

Federal-aid programs by function.—The foregoing factors, coupled with the changing nature of State and local program needs, have altered substantially the focus of Federal aids at several junctures in the past two decades. These changes can be traced in the accompanying table.

Table O-2. PERCENTAGE DISTRIBUTION OF FEDERAL AIDS TO STATE AND LOCAL GOVERNMENTS BY FUNCTION

Function	1950 actual	1955 actual	1960 actual	1965 actual	1970 estimate
Agriculture and agricultural resources.....	5	8	4	5	4
Natural resources.....	2	3	2	2	3
Commerce and transportation.....	21	19	43	40	22
Community development and housing.....	(¹)	3	3	5	11
Education and manpower.....	11	14	10	10	18
Health and welfare.....	60	51	37	36	40
Other.....	1	2	1	2	2
Total.....	100	100	100	100	100

¹ Less than 0.5%.

The Federal-Aid Highway Act of 1956 significantly modified the pattern of aid to State and local governments which had prevailed in the preceding decade—moving commerce and transportation programs to a dominant position in Federal assistance activities by 1960.

The cumulative effect of the tremendous increases in human investment grants in the 1960–70 period will be to place the principal emphasis of Federal aid once again on health and welfare activities—as well as to give added impetus to education and manpower, and community development and housing efforts. In 1970, these programs will account for 69% of total estimated aid payments.

Measures to coordinate Federal aid programs.—While easing State and local financial problems, the rapid growth of aid programs has heightened the need for improved coordination to insure effective and efficient public services at the local level.

This realization stimulated the following generic approaches to improving the administration of aid programs:

- *Broader, multifunctional approaches*—to meld programs together at the local level as in Model Cities, Community Action Agencies, Neighborhood Centers, and Concentrated Employment Programs.
- *Consolidation of existing grant categories*—as in the Partnership for Health programs and the recently enacted vocational education program.
- *Improvements in funding arrangements*—as in “advance” funding for education (to allow more time for planning), and the proposed Joint-Funding Simplification Act.
- *Utilization of Regional Councils* of Federal agencies in the field to coordinate Federal programs at the point of impact.
- *Passage of new legislation* (such as the Intergovernmental Cooperation Act—which improves the flow of information between elected officials at the Federal and State levels, simplifies accounting requirements for Federal grants, relaxes impediments of grant legislation to reorganization at the State level, and provides a number of other improvements; and a new educational grant program to increase the supply of trained public servants at all levels of government).

IMPACT OF FEDERAL AID

The striking ascent in Federal aid in the decade covering 1960–70 has affected the budgets of both the Federal Government and State and local governments in a profound manner. Nevertheless, the performance of civilian domestic public services is now, more than ever before in recent history, the responsibility of State and local governments. The impact of Federal aid varies from region to region, and has shown a growing trend toward compensating for the meager resources in lower income areas—a phenomenon known as “equalization.”

Federal aid in relation to Federal and State-local outlays.—The rapid increase in Federal aid to State and local governments has become an increasingly important factor in the finances of all levels of government. Federal aid as a proportion of Federal outlays has nearly doubled in the past decade—rising from 8% of the total in 1960 to an estimated 13% in 1970. In terms of civilian domestic programs, 24% of Federal expenditures will take the form of aids to State and local governments in 1970. Because of strenuous efforts on their own behalf, the relative increase in the impact of Federal aid has not been quite as marked for the recipient State and local govern-

ments as it has been for the Federal Government. Nevertheless, Federal aid has risen as a proportion of State and local revenues, moving from 15% in 1959 to an estimated 18% in 1969.

Table 0-3. FEDERAL-AID OUTLAYS IN RELATION TO TOTAL FEDERAL OUTLAYS AND TO STATE-LOCAL REVENUE

	Federal aid			
	Amount (millions)	As a percent of—		
		Total Federal outlays	Domestic Federal outlays ¹	State-local revenue ²
1958.....	\$4,935	6.1	14.6	12.0
1959.....	6,669	7.4	16.6	14.6
1960.....	7,040	7.8	17.2	13.8
1961.....	7,112	7.4	15.7	13.2
1962.....	7,893	7.5	16.4	13.5
1963.....	8,634	7.7	16.4	13.7
1964.....	10,141	8.6	18.2	14.8
1965.....	10,904	9.3	18.8	14.8
1966.....	12,960	9.9	20.3	15.7
1967.....	15,240	9.9	20.7	16.7
1968.....	18,599	10.4	20.9	³ 17.8
1969 estimate.....	20,813	11.3	22.0	³ 17.9
1970 estimate.....	25,029	12.8	23.6	(⁴)

¹ Excluding expenditures for defense, space, and international programs. Excludes trust funds and Government-operated enterprises.

² Based on compilations published by Governments Division, Bureau of the Census. Excludes State-local revenue from publicly-operated utilities, liquor stores, and insurance trust systems.

³ Estimate.

⁴ Not available.

Matching requirements.—The pattern of State and local spending is influenced to some extent by Federal grants. This influence is exercised mainly through requiring the recipient to match Federal-aid funds with its own resources. The matching, or cost-sharing requirements are of two kinds: *variable* matching, which takes account of the differing abilities of recipients to support aided functions, and *fixed ratio* matching under which each is required to share in the same proportion of program cost.

In 1966, State and local governments had to provide a minimum of \$5 billion to \$5½ billion of their own funds to receive the \$13 billion of Federal grants spent in that year. This means that, on the average, the recipients must raise \$1 for every \$2 forthcoming from the Federal Government. However, State and local government matching funds account for only about 10% to 14% of general expenditure out of their own revenue sources. The largest grant programs, public assistance and highways, similarly account for the largest share of total required matching funds.

In 1970, required matching funds will rise to an estimated range of \$10 billion to \$13 billion, nearly \$5 to \$8 billion more than in 1966.

Division of administrative responsibility among governments.—For the past decade or so, a remarkable stability has existed in the proportionate share of public services provided by Federal, State, and local units of government. Federal grants, and grants from States to local governments, have contributed to this stability by matching resources with program need. The resurgence of State and local spending for education and highways following World War II, significantly aided by intergovernmental grants, helped to restore States and localities to a position of predominance. Counting grants as spending by the recipients, more than two-thirds of total civilian expenditures by all governmental units are made by State and local governments—with the latter alone accounting for about 43%.

Table O-4. DIRECT SPENDING FOR GENERAL DOMESTIC PROGRAMS—PERCENTAGE DISTRIBUTION ¹

Fiscal year	Federal	State	Local	Total
1967.....	32	25	43	100
1965.....	34	23	43	100
1960.....	36	22	42	100
1955.....	38	21	41	100
1950.....	46	19	35	100
1944.....	60	12	28	100
1936.....	49	15	36	100
1902.....	28	9	62	100

Note.—Expenditures in the form of intergovernmental transfers are shown by the level of government that spends the funds, rather than by the level that provides grants for public services. This is done in order to indicate *direct* spending by the three levels of government and to avoid "double counting."

¹ Direct general expenditures, excluding those for defense, space, and international programs. Excludes trust funds and Government-operated enterprises.

Source: Tabulations of the Governments Division, Bureau of the Census.

Regional distribution of Federal aids.—The distribution of Federal aids on a regional basis ranges from a high of more than \$3.6 billion in the Southeast to a low of \$535 million in the Rocky Mountain area. However, when account is taken of population differences, the Rocky Mountain area ranks highest with grant payments per capita reaching nearly \$112.33 while the Great Lakes and Mideast regions are lowest with \$53.61 and \$63.40 per capita, respectively. Population density and per capita income are the two major factors which account for this wide variation.

Population density is inversely related to the level of per capita aids. The population density of the Rocky Mountain area is the lowest of the regions, while per capita aids are highest. At the other end of the scale, per capita aids are lowest in the Great Lakes and Mideast where population density is the greatest. This inverse relationship stems primarily from aids for highway construction and other grants where program needs are not a direct function of population density.

Table O-5.—REGIONAL DISTRIBUTION OF FEDERAL AID, 1967

Region	Total (in millions of dollars)	Per capita	Percent of State and local govern- ment general revenue
New England.....	822.5	72.63	15.7
Mideast.....	2,641.1	63.40	12.5
Great Lakes.....	2,101.3	53.61	12.7
Plains.....	1,207.1	75.50	16.3
Southeast.....	3,629.6	83.74	22.2
Southwest.....	1,379.9	86.16	20.9
Rocky Mountain.....	534.8	112.33	21.5
Far West.....	2,426.2	94.90	16.1
United States.....	115,239.5	77.02	16.7

¹ Includes \$497 million for Puerto Rico, the Virgin Islands, and other adjustments.

Sources: "Annual Report of the Secretary of the Treasury," and "Governmental Finances in 1966-67," Bureau of the Census. These reports provide additional information concerning State distribution of Federal grants.

Per capita aid is also inversely related to per capita income. There are two reasons for this relationship. First, some grant programs, such as grants for hospital construction, require lower matching by the relatively poorer States. Second, certain grant programs, such as those for public assistance and elementary and secondary education, are designed as aids to the disadvantaged and, hence, tend to flow to States having proportionately more individuals with lower incomes.

It is the latter tendency which reflects the growing impact of fiscal equalization provisions common to several recent grant programs. These provisions are designed to help States with relatively meager resources to participate more effectively in many jointly financed programs. Federal aids are mildly equalizing,¹ being inversely related to per capita income. This equalizing tendency increased slightly between 1966 and 1967—the latest year for which data are available for State and local governments.

FEDERAL AID AND THE CITIES

Federal aid has shifted to meet the geographical requirements of the Nation's people as well as to cope with their program needs.

Aids to urban areas.—While Federal Government assistance has been responsive to changing program needs, it has also been sensitive to the shifts in the geographical location of the American people. The country today is more than simply an "urban" society; it is a metropolitan complex—growing in relatively dense clusters of people and problems. Today, about two-thirds of the population lives in

¹ Excluding Alaska and Hawaii, which are special cases of low population and high Federal impact, the correlation between per capita grants and per capita income in 1966 was -0.301 . This equalizing effect increased slightly in 1967 with the correlation coefficient still negative and slightly larger (-0.338).

Without highways, the extent of equalization is increased—with the negative correlation moving from -0.467 in 1966 to -0.489 in 1967. One of the most effective grants in terms of allocating funds inversely to income is title I of the Elementary and Secondary Education Act, with more than half of the variation in these grants among the States explained by variations in per capita income. (The simple correlation coefficients were -0.702 in 1966 and -0.744 in 1967.)

over 230 metropolitan areas. More than 80% of the population growth between 1960 and 1966 occurred in the metropolitan complexes. To cope with the present urban challenges—described by many as approaching crisis proportions, increasing amounts of Federal aids are being channeled into these metropolitan centers. In 1964 an estimated \$5.6 billion—or 55% of total Federal grants was spent in such areas. By 1970, about \$16.7 billion is expected to be provided for aid in metropolitan areas:

- \$11.1 billion, or 198%, more than in 1964;
- \$12.8 billion more than, or four times, the amount provided in 1961.

Standard metropolitan statistical areas (SMSA's) were chosen as the definition of "urban" for the figures in this section, since SMSA's are generally combinations of entire counties, which in turn, are the smallest geographical units for which information on Federal aids is generally available. These areas cover the bulk of the urban population and display the urban phenomena which place heavy pressure on public service requirements: high population density and rapid population growth. Nevertheless, the amounts shown still only represent approximations based on the best information readily available.

The table on the facing page shows the major sources of urban aid, by function and program, for selected years.

The major increases in Federal grants for urban areas occur in community development and housing, education, and programs to improve the welfare of our disadvantaged citizens.

The emphasis in this analysis is on those programs which provide financial assistance to urban communities to help them meet their public service needs. It includes grants made to States which subsequently benefit metropolitan areas.

There are a number of other Federal programs which have an important bearing on urban development including direct Federal construction and various loan (and loan insurance) activities. No attempt has been made to add up all the various forms of funds to reach an overall total. However, the Department of Housing and Urban Development estimates that the total Federal financial commitment for urban social and community development aids is about \$38 billion in 1970—compared to \$21 billion in 1964. The Department's figures indicate the magnitude of Federal financial involvement in communities of 2,500 population or over, as measured by obligations or commitments—including loans insured or guaranteed.

While the tabulations are not fully comparable, the estimates of the Department of Housing and Urban Development do serve to put in perspective the possible dimensions of urban-area expenditures not covered by this analysis.

OUTLOOK

While helping to meet the vastly expanded needs of the country, the rapid increase in numbers and scale of Federal aid programs has made their management complicated and their effective coordination very complex. A number of steps have been taken, and others recommended, to remedy these problems.

Table O-6. FEDERAL-AID OUTLAYS IN URBAN AREAS (in millions of dollars)

Function and program	1961 actual	1964 actual	1968 actual	1970 estimate
National defense.....	10	28	25	31
Agriculture and agricultural resources:				
Donation of surplus commodities.....	128	231	211	379
Other.....	27	40	97	135
Natural resources.....	54	18	170	242
Commerce and transportation:				
Economic development.....		158	78	146
Highways.....	1,398	1,948	2,245	2,504
Airports.....	36	36	60	72
Urban mass transportation.....			59	159
Other.....	1	5	6	123
Community development and housing:				
Community action program.....			421	379
Urban renewal.....	106	159	356	701
Public housing.....	105	136	212	341
Water and sewer facilities.....		36	29	84
Model Cities.....			1	480
Other.....	2	17	55	125
Education and manpower:				
Head Start and Follow Through.....			304	279
Elementary and secondary.....	222	274	1,314	1,290
Higher education.....	5	14	225	213
Vocational education.....	28	29	179	183
Employment security administration.....	303	344	543	599
Manpower activities.....		64	443	572
Other.....	3	7	109	146
Health and welfare:				
Child nutrition, special milk and food stamp.....	131	168	269	383
Hospital construction.....	48	66	89	97
Regional medical program.....			15	58
Mental health.....	4	8	153	220
Comprehensive health planning and services.....	29	48	42	120
Health educational facilities.....			86	132
Health manpower.....			27	103
Public assistance.....	1,170	1,590	3,989	5,564
Maternal, child health and welfare.....	18	34	83	99
Vocational rehabilitation.....	37	61	112	204
Other.....	3	20	102	112
General government:				
Law enforcement.....			4	126
National Capital region.....	25	38	77	172
Other.....		9	6	32
Other functions.....		2	38	51
Total, aids to urban areas.....	3,893	5,588	12,234	16,656

Administrative improvements.—The many attempts to improve the grant mechanism have already been summarized in an earlier section. The recently enacted *Intergovernmental Cooperation Act*, in addition to improving the operation of the federal system, is important for its symbolic value—pointing in law to the essential place that cooperation plays in the effective functioning of the entire system. The Public Service Education Act passed last year as part of the Higher Education Amendments of 1968 also sets the stage for an increased supply of manpower for improving the quality of public services at all levels of government. Finally, an attempt will be made this year administratively to *simplify the funding* in such programs as juvenile delin-

quency and efforts to combat poverty—all involving the need for the effective integration of multiple fund sources at the local level. This approach could be usefully expanded to cover many more grant activities. The Joint Funding Simplification Act proposed last year was intended to accomplish this aim. However, it failed of passage at the end of the congressional session and should be enacted this year.

New programs in 1970.—A series of new programs is being proposed or will go into effect for the first time this year.

The proposed *Urban Development Bank* represents a major step forward in implementing modern concepts of creative federalism. It will create an institution which brings together the resources and expertise of all levels of government and of private enterprise to meet the needs of our growing urban areas. Funds raised primarily by issuing federally guaranteed bonds to the public will provide low-interest, long-term financing for public facilities. The difference between the interest received from borrowers and the cost of money to the Urban Development Bank will be met by special payments by the Federal Government. The cost of this support to the Federal Government will be minor relative to the large increase in funds made available to the cities. In addition to financial aid, the Bank will provide technical assistance in financial and other borrowing matters.

Other important new ventures this year include:

- New grants to local public housing authorities to help them assure that tenants receive essential services—including child care, counseling, and job training;
- Increased encouragement of local efforts to plan urban development so that housing, jobs, transportation, and other public services are reasonably related to each other, through areawide and new community development grants;
- Federal guarantees to encourage development of New Communities, under legislation passed in 1968;
- A substantial revamping of the vocational education program, to better serve the needs of the disadvantaged and to match training with needed job skills;
- A proposed new program of comprehensive health care for expectant mothers from low-income families and their children through the first year of life;
- The proposed Intergovernmental Manpower Act will provide greater training opportunities and experience for personnel at the State and local level; and
- The shift in financing to greater reliance on private financing in a number of credit programs, as discussed on pages 204–205.

Table O-7. FEDERAL AID TO STATE AND LOCAL GOVERNMENTS¹
(expenditures in millions of dollars)

Agency and program	Functional code	1968 actual	1969 estimate	1970 estimate
National defense:				
Executive Office of the President: Office of Emergency Preparedness—Federal contributions to State and local planning.....	059	.2	.2	*
Department of Defense—Military:				
Civil defense shelters and financial assistance.....	051	26.3	22.9	23.1
Construction of Army National Guard centers.....	051	1.0	6.7	9.3
Atomic Energy Commission.....	058	5.3	5.7	9.6
Total, national defense.....		32.8	35.5	42.0
International affairs and finance:				
Department of State:				
East-West Cultural and Technical Interchange Center.....	151	5.6	5.2	5.3
International Center, Washington, D.C.....	151			.2
Total, international affairs and finance.....		5.6	5.2	5.6
Agriculture and agricultural resources:				
Department of Agriculture:				
Commodity Credit Corporation and Consumer and Marketing Service: Removal of surplus agricultural commodities and value of commodities donated.....	351	405.1	601.5	728.5
Rural water and waste disposal facilities.....	352	29.4	34.5	38.2
Mutual and self-help housing.....	352			4.0
Rural housing for domestic farm labor.....	352	1.1	4.2	5.7
Resource conservation and development.....	354	2.1	1.8	4.1
Consumer protective programs.....	355	1.1	14.1	33.9
Agricultural Research Service: Grants for basic scientific research.....	355	9.4	8.3	8.8
Agricultural experiment stations.....	355	57.1	59.8	60.9
Cooperative agricultural extension service.....	355	74.3	80.7	83.1
Payments to States, territories, and possessions, Consumer and Marketing Service.....	355	1.7	1.6	1.6
Total, agriculture and agricultural resources.....		581.3	806.5	968.8
Natural resources:				
Department of Agriculture:				
Watershed protection and flood prevention.....	401	88.7	110.1	101.0
Grants for forest protection, utilization, and basic scientific research.....	402	18.8	19.0	18.7
National forest and grassland funds; payments to States and counties (shared revenue).....	402	44.6	53.0	55.3
Department of Defense—Civil: Corps of Engineers:				
Payment to California, flood control.....	401	15.0	24.8	12.6
Payments to States, Food Control Act of 1954 (shared revenue).....	401	2.5	2.7	2.6
Department of the Interior:				
Water pollution control.....	401	132.5	178.3	188.5
Payments to States and counties from grazing receipts, grasslands, and sales of public lands (shared revenue).....	401	2.2	2.3	2.6
Bureau of Reclamation:				
Grants.....	401	.1	*	
Payments to Arizona, Nevada, and Klamath reclamation area (shared revenue).....	401	.7	.7	.7

*Less than \$500 thousand.

