earned. This section of S. 698 provides for the application of these principles to grants to States, while preserving the Federal Government's legitimate concern in seeing that all such grants are applied as intended and in receiving certain elementary facts with respect to the financial status of grant programs. To clarify the intent of this section, we recommend insertion of the phrase "or administrative regulation" after the word "law" on line 15, page 10, of the bill.

Section 203 establishes a procedure designed to discourage the advancement of Federal grant-in-aid funds for longer time periods than are necessary. As was noted in the prior hearings on S. 561, the Department of the Treasury has already sought administratively to achieve this objective through its Departmental Circular No. 1075, issued on May 28, 1964. This circular was and is geared to establishing a letter-of-credit procedure which maintains funds in Treasury until needed by recipient jurisdictions and thus reducing interest costs. Advances for three to six months formerly made in several programs and still permitted in some have resulted in expenditures of money from the Federal Treasury before they were actually needed—with no concomitant advantage accruing to the Federal or State agencies concerned or to effective program implementation.

Lump sum advances at specified intervals now constitute a rather outmoded way of transmitting money from one jurisdiction to another—given the emergence of telegraphic transfers, sight drafts, and the letter-of-credit procedure. The Treasury circular recognizes this fact and pursuant to its procedures advances are limited to the minimum allowances that are necessary and are timed to coincide with the actual cost requirements of the recipient jurisdiction in carrying out the purposes of a grant program. This letter-of-credit device in and by itself does not insure against excessive withdrawals, as Treasury has recently discovered in its monitoring of the system. Yet it can and does provide a simple, uncomplicated way of getting payments for readily ascertainable short-term needs. It also precludes the necessity of trying to anticipate the requirements of longer time periods with the consequent tendency to overestimate.

Two problems, however, seem to have arisen thus far in administering this letter-of-credit procedures. First certain States, including among others Alabama, Arizona, California, Indiana, Kansas, Ohio, Oklahoma, Tennessee, and Massachusetts, appear to have legal fiscal requirements that impede application of the procedure to these jurisdictions. Second, certain of the Federal agencies using the device have not been fully aware of its basic purpose and have failed to institute an effective monitoring system. A special Federal Task Force on letter-of-credit procedure spearheaded by Treasury is now reviewing these and other related problems with a view toward overcoming these deficiencies. In short, the letter-of-credit procedure per se is no better than those using it, but with effective implementation it could become a vitally significant financial procedure for eliminating a continuing tension point in intergovernmental fiscal relations.

Section 203 recognizes the merits of this mechanism and seeks to give them the full force of law. It is geared to assuring that States will not draw on grant funds in advance of their program needs. At the same time, it does not seek to hold them accountable for interest or other income earned on any grant funds advanced, prior to their disbursement for program purposes. Effective, government-wide implementation of this device should save the Federal Government considerable amounts of interest costs.

Section 204 stipulates that Federal departments and agencies may waive legislative requirements for a "single State agency," multimember board, or commission. In 1965, we testified that "about one-third of the Federal grant-in-aid programs are governed by single State agency provisions" and "almost three-fourths of total Federal grant funds are disbursed under these provisions." A cursory examination of grant programs enacted since that time reveals that at least four of the newer programs, including the Narcotic Addiction and Alcoholism amendments, Regulation of Surface Mining Operations legislation, the Clean Air Act amendments, and the Meat Inspection Act, contain "single agency" provisions.

The merits of the single State agency requirement now appear to be largely historical. In the formative years of the public assistance, for example, the requirement was essential to bring order out of chaos in the existing, as well as newly emerging public assistance programs in the States. It was necessary then that the Federal agency have one and only one State agency to deal with on matters regarding public assistance and that this agency be held responsible