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THE WHITE HOUSE

Office of the Press Secretary

BACKGROUND AND STATUS REPORT
ON FEDERALISM INITIATIVE

July 13, 1982

FACT SHEET

In the President's State of the Union address on January 26, 1982, he set forth an outline of his federalism initiative, not as a detailed proposal, but as a conceptual framework so that the details could be worked out in extensive consultations with state and local officials.

Since January, there have been dozens of meetings, both formal and informal, with development teams representing Governors, city and township officials, county officials, and state legislators. Many computer runs have been done by OMB and HHS in response to requests of state and local officials to make sure that all interested parties are operating from the same data base. Information and expertise have been freely given and received by all sides. As a result of the input from state and local officials, the President believes that the federalism package has been substantially improved.

Although there have been changes, the federalism package remains true to the same principles that guided the President's thinking in January:

1. The federalism initiative is not a vehicle for budgetary savings.

2. It includes a dollar-for-dollar exchange of programs along with the revenue sources to pay for them.

3. There should be no winners or losers among the states.

4. State and local officials should be able to count on stability and certainty in federal funds.

5. The federal government is overloaded, having assumed far more responsibility than it can efficiently or effectively manage.

6. State and local officials are every bit as compassionate and competent and caring as officials in Washington, D.C.

7. We should reduce the regulatory strings which bind the hands of state and local officials.

8. We need to sort out government responsibilities.

The federalism proposal includes an almost $40 billion transfer of federal programs to the states over an 8-year phased-in transition -- with equivalent revenue sources to finance them. It consists of two main components. The first component involves a sorting out of responsibilities in the income maintenance area. The Federal Government would assume financial responsiblity for the basic Medicaid program and States would assume total responsibility for the Aid to Families with Dependent Children program. The food stamp program has been dropped from the swap.

The second major component of the federalism initiative involves the transfer of responsibility for dozens of programs currently run by the Federal Government to State and local governments. These programs (and the additional state costs of AFDC) would be funded by state medicaid savings plus a trust fund. As proposed, the trust fund would consist of revenues from Federal excise taxes on alcohol, tobacco, and telephone services and general revenues.

Among the dozens of programs now under consideration for transfer to the States are programs in the following functional areas: 1) social, health and nutrition services: 2) transportation; 3) community development and facilities; 4) revenue sharing and technical assistance; 5) education and training; and 6) energy assistance.* States, in consultation with local governments, would have two options. They could continue to receive Federal grants to support these activities and simply draw down funds from their trust fund allotment to reimburse the granting Federal agency. Alternatively, a State could withdraw or "opt out" of the Federal grant program participation and simply draw upon its trust fund allotment. In this case, the State could spend its share of funds on programs returned to it by the Federal Government or on any other set of activities it chooses. The trust fund would then become a type of "super revenue sharing" fund for the States.

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*A list of programs that have been tentatively determined for turnback are attached. Note these are still under final review.

The total amount of funding in the Trust Fund will be based on the budget levels enacted by the Congress for FY '83 for the programs turned back to the States. The FY '83 budget levels will then remain constant through FY '87.

The President's revised federalism initiative, which will be presented to the Congress in the next few weeks, includes many provisions which reflect the concerns and input of state and local officials:

1. It will not be effective until FY '84, and includes an eight-year transition period, thus giving enough time to avoid any major dislocations for state and local governments.

2. For traditionally federal-local programs such as revenue sharing, there is a mandatory 100% pass-through to local units of government. For programs which are not entirely federal-local, the states would be required to pass-through to local units of government the historical percentage which has been passed through for that program.

3. The proposal will provide the stability and certainty in funding that State and local officials have been requesting by taking the budget figures for FY '83 that are enacted by the Congress and locking them in through FY '84-87.

4. It protects the general revenue sharing program (which would be included on the turnback list) by funding it at $4.6 billion per year through FY '87.

5. It provides additional flexibility to State and local governments by essentially establishing a giant revenue sharing program.

6. It deletes some of the originally proposed turnback programs, principally because of concerns expressed by state and local officials.