¹ Grants-in-aid unless otherwise specified. Excludes loans which are shown separately in table O-8 on page 219.

Table O-7. FEDERAL AID TO STATE AND LOCAL GOVERNMENTS¹
(expenditures in millions of dollars)—Continued

Agency and program	Functional code	1968 actual	1969 estimate	1970 estimate
Natural resources—Continued				
Department of the Interior—Continued				
Office of Saline Water.....	401		.2	.5
Payments from grant lands: Oregon, California, and Coos and Douglas Counties (shared revenue).....	402	22.0	26.1	24.8
Mineral Leasing Act payments (shared revenue).....	403	45.8	45.8	50.2
Mine drainage and solid waste disposal.....	403	*	*	
Aid for commercial fisheries.....	404	5.3	6.4	7.0
Payment to Alaska from Pribilof Island fund (shared revenue).....	404	.3	.3	.1
Fish and wildlife restoration and management.....	404	31.7	35.0	34.5
Wildlife refuge fund and grasslands payments (shared revenue).....	404	1.4	3.3	2.0
Outdoor recreational areas (Land and Water Conservation Fund).....	405	51.0	70.9	107.2
Preservation of historic properties.....	405	.2	.1	.8
Department of State: Pacific Halibut Commission.....	404	.2	.2	
Federal Power Commission: Payments to States (shared revenue).....	401	.1	.1	.1
Tennessee Valley Authority: Payments in lieu of taxes (shared revenue).....	401	13.1	14.5	16.6
Water Resources Council.....	401	2.0	2.6	2.6
Total, natural resources.....		478.2	596.4	628.4
Commerce and transportation:				
Funds appropriated to the President:				
Public works acceleration.....	507	5.0	7.0	
Appalachian development.....	507	98.3	224.7	274.8
Department of Commerce:				
State marine schools.....	502	.4	.4	.4
Office of State Technical Services.....	506	3.6	4.9	5.1
National Bureau of Standards: Research on fire prevention through improvement of housing construction.....	506	.4	.5	.3
Economic development assistance.....	507	113.6	156.4	173.2
Department of Housing and Urban Development:				
Mass transportation (research and planning).....	503	65.5	3.0	5.0
Department of the Interior: Resources management.....	507	1.0	1.1	1.3
Department of Transportation:				
Chamizal Memorial Highway.....	503		3.0	4.0
Forest and public lands highways.....	503	36.0	40.9	40.6
Highway beautification.....	503	38.9	47.8	41.8
Highway safety.....	503	4.1	54.8	97.0
Federal-aid highways (trust fund).....	503	4,117.5	3,886.6	4,507.3
Urban mass transportation facilities.....	503		146.2	171.5
Federal-aid airport program.....	501	74.7	86.6	90.0
Airports planning and development ²	501			150.0
Other.....	503	1.0	.6	.5
Total, commerce and transportation.....		4,560.0	4,664.5	5,562.8
Community development and housing:				
Funds appropriated to the President:				
Office of Economic Opportunity: Community Action programs.....	551	526.4	501.9	474.3
Department of Housing and Urban Development:				
Model city grants.....	551	1.6	68.9	533.9
Urban renewal.....	552	474.8	650.0	935.0
Open space land and urban beautification.....	552	33.3	55.0	60.0

*Less than \$500 thousand.

¹ Grants-in-aid unless otherwise specified. Excludes loans which are shown separately in table O-8 on page 219.

² Funds for the new program will be requested upon enactment of proposed legislation which also provides for user charges.

Table O-7. FEDERAL AID TO STATE AND LOCAL GOVERNMENTS¹
(expenditures in millions of dollars)—Continued

Agency and program	Functional code	1968 actual	1969 estimate	1970 estimate
Community development and housing—Continued				
Department of Housing and Urban Development—Con.				
Metropolitan development incentive grants	553			3.0
Grants for basic water and sewer facilities	553	44.4	100.0	130.0
Grants for neighborhood facilities	553	4.6	32.0	36.0
Advance acquisition of land	553	*	.5	1.0
Urban planning grants	554	25.2	39.5	45.0
Urban information and technical assistance	554		1.7	2.5
Community development training programs	554		3.5	5.0
Low-rent public housing program	555	282.9	329.0	454.0
Low-income housing demonstration	555	.4	.2	.1
Alaska housing	555			1.0
Total, community development and housing		1,393.7	1,782.2	2,680.8
Education and manpower:				
Funds appropriated to the President: Office of Economic Opportunity:				
Work and training programs	604	516.6	542.0	503.8
Head Start and Follow Through	601	379.9	316.2	349.1
Department of Housing and Urban Development: College housing	602			2.5
Department of Health, Education, and Welfare:				
Elementary and secondary education	601	1,454.5	1,361.1	1,452.3
(Portion for educationally deprived children)	601	(1,049.0)	(1,023.0)	(1,108.0)
Assistance to schools in federally affected areas	601	472.3	366.5	405.8
Education of the handicapped	601	7.9	24.4	26.5
Teachers Corps	601	16.0	19.0	24.2
Civil rights education	601	6.1	9.1	9.4
Higher education activities	602	387.4	305.5	354.5
(Portion to private institutions)	602	(114.2)	(98.8)	(113.9)
Vocational education	603	255.2	242.5	261.1
Arts and humanities educational activities	607	.9	.4	.2
Libraries and community services	609	93.1	101.9	107.9
Special institutions for the blind and deaf	609	1.2	1.3	2.0
Educational television facilities	609	6.7	7.2	5.2
Education professions development	609		34.0	61.9
Work incentive activities	604		85.3	155.3
Department of Labor:				
Manpower development and training activities	604	39.4	45.0	80.1
Grants to States for administration of employment security programs (trust fund)	609	571.8	604.1	630.8
Equal Employment Opportunity Commission	609	5.6	8.4	14.6
Smithsonian Institution	609	*	*	*
Department of Interior: Bureau of Indian Affairs:				
Education and welfare services	609	12.2	14.6	20.3
National Foundation on the Arts and Humanities	609	1.8	1.7	2.0
Total, education and manpower		4,228.9	4,090.3	4,469.5
Health and welfare:				
Funds appropriated to the President: Disaster relief	653	30.8	28.8	28.9
Department of Agriculture:				
Child nutrition programs and special milk	653	318.0	347.2	379.1
Food stamp	653	171.7	256.6	316.6
Department of Health, Education, and Welfare:				
Hospital construction	651	253.1	227.7	276.0
(Portion to private, nonprofit institutions)	651	(136.0)	(121.7)	(147.4)

*Less than \$500 thousand.

¹ Grants-in-aid unless otherwise specified. Excludes loans which are shown separately in table O-8 on page 219.

Table O-7. FEDERAL AID TO STATE AND LOCAL GOVERNMENTS¹
(expenditures in millions of dollars)—Continued

Agency and program	Functional code	1968 actual	1969 estimate	1970 estimate
Health and welfare—Continued				
Department of Health Education, and Welfare—Con.				
Health manpower.....	651	33.3	77.8	128.4
Comprehensive health planning and services.....	651	86.7	160.4	173.6
Regional medical programs.....	651	21.0	46.6	83.5
Construction of health educational facilities.....	651	107.1	127.5	165.6
Mental health.....	651	191.8	231.0	275.2
Health services.....	651	36.4	44.4	36.8
Consumers protection and environmental health.....	651	16.2	28.7	30.0
Dental health care.....	651	.....	.8	4.4
Indian health services and facilities.....	651	.1	1.4	1.1
Patient care and health services.....	651	1.2	1.2	1.2
Hospital facilities in the District of Columbia.....	651	.....	.....	.7
Maternal and child health.....	651	152.4	178.7	203.8
Public assistance:				
Medical assistance.....	651	1,805.8	2,384.3	2,971.0
Income maintenance payments.....	652	3,051.7	3,319.6	3,719.0
Social services for welfare recipients.....	652	461.1	590.9	729.0
Child welfare.....	653	54.5	53.8	43.0
Juvenile delinquency.....	653	.....	1.1	6.4
Vocational rehabilitation.....	653	280.7	369.4	509.3
Mental retardation.....	653	.....	6.2	22.4
Administration on Aging.....	653	6.7	11.9	15.9
Total, health and welfare.....		7,080.5	8,495.8	10,120.9
Veterans benefits and services:				
Veterans Administration:				
Aid to State homes.....	804	9.1	13.7	14.3
Grants for construction of State nursing homes.....	804	1.9	4.0	3.2
Administrative expenses.....	804	1.9	3.5	3.6
Total, veterans benefits and services.....		12.9	21.3	21.0
General government:				
Department of the Interior:				
Grants to territories.....	910	31.8	54.7	50.5
Internal revenue collections, Virgin Islands (shared revenue).....	910	12.4	12.6	13.2
Department of Justice: Law enforcement assistance:				
Education and training.....	908	2.2	3.9	15.4
Crime prevention and control.....	908	3.7	22.4	164.5
Treasury Department:				
Tax collections for Puerto Rico (shared revenue).....	910	66.2	73.0	75.0
Bureau of Customs: Refunds, transfers and expenses of operation, Puerto Rico and the Virgin Islands (trust fund share revenue).....	904	32.1	35.4	39.1
National Capital region:				
Federal payment to District of Columbia.....	909	64.0	96.0	112.4
Washington metropolitan area transit program.....	909	1.6	16.0	59.3
Dulles sewer project.....	909	11.4	1.1	.....
Total, general government.....		225.3	315.2	529.4
Total, grants and shared revenues.....		18,599.3	20,812.8	25,029.2

*Less than \$500 thousand.

¹ Grants-in-aid unless otherwise specified. Excludes loans which are shown separately in table O-8 on page 219.

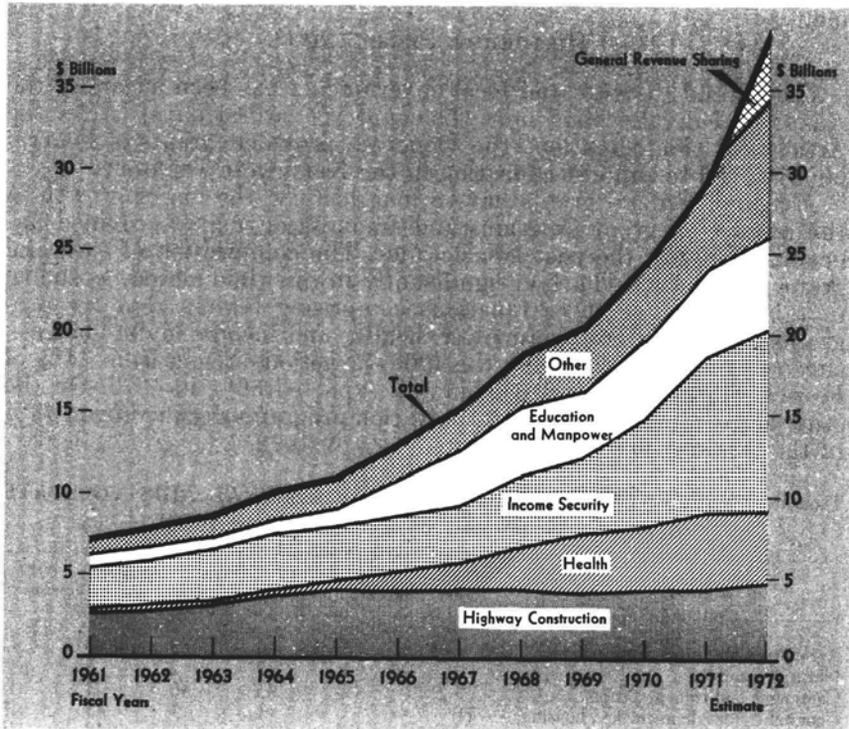
Table O-8. FEDERAL LOANS TO STATE AND LOCAL GOVERNMENTS

Agency and program	Disbursements			Net outlays		
	1968 actual	1969 estimate	1970 estimate	1968 actual	1969 estimate	1970 estimate
Agriculture and agricultural resources:						
Department of Agriculture:						
Soil Conservation Service.....	.5	.5	.8	.5	.5	.7
Farmers Home Administration.....	114.4	125.1	317.1	79.5	73.1	19.1
Total, agriculture and agricultural resources.....	114.9	125.6	317.9	79.9	73.6	19.8
Natural resources:						
Department of Agriculture: Soil conservation.....	2.8	2.6	3.0	2.8	2.6	3.0
Department of the Interior: Reclamation loans.....	14.7	6.3	5.4	13.4	5.2	4.1
Total, natural resources.....	17.5	8.9	8.4	16.3	7.8	7.1
Commerce and transportation:						
Department of Commerce: Economic development assistance.....	27.3	23.7	53.2	26.3	22.5	51.7
Department of Housing and Urban Development: Metropolitan development.....				-.2		
Department of Transportation:						
Mass transportation facilities.....		3.5	4.7		3.3	4.4
Highway construction.....			50.0			50.0
Total, commerce and transportation.....	27.3	27.2	107.9	26.1	25.8	106.1
Community development and housing:						
Department of Housing and Urban Development:						
Renewal and housing assistance.....	463.7	683.5	839.5	-29.1	92.7	-24.8
Metropolitan development.....	57.2	56.9	37.1	45.7	44.2	23.4
Total, community development and housing.....	520.9	740.4	876.6	16.6	136.9	-1.4
Education and manpower:						
Department of Health, Education, and Welfare:						
Higher education activities.....	25.5	48.6	41.3	24.4	48.3	39.8
Vocational education.....	1.6	4.0		1.6	4.0	
Department of Housing and Urban Development: College housing.....	161.4	130.0	109.2	143.1	109.7	87.4
Total, education and manpower.....	188.5	182.6	150.5	169.1	162.0	127.2
Health and welfare:						
Department of Health, Education, and Welfare: Medical facilities in District of Columbia.....			.8			.8
Total, health and welfare.....			.8			.8
General government:						
Department of Defense—Civil: Ryukyu Islands.....	.4			.4		-.2
Department of the Interior: Administration of Territories.....	3.9	5.5	4.8	3.9	4.5	3.8
Department of Justice: Law enforcement facilities.....		.3	3.6		.3	3.6
General Services Administration: General activities.....				-1.5	-1.3	-1.2
District of Columbia: Construction.....	60.2	75.3	100.1	21.4	32.3	56.3
National Capital Planning Commission.....		.1	.9	-.2	*	.9
Total, general government.....	64.6	81.3	109.4	24.0	35.8	63.2
Total.....	933.7	1,165.9	1,571.3	332.1	441.9	322.7

*Less than \$500 thousand.

SPECIAL ANALYSIS P
FEDERAL AID TO STATE AND LOCAL GOVERNMENTS

Federal Aid to State and Local Governments



HIGHLIGHTS OF THE 1972 AID PROGRAM

This year promises to be a turning point in the history of our federal system. In 1972, total Federal aid to State and local governments, including the new revenue-sharing proposals, will total \$38.3 billion. This amount will be \$8 billion more than in 1971—a 26% increase in 1 year—and 4.8 times the amount in 1962. In the last 3 years, major reforms have been made in restructuring Federal aid programs to reduce program rigidity and increase program effectiveness. Proposed initiatives for 1972 will offer unprecedented proposals for change:

- Sharing of Federal revenues with State and local governments in the form of unrestricted *general* revenue sharing funds, combined with broad purpose *special* revenue sharing grants without matching requirements.

- Fundamental reform of the welfare system (to become effective in 1973) by applying national eligibility standards, improving work incentives, broadening coverage to the working poor, and providing fiscal relief to the States.
- Medicaid reforms to emphasize incentives for more efficient use of hospitalization and extended care facilities.

The fastest growing major Federal aid programs in 1972, as in the last 5 years, are those related to income support and services for the poor, environmental protection and improvement, and law enforcement.

HISTORICAL PERSPECTIVES

Federal aid to State and local governments has been a part of the American federal system since the country's earliest days. Under the Articles of Confederation, the Congress provided grants of Federal land in 1785 to support education in the Northwest Territory.

Although Federal grants have a long history, the major growth in the number of grant programs and amounts of money provided has occurred only in the past two decades. The composition of the total grant program has changed significantly in this time period, as shown in table P-1. The three functions comprising human resource programs—education and manpower, health, and income maintenance—show a rapid growth during the 1960-72 period—rising from 47% of Federal aid in 1960, and reaching an expected 56% in 1972. On the other hand, commerce and transportation programs declined from 43% of the total in 1960, to an expected 14% in 1972.

Table P-1. **PERCENTAGE DISTRIBUTION OF FEDERAL AIDS TO STATE AND LOCAL GOVERNMENTS BY FUNCTION**

Function	1950 actual	1955 actual	1960 actual	1965 actual	1970 actual	1972 estimate
Agriculture and rural development.....	5	8	4	5	3	2
Natural resources.....	2	3	2	2	3	4
Commerce and transportation.....	21	19	43	40	21	14
Community development and housing... (1)		3	3	5	11	10
Education and manpower.....	11	14	10	10	18	15
Health.....	5	4	4	7	15	12
Income security.....	55	47	33	29	26	29
General revenue sharing.....						11
Other.....	1	2	1	2	3	3
Total.....	100	100	100	100	100	100

¹ Less than 0.5%.

While Federal grants have been growing, State and local governments have raised from their own sources about four times the amount of aid they have received from the Federal Government.

Table P-2. STATE AND LOCAL GOVERNMENT FINANCES, 1950 AND 1970

Source	In billions of dollars		Average annual percentage increase
	1950	1970	
Revenue:			
Own revenue.....	18.8	107.0	9.0
Federal aid.....	2.3	24.4	12.5
Total.....	21.1	131.4	9.5
Expenditures.....	22.3	132.0	9.3

This table is based on the National Income Accounts to permit comparison between levels of government, and differs slightly from the measure of aid used in other parts of this analysis. For a more complete discussion of different measures of aid, see the section on definitions in this analysis.

STATE AND LOCAL FISCAL PROBLEMS

State and local governments have been faced with critical financial problems in recent years. An imbalance exists between demands for higher levels of public services and funds available to finance these services. State and local government receipts from their own sources (excluding Federal grants) rose from a war-time low of 4.8% of GNP in 1944 to 10.5% in 1969, but the demand for expanded services rose even faster.

State and local governments rely principally on consumer and property taxes, which do not grow at a rate sufficient to keep up with the growth in demand for public services. Thus, States have been forced to raise tax rates frequently—instituting new taxes or raising tax rates in more than 450 instances since 1959. In 1969, 36 State legislatures approved new taxes or increased existing ones that will augment tax receipts by \$4 billion. This is significantly larger than the \$1.3 billion and \$2.5 billion added to State tax receipts in 1965 and 1967 respectively. An additional 12 States raised tax rates in the first 6 months of 1970. In addition to State tax increases, local property taxes were raised frequently during the decade.

