S. Hrg. 98-46

EXTENSION OF GENERAL REVENUE SHARING

HEARING

BEFORE THE

SUBCOMMITTEE ON ECONOMIC GROWTH, EMPLOYMENT, AND REVENUE SHARING

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

MARCH 21, 1983

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CONTENTS

EXTENSION OF GENERAL REVENUE SHARING

MONDAY, MARCH 21, 1983

U.S. SENATE,
SUBCOMMITTEE ON ECONOMIC GROWTH,
EMPLOYMENT, AND REVENUE SHARING,
COMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m. in room SD-215, Dirksen Senate Office Building, Hon. John Heinz (chairman) presiding.

Present: Senator Heinz.

Also present: Senator Durenberger.

[The committee press release announcing the hearing, text of bills S. 41, S. 525, S. 700, S. 735, and S. 762, and the prepared statements of Senators Heinz, Dole, Durenberger, and Sasser follow:]

[Press Release No. 83-116]

FINANCE SUBCOMMITTEE ON ECONOMIC GROWTH, EMPLOYMENT, AND REVENUE SHARING SETS HEARING ON EXTENSION OF GENERAL REVENUE SHARING

Senator John Heinz (R. Pa.), Chairman of the Subcommittee on Economic Growth, Employment, and Revenue Sharing announced today that the subcommittee will hold a hearing on March 14, 1983, on proposals to extend the general revenue sharing program and to modify the existing program.

The hearing will be held on Monday, March 14, 1983, in Room SD-215 of the Dirksen Senate Office Building, and will begin at 1:30 p.m.

The hearing will focus on proposals to continue the general revernue sharing program beyond fiscal year 1983, and on possible modifications of revenue sharing. Revenue sharing, which provides $4.6 billion per year in general purpose fiscal assistance to localities, expires on September 30, 1983.

Senator Heinz stated that, "In a time of acute fiscal distress for all levels of government, the kind of flexible fiscal assistance that revenue sharing provides becomes more important than ever. Revenue sharing has strong bipartisan support, and this hearing should give us an opportunity to begin considering ways to strengthen the program and make it even more effective."

Specific legislative proposals to be considered include S. 41, introduced by Senator Durenberger and others, to extend revenue sharing at present funding levels for 3 years; and S. 525, introduced by Senator Heinz, which would provide an additional revenue sharing payment in fiscal year 1983 by accelerating revenue sharing payments to the beginning rather than the end of each quarter. In addition, the hearing will review the role revenue sharing is designed to play under the federalism initiative proposed by the Reagan administration.

[Press Release No. 83-120]

FINANCE SUBCOMMITTEE ON ECONOMIC GROWTH, EMPLOYMENT, AND REVENUE SHARING RESCHEDULES HEARING ON EXTENSION OF GENERAL REVENUE SHARING

Senator John Heinz (R, Pa.), Chairman of the Subcommittee on Economic Growth, Employment, and Revenue Sharing announced today that the subcommittee hearing on proposals to extend the general revenue sharing program has been cancelled for Monday, March 14, 1983 at 1:30 p.m.

The hearing has been rescheduled for Monday, March 21, 1983, in Room SD-215 of the Dirksen Senate Office Building, and will begin at 10:00 a.m.

OPENING STATEMENT OF SENATOR JOHN HEINZ, CHAIRMAN OF THE SUBCOMMITTEE ON ECONOMIC GROWTH, EMPLOYMENT, AND REVENUE SHARING, MARCH 21, 1983

Today, the Senate Finance Committee begins consideration of the reauthorization of the General Revenue Sharing Program. I apologize to those whose schedules were upset by the postponement of this hearing originally set for Monday, March 14, 1983. As you know, we had important business to attend to on the Senate floor, including the amendment offered by myself and Senator Durenberger, Senator Dole, and Senator Long, to accelerate the GRS payments to local governments. That amendment successfully added to the Emergency Jobs bill and is now in conference in the House. A number of our Finance Committee colleagues joined in cosponsoring this amendment, including Senator Roth, Senator Danforth, Senator Moynihan, Senator Bradley, and Senator Mitchell, and I thank them for their help and support.

As the conferees begin to meet on the jobs bill, I am hopeful and fairly confident that the acceleration of GRS will be part of the bill to be signed into law soon by the President. GRS is the most efficient and expeditious program in the federal repertoire for distributing emergency funds to local communities across the country. I believe that 72 of my colleagues joined me in voting for the amendment, because it would be the only provision in the emergency jobs bill with the promise of getting the aid literally within two to three weeks from today.

GRS has a long and proven track record of effectiveness and efficiency. First enacted in 1972 as the original new federalism, the program was reauthorized in 1976 with minor changes. In 1980, when GRS was again reauthorized, the state share of funds was dropped. Although authorizing language remains in place, it is compromised by the so-called "Levitas amendment," which requires states to swap catagorical funds for any GRS money they receive.

The local share remains at the $4.6 billion level authorized in 1976. It still serves approximately 39,000 local governments, including cities, counties, towns, townships and boroughs. Funds are distributed among the local governments on the basis of population, tax effort and relative income. Simple reauthorization of the program as proposed in S. 41 by Senator Durenberger and some 70 Senate cosponsors would result in another 3 years of guaranteed payments to local governments at currant levels.

Currently, the program is used by local governments for a wide range of activities, including capital expenditures for transit, economic development, community centers, and police facilities. Operating programs bolstered by GRS funds include revitalization projects, meals on wheels, supplemental income for indigents, and projects, meals on wheels, supplemental income for indigents, and community health care for the poor, the elderly and the disabled, in addition to public safety, transportation and environmental services.

Although GRS on the average accounts for only about 7 percent of locally-raised revenues, if eliminated, local governments would have to increase local property taxes an average of 23 percent to replace it. Local governments are becoming the safety net of last resort for victims of the recession in this country, so this is no time to be thinking about the elimination of GRS.

In fact, while the nation as a whole begins to climb out of the recession—with joblessness stabilizing, inflation reduced dramatically, interest rates cut in half, and housing starts and industrial output on the rebound—we must not forget that local governments will be struggling under the lagging after-effects of the recession for many months, if not years, to come. Federal and state budget cuts in social services and other operating programs will just now begin to fully hit local governments. With the abrupt reduction in inflation, local property tax revenues will no longer be on the rise. Local revenue shortfalls, already common in 1982, will be epidemic in 1983 and 1984, especially in those sectors of the country where the recession has closed the only factories in small towns (such as Midland, PA) thereby eliminating the majority of the municipalities' revenue.

I believe it is incumbent upon us in the Federal government to continue providing local officials with the flexible funding they need to meet diverse needs. The increased demands for emergency social services has already drained funds away from capital budgets in many municipalities: a guarantee of continued GRS funding will help those localities balance the competing budgetary demands as they formulate plans for the next fiscal year.

Nor can we neglect to consider the declining fiscal conditions of the States. In 1980, when Congress removed the state share, the states were undeniably in better shape than they are today. For FY 1983, 47 states have raised their taxes; 19 have projected deficits; 35 have already reduced spending below the levels in their original budgets; all but 3 states are experiencing revenue shortfalls beyond their original expectations.

The states' fiscal distress in all regions of the country has led to proposals to reinstate the state share. Congressman Ted Weiss and Senator Durenberger, who have both offered legislation to accomplish this, are but 2 of many members of Congress who feel that the states need this kind of assistance. Last week, I met with Governor Dick Snelling of Vermont, who, on behalf of the National Governors Association, urged me to consider this option. I know that the National Conference of State Legislators, although unable to be here to testify today, has submitted testimony highlighting the plight of the states. I am also aware that many state leaders are fearful that any provision of GRS funding might be used as a rationale for reducing federal funding for any of a number of means-tested entitlement programs—something I certainly would not support.

Perhaps the most ingenious of all the GRS-related proposals we have seen in Washington this year is S. 700, introduced by Dave Durenberger. We will be spending time today considering this ambitious proposal, because it goes to the core of intergovernmental relationships in this country and, if enacted, could put some coherency into our mixed federal system of categorical aid, block grants and revenue sharing. Significantly, in addition to coherency, S. 700 would begin to address the complex problem of fiscal disparity in the distribution of federal funds. Clearly, we in the federal government have a responsibility to mitigate rather than exacerbate disparities in fiscal capacity across this country.

We will also welcome comments on the "New New Federalism" proposal developed by the President, particularly the local block grant combining GRS and CDBGs. As those who attended the Finance Committee hearing on New Federalism earier this month know, I and many of my colleagues have reservations about the implications of this initiative. Recently, Senator Dole introduced the local block grant proposal at the request of the President (S. 762).

Senator Long, who joined in actively supporting the acceleration of GRS payments, has introduced a bill, S. 735, to increase GRS funding by 50 percent for FY 1983. We may expect to hear similar proposals for FY 1984 and beyond; it would be no surprise to see many members of Congress demonstrate their support for the GRS program by voting for such measures on the floor. Others may wish to borrow the essential features of the program and its efficient funding mechanism to accomplish other ends, such as job creation, infrastructure repair, and anti-recession aid.

At this point, I would like to turn to those scheduled to testify. Because we have a great deal to consider today in this hearing and this week on the Senate floor, I would like each of you to limit your presentation to 5 to 10 minutes, so that we may ask questions of all of you before closing today's session.

Statement of Senator Dole

Subcommittee on Economic Growth, Employment, and Revenue Sharing

EXTENSION OF GENERAL REVENUE SHARING

Mr. Chairman: I know we all appreciate your prompt action in convening these hearings to consider the extension of general revenue sharing beyond fiscal year 1983. This is an issue that greatly concerns local governments across the country as they try to plan their budgets, cope with the problems of recession, and provide an adequate level of services to our citizens. If at all possible, we ought to resolve this issue well before the end of the fiscal year, in order to remove any uncertainty as to the funding levels of revenue sharing over the next few years.

The President strongly supports revenue sharing; I have indicated my support several times over the past several months; and I know, Mr. Chairman, that you are a strong advocate of the program. Our first witness this morning, our colleague Dave Durenberger, has given consistent and outstanding support to revenue sharing, as has the distinguished ranking minority member of the Finance Committee, Senator Long. So there is very strong support for continuing this program, and these initial hearings ought to provide a strong signal of Congress' intention to extend general revenue sharing. This is one program that has proven its efficiency and effectiveness.

Even so, there are a number of questions that need to be answered before we can complete action on a proposal to extend revenue sharing. The President would like us to consider revenue sharing in the context of his new four-part Federalism package, which the Finance Committee initially reviewed at a hearing on March 4. Some members would like to expand the program, either by providing a cost adjustment in funding levels, or by involving the States in the program as they were prior to 1980, or by adding new titles to provide targeted fiscal assistance or triggered anti-recession aid. I have always advocated providing Federal aid with minimum strings and maximum local decisionmaking, because that is the most effective way to get things done. There are, of course, many programs where an overriding national purpose requires Federal standards and Federal decisions. But we always ought to give maximum flexibility to those levels of government that are closest to the concerns of the people we all serve. At the same time, when we consider possible expansion of the revenue sharing program, we cannot avoid facing the fiscal consequences of doing so. Adding to the deficit, and to Federal borrowing, is a matter that concerns State and local governments at least as much as revenue sharing does.

Mr. Chairman, it does seem to this Senator that the Governors, the mayors, and the county and local officials who have been in town in recent months have expressed very serious concern about the Federal budget deficit and its implications both for the economy as a whole and for their own prospects for dealing with budget problems over the next few years. It would be a mistake, I think, for Congress to promise any expansion of revenue sharing without indicating how such an expansion would be paid for. We can make appropriate offsets in other grant programs—that is an idea I have expressed interest in in the past, and I believe it is consistent with the President's goals for intergovernmental fiscal relations. But it is not an easy thing to achieve, because every program in which we might want to make offsets has very strong defenders in Congress. Alternatively, we can raise revenues necessary to finance revenue sharing expansion. But again, as we have seen over the past year and a half, that is a very, very difficult thing to do: and it is likely to be necessary, in any event, just to get the budget deficit under some semblance of control.

So I think we do have to be realistic, look at the options that are available, and decide what we can afford. As I have indicated, revenue sharing is a valuable part of our Federal system because it maximizes efficiency of Federal dollars spent. But we ought not to promise expansions of the program unless we can reasonably expect to do so in a fiscally responsible way. Hopefully we can work together, and with the administration, to do that—but we should not pretend that it will be easy.

STATEMENT BY SENATOR DAVE DURENBERGER BEFORE THE SUBCOMMITTEE ON ECONOMIC GROWTH, EMPLOYMENT AND REVENUE SHARING, MARCH 21, 1983

Thank you, Mr. Chairman. I want to convey my thanks and appreciation to you for holding this hearing on General Revenue Sharing so promptly, and for allowing me both to be its opening witness and to sit with you during the remainder of the hearing.

As the distinguished Chairman knows, as Chairman of the Subcommittee on Intergovernmental Relations I have a long standing and abiding interest in revenue sharing. I am most gratified for your allowing me the opportunity to participate so fully in the Subcommittee's deliberations. And, I want to take this opportunity to extend to you an invitation to come over and participate in the IGR oversight hearings on revenue sharing that will take place next month.

When I began thinking about what I wanted to say to open the discussion on revenue sharing, I realized I had several options. I could sing the praises of the General Revenue Sharing program as the most valued Federal program of assistance to local governments. I could talk about how, during a period when most other less-valued Federal grants were growing by leaps and bounds, revenue sharing remained level-funded and thereby declined steadily in real dollar value throughout the inflation of the 1970s.

Alternatively, I thought I could take my 15 minutes and devote them to promoting S. 700, the bill I introduced to revise and expand revenue sharing to include state governments and to increase the total funding level for both state and local governments to $11.8 billion—a proposal the National Journal called the Durenberger "souped-up version." Mr. Chairman, you can bet I will avail myself of that opportunity to some extent before I am done here.

But, I finally decided that the best way I could open the Congressional deliberations on reauthorizing, and perhaps improving, the program is by discussing the

Federal system more broadly and by trying to outline how General Revenue Sharing fits into the overall scheme of Federal subsidies to state and local governments. And, by discussing how revenue sharing and New Federalism are related, in my view.

When I look at Federalism, I first divide it into two parts. On one side we have what we might call Regulatory Federalism. It involves questions like preemption of state and local law, cross-cutting requirements that force state and local compliance with national policy, state implementation of Federal standards such as we have in our environmental programs, and Federal court actions to compel changes in the administration of state and local institutions.

On the other side we have Fiscal Federalism, which is primarily a question of Federal subsidies of one sort or another for state and local activities. Fiscal Federalism can further be subdivided into three parts: We subsidize the spending of state and local governments by providing them with Federal grants-in-aid; we subsidize the borrowing of state and local governments by providing a Federal tax exemption for their bonds and loaning them money for various purposes; and we subsidize the taxation of state and local governments by providing a deduction against Federal tax liability for state and local tax payments.

Now, let's put some dollars into this fiscal federalism equation. Grant-in-aid programs are somewhere between $80 billion and $90 billion per year depending on what kind of budget numbers you use. The Joint Tax Committee tells us that the deductibility of state and local taxes will cost the Federal government something like $32 billion this year. Joint Tax also gives a figure for the revenue loss resulting from the tax exemption for state and local bonds at something like $14 billion annually. That, of course, is only part of the borrowing subsidy.

Looking at fiscal federalism as a subsidy for state and local government activity, I suppose there are two questions one ought to ask. First, is the subsidized activity in the national interest, that is, is there a national purpose involved that justifies taxing all of the people of the country to encourage one particular state or local government to undertake an activity?

The second question is efficiency. How efficient is the fiscal relationship when looked at as a subsidy?

Focusing first on efficiency: I think of efficiency in this context as the amount of benefit realized on the state and local end, compared to the dollar or revenue lost or expended here on the Federal end. Now, efficiency can also be discussed in a more narrow perspective, specifically as it relate to grants. At issue here is the efficiency gains that are possible through blocking categorical grants and cutting out all sorts of administrative red tape so that more dollars are applied to the actual problem. But even more important in the context of grants, the largest efficiency gains resulting from the blocking process came with the flexibility that state and local governments are given to match expenditures to their own priorities.

When we put dollars into 500 little grants out here in Washington, we are deciding priorities. High Congressional priorities get more bucks; but needs and priorities vary a great deal across the 50 states and within the states across very different kinds of local governments. In a block grant, dollars are much better targeted to the diverse needs of communities than they are when priorities are established by categorical grants devised in Washington.

Indeed, this seems to be the basic and motivating force behind the President's notion of New Federalism. Taking the efficiency argument to the extreme would suggest that we put all of our grant dollars into General Revenue Sharing. In fact, if one examines the Presidents arguments for his New Federalism State Block Grant carefully, they actually imply revenue sharing for state governments.

But efficiency is not the only criterion by which we should evaluate our Federal system. The other aspect we want to look at is whether there is a national interest in the subsidized activity. Categoricals serve that purpose best. So we have a conflict of goals and objectives which Congress has attempted to resolve by creating a mixed system of spending subsidies. Part categorical, part block grant, part revenue sharing. But, Mr. Chariman, this mixed system was never designed and thought out as a coherent whole by delicately balancing its three components. It grew up piecemeal under the press of immediate problems and was fed by an ever-growing politics of special interests.

The New Federalism debate and this reauthorization of revenue sharing offers Congress an opportunity to evaluate the balance among the three elements—categoricals, block grants and revenue sharing. The President has concluded there is an imbalance and that more of the spending subsidy should be shifted out of categorical grants into block grants. I agree, but if we stop here we neglect one very important aspect of the problem currently facing our Federal system: Fiscal Disparities, the wide variation in the abilities of states to raise revenues from their own sources.

Several hundred categorical and block grants under the jurisdiction of some 60 Congressional committees are unlikely to result in a distribution of Federal funds that serves to mitigate the worse of these disparities. In fact, recent research indicates that the combined effect of the grant system actually serves to worsen fiscal disparities, with relatively more Federal grant dollars going to states with above-average fiscal capacity.

Mr. Chairman, I believe there is a Federal purpose to smooth out the roughest of these disparities. By this I do not mean an economic leveling of the states, as some might imply. What I mean is a guarantee to all states, that if they tax themselves at a reasonable level they will be able to provide an adequate level of public services for their citizens. Revenue Sharing is the best way I can think of to make this guarantee to all states. It is the only way I can see to ensure every state the resources necessary to meet the new responsibilities New Federalism will place upon them. And whether or not you choose to call it "New Federalism," the fact remains that we will continue to return responsibilities to state and local governments for some time to come.

So I take the President's logic one step further. We should increase the local revenue sharing program and restore revenue sharing to state governments. This is precisely what S. 700 does. It increases the local program to $5.9 billion. It brings the states back in at $5.9 billion. And it makes the program permanent and guarantees that it grows with the economy by dedicating 4 percent of the Federal income tax to the revenue sharing trust fund.

Thus far I have focused in detail only on the relative efficiency of the Federal spending subsidy. We should also examine the efficiency of the Federal subsidy for state and local taxation and evaluate the balance in the mix between the spending and tax subsidy. When economists look at the revenue-value to state and local governments of the Federal government giving tax relief to taxpayers through the deductibility of state and local taxes, they discover this to be a very inefficient way to subsidize these governments. The consensus of estimates emerging from a number of studies indicates that if a taxpayer's income is increased by a dollar it increases his or her willingness to pay state and local taxes by about 10 cents. And by implication, if the taxpayer's income is reduced by a dollars we can expect a decrease in willingness to pay state and local taxes equal to a dime.

This means that for every dollar in tax savings to individual taxpayers provided by Federal deductibility of state and local taxes, state and local governments recover only about 10 cents of it. It further implies that for each dollar in tax savings taken away by limiting deductibility, the Federal government can replace it with a direct cash grant of considerably less than a dollar, and state and local governments' spending would not suffer. This, Mr. Chairman, is a real efficiency gain.

Furthermore, deductibility is not a very desirable way to provide tax relief at the Federal level. Its effects are regressive and only those who itemize—about 30 percent of all taxpayers—benefit from it.

S. 700 proposes to pay the added costs of restoring states to revenue sharing by altering the mix between spending and tax subsidies. It would limit the deductibility of state and local taxes through a floor deduction and impose tax liability only on those state and local tax payments made in excess of 1 percent of adjusted gross income. The beauty of this approach is that it is progressive. It does not discourage any particular kind of tax at the state and local level as would selective repeal of, say, the sales tax deduction. Neither would it discourage overall tax effort by state and local governments because under the floor deduction the additional dollar of taxation levied by state and local governments continues to receive the full Federal subsidy equal to the taxpayer's marginal tax rate.

I think I have covered most of what I set out to, and coincidentally I've been able to say a word or two about S. 700. There are other important provisions of S. 700 I can speak to, such as the formula changes I am proposing to achieve greater equity in the allocation of revenue sharing payments. I am at your disposal on this.

But I would like to stress one last point before I stop. I believe now is the time to improve the revenue sharing program. Perhaps not this year, but certainly in this Congress. Therefore, I cannot support an extension beyond three years that makes only minimal changes in the program. If all we can accomplish this year is a simple reauthorization, let's be satisfied with that but plan to come back immediately to work on a genuine improvement. The point I want to leave with this committee is that S. 700 demonstrates that it is possible to combine prudent tax policy with genuine federalism reforms. And these reforms can, I believe, pave the way for a continuing series of federalism reforms for years to come.

Thank you, Mr. Chairman.

REMARKS OF SENATOR JIM SASSER, SENATE FINANCE SUBCOMMITTEE HEARING ON S. 41, TO RENEW THE REVENUE SHARING PROGRAM AND S. 525, TO ACCELERATE QUARTERLY REVENUE SHARING PAYMENTS IN 1983.

Mr. Chairman. The hearing that the Subcommittee on Revenue Sharing is holding today is very timely. According to a survey recently released by the National League of Cities: "Revenue sharing has become in many ways the glue that holds the precarious fiscal situation of many cities together."

The NLC found that revenue sharing equals between five and ten percent of the locally raised revenues of the majority of cities. For many smaller cities, revenue sharing is the only federal aid received.

Local officials use revenue sharing funds for a wide variety of programs and projects. Essential public services, including police and fire protection, highway maintenance and education depend on the availability of these funds.

In addition, as you pointed out in your floor statement on the introduction of S. 525, local governments have become the "basic safety net" for victims of the recession in this country. Many local governments may decide to spend their share to provide food, medical care, or shelter for the growing numbers of homeless people.

The fiscal outlook for the nation's cities in 1983 is bleak. Expenditures grew faster than revenues last year and this trend is expected to continue. For 1983, the National League of Cities found that cities expect the growth rates of both revenues and expenditures to decline, as well as the difference between the two. A similar situation exists with respect to counties and other types of local governments.

Action to increase revenues may be taken in some cases. That means property taxes and user fees may go up. However, a substantial portion of local governments will have to make deep cuts in operating and capital budgets.

At a time when citizens are looking more and more to government for assistance because of the economy, local governments are forced to cut their budgets and layoff their workers.

As the federal and state governments try to solve their fiscal problems, we must give some relief to those governments closest to the people --- the cities and counties.

Revenue sharing is a "no strings" program that allows local officials to target the funds wherever they are most needed. It is one of the least bureaucratic programs with the lowest overhead costs per dollar of aid that has ever been created by the federal government. It is a well established program that has been in place for ten years.

Twice reauthorized by Congress since its inception in 1972, revenue sharing should again be renewed before the expiration date of September 30, 1983. I am cosponsoring S. 41, to reauthorize the program for another 3 years at the present funding level of $4.6 billion a year.

For 1983, in response to the dramatic need for assistance to local governments, I am cosponsoring your initiative, S. 525, to accelerate payments of revenue sharing from the end of each quarter to the beginning. This spring, local governments would receive a double payment. This will help them to meet the human service needs created by the deep and very long recession we have been experiencing.

It is clear what the needs of local governments in this economy are. I endorse the application of the very useful and well-established general revenue sharing program to meet those needs.

II

98TH CONGRESS
1ST SESSION

S. 41

To extend the revenue sharing program for local governments through fiscal year 1986.

IN THE SENATE OF THE UNITED STATES

JANUARY 26 (legislative day, JANUARY 25), 1983

Mr. DURENBERGER (for himself, Mr. SASSER, Mr. BAKER, Mr. DOMENICI, Mr. ROTH, Mr. BRADLEY, Mr. PRYOR, Mr. PERCY, Mr. STAFFORD, Mr. TSONGAS, Mr. DIXON, Mr. FORD, Mr. ANDREWS, Mr. D'AMATO, Mr. MATTINGLY, Mr. SPECTER, Mr. HUDDLESTON, Mr. GRASSLEY, Mr. SARBANES, Mr. MCCLURE, Mr. BOSCHWITZ, Mr. GORTON, Mr. GARN, Mr. PELL, Mr. WILSON, Mr. WEICKER, Mr. STEVENS, Mr. NUNN, Mr. COCHRAN, Mr. RIEGLE, Mr. BAUCUS, Mr. SYMMS, Mr. LONG, Mr. RUDMAN, Mr. ABDNOR, Mr. MITCHELL, Mr. DANFORTH, Mr. COHEN, Mrs. KASSEBAUM, Mr. HOLLINGS, Mr. WALLOP, Mr. JEPSEN, Mr. BURDICK, Mr. MATHIAS, Mr. MOYNIHAN, Mr. KENNEDY, Mr. DODD, Mr. LUGAR, Mr. INOUYE, Mr. HART, Mr. HEFLIN, Mr. TOWER, Mr. QUAYLE, Mr. THURMOND, Mr. DENTON, Mr. JACKSON, Mr. JOHNSTON, Mr. LAUTENBERG, Mr. LEAHY, Mr. LEVIN, Mrs. HAWKINS, Mr. ZORINSKY, Mr. BENTSEN, Mr. TRIBLE, Mr. CHAFEE, Mr. GLENN, and Mr. RANDOLPH) introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To extend the revenue sharing program for local governments through fiscal year 1986.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) paragraph (1) of Section 6701(a) of title 31, United States Code, is amended by striking out "October 1, 1981, and October 1, 1982" and inserting in lieu thereof "October 1, 1983, 1984, 1985".

(b) Paragraph (3) of section 6711(a) of such title is amended by striking out "1983" and inserting in lieu thereof "1986".

(c) The amendments made by this Act shall take effect on October 1, 1983.

II

98TH CONGRESS
1ST SESSION

S. 525

To require that installment payments of revenue sharing allocations be paid at the beginning of each quarter.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 17 (legislative day, FEBRUARY 14), 1983

Mr. HEINZ (for himself, Mr. DURENBERGER, Mr. DOMENICI, Mr. BRADLEY, Mr. DANFORTH, and Mr. DOLE) introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To require that installment payments of revenue sharing allocations be paid at the beginning of each quarter.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) subsection (b) of section 6702 of title 31, United States Code, is amended by striking out "the end of the quarter" and inserting in lieu thereof "the beginning of the quarter".

(b) The amendment made by subsection (a) shall take effect on April 1, 1983.

II

98TH CONGRESS
1ST SESSION

S. 700

To revise and extend the allocation of revenue sharing funds.

IN THE SENATE OF THE UNITED STATES

MARCH 7, 1983

Mr. DURENBERGER introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To revise and extend the allocation of revenue sharing funds.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "State and Local Fiscal Assistance Act of 1983".

SEC. 2. (a) Chapter 67 of title 31, United States Code, is amended to read as follows:

"CHAPTER 67—REVENUE SHARING

"SEC. 6701. DEFINITIONS AND APPLICATION.

"(a) For purposes of this chapter—

"(1) The term 'entitlement period' means each fiscal year beginning on or after October 1, 1983.

"(2) The term 'finding of discrimination' means a decision by the Secretary of the Treasury about a complaint described in section 6721(b) of this title, a decision by a State or local administrative agency, or other information (under regulations prescribed by the Secretary) that it is more likely than not that a State government or unit of general local government has not complied with section 6716 (a) or (b) of this title.

"(3) The term 'holding of discrimination' means a holding by a United States court, a State court, or an administrative law judge appointed under section 3105 of title 5, that a State government or unit of general local government expending amounts received under this chapter has—

"(A) excluded a person in the United States from participating in, denied the person the benefits of, or subjected the person to discrimination

19-332 O—83——2

under, a program or activity because of race, color, national origin, or sex; or

"(B) violated a prohibition against discrimination described in section 6716(b) of this title.

"(4) The term 'income' means the total money income received from all sources as determined by the Secretary of Commerce for general statistical purposes.

"(5) The term 'unit of general local government' means—

"(A) a county, township, city, or political subdivision of a county, township, or city, that is a unit of general local government as determined by the Secretary of Commerce for general statistical purposes; and

"(B) the recognized governing body of an Indian tribe or Alaskan Native village that carries out substantial governmental duties and powers.

"(6) The term 'State and local taxes' means taxes imposed by a State government or unit of general local government or other political subdivision of the State government for public purposes (except employee and employer assessments and contributions to finance retirement and social insurance systems and other special assessments for capital outlay) as determined by the Secretary of Commerce for general statistical purposes.

"(7) The term 'user fees and charges' means fees or charges received by State and local governments from performance of specific services or from sales of commodities (other than utility and liquor store proceeds) benefiting those persons charged, as determined by the Secretary of Commerce for general statistical purposes.

"(8) The term 'adjusted gross income' has the meaning given to such term by section 62 of the Internal Revenue Code of 1954.

"(9) The term 'Trust Fund' means the State and Local Fiscal Assistance Trust Fund established under section 6703(a).

"(10) The term 'Secretary' means the Secretary of the Treasury.

"(11) The term 'income tax return' means the return made with respect to the tax imposed by subtitle A of the Internal Revenue Code of 1954.

"(b) When a boundary line change, a State statutory or constitutional change, a governmental reorganization, or other circumstance results in the application of this chapter in a way that does not carry out the purposes of this chapter the Secretary shall apply subsections (a)(5) and (c) in a way that is consistent with those purposes.

"(c) For purposes of this chapter, the District of Columbia is deemed to be—

"(1) a State, and

"(2) a unit of general local government.

"SEC. 6702. PAYMENTS TO GOVERNMENTS.

"(a) Except as otherwise provided in this chapter, the Secretary shall pay out of the Trust Fund for each entitlement period—

"(1) to each State government which qualifies for payments under this chapter, the amount to which such State government is entitled under section 6707 for such period, and

"(2) to each unit of general local government which qualifies for payments under this chapter, the amount to which such unit of general local government is entitled under section 6708, 6709(a), or 6712 for such period.

"(b) Except as provided under regulations of the Secretary, the Secretary shall determine allocations under this chapter for an entitlement period by the first day of the 3d month before the beginning of the period. The Secretary shall pay each amount under this section in installments. An installment shall be paid at least once a quarter on the 5th day after the beginning of the quarter. The Secretary initially may estimate the amount of each installment.

"(c) The Secretary shall adjust a payment under this chapter to a State government or unit of general local government to the extent that a prior payment to the government was more or less than the amount required to be paid. However, the Secretary may increase or decrease a payment to the government only when the Secretary or the government demands the increase or decrease within one year after the end of the entitlement period for which the payment was made.

"(d) The Secretary may reserve that percentage (not to exceed 5 percent) of the amount of payments required to be made under this section to a State government and all units of general local government in the State for an entitlement period which the Secretary determines is necessary to ensure the availability of sufficient amounts to pay adjustments after the final allocation of amounts among the units of general local government in the State. The determination of a percentage under the preceding sentence shall be made on the basis of adjustments made to the payments under this chapter to such State government and the units of general local government in the State for prior entitlement periods.

"SEC. 6703. STATE AND LOCAL GOVERNMENT FISCAL ASSISTANCE TRUST FUND.

"(a) There is hereby established within the Treasury of the United States a trust fund to be known as the 'State and

Local Government Fiscal Assistance Trust Fund' which shall consist of amounts appropriated to the Trust Fund under subsection (b). Amounts in the Trust Fund may only be used to make payments under this chapter and shall remain available until expended.

"(b) There is appropriated to the Trust Fund out of the general fund of the Treasury for each entitlement period an amount equal to 4 percent of the amounts received into the Treasury of the United States during the fiscal year preceding such entitlement period that are attributable to the taxes imposed by subtitle A of the Internal Revenue Code of 1954.

"SEC. 6704. QUALIFICATIONS.

"(a) Under regulations of the Secretary of the Treasury, a State government or unit of general local government qualifies for payment under this chapter for an entitlement period only after establishing to the satisfaction of the Secretary that—

"(1) the government will establish a trust fund in which the government will deposit all payments received; or

"(2) the government will expend the payments received under laws and procedures applicable to the expenditure of revenues of the government.

"(b) A unit of general local government shall give the chief executive officer of the State in which the government is located an opportunity for review and comment before establishing compliance with subsection (a) of this section.

"(c)(1) When—

"(A) the Secretary of the Treasury decides that a State government or unit of general local government has not complied substantially with subsection (a)(1), or

"(B) a judicial determination that a State government or unit of general local government failed to comply with subsection (a)(2) has become final and no longer appealable,

the Secretary shall notify the government. The notice shall state that if the government does not take corrective action by the 60th day after the date the government receives the notice, the Secretary will withhold additional payments to the government for the current entitlement period and later entitlement periods until the Secretary is satisfied that the government—

"(A) has taken the appropriate corrective action; and

"(B) will comply with subsection (a) of this section and regulations prescribed under subsection (a).

"(2) Before giving notice under paragraph (1) of this subsection, the Secretary shall give the chief executive officer of the State or unit of general local government reasonable notice and an opportunity for a proceeding.

"(3) The Secretary may make a payment to the government notified under paragraph (1) of this subsection only when the Secretary is satisfied that the government—

"(A) has taken the appropriate corrective action; and

"(B) will comply with subsection (a) of this section and regulations prescribed under subsection (a).

"SEC. 6705. ALLOCATION OF FUNDS AMONG THE STATES.

"(a) For each entitlement period, the Secretary shall allocate the entitlement funds among the States so that each State is allocated an amount equal to—

"(1) the amount allocated to such State under subsection (b), reduced by

"(2) the amount of any adjustments required under subsection (c).

"(b) The amount allocated by the Secretary to a State under this subsection for any entitlement period is an amount equal to the greater of—

"(1) the minimum allotment of the State, or

"(2) the product of—

"(A) the allotment ratio of such State for such period, multiplied by

"(B) the amount of entitlement funds for such period.

"(c)(1) If the sum of the amounts allocated to all States under subsection (b) for the entitlement period (as reduced by any prior application of this subsection) exceeds the amount of entitlement funds for such period, the Secretary shall reduce any allocation made to a State under subsection (b) that (after taking into account any prior application of this subsection) exceeds the minimum allotment of such State for such period.

"(2) Except as provided in paragraph (3), the amount of any reduction made under paragraph (1) to the allocation of any State shall be equal to the product of—

"(A) the adjustment ratio of such State, multiplied by

"(B) the excess of—

"(i) the sum of the allocations made under subsection (b) to all the States (reduced by any prior application of this subsection), over

"(ii) the amount of entitlement funds for the entitlement period.

"(3) The amount of any reduction made under paragraph (1) to the allocation of any State shall not exceed an amount equal to the excess of—

"(A) the amount allocated to such State under subsection (b) (reduced by any prior application of this subsection), over

"(B) the minimum allotment of such State.

"(4) For purposes of this subsection, the term 'adjustment ratio' means, with respect to any State, the quotient determined by dividing—

"(A) the amount allocated to such State under subsection (b) (as reduced by any prior application of this subsection), by

"(B) the sum of those allocations made under subsection (b) which (after any reduction made by prior application of this subsection) exceed the minimum allotment of the State to which such allocation is made.

"(5) If, after the application of this subsection, the sum of the amounts allocated under subsection (b) (as reduced under paragraph (1) by such application and any prior application of this subsection) exceeds the amount of entitlement funds for the entitlement period, this subsection shall be reapplied.

"(d) For purposes of this section—

"(1) The term 'entitlement funds' means, with respect to any entitlement period, the excess of—

"(A) the amount of funds appropriated to the Trust Fund under section 6703(b) for the entitlement period, over

"(B) the amount of payments under section 6709(e)(2) which the Secretary estimates will be made out of the Trust Fund for such period.

"(2) The term 'minimum allotment' means, with respect to a State, the product of—

"(A) $20, multiplied by

"(B) the population of such State.

"(3) The term 'allotment ratio' means, with respect to any State, the ratio determined by dividing—

"(A) the fiscal capacity gap of such State for the entitlement period, by

"(B) the sum of the fiscal capacity gaps of all the States for such period.

"(4) The term 'fiscal capacity gap' means, with respect to any State, the greater of—

"(A) zero; or

"(B) the amount determined in accordance with the following formula:

$$\text{Fiscal capacity gap} = P - \frac{P(Y)}{2(Z)}$$

Where:

P = population of the State;
Y = per capita fiscal capacity of the State; and
Z = national average per capita fiscal capacity.

"(5) The term 'per capita fiscal capacity of a State' means an amount equal to the quotient determined by dividing—

"(A) the fiscal capacity of the State government and of all units of general local government located in such State, as determined by the Secretary by means of the representative tax system, by

"(B) the population of the State.

"(6)(A) The term 'representative tax system' means a method of determining the fiscal capacity of a government by estimating the amount of revenue that such government would raise if it applied a national uniform set of tax rates to a specified set of tax bases and collected equal per capita user fees and charges.

"(B) The Secretary, in consultation with the Secretary of Commerce, the Secretary of the Interior, the Comptroller General of the United States, and the Advisory Commission on Intergovernmental Relations, shall develop a representative tax system similar to the representative tax system described in the March 1982 report of such Commission entitled "Tax Capacity of the Fifty States: Methodology and Estimates". The Secretary of Commerce shall determine, specify and collect whatever data and statistical estimates are necessary to develop and implement such a system.

"(C) When the Secretary has developed a representative tax system under subparagraph (B), or proposes to amend such system, the Secretary shall, in accordance with the provision of section 553 of title 5, United States Code, provide public notice of such system or amendment and an opportunity to interested persons to comment on such system or amendment. A report on such system or amendment shall be submitted to the Committee on Governmental Affairs of the Senate and the Committee on Government Operations of the House of Representatives as soon as practicable after the period for receiving comments from interested persons has ended.

"(D) Any representative tax system developed under subparagraph (B) shall be used by the Secretary in applying this chapter, and any amendment made to such system by the Secretary shall take effect, as soon as the requirements of subparagraph (C) have been met with respect to such system or amendment, unless both Houses of Congress have passed a concurrent resolution described in section 6715(a) which disapproves of such system or amendment prior to the date which is 45 days after the date on which a report on such system or amendment is submitted under subparagraph (C) to the appropriate committees.

"(E) Until the Secretary has developed a representative tax system under subparagraph (B), the Secretary shall use the representative tax system and data provided in the most recently revised version of the March 1982 report described in subparagraph (B).

"(7) The term 'national average per capita fiscal capacity' means an amount equal to the quotient determined by dividing—

"(A) the sum of the fiscal capacities of all the States, by

"(B) the aggregate population of the States.