7. It requires extensive and meaningful consultations with local units of government prior to a state decision to opt out of a federal program.

PROGRAMS TO BE TURNED BACK

Education and Training

Vocation and Rehabilitation
Vocation and Adult Education
State Block Grants (ECIA Ch. 2)
CETA
WIN

Energy Assistance

Low Income Home Energy Assistance

Social, Health & Nutrition Services

Child Nutrition
Child Welfare/Foster Care/Adoption Assistance
Runaway Youth/Child Abuse
Social Services Block Grant
Legal Services
Community Services Block Grant
Prevention Block Grant
Alcohol, Drug Abuse & Mental Health Block Grant
Primary Care Health Care Centers
Maternal & Child Health Block Grant
Primary Care Research & Development
Family Planning

Transportation

Urban
Secondary
Appalachian Highways
UMTA Construction
UMTA Operating
Highway Safety

Community Development & Facilities

Water & Sewer
  Grants
  Loans
Community Facilities Loans
Community Development Block Grants
Waste Water Treatment Grants

June 22, 1982

TENTATIVE ADMINISTRATION DECISIONS ON FEDERALISM INITIATIVE

This paper outlines the present posture of the Administration with respect to the President's Federalism Initiative.

I. STATEMENT OF PRINCIPLES

The following are the basic principles underlying the President's proposal:

A. Federalism reform should be at the top of the national policy agenda.

B. The federal government is overloaded, having assumed far more responsibilities than it can efficiently or effectively manage.

C. State and local governments need greater flexibility to permit them to serve as true "laboratories of democracy."

D. We need to sort out government responsibilities. This will provide greater accountability for elected officials and will make government work more effectively for all of our citizens.

E. Many current federal programs should be turned back to State and local governments, along with equivalent revenue sources to finance them.

F. We should reduce the federal regulatory strings which bind the hands of State and local officials.

G. State and local officials are every bit as compassionate and competent and caring as officials in Washington, D.C.

H. Any federalism initiative should include a dollar-for-dollar exchange of programs along with the revenue sources to pay for them.

I. There should be no winners or losers among the States.

J. State and local governments should be encouraged to work together towards solutions to intergovernmental problems.

K. The federalism initiative is not a vehicle for budgetary savings.

L. The States should have discretion over the pace of their assumption of responsibility for the performance and financing of the services associated with the terminated federal programs.

II. BASIC FEATURES

- $38.7 billion transfer of federal programs to the States over an 8-year phased transition -- with equivalent revenue sources. Two major components:

  - Swap component -- Federal takeover of Medicaid in swap for state takeover of AFDC.

  - Turnback component -- More than 35 federal education, transportation, community developments and social service programs turned back to states -- with 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	
$ 8.1	AFDC	$18.3	Medicaid Savings
$30.6	Turnback Programs	$11.6	Excise Taxes
		$ 8.8	General Revenues
$38.7	TOTAL	$38.7	TOTAL

* These numbers may be altered based on the decisions made with respect to the FY '83 budget.

A. Medicaid

The Administration considers it appropriate to divide the discussions of Medicaid into two parts: (1) routine care and (2) long-term care.

1. Routine Care

a. Benefits

1) The following benefits would be covered:

- inpatient hospital;
- outpatient hospital (including non-hospital and rural health clinic services;
- physician services;
- laboratory, X-ray and related diagnostic services; comprehensive services for children;
- out-of-hospital prescription drugs;
- SNF coverage limited to 100 days of recuperative care following hospitalization.

This package includes all of the current mandatory Medicaid services (except family planning), with the addition of prescription drugs, and is similar to the basic Medicare benefits.

2) This new benefit package would be fully implemented (i.e., not phased in) in the first year of operation, except that all those under a course of treatment in a discipline selected for elimination would continue to be treated through to the end of their course of treatment.

3) Limits on amount, duration and scope of routine care benefits:

Limits would be established which would equal the weighted average of the limits imposed on covered hospital days and physician visits as well as requirements for prior authorization for some services. Administrative mechanisms to allow waiver of the limits when medically necessary would also be established. Cost sharing provisions would also be included.

b. Eligibility

Instead of resorting to a uniform national standard to determine an individual's Medicaid eligibility, it is proposed that current standards of categorical eligibility be used.