The response of the Federal Government to the fiscal problems of State and local governments has been to increase Federal grants from \$2 billion in 1950 to \$24 billion in 1970. The results have been profound—Federal grants greatly contributed to raising the standards and levels of State and local services, improved the national highway network, and helped professionalize State and local personnel. While effective in many instances, this rapid growth in Federal grants has been accompanied by many undesirable problems, including:

- Overlapping programs at the State and local level;
- Program delays and uncertainty;
- Unnecessary limitations on the authority and responsibility of Governors and mayors; and
- The creation of competitive State and local governmental institutions.

While certain ongoing Federal grant programs were aimed at problems of national interest, they often lost sight of the fact that the real national interest lies in the strength and ability of the State and local governments to carry out their responsibilities.

REFORM OF THE GRANT SYSTEM

In recognition of these problems, the administration has proposed basic reforms in Federal Government programs and institutions, and in the structure of Federal aid to State and local governments. These changes embrace three basic concepts: sorting out appropriate governmental roles, improving the basic programs, and modernizing management.

Basic reform is being undertaken in such major functional areas as welfare, pollution control, unemployment insurance, and mass transit. The proposed welfare reform should help to alleviate the financial pressures on State and local governments immediately, saving States more than \$400 million, with more significant savings in the long run, and taking a major step toward resolving the problem of poverty in America. A new Environmental Financing Authority is being developed to tackle the pollution problem without placing additional pressure on State and local bond markets. The administration has designed the first fundamental overhaul of the unemployment compensation system since the 1930's.

A long-needed overhaul of management processes in Federal aid and other programs is being carried out. The regional boundaries of the major domestic departments of the Federal Government have been modified so that their headquarter cities and the regions that they cover conform. This facilitates cooperation between Federal agencies and makes it easier for grant recipients by having the agencies' regional offices in the same cities. A new Office of Intergovernmental Relations has been created in the Office of the Vice President. In order to foster more rational decisionmaking on the whole range of domestic programs, the administration has established a new Domestic Council, which provides a forum for considering all of the various Federal activities and functions that affect the States and their subdivisions.

Government is being decentralized in several ways—through revising grant program procedures, through a proposed overhaul of the manpower training programs, and, most importantly, through the innovation of revenue sharing. In the grant area, the administration has also recommended legislation that would:

- Authorize the President to consolidate closely related programs;
- Simplify funding of those grant programs that are closely related and in the same agency;
- Authorize joint funding of projects across agency lines; and
- Offer assistance to Governors and mayors in improving their policy planning and implementation capacity in social welfare programs.

REVENUE SHARING

The most innovative reform of the federal system is the proposal for a program of sharing Federal revenue with State and local governments. In describing the revenue sharing program, the President stated: "Ultimately, it is our hope to use this mechanism to so

strengthen State and local government that by the end of the coming decade, the political landscape of America will be visibly altered, and States and cities will have a far greater share of power and responsibilities for solving their own problems."

The major characteristics of the administration's revenue sharing plan are:

- launching a bold new program of *general* revenue sharing with State and local governments without any program or project restrictions, with this portion to grow each year as the personal income tax base of the Federal Government grows;
- providing six *special* revenue sharing grants for State and local governments in special broadly defined areas of national concern, without any requirement of matching funds; and
- maintaining only those existing grant programs for which there is a clear, continuing national requirement.

It is contemplated that the general, unrestricted, revenue sharing portion of the new plan would become effective on October 1, 1971; the remainder would go into effect by January 1, 1972. On a *first full-year basis*, appropriations and other budget authority totaling \$16 billion would be devoted to the new revenue sharing system:

- five billion dollars for *general* revenue sharing, which would be paid in equal quarterly installments to State and local governments starting in the fourth quarter of this calendar year; and
- eleven billion dollars for *special* revenue sharing grants, which State and local governments would have to spend in the functional area for which they are designated—transportation, education, urban and rural community development, manpower training, and law enforcement.

The *general* revenue sharing funds will be distributed primarily on the basis of the population of each State, with an equitable pass-through to local governments, while the *special* revenue sharing program funds will be distributed in various ways, depending upon what is appropriate for each broad program area.

Table P-3. BUDGET AUTHORITY PROPOSED FOR REVENUE SHARING PLAN, FIRST FULL YEAR

Description	Billions
General revenue sharing.....	\$5.0
Special revenue sharing:	
Urban community development.....	2.0
Rural community development.....	1.0
Education.....	3.0
Manpower training.....	2.0
Law enforcement.....	.5
Transportation.....	2.6
Total.....	16.1

The resources for *general* revenue sharing would come from revenues generated from the Federal personal income tax base and would be all new money. Funds for *special* revenue sharing would come from the conversion of a set of narrower categorical grants into the new pro-

gram. For 1972, the budget includes specific proposals totaling \$10.4 billion of budget authority (and corresponding outlays of \$9.5 billion) for the grants to be converted to special revenue sharing. Thus, an additional \$0.7 billion is being proposed for the first full year's budget authority of the special revenue sharing grants. The outlay effect for this addition is estimated at \$0.5 billion. For a full discussion of the revenue-sharing program, see Part 2 of the Budget.

SIGNIFICANT FEATURES OF FEDERAL AID IN 1972

Federal aid expenditures for grants and shared revenues will grow \$8 billion in 1972, reaching a level of \$38 billion. In addition, there will be \$281 million of net lending to State and local governments, not including the lending activity that is being encouraged in the non-Federal sector with Federal interest subsidies.

In total, Federal aids provided about 18% of State and local revenues in 1970, and is estimated to provide 22% in 1972. The largest portion of direct Federal aid is administered by the Department of Health, Education, and Welfare.

Table P-4. FEDERAL-AID EXPENDITURES BY AGENCY (in millions of dollars)

Agency	1970 actual	1971 estimate	1972 estimate
Executive Office of the President.....	*	*	
Funds Appropriated to the President.....	1,794.0	1,774.5	1,259.6
Department of Agriculture.....	1,731.7	2,989.0	3,455.0
Department of Commerce.....	158.0	156.8	168.4
Department of Defense—Military.....	37.1	34.2	38.6
Department of Defense—Civil.....	22.2	8.6	3.8
Department of Health, Education, and Welfare.....	12,029.6	14,716.6	16,505.2
Department of Housing and Urban Development.....	1,780.4	2,348.7	3,012.5
Department of the Interior.....	258.1	308.3	400.6
Department of Justice.....	41.2	337.3	528.7
Department of Labor.....	1,045.1	1,734.4	2,249.5
Department of State.....	4.8	5.7	6.1
Department of Transportation.....	4,520.0	4,937.2	5,069.2
Department of the Treasury.....	128.1	142.9	155.9
Environmental Protection Agency.....	202.8	460.1	1,041.1
Veterans Administration.....	17.9	22.8	26.0
District of Columbia.....	114.6	143.0	158.0
Other.....	69.2	176.6	190.0
Allowance for general revenue sharing.....			4,019.0
Total outlays for Federal aid.....	23,954.7	30,296.7	38,288.2

Apart from direct Federal aid, many other Federal activities that are not included in this analysis affect the finances of State and local governments. For example, the exemption of interest on State and local bonds from Federal income taxes reduced interest costs to State and local governments by \$2.0 billion in 1970. This exemption results in about \$3.0 billion in "lost" revenues to the U.S. Treasury. Similarly, since taxpayers may deduct State and local taxes from Federal taxable income, a portion of State and local taxes is offset by a reduction in the taxpayers' Federal liability. In 1970, the value of this deduction in terms of tax savings to individuals was approximately \$8.5 billion.

Table P-5. FEDERAL-AID OUTLAYS IN RELATION TO TOTAL FEDERAL OUTLAYS AND TO STATE-LOCAL REVENUE

Fiscal year	Federal aid			
	Amount (millions)	As a percent of—		
		Total Federal outlays	Domestic Federal outlays ¹	State-local revenue ²
1959.....	\$6,669	7.2	15.9	13.5
1960.....	7,040	7.6	16.4	12.7
1961.....	7,112	7.3	15.4	12.0
1962.....	7,893	7.4	15.8	12.3
1963.....	8,634	7.8	16.5	12.5
1964.....	10,141	8.6	17.9	13.4
1965.....	10,904	9.2	18.4	13.4
1966.....	12,960	9.7	19.2	14.2
1967.....	15,240	9.6	19.5	15.3
1968.....	18,599	10.4	20.9	16.9
1969.....	20,255	11.0	21.3	17.4
1970.....	23,955	12.2	21.9	18.2
1971 estimate.....	30,297	14.2	23.4	20.2
1972 estimate.....	38,288	16.7	26.5	22.4

¹ Excluding outlays for defense, space, and international programs.

² Excludes State-local revenue from publicly operated utilities and liquor stores.

THE IMPACT OF FEDERAL AID

The rapid increase in Federal aid to State and local governments has become an increasingly important factor in the finances of all levels of government. Federal aid has risen sharply as a proportion of Federal outlays in the past decade, rising from 7.4% of the total in 1962 to an estimated 16.7% in 1972. In terms of civilian domestic programs, 26.5% of Federal outlays will take the form of aids to State and local governments in 1972. Because of successful efforts by State and local governments to increase revenues from their own sources, the relative increase in the impact of Federal aid has not been quite as marked on their budgets as it has been on the Federal budget. Nevertheless, Federal aid has risen as a proportion of State and local revenues, from 13% in 1960 to an estimated 22% in 1972.

The pattern of State and local spending has been influenced by those Federal grants that require the recipient government to match Federal aid funds with its own resources. In 1966, State and local governments provided an estimated \$5.5 billion of their own funds to match the \$13 billion of Federal grants spent in that year. In the last few years, State and local government matching funds have accounted for 10% to 14% of general expenditures out of their own revenue sources. The elimination of matching requirements for the programs absorbed by the *special* revenue sharing grants will reduce these numbers and allow State and local governments greater freedom in the use of their resources.

In 1969, the distribution of Federal aids on a regional basis ranged from a high of more than \$4 billion in the Southeast and Mideast, to a low of \$0.7 billion in the Rocky Mountain area. On a per capita basis, however, the Rocky Mountain area ranked highest with grant payments of \$136 per capita, while the Great Lakes with \$74 and Plains region with \$93 per capita were lowest. Population density and

per capita income are the two major factors that accounted for this wide variation. Generally, the level of per capita aid is inversely related to population density primarily because of aid for highway construction and shared revenues to thinly populated Western States. The population density of the Rocky Mountain area is the lowest of the regions; per capita aid is the highest. At the other end of the scale, per capita aid is lowest in the Great Lakes area and the Mideast where population density is greatest.

Table P-6. REGIONAL DISTRIBUTION OF FEDERAL AID, FISCAL 1969

Region	Total (in millions of dollars)	Per capita	Percent of State and local govern- ment general revenue
New England.....	1, 173	101. 93	17. 9
Mideast.....	4, 113	97. 01	15. 2
Great Lakes.....	2, 989	74. 92	14. 0
Plains.....	1, 511	93. 40	17. 0
Southeast.....	4, 530	107. 21	22. 8
Southwest.....	1, 714	116. 33	21. 2
Rocky Mountain.....	665	136. 30	23. 3
Far West.....	3, 043	115. 25	14. 9
United States.....	20, 287	100. 47	17. 4

Sources: "Federal Aid to States—Fiscal year 1969," Department of the Treasury, and "Governmental Finances in 1968-69," Bureau of the Census. These reports provide additional information concerning State distribution of Federal grants.

Per capita aid is also inversely related to per capita income. There are two reasons for this relationship. Some grant programs require lower matching ratios for the relatively poorer States. Other programs such as those for public assistance, and elementary and secondary education, are designed as aids to the disadvantaged and tend to flow to States having proportionately more individuals with lower incomes. This reflects the growing impact of fiscal equalization provisions characteristic of a number of the more recent grant programs. For a State-by-State, program-by-program accounting of Federal grants, see the forthcoming Treasury Department publication "Federal Aid to States—Fiscal Year 1970".

Within the rising total of Federal assistance to State and local governments, another important qualitative shift is taking place—the increasing emphasis on urban areas. Between 1960 and 1970, the major population growth in America occurred in the metropolitan complexes. Today, about 70% of the population lives in 233 metropolitan areas. In 1972, approximately \$26.8 billion of the \$38 billion of total Federal aids will be spent in standard metropolitan statistical areas (SMSA's). This is an increase of about \$22 billion, or nearly 600% over the amount of aid provided to these urban areas in 1962, and \$12.8 billion in the last 4 years. The major increases in Federal grants for urban areas occurred in law enforcement, public assistance, and income security.

Standard metropolitan statistical areas were chosen as the definition of "urban" because they are the urban unit for which information on Federal aids is most generally available. These areas cover the bulk of

that urban population which places heavy pressure on public service requirements—areas where population growth and population density are high. The amounts shown in table P-7 are estimates based on the best information available.

Table P-7. **FEDERAL-AID OUTLAYS IN URBAN AREAS** (in millions of dollars)

Function and program	1961 actual	1964 actual	1969 actual	1972 estimate
National defense	10	28	30	33
Agriculture and rural development:				
Donation of surplus commodities.....	128	231	313	294
Other.....	27	40	104	81
Natural resources:				
Environmental protection.....	24	8	79	773
Other.....	30	10	101	170
Commerce and transportation:				
Economic development.....		158	104	147
Highways.....	1,398	1,948	2,225	2,646
Airports.....	36	36	83	117
Urban mass transportation.....			122	289
Other.....	1	5	5	6
Community development and housing:				
Community action program.....			432	549
Urban renewal.....	106	159	786	975
Public housing.....	105	136	257	570
Water and sewer facilities.....		36	52	110
Model Cities.....			8	420
Other.....	2	17	75	278
Education and manpower:				
Head Start and Follow Through.....			256	97
Elementary and secondary.....	222	264	1,262	1,457
Higher education.....	5	14	210	113
Vocational education.....	28	29	179	393
Employment security administration.....	303	344	449	327
Manpower activities.....		64	530	1,271
Other.....	3	7	77	704
Health:				
Hospital construction.....	48	66	89	113
Regional medical program.....			19	63
Mental health.....	4	8	50	66
Maternal and child health.....	18	34	139	203
Comprehensive health planning and services.....	29	48	80	150
Health educational facilities.....			106	117
Medical assistance.....		140	1,731	2,074
Health manpower.....			28	193
Other.....		4	54	283
Income security:				
Vocational rehabilitation.....	37	61	247	400
Public assistance.....	1,170	1,450	3,022	5,581
Child nutrition, special milk and food stamps.....	131	168	482	1,690
Other.....	3	16	148	510
General government:				
Law enforcement.....			17	464
National Capital region.....	25	38	85	158
Other.....		9	27	145
Other functions.....		2		5
General revenue sharing				12,813
Total, aids to urban areas	3,893	5,588	14,045	26,848

¹ Tentative estimated impact calculated on the basis of population includes both direct pass-through and discretionary State allocations.

Besides the programs discussed in this analysis, there are many Federal programs that have an important bearing on urban development, such as direct Federal construction and various loan and loan insurance activities. The Department of Housing and Urban Development estimated that the total Federal financial commitment for urban social and community development aids is about \$44 billion in 1971—compared to \$21 billion in 1964. The Department's figures indicate the magnitude of Federal financial involvement in communities of 2,500 population or over, as measured by obligations or commitments—including insured or guaranteed loans. While the tabulations are not fully comparable, these estimates provide a perspective on the dimensions of urban area expenditures not covered by this analysis.

TYPES OF GRANTS

Federal aid to State and local governments as reflected in budget outlays take several forms: Grants; shared revenues, usually counted as grants; and loans. Shared revenues are payments of a share of Federal revenues from a particular source—such as receipts from timber sales—which are paid to State and local governments. Grants are non-repayable resources provided by the Federal Government in support of a State or local program of service to the public.

In practice, there are two types of grants—those with “strings” attached, or conditional grants, and those with “no strings” attached, or unconditional grants. Only the former are presently in use in the United States, but the President's revenue sharing proposal is designed to change this.

Conditional grants may be divided into project grants and formula grants. Project grants are a relatively recent development in the United States and are designed to meet specific problems. That is, a project grant is given for a specific program need, such as demonstration grants for education. The recipient must take the initiative in applying for the grant, and it is up to the discretion of the granting agency whether or not the particular project involved merits funding. Project grants accounted for an estimated \$9.4 billion in 1969 and \$11.7 billion in 1970 of total Federal aid.

In contrast, formula grants are allocated to all eligible jurisdictions for selected functions on the basis of some formula. The formula criteria may include the fiscal capacity of the recipient government, total or relevant population in the area, such as the number of poor people, or both.

Matching requirements on Federal grants specify the portion of the project or program cost that the recipient is required to provide in order to receive the Federal grant. Matching requirements vary widely depending on the program. For some programs, the matching rates are uniform for recipient governments. In other cases, differential rates have been established so that governments with lower fiscal capacity are required to meet lower matching requirements than those with higher fiscal capacity.

Revenue sharing, a third type of grant, has been discussed in another part of this analysis.

Three different statistical series showing Federal aid to State and local governments are produced by the Federal Government. Table P-8 shows the principal differences between these three series over a 6-year period.

Table P-8. **THREE MEASURES OF FEDERAL AID TO STATE AND LOCAL GOVERNMENTS 1964-1969** (in billions of dollars)

	1964	1965	1966	1967	1968	1969
Budget (Special Analysis P)	10.1	10.9	13.0	15.2	18.6	20.3
Principal exclusions:						
Agricultural commodities	-.5	-.5	-.3	-.3	-.5	-.7
Food stamps	(- ¹)	(- ¹)	-.1	-.1	-.2	-.2
Certain OEO payments		(- ¹)	-.2	-.5	-.8	-.8
Add payments for research .....	.8	.9	.9	1.0	1.1	1.1
All other (net)	-.3	-.2	-.2	-.3	-.1	-.3
Federal payments (Census)	10.1	11.1	13.1	15.0	18.1	19.4
Exclude low-rent public housing	-.2	-.2	-.2	-.2	-.3	-.3
All other (net)	-.1	(¹)	-.2	(¹)	-.2	(¹)
Grants-in-aid, National Income Accounts....	9.8	10.9	12.7	14.8	17.6	19.1

¹ Less than \$50 million.
(See: Special Analysis A).

As the table indicates, there is a growing divergence between the series shown in this analysis and the other series. The principal cause of this divergence over these years was the treatment of payments by the Office of Economic Opportunity as will be discussed below. Although these payments will be relatively stable in the years 1970-72, the rapid growth of food stamps will continue to widen this gap.

The series used in this analysis is focused on showing Federal aid to States for programs either operated directly by State or local governments or coordinated through or approved by State agencies. It includes outlays whether cash payments or in-kind, and includes aid to the Governments of Puerto Rico and the Virgin Islands. The basic focus is on programs aimed to serve the public but not directly administered by the Federal Government. Therefore, it excludes payments for purchases of services to the Federal Government, such as research conducted by public universities.