"SEC. 6706. ALLOCATION OF FUNDS BETWEEN STATE GOVERNMENTS AND UNITS OF GENERAL LOCAL GOVERNMENT.

"(a) The funds allocated to a State under section 6705(a) shall be further allocated by the Secretary between the State government and units of general local government located in such State so that—

"(1) 50 percent of such funds are allocated to the State government, and

"(2) 50 percent of such funds are allocated to such units of general local government.

"(b)(1) If a State elects the application of this subsection, the funds allocated to such State under section 6705(a) shall, in lieu of the allocation under subsection (a), be further allocated by the Secretary between the State government and units of general local government located in such State so that—

"(A) the State government is allocated an amount equal to the product of—

"(i) the revenue percentage of the State government, multiplied by

"(ii) the amount of such funds, and

"(B) such units of general local government are allocated the remainder of such funds.

"(2) A State shall be treated as having elected the application of this subsection for an entitlement period only if, on the first day of the third month before the beginning of such period, a State law is in effect which specifies that this subsection shall apply with respect to such State and the Governor of such State notifies the Secretary that such law is in effect.

"(c) For purposes of this section, the term 'revenue percentage' means, with respect to any State government, the percentage determined by dividing—

"(1) the aggregate amount of State taxes and user fees and charges collected by such State government during the most recently completed fiscal year of the State, by

"(2) the aggregate amount of such taxes, fees, and charges collected by such State government and all units of general local government located within the State during such fiscal year.

"SEC. 6707. ENTITLEMENTS FOR STATE GOVERNMENTS.

"(a) Each State government shall be entitled to receive for each entitlement period an amount equal to—

"(1) the amount determined with respect to such State government under subsection (b), reduced by

"(2) any adjustment made under subsection (c).

"(b) The amount determined with respect to any State government under this subsection is an amount equal to the greater of—

"(1) the minimum State government allotment of such State government, or

"(2) the allocation excess of such State government.

"(c)(1) If the sum of—

"(A) the amounts to which units of general local government in the United States are entitled under this chapter for the entitlement period, plus

"(B) the amounts determined with respect to all State governments under subsection (b) for such period (as reduced by any prior application of this subsection),

exceeds the amount of entitlement funds for such period, the Secretary shall reduce those amounts determined under subsection (b) with respect to each State government that (after taking into account any prior application of this subsection) exceed the minimum government allotment of such State.

"(2) Except as provided in paragraph (3), the amount of any reduction made under paragraph (1) to the amount determined under subsection (b) with respect to a State government shall be equal to the product of—

"(A) the deficiency ratio for such State government, multiplied by

"(B) the excess of—

"(i) the sum described in paragraph (1), over

"(ii) the amount of entitlement funds for the entitlement period.

"(3) The reduction made under paragraph (1) shall not reduce any amount determined under subsection (b) with respect to a State below the minimum State government allotment of such State.

"(4) For purposes of this subsection—

"(A) The term 'allocation excess' means, with respect to any State government, the excess of—

"(i) the amount allocated to such State government under section 6706 for the entitlement period, over

"(ii) the aggregate amount to which units of general local government located in the State are entitled under section 6712 for such period.

"(B) The term 'minimum State government allotment' means, with respect to any State government, the excess of—

"(i) the minimum allotment of the State for the entitlement period (within the meaning of section 6705(d)(2)), over

"(ii) the aggregate amount to which units of general local government located in such State are entitled under this chapter for such period.

"(C) The term 'deficiency ratio' means, with respect to any State government, the quotient determined by dividing—

"(i) the amount allocated to such State government under section 6706, by

"(ii) the sum of the allocations made under section 6706 to all State governments with respect to which an amount is determined under subsection (b) that (after taking into account any prior application of this subsection) exceeds the minimum State government allotment of such State government.

"(5) If, after the application of this subsection, the sum of—

"(A) the amounts to which units of general local government in the United States are entitled under this chapter for the entitled period, plus

"(B) the amounts determined with respect to all State governments under subsection (b) for such period (as reduced under paragraph (1) by such application and any prior application of this subsection),

exceeds the amount of entitlement funds for such period, this subsection shall be reapplied.

"SEC. 6708. SPECIAL ENTITLEMENTS FOR INDIAN TRIBES AND ALASKAN NATIVE VILLAGES.

"For each entitlement period, each Indian tribe or Alaskan Native village having a recognized governing body carrying out substantial governmental duties and powers which is located in a State shall be entitled to receive an amount bearing the same ratio to the amount allocated to the units of general local governments of such State under section 6706 as the population of such tribe or village bears to the population of the entire State.

"SEC. 6709. GENERAL ENTITLEMENTS FOR UNITS OF GENERAL LOCAL GOVERNMENT.

"(a) Except as otherwise provided in this chapter, each unit of general-local government (other than any Indian tribe or Alaskan Native village which is eligible to receive an entitlement under section 6708 for such period) shall be entitled to receive for each entitlement period an amount equal to the amount allocated to such unit of general local government under subsection (b).

"(b) The Secretary shall allocate to each unit of general local government (other than an Indian tribe or Alaskan Native village) an amount bearing the same ratio to the general local government allocation as—

"(1) the product of—

"(A) the population of such unit of general local government, multiplied by

"(B) the general tax effort factor of such unit of general local government, multiplied by

"(C) the relative income factor of such unit of general local government, bears to

"(2) the sum of the products determined under clause (1) for all units of the general local government located in such State.

"(c) For purposes of this section—

"(1) The term 'general local government allocation' means, with respect to units of general local government located in a State, the excess of—

"(A) the amount allocated to all units of general local government of such State under section 6706, over

"(B) the amount to which Indian tribes and Alaskan Native villages located in such State are entitled under section 6708.

"(2)(A) The term 'general tax effort factor' means, with respect to a unit of general local government for an entitlement period, an amount determined by dividing—

"(i) the sum of—

"(I) the taxes imposed by the unit of general local government for public purposes (except employee and employer assessments and contributions to finance retirement and social insurance systems and other special assessments for capital outlay) during a fiscal year of the State as determined by the Secretary of Commerce for general statistical purposes and adjusted (under regulations of the Secretary of the Treasury) to exclude amounts properly allocated to education expenses; and

"(II) user fees and charges received by the unit of local government during such fiscal year, by

"(ii) the total income attributed to the unit of general local government.

"(B) The Secretary of the Treasury shall include that part of sales taxes transferred to a unit of general local government that are imposed by a county government in a geographic area of a unit of general local government as taxes of the unit of general local government under subparagraph (A) when—

"(i) the county government transfers any part of the revenue from the taxes to the unit of general local government without specifying the purpose for which the unit of general local government may expend the revenue; and

"(ii) the chief executive officer of the State notifies the Secretary that the taxes satisfy the requirements of this paragraph.

"(C) Notwithstanding subparagraph (A), the general tax effort factor of any unit of general local government shall not exceed 250 percent of the average general tax effort factor of all units of general local government in the State.

"(3) The relative income factor of a unit of general local government is a fraction in which—

"(A) the numerator is the per capita income of the State; and

"(B) the denominator is the per capita income of the unit of general local government.

"(d) When the Secretary of the Treasury decides that information available for a unit of general local government for an entitlement period is inadequate in allocating an amount under subsection (b) for a unit of general local government (except a county government) with a population below a number (of not more than 500) prescribed by the Secretary, the Secretary may apply subsection (b) by allocating to the unit of general local government an amount bearing the same ratio to the general local government allocation of the units of general local government in the State in which such unit is located for the entitlement period as the population of the unit of general local government bears to the population of all units of general local government in the State. If the Secretary allocates an amount under this subsection, the Secretary shall reduce the general local government allocation of the units of general local government in the State in which such unit is located by the amount allocated under this subsection.

"(e)(1) The Secretary of Commerce shall collect and publish data at least once a year on all user fees and charges imposed by units of general local government within the United States.

"(2) The Secretary shall pay to the Secretary of Commerce out of the Trust Fund an amount equal to the additional expenses of collecting data and improving statistical estimates which are incurred by the Secretary of Commerce by reason of this chapter.

"SEC. 6710. STATE VARIATION OF GENERAL ENTITLEMENTS FOR UNITS OF GENERAL LOCAL GOVERNMENTS.

"(a) A State government may provide by law for the allocation of amounts among units of general local government (except any Indian tribe or Alaskan Native village) in the State on the basis of population multiplied by the general tax effort factors or relative income factors of the units of general local government (within the respective meaning given to such terms by section 6709(c)), or a combination of those factors. A State government providing for a variation on an allocation formula provided under section 6709(b) shall notify the Secretary of the Treasury of the variation by the

30th day before the beginning of the first entitlement period in which the variation applies. A variation shall—

"(1) provide for allocating the total amount allocated under section 6709(b);

"(2) apply in lieu of the allocation formula under such section 6709(b); and

"(3) apply uniformly in the State.

"(b) A variation by a State government under this section may apply only when the Secretary certifies that the variation complies with this section. The Secretary may certify a variation only when the Secretary is notified of the variation at least 30 days before the first entitlement period in which the variation applies.

"SEC. 6711. ADJUSTMENTS OF LOCAL GOVERNMENT ALLOCATIONS.

"(a)(1) Subject to paragraphs (2) and (3) of this subsection, the per capita entitlement of any unit of general local government in a State under section 6708 or 6709(a) for any entitlement period shall be at least 15 percent but not more than 175 percent of the amount allocated to the State under section 6705, divided by the State population.

"(2) The entitlement of any unit of general local government under section 6709(a) for any entitlement period may be not more than 50 percent of the amount of the sum of—

"(A) taxes imposed by such unit of general local government which are described in section 6709(c)(2)(A)(i); plus

"(B) transfers (except transfers under this chapter) of revenue to such unit of general local government from another government as a share in financing, or a reimbursement for, the carrying out of governmental duties and powers, as determined by the Secretary of Commerce for general statistical purposes.

"(3) For purposes of section 6709, if the sum of the entitlements of any unit of general local government (except an Indian tribe, or an Alaskan Native village) under sections 6709 and 6712 for an entitlement period would be less than $500 but for this paragraph or is waived by the governing authority of the unit of general local government, the Secretary shall not pay such entitlements to such units of general local government.

"(b) If the Secretary makes adjustments in the amount of any entitlement of a unit of general local government, the Secretary shall make the adjustments in the following order:

"(1) under subsection (a)(1) of this section.

"(2) under subsection (a)(2) of this section.

"(3) under subsection (a)(3) of this section.

"(c) The Secretary shall adjust the entitlements of units of general local government provided under section 6708, 6709(a), and 6712 to bring the amounts into compliance with this section.

"SEC. 6712. SPECIAL ENTITLEMENTS FOR CERTAIN UNITS OF GENERAL LOCAL GOVERNMENTS.

"(a) For each entitlement period, each unit of general local government shall be entitled to receive an amount equal to the excess, if any, of—

"(1) the 1982 formula allotment of such unit of general local government for such entitlement period, over

"(2) the amount to which such unit of general local government is entitled under section 6708 or 6709(a) for such entitlement period.

"(b) For purposes of this section, the term '1982 formula allotment' means, with respect to any unit of general local government for any entitlement period, the amount of funds such unit of general local government would be entitled to receive for such entitlement period if, in lieu of the provisions of this chapter applicable to such entitlement period, the provisions of this chapter which were in effect on October 1, 1982 (including appropriations to the Trust Fund for fiscal year 1983), were applicable to such unit of general local government for such entitlement period.

"(c) The entitlement provided under this section shall be in addition to any entitlement provided under section 6708 or 6709(a).

"SEC. 6713. INFORMATION USED IN ALLOCATION FORMULAS.

"(a) Except as provided in this section, the Secretary of the Treasury shall use the most recent available information provided by the Secretary of Commerce to determine an allocation under this chapter. When the Secretary of the Treasury decides that the information is not current or complete enough to provide for a fair allocation, the Secretary of the Treasury may use additional information (including information based on estimates) as provided under regulations of the Secretary of the Treasury.

"(b) The Secretary of the Treasury shall determine population on the same basis that the Secretary of Commerce determines resident population for general statistical purposes. The Secretary of the Treasury shall request the Secretary of Commerce to adjust the population information provided to the Secretary of the Treasury as soon as practicable to include a reasonable estimate of the number of resident individuals not counted in the 1980 census or revisions of the census. The Secretary of the Treasury shall use the estimates in determining allocations for the entitlement period beginning after the Secretary of the Treasury receives the estimates. The Secretary of the Treasury shall adjust population information to reflect adjustments made under section 118 of the Act of October 1, 1980 (Public Law 96–369; 94 Stat. 1357).

"(c) The Secretary of the Treasury may not—

"(1) in determining an allocation for an entitlement period, use information on tax collections for years more recent than the years used by the Secretary of Commerce in the most recent Bureau of the Census general determination of State and local taxes made before the beginning of that period; and

"(2) consider a change in information used to determine an allocation for a period of 60 months when the change results from a major disaster declared by the President under section 301 of the Disaster Relief Act of 1974 (42 U.S.C. 5141).

"SEC. 6714. NONDISCRIMINATION PROVISIONS.

"(a) No person shall, on the grounds of race, color, national origin, or sex, be—

"(1) excluded from participation in,

"(2) denied the benefits of, or

"(3) subjected to discrimination under,

any program or activity funded in whole or in part with funds made available under this chapter. Any prohibition against discrimination on the basis of age under the Age Discrimination Act of 1975 or with respect to an otherwise qualified handicapped individual as provided in section 504 of the Rehabilitation Act of 1973 shall also apply to any such program or activity.

"(b) Whenever the Secretary determines that a State or unit of general local government that has received a payment under this chapter has failed to comply with subsection (a) or an applicable regulation, he shall notify the chief executive officer of the State and shall request him to secure compliance. If within a reasonable period of time, not to exceed 60 days, the chief executive officer fails or refuses to secure compliance, the Secretary is authorized to—

"(1) refer the matter to the Attorney General with a recommendation that an appropriate civil action be instituted;

"(2) exercise the powers and functions provided by title VI of the Civil Rights Act of 1964, the Age Discrimination Act of 1975, or section 504 of the Rehabilitation Act of 1973, as may be applicable; or

"(3) take such other action as may be provided by law.

"(c) When a matter is referred to the Attorney General pursuant to subsection (b), or whenever he has reason to believe that the State or unit of general local government is engaged in a pattern or practice in violation of the provisions of this section, the Attorney General may bring a civil action in any appropriate United States district court for such relief as may be appropriate, including injunctive relief.

"SEC. 6715. CONGRESSIONAL DISAPPROVAL OF REPRESENTATIVE TAX SYSTEM.

"(a) For purposes of this section, the term 'concurrent resolution' means a concurrent resolution disapproving of any representative tax system developed under section 6705(d)(6)(B), or any amendment to such system, which reads as follows after the resolving clause: 'That the Congress of the United States disapproves of the representative tax system, or the amendment to such system, which was submitted to the Congress by the Secretary of the Treasury on .', the blank space therein being filled with the date and the year.

"(b)(1) If any committee to which a concurrent resolution has been referred has not reported it at the end of 20 calendar days after its referral, it shall be in order to move to discharge any such committee from further consideration of such concurrent resolution.

"(2) A motion to discharge shall be highly privileged in the House of Representatives and privileged in the Senate, and debate thereon shall be limited to not more than 1 hour, to be divided equally between those favoring and those opposing the concurrent resolution. An amendment to the motion shall not be in order, and it shall not be in order to move to reconsider the vote by which the motion was agreed to or disagreed to.

"(3) If the motion to discharge is agreed to or disagreed to, the motion may not be renewed.

"(c)(1) When all such committees have reported, or have been discharged from further consideration of, a concurrent resolution, it shall be at any time thereafter in order (even though a previous motion to the same effect has been disagreed to) to move to proceed to the consideration of such a concurrent resolution. The motion shall be highly privileged in the House of Representatives and privileged in the Senate and shall not be debatable. An amendment to the motion shall not be in order, and it shall not be in order to move to reconsider the vote by which the motion was agreed to or disagreed to.

"(2) Debate on the concurrent resolution shall be limited to not more than 5 hours and final action on the concurrent resolution shall occur immediately following conclusion of such debate. The 5 hours shall be equally divided between supporters and opponents of such resolution. A motion further to limit debate shall not be debatable. Except to the extent provided in subsection (e), an amendment to, or motion to recommit, such a concurrent resolution shall not be in order, and it shall not be in order to move to reconsider the vote by which such a concurrent resolution was agreed to or disagreed to.

"(d)(1) Motions to postpone, made with respect to the discharge from committee, or the consideration of a concurrent resolution, shall be decided without debate.

"(2) Appeals from the decision of the Chair relating to the application of the rules of the Senate or the House of Representatives, as the case may be, to the procedures relating to a concurrent resolution shall be decided without debate.

"(e) With respect to a concurrent resolution related to a representative tax system or to an amendment thereto, if one House receives from the other House a concurrent resolution with respect to such system or amendment, then the following procedure applies:

"(1) the concurrent resolution of the other House with respect to such system or amendment shall not be referred to a committee; and

"(2) in the case of the concurrent resolution of the House which receives a concurrent resolution from the other House with respect to such system or amendment—

"(A) the procedure with respect to such concurrent resolution shall be the same as if no concurrent resolution from the other House with respect to such system or amendment had been received, but

"(B) on any vote on final passage of such concurrent resolution, the concurrent resolution from the other House with respect to such system or amendment shall be automatically substituted for such concurrent resolution.

"(f) For purposes of this section—

"(1) continuity of session is broken only by an adjournment of Congress sine die at the end of the second session of a Congress; and

"(2) the days on which either House is not in session because of an adjournment of more than 3 days to a day certain are excluded in the computation of the calendar day period involved.

"(g) This subsection is enacted by Congress—

"(1) as an exercise of the rulemaking power of the Senate and House of Representatives, respectively, and as such it is deemed a part of the rules of each House, respectively, but applicable only with respect to the procedure to be followed in that House in the case of resolutions described by subsection (a); and it supersedes other rules only to the extent that it is inconsistent therewith; and

"(2) with full recognition of the constitutional right of either House to change the rules (so far as relating to the procedure of that House) at any time, in the same manner and to the same extent as in the case of any other rule of the respective House.

"SEC. 6716. REPORTS.

"(a) At the end of each fiscal year, each State government and each unit of general local government receiving a payment under this chapter shall submit a report to the Secretary. The report shall be submitted in the form and at a time prescribed by the Secretary and shall be available to the public for inspection. The report shall state—

"(1) the amounts and purposes for which the payment has been appropriated, expended, or obligated during the fiscal year;

"(2) the relationship of the payment to the relevant functional items in the budget of the government; and

"(3) the differences between the actual and proposed use of the payment.

"(b) The Secretary shall provide a copy of a report submitted under subsection (a) by a unit of general local government to the chief executive officer of the State in which the government is located. The Secretary shall provide the report in the way and form prescribed by the Secretary.

"(c) The Secretary shall prescribe regulations for applying this section to State governments and units of general local government that do not adopt budgets.".

(b) Until the Secretary of Commerce has completed the initial collection of data required under section 6709(e)(1) of title 31, United States Code, section 6709(c)(2) of such title shall be applied without regard to subparagraph (A)(i)(II) of section 6709(c)(2).

(c) The Secretary of the Treasury, in consultation with the Secretary of Commerce, the Comptroller General of the United States, and the Advisory Commission on Intergovernmental Relations, shall conduct a study of alternatives to the use of income as a measure of the fiscal capacity of units of general local government. The Secretary of the Treasury shall submit to Congress a report on the findings of such study, including any recommendations for legislation, not later than 2 years after the date of enactment of this Act.

(d) The Secretary of the Treasury, in consultation with the Secretary of Commerce, the Secretary of Labor, the Comptroller General of the United States, and the Advisory Commission on Intergovernmental Relations, shall conduct a study of existing formulas used to allocate Federal funds or to determine eligibility for receipt of Federal funds. Such study shall include an analysis of the mathematical form of the formulas, the data and statistics used to implement the formulas, and the management of the formulas by Federal agencies. Not later than two years after the date of enactment of this Act, the Secretary shall submit to Congress a report on the findings of such study together with his recommendations for the improvement of the structure and the management of those formulas.

(e) The amendment made by this section shall take effect on October 1, 1983.

SEC. 3. (a) Section 164 of the Internal Revenue Code of 1954 (relating to taxes allowed as deductions) is amended by redesignating subsection (f) as (g) and inserting after subsection (e) the following new subsection:

"(f) LIMITATION OF CERTAIN TAXES AS DEDUCTIONS.—In the case of—

"(1) State and local, and foreign, real property taxes,

"(2) State and local income taxes,

"(3) State and local general sales taxes, and

"(4) State and local personal property taxes,

the deduction under subsection (a) (or any other provision of this title) for any taxable year shall be allowed to an individual only to the extent that the aggregate amount of such taxes for such taxable year exceeds 1 percent of the adjusted gross income of the taxpayer for such taxable year.".

(b) The amendment made by this section shall apply with respect to taxable years beginning after December 31, 1983.

II

98TH CONGRESS
1ST SESSION

S. 735

To provide a special antirecession increase in fiscal year 1983 allotments under the State and Local Fiscal Assistance Act to aid local units of government in providing for increased employment opportunities.

IN THE SENATE OF THE UNITED STATES

MARCH 9 (legislative day, MARCH 7), 1983

Mr. LONG introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To provide a special antirecession increase in fiscal year 1983 allotments under the State and Local Fiscal Assistance Act to aid local units of government in providing for increased employment opportunities.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) subsection (b) of section 6703 of title 31, United States Code, is amended—

(1) by striking out "each entitlement period" in paragraph (2) and inserting in lieu thereof "the entitlement period beginning on October 1, 1981,"; and

(2) by adding at the end thereof the following new paragraph:

"(3) $6,850,050,000 for the entitlement period beginning on October 1, 1982, to pay entitlement amounts allocated to units of general local government for that period under sections 6708 through 6710 of this title.".

(b) Subsection (b) of section 6702 of title 31, United States Code, is amended by adding at the end thereof the following sentence: "The installment paid to each unit of general local government for the third quarter of the entitlement period beginning on October 1, 1982, shall be equal to the sum of—

"(1) the entire amount allocated under this chapter to such government for such entitlement period out of the excess of—

"(A) the amount appropriated to the State and Local Government Fiscal Assistance Trust Fund to pay entitlement amounts to units of general local government under sections 6708 through 6710 for such entitlement period, over

"(B) the amount authorized to be appropriated to such Trust Fund to pay such entitlement amounts for the entitlement period beginning on October 1, 1981, plus

"(2) the amount of funds such government would receive under this chapter in the installment for such third quarter if an amount equal to the excess described in clause (1) had not been appropriated to such Trust Fund.".

SEC. 2. Pursuant to section 401(d)(2) of the Congressional Budget Act of 1974, subsections (a) and (b) of such section shall not apply to the amendments made by this Act.

II

98TH CONGRESS
1ST SESSION

S. 762

To consolidate major programs of fiscal assistance to local governments, to reduce the prescriptiveness of the requirements applicable to the expenditure of those funds, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 10 (legislative day, MARCH 7), 1983

Mr. DOLE (by request) introduced the following bill; which was read twice and referred jointly to the Committees on Finance and Banking, Housing, and Urban Affairs by unanimous consent

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A BILL

To consolidate major programs of fiscal assistance to local governments, to reduce the prescriptiveness of the requirements applicable to the expenditure of those funds, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Local Fiscal Assistance Block Grant Act of 1983".

SEC. 2. Title 31 of the United States Code is amended by adding at the end of subtitle V the following new chapter 82—

"CHAPTER 82—LOCAL FISCAL ASSISTANCE CONSOLIDATION

"§ 8201. Findings and statement of purpose

"(a) FINDINGS.—The Congress finds that—

"(1) the reordering of responsibilities between the Federal Government and the States essential to restore the vitality of federalism in the United States would be facilitated by a secure and predictable flow of Federal aid to local governments;

"(2) unrestricted fiscal assistance promotes efficiency, does not distort local priorities, and does not stimulate growth of the public sector;

"(3) a secure and predictable flow of unrestricted Federal aid to local governments would facilitate the efforts of State governments to assume responsibilities being devolved from the Federal Government without immediate pressure for increased payments of aid to localities;

"(4) the allocations of Federal aid by the revenue sharing and community development block grant programs yield an overall distribution of payments among local governments that effectively matches payment levels and local fiscal capacities;

"(5) in order to provide this secure and predictable flow of Federal aid, it is appropriate that—

"(A) the fiscal-assistance payments to localities be entitlements;

"(B) the allocation of payments among local governments provide a good match between payment levels and the fiscal capacities of those governments; and

"(C) other than requirements to ensure accountability and to protect the civil rights of individuals, the aid be provided with the minimum restrictions consistent with the general objectives of this chapter.

"(b) STATEMENT OF PURPOSE.—It is the purpose of this chapter to consolidate into a single program of assistance to local governments the following programs:

"(1) Revenue sharing (31 U.S.C. 6701 et seq.), and

"(2) Community development block grant—entitlement portion (42 U.S.C. 5306(b)).

"§ 8202. Definitions

For purposes of this chapter—

"(a) 'block-grant payment' means a payment under this chapter for a program designated by a local government;

"(b) 'chief executive officer' means the elected or otherwise legally designated official who has the primary executive responsibility for the conduct of an eligible government's affairs;

"(c) 'Federal administering department' means the executive department of the United States Government responsible for implementation of a local-assistance program;

"(d) 'fiscal year' means the Federal fiscal year;

"(e) 'local government' means a unit of general local government—such as a county, city, or township (including an equivalent political subdivision having a different designations in various States, such as town—as determined by the Secretary of Commerce for general statistical purposes. The term also means the recognized governing body of an Indian tribe or Alaskan Native village that performs substantial governmental functions, and the District of Columbia;

"(f) 'outlays' means expenditures of funds under budget authority provided by law for a fiscal year for which such authority has not expired.

"(g) 'Secretary' means the Secretary of the Treasury; and

"(h) the meaning of 'urban county' is as defined in section 5302(a)(6) of title 42, United States Code.

"§ 8203. Local Fiscal Assistance Trust Fund

"(a) IN GENERAL.—There is established on the books of the Treasury of the United States a trust fund to be known as the Local Fiscal Assistance Trust Fund (referred to in this chapter as the 'Local Fund'). The Local Fund consists of amounts appropriated to it as provided in section 8208.

"(b) RESTRICTIONS ON USE OF PAYMENTS—The amounts in the Local Fund shall be used only for payments to local governments and transfers to Federal administering departments, as provided for in this chapter. Except as otherwise provided in section 8208, the amounts shall remain available without fiscal year limitation.

"(c) DUTIES OF THE SECRETARY WITH RESPECT TO TRUST FUND.—The Secretary shall be the trustee of the Local Fund and shall report to the Congress, not later than March 1 of each year, on the operation and status of the Local Fund during the preceding fiscal year.

"§ 8204. Local designation option

"(a) IN GENERAL.—No later than thirty days after the date of enactment of this chapter, with respect to the fiscal year beginning October 1, 1983, and not less than ninety days prior to the start of each of the fiscal years beginning October 1, 1984, 1985, 1986, and 1987, the chief executive officer of each local government eligible to receive payments under the community development block grant program—entitlement portion and revenue sharing (other than an Indian tribe or Alaskan Native Village) shall notify the Secretary in writing of that Government's decision whether it wishes to designate one or both of the programs.

"(b) EFFECT OF DESIGNATING.—A decision by a local government to designate a program shall entitle that government to receive a block-grant payment in accordance with section 8207 for the fiscal year for which the designation is elected and for each succeeding fiscal year for which block-grant payments are authorized by this chapter. Notwithstanding any other provision of law, the local government shall not, for that or any succeeding fiscal year, be entitled to receive assistance under the program.

"(c) EFFECT OF NOT DESIGNATING.—In the absence of notification to the Secretary that a local government has designated a program, that government shall be entitled to receive payments in accordance with the statute and regulations applicable to the program.

"(d) Irrevocability.—A local government may not reverse a decision to designate a program.

"(e) Urban Counties.—Prior to making the notification indicated in subsection (a), the county government of an urban county shall consult with other local governments participating in the urban county under the community development block grant—entitlement portion.

"(f) Application of State and Local Law.—The decision by a local government on designation of the community development block grant program—entitlement portion and revenue sharing shall be made in accordance with State and local laws and procedures applicable to the expenditure of the local government's own revenues.

"§ 8205. Entitlement to block-grant payments

"A local government that designates a program in accordance with section 8204 shall be entitled to receive, for each fiscal year to which that designation applies, a block-grant payment equal to the amount to which it would otherwise have been entitled pursuant to the statute and regulations under which the program is administered.

"§ 8206. Federal administering departments

"(a) Allocation of Community Development Block Grant Funds.—The Secretary of the Department of Housing and Urban Development shall inform the Secretary of the amount allocable under the community development block grant—entitlement portion to each local government in the applicable fiscal year. These amounts shall be calculated in accordance with the statutes and regulations pursuant to which the program is administered. For purposes of section 5306(b) of title 42, United States Code, the allocation for all metropolitan areas for the community development block grant—entitlement portion shall be deemed to be $2,379,650,000.

"(b) ALLOCATION OF REVENUE SHARING FUNDS.—For purposes of section 6707(a) of title 31, United States Code, the amount authorized for revenue sharing shall be deemed to be $4,566,700,000.

"(c) TRANSFERS TO FEDERAL ADMINISTERING DEPARTMENTS.—The Secretary shall transfer to each Federal administering department from the Local Fund such amounts as may be necessary for payments to local governments not designating the program administered by the department. The Federal administering department shall have the authority to obligate such funds in accordance with the statutes and regulations pursuant to which such program is administered.

"§ 8207. Block-grant payments

"(a) IN GENERAL.—Except as provided in subsection (b), the Secretary shall make a block-grant payment from the Local Fund to each local government in the amount to which

19-332 O—83——5

it is entitled for the fiscal year in quarterly installments not later than the fifth day after the close of each quarter.

"(b) COMMUNITY DEVELOPMENT BLOCK GRANT.—The portion of the block-grant entitlement of a local government that shall be paid to that government in a fiscal year with respect to the community development block grant—entitlement portion shall reasonably reflect the historical outlay pattern of budget authority paid to local governments for that program, as determined by the the Secretary of Housing and Urban Development and reported to the Secretary.

"(c) URBAN COUNTY.—In the case of an urban county designating the community development block grant—entitlement portion, the block-grant payment of the urban county attributable to that program shall be made to the county government for use in behalf of the units of local government participating in the urban county.

"(d) ALLOCATION ADJUSTMENTS.—The Secretary is authorized to make such adjustments in block-grant payments as may be necessary to compensate for overpayments and underpayments resulting from the use of estimates of amounts allocable to a local government.

"(e) LOAN GUARANTEE PROTECTION.—Upon notification by the Secretary of Housing and Urban Development, the Secretary shall transfer to the Department of Housing and Urban Development funds otherwise payable to a local government as block-grant payments, in accordance with subsection (a), attributable to the community block grant—entitlement portion in an amount equal to the principal and interest due during the applicable fiscal year on notes or other obligations guaranteed under section 5308 of title 42, United States Code, and (2) pursuant to section 5312(a) of title 42, United States Code, the principal of and accrued interest on any temporary loan made in connection with urban renewal projects under title I of the Housing Act of 1949.

"§ 8208. Appropriations

"(a) In General.—For each of the fiscal years beginning October 1, 1983, 1984, 1985, 1986, and 1987, there is appropriated to the Local Fund, from the amounts in the general fund of the Treasury not otherwise appropriated, $6,946,350,000 for making the payments and transfers provided by this chapter.

"(b) Deposit in Local Fund of Amounts Appropriated.—Amounts appropriated under this section for any fiscal year shall be deposited in the Local Fund on the first day of such year or the day after the effective date of this chapter, whichever is later.

"(c) Expiration of Authority To Disburse Funds.—The authority of the Department of Housing and

Urban Development and of the Secretary to obligate the amounts appropriated to the Local Fund shall expire on September 30, 1990.

"(d) AUTHORIZATION OF APPROPRIATION FOR ADMINISTRATION.—There are authorized to be appropriated such sums as may be necessary for the administration of this chapter.

"(e) TRANSFERS TO THE REVENUE SHARING TRUST FUND.—Amounts transferred under section 8206 to the State and Local Fiscal Assistance Trust Fund established by the State and Local Fiscal Assistance Act of 1972, as amended (31 U.S.C. 6701 et seq.), for payments to local governments not designating the revenue sharing program shall be deemed to be appropriations to such trust fund.

"§8209. Use of block-grant funds

"(a) IN GENERAL.—A local government shall appropriate block-grant payments only for the general purposes, as specified in subsection (c), of the programs it has designated with respect to that fiscal year. Block-grant payments may also be appropriated for administrative activities related to the efficient disbursement of those payments, including auditing, the training of personnel, the planning and evaluation of the programs for which those amounts are expended, and the purchase of technical assistance in developing, implementing, and administering those programs. A local government shall provide for the expenditure of block-grant payments in accordance with the laws and procedures applicable to the expenditure of general revenues from the government's own sources.

"(b) ALLOCATION OF BLOCK-GRANT PAYMENTS AMONG PROGRAM PURPOSES.—A local government designating a program for a fiscal year shall appropriate, for the general purposes of such program, such block-grant payments as it receives in that fiscal year attributable to that program not less than—

"(1) 80 per centum of the amount, for the fiscal year beginning October 1 of 1983;

"(2) 60 per centum of the amount, for the fiscal year beginning October 1 of 1984;

"(3) 40 per centum of the amount, for the fiscal year beginning October 1 of 1985; and

"(4) 20 per centum of the amount, for the fiscal year beginning October 1, 1986;

"(c) GENERAL PURPOSES OF PROGRAMS.—The general purposes of the programs that may be designated are:

"(1) REVENUE SHARING.—Revenue sharing payments may be appropriated for any purpose that is legal under applicable State and local law.

"(2) COMMUNITY DEVELOPMENT BLOCK GRANT.—The objective of the community development block grant—entitlement portion is the development of viable urban communities, by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income. Consistent with this primary objective, the purpose of this program is the support of community-development activities that are directed toward the following specific objectives—

"(A) the elimination of slums and blight and the prevention of blighting influences and the deterioration of property and neighborhood and community facilities of importance to the welfare of the community, principally persons of low and moderate income;

"(B) the elimination of conditions that are detrimental to health, safety, and public welfare through code enforcement, demolition, interim rehabilitation assistance, and related activities;

"(C) the conservation and expansion of the Nation's housing stock in order to provide a decent home and a suitable living environment for all persons, but principally those of low and moderate income;

"(D) the expansion and improvement of the quantity and quality of community services, principally for persons of low and moderate income, which are essential for sound community development and for the development of viable urban communities;

"(E) a more rational utilization of land and other natural resources and the better arrangement of residential, commercial, industrial, recreational, and other needed activity centers;

"(F) the reduction of the isolation of income groups within communities and geographical areas and the promotion of an increase in the diversity and vitality of neighborhoods through the spatial deconcentration of housing opportunities for persons of lower income and the revitalization of deteriorating or deteriorated neighborhoods to attract persons of higher income;

"(G) the restoration and preservation of properties of special value for historic, architectural, or esthetic reasons;

"(H) the alleviation of physical and economic distress through the stimulation of private investment and community revitalization in areas with population outmigration or a stagnating or declining tax base; and

"(I) the conservation of the Nation's scarce energy resources, improvement of energy efficiency, and the provision of alternative and renewable energy sources of supply.

"§ 8210. Report on intended and actual uses

"(a) IN GENERAL.—In order to be eligible to receive block-grant payments for a fiscal year, a local government shall prepare a report on its proposals for appropriation of those payments during that fiscal year.

"(b) CONTENTS OF INITIAL REPORT.—A local government's report for the first year that it is entitled to receive block-grant payments shall include—

"(1) a statement of goals and objectives;

"(2) information on the types of activities to be supported, geographic areas to be served, and categories or characteristics of individuals to be served; and

"(3) a description of how expenditures financed by block-grant payments will be targeted on the basis of need to achieve the purposes of the designated programs.

"(c) CONTENTS OF SUBSEQUENT REPORTS.—A local government's report for each fiscal year subsequent to the first year that it is entitled to receive block-grant payments shall include, in addition to the information specified in subsection (b), a description of the actual appropriations of the block-grant payments during the preceding fiscal year and the progress of the local government in meeting the goals, objectives, and needs identified in the report prepared for the immediately preceding fiscal year.

"(d) PUBLICATION.—The report prepared by a local government pursuant to this section, and any changes in that report, shall be made public within the community served by the government on a timely basis and in a manner that facilitates comments from interested parties.

"§ 8211. Assurance

"(a) IN GENERAL.—In order to qualify for a block-grant payment for a fiscal year, a local government shall establish to the satisfaction of the Secretary, by making the assurance set forth in subsection (b), that it will comply with the requirements of this chapter with respect to that payment.

"(b) ASSURANCE BY LOCAL GOVERNMENTS.—The chief executive officer of each local government shall assure that the government will—

"(1) establish a special fund into which the block-grant payment will be deposited;

"(2) expend the block-grant payment in accordance with the requirements of section 8209;

"(3) appropriate and expend amounts in its special fund (including interest) during a reasonable period;

"(4) appropriate and expend the block-grant payment received in accordance with the laws and procedures applicable to the expenditure of its own general revenues;

"(5) provide for public participation in the decisionmaking process on appropriations of the block-grant payment, in accordance with the provisions of section 8212;

"(6) comply with the requirements of section 8213;

"(7) if the local government has designated the community development block grant—entitlement portion—it shall conduct and administer such grant in conformity with title VIII of the Civil Rights Act of 1968;

"(8) establish fiscal procedures, provide for audits of its financial statements and compliance with this chapter, and provide for public inspection of such audit reports in accordance with section 8214; and

"(9) provide to the Secretary and the Comptroller General, upon reasonable notice, access to and the right to inspect such books, documents, papers, and records as the Secretary reasonably requires for the purpose of determining compliance with this chapter.

"(c) DUTIES OF COMPTROLLER GENERAL.—The Comptroller General of the United States shall periodically evaluate the expenditure by local governments of block-grant payments in order to ensure that the expenditures are consistent with the provisions of this chapter and to determine the effectiveness with which the purposes of this chapter are being accomplished.

"§ 8212. Public participation

"In order to qualify for a block-grant payment for a fiscal year, a local government shall provide a reasonable opportunity for public participation and input in the decision-making process on the expenditure of that payment.

"§ 8213. Nondiscrimination.

"(a)(1) APPLICATION OF CURRENT LAW.—For the purposes of applying the prohibitions against discrimination on the basis of age under the Age Discrimination Act of 1975, on the basis of handicap under section 504 of the Rehabilitation Act of 1973, on the basis of sex under title IX of the Education Amendments of 1972, and on the basis of race, color, or national origin under title VI of the Civil Rights Act of 1964, programs and activities financed, in whole or in part, by block-grant payments are deemed programs and activities receiving Federal financial assistance.