Under current law, an individual is eligible for Medicaid in a State if he meets applicable standards for, and is receiving, assistance under the SSI or AFDC program. The Medicaid statute and regulations provide, however, that States -- known as "209(b) States" -- have the option to include in the program only those aged, blind, and disabled individuals who would have been categorically eligible for Medicaid under rules that are not more restrictive than the rules of those States in effect under the programs superseded by SSI.

It is proposed, for purposes of a federalized Medicaid program, that an individual be eligible to participate in that program, if at the time of his application, he would meet any of the following requirements:

1) SSI

- The individual is eligible for receiving SSI benefits (unless he is receiving only State supplementation). Such an individual would be eligible for Medicaid under the proposal even if he had been previously excluded by reason of his residence in a 209(b) State.

- The individual is eligible for Federal SSI benefits, and resides in a State the rules of which as of a given past date (for example, January 1, 1982) would cover that individual under Medicaid.

- The individual is not eligible for SSI solely because he is a patient in a medical institution; and resides in a State the rules of which, as of the given past date, would have covered him under Medicaid.

2) AFDC

- The individual is eligible for AFDC benefits as a member of a single parent household, and resides in a State the rules of which, as of the given past date, would cover that individual, as a member of a single parent household, in its AFDC program. (The use of a given date, which would be established by law, to fix the requirements for eligibility to participate in a federalized Medicaid program, would preclude a State from "gaming" the system, i.e., arbitrarily expanding AFDC eligibility, with minimal cash grant levels, to qualify large numbers of new persons for Medicaid.)

3) Ribicoff Children

- The new program would cover children from intact families not otherwise eligible for AFDC, but for whom, on the basis of income and resource standards applicable as of the given past date, the State could have made eligible for Medicaid.

c. Indexing

In order to take inflation into account, a State's increase of its standard for AFDC purposes, in any year, would be recognized for purposes of establishing an individual's Medicaid eligibility, but only to the extent that the standard that exceeds the lower of the increase in the Consumer Price Index or average wages (e.g., the wage component of the Employment Cost Index) over the preceding year.

2. Long-Term Care

The Administration proposes that a long-term care program be developed which includes some State financial participation. With State participation, it would be possible to rely upon the states to continue their efforts to constrain costs.

a. Basic Fiscal Structure

- Indexed grant which the States must use for long-term care; States would be responsible for 100% of program costs above the grant;

- First year State allotments set at 100% of projected FY '84 total Medicaid long-term care spending. The projection would be based on adjusted State estimates as of (date) as further adjusted by legislative or budget changes taking effect prior to the effective date specified in the legislation;

- Expenditures for the following services shall be included: skilled nursing facility; intermediate care facility (including ICF-MR); home health; mental hospital; personal care; other services covered under waivers granted under Section 1915. Expenditures for SNF and home health shall be adjusted to account for the limited coverage of those services under the Federal acute care program;

- Statute to specify that States' allotments in subsequent years would be indexed by factors reflecting changes in providers' input costs, changes in States' at-risk population and service intensity/utilization (net downward adjustments possible). Index could also be adjusted based on relative State need (rather than locking in current State patterns) if desired.

b. Eligibility

- Coverage of Federal SSI eligibles required; all other current eligibles now receiving institutional or community care would be "grandfathered" until they lose eligibility (requalification would be based on States' new standards); no other Federal eligibility standards;

- Non-SSI Medicaid acute care beneficiaries would not be entitled to long-term care services except at a State's option;

- Full State flexibility to structure cost sharing including contributions by relatives (subject to protection of spouses and minor children);

- States' eligibility criteria would have to be broadly available for public review, and persons shall have the opportunity to apply, the right to a prompt determination of eligibility, and the right to a fair hearing upon appeal.

c. Benefits

- Each State shall have a plan approved by the State detailing services covered, limitations on those services and exclusions, and cost sharing requirements; the plan shall include both institutional and non-institutional services.