Both the census and the national income accounts (NIA) definitions are designed to match their other definitions for data encompassing the entire economy. They exclude payments to private, nonprofit agencies even if coordinated under a State plan, since this money is reported in the private sector. The principal example of this is OEO, where a considerable amount of money the budget includes as grants goes to private nonprofit entities.

Both the census and the NIA definitions exclude payments in-kind from grants—such as food stamps or commodities donated under the school lunch program—and also exclude payments to territories or possessions. However, they focus on cash payments, so payments for research conducted by public universities is included in their data, as these universities are included as part of the State/local sector in their various tabulations.

There are various other—relatively minor—differences between the three series. The one major outlay included in the budget and census series but excluded from the NIA series are payments for low-rent public housing, which the NIA counts as purchases by the Federal Government rather than grants.

Further information on the NIA series may be found in Special Analysis A.

Table P-9. FEDERAL AID TO STATE AND LOCAL GOVERNMENTS¹
(expenditures in millions of dollars)

Agency and program	Functional code	1970 actual	1971 estimate	1972 estimate
National defense:				
Executive Office of the President: Office of Emergency Preparedness—Federal contributions to State and local planning.....	059	*	*	-----
Department of Defense—Military:				
Civil defense shelters and financial assistance.....	051	27.0	26.2	28.6
Construction of Army National Guard centers.....	051	10.1	8.0	10.0
Atomic Energy Commission.....	058	9.3	7.6	4.3
Total, national defense.....		46.4	41.8	42.9
International affairs and finance:				
Department of State:				
East-West Cultural and Technical Interchange Center.....	153	4.8	5.5	5.8
International Center, Washington, D.C.....	151	-----	.2	.2
Total, international affairs and finance.....		4.8	5.7	6.0
Agriculture and rural development:				
Department of Agriculture:				
Commodity Credit Corporation and Consumer and Marketing Service: Removal of surplus agricultural commodities and value of commodities donated..	351	433.7	448.5	463.1
Rural water and waste disposal facilities.....	352	25.4	38.2	61.0
Mutual and self-help housing.....	352	-----	1.5	2.0
Rural housing for domestic farm labor.....	352	6.2	4.0	2.0
Resource conservation and development.....	354	8.4	12.4	14.0
Consumer protective programs.....	355	19.2	24.4	24.4
Cooperative agricultural extension service.....	355	106.4	137.5	161.4
Water Bank Act Program.....	354	-----	-----	10.1
Other.....	355	1.4	1.4	.6
Total, agriculture and rural development.....		600.8	667.9	738.6
Natural resources:				
Department of Agriculture:				
Watershed protection and flood prevention.....	401	93.4	100.7	98.8
Grants for forest protection, utilization, and basic scientific research.....	402	19.9	20.7	20.7
National forest and grassland funds: payments to States and counties (shared revenue).....	402	78.7	73.2	82.8
Assistance to States for tree planting.....	402	.9	.8	.8
Department of Defense—Civil: Corps of Engineers:				
Flood control.....	401	19.4	5.9	1.0
Payments to States, Flood Control Act of 1954 (shared revenue).....	401	2.8	2.7	2.8
Department of the Interior:				
Payments to States and counties (shared revenue)..	402	86.2	85.7	92.3
Bureau of Reclamation.....	401	1.5	.9	.8
Mine drainage and solid waste disposal.....	403	*	.1	.2
Fish and wildlife restoration and management.....	405	43.2	58.0	62.7
Outdoor recreational areas (Land and Water Conservation Fund).....	405	45.7	60.0	110.0
Preservation of historic properties.....	405	*	*	*

See footnotes at end of table.

Table P-9. FEDERAL AID TO STATE AND LOCAL GOVERNMENTS¹
(expenditures in millions of dollars)—Continued

Agency and program	Functional code	1970 actual	1971 estimate	1972 estimate
Natural resources—Continued				
Federal Power Commission: Payments to States (shared revenue).....	401	*	*	*
Tennessee Valley Authority: Payments in lieu of taxes (shared revenue).....	401	16.1	20.0	26.8
Water Resources Council.....	401	2.4	3.5	3.0
Environmental Protection Agency.....	401	194.2	444.8	1,029.6
Total, natural resources.....		606.4	877.2	1,532.4
Commerce and transportation:				
Funds appropriated to the President:				
Public works acceleration.....	507	.8	3.0	-----
Appalachian development.....	507	184.4	264.2	282.4
Department of Commerce:				
State marine schools.....	502	.4	.5	.5
Regional development.....	507	.9	2.8	8.9
Promotion of tourism.....	506	-----	-----	.4
National Bureau of Standards.....	506	.2	.4	.2
National Oceanic and Atmospheric Administration.....	506	-----	.9	.1
Economic development assistance.....	507	156.5	152.2	158.3
Department of the Interior: Resources management.....	507	2.1	4.6	5.8
Department of Transportation:				
Forest and public lands highways.....	503	32.9	28.4	31.6
Highway beautification.....	503	1.0	.5	1.3
Highway safety.....	503	-----	-----	13.0
Federal-aid highways (trust fund).....	503	4,299.5	4,590.5	4,579.8
Urban mass transportation facilities.....	503	104.5	179.2	290.3
Federal aid for airports and airways ²	501	83.2	134.0	147.0
Other.....	502	1.3	4.6	5.2
Total, commerce and transportation.....		4,865.3	5,365.8	5,525.8
Community development and housing:				
Funds appropriated to the President:				
Office of Economic Opportunity: Community Action programs.....	551	647.8	656.4	679.2
Department of Housing and Urban Development:				
Model city grants.....	551	75.7	358.1	442.3
Urban renewal.....	552	1,053.7	1,035.0	1,300.0
Open space land and urban beautification.....	552	43.4	72.0	100.0
New community assistance.....	552	-----	.6	2.0
Grants for basic water and sewer facilities.....	553	109.0	140.5	170.0
Grants for neighborhood facilities.....	553	23.4	33.0	38.0
Urban planning grants.....	554	41.2	50.0	48.0
Community development training programs.....	554	2.4	4.0	3.0
Low-rent public housing programs.....	555	435.9	655.5	758.9
National Homeownership Foundation.....	555	-----	-----	.3
Community development.....	553	-----	-----	150.0
Total, community development and housing.....		2,432.5	3,005.1	3,691.7

See footnotes at end of table.

Table P-9. FEDERAL AID TO STATE AND LOCAL GOVERNMENTS ¹
 (expenditures in millions of dollars)—Continued

Agency and program	Functional code	1970 actual	1971 estimate	1972 estimate
Education and manpower:				
Funds appropriated to the President: Office of Economic Opportunity ³	601	899.9	796.9	256.0
Department of Health, Education, and Welfare:				
Elementary and secondary education.....	601	1,469.5	1,703.7	1,789.5
Office of Child Development.....	601	-----	-----	138.4
Assistance to schools in federally affected areas.....	601	622.0	464.0	437.9
Education of the handicapped.....	601	31.1	33.0	34.4
Civil rights education.....	601	3.1	12.2	8.7
Higher education activities.....	602	342.0	313.3	175.4
(Portion to private institutions).....	602	(101.3)	(96.6)	(46.0)
Vocational education.....	603	285.2	404.9	445.9
Libraries and community services.....	608	104.9	65.9	42.1
Special institutions for the blind and deaf.....	608	1.4	1.5	1.6
Education professions development.....	601	86.1	109.4	113.9
Work incentive activities.....	604	81.4	138.3	223.4
Emergency school assistance.....	601	-----	94.9	290.0
Department of Labor:				
Manpower development and training activities.....	604	420.9	991.0	1,443.5
Grants to States for administration of employment security programs (trust fund).....	604	327.7	374.5	395.0
Department of Interior: Bureau of Indian Affairs:				
Education and welfare services.....	601	16.3	19.6	26.7
National Foundation on the Arts and the Humanities.....	608	.3	5.9	5.5
Corporation for Public Broadcasting.....	608	15.0	23.0	35.0
Equal Employment Opportunities Commission.....	609	.9	1.4	2.8
Other.....	-----	3.7	.4	.4
Total, education and manpower.....	-----	4,711.4	5,553.8	5,866.1
Health:				
Department of Health, Education, and Welfare:				
Hospital construction.....	651	272.0	240.8	214.3
(Portion to private, nonprofit institutions).....	651	(149.6)	(133.2)	(123.3)
Health manpower.....	651	45.4	68.1	71.8
Comprehensive health planning and services.....	651	122.0	180.9	178.8
Regional medical programs.....	653	74.3	80.5	71.8
Construction of health educational and mental health facilities.....	651	185.8	181.7	178.8
Mental health services and development.....	653	145.9	147.3	175.8
Health services.....	651	9.2	6.0	3.0
Environmental health.....	653	10.0	16.7	12.1
Indian health services and facilities.....	652	1.0	2.2	.3
Patient care and health services.....	652	1.6	1.3	1.2
Communicable and chronic diseases.....	653	1.9	3.4	-----
Maternal and child health.....	652	235.8	204.2	250.6
Medical assistance.....	652	2,726.8	3,250.1	3,383.6
Total, health.....	-----	3,831.4	4,383.3	4,542.2

See footnotes at end of table.

Table P-9. FEDERAL AID TO STATE AND LOCAL GOVERNMENTS ¹
(expenditures in millions of dollars)—Continued

Agency and program	Functional code	1970 actual	1971 estimate	1972 estimate
Income security:				
Funds appropriated to the President: Disaster relief...	703	61.0	54.0	42.0
Public assistance:				
Income maintenance payments.....	702	4,716.2	6,439.8	7,531.6
Social services for welfare recipients.....	703	441.4	544.5	554.0
Juvenile delinquency.....	703	3.6	6.6	11.9
Vocational rehabilitation.....	703	296.5	368.9	411.0
Administration on Aging.....	703	16.1	13.9	14.3
Food stamp.....	702	558.7	1,507.3	1,943.3
Child nutrition program and special milk.....	702	379.4	618.4	570.1
Community services.....	703	---	---	162.0
Total, income security.....	---	6,472.7	9,556.3	11,240.2
Veterans benefits and services:				
Veterans Administration:				
Aid to State homes.....	804	14.0	16.8	17.7
Grants for construction of State nursing homes.....	804	3.4	5.0	7.5
Administrative expenses.....	804	.5	.9	.7
Total, veterans benefits and services.....	---	17.9	22.7	25.9
General government:				
Department of the Interior:				
Grants to territories.....	909	48.7	62.6	84.3
Internal revenue collections, Virgin Islands (shared revenue).....	909	14.1	16.1	17.3
Department of Justice: Law enforcement assistance.....	908	41.2	337.3	528.7
Treasury Department: Tax collections for Puerto Rico (shared revenue).....	909	85.2	87.0	90.0
National Capital region:				
Federal payment to District of Columbia.....	909	114.6	143.0	158.0
Washington Metropolitan Transit Agency.....	---	15.8	100.0	112.2
Other.....	---	42.9	55.9	65.9
Total, general government.....	---	362.5	801.9	1,056.4
Allowance for general revenue sharing ⁴.....	---	---	---	4,019.0
Total, grants and shared revenues.....	---	23,954.7	30,296.7	38,288.2

* Less than \$100 thousand.

¹ Grants-in-aid unless otherwise specified. Excludes loans which are shown separately in table P-10.

² Federal funds in 1970; trust funds in 1971 and 1972.

³ Manpower programs transferred to Labor Department.

⁴ For fiscal 1972; differs from first full-year basis.

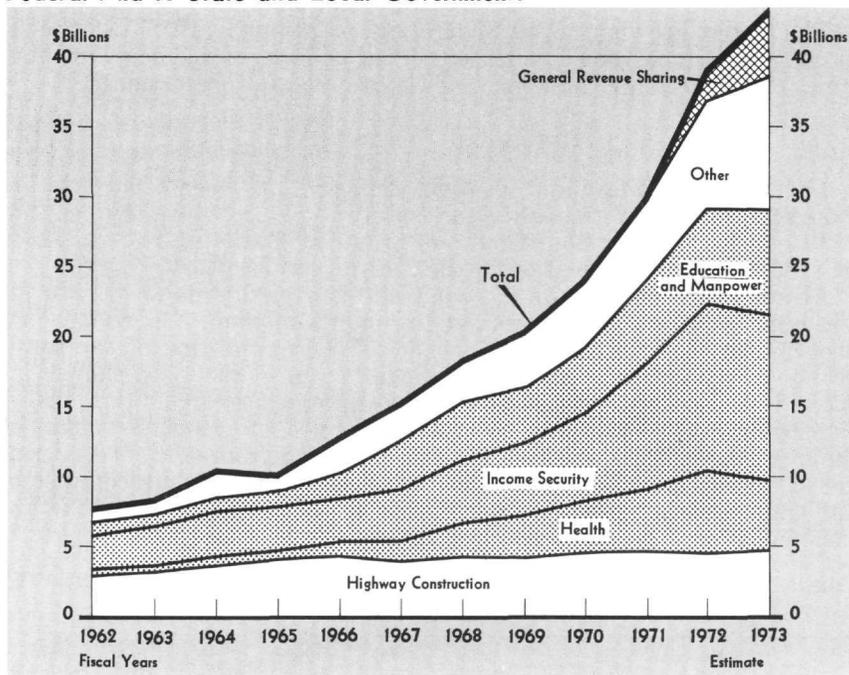
Note.—This table is based on the existing system of grant programs; the adoption of revenue sharing could change the functional distribution of the 1972 figures.

Table P-10. FEDERAL LOANS TO STATE AND LOCAL GOVERNMENTS

Agency and program	Net outlays		
	1970 actual	1971 estimate	1972 estimate
Agriculture and rural development:			
Farmers Home Administration.....	- .1	-----	-----
Total, agriculture and rural development.....	- .1	=====	=====
Natural resources:			
Department of the Interior: Reclamation loans.....	2.9	3.6	13.0
Total, natural resources.....	2.9	3.6	13.0
Commerce and transportation:			
Department of Commerce: Economic development assistance..	38.9	27.2	23.3
Department of Transportation:			
Mass transportation facilities.....	- .2	- .2	- .2
Highway construction.....	3.1	35.0	35.0
Total commerce and transportation.....	41.8	62.0	58.1
Community development and housing:			
Department of Housing and Urban Development:			
Low-rent public housing fund.....	-1.2	12.0	10.0
Housing management revolving fund.....	-1.9	.1	-7.4
Community development.....	33.0	87.3	34.4
Total, community development and housing.....	29.9	99.4	37.0
Education and manpower:			
Department of Health, Education and Welfare: Higher education activities.....	31.6	26.8	4.7
Department of Housing and Urban Development: College housing.....	55.6	70.5	27.6
Total, education and manpower.....	87.2	97.3	32.3
General government:			
Department of Defense—Civil.....	- .2	- .4	- .4
Department of the Interior:			
Administration of territories.....	1.8	4.9	4.4
Alaska public works.....	- .1	-----	-----
General Services Administration: General activities.....	-1.4	-1.4	-1.5
District of Columbia.....	90.5	113.7	137.8
Total, general government.....	90.5	116.8	140.3
Total.....	252.2	379.1	280.7

SPECIAL ANALYSIS P
FEDERAL AID TO STATE AND LOCAL GOVERNMENTS

Federal Aid to State and Local Governments



HIGHLIGHTS OF THE 1973 AID PROGRAM

In 1973, Federal aid to State and local governments will total \$43.8 billion. This amount will be \$4.4 billion more than in 1972—a 12% increase in 1 year, and five times the amount in 1963. Since 1968, major progress has been made in restructuring Federal aid programs to increase their flexibility and effectiveness. Proposals in the President's 1973 legislative program call for even greater changes:

- Sharing Federal revenues with State and local governments in the form of unrestricted *General Revenue Sharing*, and six broad purpose *special* revenue sharing programs without matching requirements.

- Reforming the welfare system to provide national eligibility standards, improved work incentives, broadened coverage to the working poor, and eventual fiscal relief to the States.
- Strengthening the grant-in-aid delivery system through the Federal Assistance Review program (FAR), including: decentralizing decisionmaking to Federal field offices; and expanding the Integrated Grant Administration program from four to 24 major projects, thus enabling State and local governments to apply for several related grants through a single application.

The fastest growing major Federal aid programs in 1973, as in each of the years since 1969, are those related to law enforcement, income support, services for the poor, and environmental protection.

HISTORICAL PERSPECTIVES

Federal aid to State and local governments has been a part of the American federal system since the country's earliest days. Under the Articles of Confederation, Congress provided grants of Federal land in 1785 to support education in the Northwest Territory.

Although Federal grants have a long history, the major growth in the number of grant programs and amounts of money provided has occurred only in the past two decades. The composition of the total grant program has changed significantly since 1960, as shown in table P-1. The functions comprising human resource programs—education and manpower, health, and income security—show a rapid growth during the 1960-73 period, rising from 47% of Federal aid in 1960 to an expected 55% in 1973. On the other hand, commerce and transportation programs declined from 43% of the total in 1960 to 14% in 1973.

Table P-1. PERCENTAGE DISTRIBUTION OF FEDERAL AIDS TO STATE AND LOCAL GOVERNMENTS BY FUNCTION

Function	1950 actual	1955 actual	1960 actual	1965 actual	1970 actual	1973 estimate
Agriculture and rural development.....	5	8	4	5	3	2
Natural resources and environment....	2	3	2	2	3	4
Commerce and transportation.....	21	19	43	40	21	14
Community development and housing.....	(¹)	3	3	5	11	10
Education and manpower.....	11	14	10	10	18	17
Health.....	5	4	4	7	15	11
Income security.....	55	47	33	29	26	27
General revenue sharing.....						11
Other.....	1	2	1	2	3	4
Total.....	100	100	100	100	100	100

¹ Less than 0.5%.

While Federal grants have been growing, State and local governments presently raise from their own sources about four times the amount of aid they receive from the Federal Government.

Table P-2. STATE AND LOCAL GOVERNMENT FINANCES, CALENDAR YEARS 1951 AND 1971

Source	In billions of dollars		Average annual percentage increase
	1951	1971	
Revenue:			
Own revenue.....	18.8	114.8	9.5
Federal aid.....	2.3	26.9	13.1
Total.....	21.1	141.7	10.0
Expenditures.....	22.3	141.7	9.7

This table is based on the National Income Accounts to permit comparison between levels of government, and differs slightly from the measure of aid used in other parts of this analysis. For a more complete discussion of different measures of aid, see the section on definitions in this analysis.

STATE AND LOCAL FISCAL PROBLEMS

State and local governments have been faced with critical financial problems in recent years. An imbalance has existed between the need for higher levels of public services and funds available to finance these services. State and local government receipts from their own sources (excluding Federal grants) rose from a war-time low of 4.8% of GNP in 1944 to 11% in 1971, but the need for expanded services and the cost of providing these services rose even faster.