"(2) ADDITIONAL PROHIBITION AGAINST SEX DISCRIMINATION.—No person shall on the ground of sex be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity financed, in whole or in part, by block-grant payments: *Provided, however,* That this subsection shall not be read as prohibiting any conduct or activities permitted under title IX of the Education Amendments of 1972.

"(b) ENFORCEMENT.—Whenever the Secretary finds that a local government has failed to comply with a provision of law referred to in subsection (a)(1), with subsection (a)(2), or with an applicable regulation (including one prescribed to carry out subsection (a)(2)), the Secretary shall notify the chief executive officer of the local government and shall request him to secure compliance. If within a reasonable period of time, not to exceed sixty days, the chief executive officer fails or refuses to secure compliance, the Secretary may—

"(1) refer the matter to the Attorney General with a recommendation that an appropriate civil action be instituted,

"(2) exercise the powers and functions provided by title VI of the Civil Rights Act of 1964, the Age Discrimination Act of 1975, or section 504 of the Rehabilitation Act of 1973, as may be applicable, or

"(3) take such other action as may be provided by law.

"(c) When a matter is referred to the Attorney General pursuant to subsection (b)(1), or whenever he has reason to believe that a local government is engaged in a pattern or practice in violation of a provision of law referred to in subsection (a)(1) or in violation of subsection (a)(2), the Attorney General may bring a civil action in any appropriate district court of the United States for such relief as may be appropriate, including injunctive relief.

"§ 8214. Audits and Fiscal Procedures

"Each local government that receives a block-grant payment shall have an independent audit of its financial statements in conformance with the provisions of section 6723 of title 31, United States Code. All references to this chapter in section 6723 of title 31, United States Code, shall be construed, for purposes of this section, as references to this chapter.

"§ 8215. Penalty for failure to comply

"(a) IN GENERAL.—If the Secretary determines that a local government has failed substantially to comply with any provision of this chapter, the Secretary shall, after giving reasonable notice and opportunity for a hearing, notify the government that, if it fails to take corrective action within sixty days from the date of receipt of the notification, the Secretary will take one or both of the following actions—

"(1) withhold further block-grant payments to the local government, until the Secretarty is satisfied that appropriate corrective action has been taken and that the government will comply with the provisions of this chapter; or

"(2) require the government to repay all or a portion of the payments not spent in accordance with the provisions of this chapter. The Secretary may permit the government to offset such amounts against block-grant payments it would otherwise have received in the future under this chapter.

"(b) ADMINISTRATIVE PROCEDURE ACT.—A hearing under this section shall be conducted in accordance with the Administrative Prodecure Act.

"(c) DETERMINATIONS BY SECRETARY OF HOUSING AND URBAN DEVELOPMENT.—Determinations relating to compliance with section 8209(c)(2) shall be the responsibility of the Secretary of the Department of Housing and Urban Development, and all such determinations shall be accepted by the Secretary as determinations pursuant to subsection (a).

"§ 8216. Amendment of Budget Act

"Section 651(d)(2) of title 2, United States Code, the Congressional Budget Control and Impoundment Act, is amended as follows—

"(1) by inserting 'Local Fiscal Assistance Block Grant Act of 1983' after '1972,' and

"(2) by striking 'that Act' and inserting in lieu thereof 'those Acts'.

"§ 8217. Applicability of grant program statutes

"Block-grant payments attributable to Revenue Sharing shall be subject only to Federal civil laws that are applicable to payments under section 6701 of title 31, United States Code, et seq.

"§ 8218. Regulations

"The Secretary shall prescribe such regulations as may be necessary or appropriate to carry out the provisions of this chapter.".

Senator HEINZ. The Subcommittee on Economic Growth, Employment, and Revenue Sharing will come to order.

In the interests of moving the hearing ahead I am going to abbreviate my opening statement and, without objection, my entire statement will be put in the record.

I would only observe the following: It is most appropriate that our first witness today is going to be Dave Durenberger, who has written a most interesting and innovative bill, S. 700, on which I am sure he will be testifying.

Senator Durenberger also is the introducer of S. 41, legislation to extend the present revenue sharing program for 3 years. He has 70 cosponsors for that bill. I must give him credit also for having first brought to the attention of the Senate the idea of accelerating the payment of general revenue sharing from the end of the quarter to the beginning of the quarter. He and a number of other Members of the Senate wrote to the President last year urging him to do that. The President didn't do it; so myself, Senator Dole, Senator Durenberger and several other members of the Finance Committee including Senator Long, Senator Danforth, Senator Roth, Senator Moynihan, Senator Mitchell, and Senator Bradley offered an amendment which was overwhelmingly adopted on the Senate floor to compel the payment of revenue sharing at the beginning rather than at the end of each fiscal quarter.

My advice to anybody who is interested in making sure that there is that acceleration of payment would be to lobby very hard with the House conferees between now and the time the jobs bill emerges from conference.

It is my view that that acceleration is absolutely vital to the ability of local government—counties, municipalities, townships—to deliver very badly needed services at this very critical point in the recession where we think economic recovery is in sight but where human misery is probably at its peak. And it is my hope that your lobbying the House conferees will be successful.

In the Senate debate—I will take 1 more minute on this subject—it was charged that this would result in an extra payment of revenue-sharing dollars in this fiscal year, in fiscal 1983. In a sense, technically, that is correct, but it is only technically correct because in point of fact the Treasury Department makes the payment 5 days later than it should—because under the Revenue Sharing Act as it is now written a payment should be made during the quarter.

The hearing today is on the reauthorization of revenue sharing. There are a number of issues we will be discussing. I'm sure one will be the question of what kind of formula we want; do we want to retain the current one? How many years do we want to see the program reauthorized for? What changes should be made?

Authorization for the State share exists in the present legislation, but it is compromised by the Levitas amendment which mandates an offset with any categorical programs.

There are a variety of important issues, but there is one point I would like to make. There are some people, principally on the House side, who believe that the general revenue sharing program is somehow unnecessary, that because it is a very small proportion of municipal and local government budgets—7 percent is the best number I have been able to come up with—it is somehow superfluous to those budgets.

Not only would this time, in the midst of a recession, be the worst possible time to talk about eliminating the general revenue sharing program—it is the local safety net that works where the Federal safety net doesn't—but were we to eliminate general revenue sharing, municipalities would have to raise their local taxes by an average of 23 percent in order to compensate for the loss. Now, I can't imagine anyone in the Congress wanting to take credit for a 23-percent increase in taxes, and I hope that point is not lost on our brethren on the other side of the Capitol.

Without any further comments on my part I would like to welcome Senator Dave Durenberger to be our first witness. It is most appropriate that he is our first witness, not only because he is a member of the Finance Committee but because he serves with such distinction on the Intergovernmental Relations Subcommittee, of which he is chairman.

David, welcome to our committee.

Senator DURENBERGER. Thank you, Mr. Chairman. I want to convey my thanks and appreciation to you for holding this hearing on general revenue sharing so promptly, for allowing me to be the first of your witnesses, and then permitting me to join you for the rest of this hearing.

As you were describing the legislative setting, I was thinking about the number of times the chairman of the Appropriations Committee, at least every 2 years, tries to persuade me that I would be better off—and I'm sure he has tried to convince you as well—that I might be better off serving on the Appropriations Committee rather than on the Finance Committee. And the argument always is that the Appropriations Committee always has the last lick at specifically deciding how dollars, Federal dollars, are going to get spent. In spite of what all the authorizing committees do, they always show up in September or October, or whenever it is, and they all make the final decisions about the dollars.

But, the appropriateness of the comments that you made in your opening statement—and the fact that you stepped forward at the end of the Appropriations Committee's submission of an emergency jobs bill and said that, in addition to or as part of what you are doing in the area of meeting the emergency needs of people in a time of high unemployment, the best thing we can do is to trust local government officials to make those emergency decisions for us—both indicate to me that we both have important jobs to do right here on the Finance Committee and over on the Governmental Affairs Committee. And, the fact that you were successful in your efforts on the so-called jobs bill demonstates—and perhaps this is self-serving—it demonstrates that we are in a period of transition from the day when the Federal Government and Senators and Congressman decided what was good for people at the local level to another period of time. And I think that will be the gist of the comments and the setting in which I put my remarks today.

In 2 weeks the Intergovernmental Relations Subcommittee will hold oversight hearings on revenue sharing as well, and I would invite you, to the extent that your time permits, to sit in with us on any part of those hearings.

Now, in deciding what to say this morning, I realized I had a variety of options. I could sing the praises of general revenue sharing as the most valued Federal program of assistance to local government, or I could talk about how, during a period when other less-valued Federal grants were growing by leaps and bounds, revenue sharing got stuck at level funding and therefore declined steadily in real dollar value throughout the inflationary period of the 1970's.

Alternatively, I thought I could take my time and devote it to promoting S. 700, the bill you referred to which I introduced to revise and expand revenue sharing to include State governments and to increase the total funding level for both State and local governments to $11.8 billion, a proposal that the National Journal called the Durenberger "souped-up version." And Mr. Chairman, you can bet I will avail myself of that opportunity to some extent before I finish here.

But, I finally decided that the best way I could open the Senate deliberations on reauthorizing, and perhaps improving, the GRS program is by discussing the Federal system more broadly and by trying to outline how general revenue sharing fits into the overhall scheme of Federal fiscal subsidies to State and local governments. And by discussing how revenue sharing and New Federalism are related, in my view.

When I look at federalism, I first divide it into two parts. On the one side we have what we might call regulatory federalism. It involves questions like the preemption of State and local law; cross-cutting requirements that force State and local compliance with national policy; State implementation of Federal standards such as we have in our environmental programs; and it also includes Federal court actions to compel changes in the administration of state and local institutions.

On the other side, a subject that I will dwell on this morning, is fiscal federalism, which is primarily a question of Federal subsidies of one sort or another for state and local activities. Fiscal federalism can further be subdivided into three parts: We subsidize the spending of State and local governments by providing them with federal grants-in-aid; we subsidize the borrowing of State and local governments by providing a Federal tax exemption for their bonds and by loaning them money for various purposes; and we subsidize the taxation of State and local governments by providing a deduction against Federal tax liability for State and local tax payments.

Now, if you put some dollars into this fiscal federalism equation, you find that the grant-in-aid programs, that is, our subsidization of spending, is somewhere between $80 and $90 billion per year depending on what kind of budget numbers one uses. The Joint Tax Committee tells us that the deductibility of State and local taxes—that is, our taxation subsidy—will cost the Federal Government something like $32 billion this year. Joint tax also gives a figure for the revenue loss resulting from tax exemption—that is, our borrowing subsidy—for State and local bonds at something like $14 billion annually, and that is only part of the borrowing subsidy.

Looking at fiscal federalism as a subsidy for State and local government activity, there are two questions one ought to ask.

First, is the subsidized activity in the national interest? Is there a national purpose involved that justifies taxing all of the people of the country to encourage one particular State or one particular local government to undertake an activity?

The second question is efficiency. How efficient is the fiscal relationship when looked at as a subsidy?

Focusing first on efficiency, I think of efficiency in this context as the amount of benefit realized on the State and local end compared to the dollar of revenue lost or expended here on the Federal end.

But there are two other ways to view efficiency: As it relates to grants, efficiency gains are possible through blocking categorical grants and cutting out administrative redtape—that's the one the President talks about all the time—so that more dollars are applied to the actual problem. But there is a second and even more important efficiency in the context of grants; that is, the flexibility that the blocking process gives State and local governments to match expenditures to their own special priorities.

When we put dollars into 500 little grants out here in Washington, we decide priorities. High congressional priorities get more dollars, but needs and priorities vary a great deal across the 50 States, and within the 50 States across 40,000 different kinds of local governments. In a block grant, dollars can be targeted much better to the diverse needs of communities than they are when priorities are established by categorical grants devised in Washington. Indeed, this seems to be the basic and motivating force behind the President's notion of New Federalism.

Taking the efficiency argument to the extreme would suggest that we put all of our grant dollars into general revenue sharing. In fact, if one examines the President's arguments for his New Federalism State block grant closely, they actually imply revenue sharing for State governments.

But efficiency is not the only criterion by which we should evaluate our Federal system. The other aspect we want to look at is whether there is a national interest in the subsidized activity. Categoricals obviously serve that purpose best.

So we have a conflict of goals and objectives which Congress has attempted to resolve by creating a mixed system of spending subsidies—part categorical, part block, part revenue sharing. But, Mr. Chairman, this mixed system was never designed and thought out as a coherent whole by delicately balancing its three components; it grew up piecemeal under the press of immediate problems, and it was fed by the ever-growing politics of special interests.

As presently balanced, only about 5½ percent of the $80 to $90 billion spending subsidy goes in the form of revenue sharing, and none of this goes to State governments.

The New Federalism debate and this reauthorization of revenue sharing offers us in the Congress an opportunity to evaluate the balance among the three elements—categoricals, block grants, and revenue sharing. The President has concluded that there is an imbalance and that more of the spending subsidy should be shifted out of categoricals into block grants. I agree. But if we stop here we neglect one very important aspect of the problem currently facing our Federal system—that's the issue of fiscal disparities. The wide variation in the abilities of States to raise revenues from their own sources was one major force behind the categorical federalism of the Great Society, and it can also be the barrier to any New Federalism.

Several hundred categorical and block grants under the jurisdiction of some 60 congressional committees are unlikely to result in a distribution of Federal funds that works to mitigate the worst of these disparities. In fact, recent research indicates that the combined effect of the grant system actually serves to worsen fiscal disparities, with relatively more Federal grant dollars going to States with above-average fiscal capacity.

I would just say at that point, Mr. Chairman, that you recall a couple of years ago when we were debating saving some money in the medicaid program, we discovered, using the per-capital income factor, that areas like the District of Columbia, New York, and probably our States were penalized, while States like Alaska and some others, on a per-capita income formula, were making out much better.

So, Mr. Chairman, I believe there is a Federal purpose to smooth out the roughest of these disparities—not eliminate them, just smooth them out. By this I don't mean an economic leveling of the States, as some might imply; what I mean is a guarantee to all States that if they tax themselves at a reasonable level they will be able to provide an adequate level of public services for their citizens. Revenue sharing is the best wasy I can think of to make this guarantee to all the States. It is the only way I can see to insure every State the resources necessary to meet the new responsibilities that New Federalism will place upon them. Whether or not you choose to call it "New Federalism," the fact remains that we will continue to return responsibilities to State and local governments for some time to come.

So I have chosen to take the President's logic one step further. We should increase the local revenue sharing program and restore revenue sharing to State governments. This is precisely what S. 700 does. It increases the local program from $4.6 billion to $5.9 billion. It brings the States back in at $5.9 billion, and it makes the program permanent and guarantees that it grows with the economy by dedicating 4 percent of the Federal income tax to the Revenue Sharing Trust Fund.

Thus far I have focused in detail only on the relative efficiency of the Federal spending subsidy. We should also examine the efficiency of the Federal subsidy for State and local taxation, and evaluate the balance in the mix between the spending and the tax subsidy.

You made reference earlier to the Levitas amendment. Obviously, when we were looking at trying to create a permanent trust fund, we had two options: One was to go the Levitas route, which is if you are going to make 4 percent available for State and local government in a permanent form you might, thus, simply require a 4-percent reduction in the current categoricals.

We chose, rather, to look at the tax subsidy the way economists have. When they look at the revenue-value to State and local government of the Federal Government giving tax relief to taxpayers through the deductibility of State and local taxes, when looked at that way, they have discovered that this system of subsidy-by-deduction is a relatively inefficient way to subsidize State and local governments. The consensus of estimates emerging from a number of studies indicates that if a taxpayer's income is reduced by a dollar, it increases his willingness to pay State and local taxes by about 10 cents. By implication, if his income is reduced by a dollar of tax we can expect a decrease in willingness to pay State and local taxes also equal to a dime.

This means that for every dollar in tax savings to individual taxpayers provided by Federal deductibility of State and local taxes, State and local governments will recover only about 10 cents of it. It futher implies that for each dollar in tax savings taken away by limiting deductibility, the Federal Government can replace it by a direct cash grant of considerably less than a dollar, and State and local government spending will not suffer. This, Mr. Chairman, is a real efficiency gain.

Furthermore, deductibililty is not a very desirable way to provide tax relief at the Federal level. Its effects are regressive, and only those who itemize—about 30 percent of all taxpayers—receive any benefit from deductibility.

S. 700 proposes to pay the added costs of restoring States to revenue sharing by altering the mix between spending and tax subsidies. It would limit the deductibility of State and local taxes through a floor deduction rather than a cap and permit deductibility only on those State and local tax payments made in excess of 1 percent of adjusted gross income.

The beauty of this approach is that it's very progressive. It does not discourage any particular kind of tax at the State and local level as would, say, selective repeal of the sales tax deduction—which, by the way, was the suggestion made to the Finance Committee last summer. Neither would it discourage overall tax effort by State and local governments, because, under the floor deduction, the additional dollar of taxation levied by State and local government continues to receive the full Federal subsidy equal to the taxpayer's marginal tax rate.

I think Mr. Chairman, I have covered most of what I set out to, and coincidentally have been able to say a word or two about S. 700. There are other important provisions of S. 700 I can speak to, such as the formula changes I am proposing to achieve greater equity in the allocation of revenue sharing payments. I am at your disposal on that point.

But I would like to stress one last point before I stop. I believe now is the time to improve the revenue sharing program—perhaps not this year, but certainly this Congress. Therefore, I cannot support an extension beyond 3 years that makes only minimal changes in the program. If all we can accomplish this year is a simple reauthroization, then let's be satisfied with that but plan to come back immediately to work on a genuine improvement.

The point I want to leave with the subcommittee is that S. 700 demonstrates that it is possible to combine prudent tax policy with genuine federalism reforms. And these reforms can, I believe, pave the way for a continuing series of federalism reforms for years to come.

I thank you, Mr. Chairman, and I will be happy to answer any questions you have.

Senator HEINZ. Senator Durenberger, thank you very much for your fine comments on S. 700, which is a very innovative approach to getting ourselves out of a considerable box that has been constructed—somewhat willy-nilly, as you point out quite effectively—over the years.

Probably the biggest single controversial element in your proposal is the limitation on the deductibility for State and local taxes. What do you prepare to say to State and local officials, many of whom are seated behind you in this room at this moment—[Laughter.]

Senator HEINZ [continuing]. Who protest that you are proposing to take away with one hand potential tax revenue while with the other you are increasing revenue sharing?

Senator DURENBERGER. Well, I would make generally, Mr. Chairman, the argument that I made in my opening remarks. I have found you are absolutely right, they have all put a high value on deductibility. I just went through this experience last Thursday or Friday morning at breakfast with Governor Snelling. His approach was to assume the role of the taxpayer. That's obviously appropriate. The taxpayer sees in front of him during the course of each year three levels of government—Federal, State, and local—and each asks to take from his earnings or his savings *x* number of dollars.

He believes, and we reinforce that, that the dollar that goes into local government is more valuable than the dollar that goes into State government, and the dollar that goes into the State government is more valuable to him than the dollar that goes into the Federal Government, from the standpoint of actually being able to see and control his expenditures.

So Governor Snelling was making the argument to me that to the extent that we at the Federal level move into the area of eliminating deductibility, we are sending a signal to the taxpayer of some kind that we don't trust State and local governments' tax systems.

I said:

> Well, Dick, it seems to me that your responsibility to the taxpayer is to get that taxpayer the most service for each of those Federal tax dollars. So that really is your responsibility. Get as close to a dollar's worth of service for a dollar's worth of revenue.

So I said:

> Just look at the way in which the Federal Government moves that federally-collected dollar back to people. When we move it back to people in the way of revenue sharing, about 99 cents on the dollar ends up in services.

That everybody back here will agree with if they are going to testify in favor of this bill.

A dollar's worth of categoricals probably gets back somewhere in the neighborhood of 80-85 cents on the dollar after all of the redtape and all of the "We don't really need this money, but we'll take it because it's there" is taken into consideration.

A dollar's worth of tax exemption on bonds probably produces in the neighborhood—by the best estimates we have been given—something like 65 cents on the dollar of services.

And, if you can believe the economists on whom I base my position, a dollar's worth of deductibility gets you only about 10 cents worth of property tax or income tax or excise tax at the local level with which to produce public services.

So I believe, at least Snelling acknowledged in his testimony to our counterpart subcommittee on the House side later that day, that there was some merit in looking at it from that standpoint. As I said in my opening statement, the deductibility is neither a good way to provide Federal tax relief—it is selective and regressive—nor is it an efficient way to subsidize State and local governments.

Senator HEINZ. The issue of how you address fiscal disparities was one you touched on very lightly in your testimony. There are those of us who are confronted with what you might call the "God-given resources" of certain States—oil wells appeared in Alaska; they didn't appear notably in Rhode Island or Minnesota.

And yet, as you know, tax effort includes severance tax efforts under certain Federal laws. The effort that States make varies widely based on their ability to pay. How does S. 700 propose to achieve the greater equity by adjusting for fiscal disparity?

Senator DURENBERGER. The proposal in S. 700 is to change the formula from the one we have been used to in general revenue sharing to a somewhat different and simpler formula for the State portion.

We would maintain the current formula with some modifications for the local share of general revenue sharing at population, per capita income, and tax effort. That formula has become accepted over the years; everyone's used to it; everyone thinks it is pretty fair; and with some modifications that I am sure you are considering also that come from GAO reports and Treasury reports, that formula can be maintained.

But at the State level—recognizing that it is at the State level that some of these disparities pose problems in the existing formula due to the ability of some states to tax resources that other States can't tax and then send the bill for the payment of those taxes to these other States—we have used a new formula which combines population with tax capacity, omitting tax effort.

The tax capacity formula is not a formula that we have invented. It was developed over many years by the Advisory Commssion on Intergovernmental Relations. It has been adopted, in essence, in the Canadian system to help the Canadian Federal Government in its program of sharing federally-collected taxes with the provinces.

Certainly Canada has problems very similar to ours, in that certain of the western provinces are much more resource-rich than are some of the eastern provinces. So they have adopted this basic two-factor formula which uses the Representative Tax System approach to measure fiscal capacity, and as far as I can tell, it is working well. That is the system in S. 700 that we would propose to help smooth out some of these differences.

Just by way of illustration, I always use the difference between Texas and Mississippi, since they are remote to Minnesota and North Dakota. The problem we are trying to partially overcome is that, if Mississippi and Texas both apply the same taxes and the same rate of taxation on their income tax base, their property tax base, their transaction base, Mississippi will raise only half as much money as will Texas. Or, said differently, Mississippi has to raise its taxes twice as high as Texas to provide the same level of revenue to provide services.

Obviously we are never going to make those equal; but at a period of time in which we are asking State and local governments to take on additional responsibility because they do it better than we do, you can't live with a federal system that has those kinds of glaring disparities, given the economic competition that exists among the States in this country.

Those of us from the Northeast and the Midwest certainly recognize that problem vis-a-vis a large economic expansion that has drawn jobs and job opportunities out of our part of the country into other parts of this country.

Senator HEINZ. Senator, one last question. You yourself admit that S. 700 is quite an ambitious undertaking; you urge a 3-year extension at most if we don't incorporate S. 700 at this time—that's probably a good idea for a variety of reasons.

Were we not to shift along the lines that you have suggested, do you think it would be a good idea or a bad idea to simply try and restore money for the State share as it used to be? Or would it be better to wait and try to do it, with a more ambitious proposal?

Senator DURENBERGER: Well, I think one of our problems with New Federalism has been that it has been conceived or at least perceived by the people of this country, and in particular the special interests involved in the categorical grant programs that I described, as a way for the Federal Government to cut and run—"We'll just get out of certain activities and leave others to pick up the pieces."

So I would be hesitant, given the budget deficit problems that we have, to recommend that we move to State revenue sharing this year, particularly if we were going to simply use the Levitas formula of cutting out certain categorical grant programs in order to raise the money for State revenue sharing.

I would prefer that those of us like you and I, and others who feel strongly about a New Federalism and who feel strongly about revenue sharing's role in that, might put off into the second half of the Ninety-Eighth Congress the opportunity to do State revenue sharing in a way that will enable us to incorporate it into a genuine New Federalism.

Senator HEINZ. Senator Durenberger, thank you. We appreciate your being here. And, if you can, continue to join us for the rest of the hearing.

Senator DURENBERGER. Yes.

Senator HEINZ. We would welcome it.

Senator DURENBERGER. Thank you, Mr. Chairman.

Senator HEINZ. Our next witness is Baltasar Corrada, the Resident Commissioner of Puerto Rico, Member of Congress.

Mr. Corrada.

The Chair would note that Senator Sasser has a statement that he wishes to submit to the hearing, and without objection it will appear after the statement of Senator Durenberger in the record and Senator Durenberger's response to questions.

STATEMENT OF BALTASAR CORRADA, RESIDENT COMMISSIONER OF PUERTO RICO, MEMBER OF CONGRESS

Mr. CORRADA. Mr. Chairman, Senator Durenberger, I have a seven-page testimony with attachments A and B which I would ask be made a part of the record at this time.

Senator HEINZ. Without objection, so ordered.

Mr. CORRADA. My name is Baltazar Corrada. I am the elected Representative of the people of Puerto Rico to the U.S. Congress.

As you begin to consider reauthorization of the general revenue sharing program which expires September 30, I would like to bring to your attention the situation concerning Puerto Rico and the other U.S. Territories and possessions.

Over the years these funds have sustained local government services for the residents of the 50 States and the District of Columbia.

As some of you may be aware, during the 1980 reauthorization hearings an amendment was proposed which for the first time would have extended the benefits of revenue sharing to Puerto Rico and the "territories" at a level of one percent of the national appropriation level. That amendment, which had my full support, passed the Senate after receiving careful consideration.

The House version of the GRS reauthorization did not contain a similar amendment, and the final public law excluded our participation. I am here today to restate the reasons why I believe it is essential that this program, at least on a modest basis of 1 percent, be extended to Puerto Rico and the other U.S. territories.

Two years ago it was my strong belief that the urgency to include Puerto Rico in the GRS program was heightened because of the pending reduction or elimination of a host of federal domestic assistance programs.

Those reductions have taken place nationally and in Puerto Rico have exacerbated our economic situation. We now have a staggering unemployment level of 25.3 percent, partially due to the fact that under one program alone, the CETA program, 24,000 workers were displaced.

In addition, Puerto Rico was taken out of the national food stamp program by the Omnibus Budget Reconciliation Act of 1981, and in its place we now have a fixed "block grant" for nutritional assistance, representing a 25-percent reduction from the estimated fiscal year 1983 allotment to Puerto Rico under the national food stamp program.

Coupled with the U.S. mainland recession, Puerto Rico's fiscal situation, like that of many of the 50 States, has seen budgetary reductions and other signs of the fiscal crunch felt throughout the nation.

I submit, Mr. Chairman, in turning to page 4 of my testimony, that the total exclusion of Puerto Rico from the GRS program cannot be justified. I believe, further, that any modification, expansion, or revision of the GRS program without inclusion of Puerto Rico and the territories at some level of participation will present a serious fiscal dilemma for us in the coming years.

In our case, a short review of some of the relevant statistics brings home quite clearly the degree of unfairness in continuing this policy of total exclusion of the territories from this program.

We have over 3.2 million U.S. citizens in Puerto Rico, ranking 24th in the Nation on the basis of population; however, Puerto Rico is the fourth in the Nation in the total number of poor.

The official unemployment—17 percent in 1980 and now 25.3 percent—is a serious problem.

There is a myth that Puerto Rico and its citizens are somehow wallowing in Federal assistance programs, a condition that has resulted in the creation of some kind of a "welfare state." Let me point out that for the most recent year, 1982, Puerto Rico received $1,264.90 in Federal aid per capita, which is lower than that received by any of the 50 States and the District of Columbia, in spite of the fact, as I said before, that we ranked fourth among all the U.S. jurisdictions in the total number of poor people.

I am attaching to my statement appendix A, which details those statistics. It's a chart that compares total per capita payments to each of the 50 States, the District of Columbia, and Puerto Rico.

One of the key factors in the revenue sharing allocation formula as the program now operates is local tax effort. While we Puerto Ricans do not pay Federal taxes—and I believe this has been consistently the reason why we have been left out of this program—we do pay, at rates which are as high and at times higher than Federal rates of income tax, a Puerto Rico income tax which is used to provide general revenues to our Government to sustain local services to our people.

Yet there are six States which receive general revenue sharing funds even though they do not have a State income tax. I am attaching appendix B to my testimony, illustrating Puerto Rico's strong tax effort as compared to the 50 States.

Let me point out, of course, that should those services not be provided by the Government of Puerto Rico as a result of this strong tax effort at the local level, then obviously our economic and social problems would have been exacerbated to the point where even more Federal assistance would have been required.

The third element in the allocation formula for revenue sharing, in addition to population and tax effort, is per capita income. Puerto Rico's most recent per capita income in 1982 was $3,900, which is about half that of the State with the lowest income—the State of Mississippi. Although of course, based on mainland standards, this may be considered quite low, we are proud of that achievement, Mr. Chairman, because in fact nowhere in the Caribbean or Latin America will you find that kind of economic development.

Mr. Chairman, my desire would be for State-like treatment for Puerto Rico in the GRS program, but I am only requesting inclusion at a modest level of 1 percent of the national appropriation. That would be about $42–43 million.

Let me say that if we had State-like treatment, based on the study done by the GAO in 1980, it is estimated that Puerto Rico would have received about $263 million in general revenue funds.

So taking into consideration the fact that we do not pay Federal taxes, but because we do have this very strong local tax effort, I am not suggesting, again, that we be treated as if we were a State, but I am suggesting that we have that modest 1 percent set aside.

While extension of the GRS program to us at a level equal to a State might be considered too extreme, I trust you understand that the other end of the argument, total exclusion, is one that is unreasonable and inequitable.

The most recent survey by the National League of Cities issued last November showed the major operations funded by GRS payments. The list included usage of funds for social services, senior citizens, public safety, health, transit and recreation, among other items.

All of these are basic to a viable quality of life any place in America, including Puerto Rico. Furthermore, the provision of these services has a direct and indirect impact on the creation of jobs in the system for their delivery.

Our proposed amendment, Mr. Chairman and Senator Durenberger, would not reduce allocations to other mainland jurisdictions, whether they be State governments—if they come back into the program—or the units of local government now receiving payments.

We do not wish to reduce even slightly badly needed funds to be allocated throughout the U.S. mainland, and I would hope you would add this 1-percent setaside to whatever amount you deem reasonable to authorize for the rest of the Nation.

The residents of Puerto Rico and the U.S. territories comprise more than 1 percent of the entire national population. In fact we are close to 1.7 percent of the total national population. So asking for a 1-percent setaside is even below what our fair share would be on a strict population basis. I am not asking for anything but basic fairness in the way you treat your own fellow citizens in the U.S. insular areas.

In closing, Mr. Chairman, I want you to know I appreciate the attention you have given to my testimony and to this request, which has the strong support of our Governor Carlos Romero-Barcelo of Puerto Rico as well as my own.

Thank you very much.

[Mr. Corrada's statement follows:]

HON. BALTASAR CORRADA
OF PUERTO RICO

TESTIMONY ON GENERAL REVENUE SHARING

SENATE FINANCE COMMITTEE
SUBCOMMITTEE ON ECONOMIC GROWTH, EMPLOYMENT AND
REVENUE SHARING

March 21, 1983

Senator Heinz, Members of the Subcommittee.

My name is Baltasar Corrada and as Resident Commissioner from Puerto Rico, it is a pleasure to be here today as the Subcommittee begins to consider reauthorization of the General Revenue Sharing program which expires September 30.

Since its inception with the passage of the State and Local Fiscal Assistance Act of 1972, and with subsequent modifications, this program has provided disbursements to local and state government recipients with maximum flexibility on the use of funds.

All of you are well aware of the national and local impact of this program which is the "bread and butter" of more than 39,000 units of local government which receive revenue sharing allocations.

Over the years, funds have sustained local governmental services for residents of the 50 States and the District of Columbia.

As some of you may be aware, during the 1980 reauthorization hearings, an amendment was proposed which - for the first time - would have extended the benefits of revenue sharing to Puerto

Rico and the "territories" at a level of one percent of the national appropriation level.

That amendment, which had my full support, passed the Senate after receiving careful consideration.

The House version of the GRS reauthorization did not contain a similar amendment and the final public law excluded our participation. I am here today to restate the reasons why I believe it is essential that this program, at least on a modest basis of 1 percent, be extended to Puerto Rico and the other U.S. territories.

Two years ago, it was my strong belief that the urgency to include Puerto Rico in the GRS program was heightened because of the pending reduction or elimination of a host of federal domestic assistance programs.

Those reductions have taken place nationally and, in Puerto Rico, have exacerbated our economic situation. We now have a staggering unemployment level of 25.3 percent, partially due to the fact that under one program alone, the CETA program, 24,000 workers were displaced.

In addition, Puerto Rico was taken out of the national Food Stamp program by the Omnibus Budget Reconciliation Act of 1981 and in its place we now have a fixed "block grant" for nutritional assistance representing a 25 percent reduction from the estimated FY 83 allotment to Puerto Rico under the national Food Stamp program .

Coupled with the U.S. mainland recession, Puerto Rico's fiscal situation - like that of many of the 50 States - has seen budgetary reductions and other signs of the fiscal crunch felt throughout the Nation.

At present, in both the Senate and the House, there are many members who have proposed "counter cyclical" additions, jobs stimulus and public works titles to the GRS program as ways to resolve the present national economic dilemma, and stimulate the economy. These are commendable steps. However, I want to underscore today, most emphatically, that since Puerto Rico - with its 3.2 million American citizens, and the territories, have simply not been considered as partners in many of these proposals because of our exclusion from the GRS program.

Furthermore, the four "megablock" grants under the revised New Federalism proposal have been sent to the Congress by the President recently.

One of the recommendations in that proposal contemplates that the GRS program be merged with the Community Development Block Grant program, and the eventual phase out of the CDBG program. This presents an obvious complication for Puerto Rico.

I am not in a position to speculate whether or not the New Federalism proposal will be enacted by Congress. However, I am quite convinced that the GRS program, either on its own separate merits or as part of any "new federalism" proposal will be reauthorized by Congress this year.

I submit that the total exclusion of Puerto Rico from the GRS program cannot be justified. I believe, further, that any modification, expansion, or revision of the GRS program without inclusion of Puerto Rico and the territories at some level of participation will present a very serious fiscal dilemma for us in the coming years.

In our case, a short review of some of the relevant statistics bring home quite clearly the degree of unfairness in continuing this policy of total exclusion of the territories from the GRS program. Let me use Puerto Rico as an example.

We have over 3.2 million U.S. citizens, ranking 24th in the Nation on the basis of population. However, Puerto Rico is fourth in the Nation in the total number of poor.

The official unemployment - 17 percent in 1980 and now 25.3 percent - is a serious problem.

There is a myth that Puerto Rico and its citizens are somehow wallowing in federal assistance programs, a condition that has resulted in a "welfare state."

Let me point out that, for the most recent year, 1982, Puerto Rico received $1,264.90 in federal aid per capita which is lower than that received by any of the 50 States and the District of Columbia.

I am attaching to my statement Appendix A, which details those statistics.

You should be keenly aware that U.S. citizens in Puerto Rico and the U.S. territories do not receive the benefits of several large key domestic programs. Our state and local governments have been forced to make up the differences through very high taxes.

We are totally excluded from the SSI program, which represents a loss of some $400 million for Puerto Rico alone, and under the Medicaid program we are limited to a $45 million ceiling while our state government has to provide around $170 million to take care of our medically indigent.

One of the key factors in the revenue sharing allocation formula, as the program now operates, is local tax effort. While Puerto Ricans do not pay federal income taxes, we pay, at rates which are as high and at times higher than federal rates of income taxes, a Puerto Rican income tax which is used to provide general revenues to our government to sustain local services to our people.

Yet, there are six States which receive general revenue sharing funds even though they do not have a State income tax. I am attaching Appendix B to my testimony illustrating Puerto Rico's strong tax effort as compared to the 50 States.

The third element in the allocation formula for revenue sharing - in addition to population and tax effort - is per capita income. Puerto Rico's most recent per capita income in 1982 was $3,900 which is about half that of the state with the lowest income - Mississippi.

Mr. Chairman, my desire would be for "state like" treatment for Puerto Rico in the GRS program. But what I am requesting today is inclusion at a modest level of "one percent."

While extension of GRS programs to us at a level of equal treatment as a state might be considered too extreme, I trust you understand that the other end of the argument - total exclusion - is one that is both unreasonable and inequitable.

Mr. Chairman, in summary, the residents of Puerto Rico, as American citizens, deserve the same basic services provided by every other county, township, city or large metropolitan area of the United States, services essential for an acceptable standard of living.

The most recent survey by the National League of Cities issued last November showed the major operations funded by GRS payments. The list included usage of funds for social services, senior citizens, public safety, health, transit and recreation, among other items.

All of these are basic to a viable quality of life any place in America, including Puerto Rico. Furthermore, the provision of these services has a direct and indirect impact on the creation of jobs in the system for their delivery.

Our proposed amendment would not reduce allocations to other mainland jurisdictions, whether they be State governments, if they come back into the program, or the units of local government now receiving GRS payments.

19-332 O—83——7

We do not wish to reduce, even slightly, badly needed funds to be allocated throughout the U.S. mainland and I hope you would add this one percent "set aside" to whatever amount you deem reasonable to authorize for the rest of the Nation. The residents of Puerto Rico and the U.S. territories comprise more than 1 percent of the entire national population. I am not asking for anything but basic fairness in the way you treat your own fellow citizens in the U.S. insular areas.

In closing, Mr. Chairman, I want you to know I appreciate the attention you have given to my testimony and this request which has the strong support of Governor Carlos Romero-Barceló of Puerto Rico as well as my own.

Enclosures

APPENDIX A

Per Capita Expenditures, Grants to States, Local Governments and Individuals, from the Federal Government.

Source: Federal Expenditures by State for Fiscal Year 1982, A Report prepared pursuant to the Consolidated Federal Funds Report Act of 1982, Public Law 97 - 326.

