PROPOSED GENERAL REVENUE SHARING EXTENSION

HEARINGS

BEFORE THE

SUBCOMMITTEE ON REVENUE SHARING, INTERGOVERNMENTAL REVENUE IMPACT, AND ECONOMIC PROBLEMS

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-SIXTH CONGRESS

SECOND SESSION

ON

S. 2414, S. 2574, S. 2678, S. 2681

MARCH 6 AND MAY 21, 1980

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE
62-376 O WASHINGTON : 1980 HG 96-66

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PROPOSED GENERAL REVENUE SHARING EXTENSION

THURSDAY, MARCH 6, 1980

U.S. SENATE, SUBCOMMITTEE ON REVENUE SHARING, INTERGOVERNMENTAL REVENUE IMPACT, AND ECONOMIC PROBLEMS, COMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9 a.m., in room 2221, Dirksen Senate Office Building, Hon. Bill Bradley (chairman of the subcommittee) presiding.

Present: Senators Bradley, Durenberger, and Wallop.

[The press releases announcing these hearings follow:]

[Press Release—No. H-5, Feb 14, 1980]

FINANCE SUBCOMMITTEE ON REVENUE SHARING, SCHEDULES HEARING ON PROPOSED GENERAL REVENUE SHARING EXTENSION

The Honorable Bill Bradley (D., N.J.), Chairman of the Subcommittee on Revenue Sharing, announced today that the Subcommittee will hold a hearing on the President's proposal to extend the State and Local Fiscal Assistance Act of 1972 (general revenue sharing). The hearing will be held on Friday, February 29, beginning at 9:30 a.m., in room 1114, Dirksen Senate Office Building.

This hearing has been scheduled, according to Senator Bradley, for the purpose of examining the details of the President's proposed five-year extension of the general revenue sharing program. The Subcommittee will attempt to review in detail the modifications proposed by the President with witnesses both on behalf of the Administration and State and local governments, Bradley added. In addition to reviewing the details of this proposed legislation, the Subcommittee is also concerned about the economic condition of State and local governments throughout the country and is attempting to obtain testimony from a number of economists and experts on the subject of State and local government finance. It is anticipated that these witnesses will be able to advise the Subcommittee on the continued relevance and importance of the general revenue sharing program in the overall scheme of Federal and State and local finance, according to Bradley.

Requests to testify.—The Chairman advised that witnesses desiring to testify during this hearing must submit their requests in writing to Michael Stern, Staff Director, Committee on Finance, 2227 Dirksen Senate Office Building, Washington, D.C. 20510, not later than Friday, February 22, 1980. Witnesses will be notified as soon as possible after this cutoff date as to when they are scheduled to appear. If for some reason the witness is unable to appear, he may file a written statement for the record of the hearing in lieu of a personal appearance.

Consolidated testimony.—Senator Bradley also stated that the Committee urges all witnesses who have a common position or with the same general interest to consolidate their testimony and designate a single spokesman to present their common viewpoint orally to the Committee. This procedure will enable the Committee to receive a wider expression of views than it might otherwise obtain. The Chairman urged very strongly that all witnesses exert a maximum effort, taking into account the limited advance notice, to consolidate and coordinate their statements.

Legislative Reorganization Act.—Senator Bradley stated that the Legislative Reorganization Act of 1946, as amended, requires all witnesses appearing before the Committees of Congress "to file in advance written statements of their proposed testimony, and to limit their oral presentations to brief summaries of their argument."

Witnesses scheduled to testify must comply with the following rules:

(1) A copy of the statement must be filed by the close of business the day before the day the witness is scheduled to testify.

(2) All witnesses must include with their written statement a summary of the principal points included in the statement.

(3) The written statement must be typed on letter-size paper (not legal size) and at least 100 copies must be submitted by the close of business the day before the witness is scheduled to testify.

(4) Witnesses are not to read their written statements to the Committee, but are to confine their ten-minute oral presentations to a summary of the points included in the statement.

(5) Not more than ten minutes will be allowed for oral presentation.

Written testimony.—The Chairman stated that the Committee would be pleased to receive written testimony from those persons or organizations who wish to submit statements for the record. Statements submitted for inclusion in the record should be typewritten, not more than 25 double-spaced pages in length, and mailed with five (5) copies by Friday, March 21, 1980, to Michael Stern, Staff Director, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510.

[Press Release—No H-11, Feb 26, 1980]

Finance Subcommittee on Revenue Sharing, Postpones Hearing on Proposed General Revenue Sharing Extension

The Honorable Bill Bradley (D., N.J.), Chairman of the Subcommittee on Revenue Sharing, today announced that the hearing set for February 29, 1980, on the President's proposal to extend the State and Local Fiscal Assistance Act of 1972 (general revenue sharing) has been postponed due to scheduling difficulties. (See Press Release No. H-5 for the earlier hearing announcement.)

The hearing will now be held on Thursday, March 6, 1980, in Room 2221, Dirksen Senate Office Building, beginning at 9 a.m. (See Press Release No. H-5 for details concerning requests to testify and submission of written comments.)

Senator Bradley. The subcommittee will come to order.

Today, we begin consideration of the reauthorization of general revenue sharing. We have quite a lengthy list of individuals who will testify. I will spare those who have come and who are waiting to testify the privilege of listening to my opening statement and submit it for the record as if it were read.

[The opening statement of Senator Bradley follows:]

Opening Statement of Senator Bill Bradley

We are meeting today to begin Senate consideration of the reauthorization of the general revenue sharing program.

General revenue sharing was first enacted as part of the State and Local Fiscal Assistance Act of 1972. In 1976 the program was extended with some minor changes. Today, we begin the process of reauthorizing this valuable program of assistance to State and local governments for another 5 years.

The fundamentals of the GRS program have remained unchanged since its creation:

General revenue sharing provides for the distribution of $6.9 billion annually to approximately 39,000 State and local governments.

These funds may be used for any legal purpose, thereby allowing great flexibility to recipient governments.

Funds are distributed among the States using the GRS interstate allocation formulas established in 1972 legislation, which take account of population, urbanized population, relative income, tax effort and State income tax collections.

Funds are divided between the State and local governments with one-third of the State allocation going to the State government and two-thirds shared by the local governments.

Funds are distributed among the local governments on the basis of population, tax effort and relative income.

As the Senate begins its consideration of general revenue sharing's reauthorization, it is instructive to look at the conditions which gave rise to the original GRS program and to review the program in light of present needs.

The central philosophical argument offered on behalf of general revenue sharing in 1972 was that decisionmaking should be decentralized. The growth in Federal aid in the two decades following World War II came mainly in the form of categorical grants directed at specific kinds of problems, which gave the Federal Government the preeminent rôle in deciding how grant funds would be spent. The new federalism of the early 1970's sought to reduce the Federal decicionmaking role by placing greater reliance on broader and less conditional Federal grants. The interest in decentralization resulted in both the development of general revenue sharing and the consolidation of a number of narrow purpose programs into block grants, such as those in law enforcement, community development and social services.

In 1980 decentralized decisionmaking continues to be regarded by many as a legitimate and desirable objective to be incorporated as far as possible into Federal programs. At the same time, critics of the GRS program have argued that decentralized decisionmaking hinders fiscal accountability. They argue that Congress must authorize funds without any knowledge as to whether they will be used to provide necessary public services. The very flexibility of GRS funds makes the program suspect to many. To the degree that other uses for Federal moneys are proposed—such as cutting the budget, reducing taxes or increased spending for defense, energy, or national health insurance—the general revenue sharing program can become particularly vulnerable to budget raids.

I continue to believe that as large a role as possible should be preserved for State and local governments in making funding decisions and setting program priorities. Moreover, I believe that the evidence on how general revenue sharing moneys have been spent by the recipient governments supports the GRS premise that decentralized decisionmaking is a worthy objective. A recent survey of State governments using sometimes imprecise estimates, presents the following picture of how States have allocated their revenue sharing funds: 32 percent went to education; 26 percent went to social services, such as care for the aged and mentally ill, emergency medical services, and to environmental services; 15 percent to capital improvements, such as libraries, hospitals, vocational-technical schools, and corrections facilities; 15 percent went to cover the cost of retirement benefits for State and local government employees; and 3 percent went for tax rebates and reductions.

At the local level, this spending profile would be even more heavily weighted toward human services and capital improvements. It is evident from this accounting that the spending decisions made by State and local officials are focused on the basic services the American people expect of State and local governments: Schools, hospitals, day care for the very young, and hot meals, and senior centers for the elderly.

Another use to which many State and local governments put their GRS moneys is to meet matching requirements for Federal categorical grants-in-aid. Matching funds are required to secure community health and mental health center grants, Federal highway moneys, title XX social services funds and a variety of other Federal programs. Although State and local governments may want to participate in these programs, they may lack the local revenues needed to take advantage of Federal funds. Multipurpose revenue sharing moneys allow many local governments to qualify for Federal matching grants.

State and local governments also make significant expenditures to comply with federally mandated programs and reporting requirements. In the process of implementing certain Federal programs, they frequently incur costs not anticipated and not reimbursed by Federal sources. Legal fees and court costs have accompanied the implementation of Federal programs for bilingual education, handicapped education and environmental legislation such as the Clean Air Act. Auditing requirements attached to a number of programs, including general revenue sharing, have also resulted in payments for these professional services by smaller governments without internal auditing capabilities. Federally mandated reports cover a wide range of programs, requiring the compilation of complex data, in differing formats and on differing timetables. Hours of personnel time must be devoted to fulfilling these mandates, although virtually no Federal funds are allocated to offset the costs of doing so.

Beyond the question of how GRS moneys are spent by State and local governments, critics have focused their skepticism on the question of whether recipient governments, primarily State governments, "need" revenue sharing funds. Proponents of this argument cite two separate indications of State well-being: The fact that some States have budget surpluses while other States have used their GRS payments to fund State tax reductions.

As the Advisory Council on Intergovernmental Relations has pointed out, however, many States do not have budget deficits because their State constitutions prohibit such financing. Due to these restrictions, States are required to keep some cushion against cyclically declining revenues, so that mandated expenditures do not force their treasuries into illegal deficit spending. Financial analysts, such as bond rating services, judge a State's "soundness" at least in part by the size of its surplus. For a State to have a solid surplus, according to Standard and Poor, the surplus should be better than 5 percent of State expenditures; only 30 percent of the States can currently claim such a surplus. In other words, the aggregate State surplus is not evenly distributed among States. While the loss of GRS funds could be tolerated by a few surplus States, such as Texas or California, the loss would strain some State budgets beyond their constitutional limits. New Jersey, my State, is only one such State in jeopardy.

Morever, State governments are estimated to pass from 15 percent to 27 percent of State GRS funds to local governments. Some States, such as Michigan, are constitutionally unable to reduce local support. In others, a loss of GRS funding could reduce State aid to local governments significantly—not only those GRS funds now being passed through but also other State moneys now devoted to local purposes if funds are necessary to pay for State operations.

Another criticism, which also finds the State share of general revenue sharing as its target, is that the 1980's demand greater fiscal responsibility to fight inflation. While I agree with that concern, I believe that the critics of revenue sharing are going after the wrong budget target. General revenue sharing is one of very few Federal programs that has not created a massive Washington bureaucracy. It is an efficient intergovernmental program which helps communities provide essential services as they see fit. Indeed, if there are significant reductions in Federal categorical grant programs, as currently appears likely, retaining the flexibility inherent in the GRS program is more important to State and local governments as they adjust their budget plans to the new realities of Federal funding.

We all recognize the need to hold down the budget deficit, and for that reason we are considering the extension of general revenue sharing at the same funding level it has enjoyed since 1976. These dollars are unadjusted for inflation, have not been since 1976, nor will they be through 1985. In real terms, today's $6.9 billion represents a decline in buying power for recipient governments. If the inflation rate of the last 5 years continues for the next 5 years, the value of these moneys will be halved. Seen in this light, the reauthorization of general revenue sharing at its current funding level is fiscally responsible.