State and local governments rely principally on consumer and property taxes, which have not grown at a rate sufficient to keep up with the growth in demand for public services. Thus, States have been forced to raise tax rates frequently—instituting new taxes or raising tax rates in more than 514 instances since 1959, and 64 instances in 1971 alone. These latter actions will augment tax receipts by about \$5 billion. This is significantly larger than the \$1.3 billion and \$2.5 billion added to State tax receipts in 1965 and 1967, and the record \$4 billion in 1969. It was only through drastic budget cutting, and tax increases, that State and local governments achieved an estimated surplus of \$25 million in 1971.

The response of the Federal Government to the fiscal problems of State and local governments has been to increase Federal grants from 71 programs and \$2 billion in 1950 to 530 programs and \$24 billion in 1970. The results have been that while Federal grants have paid for several services previously paid for from State and local revenues, such as a highway network, this rapid growth has been accompanied by many problems, including:

- Overlapping programs at the State and local level;
- Program delays and uncertainty caused by unnecessarily detailed and costly application requirements;
- Unnecessary limitations on the authority and responsibilities of Governors, mayors, county executives, and city managers;
- The creation of competitive State and local governmental institutions; and
- Rigid funding arrangements which are unable to adjust to changes in priorities over time, such as matching fund requirements.

While Federal grant programs were aimed at problems deemed by their sponsors to be of national interest, they often ignored their impact on the strength and ability of the State and local governments to carry out their own particular responsibilities.

REFORM OF THE GRANT SYSTEM

In recognition of these problems, the administration has proposed basic reforms in Federal Government programs and institutions, and in the structure of Federal aid to State and local governments. These changes embrace three basic concepts: sorting out appropriate governmental roles, improving the basic programs, and modernizing management.

Basic reform is being undertaken in such major functional areas as welfare, pollution control, unemployment insurance, and mass transit. The proposed welfare reform should help to alleviate the financial pressures on State and local governments after it is enacted and should provide substantial savings in the long run. It will also be a major step toward reducing poverty in America. An Environmental Financing Authority has been proposed which will assist financing expanded pollution control facilities for those communities which are unable to borrow for this purpose at reasonable interest rates. The administration has also designed the first fundamental reform of the unemployment compensation system since the 1930's.

A long-needed overhaul of management processes in Federal aid and other programs is being carried out. The regional boundaries of the major domestic departments of the Federal Government have been modified so that their headquarter cities and the regions that they cover conform. This facilitates cooperation between Federal agencies and makes it easier for grant recipients since the agencies' regional offices are in the same cities. A new Office of Intergovernmental Relations was created in the Office of the Vice President. In order to foster better decisionmaking on the whole range of domestic programs, the administration has established a Domestic Council, which provides a forum for considering all of the various Federal activities and functions that affect the States and their subdivisions, and reorganized the Bureau of the Budget into the Office of Management and Budget.

Government operations are being simplified and decentralized in several ways—through revised grant program procedures, through a proposed overhaul of the manpower training programs, and, most importantly, through the introduction of revenue sharing. In the grant area, the administration has also recommended legislation that would:

- Authorize the President to consolidate closely related programs;
- Simplify funding of those grant programs that are closely related and in the same agency;
- Authorize joint funding of projects across agency lines; and
- Offer assistance to Governors and mayors in improving their policy planning and implementation capacity in social welfare programs.

REVENUE SHARING

One of the most innovative and far-reaching reforms of the federal system is the proposal for a program of sharing Federal revenue with State and local governments. In describing the revenue sharing program, the President stated: "The time has come for a new partnership between the Federal Government and the States and localities—a partnership in which we entrust the States and localities with a larger share of the Nation's responsibilities, and in which we share our Federal revenues with them so that they can meet those responsibilities."

The major characteristics of the administration's revenue sharing plan are:

- A new program of *General Revenue Sharing* with State and local governments without any program or project restrictions, with the amount granted to grow each year as the personal income tax base of the Federal Government grows;
- Six *special* revenue sharing programs for State and local governments in special broadly defined areas of national concern, without any requirement of matching funds or Federal approval of project plans; and
- Maintenance of those existing grant programs for which there is a clear, continuing national requirement.

The major features of the *General Revenue Sharing* proposal are:

- *Predictability*.—The amounts to be shared will be based on 1.3% of the personal income tax base.
- *Expanding scale*.—Because of the natural growth in the base, the absolute amounts are proposed to rise from a budget authority of \$5.3 billion and outlays of \$5 billion in 1973 to an estimated \$10 billion in outlays for 1980.
- *Unconditional*.—Revenue sharing funds will not be tied to specific programs because the funds are for use by State and local governments in accordance with their program priorities. The allocation of funds will be based on formulas prescribed by law and linked to data prepared on a regular basis by the Census Bureau. No costly, time-consuming applications will be required.
- *Distribution by need and effort*.—The amount to be shared with any given State will be based on State population, adjusted for combined State and local revenue effort. States with greater relative revenue effort will get more than they would otherwise.
- *Guaranteed funds for cities and counties*.—To place a minimum guarantee on the share of funds that cities, counties, and townships will receive, the administration's bill stipulates that States must "pass through" to each such local jurisdiction its appropriate share.

Special revenue sharing will consist of six broad-purpose programs providing State and local governments with funds for use in the functional area for which they are designated—transportation, education, urban and rural community development, manpower training, and

law enforcement. The proposed effective dates for two of these programs—education and urban community development—is July 1, 1972. These funds will be distributed on the basis of formulas appropriate for each broad program area. Funds for *special* revenue sharing will come from the conversion of a set of narrower categorical grants into the new program, and from additional funds requested by the President.

Characteristically, the programs recommended for conversion to *special* revenue sharing deal with high priority national problems which require State and local solutions. In these areas, State and local governments are in a better position to design and implement responsive and effective programs. Eliminating Federal administration of these programs will relieve State and local governments of many Federal requirements—including the elimination of matching requirements on the categorical grants converted to *special* revenue sharing. Federal civil rights requirements will be retained.

Table P-3. REVENUE SHARING, BUDGET AUTHORITY, FIRST FULL YEAR

Description	Billions
General Revenue Sharing	\$5.3
Special revenue sharing:	
Urban community development	2.3
Rural community development	1.1
Education	3.2
Manpower training	2.0
Law enforcement .....	.9
Transportation	2.8
Total	17.6

SIGNIFICANT FEATURES OF FEDERAL AID IN 1973

Federal aid expenditures for grants and shared revenues will grow from \$29.8 billion in 1971 to \$43.5 billion in 1973. In addition, there will be an estimated \$1.9 billion in loan disbursements resulting in \$309 million of net lending to State and local governments. This does not include the lending activity that is being encouraged in the non-Federal sector with Federal interest subsidies and guarantees.

In total, Federal aid programs provided about 18% of State and local revenues in 1971, and will provide an even greater percentage in 1972 and 1973. The largest portion of direct Federal aid is administered by the Department of Health, Education, and Welfare. Due to extreme fiscal pressures on State and local governments, in 1972 the department will make an advance payment to these governments of about \$1 billion for welfare payments and services.

Apart from direct Federal aid, many other Federal activities that are not included in this analysis affect the finances of State and local governments. For example, the exemption of interest on State and local bonds from Federal income taxes reduced interest costs to State and local governments by \$2.0 billion in 1971. This exemption results in about \$3.0 billion in "lost" revenues to the U.S. Treasury. Similarly, since taxpayers may deduct State and local taxes from Federal taxable income, a portion of State and local taxes is offset by a reduction in the taxpayers' Federal liability. In 1971, the value of this

Table P-4. FEDERAL-AID EXPENDITURES BY AGENCY (in millions of dollars)

Agency	1971 actual	1972 estimate	1973 estimate
Funds Appropriated to the President.....	1,468.2	1,286.4	1,064.3
Department of Agriculture.....	3,198.3	3,916.0	4,223.2
Department of Commerce.....	184.9	174.6	206.1
Department of Defense—Military.....	34.2	36.2	45.6
Department of Defense—Civil.....	6.9	5.0	3.0
Department of Health, Education, and Welfare.....	14,650.9	18,511.6	17,665.4
Department of Housing and Urban Development.....	2,140.2	2,573.7	3,502.4
Department of the Interior.....	296.7	405.8	441.8
Department of Justice.....	195.8	361.5	501.7
Department of Labor.....	1,866.1	2,918.8	3,465.4
Department of State.....	5.4	5.7	7.8
Department of Transportation.....	4,882.5	5,143.5	5,524.3
Department of the Treasury.....	143.2	2,409.9	5,169.8
Environmental Protection Agency.....	520.0	964.6	1,178.7
Veterans Administration.....	19.0	21.2	24.4
District of Columbia.....	139.0	180.0	202.0
Other.....	94.0	165.0	253.0
Total outlays for Federal aid.....	29,844.0	39,079.8	43,478.9

Note.—Detail may not add to totals due to rounding.

deduction in terms of tax savings to individuals was approximately \$8.5 billion. In addition, in 1971 the Federal Government donated an estimated \$405 million in excess property to State and local governments for civil defense, public health, and educational purposes. The Federal Government has also donated Federal land for State and local recreation uses, such as for parks and beaches. It is estimated that between 1971 and 1973 the Federal Government will have donated 40,000 acres, worth over \$56 million, to State and local governments.

Table P-5. FEDERAL-AID OUTLAYS IN RELATION TO TOTAL FEDERAL OUTLAYS AND TO STATE-LOCAL REVENUE

Fiscal year	Amount (millions)	Federal aid		
		As a percent of—		
		Total Federal outlays	Domestic Federal outlays ¹	State-local revenue ²
1959.....	\$6,669	7.2	15.9	12.3
1960.....	7,040	7.6	16.4	11.6
1961.....	7,112	7.3	15.4	11.0
1962.....	7,893	7.4	15.8	11.3
1963.....	8,634	7.8	16.5	11.6
1964.....	10,141	8.6	17.9	12.4
1965.....	10,904	9.2	18.4	12.4
1966.....	12,960	9.7	19.2	13.2
1967.....	15,240	9.6	19.5	14.2
1968.....	18,599	10.4	20.9	15.8
1969.....	20,255	11.0	21.3	15.3
1970.....	23,954	12.2	21.9	15.9
1971.....	29,844	14.1	23.5	17.9
1972 estimate.....	39,080	16.5	25.8	21.1
1973 estimate.....	43,479	17.6	27.0	21.1

¹ Excluding outlays for defense, space, and international programs.

² "Governmental Finances in 1969-70," Bureau of the Census.

THE IMPACT OF FEDERAL AID

The rapid increase in Federal aid has become an increasingly important factor in the finances of all levels of government. Federal aid has risen from 7.8% of total Federal outlays in 1963 to an estimated 17.6% in 1973. In terms of civilian domestic programs, 27.0% of Federal outlays will take the form of aids to State and local governments in 1973. Because State and local revenues from their own sources have increased at a much more rapid rate than Federal outlays, the impact of the relative increase in Federal aid has not been quite as marked on their budgets as it has been on the Federal budget. Nevertheless, Federal aid has risen as a proportion of State and local revenues, from 12% in 1960 to an estimated 18% in 1971.

The pattern of State and local spending has been influenced by those Federal grants that require the recipient government to match Federal aid funds with its own resources. In 1966, State and local governments provided an estimated \$5.5 billion of their own funds to match the \$13 billion of Federal grants spent in that year. In the last few years, State and local government matching funds have accounted for about 10% of general expenditures out of their own revenue sources. This could amount to an estimated \$11 to \$13 billion in 1971, and an estimated \$13 to \$16 billion in 1973. The elimination of matching requirements for the programs absorbed by *special* revenue sharing will save State and local governments about \$4.2 billion and allow them greater freedom in the use of their resources.

In 1970, the distribution of Federal aids on a regional basis ranged from a high of more than \$5 billion in the Southeast and Mideast, to a low of \$0.77 billion in the Rocky Mountain area. On a per capita basis, however, the Rocky Mountain area ranked highest with grant payments of \$154 per capita, while the Great Lakes with \$82 and Plains region with \$104 per capita were lowest. Population density and per capita income are the two major factors that accounted for this wide variation. Generally, the level of per capita aid is inversely related to population density primarily because of aid for highway construction and shared revenues to thinly populated Western States. The population density of the Rocky Mountain area is the lowest of the regions, the holdings of Federal lands are extensive and per capita aid is the highest. At the other end of the scale, per capita aid is lower in the regions where population density is greatest, and Federal land holdings are small.

Table P-6. REGIONAL DISTRIBUTION OF FEDERAL AID, FISCAL 1970

Region	Total (in millions of dollars)	Per capita	Percent of State and local govern- ment general revenue
New England.....	1,406	118.65	18.4
Mideast.....	5,180	122.22	16.7
Great Lakes.....	3,329	82.70	13.5
Plains.....	1,707	104.55	17.1
Southeast.....	5,299	120.96	23.8
Southwest.....	2,013	121.68	22.1
Rocky Mountain.....	770	153.92	23.1
Far West.....	4,013	148.55	17.3
United States.....	23,954	117.89	18.6

Sources: "Federal Aid to States—Fiscal year 1970," Department of the Treasury, and "Governmental Finances in 1969-70," Bureau of the Census. These reports provide additional information concerning State distribution of Federal grants.

Per capita aid is also inversely related to per capita income. There are two reasons for this relationship. Some grant programs require lower matching ratios for the relatively poorer States. Other programs such as those for public assistance and elementary and secondary education, are designed as aids to the disadvantaged and tend to flow to States having proportionately more individuals with lower incomes. This reflects the growing impact of fiscal equalization provisions characteristic of a number of the more recent grant programs. For a State-by-State, program-by-program accounting of Federal grants, see the forthcoming Treasury Department publication "Federal Aid to States—Fiscal Year 1971".

Within the rising total of Federal assistance to State and local governments, another important qualitative shift is taking place—the increasing emphasis on urban areas. Between 1960 and 1970, the major population growth in America occurred in the metropolitan complexes. Today, about 70% of the population lives in 268 metropolitan areas. In 1973, approximately \$31.5 billion of the \$43.5 billion of total Federal grants will be spent in, or directly affect, standard metropolitan statistical areas (SMSA's). This is an increase of about \$27 billion, or nearly 700% over the amount of aid provided to these urban areas in 1961, and \$17.4 billion in the last 4 years. The major increases in Federal grants for urban areas occurred in law enforcement and public assistance.

SMSA areas include the bulk of that urban population which places heavy pressure on public service requirements—areas where population growth and population density are high. The amounts shown in table P-7 are estimates based on the best information available.

Table P-7. FEDERAL-AID OUTLAYS IN SMSA AREAS (in millions of dollars)

Function and program	1961 actual	1964 actual	1969 actual	1973 estimate
National defense	10	28	30	38
Agriculture and rural development:				
Donation of surplus commodities.....	128	231	313	446
Other.....	27	40	104	115
Natural resources and environment:				
Environmental protection.....	24	8	79	884
Other.....	30	10	101	200
Commerce and transportation:				
Economic development.....		158	104	152
Highways.....	1,398	1,948	2,225	2,842
Airports.....	36	36	83	160
Urban mass transportation.....			122	351
Other.....	1	5	5	
Community development and housing:				
Urban community development revenue sharing.....				1,450
Community action and related programs.....			432	531
Urban renewal.....	106	559	786	750
Public housing.....	105	136	257	770
Water and sewer facilities.....		36	52	98
Model Cities.....			8	590
Other.....	2	17	75	567
Education and manpower:				
Education revenue sharing.....				1,777
Head Start and Follow Through.....			256	270
Elementary and secondary.....	222	264	1,262	1,520
Higher education.....	5	14	210	81
Vocational education.....	28	29	179	480
Employment security.....	303	344	449	745
Emergency employment assistance.....				1,082
Manpower activities.....		64	530	1,115
Other.....	3	7	77	879
Health:²				
Health services and planning.....	48	66	109	252
Health services delivery.....	47	82	219	437
Mental health.....	4	8	77	254
Preventive health services.....				35
Medical assistance.....		140	1,731	2,104
Health manpower.....			107	256
Other.....		4	54	
Income security:				
Vocational rehabilitation.....	37	61	247	521
Public assistance.....	1,170	1,450	3,022	5,985
Child nutrition, special milk and food stamps.....	131	168	482	1,983
Other.....	3	16	148	77
General government:				
Law enforcement.....			17	440
National Capital region.....	25	38	85	202
Other.....		9	27	216
Other functions		2		14
General Revenue Sharing				³ 3,500
Total, aids to urban areas	3,893	5,588	14,045	31,468

¹ Tentative estimate; excludes outlays in 1973 from programs planned for conversion to special revenues sharing.

² See footnote 5 to table P-9.

³ Tentative estimated impact calculated on the basis of population includes both direct pass-through and discretionary State allocations.

TYPES OF GRANTS

Federal aid to State and local governments, as reflected in budget outlays, take several forms: grants; shared revenues, usually counted as grants; and loans. Shared revenues (not to be confused with the President's revenue sharing programs) are payments of a share of Federal revenues from a particular source—such as receipts from timber sales—which are paid to State and local governments. These payments are frequently in lieu of taxes which would be paid if the Federal land were privately held. Grants are nonrepayable resources provided by the Federal Government in support of a State or local program of service to the public.

In practice, there are two types of grants—those with “strings” attached, or conditional grants, and those with “no strings” attached, or unconditional grants. Only the former type is presently in use in the United States, but the President's revenue sharing proposal is designed to change this.

Conditional grants may be divided into project grants and formula grants. Project grants are a relatively recent development in the United States and are designed to meet specific problems. That is, a project grant is given for a specific program need, such as demonstration grants for education. The recipient must take the initiative in applying for the grant, and it is up to the discretion of the granting agency whether or not the particular project merits funding. Project grants accounted for an estimated \$9.4 billion in 1969 and \$11.7 billion in 1970 of total Federal aid.

In contrast, formula grants are allocated to all eligible jurisdictions for selected functions on the basis of some formula. The formula criteria may include the fiscal capacity of the recipient government, total or relevant population in the area, such as the number of poor people, or both. Hospital construction grants, and *special* revenue sharing programs are examples of formula grants.

Matching requirements on Federal grants specify the portion of the project or program cost that the recipient is required to provide in order to receive the Federal grant. Matching requirements vary widely depending on the program. For some programs, the matching rates are uniform for recipient governments. In other cases, differential rates have been established so that governments with lower fiscal capacity are required to meet lower matching requirements than those with higher fiscal capacity.

Revenue sharing, a third type of grant, has been discussed in another part of this analysis.

Three different statistical series showing Federal aid to State and local governments are produced by the Federal Government. Table P-8 shows the principal differences between these three series over a 6-year period.

As the table indicates, there is a growing divergence between the series shown in this analysis and the other series. The principal cause of this divergence over these years was the treatment of payments by the Office of Economic Opportunity, research payments, and the distribution of surplus agricultural commodities. Although these payments will be relatively stable in the years 1970-72, the continued growth of food stamps will continue to widen this gap.