U.S. Department of Commerce, Bureau of the Census, for the Office of Management and Budget

STATE OR JURISDICTION	PER CAPITA EXPENDITURE
Alabama	1648.01
Alaska	1697.57
Arizona	1636.92
Arkansas	1724.48
California	1541.18
Colorado	1373.31
Connecticut	1522.07
Delaware	1690.49
District of Columbia	4491.15
Florida	2014.24
Georgia	1472.31
Hawaii	1543.12
Idaho	1439.14
Illinois	1572.30
Indiana	1309.75
Iowa	1518.37
Kansas	1856.11
Kentucky	1596.77

STATE OR JURISDICTION	PER CAPITA EXPENDITURES
Louisiana	1361.53
Maine	1784.66
Maryland	1701.91
Massachusetts	1788.42
Michigan	1649.28
Minnesota	1550.82
Mississippi	1645.08
Missouri	1661.19
Montana	1996.08
Nebraska	1524.29
Nevada	1551.99
New Hampshire	1544.10
New Jersey	1605.69
New Mexico	1703.71
New York	1840.91
North Carolina	1387.61
North Dakota	1412.24
Ohio	1580.88
Oklahoma	1546.25
Oregon	1712.42
Pennsylvania	1843.89
Rhode Island	1926.44

STATE OR JURISDICTION	PER CAPITA EXPENDITURE
South Carolina	1433.92
South Dakota	1682.49
Tennessee	1535.09
Texas	1267.24
Utah	1304.10
Vermont	1676.01
Virginia	1621.46
Washington	1606.23
West Virginia	1825.47
Wisconsin	1549.67
Wyoming	1534.78
American Samoa	207.73
Guam	1040.93
Northern Marianas	—
Puerto Rico	1264.90
Trust Territory	875.71
Virgin Islands	1746.65

APPENDIX B

Minimum and Maximum Income Tax Rates and
Tax Bracket Limits, Puerto Rico, the 50 States
and the District of Columbia, 1982.

	Tax Rates		Lowest and Highest Income Tax Brackets	
	Minimum	Maximum	Less than	More than
PUERTO RICO	10.26%	67.55 %	$2,001	$200,000
FEDERAL	14	50	3,300	85,600
Alabama	2	5	1,001	6,000
Arizona	2	8	1,001	6,000
Arkansas	1	7	3,000	25,000
California	1	11	2,851	22,140
Colorado	2.5	8	1,336	13,352
Connecticut	Only on capital gains and dividends			
Delaware	1.4	13.5	1,001	50,000
Dist. of Col.	2	11	1,001	25,000
Georgia	1	6	1,001	10,000
Hawaii	2.25	11	1,001	61,000
Idaho	2	7.5	1,001	5,000
Illinois	2.5	Flat rate on total net income		
Indiana	1.9	Flat rate on adjusted gross income		
Iowa	.5	13	1,024	76,725
Kansas	2	9	2,001	25,000
Kentucky	2	6	3,001	8,000
Louisiana	2	6	10,001	50,000
Maine	1	10	2,001	25,000
Maryland	2	5	1,001	3,000

	Tax Rates Minimum	Maximum	Lowest and Highest Income Tax Brackets Less than	More than
Massachusetts	Earned and business income: 5% Interest, dividends, capital gains on intangibles: 10%			
Michigan	4.6%	Flat rate on all taxable income		
Minnesota	1.6%	16%	$655	$35,915
Mississippi	3	4	5,000	5,001
Missouri	1.5	6	1,001	9,000
Montana	2	11	1,101	38,400
Nebraska	17% of federal tax before credits with limited adjustments			
New Hampshire	Flat rate of 5% only on interest and dividends			
New Jersey	2	2.5	20,001	20,001
New Mexico	.5	6	2,001	100,000
New York	2	14	1,001	23,000
North Carolina	3	7	2,001	10,000
North Dakota	1	4	3,001	30,000
Ohio	.5	3.5	5,001	40,000
Oklahoma	.5	6	2,001	15,000
Oregon	4.2	10.8	501	5,000
Pennsylvania	2.2	flat rate of specified classes of taxable income		
Rhode Island	21.9%	of modified federal income tax liability		
South Carolina	2	7	2,001	10,000
Tennessee	6% flat rate only on interest and dividends			

	Tax Rates		Lowest and Highes Income Tax Brackets	
	Minimum	Maximum	Less than	More than
Utah	2.25%	7.75%	$1,501	$7,500
Vermont	24% of federal income tax liability after certain credits			
Virginia	2	5.75	3,001	12,000
West Virginia	2.1	9.6	2,001	200,000
Wisconsin	3.4	10.0	3,601	48,200

The following states have no state income tax:

Florida
Nevada
South Dakota
Texas
Washington
Wyoming

Sources: Tax Foundation, Inc.; Puerto Rico Department of the Treasury.

Senator HEINZ. Mr. Corrada, thank you very much.

Do you know if administration supports or has taken any position on your proposal?

Mr. CORRADA. To the best of my knowledge, the administration has not taken a position one way or the other on this matter.

Senator HEINZ. How would you answer the question that given that we have eliminated the State share for all States and that when you count the Puerto Ricaw income tax it's the equivalent of a State income tax, why should Puerto Rico's effort be relevant since we simply don't distribute any money to the States anymore?

Mr. CORRADA. Well, let me point out, by the way, that in the event that you choose to leave the program as it is—that is, strictly applicable to units of local government—in the case of Puerto Rico that 1-percent setaside would go to the Governor as a conduit to spread the money throughout the 78 townships which we have in Puerto Rico, or municipalities, which are units of local government.

Our strongest tax effort, Mr. Chairman, is in income taxes; however, there are other taxes applicable in Puerto Rico. There is a 6.6-percent excise tax. It is not a sales tax, but it is in the nature of a sales tax because it applies at the time of manufacture or distribution in Puerto Rico as a tax that is imposed on all goods.

We have, for instance, a very high level of State gasoline tax—16 cents per gallon of gasoline. That is paid, of course, by everybody in Puerto Rico.

So the tax effort is not limited to the income tax. The total tax effort in Puerto Rico currently amounts to an annual sum of about $1.4 billion in different kinds of taxes, of which approximately $600 million are dervied from income taxes.

Senator HEINZ. You also state that you think the 1 percent is about right, because Puerto Rico has just slightly more than 1 percent of the population of Amercian citizens.

Mr. CORRADA. The combined population of Puerto Rico and the other U.S. territories is 3.7 million—3.2 million in Puerto Rico and 3.4 million throughout all the other U.S. territories and possessions.

Because of the lack of precise data to be able to allocate the funds based on your currnet formula, I am propsing that 1-percent setaside, which I believe is the minimum that would be fair and equitable considering that our total population is 1.7 percent of the national population and that we do have a considerable degree of local and State tax effort in Puerto Rico.

Mr. Chairman, in that sense someone could ask, "Well, why not 2 percent, or why not 0.5 percent?" I think that the 1-percent setaside under the circumstances is reasonable.

Senator HEINZ. Now, you compared that 1-percent setaside to a $236 million figure that you said Puerto Rico would be entitled to if it was treated as a State. Do you have those calulations? And could you make them available to us?

Mr. CORRADA. Yes. This is contained, Mr. Chairman, in a GAO report prepared in April 1980, in which they estimated that if Puerto Rico shared in the general revenue funds, that Puerto Rico's share would be approximately $263 million.

Senator HEINZ. And that was premised on the amount of money we then allocated both to States and to local government?

Mr. CORRADA. That is correct, Mr. Chairman, yes. It was premised on those assumptions and applying the formual as best the GAO could figure, based on the three factors of population, income per capita, and tax effort.

Senator HEINZ. Did the GAO make any division as to how they would apportion it, as between the equivalent of a State government share and the equivalent of a local government share?

Mr. CORRADA. I am not sure if they did, Mr. Chairman. I will make a copy of that report available to the committee.

Senator HEINZ. All right. Mr. Corrada, I thank you.

Senator Durenberger?

Senator DURENBERGER. Two questions I guess. One, in your appendix A, where you put a dollar value on all of the per capita expenditures in the way of grants to State and local government and individuals, Puerto Rico comes out at $1,264.90.

To put the lack of any Federal taxation in Puerto Rico in some kind of a perspective, do you know what the dollar value—if the Federal excise and income taxes were imposed in Puerto Rico—do you have some idea of what that added cost might be to the people of Puerto Rico on a per capita basis?

Mr. CORRADA. Yes. In that same GAO report of 1980, estimates were made as to what Puerto Rico would pay under Federal income and other applicable taxes if it were a state vis-a-vis what also Puerto Rico would receive in additional Federal funds if we were a State.

Basically the figures indicated that we would be paying approximately about $1 billion in Federal taxes, mainly corporate taxes. About $200 million would be individual income taxes; about $600 million would be corporate income taxes; and the balance would be certain miscellaneous and sundry taxes including the excise taxes on rum--Federal excise taxes on rum—which are curently rebated to the Puerto Rican Treasury.

So basically it is about $1 billion that our people would have to pay. We have a population of 3.2 million.

At the same time it was estimated that with the application of SSI, the supplementary security income program which we do not have now in Puerto Rico, it would be about $400 million coming to us.

There is a very narrow cap of medicaid of $45 million if we were a State. Probably that amount would be closer to about $250 to $300 million.

Those would be the two major items, plus general revenue sharing and a few other items. We would get about an additional $1 billion in Federal programs. So it would be a washout.

By the way, ultimately I believe that if Puerto Rico were to become a State, it would be much fairer for the 50 States as well as Puerto Rico. We would be contributing to the ability of our economy. And the way that our people could do it, with $1 billion in Federal revenues, we would receive a larger amount in Federal funds; but at least we would be assuming our responsibilities as well as our rights as American citizens, and it would not in the end cost more money, net, to the Federal Government than it now costs the Federal Government under the current relationship.

Senator DURENBERGER. I don't know whether you were here when I was going through my explanation of the various forms of fiscal federalism. I was talking about the way we subsidize spending with categorical grant programs, and the way we subsidize borrowing with tax exemption on bonds, and so forth. And then we subsidize taxes, which wouldn't apply in your case, through the deductibility.

But obviously the argument I was trying to make is that from the standpoint of State or local government, or a government like Puerto Rico, I was making the assumption that revenue sharing, because it does not have a lot of how-to-spend-it requirements attached to it, gets more dollars into the hands of public service delivery.

Do you have a feeling representing Puerto Rico that if we were to shift more of our emphasis from subsidy through the grant system to revenue sharing that it would be helpful to Puerto Rico?

Mr. CORRADA. Well, I think that of course applying those figures that revenue sharing funds appear to yield 99 cents on the dollar because of less administrative expenses, that it would appear, obviously, that this would be fair.

The main problem that I see is that we are talking about reduction in categorical programs, which if we were talking about these categorical programs back in 1980 were pretty well funded by the Federal Government, that there would be a cushion there from which you could deduct from the categorical programs some funds and then use that for the general revenue sharing program.

I think the concern is that, since for the past couple of years or so we have been already depleting those categorical programs by cutbacks in them, that there is a question as to what extent can you still cut those categorical programs further and still yield the moneys that would be necessary to implement the legislation.

But in principle I certainly support the concept of general revenue sharing. I believe that it allows the moneys to go to the units of local government and the State governments, and that they ought to know better than we do here in Washington how they wish to spend their money in services to their citizens.

Senator DURENBERGER. Thank you.

Senator HEINZ. Senator Durenberger and Mr. Corrada, thank you very much.

Mr. CORRADA. Thank you.

Mr. Chairman, I will submit, if I may, a copy of that GAO report that I alluded to in answering some of your questions.

Senator HEINZ. Very well. We would welcome that.

[The GAO report from April 1980 follows:]

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Puerto Rico's Political Future: A Divisive Issue With Many Dimensions

What is Puerto Rico's political destiny? The island's over 3 million U.S. citizens continue to debate whether to retain the current Commonwealth arrangement or petition the Congress for statehood, independence, or an amended form of the present status. Any decision rests with the Puerto Rican people and the U.S. Government and holds significant repercussions, because the longstanding Puerto Rico-Federal relationship has fostered a web of legal, fiscal, and human ties.

Consequently, deciding what the island's status should be and planning for any change will involve assessing an intricate array of concerns. Compounding ideological and political divisions, the status debate also presents numerous financial and other considerations and encompasses added dimensions, such as cultural convictions and international issues.

To enhance evolving deliberations over alternative future statuses, this report analyzes the U.S.-Puerto Rico relationship and highlights the broad range of issues likely to be addressed by island residents as well as Puerto Rico and Federal decisionmakers.

UNITED STATES GENERAL ACCOUNTING OFFICE

GGD-81-48
MARCH 2, 1981

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

B-193013

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

The debate on alternatives to Puerto Rico's political relationship with the Federal Government continues. To assist Puerto Rico and the Congress in any future status deliberations, Senator Johnston and Resident Commissioner Corrada requested information on what a status change would involve.

This report analyzes the current Commonwealth arrangement and examines the broad range of issues inherent in each status alternative. A complementary report issued March 7, 1980, "Experiences of Past Territories Can Assist Puerto Rico Status Deliberations" GGD-80-26, analyzed the procedures and terms established by the Congress in admitting States and granting independence.

We are sending copies of this latest report to various officials in the Executive Branch, the Governor of Puerto Rico, and leaders of the island's major political parties.

Elmer B. Staats

Comptroller General
of the United States

formula, all States are guaranteed a per pupil expenditure at least 80 percent of the national average and are limited to 120 percent of the national average. In addition, a separate method was used to allocate funds covering various ESEA-Title I administration expenses.

Although Puerto Rico's 1979 funding level for administration costs was computed by the same method used for States, the island was not protected by the 80-percent guarantee 1/ in the allocation formula for other ESEA-Title I programs. Because Puerto Rico's per pupil expenditure was considerably lower than the national average, this exclusion limited the island's share in these programs.

Equal treatment under statehood would extend to Puerto Rico the 80-percent minimum guaranteed to States in the ESEA-Title I allotment formula. This change alone would have brought the island an estimated increase of $67 million. Also, an additional $670,000 would have been available in State administration assistance because these grants equal 1 percent 2/ of total ESEA program funding. Overall, the island would have received an increase of about $68 million in ESEA-Title I funds if it had been a State in 1979.

General Revenue Sharing

Unlike Federal disbursements which are targeted for specific uses, General Revenue Sharing (GRS) assistance can be used for a broad range of purposes. GRS funds are allocated to States by formula, and in 1979 the overall State entitlement was distributed as follows; one third to the State government and two-thirds to general purpose local governments. 3/

The island has not been included in the GRS program, but equal treatment under statehood would have extended such aid to Puerto Rico in 1979. At our request, the U.S. Treasury's Office of Revenue Sharing (ORS) estimated how much 1979 GRS funds the island would have received had it been a State. We supplied ORS with the basic information needed to calculate a hypothetical revenue sharing allotment for Puerto Rico. This data was obtained from Federal and Puerto Rico government reports and extrapolations from our 1979 Federal tax estimates.

1/Our analysis of recent education amendments, which became effective after fiscal year 1979, showed that the 80-percent minimum would apply to Puerto Rico if its per pupil expenditure rose to that of the lowest State.

2/This was raised to 1.5 percent after fiscal year 1979.

3/Recent legislation extending the GRS program excludes State governments from receiving fiscal year 1981 disbursements. The States may be included in future fiscal years if the Congress appropriates funds.

Using this data ORS estimated that Puerto Rico governments would have received about $263 million in GRS aid had the island been a State in 1979. Puerto Rico would have received the eighth highest total share of funds among the States and the District of Columbia and would have ranked first in per capita allotments. According to ORS, Puerto Rico's relatively large revenue sharing allocation was due primarily to its low per capita income.

Food stamps

Although equal treatment would have increased aid in the preceding programs, Federal expenditures in the food stamp program which already treats Puerto Rico like a State would have decreased. This aid--which supplements the food purchasing capability of needy residents--has become the largest single Federal assistance program in Puerto Rico. Because food stamp benefit levels are based on an income definition which includes SSI and AFDC payments, the statehood-induced increased funding for these programs would reduce Federal food stamp benefits.

A recent Department of Agriculture study calculated that for every dollar of increased Federal income support payments to Puerto Rico, food stamp assistance would decrease by 31 cents. Accordingly, the estimated $366 million of additional AFDC and SSI payments would decrease food stamp expenditures in Puerto Rico by $113 million.

Senator HEINZ. Our next set of witnesses is a panel consisting of Earl Baker, chairman of the commissioners of Chester County, appearing on behalf of the National Association of Counties; Barton Russell, executive director of the National Association of Towns and Townships; William William J. Althaus, mayor of the city of York, PA., on behalf of the U.S. Conference of Mayors; and Richard Guthman, Jr., council member, city of Atlanta, on behalf of the National League of Cities.

Gentlemen, we welcome you. Anything you can do to confine your testimony to the neighborhood of 5 minutes or so would be appreciated. We will certainly put your entire remarks in the record. We would like to take as much time as possible to ask questions; so any assistance you could give us in that regard would be very much appreciated.

Mr. Baker, may I say it's a delight to have you down here.

I have had an opportunity to work with Commissioner Baker for many years. He does an excellent job in really meeting the tests that we put all of our local government people to each year. He not only provides excellent services to the people of Chester County, but he does something that the Federal Government would like to do one of these days, we hope, and that is balance his budget each and every year.

That is something that we can say for each and every one of our witnesses. Lord knows, if we should ever learn to do that from you I don't know what would become of us; we might become unnecessary.

Earl, please proceed.

STATEMENT OF EARL M. BAKER, CHAIRMAN, CHESTER COUNTY COMMISSION, WEST CHESTER, PA., ON BEHALF OF THE NATIONAL ASSOCIATION OF TOWNS AND TOWNSHIPS, WASHINGTON, D.C.

Mr. BAKER. Thank you very much, Senator.

My name is Earl Baker. I am vice chairman of the Chester County, Pa., Board of Commissioners and also vice chairman of the National Association of Counties Taxation and Finance Steering Committee.

I am accompanied today by Matt Coffey, executive director of the National Association of Counties.

I come before you today to present NACo's views concerning the reauthorization of the general revenue sharing program.

These are hard times for State and local government. Since the 1981 Reconciliation Act, counties have sustained over a 15-percent reduction in Federal funding. Many have been forced to reduce employment, cut back on social services, and postpone badly needed investment in infrastructure repairs.

General revenue sharing has played a vital role in helping counties sustain a reasonable level of service delivery in this situation of financial stress.

I might add that in many States there are legal limitations on the counties' ability to tax. And, as you well know, in many States the counties are relatively limited to one source of taxation, and that is the real property tax.

Counties are aware that they are not alone, however, in confronting fiscal dilemmas. We recognize the need of the Federal Government to reduce the large budget deficits projected for the next several years, and in the past NACo has supported and will continue to support reductions in categorical programs or entitlement programs where that may be necessary.

However, one program that we have never looked at as a program to be reduced is general revenue sharing, which to counties distributes approximately $1.7 billion each year.

More than any other Federal program, this program permits us the flexibility to deal with our most urgent service needs—needs that have increased greatly as a result of the economic conditions of the Nation.

In my own county of Chester we are using general revenue sharing funds to provide vital human services for children, senior citizens, and the mentally retarded. Over the period we have received general revenue sharing, we have utilized general revenue sharing funds for just about every service that the county is mandated to provide, in addition to some that it has not mandated but does on a discretionary basis.

Should Chester County's revenue sharing funds be reduced, matching funds we receive for the provision of these human services would be cut. And to maintain the services we would be forced to increase revenues from other sources to cover the funding shortfall.

If we had to raise our property tax to fill this gap, for example, we would have to increase it by 9 percent to replace the lost revenue sharing dollars.

I think it is clear from my description of the situation that general revenue sharing is a vital program, and it's also an efficient program. I think, as you well know and as Senator Durenberger's comments indicated this morning, the administrative cost at the Federal level is less than two-tenths of 1 percent.

However, we do urge Congress to consider improvements in the program to enhance its value to local governments.

Let me say at the outset, Mr. Chairman, that we heartily endorse the legislation that you and Representative Frank have sponsored to accelerate the payment of general revenue sharing funds under the current program. We are pleased that the Senate has agreed to your amendment, and we would certainly urge the House to concur in conference of the jobs bill.

Acceleration would speed up the receipt of funds for local governments and enable them to be spent for the most urgent program priorities, particularly important at this time in light of the unemployment situation and the state of the economy.

We do have a few other steps that we would like to ask you to consider in terms of general revenue sharing:

The first is that our share has remained constant at $4.6 billion since 1976. The result of that is a 40-percent decline in the actual value of those dollars. We would certainly ask that a consideration be given to rectifying that situation and of course at some time, perhaps permanently, including revisions in the formula.

We would also like to emphasize the the State share of revenue sharing in many States, and Pennsylvania is included in this, did contain moneys that were ultimately passed through to local governments. So we cannot overlook that particular segment of revenue sharing, as well.

I would like to just in conclusion comment on some of the proposals for reauthorization that have been developed in the past several weeks:

The administration has proposed that general revenue sharing be combined with the entitlement portion of community development block grants. NACo is currently evaluating this approach, and we have asked our member counties to submit data concerning the probable impact.

We urge, however, that since the expiration of general revenue sharing is fast approaching, it be dealt with by Congress on its own merits and not delayed by the consideration of other more broadly based programs including its inclusion in the New Federalism, although we do not feel that that is contradictory to the progress of the New Federalism proposals on their own.

Several proposals for reauthorization have come from Congress. Senator Durenberger, for example, has included some of the structural changes, and we do have reservations about the provisions to limit the deductibility of State and local taxes, as the Senator has anticipated.

I think our comment at this time is to welcome his opening a very significant part of the discussion of the New Federalism, but at the same time not to ask that at this critical time for general revenue sharing that we look at the possibility of opening up a possible Pandora's box of amendments and changes that we know many others would have to offer as well.

We also would like to comment just briefly on the Representative Weiss bill to reauthorize revenue sharing providing for a State share and an increased local share. It is responsive, because it does meet the inflationary decline that I mentioned, and so we would like to see that considered also.

Thank you for the opportunity to appear before you, and I would be happy to answer any questions.

[Commissioner Baker's prepared statement follows:]

STATEMENT OF EARL M. BAKER, CHAIRMAN, BOARD OF COMMISSIONERS, CHESTER COUNTY, PENNSYLVANIA, AND VICE CHAIRMAN, TAXATION AND FINANCE STEERING COMMITTEE, NATIONAL ASSOCIATION OF COUNTIES BEFORE THE SENATE FINANCE SUBCOMMITTEE ON EMPLOYMENT, ECONOMIC GROWTH AND REVENUE SHARING.

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

MY NAME IS EARL BAKER. I AM THE CHAIRMAN OF THE CHESTER COUNTY, PENNSYLVANIA, BOARD OF COMMISSIONERS AND VICE CHAIRMAN OF THE TAXATION AND FINANCE STEERING COMMITTEE OF THE NATIONAL ASSOCIATION OF COUNTIES.

I AM HERE TODAY ON BEHALF OF THE COUNTIES THAT COMPRISE THE MEMBERSHIP OF THE NATIONAL ASSOCIATION OF COUNTIES. THE MEMBER COUNTIES OF NACo REPRESENT 90 PERCENT OF OUR NATION'S POPULATION AND RANGE FROM SMALL RURAL COUNTIES WITH POPULATIONS OF LESS THAN 5,000 TO DENSELY POPULATED URBAN COUNTIES WITH POPULATIONS OVER ONE MILLION. THESE COUNTIES PROVIDE THEIR CITIZENS WITH A RANGE OF SERVICES FROM MAINTENANCE OF ROADS AND BRIDGES, TO EMPLOYMENT AND TRAINING, TO HEALTH CARE, TO JAILS.

I COME BEFORE YOU TO PRESENT NACo'S VIEWS CONCERNING THE REAUTHORIZATION OF THE GENERAL REVENUE SHARING PROGRAM. THESE ARE HARD TIMES FOR STATE AND LOCAL GOVERNMENT. SINCE THE 1981 RECONCILIATION ACT, COUNTIES HAVE SUSTAINED OVER A 15 PERCENT REDUCTION IN FEDERAL FUNDING. MANY HAVE BEEN FORCED TO REDUCE EMPLOYMENT, CUT BACK ON ESSENTIAL SOCIAL SERVICES, AND POSTPONE BADLY NEEDED INVESTMENT IN INFRASTRUCTURE REPAIRS. NONETHELESS, THEY HAVE STRIVEN TO MAINTAIN ADEQUATE

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* THE NATIONAL ASSOCIATION OF COUNTIES IS THE ONLY NATIONAL ORGANIZATION REPRESENTING COUNTY GOVERNMENT IN THE UNITED STATES. THROUGH ITS MEMBERSHIP, URBAN, SUBURBAN, AND RURAL COUNTIES JOIN TOGETHER TO BUILD EFFECTIVE, RESPONSIVE COUNTY GOVERNMENT. THE GOALS OF THE ORGANIZATION ARE TO: IMPROVE COUNTY GOVERNMENTS; SERVE AS THE NATIONAL SPOKESMAN FOR COUNTY GOVERNMENT; ACT AS A LIAISON BETWEEN THE NATION'S COUNTIES AND OTHER LEVELS OF GOVERNMENT; ACHIEVE PUBLIC UNDERSTANDING OF THE ROLE OF COUNTIES IN THE FEDERAL SYSTEM.

SERVICE LEVELS BY IMPROVING THE EFFICIENCY OF THEIR OPERATIONS AND INCREASING PROPERTY AND OTHER LOCAL TAXES, WHERE POSSIBLE. IN THIS SITUATION OF FINANCIAL STRESS, GENERAL REVENUE SHARING HAS PLAYED A VITAL ROLE IN HELPING COUNTIES TO SUSTAIN A REASONABLE LEVEL OF SERVICE DELIVERY.

COUNTIES ARE AWARE THAT THEY ARE NOT ALONE IN CONFRONTING FISCAL DILEMMAS. THEY RECOGNIZE THE NEED OF THE FEDERAL GOVERNMENT TO REDUCE THE LARGE BUDGET DEFICITS PROJECTED FOR THE NEXT SEVERAL YEARS. IN THE PAST, NACo HAS SUPPORTED CUTS IN PROGRAMS AFFECTING OUR MEMBERS, WHERE SUCH CUTS WERE RATIONAL AND NECESSARY. BUT WE HAVE NEVER ADVOCATED A REDUCTION IN FUNDING FOR GENERAL REVENUE SHARING, WHICH DISTRIBUTES APPROXIMATELY $1.7 BILLION TO COUNTIES EACH YEAR. MORE THAN ANY OTHER, THIS PROGRAM PERMITS US THE FLEXIBILITY TO DEAL WITH OUR MOST URGENT SERVICE NEEDS. DEMANDS FOR SERVICES HAVE INCREASED GREATLY AS A RESULT OF THE AILING ECONOMY AND HIGH UNEMPLOYMENT. IN MY OWN COUNTY OF CHESTER, WE ARE USING GENERAL REVENUE FUNDS TO PROVIDE VITAL HUMAN SERVICES FOR CHILDREN, SENIOR CITIZENS AND THE MENTALLY RETARDED. SHOULD CHESTER COUNTY'S REVENUE SHARING FUNDS BE REDUCED, THE MATCHING FUNDS WE RECIEVE FOR THE PROVISION OF THESE SERVICES WOULD BE CUT. WE WOULD BE FORCED TO INCREASE REVENUES FROM OTHER SOURCES TO COVER THE FUNDING SHORTFALL. IF WE CHOSE TO RAISE OUR PROPERTY TAX, WE WOULD HAVE TO INCREASE IT BY 9% TO REPLACE THE LOST REVENUE SHARING DOLLARS.

OTHER COUNTY GOVERNMENTS DEPEND ON REVENUE SHARING FUNDS IN MUCH THE SAME WAY. EARLY RESPONSES TO A NATIONAL SURVEY CONDUCTED BY THE NATIONAL ASSOCIATION OF COUNTIES INDICATE THAT COUNTIES SPEND REVENUE SHARING FUNDS FOR A WIDE VARIETY OF PROGRAMS, INCLUDING CRIMINAL JUSTICE AND PUBLIC SAFETY, HEALTH, HUMAN SERVICES,

EDUCATION, CAPITAL IMPROVEMENTS, AND GENERAL GOVERNMENT OPERATIONS. FOR SOME SMALLER COUNTIES (UNDER 5,000 POPULATION), REVENUE SHARING COMPRISES AS MUCH AS 16 PERCENT OF TOTAL REVENUES; IN MEDIUM-SIZE COUNTIES (50,000-200,000 POPULATION), BETWEEN 3 AND 6 PERCENT; AND IN LARGE COUNTIES (OVER 200,000 POPULATION), 2 PERCENT OR LESS. MOST RESPONDENT COUNTIES STATE THAT, IF REVENUE SHARING WERE ELIMINATED, THEY WOULD BE FORCED TO EITHER CUT BACK OR ELIMINATE NON-MANDATED PROGRAMS OR RAISE ADDITIONAL REVENUE BY INCREASING PROPERTY TAXES OR INSTITUTING USER FEES. QUITE A FEW COUNTIES HAVE INDICATED, HOWEVER, THAT RAISING TAXES IS NOT AN OPTION FOR THEM AND THAT REDUCTIONS IN STAFF AND/OR PROGRAMS WOULD BE THEIR ONLY ALTERNATIVE. ALTHOUGH THE RESULTS OF NACo'S SURVEY ARE NOT COMPLETE, RESPONSES RECEIVED THUS FAR ARE REPRESENTATIVE IN TERMS OF POPULATION, GEOGRAPHICAL AREA AND URBAN/RURAL BREAKDOWN. NACo FEELS THAT THEY REFLECT COUNTIES' POSITION WITH RESPECT TO GENERAL REVENUE SHARING FAIRLY ACCURATELY.

I THINK IT IS CLEAR THAT GENERAL REVENUE SHARING IS A VERY VITAL PROGRAM FOR COUNTY GOVERNMENTS. IT IS ALSO AN EFFICIENT PROGRAM, WITH ADMINISTRATIVE COSTS AT THE FEDERAL LEVEL OF LESS THAN .2 OF 1 PERCENT. WE WERE PLEASED, THEREFORE, TO SEE THAT THE PRESIDENT INCLUDED FULL FUNDING FOR GENERAL REVENUE SHARING IN HIS FY 1984 BUDGET PROPOSAL. HOWEVER, WE WOULD URGE CONGRESS TO MAKE IMPROVEMENTS IN THE PROGRAM TO ENHANCE ITS VALUE TO LOCAL GOVERNMENTS. THE AMERICAN COUNTY PLATFORM, NACo'S POLICY STATEMENT, CALLS UPON CONGRESS TO AUTHORIZE A PERMANENT GENERAL REVENUE SHARING PROGRAM FUNDED BY AN AUTOMATIC,

ANNUAL APPROPRIATION OF A DESIGNATED PORTION OF THE FEDERAL INCOME TAX BASE. SUCH A CHANGE WOULD REDUCE THE UNCERTAINTY EXPERIENCED BY LOCAL OFFICIALS WHO MUST BUDGET FOR PROGRAMS FUNDED BY REVENUE SHARING AND WOULD ALLOW THE DOLLAR AMOUNTS RECEIVED BY COUNTY GOVERNMENTS TO INCREASE OVER TIME.

LET ME EMPHASIZE THAT SINCE ITS FIRST REAUTHORIZATION IN 1976, THE LEVEL OF GENERAL REVENUE SHARING FUNDING FOR LOCAL GOVERNMENTS HAS REMAINED CONSTANT AT APPROXIMATELY $4.6 BILLION. IT HAS NOT BEEN A RUN-AWAY ENTITLEMENT PROGRAM THAT INCREASES SHARPLY EACH YEAR. IN FACT, DURING THE SIX-YEAR PERIOD SINCE THAT FIRST REAUTHORIZATION, INFLATION HAS SUBSTANTIALLY ERODED THE BUYING POWER OF REVENUE SHARING DOLLARS, RESULTING IN A PROGRAM THAT EFFECTIVELY PROVIDES 40 PERCENT LESS AID TO LOCAL GOVERNMENTS THAN IT DID IN 1976. FURTHERMORE, THE BUDGET ANALYSIS BY THE CONGRESSIONAL BUDGET OFFICE INDICATES THAT CONTINUED FUNDING OF GRS AT THE PRESENT LEVEL WILL RESULT IN AN ADDITIONAL 20 PERCENT LOSS OF SPENDING POWER DUE TO INFLATION BY 1988. NACo URGES THE CONGRESS, THEREFORE, TO PERMANENTLY AUTHORIZE GENERAL REVENUE SHARING AND FUND IT AT A FIXED PERCENTAGE OF THE FEDERAL INCOME TAX BASE, SO THAT AS FEDERAL REVENUES RISE, LOCAL GOVERNMENTS WILL REALIZE AN INCREASE IN REVENUE SHARING FUNDS.

AT THE VERY LEAST, WE URGE THAT GENERAL REVENUE SHARING ALLOCATIONS TO LOCAL GOVERNMENTS BE INCREASED TO REFLECT INCREASES IN LOCAL PROGRAM COSTS DUE TO INFLATION. WE WOULD RECOMMEND THAT REAUTHORIZATION OF THE PROGRAM INCLUDE BOTH AN IMMEDIATE INCREASE IN THE LOCAL SHARE TO OFFSET PAST INFLATIONARY EROSION OF BUYING POWER AND SOME MECHANISM TO PROVIDE FOR FUTURE INCREASES TIED TO INFLATION.

IT IS OUR DESIRE ALSO THAT STATE GOVERNMENTS BE PERMITTED TO PARTICIPATE IN THE GENERAL REVENUE SHARING PROGRAM ONCE MORE. YOU ARE WELL AWARE OF THE ADDITIONAL RESPONSIBILITIES THAT STATE GOVERNMENTS HAVE HAD TO ASSUME UNDER BLOCK GRANTS ESTABLISHED THROUGH NEW FEDERALISM AND OF THE SERIOUS FISCAL PROBLEMS CONFRONTING MANY STATES. A RECENT SURVEY BY THE NATIONAL CONFERENCE OF STATE LEGISLATURES REVEALS THAT,AS A RESULT OF THE RECESSION, CUTBACKS IN FEDERAL AID, AND OTHER FACTORS, 19 STATES PROJECT DEFICITS IN THEIR GENERAL FUNDS FOR THE CURRENT FISCAL YEAR AND ANOTHER TWELVE ANTICIPATE A YEAR-END BALANCE IN THEIR GENERAL FUNDS OF LESS THAN 1 PERCENT. STATES NEED GENERAL REVENUE SHARING IN ORDER TO FULFILL THEIR SERVICE RESPONSIBILITIES AND DEAL WITH THESE FISCAL DILEMMAS WITHOUT OVERBURDENING LOCAL GOVERNMENTS. THEY SHOULD BE BROUGHT BACK INTO THE PROGRAM AT LEAST AT THE $2.3 BILLION DOLLAR LEVEL OF THEIR PREVIOUS PARTICIPATION.

I'D LIKE TO COMMENT NOW ON SOME OF THE PROPOSALS FOR REAUTHORIZATION OF REVENUE SHARING THAT HAVE BEEN DEVELOPED IN THE PAST SEVERAL WEEKS. THE ADMINISTRATION HAS PROPOSED THAT GENERAL REVENUE SHARING BE COMBINED WITH THE ENTITLEMENT PORTION OF THE COMMUNITY DEVELOPMENT BLOCK GRANT UNDER THE NEW FEDERALISM PROGRAM. NACo IS CURRENTLY EVALUATING THIS APPROACH AND HAS ASKED ITS MEMBER COUNTIES TO SUBMIT DATA CONCERNING ITS PROBABLE IMPACT. WE URGE, HOWEVER, THAT SINCE THE EXPIRATION OF THE GENERAL REVENUE SHARING PROGRAM IS FAST APPROACHING, IT BE DEALT WITH BY CONGRESS ON ITS OWN MERITS AND NOT BE DELAYED BY THE CONSIDERATION OF OTHER MORE BROADLY-BASED PROGRAMS INCLUDING NEW FEDERALISM.

SEVERAL PROPOSALS FOR THE REAUTHORIZATION OF REVENUE SHARING HAVE COME FROM THE CONGRESS ITSELF. SENATOR DAVE DURENBERGER AND REP.FRANK HORTON HAVE INTRODUCED

BILLS TO EXTEND REVENUE SHARING IN ITS CURRENT FORM FOR THREE YEARS. WE HAVE HEARD THE DESCRIPTION OF SENATOR DURENBERGER'S MORE COMPREHENSIVE PROPOSAL FOR REAUTHORIZATION WHICH WOULD INCORPORATE SOME OF THE STRUCTURAL CHANGES WE HAVE RECOMMENDED FOR THE PROGRAM. HOWEVER, WE DO HAVE A MAJOR RESERVATION ABOUT THE PROVISION IT CONTAINS TO LIMIT THE DEDUCTIBILITY OF STATE AND LOCAL TAXES. WHILE WE APPRECIATE THE NEED TO IDENTIFY SOURCES OF REVENUE FOR THE EXPANSION OF THE GENERAL REVENUE SHARING PROGRAM, WE OPPOSE LIMITATIONS ON THE DEDUCTIBILITY OF STATE AND LOCAL TAXES BECAUSE WE BELIEVE THAT IT WOULD RESTRICT OUR ABILITY TO INCREASE PROPERTY AND SALES TAXES AT THE LOCAL LEVEL. TAXPAYER RESISTENCE TO HIGHER TAXES WOULD BE STRENGTHENED BY THIS PROPOSAL. SO ALTHOUGH WE FEEL THAT SENATOR DURENBERGER'S BILL HAS MERIT, WE WOULD URGE HIM TO DEVELOP ANOTHER MECHANISM TO FUND THE CHANGES IN REVENUE SHARING THAT IT PROPOSES.

IN THE HOUSE OF REPRESENTATIVES, REP. TED WEISS (D-NY) HAS INTRODUCED A BILL TO REAUTHORIZE REVENUE SHARING THAT WOULD PROVIDE FOR BOTH A STATE SHARE AND AN INCREASED LOCAL SHARE. AGAIN, THIS PROPOSAL IS RESPONSIVE TO SOME OF OUR CONCERNS, BUT DOES NOT GO SO FAR AS TO PROVIDE FOR PROSPECTIVE INCREASES IN REVENUE SHARING TO OFFSET FUTURE INFLATION. IT IS OUR HOPE THAT THE BILL WILL BE AMENDED TO INCLUDE SUCH A PROVISION.

I WOULD LIKE TO CONCLUDE MY PRESENTATION BY STATING THAT NACo SUPPORTS THE ESTABLISHMENT OF A PERMANENT COUNTERCYCLICAL ASSISTANCE PROGRAM TO TRIGGER IN DURING TIMES OF RECESSION AND HIGH UNEMPLOYMENT. SUCH A PROGRAM MIGHT BE INCLUDED IN REAUTHORIZATION LEGISLATION FOR GENERAL REVENUE SHARING OR INTRODUCED

SEPARATELY. COUNTERCYCLICAL ASSISTANCE SHOULD BE DISTRIBUTED TO BOTH STATE AND LOCAL GOVERNMENTS AND THEY SHOULD BE PERMITTED TO SPEND THE FUNDS IN A DISCRETIONARY MANNER FOR PRIORITY NEEDS THEY HAVE IDENTIFIED.