- States free to limit beneficiaries' choice of provider;

- States may elect to provide that combination of medical and medical support services appropriate to individuals' needs.

- No Federal requirement for inter or intra group equality in amount, duration or scope of services or statewideness;

- Federally-required "grandfathering" of current services for current eligibles until eligibility ends.

d. Reimbursement and Provider Participation

- States will have flexibility to set provider reimbursement levels;

- Federal grant funds may be used for room and board charges only when the institution meets Federal standards (see next section).

e. Quality

- Medical Review/Independent Professional Review and other utilization control requirements are eliminated;

- Current statutory quality assurance standards and procedures will be retained; States must provide assurances that at a minimum these standards are being met.

f. Administration

- Reimbursement, provider evaluation and certification, eligibility determination, data collection and reports will be defined and executed by the State;

- Federal government will be furnished with copies of State plans and such periodic data reports as the Secretary shall determine are necessary for calculating the amount of grant funds to which State will be entitled.

- States must file reports with DHHS detailing expenditure of grant funds.

B. AFDC

1. The Administration will propose a maintenance of benefits requirement for the AFDC program during a transition period of 1984-87. The requirement would be as follows:

   a. For those individuals with no other income than public assistance, a State could not reduce AFDC benefits below that which would have been provided to a similarly situated family prior to the effective date.

   b. For those with no other income, AFDC benefits could not be reduced below an amount equal to:

      1) The amount the family would receive if it had no other income, minus

      2) The amount of any other income.

2. The Administration is not prepared to propose the unhitching of AFDC from Food Stamps.

3. The Administration is prepared to propose a "Safety Net Assistance Fund" for states with exceptional need. Funding would be provided to states with high poverty, high unemployment, or low fiscal capacity. The cost of this Fund would be reduced from the states' share of the Trust Fund.

C. Interrelationship Between Medicaid Savings and The Trust Fund

To the extent that a state's Medicaid savings are reduced due to the new national Medicaid program, the state's trust fund allocation will increase an equivalent amount. However, to the extent that a state's Medicaid program becomes more expensive as a result of the new national Medicaid program, the state's trust fund account would not be affected.

III. TURNBACK COMPONENT

A. Programs To Be Turned Back*

(All dollars are in millions and are based on FY '82 appropriations and Continuing Resolution levels).

Education and Training

Vocation and Rehabilitation.......	$ 952
Vocation & Adult Education........	740
State Block Grants (ECIA Ch. 2)...	537
CETA..............................	2,858
WIN...............................	246
TOTAL......................	$5,333

Energy Asistance

Low Income Home Energy Assistance.	$1,875
TOTAL......................	$1,875

Social, Health & Nutrition Services

Child Nutrition	$3,212
Child Welfare/Foster Care/ Adoption Assistance...........	486
Runaway Youth/Child Abuse	15
Social Services Block Grant........	2,400
Legal Services....................	240
Community Services Block Grant.....	348
Prevention Block Grant............	82
Alcohol, Drug Abuse & Mental Health Block Grant................	432
Primary Care Health Care Centers....	248
Maternal & Child Health Block Grant.	348
Primary Care Research & Development.	2
Family Planning....................	125
TOTAL....................	$7,938

[Black lung ($3), Migrant Health ($38) and WIC ($934) have been deleted]

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* These numbers may be altered based on decisions made with respect to the FY '83 budget.

Transportation

Urban	$ 800
Secondary	400
Appalachian Highways	75
UMTA Construction	2,436
UMTA Operating	640
Highway Safety	100
TOTAL	$4,451

[Grants in aid for airports ($450), primary ($1,500), bridges ($900), interstate transfers ($288), construction safety ($390), federal lands ($50), emergency relief ($100) have been deleted]

Community Development & Facilities

Water & Sewer	
Grants	$ 125
Loans........................	375
Community Facilities Loans	130
Community Development Block Grant..	3,456
Waste Water Treatment Grants.......	2,400
TOTAL.......................	$6,486

[UDAG $400) has been deleted]

Revenue Sharing & Technical Assistance

General Revenue Sharing	$4,566
TOTAL........................	$4,566

[OSHA State Grants ($48) has been deleted]