Table P-8. THREE MEASURES OF FEDERAL AID TO STATE AND LOCAL GOVERNMENTS 1965-1970 (in billions of dollars)

	1965	1966	1967	1968	1969	1970
Budget (Special Analysis P).....	10.9	13.0	15.2	18.6	20.3	24.0
Principal exclusions:						
Agricultural commodities.....	-.5	-.3	-.3	-.5	-.7	-.5
Food stamps.....	(1)	-.1	-.1	-.2	-.2	-.6
Certain OEO payments.....	(1)	-.2	-.5	-.8	-.8	-.8
Add payments for research.....	.9	.9	1.0	1.1	1.1	1.2
All other (net).....	-.2	-.2	-.3	-.1	-.3	(1)
Federal payments (Census).....	11.1	13.1	15.0	18.1	19.4	23.3
Exclude low-rent public housing.....	-.2	-.2	-.2	-.3	-.3	-.4
All other (net).....	(1)	-.2	(1)	-.1	.3	-.4
Grants-in-aid (National Income Accounts)....	10.9	12.7	14.8	17.8	19.4	22.5

¹ Less than \$50 million.
(See: Special Analysis A.)

The series used in this analysis is focused on showing Federal aid for programs either operated directly by State or local governments or coordinated through or approved by State agencies. It includes outlays whether cash payments or in-kind, and includes aid to Governments of Puerto Rico and the Virgin Islands. The basic focus is on programs aimed to serve the public but not directly administered by the Federal Government. Therefore, it excludes payments for purchases of services to the Federal Government, such as research conducted by public universities.

Both the census and the national income accounts (NIA) definitions of grants are designed to match their other definitions for data encompassing the entire economy. They exclude payments to private, nonprofit agencies even if coordinated under a State plan, since this money is reported in the private sector. The principal example of this is OEO, where a considerable amount of money the budget includes as grants goes to private nonprofit entities.

Both the census and the NIA definitions exclude payments in-kind from grants—such as commodities donated under the school lunch program—and also exclude payments to territories or possessions. However, they focus on cash payments, so payments for research conducted by public universities are included in their data, as the universities are included as part of the State/local sector in their various tabulations. These payments are not considered grants in this analysis.

There are various other—relatively minor—differences between the three series. The one major outlay included in the budget and census series but excluded from the NIA series is payments for low-rent public housing, which the NIA counts as purchases by the Federal Government rather than grants.

Further information on the NIA series may be found in Special Analysis A.

Table P-9. FEDERAL AID TO STATE AND LOCAL GOVERNMENTS ¹

(expenditures in millions of dollars)

Agency and program	Functional code	1971 actual	1972 estimate	1973 estimate
National defense:				
Department of Defense—Military:				
Civil defense shelters and financial assistance.....	051	25.7	29.9	37.3
Construction of Army National Guard centers.....	051	8.4	6.2	8.3
Atomic Energy Commission.....	058	7.6	4.8	4.7
Total, national defense.....		41.7	40.9	50.3
International affairs and finance:				
Department of State:				
East-West Cultural and Technical Interchange Center.....	153	5.4	5.7	7.1
International Center, Washington, D.C.....	151			.7
Total, international affairs and finance.....		5.4	5.7	7.8
Agriculture and rural development:				
Department of Agriculture:				
Commodity Credit Corporation and Consumer and Marketing Service: Removal of surplus agricultural commodities and value of commodities donated...	351	387.4	638.2	714.9
Rural water and waste disposal facilities.....	352	35.9	53.2	48.8
Mutual and self-help housing.....	352	.1	2.5	3.0
Rural housing for domestic farm labor.....	352	3.5	4.0	3.0
Resource conservation and development.....	354	11.7	15.7	19.7
Consumer protective programs.....	355	28.9	30.6	32.6
Cooperative agricultural extension service.....	355	133.6	149.7	154.6
Water Bank Act Program.....	354		1.9	2.9
Agricultural Research Service.....	355	1.3	1.4	1.4
Cooperative State Research Service.....	355	67.3	74.8	79.9
Total, agriculture and rural development.....		659.7	972.0	1,060.9
Natural resources:				
Department of Agriculture:				
Watershed protection and flood prevention.....	401	73.7	87.3	96.2
Grants for forest protection, utilization, and basic scientific research.....	402	20.8	27.2	25.7
National forest and grassland funds: payments to States and counties (shared revenue).....	402	73.2	57.5	86.8
Assistance to States for tree planting.....	402	.7	.8	.8
Department of Defense—Civil: Corps of Engineers:				
Flood control.....	401	4.2	2.2	
Payments to States, Flood Control Act of 1954 (shared revenue).....	401	2.7	2.8	3.0
Department of the Interior:				
Payments to States and counties (shared revenue)...	402	85.1	90.7	97.9
Bureau of Reclamation.....	401		.8	.9
Mine drainage and solid waste disposal.....	403	*	.2	.3
Fish and wildlife restoration and management.....	405	44.9	62.3	62.1
Outdoor recreational areas (Land and Water Conservation Fund).....	405	62.0	110.0	129.9
Preservation of historic properties.....	405	1.3	6.2	7.7
Office of Water Resources Research.....	401	8.3	8.5	8.7

See footnotes at end of table.

Table P-9. FEDERAL AID TO STATE AND LOCAL GOVERNMENTS¹—Con.

(expenditures in millions of dollars)

Agency and program	Functional code	1971 actual	1972 estimate	1973 estimate
Natural resources—Continued				
Federal Power Commission: Payments to States (shared revenue).....	401	*	*	.2
Tennessee Valley Authority: Payments in lieu of taxes (shared revenue).....	401	20.0	25.7	29.0
Water Resources Council.....	401	3.5	3.6	3.4
Environmental Protection Agency.....	401	520.0	964.6	1,179.0
Total, natural resources.....	---	920.4	1,450.4	1,731.7
Commerce and transportation:				
Funds appropriated to the President:				
Public works acceleration.....	507	.4	1.7	-----
Appalachian development.....	507	229.3	279.4	285.6
Department of Commerce:				
State marine schools.....	502	.5	.5	.5
Regional development.....	507	2.0	6.6	20.4
Promotion of tourism.....	506	-----	.6	1.4
National Bureau of Standards.....	506	2.2	.5	-----
National Oceanic and Atmospheric Administration.....	506	4.5	4.5	4.5
Economic development assistance.....	507	175.6	166.5	183.8
Department of the Interior: Resources management.....	507	2.0	2.6	2.3
Department of Transportation:				
Forest and public lands highways.....	503	22.4	32.8	37.4
Highway beautification.....	503	9.5	28.9	38.7
Highway safety.....	503	68.9	85.0	84.0
Federal-aid highways (trust fund).....	503	4,562.8	4,595.5	4,801.3
Urban mass transportation facilities.....	503	154.1	261.3	352.7
Federal aid for airports and airways ²	501	61.5	131.0	200.0
Other.....	503	3.6	7.4	4.0
Total, commerce and transportation.....	---	5,299.3	5,604.8	6,016.6
Community development and housing:				
Funds appropriated to the President:				
Office of Economic Opportunity: Community Action programs.....	551	714.7	655.9	656.9
Department of Housing and Urban Development:				
Model city grants.....	551	320.3	439.2	622.0
Urban renewal.....	551	1,025.9	1,000.0	1,000.0
Open space land and urban beautification.....	551	38.8	69.4	79.9
New community assistance.....	551	-----	2.0	3.7
Grants for basic water and sewer facilities.....	551	120.6	130.0	150.0
Grants for neighborhood facilities.....	551	22.5	35.0	35.0
Urban planning grants.....	551	49.5	49.5	91.5
Community development training programs.....	551	2.8	3.0	3.0
Low-rent public housing programs.....	555	558.6	844.9	1,026.4
Urban community development revenue sharing.....	552	-----	-----	3490.0
Total, community development and housing.....	---	2,853.8	3,228.9	4,158.4

See footnotes at end of table.

Table P-9. FEDERAL AID TO STATE AND LOCAL GOVERNMENTS ¹—Con.
(expenditures in millions of dollars)

Agency and program	Functional code	1971 actual	1972 estimate	1973 estimate
Education and manpower:				
Funds appropriated to the President: Office of Economic Opportunity ⁴	601	401.5	202.7	25.1
Department of Health, Education, and Welfare:				
Elementary and secondary education.....	601	1,797.9	1,872.4	1,868.1
Education revenue sharing.....	604	-----	-----	³ 110.0
Assistance to schools in federally affected areas.....	601	492.6	473.1	432.7
Education of the handicapped.....	601	29.0	40.2	37.2
Civil rights education.....	601	6.9	9.1	8.8
Higher education activities.....	602	308.7	223.2	125.0
(Portion to private institutions).....	602	(86.3)	(53.3)	(27.3)
Vocational education.....	603	409.9	507.8	545.0
Libraries and community services.....	605	71.4	77.4	90.8
Educational renewal.....	605	112.0	128.0	143.1
National Foundation for Higher Education.....	602	-----	1.0	30.0
Work incentive activities.....	607	122.8	186.7	261.6
Emergency school assistance.....	601	51.4	89.6	313.4
Department of Labor:				
Manpower development and training activities.....	607	1,107.1	1,428.8	1,495.8
Grants to States for administration of employment security programs (trust fund).....	607	759.0	831.7	887.0
Emergency employment assistance.....	607	-----	650.8	1,082.7
Department of Interior: Bureau of Indian Affairs:				
Education and welfare services.....	601	21.4	22.7	24.4
National Foundation on the Arts and the Humanities.....	608	4.9	6.4	6.9
Corporation for Public Broadcasting.....	605	23.0	35.0	45.0
Equal Employment Opportunities Commission.....	609	1.1	1.3	2.5
Other.....	-----	1.5	9.6	2.7
Total, education and manpower.....	---	5,721.9	6,797.5	7,537.8
Health: ⁵				
Mental health:				
Development of health resources.....	651	105.4	115.0	110.4
Prevention and control of health problems.....	652	60.1	109.4	211.1
Health services planning and development.....	651	341.5	317.3	327.9
(Portion to private, nonprofit institutions).....	---	(156.2)	(133.2)	(107.9)
Health services delivery.....	652	330.1	469.1	496.6
Preventive health services.....	653	5.1	7.1	49.4
Health manpower.....	651	262.5	253.2	298.4
Medical assistance.....	652	3,362.3	4,400.9	3,432.5
Total, health.....	---	4,467.0	5,672.0	4,926.3
Income security:				
Funds appropriated to the President: Disaster relief.....	703	122.3	146.8	96.6
Department of Health, Education, and Welfare:				
Income maintenance payments.....	702	5,527.5	7,196.9	6,884.9
Social services for welfare recipients.....	703	743.9	1,439.5	1,192.3
Vocational rehabilitation.....	703	507.5	587.6	694.3
Department of Agriculture:				
Food stamp.....	702	1,536.5	2,022.1	2,274.8
Child nutrition program and special milk.....	702	831.7	749.1	679.1
Social Security Administration:				
Special benefits for miners.....	701	.9	1.7	-----
Total, income security.....	---	9,270.3	12,143.7	11,822.0

See footnotes at end of table.

Table P-9. FEDERAL AID TO STATE AND LOCAL GOVERNMENTS ¹—Con.
(expenditures in millions of dollars)

Agency and program	Functional code	1971 actual	1972 estimate	1973 estimate
Veterans benefits and services:				
Veterans Administration:				
Aid to State homes.....	804	15.5	16.6	18.5
Grants for construction of State nursing homes.....	804	2.9	4.0	5.3
Administrative expenses.....	804	.6	.6	.6
Total, veterans benefits and services.....	---	19.0	21.2	24.4
General government:				
Department of the Interior:				
Grants to territories.....	909	59.5	85.9	88.8
Internal revenue collections, Virgin Islands (shared revenue).....	909	13.2	15.6	16.7
Department of Justice: Law enforcement assistance.....	908	195.8	361.9	501.7
Treasury Department: Tax collections for Puerto Rico (shared revenue).....	909	84.9	90.0	95.0
National Capital region:				
Federal payment to District of Columbia.....	909	139.0	180.0	202.0
Washington Metropolitan Transit Agency.....	---	34.8	89.4	163.7
Other.....	---	58.3	69.9	74.8
Total, general government.....	---	585.5	892.8	1,142.7
General revenue sharing.....	940	---	2,250.0	5,000.0
Total, grants and shared revenues.....	---	29,844.0	39,079.8	43,478.9

*Less than \$100 thousand.

¹ Grants-in-aid unless otherwise specified. Excludes loans which are shown separately in table P-10.

² Federal funds in 1970; trust funds in 1971 and 1972.

³ Amounts added to categorical programs folded into special revenue sharing.

⁴ Manpower programs transferred to Labor Department.

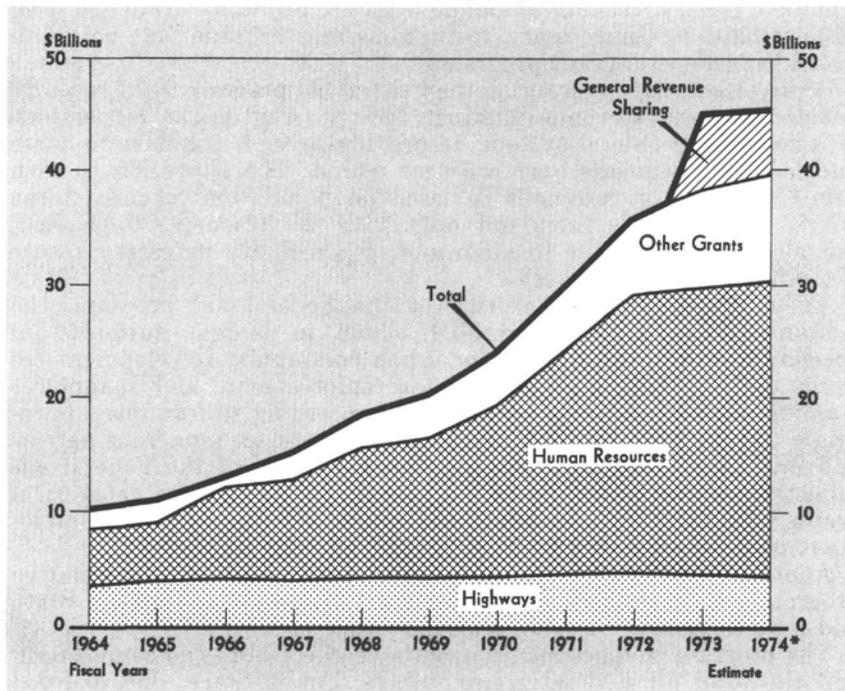
⁵ Health services planning and development incorporates health services research and development, regional medical programs, and medical facilities construction. Health services delivery incorporates comprehensive health planning and services, maternal and child health, and patient care and special health services.

Table P-10. FEDERAL LOANS TO STATE AND LOCAL GOVERNMENTS

Agency and program	Disbursements			Net outlays		
	1971 actual	1972 estimate	1973 estimate	1971 actual	1972 estimate	1973 estimate
Natural resources:						
Department of the Interior: Reclamation loans.....	6.5	15.7	17.0	5.0	14.0	15.2
Total, natural resources.....	6.5	15.7	17.0	5.0	14.0	15.2
Commerce and transportation:						
Department of Commerce: Economic development assistance.....	16.6	20.7	16.6	13.2	15.7	12.3
Department of Transportation:						
Mass transportation facilities.....	-----	-----	-----	-.2	-.2	-.2
Right-of-way revolving fund.....	32.9	51.0	55.0	32.9	51.0	55.0
Total commerce and transportation.....	49.5	71.7	71.6	45.9	66.5	67.1
Community development and housing:						
Department of Housing and Urban Development:						
Low-rent public housing fund.....	710.2	825.0	900.0	-.1	10.0	10.0
Housing management: Revolving fund.....	1.5	-----	-----	1.5	-1.0	-7.2
Community development.....	576.4	613.6	656.8	10.1	39.0	35.1
Total, community development and housing.....	1,288.1	1,438.6	1,556.8	11.5	48.0	37.9
Education and manpower:						
Department of Health, Education, and Welfare: Higher education activities.....	17.7	11.6	4.1	15.5	9.8	4.5
Department of Housing and Urban Development: College housing....	79.7	55.8	49.5	48.3	23.2	15.9
Total, education and manpower.....	97.4	67.4	53.6	63.8	32.0	20.4
General government:						
Department of Defense—Civil.....	-----	-----	-----	-.4	-.4	-.4
Department of the Interior: Administration of territories.....	2.5	7.0	5.0	2.2	6.5	4.3
General Services Administration: General activities.....	-----	-----	-----	-8.3	-1.1	-1.2
District of Columbia.....	91.9	217.8	217.8	57.5	167.3	166.0
Total, general government.....	94.4	224.8	222.8	51.0	172.3	168.7
Total.....	1,535.9	1,818.2	1,921.8	177.2	332.8	309.3

SPECIAL ANALYSIS N
FEDERAL AID TO STATE AND LOCAL GOVERNMENTS

Federal Grants to State and Local Governments



*For comparability with prior years, includes \$1.1 billion, which is equivalent to what the Federal share of grants for the adult public assistance categories would have been in the second half of 1974 if Public Law 92-603 had not been enacted. Under Public Law 92-603, starting Jan. 1, 1974, the Federal Government assumes the entire cost of this program, including administration and benefit liberalizations.

HIGHLIGHTS OF THE FEDERAL AID PROGRAM

In 1974, Federal aid to State and local governments will total \$45.2 billion including \$327 million in net loan outlays.

Several unusual factors affected the grants totals in 1973 and 1974, and the change between the two years:

- the assumption by the Federal Government in 1974 of the public assistance program for the aged, blind, and disabled;
- a General Revenue Sharing payment retroactive to 1972, but paid in 1973;
- a partial advance payment of \$1 billion in public assistance grants made in 1972;
- the phasing down of the emergency employment assistance program because of improved economic conditions; and
- cost-limiting legislation affecting medicaid and social services.

In the past, much has been made of *how much* Federal aid is provided. As the 1974 total shows, generous aid will continue. Continuing also is increased attention to the new partnership between the Federal, State, and local governments and *how well* Federal aid is spent. Programs will be thoroughly evaluated, and ineffective programs will be terminated. Decentralization of the Federal Government will be accelerated, and increasingly State and local governments will have greater freedom to handle what are primarily State and local responsibilities. Unnecessary restrictions and redtape will be eliminated from Federal grant programs.

A major step in restructuring the Federal aid program is the recently enacted General Revenue Sharing. This program is the cornerstone of a revitalized federal system. It provides over \$30 billion to State and local governments over a 5-year period. The allocation to each State and local government is based on population, need and tax effort, and provides them not only with the resources they need, but also gives them the freedom and responsibility necessary to use those funds most effectively.

To continue the restructuring of the Federal aid program, the Administration is proposing \$6.9 billion in budget authority in special revenue sharing funds for urban community development (to begin July 1, 1974), education, law enforcement, and manpower training. These funds will be disbursed according to formulas appropriate to each function, and, in general, will replace numerous narrow and ineffective categorical grants. Freed of most of the Federal administrative restrictions previously associated with these categorical grants, State and local governments will be able to design and implement programs tailored to local conditions and priorities.