IN THIS SPIRIT, WE ENDORSE LEGISLATION THAT HAS BEEN INTRODUCED BY YOU, MR. CHAIRMAN AND BY REP. FRANK IN THE HOUSE TO ACCELERATE THE PAYMENT OF GENERAL REVENUE SHARING FUNDS UNDER THE CURRENT PROGRAM. ACCELERATION WOULD SPEED UP THE RECEIPT OF FUNDS FOR LOCAL GOVERNMENTS AND ENABLE THEM TO SPEND THESE MONIES FOR THEIR MOST URGENT PROGRAM PRIORITIES, INCLUDING PROVIDING RELIEF TO THE NEEDY. WHILE PASSAGE OF THIS LEGISLATION WOULD GREATLY ASSIST LOCAL GOVERNMENTS, IT WOULD BE ONLY A ONE-TIME MEASURE THAT WOULD NOT INCREASE GENERAL REVENUE SHARING ALLOCATIONS. A MORE EXTENSIVE PROGRAM THAT PROVIDES NEW DISCRETIONARY MONEY TO STATES AND LOCALITIES IS ALSO NECESSARY.

MR. CHAIRMAN, THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE THIS COMMITTEE TODAY. I WOULD BE HAPPY TO ANSWER ANY QUESTIONS AT THIS TIME.

TAXATION AND FINANCE

11.1 FEDERAL FISCAL ASSISTANCE

11.1.1 General Revenue Sharing—County governments call upon the federal government to provide a **permanent** general revenue sharing program which would provide:

A. An automatic, annual appropriation of a designated portion of the federal income tax base;
B. Continuation of the distribution of funds directly to ~~th[illegible] and~~ general purpose local governments, using the existing formula,
C. Public hearings on general revenue sharing funds conducted by counties and other recipients as part of their normal budget procedures.
D. Adequate enforcement of civil rights provisions of the act to guarantee the nondiscriminatory expenditure of general revenue sharing funds. In order to obtain compliance with civil rights provisions, responsibility for enforcement should be given to a single existing federal agency. This agency's authority should be clearly defined by Congress; and
E. States should only have the option of establishing an alternative distribution formula if county officials approve of the proposed change.

11.1.2 Countercyclical Assistance—During times of recessions and high unemployment, countercyclical fiscal assistance should be provided to states, counties, and cities by the federal government. A **permanent** countercyclical program should be established to provide fiscal assistance to governments with the greatest need.

11.2 MUNICIPAL BORROWING

11.2.1 Criteria for Municipal Bond Legislation—When considering any legislation which would have an impact on the municipal bond market, Congress should adhere to the following criteria:

A. Access of state and local governments to the existing tax-exempt market should not be impaired.
B. Any credit assistance program should be automatically applicable to all legitimate state and local borrowing.
C. Such assistance should not be subject to elaborate administrative procedures.

11.2.2 Tax Exemption of Municipal Bonds—County government opposes any action which would directly or indirectly tax, under the federal income tax, interest on state or local government municipal bonds, or would place these bonds in an inferior competitive position with federal debt instruments and corporate securities. For this reason, counties oppose the taxable bond option.

11.2.3 Restrictions on Local Debt—States should repeal constitutional or statutory restrictions limiting county government debt by reference to local base for property taxation. Any new restrictions enacted in their place should relate realistically to the ability of counties to meet debt requirements.

11.2.4 Disclosure of Information by Municipal Bond Issuers—NACo recognizes the need for full disclosure of all relevant information concerning a county's financial condition to potential investors, citizens, and other interested parties in municipal bonds. NACo opposes federally imposed standards for county financial accounting and reporting.

Resolution on Reauthorization of
General Revenue Sharing

WHEREAS, General Revenue Sharing is a vital program for county governments because it distributes funds to be spent on local priorities, according to the discretion of county officials; and

WHEREAS, general Revenue Sharing is among the most efficient of federal grant programs, with administrative costs of approximately one percent; and

WHEREAS, the current general revenue sharing program is scheduled to expire on September 30, 1983; and

WHEREAS, the National Association of Counties has designated renewal of revenue sharing as its first legislative priority in 1983; and

WHEREAS, Section 11.1.1 of the American County Platform states those principles according to which the general revenue sharing program should be structured;

THEREFORE, BE IT RESOLVED, that the National Association of Counties support legislation for the renewal of revenue sharing that reflects these Platform principles and two additional principles, namely that (1) general revenue sharing allocations be increased to reflect needed increases in local program costs due to inflation, and (2) the state share of general revenue sharing be restored to the program without a reduction in the local share; and

BE IT FURTHER RESOLVED, that the National Association of Counties urge that general revenue sharing be dealt with on its own program merits in an expeditious mannner and not be delayed by the consideration of other proposals.

3/1/83

Resolution on Legislation to Accelerate General Revenue Sharing Payments

WHEREAS, General Revenue Sharing is a vital program for county governments because it distributes funds to be spent on local priorities, according to the discretion of county officials; and

WHEREAS, many county governments are providing services under severe fiscal constraints because of the recession and cutbacks in intergovernmental aid; and

WHEREAS, all county governments allocate revenue sharing dollars to programs and services which can abate the impact of the recession; and

WHEREAS, county governments currently receive general revenue sharing payments five days after the end of quarter for which the funds have been allocated; and

WHEREAS, receipt of revenue sharing funds earlier in the quarter would facilitate more rapid deployment of these funds to assist the needy and for other urgent purposes; and

WHEREAS, legislation has been introduced in both the Senate and the House to accelerate revenue sharing payments to the fifth day after the beginning of a quarter;

THEREFORE, BE IT RESOLVED, that the National Association of Counties support the immediate passage of such legislation, but only if such acceleration of payment will not be used as a reason for Congress to fail to approve an inflationary adjustment in general revenue sharing in the future.

3/1/83

WITNESS PROFILE

Earl M. Baker
Chairman
Chester County Commission

Experience: 1976-Present
Commissioner, Chester County, Pennsylvania

1970-Present
Assistant Professor of Government and Politics and Faculty Associate, Temple University Department of Political Science

1967-1970
Staff Associate and Assistant Director for the Congressional Fellowship Program, American Political Science Association, Washington, D.C.

1962-1967 U.S. Naval Officer

NACo Activities: Vice Chairman of the NACo Taxation and Finance Steering Committee
Member of the NACo Task Force on Industrial Development Bonds

Education: 1971 Ph.D. Government, American University

1967 M.A. Government, American University

1961 A.B. Political Science, University of North Carolina

Attended U.S. Navy Schools: O.C.S. Communications, Ship Handling, and Anti-submarine warfare

Completed graduate courses in planning and county government, Pennsylvania State University, and statistics and survey research, University of Michigan

Political Affiliation: Republican

Personal Information: Born January 22, 1940
Married, two children

Senator HEINZ. Commissioner Baker, thank you very much.
Mr. Russell.

STATEMENT OF BARTON RUSSELL, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF TOWNS AND TOWNSHIPS, WASHINGTON, D.C.

Mr. RUSSELL. Thank you, Mr. Chairman.

Before I begin I would like to pass on regrets from George Miller, our National Association president from Illinois, who because of a long-standing commitment back home could not be with us today. His thoughts however, are certainly with us.

Senator HEINZ. Well, let me just say that because we had some conflict last Monday when this hearing was originally scheduled, I'm afraid we inconvenienced some of our witnesses. But the Jobs bill was on the floor, and we had a small amendment on the acceleration of general revenue sharing payments. In the interests of real general revenue sharing efficiency, we decided it would be better to reschedule for today.

Mr. RUSSELL. Absolutely.

Senator HEINZ. I apologize to Mr. Miller or anybody else who was inconvenienced.

Please proceed, Mr. Russell.

Mr. RUSSELL. Thank you.

On behalf of the board of directors of NAT&T, I would like to thank you for providing us the opportunity to testify on this very important topic.

As you may know, the National Association represents local officials from over 13,000 smaller jurisdictions across the country.

Reauthorization of general revenue sharing is NAT&T's number one legislative priority in 1983, and for some very important reasons:

Town governments need GRS funds to help offset the extreme financial limitations of the real property tax that the witness before me alluded to. This is a financial burden that can only be alleviated partially through other taxes, charges, and to some extent inkind contributions.

Another major, major financial constraint facing our members is that their taxing authority in many instances is severely limited by State constitution or statute. Revenue sharing goes a long way to help bridge that gap.

A real plus about GRS is that it is flexible enough in design to enable townships to use the funds to meet their most pressing needs—an important factor in an economic climate where financial resources are extremely tight.

Of course the minimum of paperwork and regulation in the GRS program guarantees funds to local governments that otherwise don't have professional-grantsmanship capacities and therefore have a difficult time identifying and competing for Federal aid.

These, Mr. Chairman, are the major reasons why towns and townships see GRS funds as such an important resource.

While there is tremendous grassroots support for the program, township officials clearly understand that Congress needs to know that the national objectives of the program are being met by the recipients of the funds.

To help explain how GRS funds are being spent by NATaT's members, I would like to summarize the results of a major national survey being conducted by the association at this time:

To date, our national office has received over 4,000 survey responses from individual towns and townships and has tabulated just over half of them. This tremendous response, which we expect will ultimately result in over 7,000 returns, provides a good understanding of the importance of GRS funds to towns.

Mr. Chairman, I will not report in great detail on the findings of the survey at this time, but with your permission we would like to submit a table which does provide more detail, particularly for towns under 10,000 in population.

Senator HEINZ. Without objection, the table will be a part of the hearing record.

Mr. RUSSELL. Thank you.

[The table follows:]

National Association of Towns and Townships

<u>POPULATION RANGE:</u> 0 - 9,999

<u>NUMBER OF RESPONSES:</u> 2,057

<u>PERCENT OF TOTAL RESPONSES:</u> 97%

<u>AVERAGE PERCENT REVENUE SHARING IS OF TOTAL BUDGET:</u> 14.9%

<u>PERCENT INDICATING REVENUE SHARING IS ONLY DIRECT FEDERAL MONEY RECEIVED:</u> 62%

The figures below represent percent of respondents indicating this option.

<u>CURRENT USE OF REVENUE SHARING DOLLARS*</u>

Fire and/or Rescue: 28.3%

Public Transportation: 71.5%

Services for the Youth, Elderly, Poor: 14.8%

Parks/Recreation: 7.2%

Solid/Hazardous Waste Disposal: 4.5%

General Administration: 8.3%

<u>IMPACT OF LOSS OF THE GENERAL REVENUE SHARING PROGRAM</u>

Raise Taxes: 65.6%

Cut back programs: 45.6%

Postpone/Halt Capital Improvements: 16.7%

Go Into Debt: 12.4%

Lay Off Employees: 2.9%

* Less than 1% of the respondents indicated that GRS funds were spent in the following categories: Health, Libraries, Water and Sewer, Energy Conservation, Financial Administration, Police, Public Education, and Housing.

Mr. RUSSELL. On the average, GRS constituted 15 percent of the total budget of the localities that responded to our survey. Over 60 percent stated that revenue sharing is the only Federal money they receive directly.

Most townships do not spend their money from revenue sharing on just one function. Towns tend to use their revenue sharing allocation on a variety of necessary public services.

We asked survey respondents to indicate from a selection of 18 public service categories the number of ways in which they spent their revenue sharing allocation for the current year. The services most frequently supported by revenue sharing dollars according to the respondents are: fire and rescue; services for the poor, elderly, or youth; the disposal of solid and/or hazardous waste; public transportation; parks and recreation; and general administration.

For example, 71 percent of the respondents indicated that some portion of their GRS dollars were spent on public transportation, 15 percent on services to the poor, elderly, or youth, and 28 percent of their GRS funds on fire and rescue.

Mr. Chairman, these are just some of the general categories in which revenue sharing dollars were used; but, perhaps more importantly, we should understand exactly how revenue sharing dollars were spent within those categories.

Some of the specific purchases and services that were made included fire helmets and uniforms, installing culverts, sanding and grading roads, buying equipment for rescue vehicles, paying for drug abuse hotlines staffed by volunteers, developing youth and adult summer recreation programs, providing courses for the elderly, paying in part for local parks—the list is quite long.

Mr. Chairman, the importance of GRS to America's towns was expressed most thoughtfully by one of NATaT's survey respondents, who said about their service programs:

> Revenue sharing funds are vital to the continued operation of the programs we provide. The rapid population growth of our town has placed a huge burden on the financial resources that we have, and revenue sharing represents the only alternative available to fund the program. As was pointed out, volunteers can only do so much. They can plan and operate programs, but the funds to purchase the necessary equipment and facilities must come from somewhere. The Federal revenue sharing program provides the necessary financial flexibility to blend very well with our volunteer efforts. It is imperative that it be renewed.

Recognizing that my time has expired, I will save responses concerning specfic legislative proposals to the end, but I would like to say in closing that I think it is extremely appropriate that you are chairing these subcommittee hearings on this very important topic, given that the Pennsylvania State Association of Townships supervisors conferred upon you their H. A. Thompson Founders Award two years ago—"For a friend of township government who shares our mutual belief that the closer the government is to the people the more effective it will be." Revenue sharing certainly fits within this concept.

I appreciate the opportunity to be here today, and to provide the town perspective. Thank you both very much.

Senator HEINZ. Thank you very much, Mr. Russell. Frankly, I was very proud to receive the Cappy Thompson Award that our

19-332 O—83——9

Pennsylvania Association of Townships bestowed. He was a remarkable fellow.

Senator BAKER. He was from Chester Country, sir.

Senator HEINZ. He was even more remarkable. [Laughter]

[Mr. Russell's prepared statement follows:]

National
Association of
Towns and Townships

TESTIMONY OF

BARTON D. RUSSELL
EXECUTIVE DIRECTOR

OF THE
NATIONAL ASSOCIATION OF TOWNS AND TOWNSHIPS

BEFORE THE
SUBCOMMITTEE ON ECONOMIC GROWTH, EMPLOYMENT, AND
REVENUE SHARING

OF THE
SENATE FINANCE COMMITTEE

HEARINGS ON GENERAL REVENUE SHARING

MARCH 21, 1983

INTRODUCTION

Mr. Chairman, members of the Subcommittee, my name is Bart Russell. I am testifying today in my capacity as Executive Director of the National Association of Towns and Townships, which represents over 13,000 towns nationwide. On behalf of the Board of Directors of NATaT, I am most appreciative of the opportunity to testify before your Subcommittee and want to thank you for inviting me to explain the reasons why town and township officials want to see the General Revenue Sharing program reauthorized.

GRS - A NEEDED LOCAL REVENUE SOURCE

The reauthorization of the General Revenue Sharing program, in its current form, is NATaT's major legislative priority in 1983 for some important reasons. First, GRS funds provide a crucial source of revenue in a local economy where the burden of financing services continues to be borne by the real property owner. Local governments need GRS funds to help offset the financial burden of the real property tax -- a financial burden that can only be alleviated partially through other taxes, charges, and inkind contributions. Furthermore, local taxing authority is in many cases severely limited by state constitutions or statutes.

SECOND, THE PROGRAM EXEMPLIFIES THE PHILOSOPHY THAT THE LEVEL OF GOVERNMENT CLOSEST TO THE PEOPLE SHOULD PROVIDE THE BASIC SERVICES REQUIRED BY ITS CITIZENS. THIRD, THE PROGRAM IS FLEXIBLE ENOUGH IN DESIGN TO ENABLE TOWN OFFICIALS TO USE GRS FUNDS TO MEET THEIR MOST PRESSING NEEDS - - AN IMPORTANT FACTOR IN AN ECONOMIC CLIMATE WHERE FINANCIAL RESOURCES ARE DEPLETED. LAST, THE MINIMUM OF PAPERWORK AND REGULATIONS IN THE GRS PROGRAM GUARANTEES FUNDS TO LOCAL GOVERNMENTS THAT OTHERWISE WOULD NOT HAVE THE PROFESSIONAL CAPACITY TO IDENTIFY AND COMPETE FOR FEDERAL FUNDS.

THE AFOREMENTIONED ARE THE MAJOR REASONS WHY TOWNS AND TOWNSHIPS APPRECIATE AND VIEW GRS FUNDS AS AN IMPORTANT RESOURCE IN MAINTAINING FINANCIAL SOLVENCY AT THE LOCAL LEVEL. AT THE SAME TIME, TOWN AND TOWNSHIP OFFICIALS UNDERSTAND THAT CONGRESS NEEDS TO KNOW THAT THE NATIONAL OBJECTIVES OF THE PROGRAM ARE BEING MET BY THE RECIPIENTS OF GRS FUNDS - - THAT GRS FUNDS ARE BEING WELL SPENT. MR. CHAIRMAN, AND MEMBERS OF THE SUBCOMMITTEE, TO HELP EXPLAIN HOW GRS FUNDS ARE BEING SPENT BY TOWNS AND TOWNSHIPS, I WOULD LIKE TO SUMMARIZE THE RESULTS OF A NATIONWIDE REVENUE SHARING SURVEY CONDUCTED RECENTLY BY THE NATIONAL ASSOCIATION OF TOWNS AND TOWNSHIPS.

IMPORTANCE OF GRS TO TOWNS

UNDER THE CURRENT GENERAL REVENUE SHARING PROGRAM, TOWNS AND TOWNSHIPS REPRESENT FORTY TWO PERCENT OF THE GOVERNMENTS ELIGIBLE TO RECEIVE GRS FUNDS. THE FUNDS ARE USED TO PROVIDE IMPORTANT BASIC SERVICES FOR CITIZENS, RANGING FROM PUBLIC TRANSPORTATION TO AID FOR THE POOR. TO GAIN A MORE THOROUGH AND SPECIFIC UNDERSTANDING OF THE IMPORTANCE OF GENERAL REVENUE SHARING FUNDS TO NATAT'S MEMBERS, THE ASSOCIATION CONDUCTED A NATIONWIDE SURVEY. TO DATE, OUR NATIONAL OFFICE HAS RECEIVED NEARLY 4,000 SURVEYS AND HAVE TABULATED OVER ONE HALF OF THE TOTAL NUMBER OF RESPONSES. WE BELIEVE THAT THE SIGNIFICANT NUMBER OF RESPONSES HAS ENABLED US TO GAIN A THOROUGH UNDERSTANDING OF THE IMPORTANCE OF GRS FUNDS TO TOWNS, PARTICULARLY AS OUR PRESENT COUNT CONTAINS NO DUPLICATES. RATHER, IT REFLECTS ONE SURVEY PER TOWNSHIP.

MR. CHAIRMAN, I WILL NOT REPORT ON THE FINDINGS OF THIS NATIONWIDE SURVEY IN GREAT DETAIL AT THIS TIME. IF IT IS ACCEPTABLE TO YOU, WE WOULD LIKE TO SUBMIT FOR THE RECORD A TABLE THAT SUMMARIZES THE RESPONSE FOR TOWNS UNDER 10,000 IN POPULATION. IN SUMMARY NINETY NINE PERCENT OF THE TABULATED RESPONSES ARE FROM TOWNS AND TOWNSHIPS WITH LESS THAN 20,000 IN POPULATION. ON THE AVERAGE, GENERAL REVENUE SHARING CONSTITUTES FIFTEEN PERCENT OF THE TOTAL

BUDGET OF THE LOCALITIES THAT RESPONDED. OVER SIXTY PERCENT STATED THAT REVENUE SHARING IS THE ONLY FEDERAL MONEY THEY RECEIVE DIRECTLY.

TOWN AND TOWNSHIP USE OF GRS FUNDS

MOST TOWNS DO NOT SPEND THEIR GRS MONEY ON JUST ONE FUNCTION. TOWNS WILL TEND TO USE THEIR REVENUE SHARING ALLOCATION ON A VARIETY OF PUBLIC SERVICES. IN OUR SURVEY, RESPONDENTS WERE ASKED TO INDICATE FROM A SELECTION OF EIGHTEEN PUBLIC SERVICE CATEGORIES, THE NUMBER OF WAYS IN WHICH THEY SPENT THEIR REVENUE SHARING ALLOCATION FOR THE CURRENT YEAR. THE SERVICES MOST FREQUENTLY SUPPORTED BY REVENUE SHARING DOLLARS, ACCORDING TO THE RESPONDENTS, ARE: FIRE AND/OR RESCUE; SERVICES FOR THE POOR, ELDERLY OR YOUTH; THE DISPOSAL OF SOLID AND/OR HAZARDOUS WASTE; PUBLIC TRANSPORTATION; PARKS AND RECREATION; AND GENERAL ADMINISTRATION. FOR EXAMPLE, SEVENTY ONE PERCENT OF THE RESPONDENTS INDICATED THAT SOME PORTION OF THEIR GRS DOLLARS WERE SPENT ON PUBLIC TRANSPORTATION; FIFTEEN PERCENT SPENT A PORTION OF THEIR FUNDS ON SERVICES FOR THE POOR, ELDERLY OR YOUTH; AND TWENTY EIGHT PERCENT SPENT A PORTION OF THEIR GRS FUNDS ON FIRE AND/OR RESCUE SERVICES.

MR. CHAIRMAN, THE STATISTICS BEGIN TO DOCUMENT THE IMPORTANCE OF GENERAL REVENUE SHARING TO TOWNS AND TOWNSHIPS, But it is perhaps more important to understand exactly how GRS funds are spent. Our survey asked town officials to describe in detail what purchases were made or services delivered with their GRS funds. The response was overwhelming. Specific examples of how GRS funds are spent include purchasing fire helmets and uniforms, installing culverts, sanding and grading roads, purchasing equipment for rescue vehicles, paying for drug abuse hotlines staffed by volunteers, paying in part for snow removal equipment, developing youth and adult summer volleyball, swimming, and fine arts programs, purchasing and delivering groceries for senior citizens, providing courses for senior citizens, paying in part for local parks, purchasing police uniforms and police vehicle radar equipment, and purchasing school books for children from welfare families.

We received several hundred detailed, thoughtful responses, one of which I would like to highlight for you. Brandon Township, Michigan, experienced rapid population growth from 1970 to 1980 with the number of residents growing from 4,813 to 8,500. As the population exploded, the demand for services grew at a rapid rate. Due to increasing energy costs and rising unemployment, the foremost demand made by the township's citizens was for new governmental services closer to home In response, Brandon Township used general revenue sharing funds from 1980 - 1983 to establish a recreation commission

IN COOPERATION WITH TWO OTHER COMMUNITIES AND TO BUILD A SENIOR CITIZENS CENTER.

BRANDON TOWNSHIP OFFICIALS DESCRIBE, "THE RECREATION COMMISSION IS SOMEWHAT UNIQUE IN THAT IT REPRESENTS A SHARING OF RESOURCES AMONG THREE COMMUNITIES AND THE MAJORITY OF PROGRAMS ARE PLANNED AND RUN BY VOLUNTEERS. SINCE 1980 SIXTY TO SEVENTY PERCENT OF THE FUNDS TO SUPPORT THE COMMISSION COME FROM THE FEDERAL REVENUE SHARING PROGRAM...VOLUNTEERISM IS A WONDERFUL THING IN AND OF ITSELF, BUT IN MOST SITUATIONS IT IS NECESSARY TO PROVIDE DIRECTION AND SUPPORT AND REVENUE SHARING FUNDS HAVE ALLOWED THE COMMISSION TO HIRE A FULL-TIME DIRECTOR TO SERVE THIS PURPOSE."

THE NUMBER OF WORTHWHILE PROGRAMS PROVIDED BY THE COMMISSION FOR BRANDON TOWNSHIP'S CITIZENS INCLUDES: OFFERING PARK ACTIVITIES FOR CHILDREN TO OVERCOME DEVELOPING DELINQUENCY AND VANDALISM PROBLEMS; SENDING THIRTY EMOTIONALLY IMPAIRED CHILDREN TO CAMP EACH SUMMER TO RECEIVE PROFESSIONAL COUNSELING; ESTABLISHING A SUMMER CREATIVE DRAMATICS PROGRAM TO GIVE RESIDENTS LIVING IN A SEMI-RURAL AREA EXPOSURE TO THE ARTS AND TO FILL IN FOR THE SCHOOL SYSTEM WHICH HAS ELIMINATED THE ARTS PROGRAMS BECAUSE OF FINANCIAL PROBLEMS; DEVELOPING THREE DIFFERENT ADULT SOFTBALL LEAGUES; BUILDING A SOFTBALL

DIAMOND WITH VOLUNTEER HELP; AND PROVIDING SOCIAL AND RECREATIONAL ACTIVITIES DURING THE WINTER AND SUMMER MONTHS, PROGRAMS THAT ARE ALL RUN BY VOLUNTEERS.

WITH RESPECT TO THE SENIOR CENTER, LOCAL OFFICIALS STATE, "BRANDON TOWNSHIP IS A GROWING COMMUNITY. . .HARD HIT BY THE ECONOMY. . .AND FEDERAL REVENUE SHARING FUNDS HAVE MADE IT POSSIBLE TO BUILD OUR SENIOR CITIZENS CENTER, WHICH OFFERS A FULL RANGE OF SERVICES FOR OUR SENIORS AND DISABLED PERSONS."

THE SENIOR CENTER HAS REGISTERED OVER ONE HUNDRED SENIORS, MANY OF WHOM ARE WIDOWS AND WIDOWERS. AS COMPANIONSHIP IS A NUMBER ONE PRIORITY, THE CENTER, STAFFED BY VOLUNTEERS, IS OPEN FIVE DAYS AND NIGHTS A WEEK PROVIDING A WIDE RANGE OF SERVICES. HOT LUNCHES ARE FURNISHED FOR THE DISABLED AND HOMEBOUND. TRIPS, SOCIAL, AND EDUCATIONAL ACTIVITIES ARE HELD ON A REGULAR BASIS FOR ACTIVE SENIORS. THE CENTER ALSO CHECKS UP ON SENIOR CITIZENS WHEN THEY ARE SICK AND OFFERS A BLOOD PRESSURE CLINIC.

BRANDON TOWNSHIP'S PRODUCTIVE USE OF GENERAL REVENUE SHARING FUNDS IN THE THREE YEAR PERIOD, HOWEVER, DOES NOT STOP AT THE SENIOR CENTER AND EXTENSIVE RECREATIONAL PROGRAMS. IN ADDITION, THE TOWNSHIP HAS REPAIRED SEVERAL BRIDGES,

PURCHASED A RESCUE UNIT, PAID FOR A POLICE RESERVE UNIT PROVIDED CARDIOPULMONARY RESUSCITATION (CPP) COURSES, TRAINED OVER 400 FIREFIGHTERS, AND PROVIDED THE EQUIPMENT FOR THEIR FIREFIGHTER TRAINING PROGRAM.

MR. CHAIRMAN, IT IS OUR BELIEF THAT BRANDON TOWNSHIP'S USE OF GENERAL REVENUE SHARING DOLLARS EXEMPLIFIES THE PRACTICAL AND CREATIVE SOLUTIONS TO REAL PROBLEMS THAT SMALL TOWNS ARE CAPABLE OF EXECUTING WITH LIMITED DOLLARS THIS COMMITMENT, COMBINED WITH TRADITIONS OF VOLUNTEERISM, PRIVATE RESOURCES AND NEIGHBORHOOD INVOLVEMENT MAKE IT POSSIBLE FOR SMALL COMMUNITIES LIKE BRANDON TOWNSHIP TO STRETCH THEIR REVENUE SHARING DOLLARS EVEN FARTHER. THESE MODEST SUMS ARE AS IMPORTANT TO TOWNS AND TOWNSHIPS AS LARGER SUMS ARE TO METROPOLITAN AREAS BECAUSE THE PROBLEMS IN SMALL TOWNS ARE JUST AS REAL. THIS THOUGHT IS PERHAPS BEST EXPRESSED BY BRANDON TOWNSHIP IN THE CLOSING REMARKS OF THEIR DESCRIPTION ABOUT THEIR SERVICE PROGRAMS:

"REVENUE SHARING FUNDS ARE VITAL TO THE CONTINUED OPERATION OF THE RECREATION COMMISSION AND THE IMPORTANT PROGRAMS WE PROVIDE. THE RAPID POPULATION GROWTH DESCRIBED EARLIER HAS PLACED A CONTINUING BURDEN ON THE FINANCIAL RESOURCES OF BRANDON TOWNSHIP AND REVENUE SHARING REPRESENTS THE ONLY ALTERNATIVE AVAILABLE TO FUND THE PROGRAMS...AS

WAS POINTED OUT...VOLUNTEERS CAN DO ONLY SO MUCH. THEY CAN PLAN AND OPERATE PROGRAMS, BUT THE FUNDS TO PURCHASE EQUIPMENT AND DEVELOP FACILITIES MUST COME FROM SOMEWHERE. THE FEDERAL GENERAL REVENUE SHARING PROGRAM PROVIDES THE NECESSARY FINANCIAL FLEXIBILITY TO BLEND VERY WELL WITH VOLUNTEER EFFORTS. IT IS IMPERATIVE THAT IT BE RENEWED."

IN SUPPORT OF BRANDON TOWNSHIP'S CONCERNS SIXTY FIVE PERCENT OF THE RESPONDENTS TO THE NATaT SURVEY INDICATED THAT THEY WOULD HAVE TO RAISE TAXES IF THEIR GRS FUNDS ARE ELIMINATED. FORTY SIX PERCENT SAID THAT THEY WOULD HAVE TO CUT BACK PROGRAMS.

THE FUTURE OF GRS

MR. CHAIRMAN, WE BELIEVE THAT THE COST EFFICIENT AND EFFECTIVE DESIGN OF THE GRS PROGRAM MAKES IT A VALUABLE PROGRAM FOR TOWNS AND TOWNSHIPS. WE BELIEVE THAT THE RESPONSE TO THE NATaT NATIONWIDE SURVEY HELPS ILLUSTRATE TO CONGRESS THAT TOWNS AND TOWNSHIPS ARE SPENDING THEIR GRS FUNDS IN A RESPONSIBLE MANNER CONSISTENT WITH CONGRESSIONAL INTENT. FOR THESE REASONS, NATaT ENTHUSIASTICALLY ENDORSES REAUTHORIZATION OF THE PROGRAM. TOWARDS THAT END, WE ARE IN FULL SUPPORT OF S.41, SPONSORED BY SENATOR DAVE DURENBERGER (R-MN).

IN PARTICULAR, THE NATIONAL ASSOCIATION OF TOWNS AND TOWNSHIPS WANTS TO ENSURE THAT ADEQUATE GRS FUNDING CONTINUES FOR TOWNSHIPS AND OTHER SMALLER UNITS OF LOCAL GOVERNMENT. WE BELIEVE THAT THE RESULTS OF OUR NATIONWIDE SURVEY PROVIDE A FULL AND DETAILED DESCRIPTION OF THE WORTHWHILE SERVICES PROVIDED BY SMALLER COMMUNITIES AND ILLUSTRATE THE IMPORTANCE OF GRS FUNDS IN PROVIDING THOSE SERVICES. KEEPING IN MIND THE NATURE OF THE NATIONAL ASSOCIATION'S MEMBERSHIP AS CHARACTERIZED BY OUR SURVEY RESULTS AND THE IMPORTANCE OF SMALL TOWN GOVERNMENT TO OUR INTERGOVERNMENTAL SYSTEM, THE BOARD OF DIRECTORS OF THE NATIONAL ASSOCIATION OF TOWNS AND TOWNSHIPS RECENTLY ADOPTED THE FOLLOWING POSITIONS ON SEVERAL OF THE LEGISLATIVE PROPOSALS UNDER CONSIDERATION BY CONGRESS TO CHANGE OR ALTER THE PROGRAM.

FUNDING LEVEL

WE SUPPORT ADDITIONAL FUNDING FOR THE LOCAL SHARE OF THE GENERAL REVENUE SHARING PROGRAM TO HELP AMELIORATE THE IMPACT THAT INFLATION HAS HAD ON LOCAL BUYING POWER. THIS HAS OCCURRED OVER THE PAST SEVEN YEARS, DURING WHICH TIME THE NATIONAL GENERAL REVENUE SHARING FUNDING LEVEL HAS BEEN FROZEN AT 4.56 BILLION. THE NATaT BOARD OF DIRECTORS RECOGNIZES THE FISCAL PROBLEMS WITH WHICH CONGRESS IS NOW GRAPPLING AND THEREFORE COULD ACCEPT REAUTHORIZATION AT THE CURRENT LEVEL.

Formula

We do not see a need to make any changes in the current GRS formula. Historically, the Congress has discussed changing the formula but has concluded that the difficulty of designing a formula for 40,000 local governments makes it impossible to predict what the impact of a formula change will be. While the current formula is not perfect, in our view it is satisfactory.

Bringing States Back Into The Program

We support ~~reinstating~~ a state revenue sharing program, as long as no proportion of the funds allocated for the local share are used to finance the state portion of the program.

Length of Reauthorization

We support reauthorizing the program for at least three years.

Administration's Local Fiscal Assistance Block Grant of 1983

We do not support the provisions of this block grant which would combine the entitlement portion of the Community Development Block Grant with the General Revenue Sharing program. The NATaT Board of Directors believes that any legislative proposal that might possibly confuse the original intent of the general revenue sharing program would not be beneficial to towns and townships. In our opinion, such

CONFUSION WOULD BE GENERATED BY ADOPTING THE PROVISIONS OF THE ADMINISTRATION'S FISCAL ASSISTANCE BLOCK GRANT OF 1983, WHICH COMBINES A GENERAL PURPOSE ASSISTANCE PROGRAM WITH A TARGETED ASSISTANCE PROGRAM.

ACCELERATED GRS PAYMENTS

IN GENERAL, WE SUPPORT YOUR BILL, MR. CHAIRMAN, S. 525, WHICH WOULD ACCELERATE GENERAL REVENUE SHARING PAYMENTS ON A ONE TIME BASIS. AS A WORD OF CAUTION, HOWEVER, A CHANGE IN THE PAYMENT SCHEDULE FROM THE END OF THE QUARTER TO THE BEGINNING OF THE QUARTER COULD, IN OUR VIEW, CAUSE CONFUSION FOR MANY RECIPIENT GOVERNMENTS. TO ALLEVIATE THE IMPACT, WE WOULD HOPE THAT CONGRESS WOULD ADVISE THE OFFICE OF REVENUE SHARING (ORS) IN THE DEPARTMENT OF TREASURY TO HELP THESE GOVERNMENTS THROUGH THE TRANSITION PERIOD.

WITH RESPECT TO OTHER PROPOSED CHANGES TO THE ORIGINAL LAW, THE BOARD OF DIRECTORS OF THE NATIONAL ASSOCIATION HAS YET TO ADOPT A FORMAL POSITION. IN PARTICULAR, WE ARE REVIEWING S. 700, THE STATE AND LOCAL FISCAL ASSISTANCE AST OF 1983, SPONSORED BY SENATOR DAVE DURENBERGER (R-MN), IN AN EFFORT TO ASSESS THE IMPACT ON TOWNS AND TOWNSHIPS OF LOWERING THE PER CAPITA MINIMUM FROM TWENTY TO FIFTEEN PERCENT AND INCREASING THE DEMINIMUS FROM TWO HUNDRED TO FIVE HUNDRED DOLLARS, AMONG OTHER PROVISIONS.

ALTHOUGH SENATOR DURENBERGER'S BILL WOULD HOLD LOCAL GOVERNMENTS HARMLESS, WE ALSO HAVE CONCERNS ABOUT THE RELATIVE AMOUNT OF MONEY SMALL VERSES LARGE UNITS OF GOVERNMENTS WOULD RECEIVE OVER TIME.

IN AN EFFORT TO ADDRESS THESE ISSUES FAIRLY, THE BOARD OF DIRECTORS IS PRESENTLY AWAITING DATA WHICH WOULD HELP THEM EVALUATE THE IMPACT OF THE PROVISIONS IN S. 700. AT THAT TIME, A FORMAL POLICY STATEMENT WILL BE ADOPTED.

CONCLUSION

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE, IF CONGRESS BELIEVED THAT THE CONCEPT OF GENERAL REVENUE SHARING WAS RIGHT IN 1972, IN 1976, AND IN 1980, THEN IT IS EVEN MORE SO TODAY. IF LOCAL GOVERNMENTS ARE TO SURVIVE IN THE PRESENT AND PLAN EFFECTIVELY FOR THE FUTURE, THEY WILL NEED SUFFICIENT REVENUES TO UNDERTAKE CAPITAL IMPROVEMENTS AND PROVIDE THE SERVICES REQUIRED BY THEIR CITIZENS. GENERAL REVENUE SHARING FUNDS PROVIDE DEPENDABLE AND FLEXIBLE SOURCES OF FUNDING THAT TOWNS AND TOWNSHIPS NEED TO MAINTAIN A BASIC SERVICE LEVEL IN THEIR COMMUNITY. REAUTHORIZATION OF THE GENERAL REVENUE SHARING PROGRAM WOULD ENABLE LOCAL GOVERNMENTS TO CONTINUE TO RESPOND TO LOCAL NEEDS. THE MEMBERS OF THE NATIONAL ASSOCIATION OF TOWNS AND TOWNSHIPS HOPE THAT CONGRESS WILL UNDERSTAND AND RESPOND TO THIS NEED BY REAUTHORIZING THE PROGRAM IN 1984. THANK YOU, MR. CHAIRMAN, ON BEHALF OF NATAT'S MEMBERSHIP, FOR THE OPPORTUNITY TO PROVIDE THE TOWN PERSPECTIVE ON THIS VITAL FEDERAL ASSISTANCE ISSUE.

National
Association of
Towns and Townships

NATIONAL GENERAL REVENUE SHARING SURVEY

POPULATION RANGE: 0 - 9,999

NUMBER OF RESPONSES: 2,057

PERCENT OF TOTAL RESPONSES: 97%

AVERAGE PERCENT REVENUE SHARING IS OF TOTAL BUDGET: 14.9%

PERCENT INDICATING REVENUE SHARING IS ONLY DIRECT FEDERAL MONEY RECEIVED: 62%

The figures below represent percent of respondents indicating this option.

CURRENT USE OF REVENUE SHARING DOLLARS*

Fire and/or Rescue: 28.3%

Public Transportation: 71.3%

Services for the Youth, Elderly, Poor: 14.8%

Parks/Recreation: 7.2%

Solid/Hazardous Waste Disposal: 4.5%

General Administration: 8.3%

IMPACT OF LOSS OF THE GENERAL REVENUE SHARING PROGRAM

Raise Taxes: 65.6%

Cut back programs: 45.6%

Postpone/Halt Capital Improvements: 16.7%

Go Into Debt: 12.4%

Lay Off Employees: 2.9%

* Less than 1% of the respondents indicated that GRS funds were spent in the following categories: Health, Libraries, Water and Sewer, Energy Conservation, Financial Administration, Police, Public Education, and Housing.

19-332 O—83——10

Senator HEINZ. Now I would like to welcome Bill Althaus, the mayor of York, Pa.

Bill, we are really privileged to have not one but two Pennsylvanian down here, signifying perhaps that we probably have more local governments in our State than anyone else. Certainly people always wonder how we can have something like 150 local governments in my home county of Allegheny County. I sometimes used to wonder about it, too, when I was a Congressman. Now I have to worry more about the cities and counties than I do each of those individual municipalities that are so ably represented by Mr. Russell here.