Nevertheless, given inflationary pressures and the projected fiscal 1981 budget deficit, there is discussion of possible reductions in the funding level for general revenue sharing, specifically by reducing or eliminating the State governments' participation in the program. In these hearings we hope to explore the effect such a reduction could be expected to have. Some of suspect that the exclusion of the States from general revenue sharing would undermine the important role the States play in our America Federal system.

At the time of the adoption of the Constitution in 1789, the proponents of the new Federal Government were ardent in their arguments that this layer of government would always remain less important in the minds of the people than would State governments. As Alexander Hamilton wrote in one of the Federalist Papers:

"It is a known fact in human nature that its affections are commonly weak in proportion to the distance or diffusiveness of the object. Upon the same principle that a man is more attached to his family than to his neighborhood, to his neighborhood than to the community at large, the people of each state would be apt to feel a stronger bias towards their local governments than towards the government of the Union . . ."

Hamilton went on to cite:

"The variety of more minute interests, which will necessarily fall under the superintendence of the local administration, and which will form so many rivulets of influence running through every part of society . . ."

Hamilton would no doubt be amazed today at how the relative role of the State and Federal governments have reversed in a number of important areas of national and even local affairs.

Local governments still loom large in the everyday lives of the citizenry providing such visible services as fire and police protection, day care centers, garbage collection and street repair. The role of State governments is less often obvious to people. Programs for which States have a major responsibility are frequently identified not as State programs, but as Federal programs, among them medicaid, aid to families with dependent children, the unemployment insurance system, title XX social services, maintenance of the interstate highway system, foster care and so on. Education, a major State responsibility, is usually associated with the local property tax, not with general State revenues. The prison system is largely unseen. It is hard to measure the benefits or even the presence of State environmental services. Added to this natural "low profile" of the States is the trend in Federal grant-giving toward bypassing the States and providing moneys directly to local governments. More than one observer of the American scene has commented on the implications for three-tier American federalism in this relative neglect of the State component.

The States' inclusion in the general revenue sharing program recognized the significance of this level of government in shaping the character of local government. State constitutions and statutes allocate taxing powers and spending responsibilities between State and local governments. Technically, local governments are creations of the States.

The State role is pivotal in that State tax revenues are now greater than local tax revenue. This is a reversal of two decades ago when slightly over half of State and local tax revenues were raised by local governments, principally through the property tax. State level taxation has also become more progressive, with the much wider use of State income taxes. This shift to more equitable sources of tax moneys within States has been matched by increasing State responsibility for funding and administering part or all of such Government functions as education, public health and welfare, programs which were previously left to local governments.

Finally, the States' role in the overall provision and funding of services is reflected in the fact that in times of economic downturn, State governments tend to experience greater revenue loss and greater increases in expenditures than do local governments. For as economic conditions worsen, workers are laid off and the States lose revenues from the decline in income taxes and sales taxes paid. State expenditures for unemployment compensation, welfare and medicaid also increase. Local governments, more dependent on property taxes and having fewer responsibilities for providing services to the unemployed and their families tend to be less vulnerable to recession than are the States. General Revenue Sharing can help State governments meet these increased demands for services at times of decreased revenues.

The partnership of the Federal, State, and local governments in our federal system is vital. The general revenue sharing program enhances American federalism by recognizing the service responsibilities of both State and local governments and providing them with additional resources in reasonable proportion to their responsibilities. In extending general revenue sharing, we will continue a program of very direct benefit to all Americans.

Senator BRADLEY. I think we have quite a few people who are scheduled to testify, so what we are going to try to do is limit each speaker's presentation to 10 to 12 minutes and then questions to follow that presentation. I would hope that each person would address himself to the general proposition of general revenue sharing as well as to the variations that might at this moment be in the air. I hope that in the course of our hearing we will have an opportunity to look at general revenue sharing from every perspective, from the proponents' as well as opponents' standpoint, that we will be able to scrutinize some of the critics' most severe charges, and that we will be able to analyze those supporters' most fervent advocacies.

Now, I would like to begin the hearing by calling Ray Denison, who is the director of legislation for the AFL-CIO. I welcome you to the hearing, Mr. Denison, and look forward to your testimony. Please begin.

Mr. DENISON. Thank you, Mr. Chairman.

I am accompanied this morning by Dr. Rudolf Oswald, director of research for the AFL-CIO.

STATEMENT OF RAY DENISON, DIRECTOR OF LEGISLATION, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS, ACCOMPANIED BY RUDOLF OSWALD, DIRECTOR OF RESEARCH

Mr. DENISON. Thank you, Mr. Chairman.

The AFL-CIO is pleased to appear in support of a reauthorization of the general revenue sharing program for 5 more years at the present $6.85 billion annual level.

As the chairman and members of this committee may recall, in the past the AFL-CIO has been highly critical of the "no-strings" concept of aiding State and local government. We have long supported measures to strengthen the Federal Government's role in helping the State and localities meet public investment needs.

But at the same time, we have always felt that funds collected from all the Nation's taxpayers should be spent in accordance with nationally determined priorities and the recipients of such aid should be required to live up to Federal standards, protections, and safeguards.

It was in that spirit that we opposed the original 1972 legislation and instead urged measures such as Federal takeover of welfare, Federal financing of a larger share of the cost of education, and establishment of a national health insurance program as better ways to meet national problems as well as relieve some of the fiscal pressure on the States and localities.

These measures are still uppermost on our agenda and would, if enacted, provide a substantial amount of fiscal relief to the State and localities and at the same time appropriately place the responsibility for nationwide problems with the level of government best equipped to deal with issues that affect all Americans.

But the situation now is quite different. The GRS program has been in existence for over 8 years. Recession, unemployment, rampant inflation, and taxpayer resistance at all levels of government have resulted in an enlarging of the Nation's public investment gaps and there is a clear need to at least maintain if not expand those programs that are preventing a worsening of the situation.

As an example of this need, we should like to call attention to the attached data from the U.S. Department of Commerce showing the dismal record of State and local public construction over the past decade.

According to the Commerce Department, in 9 out of the past 11 years, the real volume of outlays for State and local public construction declined. In 1979, State and local governments spent $40 billion on public construction including Federal aid.

After adjusting for inflation, this represents a rate of 32 percent below 1969 levels. In real terms, on a per person basis these figures show that public construction represented $151 per capita in 1969, compared with only $95 last year. And these figures do not reflect the recent huge increases in interest rates and their impact on current State and local construction activity and the likely further depressing effects due to the inability of State and municipalities to borrow to finance needed public facilities.

Many communities that were particularly hard hit by the 1974-75 recession continue to experience stagnation and decline. They have still not recovered and remain extraordinarily vulnerable and ill-equipped to deal with another economic downturn.

An examination of unemployment data for the Nation's metropolitan areas highlights the continuing economic problems. The most recent figures—December 1979—show that there still is a large number of areas with extraordinarily high rates of unemployment.

In December 1979, when the national average rate of unemployment was 5.9 percent—it is now 6.2 percent—62 metropolitan areas recorded unemployment rates of 6.5 percent or more and 18 of these metropolitan areas had unemployment rates of 8.5 percent or more.

In recent years, grants-in-aid to the States and localities, including revenue sharing, have grown substantially, from $49.8 billion in 1975 to an estimated $88.9 billion in 1980 [see table 3]. But both in relative and real terms the increases have been slight. The share of the Federal budget devoted to State and local aid has declined slightly and the modest recent growth in the portion of State and local outlays supported by the Federal Government is primarily the result of the temporary economic stimulus measures enacted in 1976 and 1977.

These programs, local public works, temporary employment assistance and antirecession fiscal assistance, provided $9.2 billion in State and local government aid in 1978. In 1979, the total dropped to $5 billion. This year, as the phaseout of these programs proceeds, these stimulus grants will provide only $2.5 billion in aid, a 2-year drop of $6.7 billion in annual aid, roughly equivalent to the loss that would occur if revenue sharing were eliminated.

Moreover, since the 1976 legislation capped revenue sharing payments at $6.8 billion per year, the general revenue sharing component of the total grants has shrunk substantially, from approximately 13 percent of the total in 1975 to less than 8 percent in 1980.

By 1983 according to the administration's budget projections, assuming renewal at current levels, the GRS proportion will fall to 6 percent of total grants.

Another factor which must be noted in considering the nature and amount of the Federal Government's aid to the States and localities is the fact that much of the increase in recent years has been for grants to States for payments to individuals.

Most such grants require State or local matching payments, and the largest and fastest growing programs in this area, medicaid and public assistance, are programs which are addressed to national issues and problems. In our view, they should be paid for by the Federal Government directly and not be considered as programs geared to aiding States and localities in performing their own functions and responsibilities.

Grants for payments to individuals increased from $17.7 billion in 1975 to an estimated $34.2 billion in 1980, or by 97 percent, and these grants now account for 38.5 percent of the total aid. The balance, an estimated $57.7 billion for 1980, is available to underpin State and local activities and investments in their more traditional functions as providers of police and fire protection, education, roads, public transportation, water and sewer and the like.

These factors, compounded by the precarious position of the economy, indicate to us that the GRS program must continue. Failure to authorize the program could trigger recession and create particularly severe consequences for the States and local governments that depend most on those funds and are most vulnerable to an economic downturn.

We feel, however, that Congress should take this opportunity to improve the program's effectiveness in targeting funds where needs are greatest. The Revenue Sharing Act should also become a framework for assuring minimum, basic standards for State and local government employees.

The Federal Government has established certain basic standards in legislation as the Fair Labor Standards Act and the Labor-Management Relations Act setting forth certain basic conditions for private sector employment.

In 1974 Congress extended coverage of the Fair Labor Standards Act to additional employees of State and local governments. In extending coverage to most of these employees, Congress exercised its authority under the commerce clause of the Constitution. However, the Supreme Court--National League of Cities versus Usery—held that this was not an appropriate exercise of Congress power to regulate commerce and denied coverage to the newly covered as well as to employees of schools and hospitals who were previously covered and affirmed by the Supreme Court.

The majority opinion noted that Congress might be able to seek coverage by exercising authority granted it under other sections of the Constitution such as the spending power.

Now that Congress is considering extending the Revenue Sharing Act, it is appropriate to include the basic minimum wage and overtime provisions of the Fair Labor Standards Act in a manner cited by the Supreme Court.

Similarly, standards granting State and local government workers the right to organize and to bargain collectively should be a prerequisite for revenue sharing funds. In 1935, Congress found that it was in the public interest to establish a method for determining the wishes of workers regarding their desires to be represented by a union and to assure workers a basic right to bargain collectively with employers concerning wages and conditions of employment.

Congress found that the denial of the right of employees to organize and the refusal to accept the procedure of collective bargaining led to strikes and other forms of strife and unrest. In the 1935 Wagner Act, Congress recognized the beneficial effects of establishing a system to determine workers' desires regarding union representation and the encouragement of collective bargaining.

Similar requirements for State and local government employees should be enacted to enhance their basic rights. Currently, 38 States and the District of Columbia have statutes or executive orders providing the legal framework for collective bargaining for some or all of the employees.

Comprehensive statutes covering all employees are currently in force in 23 States and the District of Columbia, but no collective bargaining or union recognition exist in 12 States. In 15 States, many State and local government employees are still excluded from such basic protections.

Thus, we maintain that since the funds available for the program are collected from all Americans through the authority of

Federal laws and the Federal tax structure, it is appropriate that Federal standards and safeguards be included.

In summary we urge, one, that changes be made in the allocation and enactment formula to provide a better targeting of funds to areas in line with their need for essential public facilities and services, with particular emphasis on the Nation's urban centers.

The 20 percent per capita payment floor and 145 percent ceiling has resulted in a diversion of funds to tiny government units with narrow functions and few responsibilities. We feel that the minimum payment floor should be reduced substantially or eliminated, and the 145 percent of the statewide per capita allocation ceiling should be increased.

