

EXTREMELY CONFIDENTIAL

MAJOR FEDERALISM INITIATIVE

JANUARY 25, 1982

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FEDERALISM PROGRAM -- FY '84 LEVEL  
(BILLIONS OF DOLLARS)

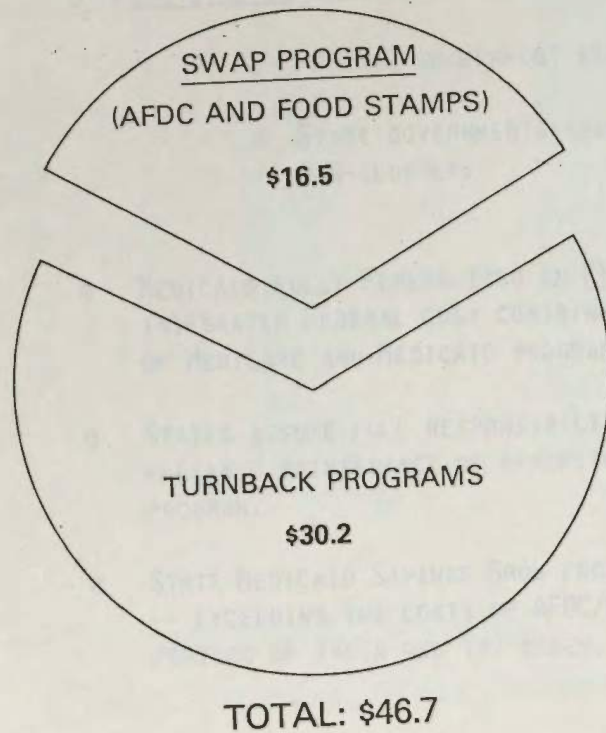
I. BASIC FEATURES

- o \$50 BILLION TRANSFER OF FEDERAL PROGRAMS TO STATES OVER 8-YEAR PHASED TRANSITION -- WITH EQUIVALENT REVENUE SOURCES. TWO MAJOR COMPONENTS INCLUDE:
  - o SWAP COMPONENT -- FEDERAL TAKE-OVER OF MEDICAID IN SWAP FOR STATE TAKE-OVER OF FOOD STAMPS AND AFDC -- A \$20 BILLION EXCHANGE;
  - o TURNBACK COMPONENT -- 40 FEDERAL EDUCATION, TRANSPORTATION, COMMUNITY DEVELOPMENT AND SOCIAL SERVICE PROGRAMS TURNED BACK TO STATES -- WITH \$28 BILLION FEDERALISM TRUST FUND TO FINANCE THEM.

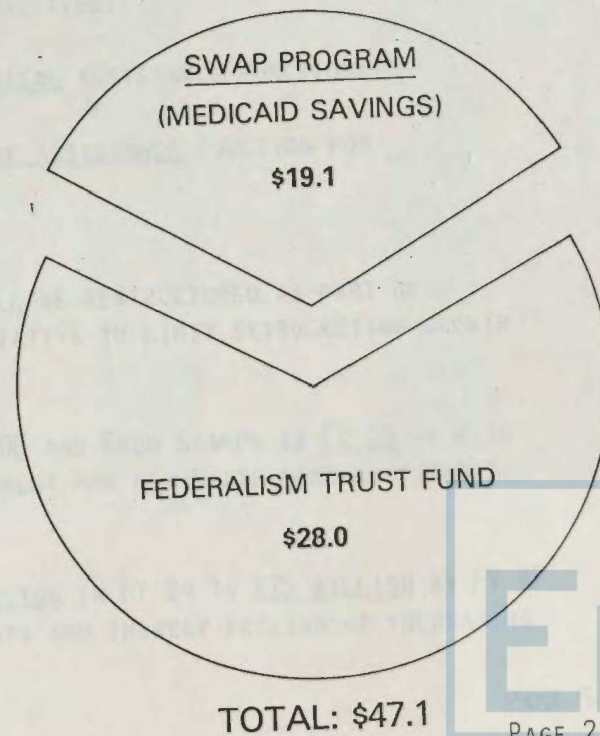
# FEDERALISM PROGRAM — FY '84 LEVEL

(BILLIONS OF DOLLARS)