I am glad to have you here, Bill. Please proceed.

STATEMENT OF WILLIAM J. ALTHAUS, MAYOR, CITY OF YORK, PA., ON BEHALF OF THE UNITED STATES CONFERENCE OF MAYORS, WASHINGTON, D.C.

Mr. Althaus. Mr. Chairman, thank you very much, and Senator Durenberger.

I would like to thank you on behalf of the Conference of Mayors for the opportunity to testify on this vitally important question of the renewal of revenue sharing and, Mr. Chairman, to bring to you the warm greetings and appreciations of your constituents in central Pennsylvania for your strong support of local government on this and other issues.

The Conference of Mayors considers the continuation of general revenue sharing to be extremely important in light of current financial and economic conditions of our cities. We believe there are several features to it which make it totally unique in the whole scope of Federal programs.

First of all, as has been alluded to earlier, the remarkable flexibility of the program, which allows great latitude to the cities in the way they identify needs and allocate the funds to cover them.

Second, in its 11-year history, Mr. Chairman, this has been a truly bipartisan program, with strong support from Republicans and Democrats.

It is perhaps most remarkable, as has been mentioned, in the low level of overhead, the less than 1-percent overhead, and fewer than 100 Federal employees administering the largest single Federal grant program of $4.6 billion. We consider that to be an admirable and truly unique nonbureaucratic record, and in itself I think it speaks well for the program.

But at the present time, local governments and the cities of America, in particular, are in a serious state of crisis. We have experienced almost $40 billion in cutbacks from the Federal Governmen to State and local governments.

As you well know, Mr. Chairman, Pennsylvania is experiencing a serious diminution of revenues in important areas such as liquid fuels taxes. What this means is that those reductions in State revenues and the pressure of increasing State deficits is going to greatly reduce the flow of money to local governments from the State level.

In addition, the cities of America face high unemployment. The unemployment rate in my community is almost 15 percent. We have the hungry, the homeless, and the long-term unemployed. We have tremendous pressures on the delivery of service, and at the same time we in the cities of America have a diminishing tax base. We have unemployed unable to pay other taxes so that we have the upward pressure for services and the continuing downward pressure on the ability to raise revenues.

I am sure you are not unmindful, Mr. Chairman, that Pennsylvania—probably like many other States—does not have the simplest or most understandable network of local taxation.

I would note just a couple of figures, which would be that for the city of York, Pa., general revenue sharing represent almost 10 percent of our operating revenues. To eliminate general revenue sharing would require a 24-percent increase in the property tax; however, we are limited to about a 6-percent increase in the property tax under State law. We are limited to almost no increases in other forms of taxation.

Mr. Chairman, my city and many others are at the limit. We simply have nowhere else to go.

In 1983 we balanced our budget, and as you note, we all balance our budget. I would just note parenthetically that we do it for one simple reason: We have to. Under the law, we have to balance our budget.

We balanced our budget by a 10-percent reduction in general operating expenses, which was across-the-board, including police and fire services, and an unfortunate and unhealthy but absolutely inevitable and universal practice of deferred maintainance on all forms of physical plant and equipment.

I think the implications of that in the long run are staggering, because what it means is that down the road the costs of doing those repairs when they can no longer be put off is going to be beyond the ability of local government to pay, and we will be looking elsewhere for funds in a more serious fashion.

So the Conference of Mayors strongly urges Congress to renew general revenue sharing and renew it as soon as possible on a timely basis. We ask for a renewal for a period of 5 years.

We believe also that, since the program has not been incresed in any meaningful way since its inception in 1972, which has resulted in something in the neighborhood of a 60–70 percent reduction in the purchasing power of that money, that a modest increase is absolutely essential.

We support the House effort to increase the $4.6 billion by $800 million. We consider that to be the minimum increase which would be necessary.

We believe that general revenue sharing is an excellent vehicle for getting money into the economy to get people working—or, in the case of many cities, to allow us to avoid further layoffs in public works and police and fire. We believe that it would serve that purpose admirably.

We also strongly support your efforts, Mr. Chairman, to accelerate general revenue payments.

We also believe that targeting additional revenue sharing funds into high employment areas or areas with identifiable substantial need would be an extremely important counter-cyclical device.

In summary, thank you very much for the opportunity to present our views. I can only say that revenue sharing is crucial to our survival as cities and—I guess to Congress, always looking at the efficacy of Federal programs—this program works. And without it the implications are staggering.

So the Conference of Mayors thanks you and strongly urges the reenactment.

Senator HEINZ. We thank you very much, Bill—Mayor Althaus. Thank you.

[The prepared statement of William Althaus follows:]

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TESTIMONY OF

THE HONORABLE WILLIAM J. ALTHAUS
MAYOR OF YORK, PENNSYLVANIA

on behalf of

THE U.S. CONFERENCE OF MAYORS

before the

SUBCOMMITTEE ON ECONOMIC GROWTH, EMPLOYMENT
AND REVENUE SHARING

SENATE FINANCE COMMITTEE

March 21, 1983

Mr. Chairman, Members of the Finance Committee, thank you for this opportunity for the U.S. Conference of Mayors to testify on the renewal of general revenue sharing, a program of considerable importance to Mayors across the country.

The revenue sharing program has been an extremely important source of flexible funding for local government over the last decade. Renewal of the program is vital to the continued financial viability of cities, and to their continued ability to provide important services to their citizens.

The revenue sharing program, first enacted in 1972, has long been supported by Republicans and Democrats in the Congress. It is a truly bi-partisan effort to address the fiscal problems and revenue constraints of local governments -- an effort consistent with nearly everyone's idea of a sound federal relationship. The program allows local governments wide latitude to determine their most pressing needs and allocate their revenue sharing funds correspondingly. At the federal level, there is almost no overhead -- less than 2 percent -- and fewer than 100 federal employees to administer what is the largest federal grant program, a total of $4.6 billion allocated to 39,000 units of government. This is truly an admirable and unique non-bureaucratic record.

Local governments are in desperate need of a continuation and expansion of the revenue sharing program. You are all familiar with the cuts in federal aid which we have had to absorb in the last two years, a total decline of nearly $40 billion in federal assistance to state and local governments. Moreover, now that states are facing large deficits, it seems inevitable that state assistance to cities will decline substantially in FY84. City revenues are further undermined by the last two years of declining property values, which have shrunk the property tax base in many areas, and high unemployment, which further reduces city revenues. While many cities have pushed for increases in tax rates or new taxes, particularly user fees, to offset these revenue shortfalls, this has proven difficult. Many cities are now faced with property tax limitations or strong voter resistance to tax rate increases. Consequently, the only option available to these communities has been massive cuts in expenditures and services.

At the same time that federal and state aid and own-source revenues have declined, local governments are also faced with rising service demands. The large number of long-term unemployed, homeless, and hungry families -- whose needs are no longer being adequately addressed by the federal government -- have placed mounting service demands on cities. Important infrastrcuture projects have been postponed to the point where needed repairs are extremely costly -- far beyond the financial ability of most cities. And, even basic services for police and fire protection and sanitation have been curtailed, with substantial lay-offs of personnel by cities. Revenue sharing funds have been used for all of these purposes -- infrastructure projects, basic services, social service programs -- and thus are extremely important in the current environment.

The Conference of Mayors strongly urges the Congress to take timely action to review general revenue sharing on an entitlement basis for a period of five years. In addition, because the revenue sharing program has not been increased since 1972, with the result that inflation has robbed the program of purchasing power, the Mayors have called for a modest increase in the local revenue sharing program. We fully support current efforts in the House to increase the program by $800 million in FY84 -- the minimum increase which we believe is necessary. We also support the continuation of current requirements for public hearings, reporting, and non-discrimination.

Furthermore, the Conference of Mayors supports efforts to use the revenue sharing program as a vehicle for getting funds into the economy quickly. State and local governments can use these dollars to meet emergency needs, to retain workers, and to hire the unemployed.

In this regard, we support your efforts, Mr. Chairman, to accelerate revenue sharing payments by one quarter, so as to move two additional payments into FY83 on a one-time basis. We also strongly support enactment of a temporary program to target additional revenue sharing funds into high unemployment areas, and to those jurisdictions with substantial need. The concept is similar to the counter-cyclical fiscal assistance program enacted in FY77, although we are not wedded to the specific details of that program.

Mr. Chairman, thank you for this opportunity for the Conference of Mayors to testify on general revenue sharing. It is a program of vital importance to local governments, and we are appreciative of your strong support and leadership to secure its prompt reenactment. We look forward to working with you and the Members of this Committee to design a revenue sharing program that adequately meets the urgent needs of our cities and our urban residents.

Senator HEINZ. I would like to ask Mr. Guthman to come forward.

STATEMENT OF RICHARD GUTHMAN, JR., COUNCIL MEMBER, CITY OF ATLANTA, GA., ON BEHALF OF THE NATIONAL LEAGUE OF CITIES, WASHINGTON, D.C.

Mr. GUTHMAN. Mr. Chairman and Senator Durenberger, my name is Richard Guthman. I am a council member of the city of Atlanta and past chairman of NLC's Steering Committee on Finance, Administration, and Intergovernmental Relations.

I must say that being surrounded by Pennsylvanians this morning is not at all intimidating. Georgians have been surrounded by Pennsylvanians before, but this time we are on the same side.

Senator HEINZ. Now you know how we felt betweeen 1977 and 1980. The shoe was on the other foot. [Laughter]

Mr. GUTHMAN. Let me also thank both of you for your strong support for the acceleration of the general revenue sharing payments which you have on the jobs bill. And let me say that for that to be a reality and to be what you want it to be, it even is more critical that the reenactment of general revenue sharing take place as quickly as possible.

The National League of Cities, as you know, represents about 15,000 cities directly and through their membership in 49 State municipal leagues. Our member cities range in size from New York City to Scotland Neck, N.C.

Reauthorization of general revenue sharing is clearly the No. 1 priority of American cities this year. And it is not difficult to see why.

GRS is the single largest program of Federal aid to local governments, providing $4.6 billion annually.

GRS is the most comprehensive of all Federal aid programs, providing funds to cities of all sizes in all regions of the country.

GRS is a targeted program, weighted toward those communities that are doing most to help themselves.

GRS is the most flexible of all Federal aid programs, allowing funds to be used for a wide range of programs and activities, as determined at the local level, and giving localities the opportunity to respond quickly to new problems such as that of the growing number of homeless in our communities.

Despite hopeful signs in the economy, cities have become the safety net for many of the victims of the recession. For cities such as Newark, where the percentage of residents below the poverty level reached nearly 33 percent by 1980, GRS is an essential tool to respond to human distress. For Seattle, GRS has provided the capacity to assist in setting up 20 food banks to serve 160,000 persons—a 250-percent increase over last year—composed of 65-percent children and 20-percent elderly and handicapped.

Moreover, despite the sign of some economic recovery, many cities are bracing for still another blow. There are record numbers of families and elderly in our cities who will lose utility service next month. The city of Milwaukee alone estimates such cutoffs to affect 54,000 homes.

To enable us to give you specific data on the role of revenue sharing in our cities we recently completed a survey of nearly 700 of our member cities. Let me briefly summarize the results:

First, GRS funds represent 6.6 percent of all locally-raised revenue, a higher share in smaller cities than in larger ones, and a higher share of city budgets in the South than in other regions.

Second, for almost a third of all cities, GRS is their only direct Federal aid. For cities of under 10,000 population, it is the only Federal aid for 62 percent of them.

Third, GRS funds are used almost evenly for capital expenditures and operating budgets. Smaller cities tend to favor capital projects, larger ones generally operating costs. The range of use varies widely—downtown revitalization, senior citizen programs, public facility improvements for the handicapped, supplemental income for indigents, and so on.

And fourth, if GRS were terminated, very few cities—only 12 percent—would raise property taxes. Most would raise various fees and charges, cut services, reduce the city work force, or all of those in some combination.

In Atlanta, all of our GRS funds are used for operating and maintenance, including providing for 444 firefighters in the Bureau of Fire Services. The elimination of GRS would require a 15-percent increase in property taxes to maintain these essential services.

Mr. Chairman, I would ask permission to insert the findings of our survey in the record following my testimony.

Senator HEINZ. Without objection, so ordered.

In fact, Mr. Chairman, general revenue sharing is even more important to cities now than in prior reauthorization years. There are several reasons:

Since 1981 Federal aid to cities has declined substantially. We now receive about $300 million less in community development grants than in fiscal year 1981. EPA wastewater grants have been cut from nearly $4 billion ot $2.4 billion. Economic development assistance from the EDA and UDAG programs has been cut from about $1.2 billion in fiscal year 1981 to about $650 million currently.

Similarly, we can expect less help from our State governments. States have themselves been very sharply hit by Federal cuts in aid to them and by the recession, which has reduced their revenues. More than half the States raised taxes last year, and many face deficits again in 1983. Thirty-five States have already been forced to reduce their spending for the current fiscal year below the levels originally adopted. Clearly, we cannot look to States for much help in these circumstances.

At the same time, we have experienced a deterioration in the muncipal bond market, reducing our ability to borrow for increased short- and long-term needs. In 1981, cities cancelled over $680 million worth of long-term bond issues. The creation of new tax shelters, the tax changes reducing the attractiveness of municipal bonds to insurance companies, banks, and individuals, the growing competition of industrial development bonds, and high interest rates have all wreaked havoc on municipal fiscal stability.

I might say that the amendment placed by the Finance Committee on the social security bill eliminating the exclusion of tax exempt income for the computation of benefits in social security is just going to be an additional disincentive for muncipal bonds.

As the vice president of Chase Manhattan Bank testified, and I quote, "The problems are so pronounced that they could conceivably push some tax exempt entities to or beyond the brink of bankruptcy."

In this connection I want to submit for the record a survey of city fiscal conditions that we completed recently. It shows that, for the 79 cities surveyed, costs are increasing faster than revenues, and that as a result most cities are increasing fees of various kinds, laying off employees, and cutting services. I think you will find this survey of current city fiscal conditions very disheartening.

Let me now turn to our recommendations with respect to a reauthorization bill, approved just recently by our board of directors.

First, we recommend that you approve a 5-year extension of this important program, assuring local governments that this essential aid will be available for a reasonable period.

Second, we recommend that you increase funding for this program. A reasonable funding increase beyond the current $4.6 billion level is clearly justified.

Although GRS is an entitlement program, you should recognize that its funding has remained at $4.6 billion for 7 fiscal years, from fiscal year 1977 through fiscal year 1983. In that time we estimate that it has lost at least half its value to inflation.

In turn, we recognize that today's budget problems, triple-digit deficits projected for several fiscal years, are extremely difficult and that your emphasis must be on reducing these deficits.

Nevertheless, we believe that a reasonable increase is justified, given the current fiscal stress in many cities and the substantial cutbacks in Federal aid made over the past 3 years. We recommend that a 20- to 25-percent increase over the current level would be reasonable in these circumstances.

Third, we do not believe any major change is called for in the distribution formula. The important role of the tax effort factor, which assures that the formula primarily helps those communities that are making solid efforts to help themselves, should be recognized. Overall, while any formula might be changed in some respect, the current GRS formula is widely considered to be fair and effective.

Fourth, we strongly urge you to retain the entitlement feature of GRS, assuring that once a multiyear authorization is enacted funds will be made available automatically. That automatic feature is essential to our cities, which decide on the uses of GRS funds simultaneously with preparation of their city budgets.

To conclude, Mr. Chairman, I must repeat that general revenue sharing is the most important of all city programs, more important now than ever, given cuts in our programs through the past 2 years and the continuing high level of unemployment, and more important to more cities than any other Federal program.

We urge you to approve a 5-year reauthorization with a reasonable increase in funding and with no major changes in this fine program. And we urge you to act quickly in order to remove any uncertainty whatsoever among the cities now preparing their fiscal year 1984 budgets.

Thank you very much for the opportunity.

Senator HEINZ. Mr. Guthman, thank you very much.

[Mr. Guthman's prepared statement and the findings of the survey done by the National League of Cities follow:]

STATEMENT

OF

RICHARD A. GUTHMAN, JR., COUNCILMEMBER, ATLANTA, GEORGIA

BEFORE THE

SENATE SUBCOMMITTEE ON ECONOMIC GROWTH, EMPLOYMENT, AND REVENUE SHARING

21 MARCH 1983

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, MY NAME IS RICHARD GUTHMAN. I AM A COUNCILMEMBER OF THE CITY OF ATLANTA AND PAST CHAIRMAN OF NLC'S STEERING COMMITTEE ON FINANCE, ADMINISTRATION AND INTERGOVERNMENTAL RELATIONS.

THE NATIONAL LEAGUE OF CITIES, AS YOU KNOW, REPRESENTS ABOUT 15,000 CITIES DIRECTLY AND THROUGH THEIR MEMBERSHIP IN 49 STATE MUNICIPAL LEAGUES. OUR MEMBER CITIES RANGE IN SIZE FROM NEW YORK CITY TO SCOTLAND NECK, NORTH CAROLINA.

REAUTHORIZATION OF GENERAL REVENUE SHARING IS CLEARLY THE NUMBER ONE PRIORITY OF AMERICAN CITIES THIS YEAR. AND IT IS NOT DIFFICULT TO SEE WHY.

- GRS IS THE SINGLE LARGEST PROGRAM OF FEDERAL AID TO LOCAL GOVERNMENTS, PROVIDING $4.6 BILLION ANNUALLY.
- GRS IS THE MOST COMPREHENSIVE OF ALL FEDERAL AID PROGRAMS, PROVIDING FUNDS TO CITIES OF ALL SIZES IN ALL REGIONS OF THE COUNTRY.
- GRS IS A TARGETED PROGRAM, WEIGHTED TOWARD THOSE COMMUNITIES THAT ARE DOING MOST TO HELP THEMSELVES.

• AND GRS IS THE MOST FLEXIBLE OF ALL FEDERAL-AID PROGRAMS, ALLOWING FUNDS TO BE USED FOR A WIDE RANGE OF PROGRAMS AND ACTIVITIES, AS DETERMINED AT THE LOCAL LEVEL, AND GIVING LOCALITIES THE OPPORTUNITY TO RESPOND QUICKLY TO NEW PROBLEMS, SUCH AS THAT OF THE GROWING NUMBER OF HOMELESS IN OUR COMMUNITIES.

DESPITE HOPEFUL SIGNS IN THE ECONOMY, CITIES HAVE BECOME THE SAFETY NET FOR MANY OF THE VICTIMS OF THE RECESSION. FOR CITIES SUCH AS NEWARK, WHERE THE PERCENTAGE OF RESIDENTS BELOW THE POVERTY LEVEL REACHED 32.8 PERCENT BY 1980, GRS IS AN ESSENTIAL TOOL TO RESPOND TO HUMAN DISTRESS. FOR SEATTLE, GRS HAS PROVIDED THE CAPACITY TO ASSIST IN SETTING UP 20 FOOD BANKS TO SERVE 160,000 PERSONS--A 250 PERCENT INCREASE OVER LAST YEAR, COMPOSED OF 65 PERCENT CHILDREN, AND 20 PERCENT ELDERLY AND HANDICAPPED.

MOREOVER, DESPITE THE SIGN OF SOME ECONOMIC RECOVERY, MANY CITIES ARE BRACING FOR STILL ANOTHER BLOW. THERE ARE RECORD NUMBERS OF FAMILIES AND ELDERLY IN OUR CITIES WHO WILL LOSE UTILITY SERVICE NEXT MONTH. THE CITY OF MILWAUKEE ALONE ESTIMATES SUCH CUTOFFS TO AFFECT 54,000 HOMES.

TO ENABLE US TO GIVE YOU SPECIFIC DATA ON THE ROLE OF REVENUE SHARING IN OUR CITIES, WE RECENTLY COMPLETED A SURVEY OF NEARLY 700 OF OUR MEMBER CITIES. LET ME BRIEFLY SUMMARIZE THE FINDINGS:

FIRST, GRS FUNDS REPRESENT 6.6 PERCENT OF ALL LOCALLY-RAISED REVENUES, A HIGHER SHARE IN SMALLER CITIES THAN IN LARGE ONES AND A HIGHER SHARE OF CITY BUDGETS IN THE SOUTH THAN IN OTHER REGIONS.

SECOND, FOR ALMOST A THIRD OF ALL CITIES, GRS IS THEIR ONLY DIRECT FEDERAL AID. FOR CITIES OF UNDER 10,000 POPULATION, IT IS THE ONLY FEDERAL AID FOR 62 PERCENT OF THEM.

THIRD, GRS FUNDS ARE USED ALMOST EVENLY FOR CAPITAL EXPENDITURES AND OPERATING BUDGETS. SMALLER CITIES TEND TO FAVOR CAPITAL PROJECTS, LARGER ONES GENERALLY OPERATING COSTS. THE RANGE OF USES VARIES WIDELY: DOWNTOWN REVITALIZATION, SENIOR CITIZENS PROGRAMS, PUBLIC FACILITY IMPROVEMENTS FOR THE HANDICAPPED, SUPPLEMENTAL INCOME FOR INDIGENTS, AND SO ON.

AND FOURTH, IF GRS WERE TERMINATED, VERY FEW CITIES (ONLY 12 PERCENT) WOULD RAISE PROPERTY TAXES. MOST WOULD RAISE VARIOUS FEES AND CHARGES, CUT SERVICES, REDUCE THE CITY WORK-FORCE, OR ALL OF THESE IN SOME COMBINATION.

IN ATLANTA, ALL OF OUR GRS FUNDS ARE USED FOR OPERATING AND MAINTENANCE, INCLUDING PROVIDING FOR 444 FIREFIGHTERS IN THE BUREAU OF FIRE SERVICES. THE ELIMINATION OF GRS WOULD REQUIRE A 15 PERCENT INCREASE IN PROPERTY TAXES TO MAINTAIN THESE ESSENTIAL SERVICES.

MR. CHAIRMAN, I WOULD ASK PERMISSION TO INSERT THE FINDINGS OF OUR SURVEY IN THE RECORD FOLLOWING MY TESTIMONY.

IN FACT, MR. CHAIRMAN, GENERAL REVENUE SHARING IS EVEN MORE IMPORTANT TO CITIES NOW THAN IN PRIOR REAUTHORIZATION YEARS. THERE ARE SEVERAL REASONS.

SINCE 1981 FEDERAL AID TO CITIES HAS DECLINED SUBSTANTIALLY. WE NOW RECEIVE ABOUT $300 MILLION LESS IN COMMUNITY DEVELOPMENT GRANTS THAN IN FY 1981. EPA WASTEWATER GRANTS HAVE BEEN CUT FROM NEARLY $4 BILLION TO $2.4 BILLION.

ECONOMIC DEVELOPMENT ASSISTANCE, FROM THE EDA AND UDAG PROGRAMS, HAS BEEN CUT FROM ABOUT $1.2 BILLION IN FY 1981 TO ABOUT $650 MILLION CURRENTLY.

SIMILARLY, WE CAN EXPECT LESS HELP FROM OUR STATE GOVERNMENTS. STATES HAVE THEMSELVES BEEN VERY SHARPLY HIT BY FEDERAL CUTS IN AID TO THEM AND BY THE RECESSION, WHICH HAS REDUCED THEIR REVENUES. MORE THAN HALF THE STATES RAISED TAXES LAST YEAR, AND MANY FACE DEFICITS AGAIN IN 1983. THIRTY-FIVE STATES HAVE ALREADY BEEN FORCED TO REDUCE THEIR SPENDING FOR THE CURRENT FISCAL YEAR BELOW THE LEVELS ORIGINALLY ADOPTED. CLEARLY, WE CANNOT LOOK TO STATES FOR MUCH HELP IN THESE CIRCUMSTANCES.

AT THE SAME TIME, WE HAVE EXPERIENCED A DETERIORATION IN THE MUNICIPAL BOND MARKET, REDUCING OUR ABILITY TO BORROW FOR INCREASED SHORT AND LONG TERM NEEDS. IN 1981, CITIES CANCELLED OVER $680 MILLION WORTH OF LONG-TERM BOND ISSUES. THE CREATION OF NEW TAX SHELTERS; THE TAX CHANGES REDUCING THE ATTRACTIVENESS OF MUNICIPAL BONDS TO INSURANCE COMPANIES, BANKS, AND INDIVIDUALS, THE GROWING COMPETITION OF INDUSTRIAL DEVELOPMENT BONDS, AND HIGH INTEREST RATES HAVE ALL WREAKED HAVOC ON MUNICIPAL FISCAL STABILITY. AS THE VICE PRESIDENT OF THE CHASE MANHATTAN BANK TESTIFIED, "THE PROBLEMS... ARE SO PROCOUNCED THAT THEY COULD CONCEIVABLY PUSH SOME TAX EXEMPT ENTITIES TO OR BEYOND THE BRINK OF BANKRUPTCY."

IN THIS CONNECTION, I WANT TO SUBMIT FOR THE RECORD A SURVEY OF CITY FISCAL CONDITIONS THAT WE COMPLETED RECENTLY. IT SHOWS THAT, FOR THE 79 CITIES SURVEYED, COSTS ARE INCREASING FASTER THAN REVENUES, AND THAT, AS A RESULT, MOST

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CITIES ARE INCREASING FEES OF VARIOUS KINDS, LAYING OFF EMPLOYEES, AND CUTTING SERVICES. I THINK YOU WILL FIND THIS SURVEY OF CURRENT CITY FISCAL CONDITIONS VERY DISHEARTENING.

LET ME NOW TURN TO OUR RECOMMENDATIONS WITH RESPECT TO A REAUTHORIZATION BILL, APPROVED JUST RECENTLY BY OUR BOARD OF DIRECTORS.

FIRST, WE RECOMMEND THAT YOU APPROVE A FIVE-YEAR EXTENSION OF THIS IMPORTANT PROGRAM, ASSURING LOCAL GOVERNMENTS THAT THIS ESSENTIAL AID WILL BE AVAILABLE FOR A REASONABLE PERIOD.

SECOND, WE RECOMMEND THAT YOU INCREASE FUNDING FOR THIS PROGRAM. A REASONABLE FUNDING INCREASE, BEYOND THE CURRENT $4.6 BILLION LEVEL IS CLEARLY JUSTIFIED.

ALTHOUGH GRS IS AN ENTITLEMENT PROGRAM, YOU SHOULD RECOGNIZE THAT ITS FUNDING HAS REMAINED AT $4.6 BILLION FOR SEVEN FISCAL YEARS, FROM FY 1977 THROUGH FY 1983. IN THAT TIME, WE ESTIMATE THAT IT HAS LOST AT LEAST HALF ITS VALUE TO INFLATION.

IN TURN, WE RECOGNIZE THAT TODAY'S BUDGET PROBLEMS, WITH TRIPLE DIGIT DEFICITS PROJECTED FOR SEVERAL FISCAL YEARS, ARE EXTREMELY DIFFICULT, AND THAT YOUR EMPHASIS MUST BE ON REDUCING THESE DEFICITS. NEVERTHELESS, WE BELIEVE THAT A REASONABLE INCREASE IS JUSTIFIED, GIVEN THE CURRENT FISCAL STRESS IN MANY CITIES AND THE SUBSTANTIAL CUTBACKS IN FEDERAL AID MADE OVER THE PAST TWO YEARS. WE RECOMMEND THAT A 20-25 PERCENT INCREASE OVER THE CURRENT $4.6 BILLION LEVEL WOULD BE REASONABLE IN THESE CIRCUMSTANCES.

THIRD, WE DO NOT BELIEVE ANY MAJOR CHANGE IS CALLED FOR IN THE DISTRIBUTION FORMULA. THE IMPORTANT ROLE OF THE TAX EFFORT FACTOR, WHICH ASSURES THAT THE FORMULA PRIMARILY HELPS THOSE COMMUNITIES THAT ARE MAKING SOLID EFFORTS TO HELP THEMSELVES, SHOULD BE RECOGNIZED. OVERALL, WHILE ANY FORMULA MIGHT BE CHANGED IN SOME RESPECT, THE CURRENT GRS FORMULA IS WIDELY CONSIDERED TO BE FAIR AND EFFECTIVE. WE DO NOT BELIEVE IT OUGHT TO BE CHANGED WITHOUT MAJOR AND CONVINCING REASONS.

AND FOURTH, WE STRONGLY URGE YOU TO RETAIN THE ENTITLEMENT FEATURE OF GRS, ASSURING THAT ONCE A MULTI-YEAR AUTHORIZATION IS ENACTED FUNDS WILL BE MADE AVAILABLE AUTOMATICALLY. THIS AUTOMATIC FEATURE IS ESSENTIAL TO OUR CITIES, WHICH DECIDE ON THE USES OF GRS FUNDS SIMULTANEOUSLY WITH PREPARATION OF THEIR CITY BUDGETS. TO DO PROPER BUDGETING, THEY MUST KNOW THAT THESE FUNDS WILL BE THERE.

TO CONCLUDE, MR. CHAIRMAN, I MUST REPEAT THAT GENERAL REVENUE SHARING IS THE MOST IMPORTANT OF ALL CITY PROGRAMS; MORE IMPORTANT NOW THAN EVER, GIVEN CUTS IN OUR PROGRAMS DURING THE PAST TWO YEARS AND THE CONTINUING HIGH LEVEL OF UNEMPLOYMENT; AND MORE IMPORTANT TO MORE CITIES THAN ANY OTHER FEDERAL PROGRAM. WE URGE YOU TO APPROVE A FIVE-YEAR REAUTHORIZATION WITH A REASONABLE INCREASE IN FUNDING AND WITH NO MAJOR CHANGES IN THIS FINE PROGRAM. AND, WE URGE YOU TO ACT QUICKLY IN ORDER TO REMOVE ANY UNCERTAINTY WHATSOEVER AMONG THE CITIES NOW PREPARING THEIR FY 1984 BUDGETS.

THANK YOU.

City Fiscal Conditions in FY 1983: Dark Clouds on the Horizon

By

Francis Viscount

WP-9

December, 1982

This document contains the results of a survey of current fiscal conditions and their projections for FY 1983. The survey was mailed to 140 cities which are direct members of the National League of Cities during the summer of 1982. It is the first fiscal survey NLC has undertaken.

I. Methodology

A number of independent surveys of state and local government have been undertaken during the past few years in order to supplement the larger and more complete survey conducted by the U.S. Census Bureau. The need for these surveys are two-fold. There is a lag of 18 to 24 months before the Census Bureau survey appears. Second, many policy questions related to the fiscal condition of cities require greater detail than is available from the Census survey.

The most comprehensive survey of city fiscal conditions, other than the Census Bureau, is prepared by the JEC of the Congress. During each of the past three years, the JEC surveyed around 600 cities, and in its most recent one received responses from approximately one half of them. A survey of that magnitude is currently beyond the capacity of the National League of Cities (NLC) to undertake and we do think it is necessary to duplicate what the JEC does. Often, however, NLC has a narrower set of questions that it wants to analyze more quickly than is possible using either the Census or JEC surveys. In the current case we wanted to get a preliminary look at city fiscal plans for fiscal 1983, to find out whether the federal grant cuts were more important to city fiscal conditions than the recession and whether or not cities would be able to or intended to pick up federal grant cuts with their local funds.

The survey was sent to the NLC direct-member cities represented by the National League of Cities Policy Steering Committee membership. Because these committees are representative of both city size and geographic location, they comprise a reasonable universe from which to draw samples. The response rate was 56 percent, 79 replies from 140 surveys mailed.

A potential bias this sample might have is that they are better off fiscally than other cities because they could afford to pay NLC's dues. If this bias exists then the findings of the survey represent better conditions than actually prevail for cities in general.

Table 1 below provides a distribution of responses by region and by city size. In the Appendix tables provide a listing of number of cities by state within each region and a list of their names.

The survey forms were mailed between June 1, 1982 and September 30, 1982. The 1982 data are both actual and mid-year revised reports, while the 1983 data are from proposed or adopted budgets. All years mentioned will be city fiscal year unless otherwise noted.

TABLE 1

Distribution of Responses
to Questionnaire

Region	North-East	South	Midwest	West	Total
Small (less than 50,000)	6	7	7	9	29
Medium (50,000-250,000)	1	10	5	11	27
Large (above 250,000)	4	6	5	8	23
Total	11	23	17	28	79

Source: Survey of Steering Committee Cities, National League of Cities, 1982

II. Trends in General Fund Revenues and Expenditures

The growth trends in general fund revenues and expenditures for the cities surveyed are not encouraging. The findings of the NLC Survey are similar to the findings reported in the most recent Joint Economic Committee survey, released September 30, 1982. In general, for all sizes of cities and in all regions of the country, NLC found expenditures growing faster than revenues by substantial margins in fiscal 1982. Furthermore, the budgeted 1983 data indicate that this trend will continue although the differential between the average growth rate of revenues and expenditures is expected to narrow from 2.4 percent in 1982 to 1.6 percent in 1983. The larger the differential the greater the fiscal stress the city is likely to experience.

TABLE 2

Growth Trends in General Fund
Revenues and Expenditures
By Region
(percent change year to year)

	Fiscal Year 81-82			Fiscal Year 82-83		
	Rev.	Exp.	Dis-parity	Rev.	Exp.	Dis-parity
Northeast	8.29	12.21	3.92	2.82	5.66	2.84
South	9.90	11.66	1.76	7.05	7.93	0.88
Midwest	6.03	7.59	1.56	5.55	7.09	1.54
West	8.99	11.60	2.61	6.70	8.62	1.92
All Cities	8.59	10.92	2.33	6.03	7.66	1.63

Source: Survey of Steering Committee cities, National League of Cities, 1982

A widely varying pattern of expenditure and revenue growth rates appears when the data are sorted on a regional basis. As expected, the region with the severest recession, the Midwest, has the lowest growth rate in revenues, however, it also has the lowest growth rate in expenditures. Specific reasons for this outcome are unclear from the study.

Revenues grew faster than inflation in the other three regions, but so did expenditures. Surprisingly, though, the least disparity in growth rates was in the Midwest, not the sunbelt. One possible explanation is that the recession has lingered in the Midwest since 1980, and, therefore, they have used most, if not all, their available reserves and are compelled to budget more tightly. The other regions have experienced the full impact of the recession only during 1982.

Future trends bear out this supposition. In all regions both revenues and expenditures are expected to grow more slowly than fiscal 1982. In fact, they are expected to grow less than the expected rate of inflation, 6.03 percent versus 7 percent inflation rate. Overall expenditures are expected to exceed inflation slightly.

Discrepancies between growth rates are expected to improve in all regions in 1983. The South expects to experience the greatest improvement in disparity, dropping to 0.88 percent in fiscal 1983 from 1.76 percent in 1982. This is due to a major decline in spending growth. The Midwest, on the other hand, expects their fiscal situation to remain about the same. Once again, this outcome is reasonable since midwestern cities have been making substantial reductions for three years already, leaving little more than essential services in their budgets.

When the responses are sorted on a city size basis, the revenue growth rates are remarkably uniform in 1982, but the expenditure rates are more varied. The smallest and largest cities experience a significantly higher expenditure growth rate than do the medium sized cities. Medium sized cities therefore experienced the least disparity of the three categories of cities.

A more divergent pattern will occur in 1983. Large cities and small cities expect rates of both revenue and expenditure increase to decline, while medium sized cities expect both to be higher than in 1982. Disparity in growth rates will decline significantly in large cities, from 3.25 percent to 0.33 percent, but will increase significantly in medium cities, from 1.10 percent to 1.65 percent. They will remain fairly steady in small cities.

Another finding for which few explanations are apparent is the rapid decline in growth rates in small cities of 50,000 or less. Revenue growth will decline from 8.83 percent in 1982 to 2.08 percent in 1983. Expenditure growth will decline from 11.68 percent to 4.67 percent during the same period. The actual number of cities experiencing revenue growth rates lower than expenditure growth rates is 66 percent in 1982 and 45 percent in 1983.

TABLE 3

Growth Rates in General Fund
Revenue and Expenditures*
By City Size

	Fiscal Year 81-82			Fiscal Year 82-83		
	Rev.	Exp.	Dis-parity	Rev.	Exp.	Dis-parity
Large Cities	8.61	11.86	3.25	7.75	8.08	0.33
Medium Cities	8.33	9.43	1.10	9.21	10.86	1.65
Small Cities	8.83	11.68	2.85	2.08	4.67	2.59
All Cities	8.59	10.92	2.33	6.03	7.66	1.63

Source: Survey of Steering Committee Cities, National League of Cities, 1983

*In percent

Overall 52 percent of the cities surveyed indicated revenues grew more slowly than expenditures during 1982 and 44 percent expected an encore in 1983. The worst situation was in the Northeast where 73 percent of cities had these conditions and 63 percent expected it to continue into 1983. Two-thirds of small cities reporting had this experience in 1982 and 45 percent expected it to continue through 1983.

III. Full-Time Employment

One of the most strinking evidences of the fiscal stress faced by cities has been the continuing decline in public sector employment. The Survey of Current Business, published by the Department of Commerce, reports that for state and local government, a percent decline in full-time employment was recorded between 1980 and 1981 and a 2 percent decline was recorded so far during 1982. These findings are corroborated by the NLC Survey.

The experience of laying off employees, however, was not evenly spread among the regions of the country. The number of cities reporting increases, decreases or no change in full-time employment varied widely across the regions. Three-fourths of Midwestern cities indicated they would have to lay off employees while almost half of the Southern cities did, too. On the other hand, cities in the West indicated by a 2 to 1 margin, they were adding rather than cutting new employees. This is presented in Table 4 below.

TABLE 4

Change in Full-Time Employment
Fiscal Year 1981-1982
(by region)

		Plans to Increase	Plans to Decrease	No Change
I.	Percent of Cities Reporting			
	Northeast	30	30	40
	South	39.1	56.5	4.3
	Midwest	18.8	75	6.2
	West	61.5	34.6	3.9
	All Cities	41.3	49.3	9.3
II.	Percent Change In Employment From FY 80-81			
	Northeast	1.68	-9.53	
	South	2.28	-4.14	
	Midwest	2.29	-4.4	
	West	3.53	-4.34	
	All Cities	2.87	-4.7	

Source: Survey of Steering Committee Cities, National League of Cities, 1982

Besides the numbers of cities reducing employment, the rate of change is also important. Overall, cities increasing employment added 2.87 percent to their work force while cities reducing employment cut an average of 4.7 percent. Three regions reported similar rates of reduction, near 4.4 percent, however, reductions in the Northeast were over twice that rate, 9.5 percent.

The outlook is for more reductions in city employment in 1983. Cities planning further hiring in 1983 declined to 33 percent from 41 percent in 1982. Cities planning further reductions remained approximately the same at 48.2 percent. The rate of increase will be around 2.5 percent but the rate of decrease will drop to 2.3 percent in 1983.