GRAND TOTAL................... $30,649

B. The Trust Fund

1. Financing the Fund

The Federalism Trust Fund would be financed by the following revenues:

$2.2 billion -- gasoline (2 cents)*
$2.7 billion -- tobacco
$6.7 billion -- alcohol
$0.3 billion -- telephone
$8.8 billion -- general revenues

2. Phasing Out Excise Taxes

The excise taxes would be phased out on the following schedule:

1988: gasoline tax repealed (2 cents)
1989: alcohol tax repealed
1990: telephone tax repealed
1991: tobacco tax repealed

As each excise tax is phased out, the Federalism Trust Fund shall be commensurately reduced.

3. With respect to the general revenue portion of the trust fund, the Administration proposes that the Advisory Commission on Intergovernmental Relations study this issue and report back to the Congress and the President with recommendations no later than January 1, 1986.

C. Pass-Through and State Opt-Out Decisions

1. States may elect to withdraw from some or all federal grant programs included in the turnback between FY '85 and FY '87. After FY '87, all turnback programs would be repealed.

2. However, the States would be required to make meaningful consultations with local officials on the opt-out decision before it is made.

* There is a technical problem that may need to be resolved with respect to the Highway Trust Fund. As originally conceived, the allocation of 2 cents of the highway tax to the Federalism Trust Fund was premised on the transfer of approximately half of the Trust Fund programs to the States. Now that the "turnback" list has been pared down in this area, the residual 2 cents in the trust fund may be insufficient to cover the remaining Federal program costs. We may want to reexamine our diversion of 2 cents worth of the highway tax, substituting other revenue sources instead.

a. The State should be required to set forth a plan calling for the opt-out together with the proposed use of funds and the proposed local distribution. This plan would be the basis for the consultation process with local government officials.

b. Public hearings should be required on the State's plan.

c. The plan should not be operative until it is adopted by the State and finally filed with the U.S. Secretary of the Treasury. Until the plan is adopted and filed, the programs should continue to operate as they do now up through FY '87.

3. A decision by a state government to opt out of a turnback program shall be final and may not be rescinded for a subsequent year.

4. To insure fair treatment of local governments, States would be required through FY '87 to pass through super revenue sharing funds to local units of government based on the following formula;

- For programs that presently are totally State-run, either by State employees or by State managed non-governmental contractors, no pass-through would be required.

- For programs that are wholly locally run, such as the entitlement portion of the Community Development Block Grant, a 100% pass through would be required.

- For programs such as CETA, where funding is presently split, or passed through by the States to some degree, each State would be required to pass through the percentage that was available to the localities in Fiscal Year 1983 in that program.

- For programs, such as the Maternal & Child Health Block Grant, where pass-throughs are not typical but where States have historically contracted with units of local government to deliver some or all services, States would be required to pass through the percentage of the funds actually made available under the program to local units in FY '83.

5. Distribution of Funds Within a State

   a) For Fiscal year '84, states would not be permitted to opt out of any of the turnback programs. Distribution of funds within a state would continue as in the past.

   b) Starting in Fiscal Year '85, if a state opted out of a program,

      1) For revenue sharing and CDBG, the distribution of pass-through dollars within each State would be made based on the historical formula or distribution for each program involved.

      2) For all other programs, States would have the flexibility to distribute pass-through funds without regard to past practices, although consultation and public hearings would continue to be requireed.

6. States would be required to pass-through the funds within 30 days of the time they received them.

NEW Federalism

THE WHITE HOUSE

Office of the Press Secretary

FOR RELEASE AT 10:30 a.m. EDT
Tuesday, July 13, 1982

TEXT OF REMARKS BY THE PRESIDENT
TO THE
NATIONAL ASSOCIATION OF COUNTIES CONVENTION
BALTIMORE CONVENTION CENTER

BALTIMORE, MARYLAND

July 13, 1982

You were elected to offices that are among the closest to the people. I am sure you know the names of many of your constituents, and they know yours. When you pass them on the street, they ask you about a recent decision or vote. They attend your Board and Commission meetings to speak about their concerns. You are held responsible for your decisions by the people you represent -- and that's what democracy is all about.