## STATE/LOCAL PROGRAMS AND COSTS ABSORBED. . .



## REVENUE SOURCES TO FINANCE THEM



## SWAP COMPONENT OF FEDERALISM INITIATIVE

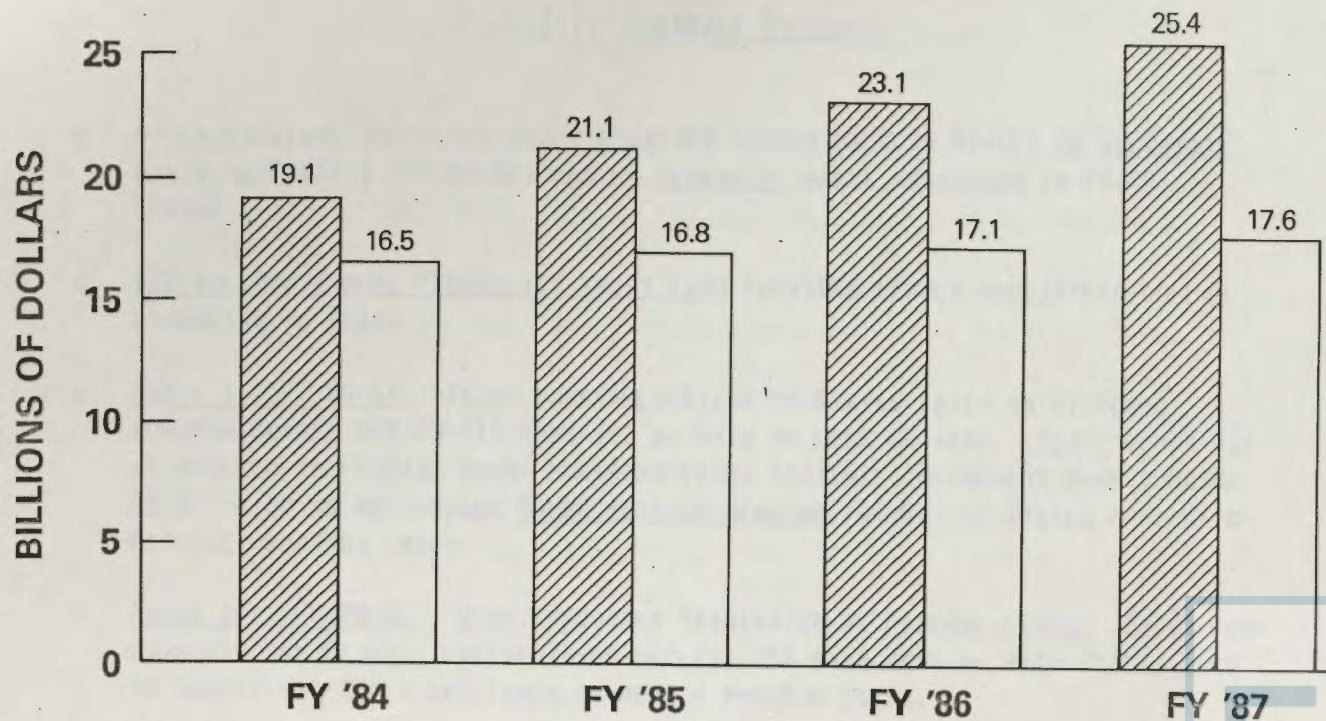
### II. MEDICAID/PUBLIC ASSISTANCE SWAP



- 0 \$20 BILLION EXCHANGE OF PROGRAM RESPONSIBILITIES:
  - 0 FEDERAL GOVERNMENT ASSUMES MEDICAL ASSISTANCE FUNCTION;
  - 0 STATE GOVERNMENTS ASSUME INCOME ASSISTANCE FUNCTION FOR NON-ELDERLY.
  
- 0 MEDICAID FULLY FEDERALIZED IN FY 84. WILL BE RESTRUCTURED AS PART OF INTEGRATED FEDERAL COST CONTAINMENT INITIATIVE TO LIMIT SKYROCKETING GROWTH OF MEDICARE AND MEDICAID PROGRAMS.
  
- 0 STATES ASSUME FULL RESPONSIBILITY FOR AFDC AND FOOD STAMPS IN FY 84 -- WITH FLEXIBLE MAINTENANCE OF BENEFITS REQUIREMENT FOR NEW STATE CASH ASSISTANCE PROGRAM.
  
- 0 STATE MEDICAID SAVINGS GROW FROM \$19 BILLION IN FY 84 TO \$25 BILLION BY FY 87 -- EXCEEDING THE COSTS OF AFDC/FOOD STAMPS AND THEREBY FREEING-UP INCREASING PORTION OF THEIR OWN TAX BASES.

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## SWAP COMPONENT OF FEDERALISM INITIATIVE



-  MEDICAID SAVINGS TO STATES
-  AFDC/FOOD STAMP COSTS ABSORBED BY STATES

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### III. TURNBACK PROGRAMS

- 0 44 CATEGORICAL AND BLOCK GRANT PROGRAMS TURNED BACK TO STATES ON VOLUNTARY BASIS IN PHASE I (FY 84-87) AND ON PERMANENT BASIS BEGINNING IN FY 88 (PHASE II).
- 0 \$28 BILLION ANNUAL FEDERALISM TRUST FUND PROVIDES NEARLY DOLLAR-FOR-DOLLAR FINANCING IN PHASE I.
- 0 PHASE I: FY 84-87. TRUST FUND ALLOCATION TO STATES BASED ON HISTORIC PROGRAM SHARES (FY 79-81) MODIFIED BY GAIN OR LOSS ON SWAP. STATE FUNDS MAY BE APPLIED TO FEDERAL GRANT PROGRAMS WHICH CONTINUE IN CURRENT FORM THROUGH FY 87 -- OR AS NO-STRINGS SUPER REVENUE-SHARING PAYMENT IF STATES OPT OUT OF FEDERAL PROGRAMS EARLY.
- 0 PHASE II: FY 88-91. GRANT PROGRAMS TERMINATED AT FEDERAL LEVEL. TRUST FUND PAYMENTS AND FEDERAL EXCISE TAXES DECLINE 25% EACH YEAR -- WITH STATES FREE TO SUBSTITUTE THEIR OWN TAXES OR REDUCE PROGRAM COSTS.
- 0 END RESULT. 44 FEDERAL GRANT PROGRAMS AND EXISTING EXCISE TAX BASES RETURNED COMPLETELY TO STATES. FEDERAL GOVERNMENT FREE TO FOCUS ON FEWER ISSUES OF GREATER NATIONAL SIGNIFICANCE.