Two, States and localities be required to (a) adopt labor-management standards equivalent to those set forth in the National Labor Relations Act, and (b) meet the requirements of the Fair Labor Standards Act and other basic labor standards legislation.

Finally, Mr. Chairman, we understand that in an effort to cut Federal expenditures and reduce the budget deficit, proposals are being floated which would reduce or eliminate the State one-third share of the revenue sharing entitlement. We are strongly opposed to such efforts.

The result, in our view, would simply lead the States to make up the loss by cutting back on their own programs of aid to local governments and the impact would be most severe and communities with the greatest fiscal problems.

Moreover, in recent years the States have markedly increased their response to local government needs, and in light of the demands to reduce local property taxes and factors such as court-mandated educational financing reforms, the pressure on the States' is likely to continue to grow. There is no justification for the Federal Government to reduce the States' ability to respond to these pressures.

Thus, Mr. Chairman, the AFL-CIO believes the general revenue sharing program is playing an important role in helping to meet the Nation's public needs and it should be continued.

[The tables attached to Mr. Denison's statement follow:]

TABLE 1.—STATE AND LOCAL GOVERNMENT OUTLAYS FOR NEW CONSTRUCTION

Year	State and local outlays for new construction (billions of dollars)	Real State and local outlays for new construction (billions of 1972 dollars)	U.S. population (millions)	Local outlays for new construction per capita (1972 dollars)
1969	$24.7	$30.7	202.7	$151.45
1970	24.8	28.4	204.9	138.60
1971	25.9	27.4	207.1	132.30
1972	26.1	26.1	208.8	125.00
1973	28.1	26.1	210.4	124.04
1974	33.7	26.6	211.9	125.53
1975	34.6	24.9	213.6	116.57
1976	32.1	22.2	215.1	103.21
1977	30.9	20.2	216.9	93.13
1978	37.5	21.6	218.7	98.76
1979	40.0	[1] 21.0	220.6	95.19

[1] Estimate.

Note.—Outlay figures include grant-in-aid funds from the Federal Government.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Goverment Division.

TABLE 2.—*Unemployment by selected State and metropolitan areas—December 1979*

	Percent
California:	9.1
Bakersfield	8.7
Fresno	11.1
Modesto	10.0
Salinas-Seaside-Monterey	11.5
Stockton	12.3
Illinois: Decatur	
Indiana:	15.2
Anderson	9.8
Gary-Hammond-East Chicago	8.7
Muncie	8.5
Louisiana: Alexandria	9.3
Massachusetts: New Bedford	
New Jersey:	8.7
Jersey City	9.3
Vineland-Milville-Bridgeton	8.8
New York: Buffalo	8.7
Oregon: Eugene-Springfield	
Pennsylvania:	9.0
Johnstown	9.2
Northeast Pennsylvania	10.7
Williamsport	

Source: Bureau of Labor Statistics, U.S. Department of Labor—preliminary.

TABLE 3.—FEDERAL GRANTS TO STATES AND LOCALITIES

[Fiscal years, dollar amounts in millions]

	Total grants-in aid	Compositions of grants-in-aid: Grants for payments to individuals	Other	Federal grants as a percent of budget outlays: Total	Domestic [1]	State and local expenditures
Five-year intervals:						
1950	$2,253	$1,257	$996	5 3	8 8	10.4
1955	3,207	1,623	1,584	4 7	12 1	10.1
1960	7,020	2,479	4,541	7 6	15 9	14.7
1965	10,904	3,931	6,972	9 2	16 5	15.3
1970	24,014	9,023	14,991	12 2	21 1	19.4
Annually:						
1970	24,018	8,867	15,151	12 2	21.1	19.4
1971	28,109	10,789	17,320	13.3	21.3	19.9
1972	34,372	13,421	20,951	14.8	22.8	22.0
1973	41,832	13,104	28,728	16.9	24.8	24.3
1974	43,354	14,077	29,278	16.1	23.3	22.8
1975	49,834	17,441	32,392	15 3	21.3	23.1
1976	59,093	21,023	38,070	16.1	21.7	24.4
1977	68,414	23,860	44,555	17.0	22.7	25.8
1978	77,889	25,981	51,908	17.3	22.9	26.4
1979	82,858	28,765	54,093	16 8	22.4	25.6
1980 [2]	88,945	34,202	54,744	15.8	21.0	25.3
1981	96,312	37,764	58,548	15.6	20.9	25 3

[1] Excludes national defense and international affairs
[2] Estimates

Source Budget of the U S, Special Analysis, various issues

Senator BRADLEY. Thank you very much, Mr. Denison. I would like to ask you a question, and have Mr. Oswald give his opinion as well.

We are now in a time of fiscal stringency. Could you tell us your best estimate, if the budget were balanced, the effect that would have on the inflation rate next year?

Mr. DENISON. I will take a crack at it and then defer to Dr. Oswald.

It is our feeling that we agree with those who are saying that a balanced budget would probably have a minimal impact, if any at all. We are led to that conclusion by data showing that in other industrial nations having a far higher deficit in government, their rates of inflation in most instances are lower than that of the United States.

So that we do not find that there is a correlation between severely reducing Federal expenditures and attempting to bring them into balance and the rate of inflation.

Mr. OSWALD. I would amplify that by saying that in the last few years as the budget deficit has narrowed substantially, the rate of inflation has gone up, exactly the opposite of the notion that there is a straight correlation between budget deficits and inflation.

Budget deficits are related to recessions and wars, not basically to a causative factor in inflation unless the country is at its capacity in terms of utilization of all of its manpower and industrial needs and then government deficits would play a role.

But that is not the case today and has not been in recent times.

Senator BRADLEY. Do you feel that a deficit is absorbable at any level?

When is a deficit too much?

Mr. OSWALD. A deficit is too much when the country is at full employment and its industrial capacity utilization is being strained to the utmost and then a budget deficit strains the economy substantially in terms of inflationary pressures.

We had a $66 billion deficit, for example, in 1976 as a result of the very severe recession. That big budget deficit came about because of the recession, not because of attempts to cause a budget deficit. It was the recognition that Congress had to do something to turn the the recession around, and the drop in receipts as people were put out of work.

Senator BRADLEY. You said in your statement that you recognized that we are in an atmosphere where there will be budget cuts. I was wondering how you would prefer to see the budget cut?

Mr. DENISON. That is like asking us to perform self-surgery and we have resisted that approach.

Our feeling is that, on the contrary, there are other avenues that could be approached.

For example, it is our feeling that the interest rates, instead of being increased, should be decreased and that pressure should be brought on the Federal Reserve to do exactly that.

For example, in the next 2 years, the increase in the cost of the debt service alone will be $15 billion; $15 billion could be realized interest rate savings and substitute for any consideration of heavy cuts in other areas.

Similarly, we feel the reimposition of oil controls, including middle distillates, would be a tremendous savings to Government expenditures in that area.

We feel that also there is no need to reimburse, or rather, pay the grain companies the total price for the suspension of grain sales to the Soviet Union, but rather, they should be asked to make a sacrifice and not be expected to make a profit on an action which the Government suspended.

Those are three areas that we think steps could be taken apart from surgery on much needed social programs.

Senator BRADLEY. Do you think that the budget surpluses that are maintained by some State governments are excessive, Mr. Oswald?

Mr. OSWALD. The budget surpluses on various State levels has been used, for example, in California to offset the severe cutback in the property tax resulting from proposition 13 and other similar proposals. The actual amounts of those surpluses are often not that clear.

If the accounting was done the same way as the Federal Government does its accounting, which does not separate out a capital budget allowance, most of the States would not have a surplus. They have a separate operating and capital budget while the U.S. Government measures all current expenditures.

The second factor is that most States have very large liabilities for accrued pension responsibilities where they have failed to meet their pension liability obligations. I think that some of the surpluses that appear in current accounts for States overemhasize, overdramatize, and overstate the existence of the surpluses.

Senator BRADLEY. Thank you very much.

Senator Durenberger?

Senator DURENBERGER. Thank you, Mr. Chairman.

May I take a few minutes just to make an opening statement?

Senator BRADLEY. Certainly.

Senator DURENBERGER. Thank you, and I beg your indulgence, because you have to know where I come from before I ask the questions, in fairness to you.

Senator BRADLEY. Go ahead.

Senator DURENBERGER. Mr. Chairman, the general revenue sharing program is the single most important congressional contribution to preserving the federal system. Through this program, funds extracted from American taxpayers by the Federal income tax are returned annually to 39,000 general purpose local governments and all the States.

These funds enable them to continue to provide needed public services. For most States and for many localities, general revenue sharing does not mean big bucks. It means dollars that make the marginal difference whether or not some services are provided.

In the face of inflation, revenue sharing has suffered terrible losses. I have long urged that we recognize inflation's impact on this vital program and that we annually increase funding of revenue sharing by a percentage of Federal tax revenue increased by the growth in the gross national product.

Congress has not indexed the revenue sharing program, even though the same Congress finds nothing wrong with continuing a windfall inflation tax on individuals. We are seeking a reauthorization of $6.9 billion for general revenue sharing in fiscal 1981. During that same year, the Federal Government will collect at least $33 billion in undeserved tax revenues from individuals because of inflation's impact.

As long as Government continues to collect its inflation windfall and thus makes it difficult for State and local governments to impose additional taxes to meet State and local needs, the Federal Government has an obligation to share some of these funds with the balance of the Federal system which shares the same taxpayers.

The Federal Government does not earn the inflation windfall and it should not be permitted to benefit from it at the expense of State and local units of government that must meet essential needs of people each day.

In spite of this, general revenue sharing is on the administration's balance the budget hit list. I adamantly oppose elimination of this program in the name of balancing the budget. This program has not been the cause of overexpenditures by the Federal Government, nor has it been the cause of inflation. Indeed, it has been the victim of inflation.

The purchasing power of revenue sharing dollars has decreased by 40 percent since the program was initiated in 1972. At the current rate of inflation, an annual rate of 18 percent in the first month of 1980, the $6.9 billion of revenue sharing funds will be further eroded. We would need to authorize and appropriate $9.8 billion just to equal our original commitment of $5.26 billion in 1972 to revenue sharing.

In the face of these bleak figures this subcommittee begins its first hearing on the reauthorization of the revenue-sharing program. Yet, we do not have a bill from the administration on which to hold a hearing. From the beginning, this administration has vacillated on its position regarding the future of the program.

For well over a year, specialists have been at work in the Office of Revenue Sharing and in the Domestic Finance Office of the Treasury Department conducting research on the impact of the revenue sharing program and developing options for its future. So far, we have seen studies on the fiscal impact of revenue sharing, on the distributional impact of revenue sharing, and on the impact of the auditing, civil rights, and public participation requirements. We have seen studies dealing with formula allocation issues.

We know that several 20- to 30-page memoranda have been developed within the Treasury Department. Some of these have managed to make their way to Secretary Miller and some have even made their way to the White House. But for all of this research and all of this memo writing, the administration still does not have a bill to send to Congress.

The Congress and the general public have only rumors, about whether the administration will recommend that the States stay in or out; about whether or not States will be required to establish fiscal reform commissions; about whether or not the program will be recommended for reauthorization at all.

The time has come—in fact, it is long overdue—for this administration to take a stand. It is the obligation of this administration to make a critical decision about the future of this critical program and, I might add, to commit to that decision.

Last week it seemed, at least for a few hours, that the administration had made a decision about this program. The new plan involved some formula changes. Yet, with all its computer capacity, the Treasury Department could not give anyone the computer printouts showing the impact of the proposed changes on State and local governments.

In this program, formula changes cannot be considered in the abstract. We must look at the figures to see if the formula brings about the changes its reformers had in mind.

The administration and the Congress would be unwise to eliminate this program in the name of balancing the budget. This is one of the few Federal assistance programs that works. It has the lowest overhead and the simplest administrative structure of any Federal aid program. I am a firm believer in the adage, "If it works, don't fix it." The general revenue sharing program doesn't need repair; it needs a commitment from the administration and the Congress.