At your level of government you deal with the daily lives of your citizens -- managing their schools, repairing their roads, and protecting their neighborhoods from fire and crime. Of course Washington involves itself in these things, too, but too often that kind of federal intrusiveness has become part of the problem, not the solution.

I am reminded of the story about a young student who handed in a test paper riddled with errors. His teacher asked him how one person could make so many mistakes. "One person didn't," the boy replied. "My father helped me."

Well, maybe the Federal Government has helped local governments make a lot of mistakes, and that is what I want to talk with you about today.

Together, you and I are involved in an epic struggle to restore the governmental balance intended in our Constitution and desired by our people. We are turning America away from yesterday's policies of big-brother government. We are determined to restore power and authority to states and localities -- returning as much decision-making as possible to the level of government where services are delivered.

Thomas Jefferson once said, "I know no safe depository of the ultimate powers of ... society but the people themselves." I agree with him, and I think you do too. The more government we can keep at the local levels in local hands, the better off we are and the more freedom we will have.

There are some in Washington who scoff at such an idea. They speak condescendingly about America's county seats, her city halls and state legislatures. Claiming a monopoly on compassion and wisdom, they airly dismiss grassroots representatives as incapable of seeing the big picture.

Forcing the American people to accept the dictates of a swollen government in Washington has been one of the more serious mistakes of this century. Either you believe in democracy, or you don't. Like you, I believe.

MORE

Our Founding Fathers knew the value of diversity in America; they understood the need to control the size of government and to hold it accountable to our people. They wrote those principles into the Constitution, and, as Madison points out in the Federalist Papers, ensures republican remedies -- now that's republican with a small "r" -- for problems that have brought down other republics.

Traditionally, we have been able to adapt well to change and meet our challenges because we could reach across a vast and varied continent for ideas and experience. In the recent past, as the Federal Government has pushed each city, county and state to be more like every other, we have begun to lose one of our greatest strengths: Our diversity as a people. If we are to renew our country, we must stop trying to homogenize America.

I believe the extent of the problems we face today is in direct proportion to the extent to which we have allowed the Federal Government to mushroom out of control, ignoring careful checks and balances. Federal bureaucrats now dictate where a community will build a bridge or lay a sewer system. We have lost the sense of which problems require national solutions and which are best handled at the local level.

Let me quote Jefferson again; I'm sure you all have heard and possibly used, as I have, his statement that if we look to Washington to know "when to sow and when to reap, we should soon want for bread," Well, that line takes on much more meaning if we hear it in the entire context of what Jefferson was discussing. He said:

"Were not this great country already divided into states, that division must be made, that each might do for itself what concerns itself directly, and what it can do so much better than a distant authority. Every state is again divided into counties each to take care of what lies within its local bounds; each country again into townships or wards to manage minute details ... were we directed from Washington when to sow and when to reap, we should soon want for bread."

As the distinctions blur, our people have lost far too much control over public policies that affect their daily lives. They no longer know who to blame when things go wrong. For example, if you have a problem with the way your child's school is run, who do you talk to? The teacher? The principal? The superintendent? The Governor? The Courts? A department in Washington? Or, perhaps the President? We must sort out responsibilities to better manage resources and restore accountability in government.

Having mentioned education, may I digress for a moment. Recently a national convention having to do with education was held in California. A central theme at that gathering was an attack on our efforts to get control of runaway federal spending, and what a threat that was to education. They painted some pretty horrendous pictures -- horrendous but untrue.

I have charged that the Federal Government in recent years has interfered unnecessarily in the classroom, claiming its right to do that by virtue of federal financial aid to public schools. Well that aid amounts to only 8.1 percent of the total cost of public school education. Local and state governments put up the other 91.9 percent.

Now we have not cancelled out that 8.1 percent of federal help. We have shifted some of that spending to other government agencies for administrative purposes. Rehabilitation programs for adults, for instance, will be part of the Health and Human Services budget.