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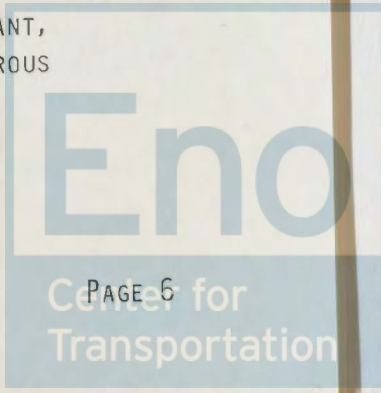
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TURNBACK PROGRAM COMPOSITION  
FY 781 LEVEL

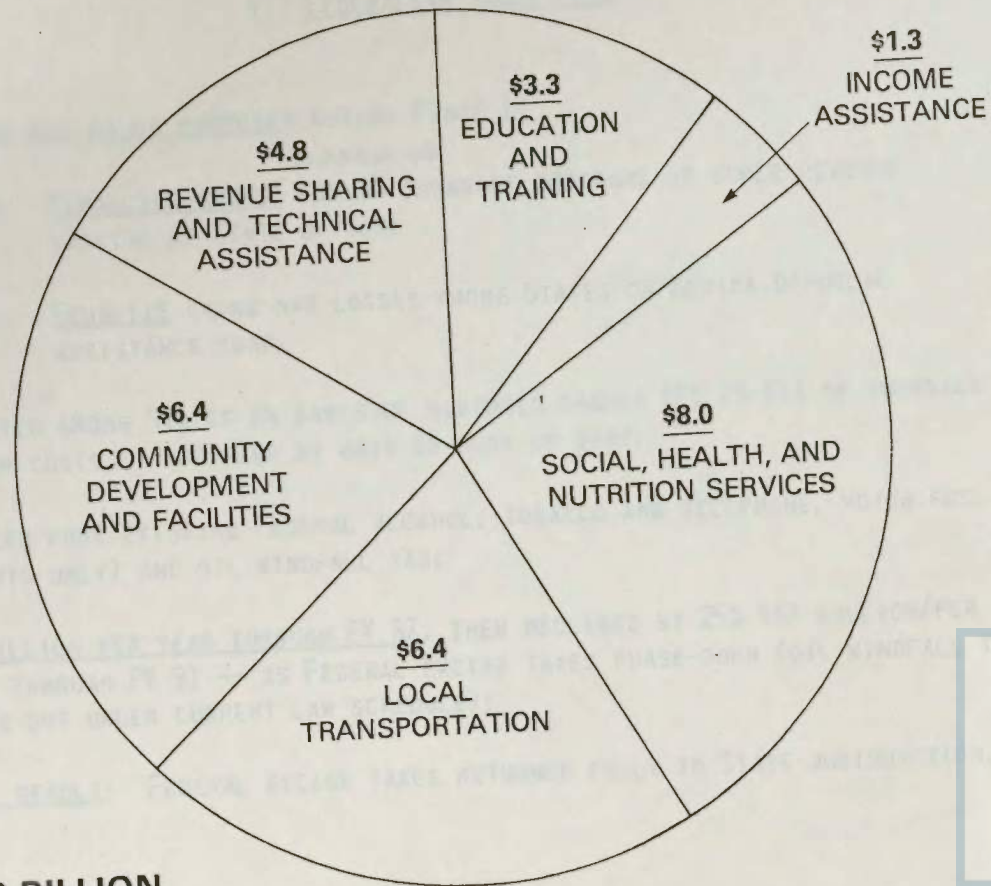
IV. FEDERAL GRANT PROGRAMS INCLUDED IN TURNBACK

- o TURNBACK CONSISTS OF FEDERAL CATEGORICAL AND BLOCK GRANT PROGRAMS ORIENTED TOWARD LOCAL COMMUNITY NEED AND INDIVIDUAL SERVICE DELIVERY -- ACTIVITIES BEST SUITED FOR STATE/LOCAL MANAGEMENT AND DISCRETION. MAJOR PROGRAMS INCLUDE:
  - o NON-INTERSTATE HIGHWAYS, AIRPORTS AND LOCAL MASS TRANSIT;
  - o SEWER TREATMENT GRANTS, UDAG, CDBG, AND RURAL WATER/SEWER AND FACILITIES GRANTS;
  - o VOCATIONAL REHABILITATION AND EDUCATION, TRAINING AND EMPLOYMENT GRANTS AND STATE EDUCATION BLOCK GRANT;
  - o HEALTH, SOCIAL SERVICES AND COMMUNITY SERVICES BLOCK GRANT, CHILD NUTRITION, LOW INCOME ENERGY ASSISTANCE, AND NUMEROUS CATEGORICAL SOCIAL WELFARE PROGRAMS;
  - o REVENUE SHARING.

TOTAL ESTIMATION



# TURNBACK PROGRAM COMPOSITION FY '84 LEVEL



TOTAL: \$30.2 BILLION

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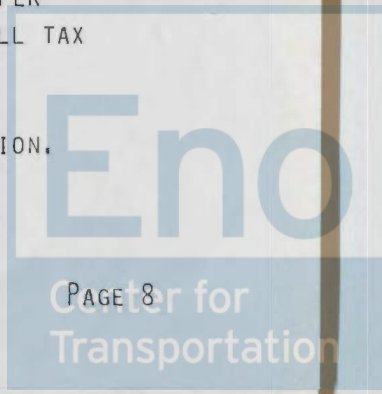