A major issue in the current discussion about revenue sharing focuses on the role of the States and whether they should continue to be funded. I have heard many of the arguments for taking the States out. One, they have surplus funds at a time when the Federal Government has a big deficit and is being pressured to balance the budget.

Two, they have reformed their tax structures to place more reliance on the progressive income tax. Three, they pass a significant amount of their revenue sharing money to local governments, so perhaps the Federal Government should give this money directly to cities and counties.

Before we in Congress begin making judgments about taking the States out of the program, we should look carefully at what the States are doing and why. Some States are accumulating surpluses in their operating funds; most are not.

The surpluses of the future will be concentrated in a few energy-producing States. Four States, for example, Texas, Alaska, California and Louisiana, will collect $104 billion in the next decade from increased income taxes, severance taxes, and royalty payments as a result of oil price decontrol.

To point to just one example, the State of Alaska, which right now has a budget surplus of $1 billion, expects a surplus of $28.5 billion by the end of the decade. A recent Associated Press story reported that contests are being conducted in Alaska to determine how that surplus should be spent.

Most energy-poor States are hard pressed to meet their obligations and are confronted with the difficult task of stemming an outmigration of people, businesses, and with them, the tax base. These States need general revenue sharing.

Some critics of State participation in general revenue sharing point to cuts in State taxes as a sure sign that these units of government do not need additional Federal money. I would urge my colleagues to look into the nature and reasons for the tax cuts.

Minnesota recently passed a significant tax reform measure. It was necessary in order to give some relief against inflation. Before the tax reform was enacted, if the typical taxpayer received a 10-percent increase in personal income, that taxpayer would be required to pay 14 percent more in income taxes.

Such a tax structure imposes heavy burdens on the typical, middle-income taxpayer, and it is devastating to those on fixed incomes. The system had to be changed. I do not believe we should punish Minnesota and other States that do what we haven't the guts to do, index inflation out of the income tax, by eliminating their revenue sharing funds.

It is clear, Mr. Chairman, that I support general revenue sharing. I will work hard for its reenactment. A poll of the Members of Congress taken recently by the National Association of Counties showed that 84 Members of the Senate and 309 Members of the House support revenue sharing.

Mr. Chairman, I look forward to working with you and our 391 other colleagues to persuade the remaining 143 Members and the Carter administration to join the majority in reauthorizing this program.

Senator BRADLEY. Thank you.

Senator DURENBERGER. Mr. Chairman, if I did not make it clear in the opening statement, it is my feeling that this is not one of the categorical grant programs where we take Federal revenues and dictate their use according to Federal standards by State and local governments.

This always was, from the time Walter Heller, or whoever takes credit for it, invented the concept and sold it to LBJ and some Republicans sold it to Nixon, this has been an effort to recognize the fact that an unindexed income tax is draining those revenues from State and local governments that it desperately needs to manage government at that level.

I am pleased that the AFL–CIO is no longer opposed to the concept of revenue sharing, but I would perhaps start with the request that either of the witnesses indicate to me why they feel it is necessary that we expand the so-called strings, if you will, and the so-called qualifications to the receipt of these funds as they recommend in their statement.

Mr. DENISON. You are referring specifically to——

Senator DURENBERGER. Minimum wage.

Mr. DENISON. It is a quality involving Federal standards on Federal funds where the receipt of Federal funds, the imposition of Federal standards, particularly matters on work levels are a matter of history.

It is that matter, as a matter of justice, that should be extended. We do not see why the Federal Government should put itself in a position of subsidizing or supporting substandard wages or being in the position of allowing the funds to be used in localities where the employees have no opportunty whatsoever to express themselves in the collective bargaining manner.

We think it is a matter of simple justice.

Senator DURENBERGER. Let me ask Mr. Oswald a followup question to the chairman's question on the budget. You talk about a balanced budget and a deficit and so forth. Suppose we adopted by rule here in the Congress a constitutional amendment to tie Federal spending to the growth of income in this country.

Do you feel that would have an impact on inflation in the long run?

Mr. OSWALD. No, I do not believe it would have an impact on inflation in the long run because the inflationary forces that are causing the inflation today are not the Federal budget, but rather things like energy. Clearly the Congress recognizes a broad Federal responsibility in energy in development of synthetic fuels and support for other energy alternative. I believe that is the correct decision.

So that addressing the energy problem, may mean that there is a greater Federal share of GNP.

Similarly, one of the great inflationary problems has been health care. We believe that a national health insurance program would reduce the pressures on health care, where very much of the money currently has been spent on duplicative private insurance programs, where much of the money goes for paperwork and not for health care, and where there is an awful lot of money spent by hospitals for just bill collecting rather than health providing; we believe that there would be better standards under a national health insurance program. So that, again, might mean a larger Federal share but a reduction in that inflationary pressure sector.

Over 70 percent of the current inflation is coming from energy, food, health care, and the impacts of very high interest rates on housing prices. Federal programs are not the cause of today's inflation. Inflation today is not determined by whether there is a $20 billion deficit or a $16 billion deficit, nor by the ratio of the Federal budget to GNP. Most foreign governments have a much higher ratio of Federal spending to GNP than the United States and, in many cases, these other countries have lower inflation rates.

Senator DURENBERGER. You do not buy the argument of what is called the expectations theory that a lot of inflation is caused by consumer behavior and the failures of predictable expectation? In other words, if we had some predictability to the future of health care costs, if we had some predictability to the future of housing costs and we understood that the role that the Federal Government, or any government, is going to play in large cost expenditures, if we knew in advance the impact of tax on income, if we knew in advance the impact of deficit spending on the capital market and on interest rates, that inflation could be licked because people could make plans, people could make judgments, people could make decisions that today impact adversely on inflation.

Mr. OSWALD. Expectations clearly play a role in terms of inflationary actions. Clearly the speculators on the futures markets are speculating in terms of future inflation, but the inflation and the eradication of that inflation, will not come about through balancing the Federal budget.

An example of today's inflation was shown on this morning's television. It described the increase in California of mortgage interest rates during the past year, rising from 10½ percent to 15¼ percent. This increase raised the cost of borrowing for a $70,000 mortgage over 30 years from $670 a month to $930 a month payment.

That did not come about because of the Federal deficit. That came about largely from pressures of the Federal Reserve System to raise the interest rates.

Arthur Burns, when he was faced with a 12-percent rise in the Consumer Price Index never raised the discount rate at the Fed higher than 8 percent. Today we have a 13-percent discount rate which forces up all the other interest rates. The person from the Savings and Loan Association interviewed this morning said: buy your house at 15 percent interest because the price is going to go up next year.

If with that sort of encouragement, inflation becomes self-fulfilling. That is not going to change if the Federal deficit, or if the Federal budget, is at 20 percent or 22 percent or 28 percent of GNP. It has to do with many different factors.

Senator DURENBERGER. If I could ask one last question, Mr. Chairman, has the AFL-CIO taken steps to analyze the impact of decontrolled oil prices on State and local government financing? Basically I am talking about the issue that John Danforth and others raised on the floor of the Senate, the $128 billion windfall principally to four States in this country and the impact it is going to have on the other States and on intergovernmental relations and on some of the things you talk about in here in terms of some equity in the marketplace where jobs are going to go in this country.

Have you made those studies? Is there some way that we can look forward to your analysis and your recommendation?

Mr. DENISON. We have not made a study. We were concerned, as you and members of this committee were concerned, when this issue was raised on the windfall profits tax on the Senate Floor. We still have those concerns.

Unfortunately, I am not trying to speak for Rudy. The AFL-CIO is not quite in a positoin to be able to gather the data that we would like to have. We find companies and governments very reluctant to give us their figures and we have to rely, for the most part, on data raised by the governments both Federal and local themselves.

But it would be an interesting study and we would hope someone would pursue it.

Senator DURENBERGER. I would think that it would be very helpful to me, as a policymaker, to have an organization who represents a large part of organized labor in this country and who testifies here to targeting Federal assistance, look specifically at this program because, in my humble opinion, it is going to have the greatest impact of any public decision made by anybody in this country in a long time on jobs and the economics of a lot of States of this country.

Mr. OSWALD. Senator, I would add—you do know the figures, that the Defense Department is indicating that the higher energy costs will now bring to their costs and how that will affect their budget.

The other impact is that of very high interest rates for State and local governments. They, too, are going to bear that very high cost and it will be a serious problem for their own financing as well as the $15 billion impact on the Federal budget of the high interest rates.

Senator DURENBERGER. Thank you.

Senator BRADLEY. I would like to thank both of you gentlemen for your contribution today and call the next witness, who is Mr. Kenneth Butterfield, supervisor, Huntington, N.Y., on behalf of the National Association of Towns and Townships.

Mr. Butterfield, I do not know if you were here when we established at the beginning a 10-minute rule for witness presentation.

Mr. BUTTERFIELD. Yes, Mr. Chairman.

Senator BRADLEY. Go ahead.

STATEMENT OF KENNETH BUTTERFIELD, SUPERVISOR, TOWN OF HUNTINGTON, N.Y.

Mr. BUTTERFIELD. My name is Kenneth C. Butterfield and I am supervisor of the town of Huntington, N.Y. I also serve as the vice president of the Association of Towns of the State of New York, a local government organization representing over 900 towns statewide. I am here today on behalf of the National Association of Towns & Townships to provide this subcommittee with our membership's perspective concerning the reauthorization of the general revenue sharing program.

Before beginning my testimony today, I would like to thank the chairman for inviting NAOTAT to share its views concerning this extremely important intergovernmental assistance issue.

Senator BRADLEY. Mr. Butterfield, could you possibly pause in your testimony to allow Senator Javits, as a colleague, courtesy to proceed?

Mr. BUTTERFIELD. Absolutely. I am delighted to be on his left side. He has represented our State well, and I am glad to be with you, Senator. Please take the floor.

Senator BRADLEY. I suppose it is appropriate that both of you are from New York. Senator Javits, welcome.

I am pleased you could come before the committee and we are anxious to hear your thoughts on this matter.

STATEMENT OF SENATOR JACOB JAVITS, A U.S. SENATOR FROM THE STATE OF NEW YORK

Senator JAVITS. Mr. Chairman, I am here in support of general revenue sharing and will just take 1 minute of the committee's time. All I want to emphasize is that the original concept of general revenue sharing is still valid and that is that the bulge which is caused by the progressive income tax should be shared with the States and local units of government. And in view of the shift in State fortunes which recently has taken place from material surpluses to deficits, indeed a $12 billion deficit for the current fiscal year and with an indicated even higher deficit for the next fiscal year, I believe that this particular Federal program has to rank very high in the priorities in the Federal budget.

When it comes to cutting, Mr. Chairman, which the Congress is going to get to very promptly, and I, like others, in pursuit of a national duty, will have to lend myself to it. It is my judgment that a cut should be across the board rather than hitting hard any particular programs which may not be in as much favor as others because, very frankly, such targeted cuts will tend to damage chiefly those who can least afford it.

Both in terms of States and local governments with grave problems, big industrial States, like my own, and like that of the chairman, for example, it will tend to hurt the poor, the children, and the aged. We know that from history.

And therefore, let us let everything take its minor lump, which would be from 3 to 5 percent. If we do not do it that way, Mr. Chairman, as I said, and I repeat, because it bears repetition, those who can afford it the least will be hurt the most.

And it is for those reasons, Mr. Chairman, that I am here in support of general revenue sharing and I hope that we will have the strength to keep it. It is a part of the total concept. Let us not kid ourselves. The people who want to eliminate general revenue sharing, or cut it by a third, have only in mind the fact that they do not want something else cut. That is the whole rationale.

That is all, Mr. Chairman, but I do want to record myself on this subject.

Thank you, sir.

Senator BRADLEY. Thank you very much, Senator Javits.

I would like to take this opportunity just to ask you one question in relation to the idea of budget cuts.

What is your view toward the $240 billion of tax expenditures that we now have in law which if eliminated would generate enormous quantities of money for the budgetary process?