Another significant proposal in the President's 1974 legislative program includes a highway/mass transit initiative to increase State and local flexibility to solve transportation problems.

The program changes mentioned above affect both the composition and the total for Federal grant outlays. For instance, due to fiscal pressures on the States, and in an effort to help accelerate State fiscal management reform, an advance Federal payment roughly equal to the costs for 1 month was made to States in 1972 for welfare payments and services. This made 1972 outlays higher than planned.

The passage of the 1972 social security amendments also affects the composition and level of grants. Provisions in that law shift responsibility for administering public assistance for the aged, blind, and disabled, from the States to the Social Security Administration. Thus outlays of about \$1.7 billion will be made as direct transfers to individuals beginning in the second half of 1974, rather than as grants to State and local governments, giving those governments the option of a substantial saving in matching payments.

In the medical area, the social security amendments also allow the States lower maintenance of effort in both optional and basic Medicaid services. Because this too is a matching grant, lower State effort is expected to reduce the Federal share by about \$355 million in 1973, and by about \$700 million in 1974. This will save the States about \$580 million of their own funds in 1974. These savings will be partially offset by expanded Medicaid service for the aged, blind, and disabled.

Another grant, the temporary Emergency Employment Assistance program, is being phased down, consistent with the increase in jobs in the private sector.

Revenue sharing is larger in 1973 than in 1974, because the payment made in 1973 includes a \$2.65 billion entitlement retroactively applied to 1972. Finally, title III of the revenue sharing bill puts a \$2.5 billion limit on Federal grants for social services under public assistance programs. The objective is to increase control over this formerly open-ended program. Outlays for this program in 1972 were \$1.9 billion. The \$2.5 billion limit will permit an increase in 1973 spending to a level seven times the level prevailing in 1969.

In total, Federal aid programs will finance about 21.3% of State and local expenditures in 1974. As can be seen in table N-1, the largest portion of direct Federal aid is administered by the Department of Health, Education, and Welfare.

Table N-1. FEDERAL GRANTS EXPENDITURES BY AGENCY (in millions of dollars)

Agency	1972 actual	1973 estimate	1974 estimate
Funds appropriated to the President.....	1,259.3	1,253.8	839.7
Department of Agriculture.....	3,614.4	4,194.2	4,207.7
Department of Commerce.....	214.3	238.3	231.0
Department of Defense—Military.....	45.2	61.3	73.7
Department of Defense—Civil.....	4.0	3.0	2.3
Department of Health, Education, and Welfare.....	18,933.6	18,969.8	18,943.1
Department of Housing and Urban Development.....	2,718.5	2,958.8	3,245.2
Department of the Interior.....	359.9	435.3	471.7
Department of Justice.....	321.0	473.9	701.2
Department of Labor.....	2,497.0	2,921.8	2,362.5
Department of State.....	4.8	6.5	8.2
Department of Transportation.....	4,980.5	5,349.2	5,308.4
Department of the Treasury.....	174.9	6,979.1	6,245.3
Environmental Protection Agency.....	459.7	787.3	1,669.4
Veterans Administration.....	18.7	23.7	25.3
District of Columbia.....	173.7	190.0	190.0
Other.....	160.6	162.0	300.6
Total expenditures for Federal grants.....	35,940.1	45,008.0	44,825.3

Note.—Detail may not add to totals due to rounding.

¹ Excludes \$1.7 billion representing direct Federal payments to adult public assistance recipients starting Jan. 1, 1974. On that date, under Public Law 92-603, the Federal Government assumes responsibility for the entire basic benefits.

Apart from direct Federal aid, many other Federal activities that are not included in this analysis affect the finances of State and local governments. For example, the exemption of interest on State and local bonds from Federal income taxes reduced interest costs to State and local governments by about \$2.0 billion in 1972, resulting in a revenue loss to the U.S. Treasury of about \$3.0 billion. Similarly, since taxpayers may deduct State and local taxes from Federal taxable income, a portion of State and local taxes is offset by a reduction in taxpayers' Federal liability. In 1972, the value of this deduction in terms of tax savings to individuals was approximately \$9.0 billion. The Federal Government has also donated Federal land to State and local governments for recreation uses, such as for parks and beaches. It is estimated that between 1971 and 1973 the Federal Government

will have donated 40,000 acres, worth over \$56 million, to State and local governments.

HISTORICAL PERSPECTIVES

Federal aid to State and local governments has been a part of the American federal system since the country's earliest days. Under the Articles of Confederation, Congress provided grants of Federal land in 1785 to support education in the Northwest Territory.

Although Federal grants have a long history, the major growth in the number of grant programs and amounts of money provided has occurred only in the past two decades. The composition of the total grant program has changed significantly, particularly since 1960, as shown in table N-2. The functions comprising human resource programs—education and manpower, health, and income security—show a rapid growth during the 1960-74 period, rising from 47% of Federal aid in 1960 to an expected 55% in 1974. On the other hand, physical resource programs (mainly in the commerce and transportation function) declined from 52% of the total in 1960 to 28% in 1974, largely because of the dominance of highway grants in the earlier period.

Table N-2. PERCENTAGE DISTRIBUTION OF FEDERAL AIDS TO STATE AND LOCAL GOVERNMENTS BY FUNCTION

Function	1950 actual	1955 actual	1960 actual	1965 actual	1970 actual	1974 estimate
Agriculture and rural development.....	5	7	4	5	3	2
Natural resources and environment.....	2	3	2	2	3	5
Commerce and transportation.....	21	19	43	40	21	13
Community development and housing.....	(1)	3	3	5	11	8
Education and manpower.....	11	14	10	10	18	14
Health.....	5	4	4	7	15	15
Income security.....	55	47	33	29	26	26
General Revenue Sharing.....	-----	-----	-----	-----	-----	14
General government and other.....	1	2	1	2	3	3
Total.....	100	100	100	100	100	100

¹ Less than 0.5%.

During the 1950's and 1960's Federal aid to State and local governments increased sharply from \$2 billion in 1950 to \$45 billion in 1974. This is an average annual increase of over 13.0%, compared to the average annual increase of State and local own-source revenues of about 9.5%. The results have been mixed; while Federal grants have resulted in significant benefits, this rapid growth has been accompanied by many problems, including:

- Program delays and uncertainty caused by unnecessarily detailed and costly application requirements;
- Unnecessary limitations on the authority and responsibilities of Governors, mayors, county executives, and city managers;
- The creation of competitive and duplicative State and local governmental institutions;

- Rigid funding and organizational arrangements which were unable to adjust to changes in priorities over time, such as matching fund requirements; and
- Large and increasing demands on the Federal budget.

These Federal grant programs were aimed at problems deemed by their sponsors to be of national interest, but the impact of the programs on the strength and ability of the State and local governments to carry out their other responsibilities was often overlooked. Clearly, reevaluation of the relationship between the Federal Government and State and local governments was called for. Accordingly, during the last 4 years, the continued expansion of grant expenditures was accompanied by reform efforts, such as grant simplification, General Revenue Sharing, greater emphasis on program evaluation, and decentralization of Federal agencies. These reform efforts have become the major focus of the 1974 Federal aid program.

Lately, this trend in State and local government budgets is in sharp contrast with the Federal Government's fiscal situation. Federal spending on aids to State and local governments and on benefit payments to individuals under major retirement and social insurance programs was only 14% of the Federal budget 20 years ago. By 1968, this spending was about 30% of the budget, and in 1974 will amount to about 50%. In many cases, under existing legislation, these programs will receive substantial automatic increases in the future. In some respects, the Federal Government now faces a situation where it is under more fiscal pressure than State and local governments as a whole. Further liberalization of these Federal programs cannot be financed without either reducing other important spending, or increasing Federal taxes.

State and local governments have met the bulk of the school challenge; and Federal grants for environmental protection and the Environmental Financing Authority will help meet a substantial part of the newly recognized responsibilities in the environmental area. The Federal Government has also assumed direct responsibilities for income support of welfare assistance to the aged, the disabled, and the blind, alleviating the State and local burden, but adding to the Federal burden. Finally, the passage of General Revenue Sharing has provided a significant increase in Federal aid to State and local governments.

Within the context of an improved State and local fiscal situation—aided by continued substantial Federal assistance—the emphasis must now turn to giving State and local governments greater freedom to handle what are primarily State and local responsibilities, decentralizing Federal decisionmaking, emphasizing program evaluation, and ending ineffective programs.

REFORM OF THE GRANT SYSTEM

In recognition of these changed circumstances, the Administration has proposed, and is carrying out, basic reforms in Federal Government programs and institutions, and in the structure of Federal aid to State and local governments. These changes embrace three approaches: sorting out appropriate governmental roles, improving the effective programs and eliminating the ineffective ones, and modernizing management.

Basic reform is being undertaken in such major functional areas as welfare, health, and mass transit. Federal assumption of adult welfare categories should help to alleviate the financial pressures on State and local governments and should provide substantial savings in the long run. An Environmental Financing Authority is being established which will assist in financing expanded pollution control facilities for those communities which are unable to borrow for this purpose at reasonable interest rates. In the area of health, Federal emphasis will be increasingly on financing, rather than the delivery of health services and national health insurance legislation will be proposed. All of these proposals will allow State and local governments greater freedom in designing programs to meet their particular needs.

Finally, General Revenue Sharing establishes the basis for a new fiscal relationship between Federal, State, and local governments. This relationship will be strengthened with the special revenue sharing programs, the broad formula grant initiative in transportation, and the administration of the new Rural Development Act authorities in a manner consistent with the revenue sharing concept.

A long-needed overhaul of management processes in Federal aid and other programs is being carried out. The regional boundaries of the major domestic departments of the Federal Government have been modified so that their headquarter cities and the regions that they cover conform. Along with decentralization of decisionmaking and the continued strengthening of the Federal regional councils, this facilitates communication and cooperation among Federal agencies, other regional bodies, and State and local governments. At the same time, many numerous and inconsistent requirements imposed on grantees by the various Federal agencies have been eliminated or drastically simplified. All of these actions will help to make administration of federally supported programs easier for State and local governments.

Table N-3. DISTRIBUTION OF GRANTS BY FEDERAL ADMINISTRATIVE REGIONS, FISCAL 1971

Region ¹	Total (in millions of dollars)	Per capita
I—Maine, Vermont, New Hampshire, Massachusetts, Connecticut, Rhode Island.....	1,734	144
II—New York, New Jersey, Puerto Rico, Virgin Islands.....	4,545	160
III—Virginia, Pennsylvania, Delaware, Maryland, West Virginia, District of Columbia.....	3,510	148
IV—Kentucky, Tennessee, North Carolina, South Carolina, Georgia, Alabama, Mississippi, Florida.....	4,696	145
V—Illinois, Indiana, Michigan, Ohio, Wisconsin, Minnesota.....	4,696	105
VI—Arkansas, Louisiana, Oklahoma, New Mexico, Texas.....	3,061	148
VII—Iowa, Kansas, Missouri, Nebraska.....	1,337	118
VIII—Colorado, Montana, North Dakota, South Dakota, Utah, Wyoming..	1,040	182
IX—Arizona, California, Nevada, Hawaii, other territories.....	4,017	171
X—Idaho, Oregon, Washington, Alaska.....	1,155	174
United States.....	29,844	143

¹ These are not the same regions as those used by the Department of Commerce. See table N-6.

Note.—Detail may not add to total due to rounding and unallocated residuals.

Government operations are being simplified and decentralized in several other ways—through revised grant programs procedures, through the introduction of special revenue sharing and through broad-purpose formula grants. In the grant area, the administration proposes to renew efforts to provide for:

- Consolidation of closely related programs;
- Authorization of joint funding of projects across agency lines through the integrated grant administration program; and
- Assistance to Governors, mayors, and county executives in improving their policy planning and implementation capacity.

Thus, the focus on reform in 1974 calls for continued Federal administrative reform, a reevaluation of Federal, State, and local responsibilities, and the phaseout or termination of outmoded or low-priority programs in favor of special revenue sharing and broad, flexible formula grants.

REVENUE SHARING

Revenue sharing is one of the most innovative and far-reaching reforms of the Federal system. In describing the revenue sharing program, the President stated: "The time has come for a new partnership between the Federal Government and the States and localities—a partnership in which we entrust the States and localities with a larger share of the Nation's responsibilities, and in which we share our Federal revenues with them so that they can meet those responsibilities. . . ."

The major characteristics of the Administration's revenue sharing plan are the following:

- A newly enacted program of General Revenue Sharing for State and local governments, with minimal restrictions;
- Four proposed special revenue sharing programs in broadly defined areas of national concern, where State and local governments have the primary responsibility; and
- Maintenance of those categorical grant programs that are effective and for which there is a clear, continuing national requirement.

The State and Local Fiscal Assistance Act of 1972, which embodies General Revenue Sharing, is a giant step toward the goal of reforming the Federal-State and local relationship. Title I initiates a program of General Revenue Sharing based on need and fiscal effort, and title II gives States the option of having the Federal Government collect their income taxes for them.

The main features of Title I (General Revenue Sharing) are the following:

- *Predictability.*—A total of \$30.2 billion has been appropriated for 5 calendar years, with the appropriation growing from \$5.3 billion in 1972 to \$6.5 billion in 1976 at annual rates. States and localities can thus plan on the basis of assured revenue;
- *Minimal restrictions.*—There is no program limitation on expenditures by States and only broad guidelines for localities. Local allotments must be expended within a wide grouping of "priority"

items: public safety, social services, environmental protection (including sanitation), public transportation, health, recreation, libraries, and "ordinary and necessary" capital expenditures. Federally imposed administrative requirements are minimal;

- *Distribution.*—The entitlement of each State is determined by formulas based on population, tax effort, and the inverse of per capita income. Allocations will be based on data prepared on a regular basis by the Department of Commerce. No costly, time-consuming applications will be required; and
- *Guaranteed funds for cities and counties.*—City and county governments are to receive two-thirds of the funds allocated to each State. Distribution of funds among a State's cities and counties is determined by a formula similar to that used for the State.

Title II can result in more efficient tax administration through elimination of duplication of effort by Federal and State tax agencies, and economies of scale in collection, if States take advantage of the option.

Special revenue sharing will consist of four broad-purpose grants. These grants will replace narrow categorical grant programs, providing State and local governments with flexible funding for urban community development (to begin July 1, 1974), education, law enforcement and criminal justice, and manpower training. Funds for special revenue sharing will be disbursed according to formulas appropriate to each function. In the case of manpower revenue sharing, administrative requirements will be removed to allow State and local governments to group manpower services in ways which meet local needs, and to designate the organizations to operate programs.

Table N-4. SPECIAL REVENUE SHARING, BUDGET AUTHORITY, FIRST FULL YEAR

Description	Billions
Urban community development.....	2.3
Education.....	2.5
Manpower training.....	1.3
Law enforcement.....	.8
Total	6.9

Special revenue sharing emphasizes the belief that in many cases State and local governments are in a better position than the Federal Government to design and implement responsive and effective programs which meet local conditions and priorities. Eliminating or reducing the Federal administrative role in these programs will relieve State and local governments of many federally imposed requirements and limitations, including, in most cases, the elimination of matching requirements. Federal civil rights requirements will, however, be retained for both General and special revenue sharing.

THE IMPACT OF FEDERAL AID

Federal aid has become an increasingly significant factor in the finances of all levels of government, rising from 8.6% of total Federal outlays in 1964 to an estimated 16.7% in 1974. In terms of civilian domestic programs, 24.8% of 1974 Federal outlays will take the form of aids to State and local governments. The effect on State and local expenditures has not been quite as marked, since their expenditures have been rising at a much faster rate than Federal outlays. Nevertheless, Federal aid has risen as a proportion of State and local expenditures from 13.5% in 1960 to an estimated 21.3% in 1974.

Table N-5. **FEDERAL-AID OUTLAYS IN RELATION TO TOTAL FEDERAL OUTLAYS AND TO STATE-LOCAL EXPENDITURES**

Fiscal year	Federal aid			
	Amount (millions)	As a percent of—		
		Total Federal outlays	Domestic Federal outlays ¹	State-local expenditures ²
1959.....	\$6,669	7.2	15.9	13.9
1960.....	7,040	7.6	16.4	13.5
1961.....	7,112	7.3	15.4	12.6
1962.....	7,893	7.4	15.8	13.2
1963.....	8,634	7.8	16.5	13.3
1964.....	10,141	8.6	17.9	14.6
1965.....	10,904	9.2	18.4	14.6
1966.....	12,960	9.7	19.2	15.6
1967.....	15,240	9.6	19.5	16.3
1968.....	18,599	10.4	20.9	18.2
1969.....	20,255	11.0	21.3	17.4
1970.....	23,954	12.2	21.9	18.3
1971.....	29,844	14.1	23.5	19.8
1972.....	35,940	15.5	24.5	21.3
1973 estimate.....	45,008	18.0	27.0	23.8
1974 estimate.....	³ 44,825	16.7	24.8	21.3

¹ Excluding outlays for defense, space, and international programs.

² "Governmental Finances in 1970-71," Bureau of the Census.

³ Excludes \$1.7 billion representing direct Federal payments to adult public assistance recipients starting Jan. 1, 1974. On that date, under Public Law 92-603, the Federal Government assumes responsibility for the entire basic benefits.

State and local spending has been substantially influenced by those Federal grants that require the recipient government to match Federal aid funds with its own resources and by demands that certain organizations be created and maintained. In the last few years, State and local governments have had to allocate about 10% of their own revenue to match Federal grant moneys. The elimination of most matching requirements for the programs replaced by special revenue sharing will reduce this, and free State and local resources for high-priority use as the State and local governments choose.

Federal aid varies widely among regions, ranging in 1971 from a high of \$178 per capita in the Rocky Mountain region to a low of \$102 per capita in the Great Lakes area. There are often substantial differ-

ences even among States in the same region. Some of the variation can be attributed to differentials in per capita income and population density.

There are two reasons for the relationship between income and Federal aid. Some grant programs require lower matching ratios for the poorer States. Other programs, such as those for public assistance and elementary and secondary education, are designed as aids to the disadvantaged and tend to flow to States having proportionately more individuals with lower incomes.

The effect of population density is especially evident in the thinly populated Western States, where highway construction grants and shared revenues from Federal land holdings greatly increase levels of per capita aid. For example, the Rocky Mountain region has the lowest regional population density, extensive Federal land holdings, and the highest per capita aid. For a State-by-State, program-by-program tabulation of Federal grants, see the forthcoming Treasury Department publication "Federal Aid to States—Fiscal Year 1972."

Table N-6. REGIONAL DISTRIBUTION OF FEDERAL AID, FISCAL 1971

Region ¹	Total (in millions of dollars)	Per capita	Percent of State and local govern- ment general expenditure ²
New England.....	1,734	144.21	19.0
Mideast.....	6,642	154.94	17.7
Great Lakes.....	4,164	102.26	15.1
Plains.....	2,099	126.87	18.5
Southeast.....	6,629	148.81	25.4
Southwest.....	2,349	139.63	23.2
Rocky Mountain.....	918	178.79	24.6
Far West.....	4,736	172.62	18.8
United States.....	29,844	142.71	19.8

¹ These are the same regions as those used by the Department of Commerce.