FEDERALISM TRUST FUND - DEDICATED RECEIPTS  
FY 84-87 LEVEL

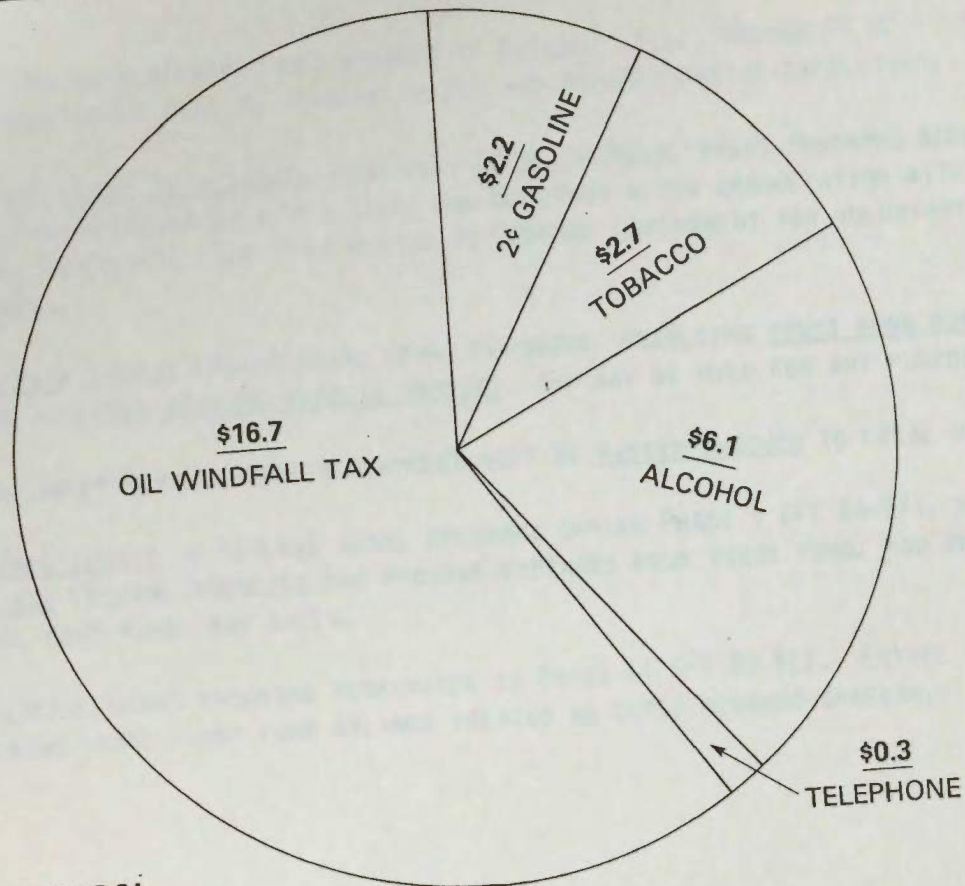
V. FEDERALISM TRUST FUND

- o USED FOR TWO MAJOR PURPOSES DURING PHASE I:
  - o FINANCING SOURCE FOR <sup>APPROX. 40</sup> ~~41~~ TURNBACK PROGRAMS OR SUPER REVENUE-SHARING AT STATE OPTION;
  - o EQUALIZE GAINS AND LOSSES AMONG STATES ON MEDICAID/PUBLIC ASSISTANCE SWAP.
- o ALLOCATED AMONG STATES ON BASIS OF HISTORIC SHARES (FY 79-81) OF TURNBACK PROGRAM COSTS -- MODIFIED BY GAIN OR LOSS ON SWAP;
- o FINANCED FROM EXISTING FEDERAL ALCOHOL, TOBACCO AND TELEPHONE, MOTOR FUEL (2 CENTS ONLY) AND OIL WINDFALL TAX;
- o \$28 BILLION PER YEAR THROUGH FY 87, THEN DECLINES BY 25% (\$7 BILLION/PER YEAR) THROUGH FY 91 -- AS FEDERAL EXCISE TAXES PHASE-DOWN (OIL WINDFALL TAX PHASES OUT UNDER CURRENT LAW SCHEDULE);
- o FINAL RESULT: FEDERAL EXCISE TAXES RETURNED FULLY TO STATE JURISDICTION.

TOTAL: \$28 BILLION



**FEDERALISM TRUST FUND — DEDICATED RECEIPTS  
FY '84 — '87 LEVEL**



**TOTAL: \$28 BILLION**

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VI. STATE OPT-OUT MECHANISM - PHASE I

- 0 FEDERAL PROGRAMS OPERATED AND MANAGED AT FEDERAL LEVEL THROUGH FY 87 -- TO GIVE STATES AMPLE TIME TO DEVELOP POLICY AND ADMINISTRATIVE CAPACITIES;
- 0 STATES MAY ELECT TO WITHDRAW FROM SOME OR ALL FEDERAL GRANT PROGRAMS BEFORE FY 87 -- IF APPROVED BY LEGISLATURE AND GOVERNOR AFTER CONSULTATION WITH AFFECTED INTERESTS. ONE-YEAR NOTICE TO FEDERAL GOVERNMENT FOR VOLUNTARY WITHDRAWAL.
- 0 IF STATES WITHDRAW FROM FEDERAL GRANT PROGRAMS, RESULTING TRUST FUND SURPLUS TREATED AS SUPER REVENUE-SHARING PAYMENT, AND MAY BE USED FOR ANY PURPOSE.
- 0 SOME OF SUPER REVENUE-SHARING PAYMENT MUST BE PASSED-THROUGH TO LOCAL UNITS.
- 0 IF STATES REMAIN IN FEDERAL GRANT PROGRAMS DURING PHASE I (FY 84-87), MUST REIMBURSE FEDERAL AGENCIES FOR PROGRAM EXPENSES FROM TRUST FUND, AND ABIDE BY FEDERAL CONDITIONS AND RULES.
- 0 ALL FEDERAL GRANT PROGRAMS TERMINATED IN PHASE II (FY 88-91). ENTIRE DECLINING STATE TRUST FUND BALANCE TREATED AS SUPER REVENUE-SHARING.