Senator JAVITS. Some of those, Mr. Chairman, are sacred cows, like interest on mortgages, and it will take more effort to try to undo it than to leave it as it is. Many of them do not deserve to be on the books and ought to be eliminated. I have lent myself to eliminating them.

There are some, for example, that ought to be on the books that are not, as for example, a premium for research and development or other matters which insure productivity. If you start in that thicket, you will never get any cuts, either particularized or general. Therefore, I would omit, hard as it is today, that $200 billion from the present consideration of an across-the-board or a particularized cut.

But I certainly would deal with it in the next tax bill as we have, because if this committee does not deal with it, there are lots of Members who will and we simply have not the troops to eliminate all of those little cushy things for special interests which permeate these tax expenditures, but should not be exempt.

The only reason I say what I do is because the exigency of the time for helping our economic circumstance is so great.

May I say, too, Mr. Chairman, that the amount by which we will reduce budget allowances or even outlays is not going to be all that great in the $616 billion budget, but as the lawyers have said, it is not what the facts are, it is what the judge thinks they are that counts, and it is the perception of the international community which holds probably as much as $900 billion, maybe even $1,000 billion, which is due on demand in the United States.

But if we do really make an effort at budget balance that strengthens our position as far as they are concerned, that is the price we have to pay.

Senator BRADLEY. Senator Durenberger?

Senator DURENBERGER. Yes.

I want to express my appreciation to the Senator from New York for his comments and perhaps ask you, Senator, one question that I do not have difficulty defending, but it becomes difficult for a freshman in this body to defend. I think I came here looking at revenue sharing, which the way you have testified, that it is a reflection of the consequences of the impact of an unindexed, progressive Federal income tax on revenues available to State and local government, and that a portion of those revenues just ought to somehow be automatically turned back to those local levels of government.

But from the beginning, there has been pressure to do some of the things that we do with categorical grant programs to revenue sharing; that is, condition their receipt. I assume that some of these conditions have been good—the auditing requirements, the EEO requirements, and so forth. But today it has been suggested that we add minimum requirement standards, FLSA requirements and so forth, and I am sure other witnesses will suggest because these are some of Federal tax moneys, that certain national standards ought to be applied to the receipt of these moneys and I would be interested in your observations on adding additional requirements to the receipt of these moneys.

Senator JAVITS. Normally speaking, the subject of generic law should continue to be the subject of generic law. The policy of the country should apply to the States and localities just as they apply to the private sector.

I speak of such things as civil rights enforcement et cetera. That is a general principle. I will be the first to say that I may vote for an exception here or there, but you asked me a general principle and that is the general principle that I would adopt.

Senator DURENBERGER. Thank you, sir.

Senator JAVITS. Thank you.

Senator BRADLEY. Thank you very much, Senator Javits.

[The prepared statement of Senator Javits follows:]

STATEMENT BY SENATOR JACOB K. JAVITS

Mr. Chairman, I am grateful that you have permitted me to appear before you today to express my support for reauthorization of the Federal general revenue sharing program. In this time of economic distress, our state and local governments can ill afford the additional burdens which would result from an elimination of general revenue sharing. This is the only form of Federal aid completely adaptable to the diversity of each state's and local government's systems. It also has the lowest overhead costs of any federal aid program and is generally more effective. It is an essential component of the economic stability of our state and local governments.

In the state of New York, the general revenue sharing program has been an invaluable tool, enabling our governments to provide essential human services during years of extreme fiscal stress. New York State in fiscal year 1980 will receive approximately $745 million in revenue sharing funds. Of this, the state government will receive $248 million, New York City $287 million and New York's other counties $105 million. These funds are largely used for operating costs, with police and fire services taking the lion's share.

But, these days New York counties are using a higher percentage of their funds for capital and debt purposes. In a time when the capital costs are skyrocketing, this is a stable source of capital funds which will increase the long run productivity and efficiency of county services. Our counties estimate that without the general revenue sharing program they would have to eliminate vital human services, road and highway maintenance, performing arts and libraries—and would face property tax increases ranging from 6 to 33 percent.

The importance of the state government's role in this program also cannot be overstated. The states receive one-third of all revenue sharing funds, of which 43 percent is passed on to county and municipal governments. Opponents of revenue sharing argue that the states are financially healthy, citing past budget surpluses as evidence that the states should no longer receive their one-third share. But it is important for the public to understand clearly the nature of state fiscal conditions. First, states do not have budget deficits simply because their constitutions generally prohibit deficit financing. Second, only 15 states have had a "solid" surplus according to Standard and Poor—and all but 2 of those are major energy and/or food producers.

Most important, state and local governments are now experiencing a downward shift—a $12 billion deficit for 1979 is projected. Both Standard and Poor and the Commerce Department's Bureau of Economic Analysis predict at least a year of coming decline for state governments. Continuation of the revenue sharing program with a state share will enable state governments to meet these deficits without a drastic reduction in services or increase in taxes.

Mr. Chairman, the states and local governments are entering this uncertain period of our nation's economy with a real need for continued and stable Federal support. There could not be a worse moment to eliminate this vital assistance in the reauthorization of the general revenue sharing program.

Senator BRADLEY. Mr. Butterfield, please continue.

STATEMENT OF KENNETH BUTTERFIELD—Resumed

Mr. BUTTERFIELD. The National Association of Towns & Townships has made the reauthorization of the general revenue sharing program, in its current form, its major legislative priority for 1980. Township officials nationwide believe GRS has been an enormously effective congressional initiative. The advent of the general revenue sharing program constituted a pivotal turn in our Federal system of sharing powers and responsibilities.

The program has enhanced the ability of towns to maintain essential service at the level of government which is not only closest to the people but which is also most responsive to the needs of the people it serves.

Towns provide more than mere opportunity for individual expression. In response to the pressure of a growing population, we plan and carry out an orderly development of our commissions. We provide essential services to meet the urgent needs of our town inhabitants. To obtain the necessary funds, we have utilized the real property tax, which still continues to be the mainstay of local revenue.

However, the burden of financing expanding services cannot continue to be borne by the real property owner. It is well recognized that the real property tax burden has nearly reached its tolerable limit.

The towns of New York State and elsewhere around the country have in recent years begun to face many of the same urban problems of the cities. Towns are experiencing escalating pressures for improved public services, problems of waste disposal and water supply, increased crime and growing budget pressures.

In short, just as existing problems of the Nation's cities cannot be resolved with their own resources, or within their own boundaries, it is unlikely the towns or any of the other systems of local government will be able to solve all of their problems alone.

We all need help from sources of assistance such as general revenue sharing.

General revenue sharing is a unique Federal program in that it is administered with a minimum of redtape, while providing township officials the flexibilty they need to meet locally determined needs.

I might add that in categorical grants, the cost is between 12 and 14 percent, the cost of general revenue sharing is less than 1 percent. There is a great deal of Federal money that is lost from here to the local community where it is finally implemented, and I think that is an important concept to keep in mind.

The program helps to insure the financial soundness of State and local governments, especially during today's economic climate of unprecedented inflation and growing tax limitations. GRS also provides a necessary measure of equity at the Federal level, particularly for numerous smaller townships. These jurisdictions are often bypassed by national development initiatives because they have severe difficulty identifying and competing for most Federal aid programs—even though they have levels of economic distress which make them eligible for such assistance.

General revenue sharing has helped towns to fill gaps in the provision of many basic community services ranging from public transportation and safety to environmental protection and aid to the poor. These funds support essential day-to-day programs which in many cases would be eliminated or at least reduced drastically because of the extreme difficulty most localities would have in raising taxes to compensate for such losses.

I might add, my town is a town of 218,000 people, one of the largest communities in the State of New York. I am here both on behalf of the national association as well as the State association. Ofttimes, I can see the need for the larger towns as well as the smaller towns in that the smaller towns do not have the grantsmanship capability.

As a consequence, their only source of Federal funds is general revenue sharing whereas the larger communities have the capability of sharing in general revenue sharing and in addition, the categorical grants.

In that respect, general revenue sharing has only been increased by 3 percent and categorical grants have been increased by 14 percent and that is increasing by leaps and bounds.

But with the inflationary spiral, that which we are receiving in general revenue sharing has been greatly reduced, as you stated earlier Mr. Chairman.

Mr. Chairman, we do not believe that any Federal program including revenue sharing, is sacrosanct. Social and economic conditions change, and it is certainly the right, indeed the responsibility of Congress to exercise its oversight functions to insure that national objectives are continuing to be met by various Federal programs.

However, by the same token, we feel that if a program has been working well—and the overwhelming consensus is that GRS has been operating well—then the program should be continued in a manner which has been proven to work. As so eloquently stated by our U.S. Senator, Patrick Moynihan:

> Revenue sharing is simple, it is easy to understand, its benefits are conspicuous and direct, and it has created no bureaucracy * * * for Heaven's sake, let us not

...ck one of the really fine pieces of intergovernmental machinery which we have created.

Senator Moynihan's views have been endorsed by many of his colleagues in Congress, but the administration, apparently, does not agree with the merits of the approach he has advocated. While the President's general revenue sharing bill has not yet been officially introduced, details concerning the major components of his proposed legislation have been announced. The outlook for the country's towns under the proposal is bleak.

Senator Durenberger, your town would receive 21 percent less in general revenue sharing; my town specifically would receive 500,000 less in 1981. We are presently receiving approximately 1,200,000 in general revenue sharing. That is a substantial decrease of my budget that is obtained from other than real property taxation.

Federal revenue sharing represents 10 percent. We raise $15 million through real property taxes and the balance of $12 million by revenues from the State, from fees and other sources including Federal revenue sharing.

Nationwide, townships would suffer losses totaling $47 million. In many cases, the entitlements received by towns will be cut fully in half. Under the President's plan counties would lose about $5 million and cities would gain $46 million. Put another way, of the $52 million in revenue sharing losses to local governments, township cuts represent approximately 90 percent of the total.

I think that is because we are not the squeaking wheel. When the mayors get together, the media attends and they listen. When the counties get together, the same situation, but when the towns get together we apparently do not have that impact.

But, Mr. Chairman and Senator, I might add, for your edification that in the State of New York 8 million of our residents live in townships outside the major cities, and if my town were considered a city, we would be the fourth largest city in the State of New York.

I might also add that if need seems to be the new criteria that the administration is recommending, then I would suggest that you look at where community development funds are being spent in that the criteria for community development is poverty—housing stock deteriorating and economic lag.

In my town, 40 percent of the unincorporated area is within 12 of the Federal census tracts which means approximately 40 percent of my town is recognized as in need of Federal funds and I think that same criteria probably applies to many of the towns in the United States.

Towns in New York would lose $9 million statewide while New York City would gain $10 million. Ironically, the amount the city may gain in respect to its total budget is almost insignificant, while the "micro" impact on many towns will be great.

Given that towns currently receive just 5 percent of the GRS entitlements annually, it is patently unfair to single them out for such an inordinate share of the losses. Revenue sharing was never intended to be a targeted program, although this is now the approach being advocated by the administration. There are already hundreds of categorical domestic aid programs which are administered, directly and indirectly, on a targeted basis. The targeted fiscal assistance legislation, which will soon be deliberated in conference committee, represents a version of revenue sharing which, appropriately, is a targeted measure.

General revenue sharing is the one program which builds at least some measure of fiscal equity for townships and other jurisdictions at the Federal level. Other national programs bypass many towns largely because they cannot afford the grantsmanship staff needed to pursue such aid. Revenue sharing is ideally suited to public management capabilities of virtually thousands of localities, many of which are run in an informal way by dedicated part-time elected officials.

While NAOTAT wholeheartedly supports the reauthorization of general revenue sharing in its present form, the association might be able to endorse the concepts embodied in the administration's proposal provided that certain relatively minor adjustments were made. If, after all of its deliberations on this issue, Congress did decide to go forward with a targeted version of GRS, NAOTAT would strongly recommend that a modest hold harmless provision be incorporated into the legislation.