Other funds are being incorporated in block grants. Yes, there will be savings but not because we are depriving children of necessary educational programs. Many of the savings will be in the elimination of federal administrative overhead and in giving local authorities more flexibility, free of useless regulations and red tape. And that, incidentally, is the underlying principle of Federalism.

MORE

Our Federalism initiatives are not incidental proposals. They lie at the very heart of our philosophy of government -- a philosophy I have long held, and I believe most of you have, as well. We are committed to restoring the intended balance between the levels of government and, although some people may not find this cause as glamorous or as immediate as some others, we are determined to see it through.

We in this Administration have taken another look at the Constitution and are applying it to the America of today. We will restore the 10th Amendment to the Constitution, which says that the Federal Government shall do only those things provided in the Constitution and all other powers shall remain with the states and with the people.

For the first time in too many years, the Federal Government will recognize a limit on what it should do, how fat it can grow, and the power it can claim. With your help, we will reverse the flow of power, sending it back to the localities.

But the battle has barely begun. So while I want to thank you, I also want to ask for your continued help. Rest assured that we in this Administration understand that such support is a two-way street. As your partners in government, we pledge that this Administration will never turn its back on the problems you face in the counties of America.

In my State of the Union message last January, I outlined the principles of our Federalism proposals. I pledged to place Federalism at the top of our national agenda, recognizing that the Federal Government has become overloaded with far more responsibilities than it can properly manage.

Then as now, we focused on the need to sort out responsibilities and turn back to states and localities many federal programs, insisting they be accompanied by the resources to pay for them. We also promised to create no winners or losers among the states, and that these initiatives would not be a means to simply cut the budget.

Even at that early stage, our proposal reflected many of your concerns. It included an 8-year transition to avoid dislocations for state and local governments. Revenue sharing was protected -- funding of $4.6 billion a year was called for. The original turnback proposal, including more than 40 programs and the funds to pay for them, was, in itself, a giant revenue sharing program. The package guaranteed stability and certainty by guaranteeing 1983 budget figures through 1987.

Though only an outline, our proposal opened a great national debate on the structure of our government. We presented a working proposal to be altered and polished during consultations with state and local officials.

Since that January address, my staff and I have consulted with state and local officials, as well as members of the Congress. As I said earlier, NACO's representatives played key roles in shaping the package, which we will send to the Congress by the end of the month.

While we have remained true to our first principles, significant changes have been made.

The new package calls for federal assumption of medicaid responsibilities in return for state take-over of aid to families with dependent children, but the Food Stamp Program has been dropped from the swap. The number of programs to be turned back has been reduced to about 35 -- and the windfall profits tax has been replaced by general revenues as a funding source. The pass-through provisions has been revised so that localities will be guaranteed 100 percent of funds historically passed to them from the Federal Government. States will not be able to opt out of programs until 1985 and, when they do, will be required to consult with local elected officials.

These measures are designed to strengthen the stability and certainty of funding. I believe that together, they go a long way toward answering your needs as we begin to reorder the way the American people govern themselves. I hope we can count on your support.

Baltimore's H. L. Mencken, a profound observer of American life, once said, "It doesn't take a majority to make a rebellion; it takes only a few determined leaders and a sound cause."

Let those be our rallying words, for it falls to us and our responsible colleagues at all levels of government to carry the message of the people to the Congress. Representative Barber Conable of New York has pointed out that if the states and localities want these Federalism reforms, they can get them.

Roy Orr, your past President, has often said that, with fewer strings attached, you people could do more with half the money the Congress appropriates than federal bureaucrats -- even with the best intentions -- are able to do with all of it. I believe him.

Our tax dollars have been filtering through too many hands at too many levels, with a little less getting through at each step. Together we can reduce Washington's percentage and get the power and the resources back to the American people. After all, it's their money, and they have demanded a reform of the excesses, duplication and bureaucracy that have led to a tremendous waste of our national resources. Let us form an alliance to send the Congress an unmistakable message: Americans want more of their taxes spent where they are raised -- and spent by people they can hold accountable.