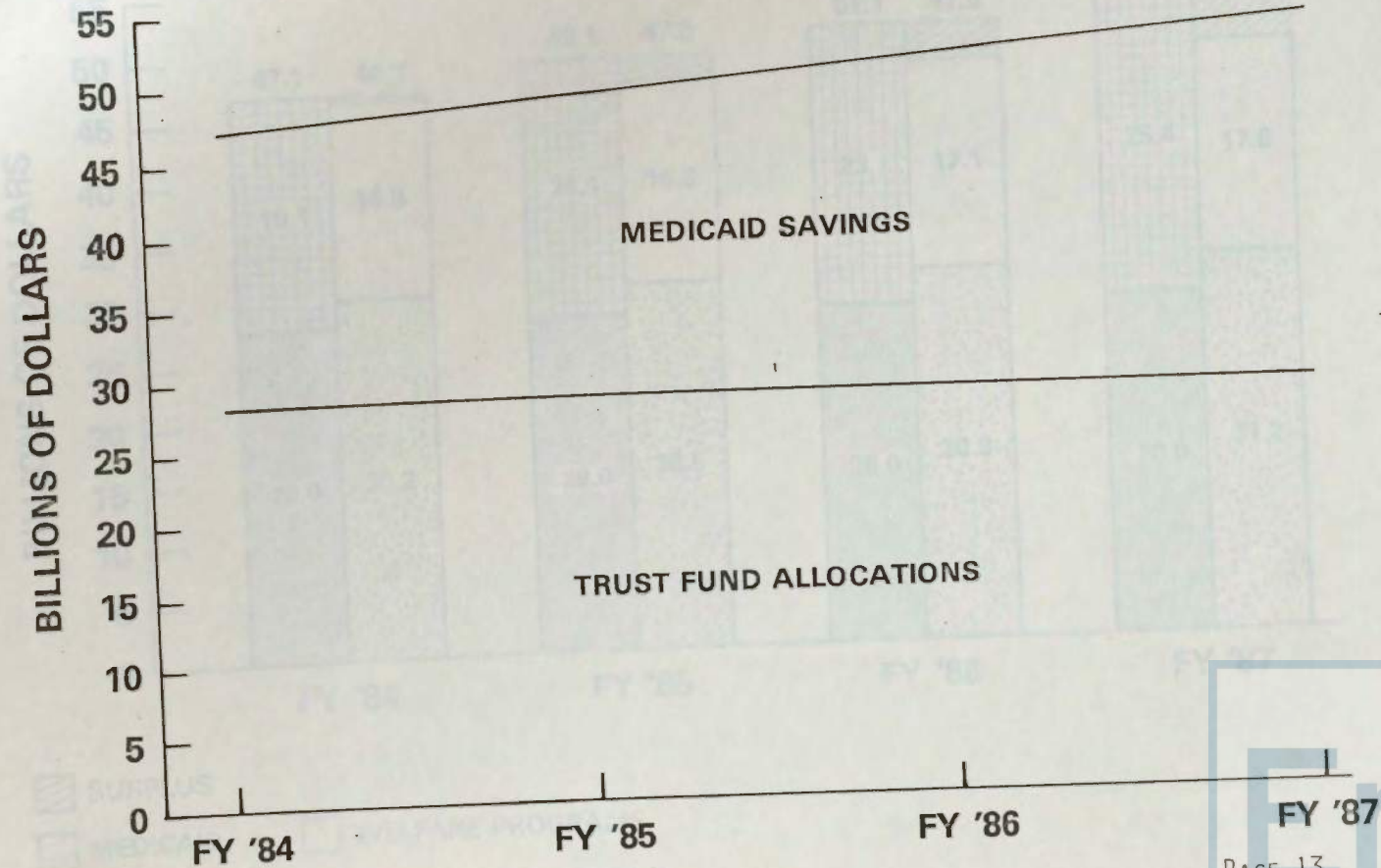
VII. SUPER REVENUE-SHARING PASS-THROUGH

- 0 TO INSURE FULL LOCAL PARTICIPATION IN THE FEDERALISM PROGRAM AND FAIR TREATMENT DURING THE TRANSITION, SUPER REVENUE-SHARING PAYMENTS SUBJECT TO THREE PASS-THROUGH CONDITIONS:
  - 0 IF STATES OPT-OUT OF DIRECT FEDERAL-LOCAL GRANT PROGRAMS (E.G. UDAG, MASS TRANSIT) -- 100 PERCENT PASS-THROUGH TO LOCAL UNITS;
  - 0 IF STATES OPT-OUT OF OTHER FEDERAL PROGRAMS -- 15 PERCENT PASS-THROUGH TO LOCAL UNITS BASED ON GENERAL REVENUE SHARING FORMULA.
  - 0 NO PASS-THROUGH OF EDUCATION MONIES -- AS THESE PROGRAMS GENERALLY NOT IN JURISDICTION OF GENERAL UNITS OF LOCAL GOVERNMENT.