This approach would require a limited sum of money, approximately $150 million, and would guarantee that those townships, counties, and cities adversely impacted by the administration's bill would be protected or held-harmless. I would again emphasize that this tack would require an extremely limited sum of money, less than 1 percent of what is now spent annually, while allowing those predominantly large cities to realize the gains intended by the administration's proposal.

If we are to plan effectively for the future, as we should, we must have assurance of our ability to finance the required local programs to serve our future residents. We cannot undertake capital improvements to serve future generations without assurance of adequate financing.

Good planning and construction of improvements must be accompanied by a sound, financial base. For such undertaking we need an equitable, a dependable and predictable amount of money in the form provided under the current general revenue sharing formula.

Extension of GRS in its current form would enhance the ability of our towns as well as of the other local governments, to remain vibrant and responsive.

If Congress believed that the concept of general revenue sharing was right in 1972, and in 1976, and we submit that it was, then it is even more so today. The program has served to strengthen our intergovernmental system during the last 8 years and will continue to do so if reenacted. Let's all pitch in to insure that the program is extended in the same efficient and equitable manner as it has operated in the past. Mr. Chairman, I would again like to thank you on behalf of NAOTAT's membership for giving us the opportunity to provide the town perspective on this vital Federal assistance issue.

I would like to respond to your questions.

Senator BRADLEY. Thank you very much, Mr. Butterfield.

I would like to know, in New York State, how much money you get back from the State from Federal general revenue sharing?

Mr. BUTTERFIELD. $1.2 million.

Senator BRADLEY. $1.2 million.

How much of New York State's State share is passed through to local communities?

Mr. BUTTERFIELD. That was a question asked of me this morning. It comes down through per capita aid. I am not sure but I will provide that to the subcommittee in writing when I get back to New York. I am not sure of the exact percentage.

It comes down to different forms, per capita aid, and also narcotic aid, youth programs, and programs for the aging, programs for civil service.

Senator BRADLEY. I am interested, primarily, in the use of the State share of general revenue sharing.

Mr. BUTTERFIELD. I would assume it is between 35 percent and 40 percent. I will double check on that.

Senator BRADLEY. Thirty-five to forty percent?

Mr. BUTTERFIELD. The State share that filters down to local communities.

Senator BRADLEY. The nationwide average is 27 percent. I figured it would be a little higher in New York.

Mr. BUTTERFIELD. I might add, our spending of Federal revenue sharing is not frivilous. We spend it on nursing for the elderly, handicapped, senior citizens, civil defense, transportation, veterans service, environmental protection and consumer protection and these are all essential services that must be provided.

One of the problems that the local communities have, be it reacting to State legislation or Federal legislation, when the State legislature or the Congress enacts legislation.

The cost of implementing the program or enforcing the laws is borne, to a large extent, by local communities, be they small in population, or be they large.

I only refer you to the recent mandates of section 504, which is now requiring us to retrofit public buildings for access to the handicapped and public transportation systems have to be retrofitted.

Those costs are now mandated, but we are not receiving the funds to do it.

And the cost of converting from oil to coal, there is no subsidy from the Federal Government other than in the coal mining areas where there might be some transportation problems so the ratepayers will pay the cost of subsidizing the energy policy of the United States.

I might add that the towns outside of the metropolitan areas have grown with the encouragement of Congress through Federal highways being expanded, through the GI bill which encouraged the growth of housing in the urban areas and suburban areas and exurbia, and the FHA and now we are told we do not have the same needs as the city.

If that ceiling is raised and the floor is lowered, it is the recipient of the smallest portion of general revenue sharing that will receive the brunt of that cut. I do not think that is equitable. I think the original concept of general revenue sharing was to distribute the revenues which could be more equitably raised by the Federal Government.

It enhances the capability of local goverments, strengthened our States and their capability of implementing Federal and State-mandated programs as well.

Senator BRADLEY. Just for the record, again, what do you receive in general revenue sharing?

Mr. BUTTERFIELD. My town receives $1.2 million.

Senator BRADLEY. And a passthrough from the State? You do not know?

Mr. BUTTERFIELD. Approximately 35 to 40 percent. I will clarify that.

Senator BRADLEY. That amounts to roughly what dollar figure out of your budget? [Pause.]

While you are looking for that, what is the cost to your town of the matching requirements for various Federal programs and also the cost of meeting Federal reporting requirements?

Mr. BUTTERFIELD. The reporting requirements are negligible. That is done for our comptroller's office so that is not really a matter of concern in that the form is relatively easy to understand and fill out and to file. From my research, it would seem——

Senator BRADLEY. I am not talking about the general revenue sharing form. I am talking about the reporting requirements that are required for receipt of any number of Federal program moneys.

Mr. BUTTERFIELD. Horrendous.

Senator BRADLEY. What dollar figure? What does it cost you to comply?

Mr. BUTTERFIELD. Well, our administrative budget for the town, we have 21 departments in the town and the whole town's expenditures are approximately $17 million. I would assume that several hundred thousand dollars is allocated to the administration at the various grants, be it for sewers or parks or nutritional programs for the elderly.

Senator BRADLEY. What part do you have to raise as your share of mandated programs?

Mr. BUTTERFIELD. It varies with the program.

Senator BRADLEY. The total for your town.

Mr. BUTTERFIELD. What I have is revenues, and some of it is matching, in-kind. I could break it out, but I would have to provide that, again, in writing.

Senator BRADLEY. I am interested in getting a comparison of what you receive directly from the general revenue-sharing program plus the State passthrough compared to what you have to expend to meet Federal reporting requirements and Federal matching fund requirements.

If you could supply it for the record, that would be good.

Mr. BUTTERFIELD. The per capita aid is $1.5 million from the State of New York.

Senator BRADLEY. Senator Durenberger?

Senator DURENBERGER. The response to any criticism of revenue-sharing expenditures for townships or municipalities is usually if there were some predictability to revenue sharing we might make what would appear to be wiser decisions. In other words, that is the response usually given by town mergers or municipal officials to the criticism of the specific expenditures utilizing revenue sharing.

What factor, in your opinion, does predictability in this program play in the expenditures that are made from revenue-sharing funds?

Mr. BUTTERFIELD. It is essential because we predicate our staff on the amount of revenues that can be predicted over a series of years. The interrelationship of the program with other programs and the overlapping services or shared services with departments and other communities within our county and State.

So as far as planning capability and one that could be predictable in terms of the community, it is absolutely essential that we know in advance that it is going to be there and it is going to be there for quite awhile.

Senator DURENBERGER. Would you prefer a 4- or 5-year extension of those programs?

Mr. BUTTERFIELD. Four years.

Senator DURENBERGER. You favor the idea that the reauthorization occurs in Presidential election years?

Mr. BUTTERFIELD. Absolutely because the pulse is beating and people are more concerned about what is happening on a Federal level and to have it come up in a fifth year it will not have the kind of concern and perhaps it might die a natural death.

I am concerned about that. I would rather have it in the hub-bub of a Presidential year so that everybody is aware of what the possible consequences and impacts might be on local communities.

Senator DURENBERGER. This year, would you favor a 4-year extension of the current revenue sharing rather than an alteration in the authorization.

Mr. BUTTERFIELD. An authorization up, I would support, but any change in the formula which would raise the ceiling or lower the floor, I would oppose, and in as much as the general revenue sharing has been reduced since its inception, because it really has not been additionally expanded with additional revenues, the cuts have already occurred, so that the least that could happen is to remain at the current level of funding.

Senator DURENBERGER. Is there any change that we should make in the authorization that would make the expenditures by township of revenue sharing funds more efficient?

Mr. BUTTERFIELD. I do not think so.

This is one program, because there are not strings, that they seem to be spent well in trying to conform to the regulations that impact on the categorical grants. There are greater numbers of forms that have to be filed and the bureaucracy on the local level is expanded to meet the ever-expanding bureaucracy on the higher level; namely, the Federal Government.

Senator DURENBERGER. Has the National Association of Towns and Townships made any analysis nationwide of State revenue sharing?

Mr. BUTTERFIELD. Yes, it has. Those statistics can be provided to you, Senator.

Senator DURENBERGER. I would appreciate it very much. I think this gets at some of the questions the chairman was asking earlier in terms of not only the passthrough, if you will, of the State portion of revenue sharing but what individual portions are doing with statewide tax collecting in terms of sharing those revenues with local government and the townships in particular.

Mr. BUTTERFIELD. I know several years ago 3 of our 50 States used their Federal revenue sharing solely to reduce the taxes.

Senator DURENBERGER. You understand my question goes beyond that to State income taxes, sales taxes and other forms of State collected taxes and the sharing of those with townships, and if you do have that, I would appreciate its being made a part of this record.

Mr. BUTTERFIELD. It will be.

[The following was subsequently supplied for the record:]

National Association of Towns and Townships

1521 18th Street, Northwest Washington, D C 20036

April 25, 1980

The Honorable
David Durenberger
United States Senate
353 Russell Senate Office Building
Washington, DC 20510

Dear Senator Durenberger:

Enclosed is a sampling of data regarding township revenue received from the state governments. This is being submitted in response to the request you made at the March 6 Revenue Sharing subcommittee hearing. While Mr. Butterfield, our witness at the hearing, believed that the National Association of Towns and Townships had the exact information you requested concerning the sharing of state collected taxes with townships, this was not actually the case. However, we have subsequently come up with what should be some useful figures on the subject. We can also offer some basic generalizations concerning township revenues and finances in relationship to other localities in each state.

Most significant perhaps is that townships as a class currently receive very little state aid, particularly rural townships. (See Table I.) Minnesota townships, for example, receive only 1.6 percent of the $1.960 billion of state aid moved in F/Y 1978. Connecticut was the primary exception to this pattern because of state financing of education in town(ship)s.

Tables II and III provide breakdowns of township and intergovernmental revenue, and a more specific illustration of the sharing of state aid with townships. Most of the information was gleaned from the U.S. Bureau of the Census publications and from figures obtained directly from Census. The 1977 Census of Governments, Volume 4, No. 4, Finances of Municipalities and Townships Governments and Vol. 6, No. 3, Payments to Local Governments provided considerable detail on the area of your interest. The last set of tables which were photocopied from Volume 6 and which are highlighted, give some specifics about how state aid was expended.

We also did some in-house computations in an effort to organize the Census data in a way that would be useful to the subcommittee. Our state associations also provided supplementary information.

In the final analysis, we found that specific data regarding the amount of the state share of general revenue sharing that goes to townships was even more elusive than a specific breakdown of state-collected taxes shared with townships. Nevertheless, we believe the limited information available will still be useful.

Please contact NATaT is you would like more information on this or anything else of interest to the subcommittee.