Your organization has formed an alliance of another kind that is adding to local resources and solving problems where they occur. The Alliance of Business and Counties -- the theme of this conference -- and your Good Neighbor Awards are excellent examples of what can be done when communities look inward for answers to problems.

I am told, for example, that in Essex County, New Jersey, the Chamber of Commerce recruited a team of business executives to do a budget and management analysis for the county. Results included the coordination of cost-containment activities and the drafting of specific steps to reduce energy consumption.

In Fairfield County, South Carolina, the utility company and county government built an efficient, modern facility to house not only a 24-hour ambulance service, but a 60-member fire department in a sparsely populated area of the state. They tell me response time has dropped from twenty minutes to six.

I am sure you know these case histories better than I do, and there are dozens more I don't have time to mention now. But I want to congratulate NACO and these counties, the businesses and all the rest of your "good neighbors" for reviving the "can do" spirit. We built America with the good neighbor policy. I believe that kind of attitude can make us great again.

Earlier this morning, I visited an area of Baltimore than would be depressed were it not for the great hope of its citizens, their readiness for hard work, and the cooperative bond between local government and private business.

Just over a year ago, a bindery was begun in a warehouse in Park Heights -- the northwest corner of the city. The enterprise was designed to turn a profit while providing jobs and training for 2,500 people within five years.

This afternoon, I will visit the top of the World Trade Center to look out on Baltimore's beautiful Inner Harbor -- an area that is being restored through the cooperation, once again, of government and business. So far, about half the funds for the Inner Harbor restoration have come from the government, but the private sector is expected to pick up nearly 95 percent of future costs.

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The idea used in Baltimore is similar to the Enterprise Zone experiment our Administration would like to test across America. Designated zones would be relieved of many tax and regulatory burdens, producing incentives for new business and new jobs. Although not a comprehensive answer to the problems in our inner cities, Enterprise Zones offer real hope for the mostly minority communities trapped at the bottom of America's economic ladder in the forgotten hearts of our cities.

My Administration remains committed to the Enterprise Zone experiment as part of our overall Economic Recovery Plan.

Of course, a growing economy will be the best federal program we can provide local governments, as well as a larger share of the tax base that will grow along with it.

It's a simply yet revolutionary concept -- this idea of giving the voters what they voted for -- and it has startled some people a little bit. We are actually doing what we said we were going to do, and that's not something Washington is used to. We are determined to return our government and our economy to the people. Together with the support of people like you, we will shrink the federal establishment, start our economy growing again and restore America to greatness.

I have no doubt that the American people, with God's help, are up to the challenge. We need only believe in ourselves. In the course of our history we have overcome far greater challenges.

If we look at the daily lives of Americans, we can see case after case of individual mettle and pluck. Just a few weeks ago, in City Island Park in Daytona Beach, such a story of courage took place.

Thirty-two year old J. R. Richard -- once an ace pitcher for the Houston Astros -- stepped up to a minor league mound. Two summers ago a stroke left him partially paralyzed and his doctors wouldn't predict whether he could ever play again. But that summer night in Daytona, the packed ball park erupted in thunderous applause as J.R. jogged onto the field.

Newspaper accounts reported his performance was not overpowering, but neither was it an embarrassment. In four innings, the lanky right-hander gave up only two earned runs, and left the game to another enthusiastic ovation.

After the game, J.R. said, "I am ready to work myself back up ... it took a lot of hard work to get here, and it's going to take a lot more hard work to get back into the majors." He looked at the Astro's general manager and said, "I will be back."

J.R. has the kind of American spirit we all must tap to continue our struggle for national renewal. We have won some major victories in the last year and a half, but there is a long, hard road still ahead of us. If we can focus as clearly on our goal as J.R. Richard has on his, if we can imagine America once again strong and vibrant and alive -- with jobs for all our people, security for our elderly, wealth enough for our poor, and new opportunities for every new generation -- then I believe we, too, can find the strength to make our dreams come true.

I commend you in the National Association of Counties for all you are doing to improve America's communities. I thank you for your support and hope I can count on you for more. If we continue to have faith in ourselves and trust our people, there is nothing we cannot accomplish.

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