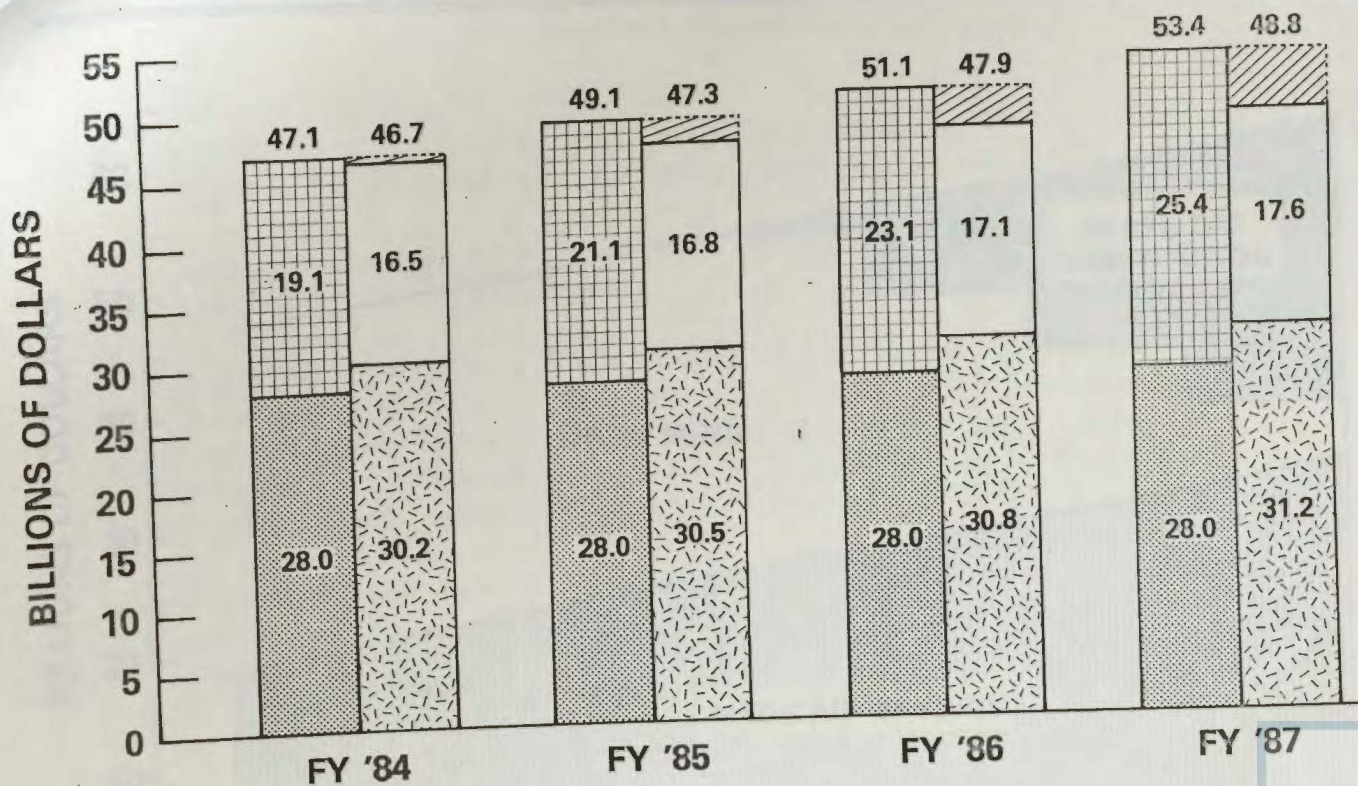
VIII. STATE AND LOCAL FISCAL IMPACT






- 0 \$28 BILLION FEDERALISM TRUST FUND AND GROWING SAVINGS FROM MEDICAID FEDERALIZATION OVER FY 84-87 PROVIDE INCREASING REVENUE SOURCES TO FINANCE NEW STATE PROGRAM RESPONSIBILITIES, REMOVES FEDERAL FUNDING UNCERTAINTY FOR REST OF DECADE.
- 0 SWAP AND TRUST FUND/TURNBACk COMPONENTS NOT-SEPARABLE. TOGETHER THEY ASSURE STATES AS A WHOLE AN EVEN FISCAL TRADE, AND THAT NO INDIVIDUAL STATE GAINS OR LOSES MORE THAN \_\_\_ PERCENT IN TOTAL REALIGNMENT.
- 0 STATES HAVE SIX YEARS TO DETERMINE BEST MIX OF PROGRAM SAVINGS AND TAX INCREASES BEFORE FEDERALISM TRUST FUND BEGINS TO PHASE OUT IN FY 88.