Sincerely,

Barton D. Russell

Barton D. Russell
Executive Director

BDR:jjr
Enclosures

TABLE I

STATE AID TO TOWNSHIPS FY 78

TOTAL ALL STATE AID MOVED (not just shared taxes) $67.3 billion

STATE AID TO TOWNSHIPS (selected cases) $ 852 million (1.3%)

	state total distributed to localities	amount townships received	percentage of state aid total
Connecticut	$ 593.8 million	$251.8 million	42.4%
Illinois	$2.869 billion	$ 42.2 million	1.5%
Michigan	$3.071 billion	$ 76.1 million	2.5%
Minnesota	$1.960 billion	$ 31.4 million	1.6%
New Jersey	$2.162 billion	$ 633,000	.03%
New York	$10.075 billion	$117.7 million	1.2%
Ohio	$2.610 billion	$ 26.5 million	1.0%
Pennsylvania	$3.054 billion	$ 62.5 million	2.0%
South Dakota	$ 85.9 million	$ 200,000	.23%
Wisconsin	$2.149 billion	$.149 million	6.9%
Indiana	$1.481 billion	-0-	-
North Dakota	$ 177 million	-0-	
Massachusetts	$1.577 billion	$ 748,000	.05%

TABLE II

REVENUE OF TOWNSHIP GOVERNMENTS IN 11 SELECTED TOWNSHIP STATES*
1976 - 1977
(thousands of dollars)

	CT	ME	MA	MI	NH	NJ
General Revenue	1,057,945	204,024	1,961,237	233,666	96,606	642,751
from Federal Government	41,759	23,884	114,221	22,990	13,389	40,832
from State Government	199,155	64,755	399,454	72,467	17,312	50,221
from Own Sources**	811,668	110,939	1,441,073	135,198	65,867	548,484
Percent of Revenue Comprised by State Aid	18.8%	31.7%	13.5%	31.1%	17.9%	7.8%

	NY	PA	RI	VT	WI
General Revenue	1,016,471	435,818	195,827	63,606	154,030
from Federal Government	74,375	50,386	17,362	13,902	9,094
from State Government	184,879	68,369	55,011	8,689	96,203
from Own Sources**	684,987	308,924	123,157	40,773	42,903
Percent of Revenue Comprised by State Aid	18.2%	15.7%	28%	13.7%	62.4%

*per Bureau of the Census

**primarily from property taxes

TABLE III

REVENUE OF TOWNSHIP GOVERNMENTS IN NINE RURAL TOWNSHIP STATES*
1976 - 1977
(thousands of dollars)

	ILL	IND	KA	MN	MO
Revenue, Total	204,313	43,741	14,940	43,201	7,651
from Federal Government	31,328	11,032	1,935	5,219	1,636
from State Government	46,777	5,729	1,287	18,304	159
from Own Sources**	125,512	25,074	11,696	18,838	5,186
Percent of Revenue Comprised by State Aid	22.8%	13.1%	8.6%	42.3%	2.0%

	NEB	ND	OH	SD
Revenue, Total	4,909	8,969	152,326	7,328
from Federal Government	813	1,646	16,318	1,012
from State Government	252	1,298	44,952	76
from Own Sources**	3,796	5,885	90,294	6,155
Percent of Revenue Comprised by State Aid	5.1%	14.4%	29.5%	1.0%

*per Bureau of the Census

**primarily from property taxes

Table 6. State Intergovernmental Expenditure, by Function, by Type of Receiving Government, by State: 1977

State and type of receiving government	Total	By function: Education	Public welfare	Highways	General local government support	Health and hospitals	Corrections and law enforcement	Sewerage	Miscellaneous and combined
ALL STATES	61 073 664	36 964 306	8 756 711	3 631 188	6 372 543	1 397 944	782 754	415 734	2 672 535
School districts	29 874 309	29 874 309	-	-	-	-	-	-	-
Counties	13 824 118	3 084 930	5 368 273	1 931 132	1 520 643	887 948	292 674	41 661	683 855
Municipalities	11 776 844	2 428 811	3 359 485	1 323 857	3 218 645	253 154	227 816	265 945	708 933
Townships	723 571	322 873	5 491	180 184	245 473	1 868	2 822	23 461	42 283
Special districts	865 944	10 820	-	883	91 863	46 175	899	64 040	653 284
Various units	5 008 859	2 138 164	23 468	195 452	1 296 721	209 549	258 543	92 632	792 280
ALABAMA	731 894	568 018	-	88 176	21 278	9 264	7 969	-	53 191
School districts	568 018	568 018	-	-	-	-	-	-	-
Counties	84 483	-	-	78 554	12 808	4 822	2 404	-	3 893
Municipalities	22 762	-	-	1 622	8 470	-	-	-	6 670
Special districts	48	-	-	-	-	48	-	-	-
Various units	54 587	-	-	-	-	4 394	5 565	-	44 628
ALASKA	234 858	160 900	-	-	31 363	10 837	2 471	6 457	23 230
School districts	-	-	-	-	-	-	-	-	-
Counties	116 379	108 878	-	-	6 711	1 105	-	-	485
Municipalities	87 617	52 822	-	-	24 652	3 256	-	2 413	4 474
Various units	30 862	-	-	-	-	5 676	2 871	4 044	18 271
ARIZONA	731 046	502 807	264	56 269	151 966	4 254	7 830	-	8 456
School districts	502 807	502 807	-	-	-	-	-	-	-
Counties	113 195	-	264	26 384	72 547	4 252	3 694	-	6 054
Municipalities	112 549	-	-	29 885	79 419	2	1 761	-	1 482
Special districts	80	-	-	-	-	-	-	-	80
Various units	2 495	-	-	-	-	-	1 575	-	920
ARKANSAS	438 731	301 454	1 196	55 840	25 527	12 754	4 111	-	37 847
School districts	300 793	300 793	-	-	-	-	-	-	-
Counties	71 403	661	946	34 789	10 979	8 000	2 878	-	13 148
Municipalities	51 872	-	250	21 051	14 548	3 026	1 233	-	11 862
Special districts	244	-	-	-	-	-	-	-	244
Various units	14 319	-	-	-	-	1 726	-	-	12 593
CALIFORNIA	8 248 106	4 200 539	1 992 518	393 765	1 082 278	292 144	84 250	46 450	156 172
School districts	4 019 744	4 019 744	-	-	-	-	-	-	-
Counties	3 341 892	180 516	1 905 101	217 726	584 978	268 150	54 806	19 676	108 640
Municipalities	764 248	279	87 417	176 039	406 793	18 965	30 615	21 831	28 305
Special districts	100 694	-	-	-	84 498	5 029	-	4 845	6 322
Various units	22 334	-	-	-	-	-	1 629	-	20 705
COLORADO	689 877	455 081	132 480	84 137	15 564	10 505	7 404	4 825	19 871
School districts	454 730	454 730	-	-	-	-	-	-	-
Counties	139 209	136	84 870	33 515	-	7 921	2 977	302	7 568
Municipalities	85 045	216	45 610	18 622	15 564	1 784	4 427	-	6 818
Special districts	10 804	-	-	-	-	796	-	4 523	5 485
CONNECTICUT	532 438	347 900	18 399	16 262	61 219	1 031	3 156	-	83 871
School districts	16 813	16 813	-	-	-	-	-	-	-
Municipalities	252 213	158 412	17 874	5 973	42 376	252	1 725	-	25 601
Townships	208 298	173 475	1 525	10 289	3 869	779	1 431	-	16 930
Special districts	786	-	-	-	-	-	-	-	786
Various units	55 168	-	-	-	14 974	-	-	-	40 194
DELAWARE	145 484	127 020	-	2 000	-	-	1 148	1 755	13 563
School districts	112 407	112 407	-	-	-	-	-	-	-
Counties	10 024	-	-	-	-	-	697	-	9 327
Municipalities	19 517	14 613	-	2 000	-	-	451	1 755	698
Special districts	90	-	-	-	-	-	-	-	90
Various units	3 448	-	-	-	-	-	-	-	3 448
FLORIDA	2 017 322	1 567 048	-	112 406	223 519	4 277	19 296	-	90 576
School districts	1 567 048	1 567 048	-	-	-	-	-	-	-
Counties	208 830	-	-	66 172	73 236	4 035	10 142	-	55 245
Municipalities	219 252	-	-	46 034	150 283	242	9 154	-	13 539
Special districts	324	-	-	-	-	-	-	-	324
Various units	1 868	-	-	-	-	-	-	-	1 868
GEORGIA	993 684	792 978	8 587	45 970	16 117	38 288	11 063	-	80 689
School districts	792 978	792 978	-	-	-	-	-	-	-
Counties	95 727	-	3 155	42 596	2 600	30 216	10 829	-	6 331
Municipalities	31 887	-	5 432	3 374	13 517	4 845	234	-	4 485
Townships	-	-	-	-	-	-	-	-	-
Special districts	4 218	-	-	-	-	3 227	-	-	991
Various units	68 882	-	-	-	-	-	-	-	68 882
HAWAII	34 925	-	-	-	21 560	292	-	12 580	485
Counties	14 034	-	-	-	13 832	194	-	-	8
Municipalities	20 697	-	-	-	7 728	96	-	12 586	285
Various units	194	-	-	-	-	-	-	-	194
IDAHO	219 550	147 846	-	29 866	26 494	60	1 118	1 122	13 032
School districts	147 846	147 846	-	-	-	-	-	-	-
Counties	12 957	-	-	-	4 993	60	720	19	7 165
Municipalities	15 227	-	-	7 323	1 468	-	398	982	5 058
Special districts	930	-	-	-	-	-	-	121	809
Various units	42 578	-	-	22 543	20 035	-	-	-	-
ILLINOIS	2 823 846	1 977 000	105 114	287 855	149 347	32 322	31 811	80 184	200 411
School districts	1 966 772	1 966 772	-	-	-	-	-	-	-
Counties	230 206	78	89 540	87 178	22 402	13 227	4 612	5 536	7 633
Municipalities	299 369	130	2 247	120 878	126 945	2 900	-	29 800	16 461
Townships	62 981	-	2 444	30 709	-	252	-	28 226	188
Special districts	200 506	10 020	-	-	-	-	-	24 622	165 864
Various units	64 092	-	10 845	-	-	16 143	20 799	-	16 265

See footnotes at end of table

Table 6. State Intergovernmental Expenditure, by Function, by Type of Receiving Government, by State: 1977—Continued