IV. Actions by Cities

The slow growth in city revenues has many causes. Slow growth in tax bases, moderation of inflation, and declines in intergovernmental grants are a few. In response, cities can raise tax rates, impose new taxes, increase existing fees, and impose new fees From the survey results it is clear cities are raising taxes. In fiscal 82, NLC found that 71 percent of the cities surveyed increased existing fees and charges and 38 percent imposed new fees. Conversely only 32 percent were willing to increase property taxes and only 13 percent increased sales taxes. Table 5 shows that the preference for fees was uniform across regions and by city size. Over 70 percent of cities in the South and Midwest raised fees, and almost 70 percent of each size category of cities did likewise.

TABLE 5

Cities that Raised Service Fees - FY 1982
(Percent of Cities Responding)

By Region:	Northeast	64	By Size:	Large	76
	South	74		Medium	67
	Midwest	71		Small	71
	West	64			
	All Cities	71			

Source: Survey of Steering Committee Cities, National League of Cities, 1982

Since property and sales taxes are two of the most important taxes, a regional analysis of cities' actions on these two tax rates was done. Table 6 displays these findings. Cities in the West, as expected, showed the greatest reluctance to increase property tax rates. Generally, they are believed to have the least ability to raise rates because of state or voter imposed limitations. The next most reluctant region was the South, where 23.8 percent of the cities increased property tax rates. By comparison, over half the cities in the Midwest and almost two-thirds of the cities in the Northeast raised property tax rates. Sales taxes were even less likely to be raised than property taxes.

TABLE 6

Changes in Tax Rates 1982
(In Percent)

	Property Tax			Sales Tax		
	Increase	Decrease	No Change	Increase	Decrease	No Change
Northeast	63.6	-	36.4	20.0	-	80.0
South	23.8	-	76.2	15.0	-	85.0
Midwest	52.9	5.9	41.2	8.3	-	91.7
West	3.8	3.8	92.4	14.0	-	87.0
All Cities	32	3	65	13	-	87

Source: Survey of Steering Committee cities, National League of Cities, 1982

V. Capital Spending

High interest rates prevalent in the tax exempt bond market during most of fiscal 1981 and fiscal 1982 were major stumbling blocks for municipal capital spending plans. From the Survey of Current Business and other reports by the U.S. Department of Commerce a declining rate of spending is clearly evident. During 1981, state and local new construction spending declined by 5.5 percent and so far in 1982, it has declined an additional 3 percent. When the rate of inflation for state and local government is considered, these declines increase in real terms to over 14 percent in 1981 and close to 10 percent in 1982.

The use of municipal bonds for infrastructure was also limited during 1982. Fifty-three percent of the cities surveyed indicated they attempted to use municipal bonds during 1982 and 36 percent indicated they had to postpone issuing bonds. The recent JEC fiscal study found that over 39 percent of the total amount of bonds planned to be issued by cities surveyed had to be delayed or cancelled because of high interest rates.

Recently long-term interest rates have declined, however, additional declines are necessary to regain the tax-exempt borrowing advantage cities experienced in the 1960's and 1970's. Average interest rates are displayed on Table 7 as are the ratios of tax-exempt interest rates to corporate, or taxable, interest rates. During the 1970's, tax-exempt rates were about 65 percent of taxable rates. Currently they range between 74 percent and 80 percent. This means cities are paying higher interest costs than previously. If the 65 percent ratio still held, tax-exempt interest rates would be 1.3 percentage points lower, 9.76 percent rather than 11.06 percent, and cities would save $130,000 for each $1,000,000 of bonds issued. On November 19, 1982 this ratio was 76.4 percent.

Although long term interest rates have peaked, their decline has not been nearly as dramatic as experienced by short term interest rates. The bottom of Table 7 shows the relative rate of change that has occurred. During calendar 1981 the general obligation bond rate index climbed 32 percent but has only declined 11 percent since last year. Similarly the revenue bond rate index climbed 30 percent during calendar 1981 but has only declined a bit over 10 percent during this past year. The corporate bond index did not climb as dramatically, but also has not declined as much as tax-exempt bonds have.

TABLE 7

Trends in Municipal Bond
Market Conditions

	1980	1981	3Q/1981	3Q/1982
20 Bond-General Obligation Bond Index (1)	8.73	11.56	12.49	11.06
Revenue Bond Index (1)	9.42	12.26	13.40	12.00
Corporate Bond Index (2)	12.75	15.06	15.56	15.03
Ratio:				
G.O. Bonds to Corporate	68.5	76.8	80.3	73.6
Revenue Bonds to Corporate	73.9	81.4	86.1	79.8

Percent Change

	1980-81	3Q/1981 to 3Q/1982
20 Bond G.O. Index	32.4	-11.4
Revenue Bond Index	30.1	-10.4
Corporate Bond Index	18.1	- 4.0

Source: Resources in Review. November 1982.
Survey of Steering Committee cities, National League of Cities, 1982

(1) Bond Buyer Newspaper
(2) Moody's Investors Services

IV. Conclusion

The city fiscal stress has become increasingly more well known and more understood, and yet it remains an issue of only passing national importance. Cities have for the first time, since World War II, cut spending and employment during a recession, and thus contributed to the severity of that recession. Cities have suffered under financial pressures for so long that the most elastic part of the budget, capital spending, has been overstretched, and now appears to be an increasing claim on current revenues period. Simultaneously, state and federal fiscal problems have become increasingly severe and the flow of aid between levels of governments is being reduced.

For NLC the implications are extremely important. Cities must be given greater fiscal autonomy as state aid is reduced. Cities must be protected from further reductions in intergovernmental aid as the state and federal governments try to solve their fiscal problems. Cities must insist on more effective use of federal dollars and must be constantly on guard for ways in which costs and responsibilities are transferred to cities without accompanying resources. Cities must be given greater opportunity to define more carefully the responsibilities which they rightfully have and assure that states and the federal government pick up the responsibilities that are rightfully their's.

APPENDIX I

NUMBER OF CITIES RESPONDING
TO NLC FISCAL SURVEY
BY REGION AND STATE

REGION	STATE	NUMBER OF CITIES
Northeast	Massachusetts	1
	Maryland	3
	Maine	1
	New Hampshire	1
	New York	3
	Pennsylvania	2
South	Alabama	1
	Arkansas	1
	District of Columbia	1
	Florida	3
	Georgia	2
	Louisiana	1
	Mississippi	2
	North Carolina	3
	South Carolina	2
	Tennessee	1
	Texas	3
	Virginia	3
West	Alaska	2
	Arizona	3
	California	9
	Colorado	4
	New Mexico	2
	Oregon	2
	Utah	2
	Washington	2
	Wyoming	2
Midwest	Iowa	2
	Illinois	2
	Indiana	1
	Kansas	2
	Miami	1
	Minnesota	3
	Missouri	1
	Nebraska	1
	Ohio	3
	Wisconsin	1
Total		79

19-332 O—83——12

APPENDIX II

CITIES RESPONDING TO NLC FISCAL SURVEY

Albuquerque, NM
Anchorage, AK
Augusta, GA
Baltimore, MD
Beatrice, MD
Beaumont, TX
Beaverton, OR
Brigham City, UT
Brooklyn Park, MN
Cambridge, MA
Champlin, MN
Chapel Hill, NC
Charlotte, NC
Charlottesville, VA
Cheyenne, WY
Cincinnati, OH
Colorado Springs, CO
Dallas, TX
Davenport, IA
Denver, CO
Des Moines, IA
Dover, NH
Fairbanks, AK
Fort Wayne, IN
Fort Worth, TX
Ft. Collins, CO
Gainesville, GA
Gallup, NM
Green River, WY
Greenbelt, MD
Greenville, SC
Huntsville, AL
Jackson, MS
Kettering, OH
La Habra, CA
Lewiston, ME
Little Rock, AR
Los Angeles, CA
Lynchburg, VA
Lynnwood, WA
Memphis, TN
Meridian, MS
Milwaukee, WI
Minneapolis, MN
Modesto, CA
New Orleans, LA
New York, NY
Newport News, VA
North Miami, FL
Orlando, FL
Pasadena, CA
Peoria, IL
Philadelphia, PA
Phoenix, AZ
Pittsburg, PA
Port Jervis, NY
Portland, OR
Provo, UT
Pueblo, CO
Rock Island, IL
Rockville, MD
Salina, KS
San Diego, CA
San Jose, CA
Santa Ana, CA
Savannah, GA
South Lake Tahoe, CA
Spartanburg, SC
Sunnyvale, CA
Tacoma, WA
Tempe, AZ
Toledo, OH
Trenton, NJ
Tucson, AZ
University City, MO
Washington, DC
Wichita, KS
White Plains, NY
Winston-Salem, NC

The Importance of GRS Continues and the Need for Renewal Increases

by

Francis Viscount

WP-10

January, 1983

This document contains an analysis, by city-size and region, of the 663 direct member city's responses to NLC's General Revenue Sharing Questionnaire.

PURPOSE AND METHODOLOGY

The National League of Cities (NLC) undertook a survey of its direct member cities during the Fall of 1982, to answer three basic questions concerning the General Revenue Sharing (GRS) program.

- How important is the program to your city's fiscal condition?
- What are the major services or types of projects financed with General Revenue Sharing funds?
- What would be the most likely consequence for your city if General Revenue Sharing were not renewed? (The current program's authorization expires September 30, 1983.)

It was anticipated that the answers to these questions would help the Congress in considering renewal of the program during the first session of the 98th Congress.

The questionnaire was mailed to the almost 1,100 direct member cities of the NLC. Over 700 responses were received. Responses were analyzed on the basis of city-size and region. A copy of the questionnaire is included as Appendix A of this report.

The only subjective question on the survey, number 6, asked cities to indicate at least one important use of GRS funds during the past year. Many cities provided more than one, but significantly over 90 percent provided at least one. When there were multiple entries, the three most significant, in terms of funds committed, were used to develop the analysis of responses.

Before describing the responses and reporting on the findings, three caveats are important. The first concerns the interpretation of regional findings. The second concerns implicit policy questions raised by the results of the survey and analysis. The third caveat relate to the extent to which responses represent a scientific sample and, the findings should be viewed as representative, rather than conclusive.

First, GRS is an entitlement program which has funds distributed automatically based upon a three or five factor formula. Basically, the formula allocates funds by considering population, wealth and tax effort. The region in which a city is located has no impact on the allocation of funds, and therefore, the regional analysis included should be considered as descriptive of program outcomes not as determining or affecting them. On the other hand, city size does influence the total GRS allocation a city receives and therefore, affects a city's answers to the survey questions.

The second caveat concerns the extent to which there are implied policy options in this study. There are none. It was the intent of the survey to present findings concerning the usefulness of the existing program, and not for cities to present a series of theoretical options for program redesign. No questions about the formula were asked, nor was any analysis undertaken. Questions concerning equity, the inclusion or exclusion of particular local taxes or changes in the program regulations were not part of the survey or analysis.

The third caveat is that responses to this survey do not constitute a scientific sample and therefore should be considered descriptive. Tables 1 and 2 provide the distribution of the city's responses used in the analysis, included average populations, entitlements and average per capita entitlement. The variations in per capita entitlements shown in table 1 are similar to distributions found in other surveys. The Northeast per capita entitlement figures in table 2 is very high. It reflects the inclusion of New York City, Philadelphia and Pittsburg, cities with high tax effort and correspondingly high entitlements and the general lack of responses from smaller Northeast cities.

TABLE 1

Summary Information

(population in thousands)

	Under 10	10 to 50	50 to 249	250 to 499	Over 500
Number of cities reporting (total = 663)	116	332	172	24	19
Average population (in thousands)	5.8	27.0	100.3	332.4	1,320.0
Average GRS entitlement (in thousands)	$104	$458	$1,619	$7,131	$33,338
Per capita entitlement (in dollars)	$18.29	$17.40	$16.14	$21.00	$25.26

Source: National League of Cities, GRS Questionnaire, Fall, 1982

TABLE 2

Summary Information

(region)

	North-east	South	Mid-west	West
Number of Cities total = 663	57	260	206	140
Average population (in thousands)	202.6	73.1	73.6	101.3
Average GRS entitlement (in thousands)	$6,441	$1,438	$1,190	$1,864
Per capita entitlement (in dollars)	$31.79	$19.67	$16.16	$18.40

Source: National League of Cities, GRS Questionnaire, Fall, 1982

However, the findings of the survey are significant because the cities included in the survey receive over one-half of the total GRS entitlements received by cities, $1.24 billion out of $2.3 billion.

HOW IMPORTANT IS GRS TO YOUR CITY'S FISCAL CONDITIONS?

Three dimensions of the fiscal value of GRS to cities were probed. Its overall importance was guaged by measuring GRS against locally-raised revenues. The second dimension concerned the effects on local property tax rates if they were increased to compensate for the loss of GRS funds. The third was whether GRS was the only federal aid the city received.

A. GRS as share of locally-raised revenues.

Tables 3 and 4 provide the city-size and regional distribution of responses to the first dimension, GRS as a share of locally-raised revenues. Overall GRS equals 6.63 percent of locally-raised revenues. This finding compares favorably to the recent Census Bureau reports that indicate GRS equals 6.7 precent of locally-raised revenues for all cities. Clearly GRS makes an important and significant contribution to local fiscal stability.

TABLE 3

GRS Receipts As A Percent Of
Locally-Raised Revenue
FY 1982
(in percent)*

(population in thousands)

Range	Under 10	10 to 50	50 to 249	250 to 499	Over 500	Total
0-.99%	1	2	1	-	-	1
1-4.99%	28	42	46	33	58	41
5-9.99%	40	43	43	58	42	43
10% +	31	13	9	9	-	15
Average	8.93	6.54	5.70	5.56	4.51	6.63

*Numbers may not add to 100 due to rounding

Source: National League of Cities, GRS Questionnaire, Fall, 1982

TABLE 4

GRS Receipts As A Percent Of
Locally-Raised Revenue
FY 1982
(in percent)

(region)

Range	North-east	Mid-west	South	West	Total
0-.99%	-	1	1	1	1
1-4.99%	58	55	24	45	41
5-9.99%	26	35	50	48	43
10% +	16	9	25	6	15
Average	5.48	5.62	8.30	5.53	6.63

Source: National League of Cities, GRS Questionnaire, Fall, 1982

The distribution of the responses is also significant. GRS is most important for the smallest cities. For almost one-third of them, GRS equals more than 10 percent of locally-raised revenues. On average it equals almost 9 percent for all cities under 10,000.

As city size increases, the share of locally-raised revenues represented by GRS decreases. However, even for the largest cities it equals 4.5 percent on average. For 43 percent of the largest cities surveyed, GRS equals over 5 percent of locally raised revenues.

On a regional basis, the findings mainly reflect the large number of small cities in the South participating in the survey. The number of large cities in the Northeast also is reflected by the fact that for 58 percent of the cities Northeast surveyed, GRS represents less than 5 percent of locally-raised revenue.

B. Local property tax rates.

Often it has been asserted that cities could tap their local property-tax base if GRS were ended. To test this assertion, cities were asked how much they would have to increase property tax rates to compensate for a loss of GRS funds. It must be remembered that local property tax bases do not change if federal programs end and therefore any increase in property tax revenues would require increases in the rate.

Responses to this question make a compelling case against such an assertion. If GRS were ended, local property tax rates for the smallest cities would need to be increased 50 percent on average. For all cities over 10,000 rates would need to increase between 23 percent and 27 percent. Table 5 summarizes these findings.

TABLE 5

Average Property Tax Rate Increase
If GRS Is Terminated

(population in thousands)

	Under 10	10 to 50	50 to 249	250 to 499	Over 500
Percent rate increase	50.73	26.13	23.70	27.58	23.11
Number of cities	100	283	140	18	16

Source: National League of Cities, GRS Questionnaire, Fall, 1982

When viewed in a regional basis the findings differ substantially. Northeastern cities indicate they would need to raise their taxes by only about 9 percent, while western cities would need to raise their rates by almost 50 percent. Midwestern cities tend to be closer to the Northeast, while those in the South tend to be closer to the West. These findings generally reflect the relative importance of the property tax in different regions of the United States, with the exception of those states where rate increases are not permitted, e.g., California, Idaho, Massachusetts, etc. Generally speaking, the South and West have lower tax rates, assessment ratios and per capita property tax bases than the Northeast and Midwest and therefore require larger rate increases to raise sums equal to GRS. Table 6 summarizes these results.

TABLE 6

Average Property Tax Rate Increase
If GRS Is Terminated

(region)

	North-east	South	Mid-west	West
Percent Rate Increase	8.87	37.05	17.75	49.77
Number of Cities	52	235	186	84

Source: National League of Cities, GRS Questionnaire, Fall, 1982

C. GRS as only grant.

General revenue sharing is particularly important for smaller communities because, for many, it is the only federal aid they receive. For cities under 10,000, 62 percent indicated GRS was the only federal grant they received. For cities between 10,000 and 50,000 population, 39 percent indicated it was their only federal grant. And for cities between 50,000 and 250,000, 5 percent of the cities indicated that it was their only federal grant. Table 7 displays these findings.

TABLE 7

GRS Is Only Federal Grant

(population in thousands)

	Under 10	10 to 50	50 to 250
Number of Cities	72	130	8
Percent of total cities reporting	62	39	5

Source: National League of Cities, GRS Questionnaire, Fall, 1982

On a regional basis, between one-quarter and one-third of cities in each region receive GRS as their only grant. Overall, 32 percent of the cities surveyed indicated GRS is their only federal grant, thus making its continuation even more critical to them. Table 8 displays this data.

TABLE 8

GRS Is Only Federal Grant

(region)

	Northeast	South	Mid-West	West
Number of Cities	17	86	73	34
Percent of total cities reporting	30%	33%	35%	24%

Source: National League of Cities, GRS Questionnaire, Fall, 1982

HOW ARE GENERAL REVENUE SHARING FUNDS USED?

We asked cities to name the major purposes for which they used GRS funds during the past year. The variety of programs and projects was a real reflection of the program's flexibility. Some of the more diverse ones included downtown revitalization, senior citizen programs, meals on wheels, public facility access improvements for the handicapped, shared taxi, supplemental income for indigents, and aiding community based action agencies.

Although there were substantial numbers of cities which used GRS liberally in both capital and operating programs, two trends with respect to city size were apparent. As the size of cities increases there is a tendency not to use GRS wholly for capital projects. Over one-third of cities under 10,000 used GRS wholly for capital projects, while no city over 500,000 did and only 8 percent of the cities from 250,000 to 500,000 did.

A reverse trend was true for operating programs. The larger the city the more likely it would allocate its funds solely to operating programs. Seventy-nine percent of the cities with populations over 500,000 allocated their funds to operations while only 29 percent of those with populations under 10,000 did. Table 9 displays these data.

TABLE 9

Cities Use of GRS Funds
(in percent)

(population in thousands)

	Under 10	10 to 50	50 to 249	250 to 499	Over 500	All Cities
Capital only	36	26	16	8	-	24
Operations only	19	29	44	54	79	33
Both	45	45	40	38	21	43

Source: National League of Cities, GRS Questionnaire, Fall, 1982

On a regional basis the pattern of answers does not provide clear trends. The Northeast cities, which tend to have infrastructure in place and higher levels of tax effort, exhibit a preference for supporting operations rather than making capital improvements with GRS and thus hold down tax rates. The reverse is generally true in the South. The Midwest exhibits a slight bias toward operating expenditures but the West shows the opposite. The answers from Western cities appear to reflect the fiscal pressure created by the various tax and expenditure limitations that have been enacted in those states. Table 10 displays these results.

TABLE 10

Cities Use of GRS Funds
(in percent)*

(region)

Use	North-east	South	Mid-west	West	Total
Capital only	9	32	21	19	24
Operating only	61	22	29	49	33
Both	30	46	50	31	43
percent capital	45.2	55.7	57.8	56.8	-
percent operating	48.4	40.9	36.8	39.8	-

*Numbers may not add to 100 due to rounding

Source: National League of Cities, GRS Questionnaire, Fall, 1982

A. Capital programs.

The variety of use of GRS funds in capital programs is substantial. Cities bought administrative computers and communication facilities, paved streets, funded local public transit and revitalized their downtowns. Tables 11 and 12 provide a glimpse of the numbers of cities by size and region that used GRS funds for capital expenditures. Smaller cities tended to be more innovative than larger cities. On a regional basis no divergent patterns were apparent.

TABLE 11

Major Capital Uses of GRS Funds
FY 1982
(in percent)

	Under 10,000	10,000 to 50,000	50,000 to 250,000	250,000 to 500,000	Over 500,000
Economic development	14	7	8	-	-
Meet federal requirement	3	1	3	-	-
Street repair	29	34	32	50	-
Transit	2	5	6	10	-
General capital*	53	53	51	40	100

Numbers may not add to 100 due to rounding

*Includes parks, land, buildings and major equipment

Source: National League of Cities, GRS Questionnaire, Fall, 1982

TABLE 12

Major Capital Uses of GRS Funds
FY 1982
(in percent)

(regions)

	North-east	South	Mid-west	West
Economic development	-	11	9	3
Meet federal requirements	-	2	2	2
Street repair	42	36	32	28
Transit	5	2	7	5
General capital*	53	50	50	62

Numbers may not add to 100 due to rounding

*Includes parks, land, buildings, major equipment

Source: National League of Cities, GRS Questionnaire Fall, 1982

B. Operating programs.

The value of the flexibility of GRS funds is apparent by the range of operating programs supported with them. A great number of human needs are met with these funds. Cities of all sizes commit substantial funds to senior citizens, alternative transit programs, social services and emergency relief, and external community-based social service agencies. On the basis of city size, generally one-third of all GRS is used for these programs, while two-thirds is used to support general government and public safety activities. Table 13 summaries these answers.

TABLE 13

Major Operations Funded with GRS
FY 1982
(in percent)

(population)

	Under 10,000	10,000 to 50,000	50,000 to 250,000	250,000 to 500,000	Over 500,000
Alternative transit	2	3	1	-	-
Health	5	6	5	3	17
Recreation	8	7	7	10	3
Senior citizens	10	9	9	7	3
Social services	8	11	11	11	14
Public safety	39	40	50	41	31
General government*	28	24	17	28	31

Numbers may not add to 100 due to rounding

*Includes administration, planning, sanitation, transportation

Source: National League of Cities, GRS Questionnaire, Fall, 1982

On a regional basis, three of the four regions exhibit this similar pattern. However, Northeastern cities spend 82 percent of these funds on public safety and general governmental functions. This reflects the generally higher amount of fiscal stress found in Northeastern cities which makes them the most vulnerable to termination of GRS. Table 14 displays these findings.

TABLE 14

Major Operations Funded With GRS
FY 1982
(in percent)

(region)

	Northeast	South	Midwest	West
Alternative transit	2	1	5	1
Health	2	8	5	6
Recreation	3	8	5	7
Senior Citizens	3	5	16	9
Social services	8	9	11	15
Public safety	42	42	39	49
General government*	40	27	21	13

Numbers may not add to 100 due to rounding

*Includes administration, planning, sanitation and transportation

Source: National League of Cities, GRS Questionnaire, Fall, 1982

19-332 O—83——13

WHAT WOULD BE THE CONSEQUENCES OF TERMINATING GRS?

The questions in this section of the questionnaire explored two aspects of how cities would adjust to the loss of GRS funds, how they would adjust their budgets and if they expected to lay off personnel. Budget options are rather limited. Cities can cut spending, raise revenue or do both. Cities could spend down surpluses or borrow in the short term, but ultimately they must make more permanent policy decisions. Related to expenditure reductions is the likelihood of lay off because in most cities around 70 percent of operating costs are for personnel.

Overall cities indicated that most of the loss of GRS funds would be quickly followed by service cutbacks. Only 12 percent of the cities surveyed indicated a willingness to raise fees and taxes to completely offset the loss of GRS. On the other hand 42 percent of the cities indicated they would rely solely on capital and operating budget cuts to offset the loss of GRS. The bulk of the remaining cities said they would do a combination of both revenue increases and expenditure cuts. The survey did not ask about the precise mix of this latter course, however, it is reasonable to surmise that over half the loss of revenue will result in service reductions, particularly during these bad economic times.

The subsequent two tables present the actions cities intend to take if GRS were to end. Table 15 displays those choices by city-size. From the responses, three general findings can be drawn. The smaller the city the more likely it will consider raising taxes to compensate for a loss of GRS. Almost three times as many small cities considered this their most likely response. A second finding is that fewer large cities will reduce capital expenditures than will small cities. In fact as population increases the ability to reduce capital spending decreases.

A similar pattern appears when cutting both capital and operating programs is the preferred response. Forty-six percent of cities between 10 and 50 thousand would offset a loss of GRS solely with spending cuts, but only 26 percent of the largest cities believe they can do the same.

The most prominent choice for all cities is a combination of raising revenue and reducing expenditures. However, it is likely that cities contemplate mostly increasing fees rather than taxes to raise revenue. This would be consistent with the findings of various fiscal surveys recently conducted, including NLC's, in which raising fees and charges was twice to three times as popular for raising local revenues as was raising taxes. However, because fees are still a small share of total city budgets, it is likely that there will need to be more dollars of service reductions than increases in revenue.

Table 16 provides a regional distribution of responses. The two most striking findings are that relatively more cities in the Northeast would be compelled to raise taxes to offset the loss of GRS than in any other region. Almost one-third of the Northeastern cities would not be able to reduce services and programs further than they currently have. Only 14 percent of the Northeastern cities indicate they would balance their budgets with program and service cuts. This clearly indicates the fiscal dilemma facing these cities, but this is consistent with the survey finding that Northeastern cities use the greatest share of GRS for basic services, general government and public safety.

TABLE 16

City Actions to Compensate
For Loss of GRS
(in percent)*

(region)

	North-east	South	Mid-west	West	Total
Increase taxes	30	10	9	6	11
Increase fees	2	-	2	1	1
Reduce capital expenditures	7	29	27	33	27
Reduce operating expenditures	7	9	18	25	15
Increase revenue and cut spending	53	49	39	32	42
Use reserves	2	2	2	1	2
Increase debt	-	-	2	-	-
Other	-	2	2	3	2

*Numbers may not add to 100 due to rounding

Source: National League of Cities, GRS Questionnaire, Fall, 1982

Alternatively, Western cities, under the burden of many tax and expenditure limits, indicate they are least able to raise taxes and over half, 58 percent, of the cities must rely solely on expenditure cuts to offset a loss of GRS funds. One-third of Western cities indicate capital spending would be cut, a particularly painful decision since the population growth in the West continues to require additions to existing capital stock.

The cities of the Midwest and South regions array themselves close to the overall averages, however, this means significant cuts in services and limited ability to raise taxes to offset the loss of GRS.

The second dimension of how cities would respond to the end of GRS concerns whether they would lay off municipal employees. Of the total number of cities reporting, 174, or 26 percent, indicated that they would have to lay off employees. These cities were from every population group and region. Generally, as the population of cities increased, the number of cities estimating that they would need to lay off employees increased. Strikingly, half the cities between 250 and 500,000 thought lay offs would occur if GRS ended. Similarly, as the size of the city increased the average number of lay offs also increased. For cities under 10,000, the average number of lay offs estimated was five; while, for cities between 250,000 and 500,000, the average number of lay offs approached 189. These figures are summarized in Table 17.

TABLE 17

Cities Reporting Lay Offs Likely
If GRS Eliminated

(population in thousands)

	Under 10	10 to 50	50 to 249	250 to 499	Over 500	Total
Number of cities	24	86	47	12	5	174
As a percent of total cities reporting	21	26	27	50	26	26
Average number of lay offs	5	16	57	189	698	-

Source: National League of Cities, GRS Questionnaire, Fall, 1982

he regional distribution of cities expecting lay offs also contains some surprises. Because of the recession a high rate of lay offs in the Midwest would be likely and this was found. However, that rate was matched by cities in the West. The average number of lay offs is actually close between these two regions, 51 employees in the Midwest and 43 in the West.

The number of Southern and Northeastern cities anticipating needing to lay off if GRS ends is quite similar, 20 percent and 18 percent respectively. However, the average number of lay offs in the South is three times the number in the Northeast. These figures are on Table 18. This is consistent with the earlier finding that Northeast cities would be least able to cut services if GRS funds stopped coming.

TABLE 18

Cities Reporting Lay Offs Likely If GRS Eliminated

(region)

	Northeast	South	Midwest	West	Total
Number of cities	10	52	66	46	174
As a percent of total cities reporting	18	20	33	33	26
Average number of lay offs	27	83	51	43	-

Source: National League of Cities, GRS Questionnaire, Fall, 1982

CONCLUSION

These results clearly indicate the importance of revenue sharing and the very difficult actions cities would have to take to compensate for the loss of these funds. Revenue sharing has become in many ways the glue that holds the precarious fiscal situation of many cities together. Existing resistence to higher taxes would ensure that important services would have to be reduced, capital spending for infrastructure postponed and municipal employees laid off. These findings dramatize how GRS is important to all cities and the need for Congress to ensure reenactment of the program early in its current session.

APPENDIX A

NATIONAL LEAGUE OF CITIES
GENERAL REVENUE SHARING QUESTIONNAIRE

RETURN TO:
National League of Cities
Office of Policy Development
1301 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

CITY OF ______________

STATE ______________

CONGRESSIONAL DISTRICT(S)__

____

POPULATION______________
(Figure reported for GRS Entitlement Period #14)

BY OCTOBER 8, 1982

ENTITLEMENT FOR EP #14 $____

____

FISCAL YEAR BASIS ________
(e.g., July-June)

I. GRS and City Budgets

1. What percent of general tax supported/own-source city revenues (excluding enterprise and education functions) did GRS funds represent in your City's budget for:

a. Current Fiscal Year?____ %

b. Fiscal Year 1977?______ %

2. If your current GRS entitlement were eliminated and had to be raised from property taxes, it would raise the current rate by __________ percent.

3. Check here if your City receives no federal funds directly other than GRS funds. ___

II. Use of Funds

4. Approximately _________ percent of your City's current GRS entitlement is spent for capital outlays which include construction ($10,00 or greater per project), purchase of equipment having an expected life of five years or more, and purchase of land.

5. Approximately _________ percent of your City's current GRS entitlement is spent for operating and maintenance outlays.

NOTE: Please explain if answers to #4 and 5 above do not add to 100%:

____

GENERAL REVENUE SHARING QUESTIONNAIRE

6. Describe on separate sheets at least one example of how your City has used GRS funds to provide important community services and facilities in the past year. Use narrative descriptions being careful to include details, such as dollars spent, where appropriate.

III. Consequences of GRS Termination

7. If all GRS funds were terminated on October 1, 1983, which one statement below best describes the action your City would take?

    ___a. Increase property or other taxes.
    ___b. Increase or institute service fees and charges.
    ___c. Reduce or defer capital expenditures.
    ___d. Reduce operation and maintenance expenditures.
    ___e. Increase taxes and/or service fees and reduce expenditures.
    ___f. Use surplus or other reserve funds.
    ___g. Increase debt.
    ___h. Other (please explain) ____________________.

8. If your answer to #7 above would entail layoffs of full-time permanent personnel, estimate the number. ________________

Compiled by ________________________ Title ________________

Phone # _____ ________________

Thank you for assisting in this effort to bring about renewal of this important program.

APPENDIX B

DISTRIBUTION OF CITIES BY STATE AND REGION

	Northeast		South		Midwest		West	
	CT	9	AL	19	IA	15	AK	4
	DE	2	AR	5	IL	41	AZ	8
	MA	1	DC	1	IN	9	CA	61
	MD	10	FL	40	KS	20	CO	17
	ME	2	GA	23	MI	28	ID	1
	NH	2	KY	13	MN	18	MT	2
	NJ	7	LA	21	MO	15	NM	5
	NY	10	MS	10	ND	4	NV	4
	PA	5	NC	45	NE	8	OR	13
	RI	5	OK	10	OH	33	UT	8
	VT	4	SC	10	SD	6	WA	10
			TN	16	WI	9	WY	7
			TX	33				
			VA	10				
			WV	4				
Totals		57		260		206		140

APPENDIX C

DISTRIBUTION OF RESPONDING CITIES BY SIZE AND REGION, IN NUMBER AND PERCENT

(region)

City Size	North-east	South	Mid-west	West	Total
Less than 10,000	9	73	19	15	116
10,000-49,999	30	114	128	60	332
50,000-249,999	14	54	49	55	172
250,000-499,999	2	11	5	6	24
Over 500,000	2	8	5	4	19
Total	57	260	206	140	663

(percent)

City Size	North-east	South	Mid-west	West	Total
Less than 10,000	15.8	28.1	9.2	10.7	17.4
10,000-49,999	52.6	43.8	62.1	42.9	50.0
50,000-249,999	24.6	20.8	23.8	39.3	25.9
250,000-499,999	3.5	4.2	2.4	4.3	3.6
Over 500,000	3.5	3.1	2.4	2.9	2.9

Source: National League of Cities, GRS Questionnaire, Fall, 1982

Senator HEINZ. Gentlemen, you have all really been quite consistent in your testimony. You have explained the way you are using these general revenue sharing moneys in your communities. You have provided a great deal of evidence not only as to the useful purposes for which the funds are used, but why and how, right now, your municipalities or counties are subject to increasing, not decreasing, pressures.

I hope that all members of the committee who are not here will carefully read Mr. Guthman's testimony in particular in that regard, where he mentioned with great specificity some examples of what was happending in Atlanta and in other cities.

You all, as I understand it, favor a 5-year reauthorization of general revenue sharing, basically support the existing formula—although you are not adverse to changes, you didn't propose any, I noticed—and you would like to see somewhere in the neighborhood of an $800 million or roughly a 20-percent increase, although you have indicated, all of you, that in terms of purchasing power, revenue sharing has been reduced about 40 to 50 percent since the time of its first enactment.

There is a general hesitancy, as I understand it, to commit to a position at this time regarding the President's local block grant proposal; that is to say, the combination of CDBG—community development block grants—with GRS. Most of you have reserved judgment in that regard at this time.

There is, I gather, a universal feeling that it would be fine to have States in the program, that you would like to see the State share reinstated as long as it didn't result in any money that they might otherwise obtain being taken away from local governments—not an unexpected position. Were it possible to devise, and the sooner the better, you would favor some kind of over-lay on the existing program.

Is there anybody who disagrees with the summary that I have made?

Mr. ALTHAUS. Mr. Chairman, I think you have said it better than we did.

Senator HEINZ. Well, I said it in less time. I don't know whether I said it better.

Now, the bill in the Senate is a 3-year authorization. I don't presume to speak for Senator Durenberger, whose bill it is, but this is my analysis: we are somewhat pessimistic that we are going to get the 20- or 25-percent increase in moneys, given our tight budget situation this year, hence it was thought that if we can't increase GRS, better the pain were briefer rather than extend it. Hence, 3 years as opposed to 5 years.

If we are unable to make the increases that you have suggested, would you object to a 3-year authorization so that we can come back at what we presume to be a more favorable point in time? Commissioner Baker?

Senator BAKER. I think that is a tactical judgment, and I think that that's where our association and the others as well would be keeping closely in touch with you as this proceeds.

It is our position that we hope at some time that general revenue sharing would be made permanent; but I think we also have to judge the realities of the legislative situation.

Senator HEINZ. Mr. Russell?

Senator RUSSELL. We support Senator Durenberger's Bill, S. 41, which does extend it for 3 years. But our preference, frankly, would be to extend it to a minimum of 5, and perhaps longer.

Senator HEINZ. Bill Althaus?

Senator ALTHAUS. We support the 5-year extension, but obviously the 3-year extension is acceptable to us.

Senator HEINZ. Mr. Guthman?

Senator GUTHMAN. I have no different opinion.

Senator HEINZ. Very well.

Now, some of you have touched on this—Mr. Althaus and Mr. Guthman touched on it—but to what extent is the current recession retarding or forcing the postponenment of capital improvement projects?

I ask that question in particular to judge whether or not the crunch that we know you are in, that you've testified to, is in fact making the recession worse, and whether or not the postponement of capital projects would clearly be not just deferred building but would be deferral recovery and deferred jobs at a time when we don't want to defer recovery or defer jobs.

Mayor Althaus?

Mr. ALTHAUS. Mr. Chairman, we have deferred capital expenditures of all sorts in the last year simply because that is, unfortunately, one area where you can make cuts in the short run.

We are faced with very close to the ceiling of State law on various forms of tax revenue, and I think we have really reached the ceiling of the ability of the people of the city to pay.

So if you absolutely must make cuts, you get into deferred maintenance and deferred capital expenditures, however unwise they may be.

Across the board, as far as building and maintenance, and even such elementary and crucial things as buying police cars, we have made those decisions not because we consider them sound decisions but because we have had no choice. It is seriously impacting us, and if the monies were available I think you would see that money going out into jobs and bricks and mortar very quickly.

Senator HEINZ. Councilman Guthman?

Mr. GUTHMAN. There is no question that the recession and the accompanying high interest rates have made it extremely difficult, as I mentioned in my testimony, for the issuance of general obligation municipal bonds as well as other revenue bonds that are for public purposes.

And so we are able to bring interest rates down. And even though they have declined, they are still high in terms of municipal bonds.

So it is important that we intend to get the recession behind us, and I think we can get capital programs moving that would help by putting people back to work.

Your endorsement of the acceleration of the one-quarter of the revenue sharing is certainly a way to do that. But I might add that the impact of that is going to depend a great deal on the speed in which general revenue sharing is reenacted, because I think cities and local governments would not wish to spend that accelerated quarter if they are not assured quickly of the reenactment.

Senator HEINZ. I happen to agree with you wholeheartedly.

It was kind of not very well emphasized in the report on the Senate jobs bill, but of the entire amount of money in the Senate jobs bill, prior to the adoption of the amendment to accelerate GRS payments, the entire amount of money that would have been spent in this calendar 1983 would have been about $1.5 to $1.6 billion. The acceleration of those payments almost doubles the amount of money that would be available for the provision of services, the reemployment of people—and you have all testified to the service cuts and layoffs.

It is clearly the biggest bang for the buck that we could get out of any single thing we could do as part of a jobs bill. That's a self-serving comment, because I would like to see the House agree with us in conference; but I happen to believe it is absolutely true, no matter how self-serving it is.

Mr. GUTHMAN. Well, I think you are absolutely right. We in Atlanta are essentially ready to go on some capital projects that would produce jobs, just as soon as we can be assured of reenactment.

Senator HEINZ. Mr. Russell?

Mr. RUSSELL. As I said earlier, Mr. Chairman, we have not completed the survey; but I should say that at this point, of the 2,500 or so respondents to our survey, roughly 20 to 25 percent have deferred or halted capital improvements.

But as one who has driven many a township road in the countryside in Pennsylvania and dropped an axle in numerous potholes, I think at least anecdotally there is strong evidence to suggest that they have deferred improvements.

Senator HEINZ. There has been a lot of evidence to that for a long time, Bart, I'm sorry to say. But it is, you are right, worse now than ever before.

Commissioner Baker?

Mr. BAKER. I can think of two ways that your question bears on the revenue-sharing question. One is that for local taxes and county taxes in particular that are reflective of the economy, many of them have indications of revenues being down or being limited given the state of the economy.