² "Federal Aid to States—Fiscal Year 1971," Department of the Treasury, and "Governmental Finances in 1970-71," Bureau of the Census. These reports provide additional information concerning State distribution of Federal grants.

Within these totals, however, an important qualitative shift is taking place—the increasing emphasis on urban areas. The American population is becoming increasingly urban; today, about 70% of the population lives in the 269 standard metropolitan statistical areas (SMSA's). SMSA's include the bulk of that urban population which places heavy pressure on public service requirements—areas where population growth and population density are high. \$31.4 billion or 70% of Federal grants will be either spent in or directly affect these SMSA's in 1974. This is an increase of \$25.8 billion, or nearly 460% more than the level provided to these urban areas in 1964.

Table N-7. FEDERAL-AID OUTLAYS IN SMSA'S (in millions of dollars)

Function and program	1961 actual	1964 actual	1969 actual	1974 estimate
National defense	10	28	30	62
Agriculture and rural development:				
Donation of surplus commodities.....	128	231	313	443
Other.....	27	40	104	132
Natural resources and environment:				
Environmental protection.....	24	8	79	1,252
Other.....	30	10	101	227
Commerce and transportation:				
Economic development.....		158	104	181
Highways.....	1,398	1,948	2,225	2,594
Airports.....	36	36	83	187
Urban mass transportation.....			122	438
Other.....	1	5	5	101
Community development and housing:				
Funds appropriated to the President.....			432	244
Urban renewal.....	106	559	786	788
Public housing.....	105	136	257	947
Water and sewer facilities.....		36	52	80
Model Cities.....			8	567
Other.....	2	17	75	207
Education and manpower:				
Education revenue sharing.....				1,185
Elementary and secondary.....	222	264	1,262	449
Higher education.....	5	14	210	54
Vocational education.....	28	29	179	256
Employment security.....	303	344	449	315
Manpower revenue sharing.....				663
Manpower activities.....		64	530	624
Other.....	3	7	333	1,209
Health:				
Health services and planning.....	48	66	109	159
Health services delivery.....	47	82	219	486
Mental health.....	4	8	77	313
Preventive health services.....				27
Medical assistance.....		140	1,731	3,209
Health manpower.....			107	246
Other.....		4	54	30
Income security:				
Vocational rehabilitation.....	37	61	247	611
Public assistance.....	1,170	1,450	3,022	5,380
Child nutrition, special milk and food stamps.....	131	168	482	1,940
Other.....	3	16	148	546
General government:				
Law enforcement (including law enforcement revenue sharing).....			17	615
National Capital region.....	25	38	85	307
Other.....		9	27	115
Other functions		2		15
General Revenue Sharing				14,225
Total aids to urban areas	3,893	5,588	14,045	31,429

¹ Tentative estimated impact.

FEDERAL STATISTICS ON AID TO STATE AND LOCAL GOVERNMENTS

The Federal Government produces three major statistical series showing Federal aid to State and local governments. Table N-8 shows the principal differences between these series over a 7-year period.

As the table indicates, there is a growing divergence between the series shown in this analysis and the two other series. These differences are due to the divergent purposes of the data. The budget series is designed to provide a broad picture of Federal aid to State and local governments. It includes programs either operated directly by State or local governments or coordinated through or approved by State agencies. It also includes outlays whether cash payments or in-kind, as well as aid to the Governments of Puerto Rico, the Virgin Islands, and other territories. The basic focus is on programs aimed to serve the public but not directly administered by the Federal Government.

Table N-8. **THREE MEASURES OF FEDERAL AID TO STATE AND LOCAL GOVERNMENTS, 1965-1971** (in billions of dollars)

	1965	1966	1967	1968	1969	1970	1971
Budget (Special Analysis O).....	10.9	13.0	15.2	18.6	20.3	24.0	29.8
Principal exclusions:							
Agricultural commodities.....	-.4	-.3	-.3	-.5	-.7	-.6	-.6
Food stamps.....	.*	-.1	-.1	-.2	-.2	-.6	-1.5
Geographical exclusions.....	-.2	-.2	-.3	-.3	-.4	-.4	-.4
Add payments for research.....	.8	.9	1.0	1.1	1.1	1.2	1.4
All other, net.....	*	-.2	-.4	-.7	-.7	-.4	-1.2
Federal payments (Census).....	11.1	13.1	15.0	18.1	19.4	23.3	27.5
Exclude low-rent public housing..	-.2	-.2	-.2	-.3	-.3	-.4	-.5
All other, net.....	.1	-.2	.*	*	.1	-.3	.*
Grants-in-aid (national income accounts).....	10.9	12.7	14.8	17.8	19.2	22.6	27.0

*Less than \$50 million.

Both the Census and National Income Accounts (NIA) definitions of grants are designed to match their respective definitions for data encompassing the entire economy. These series are restricted to cash payments and therefore exclude payments in-kind which the budget includes. The principal payments in-kind are commodities purchased by the Department of Agriculture and donated to the school lunch and other feeding programs. Both Census and NIA confine their data to the 50 States and the District of Columbia, thus excluding any payments to Puerto Rico and other territories. Another major difference is created by including food stamp payments in the budget definition while Census and the NIA exclude them. These payments are similar in nature to the public assistance grants but are administered somewhat differently.

One major group of payments which the budget definition excludes but Census and the NIA include are payments for research conducted by public universities. The budget series excludes these because they are considered to be largely a purchase of services for the Federal

Government rather than aid for State programs. Since both Census and the NIA focus mainly on cash payments, they count these as grants.

The principal remaining difference between the budget usage and both Census and NIA usages has to do with payments made to private, nonprofit entities which are performing the same types of services as the State and local governments and which are carried out under a State plan. Examples are nonprofit hospitals, and manpower training programs. Since these payments have grown at a rapid rate, the gap between the budget and the Census and NIA series has widened considerably in recent years.

There are various other—relatively minor—differences between the three series. The one major outlay included in the budget and Census series but excluded from the NIA series is payments for low-rent public housing, which the NIA counts as purchases by the Federal Government rather than as grants.

Further information on the NIA grant series may be found in Special Analysis A of this volume.

There are also different definitions of functions among the three series. For example, the coverage of certain functions, such as health or welfare, is not the same for all three series.

Table N-9. FEDERAL AID TO STATE AND LOCAL GOVERNMENTS ¹

(expenditures in millions of dollars)

Agency and program	Functional code	1972 actual	1973 estimate	1974 estimate
National defense:				
Department of Defense—Military:				
Civil defense shelters and financial assistance.....	051	25.8	34.9	36.7
Construction of Army National Guard centers.....	051	19.4	26.4	37.0
Atomic Energy Commission.....	058	4.8	5.3	5.4
Total, national defense.....		50.0	66.6	79.1
International affairs and finance:				
Department of State:				
East-West Cultural and Technical Interchange Center..	153	4.8	6.0	6.5
International Center, Washington, D.C.....	151	.....	.5	1.7
Total, international affairs and finance.....		4.8	6.5	8.2
Agriculture and rural development:				
Department of Agriculture: Agricultural Marketing				
Service.....	351	604.8	801.1	739.7
Rural water and waste disposal facilities.....	352	35.4	46.5	46.6
Mutual and self-help housing.....	352	.8	3.0	3.0
Rural housing for domestic farm labor.....	352	.8	5.1	1.7
Resource conservation and development.....	354	6.6	9.6	13.3
Consumer protective programs.....	355	6.0	31.1	31.1
Cooperative agricultural extension service.....	355	146.7	164.2	163.1
Agricultural Research Service.....	355	7.2	11.1	12.1
Cooperative State Research Service.....	355	72.2	80.4	66.3
Total, agriculture and rural development.....		880.4	1,152.4	1,076.2

See footnotes at end of table.

Table N-9. FEDERAL AID TO STATE AND LOCAL GOVERNMENTS 1—Con.
(expenditures in millions of dollars)

Agency and program	Func- tional code	1972 actual	1973 estimate	1973 estimate
Natural resources and environment:				
Department of Agriculture:				
Watershed protection and flood prevention.....	401	80.1	102.1	82.4
Grants for forest protection and utilization.....	402	25.5	21.0	21.0
National forest and grassland funds: payments to States and counties (shared revenue).....	402	57.5	85.6	102.9
Assistance to States for tree planting.....	402	.9	.8	.8
Department of Defense—Civil: Corps of Engineers:				
Flood control.....	401	1.2	-----	-----
Payments to States, Flood Control Act of 1954 (shared revenue).....	401	2.8	3.0	2.8
Department of the Interior:				
Payments to States and counties (shared revenue)...	402	89.5	94.4	94.9
Bureau of Reclamation.....	401	3.0	.8	3.6
Mine drainage and solid waste disposal.....	403	*	.2	.2
Fish and wildlife restoration and management.....	405	53.8	62.2	64.6
Outdoor recreational areas (Land and Water Conser- vation Fund).....	405	89.4	126.3	160.0
Preservation of historic properties.....	405	3.9	4.5	9.5
Office of Water Resources Research.....	401	10.9	10.0	10.1
Land use planning.....	-----	-----	-----	8.0
Federal Power Commission: Payments to States (shared revenue).....	401	*	*	*
Tennessee Valley Authority: Payments in lieu of taxes (shared revenue).....	401	25.7	27.3	31.4
Water Resources Council.....	401	2.9	4.2	3.0
Environmental Protection Agency.....	401	459.7	787.3	1,669.4
Total, natural resources and environment.....	-----	906.8	1,329.7	2,264.6
Commerce and transportation:				
Funds appropriated to the President:				
Public works acceleration.....	507	.3	1.4	-----
Appalachian development.....	507	234.5	260.6	291.8
Department of Commerce:				
State marine schools.....	502	.5	.5	.5
Regional development.....	507	26.2	34.9	19.9
Promotion of tourism.....	506	.6	.9	.8
Minority Business Enterprise.....	506	.1	3.0	16.4
National Oceanic and Atmospheric Administration....	506	20.0	23.5	21.8
Economic development assistance.....	507	167.0	175.6	171.7
Department of the Interior: Resources management....	507	2.2	2.4	2.3
Department of Transportation:				
Forest and public lands highways.....	503	33.9	25.6	27.2
Highway beautification.....	503	4.7	27.0	37.0
Highway safety.....	503	77.8	74.3	116.0
Federal-aid highways (trust fund).....	503	4,561.5	4,614.7	4,418.6
Urban mass transportation facilities.....	503	178.9	349.7	440.9
Federal aid for airports and airways.....	501	105.5	220.0	234.0
Other.....	---	18.3	39.2	36.2
Total, commerce and transportation.....	---	5,432.0	5,853.3	5,835.1

See footnotes at end of table.

Table N-9. FEDERAL AID TO STATE AND LOCAL GOVERNMENTS 1—Con.
(expenditures in millions of dollars)

Agency and program	Functional code	1972 actual	1973 estimate	1974 estimate
Community development and housing:				
Funds appropriated to the President.....	551	708.4	638.0	301.9
Department of Housing and Urban Development:				
Model city grants.....	551	491.4	578.4	596.5
Urban renewal.....	551	1,218.0	950.0	1,050.0
Open space land and urban beautification.....	551	52.3	57.0	70.0
Grants for basic water and sewer facilities.....	551	134.0	130.0	122.7
Grants for neighborhood facilities.....	551	23.2	26.0	35.0
Community Planning and Management.....	551	49.2	96.1	105.0
Low-rent public housing programs.....	555	750.2	1,120.7	1,265.3
Legal Services Corporation.....	551	-----	-----	31.5
Total, community development and housing.....	---	3,426.7	3,596.2	3,577.9
Education and manpower:				
Funds appropriated to the President.....	601	227.9	32.1	-----
Department of Health, Education, and Welfare:				
Office of Child Development.....	601	201.8	370.5	397.1
Elementary and secondary education.....	601	1,882.9	1,846.6	551.9
Education revenue sharing.....	604	-----	-----	1,692.7
Assistance to schools in federally affected areas.....	601	602.2	421.9	82.7
Education of the handicapped.....	601	32.7	36.8	10.8
Civil rights education.....	601	18.4	11.9	1.3
Higher education activities.....	602	215.7	135.1	84.0
(Portion to private institutions).....	---	(52.5)	(30.9)	(20.7)
Vocational education.....	603	501.2	529.6	290.1
Libraries and community services.....	605	68.2	93.3	61.8
Educational Development.....	605	109.5	145.0	216.0
Work incentive activities.....	607	163.0	379.2	521.0
Emergency school assistance.....	601	68.9	57.7	200.6
Department of Labor:				
Manpower training activities.....	607	1,156.1	964.0	-----
Manpower revenue sharing.....	607	-----	-----	884.2
Grants for employment services.....	607	-----	63.6	64.4
Occupational safety.....	609	-----	26.4	25.7
Grants to States for administration of employment security and training programs (trust fund).....	607	360.5	349.5	379.4
Emergency employment assistance.....	607	557.9	1,072.7	570.7
Department of Interior: Bureau of Indian Affairs:				
Education and welfare services.....	601	24.1	28.8	24.6
National Foundation on the Arts and the Humanities.....	608	6.1	7.0	8.3
Corporation for Public Broadcasting.....	605	35.0	35.0	45.0
Equal Employment Opportunities Commission.....	609	1.3	1.5	4.0
Other.....	---	8.3	6.5	2.7
Total, education and manpower.....	---	6,241.7	6,614.7	6,119.0
Health:				
Department of Health, Education, and Welfare:				
Development of health resources.....	651	153.5	126.0	113.7
Prevention and control of health problems.....	652	136.5	240.8	281.1
Health services planning and development.....	651	315.4	283.5	207.6
(Portion to private, nonprofit institutions).....	---	(137.2)	(99.7)	(96.5)
Health services delivery.....	652	511.0	496.5	552.4

See footnotes at end of table.

Table N-9. FEDERAL AID TO STATE AND LOCAL GOVERNMENTS ¹—Con.

(expenditures in millions of dollars)

Agency and program	Functional code	1972 actual	1973 estimate	1974 estimate
Health ²—Continued				
Preventive health services.....	653	1.1	45.1	38.0
Health manpower.....	651	253.5	246.5	286.9
Medical assistance.....	652	4,601.3	4,300.8	5,235.6
National Cancer Institute.....	651	.4	52.6	41.2
Other.....	---	1.2	.6	.5
Total, health.....	---	5,973.9	5,792.4	6,757.0
Income security:				
Funds appropriated to the President: Disaster relief....	703	88.2	321.8	246.0
Department of Health, Education, and Welfare:				
Income maintenance payments.....	702	6,651.6	6,041.7	³ 5,460.4
Social services for welfare recipients.....	703	1,837.2	2,364.2	1,800.0
Vocational rehabilitation.....	703	604.8	740.3	814.0
Department of Agriculture:				
Food stamp.....	702	1,862.6	2,142.2	2,145.3
Child nutrition program and special milk.....	702	707.5	690.3	778.3
Social Security Administration:				
Special benefits for miners.....	701	.1	1.8	-----
Department of Labor:				
Retirement and social insurance (trust fund).....	701	416.0	441.7	438.0
Total, income security.....	---	12,168.0	12,744.0	³11,682.0
Veterans benefits and services:				
Veterans Administration:				
Aid to State homes.....	804	16.6	18.0	19.8
Grants for construction of State nursing homes.....	804	1.8	5.0	4.5
Administrative expenses.....	804	.3	.7	1.0
Total, veterans benefits and services.....	---	18.7	23.7	25.3
General government:				
Department of the Interior:				
Grants to territories.....	909	63.5	86.6	75.1
Internal revenue collections, Virgin Islands (shared revenue).....	909	19.4	18.5	18.0
Department of Justice: Law enforcement assistance.....	908	321.0	474.0	² 480.4
Law enforcement revenue sharing.....	908	-----	-----	220.8
Treasury Department: Tax collections for Puerto Rico (shared revenue).....	909	73.5	83.5	94.3
National Capital region:				
Federal payment to District of Columbia.....	909	173.7	190.0	190.0
Washington Metropolitan Transit Agency.....	---	84.0	79.9	167.4
Other.....	---	102.1	110.7	118.7
Total, general government.....	---	837.2	1,043.2	1,364.7
General revenue sharing.....	940	-----	6,785.6	6,035.0
Total, grants and shared revenues.....	---	35,940.1	45,008.0	³44,825.3

^{*}Less than \$100 thousand.¹Grants-in-aid unless otherwise specified. Excludes loans which are shown separately in table N-10.²Spend-out from prior year budget authority.³Excludes \$1.7 billion representing direct Federal payments to adult public assistance recipients starting Jan. 1, 1974. On that date, under Public Law 92-603, the Federal Government assumes responsibility for the entire basic benefits.

Table N-10. FEDERAL LOANS TO STATE AND LOCAL GOVERNMENTS

Agency and program	Disbursements			Net outlays		
	1972 actual	1973 estimate	1974 estimate	1972 actual	1973 estimate	1974 estimate
Natural resources:						
Department of the Interior: Reclamation loans.....	11.2	20.0	15.1	9.4	18.0	13.1
Total, natural resources.....	11.2	20.0	15.1	9.4	18.0	13.1
Commerce and transportation:						
Department of Commerce:						
Economic development assistance.....	21.1	8.9	4.8	21.1	8.9	4.8
Public works loans.....			5.0			5.0
Department of Transportation:						
Mass transportation facilities.....		.6		-.2	.4	-.2
Right-of-way revolving fund.....	17.1	47.5	50.2	17.1	47.5	50.2
Total commerce and transportation.....	38.2	57.0	55.0	38.0	56.8	59.8
Community development and housing:						
Department of Housing and Urban Development:						
Low-rent public housing fund.....	716.3	750.0	500.0	-24.8		-10.0
Housing management: Revolving fund.....	1.5	2.6	-2.4	-1.9	-.6	-5.8
Community development.....	615.5	713.2	700.6	-34.1	70.2	19.7
Total, community development and housing.....	1,333.3	1,465.8	1,198.2	-60.8	69.6	3.9
Education and manpower:						
Department of Health, Education, and Welfare:						
Higher education activities.....	15.3	12.0	10.0	8.2	4.0	1.4
Health Manpower.....	50.8	57.0	57.0	50.2	56.5	56.5
Department of Housing and Urban Development: College housing..	48.9	32.6	19.3	12.6	-10.5	-25.5
Total, education and manpower.....	115.0	101.6	86.3	71.0	50.0	32.4
General government:						
Department of Defense—Civil.....				-.3	-.4	-.4
Department of the Interior: Administration of territories.....	3.3	6.2	2.0	2.9	5.5	1.0
District of Columbia.....	185.1	229.0	269.0	137.1	178.1	217.2
Total, general government.....	188.4	235.2	271.0	139.7	183.2	217.8
Total.....	1,686.1	1,879.6	1,625.6	197.3	377.6	327.0