# REVENUE SOURCES AVAILABLE TO STATES

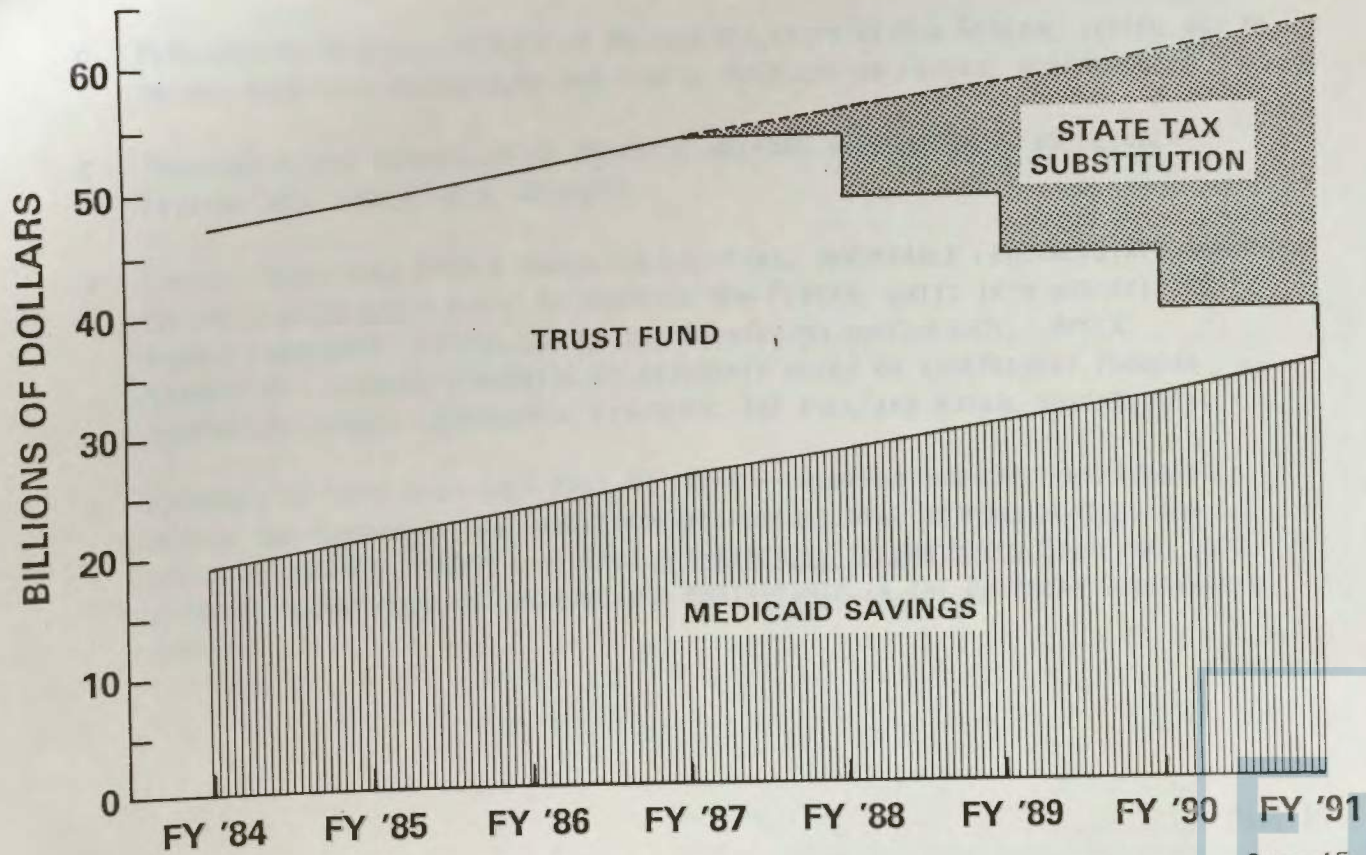


# NET FISCAL IMPACT



-  SURPLUS
-  MEDICAID
-  TRUST FUND
-  WELFARE PROGRAMS
-  TURNBACK PROGRAMS

# STATE FINANCING SOURCES FY '84—'91





## IX. RATIONALE AND JUSTIFICATION

- 0 DESIGNED TO RESTORE BALANCE OF RESPONSIBILITIES WITHIN FEDERAL SYSTEM AND TO REDUCE DECISION, MANAGEMENT AND FISCAL OVERLOAD ON FEDERAL GOVERNMENT;
- 0 PROVIDES CLEAN SEPARATION OF DOMESTIC WELFARE RESPONSIBILITIES BETWEEN FEDERAL AND STATE/LOCAL SECTORS;
- 0 LARGELY ABOLISHES OVER 8 YEARS THE EXISTING, UNWORKABLE FEDERAL/STATE GRANT-IN-AID SYSTEM WHICH TENDS TO TRANSFORM NON-FEDERAL UNITS INTO SUBORDINATE MIDDLE-MANAGEMENT EXTENSIONS OF THE WASHINGTON BUREAUCRACY. AFTER TRANSITION, INTERGOVERNMENTAL RELATIONSHIP BASED ON INDEPENDENT PROGRAM RESPONSIBILITIES, INDEPENDENT FINANCES, AND FULL AND MUTUAL SOVEREIGNTY;
- 0 PREMISED ON FACT THAT OVER PAST 30 YEARS -- REAPPORTIONMENT, GOVERNMENTAL REFORM AND MODERNIZATION, AND EXTENSIVE OPERATIONAL RESPONSIBILITIES FOR DOMESTIC WELFARE PROGRAMS -- HAVE DRAMATICALLY STRENGTHENED STATE AND LOCAL CAPACITIES FOR FULL AND RESPONSIBLE PARTNERSHIP IN THE AMERICAN GOVERNMENTAL SYSTEM.