But, second, I think as far as revenue sharing itself what has happened is that whereas in the earlier periods they have been used for capital projects, there has been a tendency within the last 2 or 3 years of general revenue sharing for them to be cranked directly into the core operating functions of Government, and that has displaced a lot of capital spending into potential for capital spending, which really bears on the infrastructure question.

Senator HEINZ. Thank you.

Senator Durenberger?

Senator DURENBERGER. Let me pick up where the chairman left off in the first part of his questioning.

Do all of you favor making revenue sharing permanent?

Mr. GUTHMAN. It probably goes without saying, Senator.

Senator DURENBERGER. Does anyone disagree with that? Let me put it that way.

[No response.]

Senator DURENBERGER. Does anyone disagree with the notion, as part of making it permanent, that it ought to be a percentage of the Federal income tax, or that that would be an improvement?

Mr. ALTHAUS. I think obviously if you are going to make it permanent you need some reasonable formula, and that may be as logical as any. Without that, we don't want to see any permanency.

Senator DURENBERGER. And the notion that we utilize a trust fund? On this whole question of permanency, does anyone have any problems with that?

[No response.]

Senator DURENBERGER. I can't see any.

Now, one of the areas that we touched on just very gently that I included in S. 700 is some alteration in the local GRS formula. That was not anything that we invented; it was sort of the result of years of recommendations made by GAO and Treasury.

I don't know as associations if you have had a chance to look at that recommended formula change; but if you could be guaranteed that there wouldn't be any losers out of changing the local formula, is there anything wrong with that formula that we have incorporated into S. 700?

Mr. RUSSELL. Senator Durenberger, I don't think our leadership could conceive of you proposing anything that would be harmful to local government. But I would say, with respect to formula changes, we are on record as viewing the formula as being a good one, given the diversity of participants in the program, and do not at this time support any changes. We have not yet taken a position on S. 700 because we are still studying it and want to see what the impact would be, particularly on smaller jurisdictions.

Senator DURENBERGER. Are there any other comments on the formula changes we included in S. 700?

Mr. GUTHMAN. Senator, I think the league's position on that is, you know, "As long as it is not going to hurt cities, fine."

But our problem is the fact of the urgency of reenactment.

Senator DURENBERGER. I understand that one very, very well. I am just curious to know whether or not you had a chance to look at it and had any comments.

Mr. GUTHMAN. I don't believe the league has thoroughly studied it yet.

Mr. BAKER. You will be having hearings I believe in April on that question, is that right?

Senator DURENBERGER. That's right.

One other area that we haven't covered yet this morning, and I don't want to open up a lot of comment on it, and maybe its just a matter of acknowledging that it exists, and that is that 3 years ago, when State funding was dropped out of the programs, the States were all running huge surpluses. We thought, "You know, they don't need the money. Let's get rid of it."

We failed to recognize, as I hope we do today, that one of the values of general revenue sharing with a State formula in it is that it was an encouragement for States to share revenues with local government.

Now, my presumption is—and I would appreciate your reaction to this—that in the current deficit situation, as you look around at what State legislatures are doing to local government, do you find in other parts of the country what we are finding in Minnesota, that State government in deficit, faced with the choice between raising taxes and cutting spending, is looking very closely at state-shared revenues, particularly looking at the indirect revenue sharing which usually comes to you people in the form of property tax relief, the Homestead Tax Credit, or something else? Would anyone want to comment on that?

Mr. ALTHAUS. Senator, we do see that kind of pressure in Pennsylvania in reevaluation of the State-local relationship.

I think in the Conference of Mayors we strongly support a return of the States to the program if it doesn't diminish our share.

What you are really looking at is probably not increasing the flow of money from State to local government, but if you put them back in a revenue-sharing program, what you are doing is avoiding further cuts, which would be devastating to us given the position we are already in.

Senator DURENBERGER. Any other comments?

Mr. BAKER. Senator, I think the States are under I guess the same pressures that both the Federal Government and local governments are under.

In Pennsylvania we see very clearly, especially at the county level where, because of our particular pattern of State-county service relationships, it does affect us greatly. And there has not been a propensity on the part of the State to adopt the block grant or revenue-sharing principles, even though I think one of the things that needs to accompany the New Federalism, whatever its form at the National level, at the State level ought in principle to apply between States and their local governments as well.

But I think we are going to see a period where they are going to be looking for every possible way to diminish that assistance.

If I could just inject perhaps a new suggestion into this discussion, I think the one thing States do need to tackle is giving the local governments the ability to have a flexible, responsive tax system, which we do not now have in Pennsylvania, and I believe that characterizes many other States as well.

Senator DURENBERGER. That's a good addition. I appreciate it.

I want to compliment you, Mr. Guthman, for mentioning Scotland Neck, N.C. I'm sure Burt Harrison will appreciate that.

Maybe I can ask this of both NLC and the mayors—what is your current position on the President's proposal that we consolidate GRS and CDBG? I assume both of you have always been in favor of getting rid of strings and mandates and redtape, which this would do.

Do you favor removing the strings from CDBG and turning it into revenue sharing? Let me ask that both of Mr. Guthman and Mr. Althaus.

Mr. GUTHMAN. The league has taken the position at its recent meeting about 10 days ago not in favor of the President's program.

Senator HEINZ. It was a close vote?

Mr. GUTHMAN. It was a very close vote.

I—if I may—have given you now what the league's position was. I must tell you that I personally do not share the results of that decision, that I tend to support, in fact I do support, some parts of the President's proposals, and I would agree wholeheartedly that the more strings that can be cut, if you will, the better.

I think there is a common belief that those closest to the problems know how best to deal with them; and yet I find it somewhat disconcerting from time to time that whenever that is presented to us there are some who have great difficulty in cutting the umbilical cord.

So I have given you my thought and the league's.

Senator DURENBERGER. Thank you.

Mr. Althaus?

Mr. ALTHAUS. Senator, the Conference of Mayors—and my personal position concurs with theirs—oppose the consolidation of the two.

I think the problem is that, while it's nice to remove strings, given the climate and the financial conditions of our cities we'd be in a position where we could not resist the pressure for general tax relief and that the targeted areas and expenditures which were the goals of CDGB simply could not be sustained. We couldn't maintain those programs. We would have to fold up and send our tents home with our whole rehabilitation program and all the things we do with that, because of the pressure for tax relief.

I think that, while "removing the strings" sounds nice, in this particular case it would have a devastating impact on our cities.

Senator DURENBERGER. If we increase general revenue sharing—for example, a 25-percent increase would be a billion dollars; Russell Long has a bill to increase it by 50 percent which would be $2 billion—you all said you would like to see it increased; how should we pay for it? Should we add to the deficit, repeal some categoricals, or what? Does anyone have a specific suggestion?

Mr. BAKER. I don't think that the local governments should expect to have their cake and eat it, too, anymore than any other level of government. And that makes it difficult, because it puts it in a budgetary context rather than a tax context; but I think that's not inconsistent with favoring an expansion of general revenue sharing.

Senator DURENBERGER. Are there any other comments?

[No response.]

Senator DURENBERGER. This is my last question, because I see we are out of time. I am going to ask this of Mr. Guthman.

I thought that NLC had an official position asking Congress to take severance taxes out of the tax effort factor. Am I wrong on that? Or have you changed your position, or do you have a position on counting exported taxes as a part of the tax effort?

Mr. GUTHMAN. As I recall, Mr. Chairman, last year when we got into the discussion of whether we wanted to change the formula dealing with severance taxes, it was our opinion that, while it had certain inequities attached to it, in the whole it was better just to leave it alone at this time.

Senator DURENBERGER. Is that the current official position of NLC?

Mr. GUTHMAN. Yes.

Senator DURENBERGER. That you don't think we should take resource-based severance taxes out of it?

Mr. GUTHMAN. Well, I think that that opens up, if you will, a can which perhaps at this time just should not be opened.

As I said, it creates some inequities in some areas versus another area. But then you get into the discussion and the long debate of what really is a "severance tax." Is it just in resources in the ground, or are there other things that are also severanced, if you will, or severed. And I think, in the interest of simplicity if nothing else that that is one area that at the moment needs to be left alone.

Senator DURENBERGER. Well, the answer is that from a political standpoint it hasn't been possible for State or local government associations to come to grips with this issue. We in Congress are going to be asked, then, to fill the holes that exist in the Mississippi's and some parts of Georgia, and everywhere else, with federally collected tax dollars, because in a political sense associations like yours won't come to grips with the issue.

Is that a fair statement, without being critical? I know that applies to Governors, and it probably applies to NCSL.

Mr. GUTHMAN. I think there are a number of issues which various groups from time to time politically do not come to grips with; however, as I just stated, this is one which NLC dealt with, and, essentially, accepted the administration's views.

Senator DURENBERGER. Thank you.

Thank you, Mr. Chairman.

Senator HEINZ. Senator Durenberger, gentlemen, thank you. You have been very, very helpful to the committee.

I don't purport to speak for the other members of the subcommittee or the members of the Finance Committee who aren't here; but I do believe there is a very strong sentiment to move quickly ahead with the reauthorization of general revenue sharing. Exactly how well we are going to be able to do on additional money I can't prejudge at this time.

But I do believe, as evidenced by the fine work that Senator Durenberger has done in rounding up so many cosponsors for the reauthorization, that you can count on the Senate to move ahead rapidly.

I suppose it is not fully appropriate, but I hope you can get an equal amount of support over in the House. If you work hard, I'm sure you will; but don't give up just because you think you have a lot of friends in the Senate.

Thank you all very much.

Mr. GUTHMAN. Thank you, Senator.

Senator HEINZ. The hearing is adjourned.

(Whereupon, at 11:50 a.m., the hearing was adjourned.)

[By direction of the chairman the following communications were made a part of the hearing record:]

STATEMENT
OF
WILLIAM H. HUDNUT, MAYOR OF INDIANAPOLIS, INDIANA
BEFORE THE
SENATE SUBCOMMITTEE ON ECONOMIC GROWTH, EMPLOYMENT, AND REVENUE SHARING
14 MARCH 1983

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, MY NAME IS BILL HUDNUT. I AM MAYOR OF THE CITY OF INDIANAPOLIS AND SERVE AS CO-CHAIRMAN OF NLC'S GENERAL REVENUE SHARING TASK FORCE.

THE NATIONAL LEAGUE OF CITIES, AS YOU KNOW, REPRESENTS ABOUT 15,000 CITIES DIRECTLY AND THROUGH THEIR MEMBERSHIP IN 49 STATE MUNICIPAL LEAGUES. OUR MEMBER CITIES RANGE IN SIZE FROM NEW YORK CITY TO SCOTLAND NECK, NORTH CAROLINA.

REAUTHORIZATION OF GENERAL REVENUE SHARING IS CLEARLY THE NUMBER ONE PRIORITY OF AMERICAN CITIES THIS YEAR. AND IT IS NOT DIFFICULT TO SEE WHY.

- GRS IS THE SINGLE LARGEST PROGRAM OF FEDERAL AID TO LOCAL GOVERNMENTS, PROVIDING $4.6 BILLION ANNUALLY.
- GRS IS THE MOST COMPREHENSIVE OF ALL FEDERAL AID PROGRAMS, PROVIDING FUNDS TO CITIES OF ALL SIZES IN ALL REGIONS OF THE COUNTRY.
- GRS IS A TARGETED PROGRAM, WEIGHTED TOWARD THOSE COMMUNITIES THAT ARE DOING MOST TO HELP THEMSELVES.
- AND GRS IS THE MOST FLEXIBLE OF ALL FEDERAL AID PROGRAMS, ALLOWING FUNDS TO BE USED FOR A WIDE RANGE OF PROGRAMS AND ACTIVITIES, AS DETERMINED AT THE LOCAL LEVEL, AND

GIVING LOCALITIES THE OPPORTUNITY TO RESPOND QUICKLY TO NEW PROBLEMS, SUCH AS THAT OF THE GROWING NUMBER OF HOMELESS IN OUR COMMUNITES.

TO ENABLE US TO GIVE YOU SPECIFIC DATA ON THE ROLE OF REVENUE SHARING IN OUR CITIES, WE RECENTLY COMPLETED A SURVEY OF NEARLY 700 OF OUR MEMBER CITIES. LET ME BRIEFLY SUMMARIZE THE FINDINGS:

FIRST, GRS FUNDS REPRESENT 6.6 PERCENT OF ALL LOCALLY-RAISED REVENUES, A HIGHER SHARE IN SMALLER CITIES THAN IN LARGE ONES AND A HIGHER SHARE OF CITY BUDGETS IN THE SOUTH THAN IN OTHER REGIONS.

SECOND, FOR ALMOST A THIRD OF ALL CITIES, GRS IS THEIR ONLY DIRECT FEDERAL AID. FOR CITIES OF UNDER 10,000 POPULATION, IT IS THE ONLY FEDERAL AID FOR 62 PERCENT OF THEM.

THIRD, GRS FUNDS ARE USED ALMOST EVENLY FOR CAPITAL EXPENDITURES AND OPERATING BUDGETS. SMALLER CITIES TEND TO FAVOR CAPITAL PROJECTS, LARGER ONES GENERALLY OPERATING COSTS. THE RANGE OF USES VARIES WIDELY: DOWNTOWN REVITALIZATION, SENIOR CITIZENS PROGRAMS, PUBLIC FACILITY IMPROVEMENTS FOR THE HANDICAPPED, SUPPLEMENTAL INCOME FOR INDIGENTS, AND SO ON.

AND FOURTH, IF GRS WERE TERMINATED, VERY FEW CITIES (ONLY 12 PERCENT) WOULD RAISE PROPERTY TAXES. MOST WOULD RAISE VARIOUS FEES AND CHARGES, CUT SERVICES, REDUCE THE CITY WORK-FORCE, OR ALL OF THESE IN SOME COMBINATION.

IN INDIANAPOLIS, ALL OF OUR GRS FUNDS CURRENTLY SUPPORT POLICE AND FIRE SERVICES. IF GRS WERE ELIMINATED, SERVICES WOULD CLEARLY SUFFER OR STATE LEGISLATION WOULD BE NEEDED TO GIVE MY CITY ADDITIONAL REVENUE SOURCES.

MR. CHAIRMAN, I WOULD ASK PERMISSION TO INSERT THE FINDINGS OF OUR SURVEY IN THE RECORD FOLLOWING MY TESTIMONY.

IN FACT, MR. CHAIRMAN, GENERAL REVENUE SHARING IS EVEN MORE IMPORTANT TO CITIES NOW THAN IN PRIOR REAUTHORIZATION YEARS. THERE ARE SEVERAL REASONS.

SINCE 1981 FEDERAL AID TO CITIES HAS DECLINED SUBSTANTIALLY. WE NOW RECEIVE ABOUT $300 MILLION LESS IN COMMUNITY DEVELOPMENT GRANTS THAN IN FY 1981. EPA WASTEWATER GRANTS HAVE BEEN CUT FROM NEARLY $4 BILLION TO $2.4 BILLION. ECONOMIC DEVELOPMENT ASSISTANCE, FROM THE EDA AND UDAG PROGRAMS, HAS BEEN CUT FROM ABOUT $1.2 BILLION IN FY 1981 TO ABOUT $650 MILLION CURRENTLY.

AT THE SAME TIME, WE CAN EXPECT LESS HELP FROM OUR STATE GOVERNMENTS. STATES HAVE THEMSELVES BEEN VERY SHARPLY HIT BY FEDERAL CUTS IN AID TO THEM AND BY THE RECESSION, WHICH HAS REDUCED THEIR REVENUES. MORE THAN HALF THE STATES RAISED TAXES LAST YEAR, AND MANY FACE DEFICITS AGAIN IN 1983. THIRTY-FIVE STATES HAVE ALREADY BEEN FORCED TO REDUCE THEIR SPENDING FOR THE CURRENT FISCAL YEAR BELOW THE LEVELS ORIGINALLY ADOPTED. CLEARLY, WE CANNOT LOOK TO STATES FOR MUCH HELP IN THESE CIRCUMSTANCES.

IN THIS CONNECTION, I WANT TO SUBMIT FOR THE RECORD A SURVEY OF CITY FISCAL CONDITIONS THAT WE COMPLETED RECENTLY. IT SHOWS THAT, FOR THE 79 CITIES SURVEYED, COSTS ARE INCREASING FASTER THAN REVENUES, AND THAT, AS A RESULT, MOST CITIES ARE INCREASING FEES OF VARIOUS KINDS, LAYING OFF EMPLOYEES, AND CUTTING SERVICES. I THINK YOU WILL FIND THIS SURVEY OF CURRENT CITY FISCAL CONDITIONS VERY DISHEARTENING.

LET ME NOW TURN TO OUR RECOMMENDATIONS WITH RESPECT TO A REAUTHORIZATION BILL, APPROVED JUST RECENTLY BY OUR BOARD OF DIRECTORS.

FIRST, WE RECOMMEND THAT YOU APPROVE A FIVE-YEAR EXTENSION OF THIS IMPORTANT PROGRAM, ASSURING LOCAL GOVERNMENTS THAT THIS ESSENTIAL AID WILL BE AVAILABLE FOR A REASONABLE PERIOD.

SECOND, WE RECOMMEND THAT YOU INCREASE FUNDING FOR THIS PROGRAM. A REASONABLE FUNDING INCREASE, BEYOND THE CURRENT $4.6 BILLION LEVEL IS CLEARLY JUSTIFIED.

ALTHOUGH GRS IS AN ENTITLEMENT PROGRAM, YOU SHOULD RECOGNIZE THAT ITS FUNDING HAS REMAINED AT $4.6 BILLION FOR SEVEN FISCAL YEARS, FROM FY 1977 THROUGH FY 1983. IN THAT TIME, WE ESTIMATE THAT IT HAS LOST AT LEAST HALF ITS VALUE TO INFLATION.

IN TURN, WE RECOGNIZE THAT TODAY'S BUDGET PROBLEMS, WITH TRIPLE DIGIT DEFICITS PROJECTED FOR SEVERAL FISCAL YEARS, ARE EXTREMELY DIFFICULT, AND THAT YOUR EMPHASIS MUST BE ON REDUCING THESE DEFICITS. NEVERTHELESS, WE BELIEVE THAT A REASONABLE INCREASE IS JUSTIFIED, GIVEN THE CURRENT FISCAL STRESS IN MANY CITIES AND THE SUBSTANTIAL CUTBACKS IN FEDERAL AID MADE OVER THE PAST TWO YEARS. WE RECOMMEND THAT A 20-25 PERCENT INCREASE OVER THE CURRENT $4.6 BILLION LEVEL WOULD BE REASONABLE IN THESE CIRCUMSTANCES.

THIRD, WE DO NOT BELIEVE ANY MAJOR CHANGE IS CALLED FOR IN THE DISTRIBUTION FORMULA. THE IMPORTANT ROLE OF THE TAX EFFORT FACTOR, WHICH ASSURES THAT THE FORMULA PRIMARILY HELPS THOSE COMMUNITIES THAT ARE MAKING SOLID EFFORTS TO HELP THEMSELVES, SHOULD BE RECOGNIZED. OVERALL, WHILE ANY FORMULA

MIGHT BE CHANGED IN SOME RESPECT, THE CURRENT GRS FORMULA IS WIDELY CONSIDERED TO BE FAIR AND EFFECTIVE. WE DO NOT BELIEVE IT OUGHT TO BE CHANGED WITHOUT MAJOR AND CONVINCING REASONS.

AND FOURTH, WE STRONGLY URGE YOU TO RETAIN THE ENTITLEMENT FEATURE OF GRS, ASSURING THAT ONCE A MULTI-YEAR AUTHORIZATION IS ENACTED FUNDS WILL BE MADE AVAILABLE AUTOMATICALLY. THIS AUTOMATIC FEATURE IS ESSENTIAL TO OUR CITIES, WHICH DECIDE ON THE USES OF GRS FUNDS SIMULTANEOUSLY WITH PREPARATION OF THEIR CITY BUDGETS. TO DO PROPER BUDGETING, THEY MUST KNOW THAT THESE FUNDS WILL BE THERE.

TO CONCLUDE, MR. CHAIRMAN, I MUST REPEAT THAT GENERAL REVENUE SHARING IS THE MOST IMPORTANT OF ALL CITY PROGRAMS; MORE IMPORTANT NOW THAN EVER, GIVEN CUTS IN OUR PROGRAMS DURING THE PAST TWO YEARS AND THE CONTINUING HIGH LEVEL OF UNEMPLOYMENT; AND MORE IMPORTANT TO MORE CITIES THAN ANY OTHER FEDERAL PROGRAM. WE URGE YOU TO APPROVE A FIVE-YEAR REAUTHORIZATION WITH A REASONABLE INCREASE IN FUNDING AND WITH NO MAJOR CHANGES IN THIS FINE PROGRAM. AND, WE URGE YOU TO ACT QUICKLY IN ORDER TO REMOVE ANY UNCERTAINTY WHATSOEVER AMONG THE CITIES NOW PREPARING THEIR FY 1984 BUDGETS.

THANK YOU.

83-29

Statement by Arnold Cantor, Assistant Director, Department of Economic Research American Federation of Labor and Congress of Industrial Organizations, Submitted To The U.S. Senate Finance Committee Subcommittee on Economic Growth, Employment, and Revenue Sharing On The Extension of the General Revenue Sharing Act

March 14, 1983

The AFL-CIO is pleased to support legislation reauthorizing the General Revenue Sharing Program for 5 more years. Specifically, we urge enactment of S.525 which, in addition, would accelerate revenue sharing payments to the beginning of each quarter.

Today, cities and states are confronted with severe fiscal distress because of the deep recession, revenue shortfalls, high interest rates, competing tax exempt financial instruments, inadequate tax structures, and critical spending needs.

The Joint Economic Committee's survey of Trends in the Fiscal Condition of Cities provides dramatic evidence of the severity of the financial crunch facing urban areas. The report's most disturbing revelation is that cities were not expecting any revenue growth during 1982. At the same time expenditures were projected to grow at a 7.8 percent rate. As a result cities faced severe deficits on their current accounts.

External economic pressures strongly contributed to the financial difficulties that have plagued states and localities. The Reagan Recession, which began in July 1981, has put 11.4 million Americans on the unemployment rolls. And, while many claim that the nation is now in an economic recovery, unemployment is projected to remain at least at the 8% level through 1987 acccording to the Congressional Budget Office; and the Administration's more optimistic employment predictions and projections show recession unemployment levels throughout this decade. Thus, cities will have to continue providing social services for a large number of unemployed and poor people for many years to come.

19-332 O—83——15

At the same time, high unemployment translates into lost revenue, as sales, profits, incomes, and property values are lower than would otherwise obtain. Thus, both revenues and outlays have been, and will continue to be, adversely affected by the massive addition to the unemployment rolls that this Administration has caused through its misguided and inequitable economic program.

Unemployment has not been the only squeeze on local budgets created by President Reagan's policies. High interest rates have also severely affected the ability of states and areas to meet critical investment needs.

During 1981, and 1982, yields on high grade municipal bonds averaged 11.23 and 11.57 percent respectively. This compares with the 5 to 6 and one-half percent range that characterized the entire decade of the 1970's. As a result of these inordinately high rates, in 1981 municipalities paid almost $200 million more in interest for their $33 billion in long-term borrowing than they would have during the 1970's. Moreover, the Joint Economic Committee found that during 1981, 59 long term bond issues -- a total of $570 million in borrowing -- were cancelled or postponed due to high interest rates.

Huge budget cuts have been enacted by the Administration in an attempt to patch up the federal government's fiscal problem which were, in the main, the result of the exorbitant 1981 Administration sponsored revenue giveaway to corporations and the wealthy.

Federal grant-in-aid outlays reached a peak of $94.8 billion in fiscal year 1981. During fiscal year 1982, the first full budget cycle under the present Administration, federal grants to states and municipalities totalled $88.2 billion -- a drop of more than $6.5 billion from the prior year. As a result of the federal cuts, states and localities lost approximately 3 percent of their budgets.

The distress at the state and local level is further illustrated by the emergency measures which they have taken to raise taxes and reduce spending. In the past, states were often able to assist localities experiencing budget difficulties. Now, however, the states are in an equally distressed financial condition. In 1980, states posted an aggregate surplus of $11 billion. According to the National Conference of State Legislatures, states are currently running a cumulative budget deficit of $2 billion. Thus, necessary levels of state assistance to localities is not possible or likely. To compensate for the large reductions in federal aid, local governments have had to add or increase fees for public services, raise local taxes, and cut programs. For example, the Joint Economic Committee points out that user fees grew faster than any other source of urban revenue during 1981. Fees levied for such public facilities as libraries, swimming pools and parks rose 15 percent. In addition, property taxes rose by an average of 10 percent for all cities in 1981. The user fees and the tax increases have been regressive adding to the burdens of lower and moderate income people. In addition -- since cities cannot run operating budget deficits -- they have been forced to reduce services. Another serious problem caused by these service reductions and tax hikes is that they reduce purchasing power at a time when the economy is still mired in recession and needs the stimulus to demand.

Furthermore, those areas that have been most severely afflicted by high unemployment have experienced the greatest pressure on their budgets. While their revenues have been reduced, they have had to provide historically unprecedented levels of assistance for people suffering from the ravages of a recession brought on by a program that has benefited a favored elite.

Today, while the nation as a whole is suffering from an unconscionably high unemployment rate of 10.4%, many states and areas have been plagued by unemployment rates that are much worse than the national average. The Bureau of Labor Statistics reports that unemployment rates were at or above the national rate in 19 states in January, 1983. West Virginia (20.4 percent), Michigan (17.0 percent), and Alabama (16.6 percent) had the highest jobless rates. The virtual destruction of the nation's industrial core is the cause of this highly uneven distribution of unemployment. In Alabama and Michigan, the sharp fall in manufacturing activity contributed to the huge number of lost jobs. The downturn in mining caused the steep climb in West Virginia's jobless rate. In January 1983, 30 states had jobless rates of 10 percent or more, compared with 18 a year earlier and six in January, 1981.

Similarly, the incidence of joblessness has displayed significant uneveness among urban areas. Unemployment exceeded the national rate in 80 of the 210 metropolitan areas reporting unemployment data for January, 1983. Seven localities had rates greater than 20 percent: Johnstown, Pa. (24.8 percent), Sharon, Pa. (23.9 percent), Modesto, Calif. (22 percent), Youngstown-Warren, Ohio (21.3 percent), Kankakee, Ill. (20.8 percent), Rockford, Ill. (20.7 percent), and Dubuque, Iowa (20.5 percent). In January, five areas had rates under five percent: Austin, Texas and Raleigh, Durham, N.C. had 4.7 percent, while Honolulu, Hawaii and Stamford, Conn. had 4.9 percent unemployed.

The fiscal burden created by this pattern of economic debilitation at both the state and local level demonstrates their urgent need for the limited fiscal assistance provided by the federal revenue sharing program.

Today, one of the most pressing problems facing states and cities is the need to rebuild a huge part of their public capital -- the infrastructure problem. It has become well known that we have serious deficiencies in our highways, bridges, rail systems, urban transit systems, ports, inland waterways, dams, urban water systems, and waste water treatment systems. There is no consensus on the dollar needs but their not denying the fact that the dimensions of the problem are huge.

An indication of the difficulties currently facing state and local governments in the capital investment area is provided by the long-term decline in public capital spending by states and municipalities. Public investment in real dollars (base year = 1981) peaked in the late 1960's at over $55 billion. By 1982, this category of spending had been cut nearly in half to a preliminary estimate of less than $30 billion. Even if federal expenditures are included, there was a drop from $75 billion in 1969 to a preliminary estimate of less than $60 billion in 1982 (both amounts are in constant, 1981 dollars). This downward trend is also reflected in the steep decline in the ratio of public capital spending to GNP between 1969 and 1982. For states and localities, this ratio was 2.4 percent of GNP in 1969, and 1 percent in 1982, and for all levels of government, including federal, it was 3.3 percent in 1969 and 2.0 percent in 1982.

The large volume of unmet public capital investment needs that exists today is the unevitable result of this steep spending decline. One weekly news magazine has reported that to keep highways at current performance levels will cost more than $500 billion over the next ten years. In addition, popular reports indicate that bridge repairs will cost nearly $48 billion. Similarly, a commonly used estimate for urban water supply investment needs is $75 to $110 billion over the next twenty years.

Obviously, states and areas will have problems financing the needed level of capital spending. Cities, for example, have had persistent problems in achieving their capital spending goals. In 1981, cities actually spent only 60 percent of the planned level of investment spending, according to the JEC report. The sources of funding for capital spending by localities were: borrowing, 30%; intergovernmental aid, 30%; and current revenues and reserves, 40%. Because of federal cutbacks, the role of intergovernmental aid declined somewhat while borrowing rose in importance.

High interest rates have, however, substantially raised the cost of capital. This will create incentives to postpone further the redevelopment of the country's infrastructure. Moreover, the Reagan administration's introduction of numerous tax-exempt financial assets under the guise of promoting savings have made municipal bonds less attractive investments than formerly. These include the All Savers Certificate, and the expanded scope of Individual Retirement Accounts. The highly inequitable reduction in tax rates for the wealthy has further contributed to the diminished attractiveness of state and local bonds. Because of these impediments to traditional sources of funds, many states and localities have resorted to short term "bridge" notes. During 1981 these totalled $2.5 billion.

The fiscal problems facing states and localities -- in large measure the result of Reagan's unfair economic program -- have reached crisis proportions.

Because of the urgency of these problems, and because of the long-term need for a federal role in financing state and local programs, the AFL-CIO strongly supports legislation that would reauthorize the State and Local Assistance Act for 5 years. Of the several bills that have been introduced for this purpose, the AFL-CIO supports S.525, as it is the most consistent with our own approach to this issue.

The particular provisions we support include, first, a five year reauthorization of the program. As demonstrated in our testimony, states and localities need long-term sources of funds in order to overcome their capital spending shortfalls. In addition, a reliable source of funds would aid efficient planning by states and localities.

Second, the AFL-CIO supports an increase in federal outlays for general revenue sharing above the inadequate level proposed in President Reagan's 1984 budget. The President's budget would freeze outlays for general revenue sharing at $4.6 billion for five years -- from fiscal years 1982 through 1986. This provides no adjustment for inflation and therefore represents a cut in the real resources the program will provide to states and localities. In addition, it provides no offset to the cuts which have been made in other programs that were set up to help states and localities. Thus, a significant increase in funding for general revenue sharing is urgently needed.

Thirdly, we support restoring the state role in the general revenue sharing program which was terminated in 1980. The reasons for excluding state governments are no longer valid. State support for a balanced federal budget -- which the federal government decided to achieve in part by excluding states from revenue sharing -- has been disappointed by the massive deficits which President Reagan has piled up through an unprecedented effort to transfer wealth to the rich and to business through unfair tax cuts. In addition, state governments are no longer posting aggregate budget surpluses as they were a few years ago. Instead, last year states accumulated a $2 billion deficit.

While S.525 would make states eligible for the General Revenue Sharing Program on an entitlement basis, the political environment may make this unfeasible at the present time. As an alternative, it is imperative to target GRS funds to states and areas in which the Reagan Recession has had a particularly severe effect. As detailed above, some areas currently have more than one-fifth of their work force unemployed. Having carried the heaviest burden of the recession, these areas deserve special consideration in the allocation of federal revenue sharing resources.

Finally, the AFL-CIO strongly urges the Congress to use this program as a framework for extending federal minimum wage and overtime standards to state and local government employees. The resources provided by the General Revenue Sharing program are collected from the American public through the federal tax structure. Accordingly, it is appropriate that federal standards be applied to the recipients of these funds.

Furthermore, while such labor protection statutes as the Davis-Bacon Act and even the minimum wage have been attacked by this Administration and by some members of Congress, it should be recognized that these labor standards help prevent the unscrupulous exploitation of workers. Moreover, an immediate goal of the General Revenue Sharing Program should be to provide an underpinning for the financial solvency of states and localities during this period of economic stagnation. Another way of viewing this is that revenue sharing supports one sector's demand for goods and services -- thereby propping up demand in the aggregate, and promoting a revival in economic activity.

Similarly, labor statutes such as the Davis Bacon Act and the minimum wage help maintain consumer demand, which many economists characterize as the key to an economic recovery. Accordingly, we strongly urge the Congress to maintain and extend these vital statutes.

In sum, with many states and localities on the brink of insolvency, the extension of the General Revenue Sharing program is of extreme urgency. The AFL-CIO supports this vital program and asks the Congress to extend the General Revenue Act for another five years as called for in S.525.

STATEMENT

TO

The Subcommittee on Economic Growth, Employment and Revenue Sharing

of the Senate Committee on Finance

on

General Revenue Sharing

April 8, 1983

The League of Women Voters of the United States (LWVUS) is a volunteer citizen education and political action organization made up of more than 1250 state, regional and local Leagues in all 50 states, the District of Columbia, Puerto Rico and the Virgin Islands. The League has maintained an interest in General Revenue Sharing (GRS) since its enactment and supports the extension of the GRS Act today as it did in 1980. In 1975 and 1976, the League participated in a major coalition effort supporting mandated citizen participation, civil rights enforcement and auditing requirements -- provisions that were included as amendments to the GRS Act in 1976.

In June 1979, the LWVUS completed a national study of urban problems and adopted as part of its national agenda support for the continuation of GRS. Our members recognize that the addition of GRS funds to local budgets since 1972 has been a vital factor in keeping cities from insolvency and in maintaining services needed for a decent quality of life. In 1980, the LWV joined with three other national organizations (The Center for National Policy Review, Center for Community Change, and the National Urban Coalition) in a monitoring project that focused on four key elements of the program: the distribution formula, citizen participation , accountability, and civil rights enforcement.

League members in suburban, rural and urban communities all across the country continue to be deeply concerned about the needs of our nation's cities. The LWVUS believes that it is in the national interest to promote the well-being of America's cities, and that targeted federal assistance to distressed cities must be a central part of a comprehensive national urban policy. In these times of severe economic distress, many of our cities are experiencing overwhelming levels of unemployment. The demand for city services is high, while local tax revenues are inadequate to fund them. Reductions in federal categorical grants in such programs as food stamps and income assistance have further devastated local budgets. Thus, unrestricted federal financial aid is even more critical now than when GRS was first enacted.

In supporting an extension of GRS, the League remains concerned about the four elements that initially were the focus of League study and action in 1976 and 1980.

1. Targeting. We favor targeting the funds distributed through GRS to the areas of greatest need, with particular emphasis on distressed cities. The original distribution formula for GRS funds reflected a congressional intent to distribute the funds in proportion to need. Simple justice and any consideration of fairness would dictate that the needs of our most disadvantaged

citizens and communities should not be neglected in order to ensure that every community -- no matter how small or how wealthy -- receives a share of the pot. In times of scarce resources, it is even more essential that GRS funds be used where the need is greatest. Therefore, the League would support forumula adjustments that would better target GRS funds to places where the need is greatest. The League does not support the concept of "grandfathering" in all current recipients as future recipients.

2. Citizen Participation. One of the League's chief concerns has been the extent to which citizens are involved in determining how GRS funds are spent in their local communities. It is incumbent on the part of local officials to involve citizens year round in the budget process. Many public officials do not understand the benefits of citizen participation and do not know how to promote such participation in an effective manner.

The LWVUS, which advocates citizen participation in all aspects of government, has identified a variety of methods to help bring citizens into the decision-making process early and effectively, including budget advisory committees, neighborhood task forces, systematic surveys of citizen priorities and revival of regular town meetings. All of these techniques can be utilized to enhance citizen involvement with GRS.

In addition, the League would like to see training for public officials, both in the value of citizen participation and in the use of proven techniques.

Because of its strong commitment to citizen involvement, the League is opposed to any effort to weaken the citizen participation requirements that are currently in effect.

3. Accountability. The League continues to support independent financial audits on an annual basis for those jurisdictions that receive over $25,000 per year in GRS funds. The Office of Revenue Sharing should perform detailed on-site reviews of auditors' work by sampling selected jurisdictions or by checking all of them over a period of a few years.

4. Civil Rights. The League is opposed to any changes that would weaken the civil rights enforcement provisions currently in effect. These provisions help prevent discrimination against women and minorities in local hiring practices. We also remain concerned about the inability of the Office of Revenue Sharing to administer its enforcement responsibilities in a strong and expeditious manner. The League was disturbed by testimony at an oversight hearing conducted by the House Subcommittee on Civil and Constitutional Rights this past December that indicated that the Office of Revenue Sharing is still failing to respond to complaints alleging civil rights violations in a timely and thorough manner. The agency needs sufficient staff to do it work but this is not the only problem.

Summary reports prepared by the Office of Revenue Sharing and sent to the General Accounting Office at its request indicate that the ORS has closed a number of cases and reduced its backlog considerably since a 1980 GAO report. Unfortunately, it appears that the case-load reduction cannot be attributed to tighter enforcement by the ORS, but is instead the result of a major shift in policy by the current Administration, resulting in reduced civil rights enforcment across-the-board. In an effort to reduce its backlog, ORS has closed 1422 out of 3450 cases since 1980. This has been accomplished by having recipients who are not in compliance with the program requirements sign a statement stipulating that they will bring their program into compliance. Only two cases have been decided by administrative law judges in the past three years. Funding has been suspended in only five cases over the same time period; in all but one of those five cases, funding was restored the following month. In a similar vein, the increase in case closings has also been accompanied by a decline in the percentage of dispositions that involve some kind of compliance agreement. While the League appreciates the desirability of reducing the ORS backlog, we are concerned that serious instances of noncompliance are either being overlooked or ignored.

Finally, we would like to address the Administration's proposal to combine General Revenue Sharing with the Community Development Block Grant (CDBG) program into a "mega-block grant." The League is adamantly opposed to such a proposal. While we support both of these programs, we believe that they have been created for different purposes and to meet different needs. CDBG funds should be used to principally benefit low- and moderate-income persons, while the GRS Act provides funds for general purposes. The recently enacted emergency jobs legislation raised the "cap" on public service projects under the CDBG program, from ten percent to 50 percent as one means of creating new job opportunities for women. The League was instrumental in securing not only this change, but in increasing the allocation for CDBG under the Act. Therefore, the League is even more concerned that these two programs maintain their separate identities.

The League remains deeply concerned about the impact of federal budget cuts on the poor of this country -- particularly on the poor in urban areas. We have opposed budget cuts in both social welfare and civil rights programs, and we believe it is imperative that the bulk of the burden of adjusting our economy not be placed upon the backs of the poor -- those who are least able to shoulder the strain.

We urge you not to renege on this nation's commitment to meeting the needs of the disadvantaged. The League has a long-standing commitment to eradicating poverty and discrimination. We have supported many federal programs aimed at improving the access of low- and moderate-income Americans to better education, housing, employment and income assistance across the nation. Because the fiscal health of our cities is a critical factor in the well-being of our nation and our people, we support a multi-year continuation of GRS. We further urge you to target the funds to areas of greatest need.

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