CLEAN SEPARATION OF DOMESTIC WELFARE RESPONSIBILITIES

FEDERAL GOVERNMENT

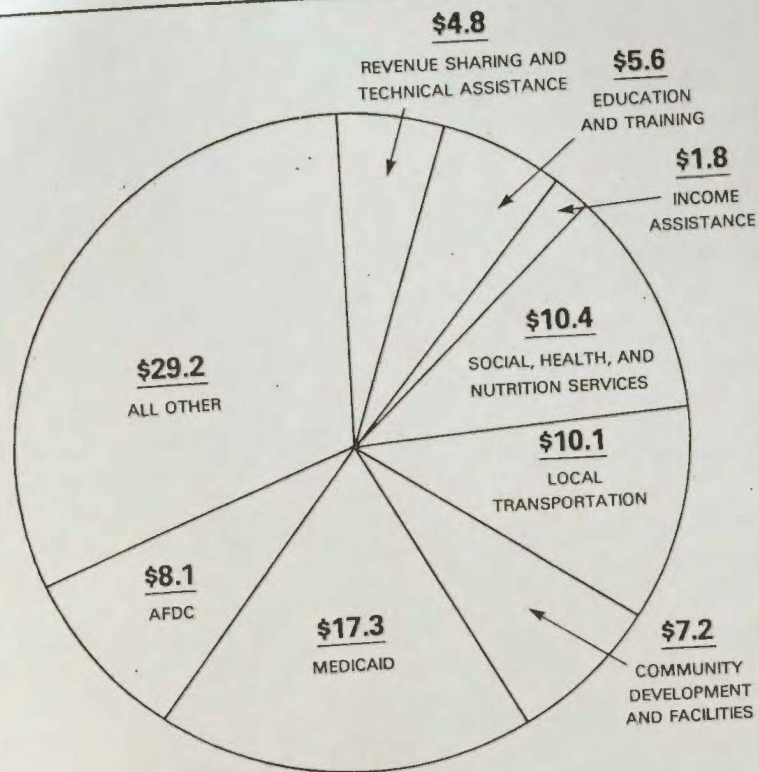
- o SOCIAL INSURANCE SYSTEM. SOCIAL SECURITY RETIREMENT, DISABILITY AND MEDICARE.
- o TRANSFER AID TO NEEDEY ELDERLY SSI, MEDICAID, HOUSING, SENIOR SERVICE PROGRAMS.
- o HEALTH INSURANCE AND MEDICAL ASSISTANCE. MEDICARE, MEDICAID, AND TAX INCENTIVES FOR PRIVATE INSURANCE.
- o PROJECTS OF NATIONAL SIGNIFICANCE/PRIORITY. COMPENSATORY EDUCATION AND HEAD START, HIGHER EDUCATION SUPPORT, HANDICAPPED EDUCATION, INTERSTATE HIGHWAYS, AND REGULATORY PROTECTIONS WITH INTERSTATE IMPACT.

STATE AND LOCAL SECTOR

- o LOCAL TRANSPORTATION. BRIDGES, STREETS, STATE/LOCAL HIGHWAYS, MASS TRANSIT.
- o COMMUNITY DEVELOPMENT AND LOCAL CAPITAL INVESTMENT. SEWER TREATMENT PLANTS, NEIGHBORHOOD RENEWAL, DOWNTOWN REVITALIZATION.
- o GENERAL EDUCATION. ALL CURRENT FEDERAL PROGRAMS OTHER THAN HANDICAPPED AND COMPENSATORY.
- o SOCIAL, HEALTH AND NUTRITION SERVICE DELIVERY. DAY CARE, REHABILITATION, COMMUNITY HEALTH CENTERS, DRUG/ALCOHOL TREATMENT, NUTRITION AND HEALTH SERVICES TO LOW-INCOME FAMILIES, SOCIAL WORK AND PROTECTIVE SERVICES
- o CASH ASSISTANCE TO NON-ELDERLY NEEDEY. SUCCESSOR PROGRAMS OF STATE/LOCAL DESIGN FOR FOOD STAMPS/AFDC.

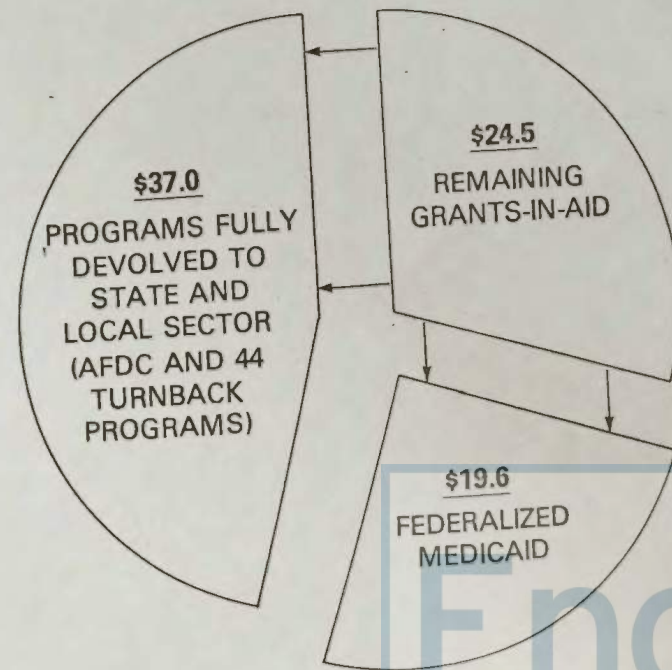
# TRANSFORMATION OF THE UNWORKABLE GRANT-IN-AID SYSTEM

## CURRENT GRANT-IN-AID SYSTEM



BASED ON 1981 TOTAL GRANT-IN-AID SYSTEM OF 94.6 BILLION DOLLARS

## AFTER FULL FEDERALISM REALIGNMENT



BASED ON 1984 TOTAL GRANT-IN-AID SYSTEM OF 81.1 BILLION DOLLARS