State and type of receiving government	Total	Education	Public welfare	Highways	General local government support	Health and hospitals	Corrections and law enforcement	Sewerage	Miscellaneous and combined
		By function							
INDIANA	1 335 863	683 776	122 289	155 179	313 916	5 917	13 183	10 907	31 878
School districts	683 776	683 776	-	-	-	-	-	-	-
Counties	173 185	-	96 817	70 230	3 730	5 315	456	-	597
Municipalities	118 242	-	25 472	47 880	29 786	602	-	10 834	3 668
Special districts	3 307	-	-	-	-	-	-	-	1 307
Various units	356 593	-	-	37 069	280 400	-	12 847	73	26 404
IOWA	894 597	591 514	15 977	141 706	101 970	6 452	6 921	6 742	25 312
School districts	591 514	591 514	-	-	-	-	-	-	-
Counties	152 832	-	15 977	88 151	45 135	2 275	-	-	484
Municipalities	114 852	-	-	53 555	56 835	453	-	6 742	72
Special districts	4 153	-	-	-	-	-	-	-	4 153
Various units	31 246	-	-	-	-	3 724	6 921	-	20 601
KANSAS	446 994	357 181	-	39 200	25 868	5 463	3 364	-	15 844
School districts	357 182	357 181	-	-	-	-	-	-	-
Counties	41 511	-	-	20 837	13 434	2 285	[illegible]	-	2 392
Municipalities	28 311	-	-	18 363	6 854	36	[illegible]	-	2 211
Townships	4 779	-	-	-	4 779	-	-	-	-
Special districts	2 052	-	-	-	579	7	-	-	1 466
Various units	12 760	-	-	-	-	3 135	-	-	9 825
KENTUCKY	591 842	486 125	-	12 978	801	16 233	11 055	-	64 300
School districts	486 125	486 125	-	-	-	-	-	-	-
Counties	71 877	-	-	6 175	771	15 842	2 897	-	46 192
Municipalities	14 395	-	-	6 803	30	-	-	-	7 542
Special districts	5 793	-	-	-	-	-	-	-	5 785
Various units	13 328	-	-	-	-	341	8 158	-	4 773
LOUISIANA	982 746	696 457	-	40 443	178 816	6 702	23 654	-	36 536
School districts	696 457	696 457	-	-	-	-	-	-	-
Parishes	102 445	-	-	35 007	35 894	6 674	2 279	-	21 891
Municipalities	43 636	-	-	5 036	36 607	28	-	-	2 967
Special districts	1 178	-	-	-	-	-	-	-	1 178
Various units	138 960	-	-	-	106 113	-	21 375	-	11 500
MAINE	228 857	178 712	2 017	8 230	12 774	2 104	2 564	5 718	12 336
Counties	6 999	-	405	138	1 040	-	176	-	5 240
Municipalities	178	-	-	-	-	-	176	-	-
Special districts	-	-	-	-	-	-	-	-	-
Various units	213 282	178 712	1 612	8 092	11 734	2 104	2 212	5 718	7 096
MARYLAND	1 440 728	746 617	249 380	191 312	85 996	50 297	65 373	17 132	30 613
Counties	842 806	580 878	98 051	45 472	70 710	214	23 037	-	22 843
Municipalities	521 495	164 709	150 329	145 840	14 286	-	35 534	-	5 799
Special districts	392	-	-	-	-	-	-	-	392
Various units	76 827	1 229	-	-	-	50 083	6 804	17 132	1 579
MASSACHUSETTS	1 246 941	836 377	-	58 718	29 522	22 570	14 026	-	283 328
Counties	3 754	-	-	-	-	1 205	2 549	-	-
Municipalities	9 706	-	-	-	-	416	8 542	-	748
Townships	631	-	-	-	-	-	631	-	-
Special districts	96 820	-	-	-	-	-	-	-	96 820
Various units	1 135 630	836 377	-	58 718	29 522	20 949	2 304	-	185 760
MICHIGAN	2 794 019	1 568 941	167 450	347 707	463 106	78 840	24 039	14 428	109 818
School districts	1 568 941	1 568 941	-	-	-	-	-	-	-
Counties	524 096	-	167 450	197 657	67 987	67 936	-	4 487	18 809
Municipalities	461 157	-	-	110 110	288 646	9 744	379	9 801	42 877
Townships	109 632	-	-	-	104 571	-	-	140	921
Special districts	19 831	-	-	-	-	-	-	-	19 631
Various units	94 562	-	-	40 030	1 902	760	23 660	-	28 180
MINNESOTA	1 796 629	1 089 662	227 775	97 583	290 568	10 299	18 618	10 968	51 144
School districts	1 084 995	1 084 995	-	-	-	-	-	-	-
Counties	436 011	2 291	227 760	76 689	99 780	5 450	11 065	-	12 996
Municipalities	229 376	8	-	20 853	160 128	1 711	5 853	-	35 321
Townships	16 254	-	-	842	18 602	-	-	-	211
Special districts	11 674		-	-	-	-	-	10 960	714
Various units	13 121	368	15	-	8 078	3 158	1 800	-	1 902
MISSISSIPPI	602 251	431 751	-	70 522	97 877	9 657	1 756	-	11 448
School districts	431 354	431 354	-	-	-	-	-	-	-
Counties	98 852	35	-	69 100	15 052	9 400	1 148	-	4 127
Municipalities	71 846	362	-	1 422	82 826	287	608	-	7 321
MISSOURI	726 011	601 856	3 554	46 560	5 136	4 571	13 003	14 276	37 855
School districts	600 489	600 489	-	-	-	-	-	-	-
Counties	23 615	-	3 387	18 092	1 623	2 852	1 872	312	6 677
Municipalities	55 003	1 367	167	30 273	2 400	1 808	1 673	13 723	8 190
Special districts	3 044	-	-	-	1 113	252	-	-	1 679
Various units	43 860	-	-	8 115	-	59	10 858	241	20 509
MONTANA	168 321	133 123	900	7 440	1 450	1 553	2 604	233	21 618
School districts	133 123	133 123	-	-	-	-	-	-	-
Counties	15 743	-	900	3 406	1 450	1 349	1 085	-	7 553
Municipalities	11 204	-	-	4 034	-	204	1 277	233	5 668
Special districts	201	-	-	-	-	-	-	-	87
Various units	8 560	-	-	-	-	-	242	-	8 310
NEBRASKA	317 843	118 768	14 135	60 156	81 483	13 060	4 250	4 117	21 876
School districts	118 768	118 768	-	-	-	-	-	-	-
Counties	50 698	-	14 135	30 078	5 913	210	-	-	362
Municipalities	66 368	-	-	30 078	10 310	4	-	-	5 976
Special districts	9 525	-	-	-	-	-	-	-	9 525
Various units	82 484	-	-	-	65 260	12 846	4 250	4 117	6 011

See footnotes at end of table

Table 6. State Intergovernmental Expenditure, by Function, by Type of Receiving Government, by State: 1977—Continued

State and type of receiving government	Total	By function: Education	Public welfare	Highways	General local government support	Health and hospitals	Corrections and law enforcement	Sewerage	Miscellaneous and combined
NEVADA	153 127	123 023	1	6 252	15 259	1 782	8 333	-	2 517
SCHOOL DISTRICTS	122 933	122 933	-	-	-	-	-	-	-
COUNTIES	13 064	-	1	4 318	3 208	1 469	2 476	-	1 516
MUNICIPALITIES	15 903	-	-	1 930	11 971	183	266	-	605
SPECIAL DISTRICTS	130	-	-	-	-	130	-	-	-
VARIOUS UNITS	1 997	90	-	-	-	-	1 591	-	316
NEW HAMPSHIRE	95 065	40 270	-	9 067	30 222	3 898	1 620	7 059	7 320
SCHOOL DISTRICTS	9 055	9 055	-	-	-	-	-	-	-
COUNTIES	3 377	-	-	-	3 347	-	-	-	30
MUNICIPALITIES	26 534	-	-	-	13 764	3 898	1 620	5 158	865
TOWNSHIPS	13 593	-	-	600	13 029	-	-	-	164
SPECIAL DISTRICTS	170	-	-	-	82	-	-	-	86
VARIOUS UNITS	64 336	31 215	-	8 467	-	-	-	1 901	6 555
NEW JERSEY	2 018 072	1 109 963	476 070	28 273	235 373	42 898	8 729	30 812	78 377
SCHOOL DISTRICTS	-	-	-	-	-	-	-	-	-
COUNTIES	926 600	34 292	444 585	6 947	8 700	25 854	-	754	5 460
MUNICIPALITIES	114 618	-	31 485	-	7 726	13 283	-	-	62 125
TOWNSHIPS	300	-	-	-	-	-	-	-	300
SPECIAL DISTRICTS	- 3 922	-	-	483	-	3 361	-	-	78
VARIOUS UNITS	1 364 632	1 075 640	-	20 843	218 947	-	8 729	30 058	10 407
NEW MEXICO	398 394	308 628	-	10 258	69 326	-	1 143	-	8 839
SCHOOL DISTRICTS	308 628	308 628	-	-	-	-	-	-	-
COUNTIES	15 007	-	-	7 901	3 318	-	150	-	3 638
MUNICIPALITIES	73 099	-	-	2 357	66 008	-	-	-	4 734
SPECIAL DISTRICTS	145	-	-	-	-	-	-	-	145
VARIOUS UNITS	1 315	-	-	-	-	-	993	-	322
NEW YORK	9 993 488	3 871 307	4 076 700	125 841	1 025 591	276 028	143 310	118 307	364 285
SCHOOL DISTRICTS	2 292 068	2 292 068	-	-	-	-	-	-	-
COUNTIES	1 792 211	99 031	1 257 587	71 278	34 727	105 152	58 875	12 818	152 754
MUNICIPALITIES	5 795 211	1 480 208	2 819 113	45 666	905 863	170 839	84 430	95 332	193 523
TOWNSHIPS	111 922	-	-	8 897	85 001	-	-	1 729	16 093
SPECIAL DISTRICTS	2 876	-	-	-	-	37	5	526	1 550
VARIOUS UNITS	-	-	-	-	-	-	-	-	-
NORTH CAROLINA	1 819 857	1 255 271	264 937	30 748	80 087	91 572	13 817	18 590	64 836
COUNTIES	1 597 406	1 255 271	249 208	-	28 194	56 016	1 337	1 859	9 524
MUNICIPALITIES	118 458	-	15 729	30 748	51 893	821	-	16 731	537
SPECIAL DISTRICTS	31 457	-	-	-	-	31 457	-	-	-
VARIOUS UNITS	74 532	-	-	-	-	3 278	12 480	-	58 774
NORTH DAKOTA	182 821	110 505	5 814	20 745	14 871	1 059	1 263	-	7 866
SCHOOL DISTRICTS	110 505	110 505	-	-	-	-	-	-	-
COUNTIES	35 480	-	5 814	12 735	12 011	1 013	921	-	2 886
MUNICIPALITIES	15 484	-	-	8 010	2 787	46	342	-	4 209
TOWNSHIPS	6	-	-	-	-	-	-	-	6
SPECIAL DISTRICTS	7	-	-	-	-	-	-	-	7
VARIOUS UNITS	541	-	-	-	73	-	-	-	468
OHIO	2 865 929	1 508 614	140 377	316 149	384 836	40 476	35 573	12 268	25 646
SCHOOL DISTRICTS	1 404 168	1 404 168	-	-	-	-	-	-	-
COUNTIES	827 361	63 942	140 377	174 457	-	32 012	12 094	-	3 180
MUNICIPALITIES	193 596	40 504	-	112 029	11 137	6 878	9 511	-	13 735
TOWNSHIPS	30 089	-	-	29 663	405	-	21	-	-
SPECIAL DISTRICTS	735	-	-	-	-	-	-	-	735
VARIOUS UNITS	606 682	-	-	-	373 294	1 587	13 047	12 268	7 994
OKLAHOMA	965 448	828 978	3 242	84 768	7 527	2 094	4 814	-	34 025
SCHOOL DISTRICTS	828 769	828 769	-	-	-	-	-	-	-
COUNTIES	84 978	207	3 228	74 668	1 228	517	-	-	5 131
MUNICIPALITIES	29 672	-	14	10 099	6 299	27	-	-	13 233
SPECIAL DISTRICTS	1 170	-	-	-	-	-	-	-	1 170
VARIOUS UNITS	20 848	569	-	1	-	1 552	4 814	-	15 282
OREGON	503 924	328 669	2 358	98 176	35 651	18 605	8 818	6 209	13 846
SCHOOL DISTRICTS	312 664	312 664	-	-	-	-	-	-	-
COUNTIES	14[illegible] 740	16 025	2 358	79 277	21 220	18 369	3 085	-	9 406
MUNICIPALITIES	38 558	-	-	18 899	15 376	-	3 915	806	1 364
SPECIAL DISTRICTS	7 995	-	-	-	-	236	78	5 405	2 276
VARIOUS UNITS	2 987	-	-	-	55	-	2 932	-	-
PENNSYLVANIA	2 719 820	1 944 459	153 655	122 167	32 833	134 175	66 463	30 450	225 225
SCHOOL DISTRICTS	1 944 459	1 944 459	-	-	-	-	-	-	-
COUNTIES	351 518	-	146 070	23 196	203	131 104	25 720	110	25 167
MUNICIPALITIES	170 786	-	7 585	40 734	31 506	3 071	4 589	18 005	65 296
TOWNSHIPS	88 626	-	-	58 237	1 124	-	310	528	427
SPECIAL DISTRICTS	116 927	-	-	-	-	-	-	11 801	99 126
VARIOUS UNITS	71 115	-	-	-	-	-	35 844	-	35 269
RHODE ISLAND	197 137	110 156	13 858	390	12 426	-	2 744	1 806	17 757
SCHOOL DISTRICTS	3 185	3 185	-	-	-	-	-	-	-
MUNICIPALITIES	88 084	57 575	12 336	80	7 604	-	855	968	8 866
TOWNSHIPS	62 070	49 396	1 522	310	3 882	-	424	838	6 558
VARIOUS UNITS	3 798	-	-	-	-	-	1 465	-	2 333
SOUTH CAROLINA	564 203	421 333	3	41 082	94 003	4 702	3 826	134	98 222
SCHOOL DISTRICTS	421 333	421 333	-	-	-	-	-	-	-
COUNTIES	115 798	-	-	41 082	82 414	4 702	3 136	-	24 468
MUNICIPALITIES	25 787	-	3	-	11 589	-	688	-	12 527
SPECIAL DISTRICTS	354	-	-	-	-	-	-	-	354
VARIOUS UNITS	21 011	-	-	-	-	-	-	134	20 877
SOUTH DAKOTA	76 634	52 378	126	8 637	4 750	3 210	2 706	290	4 527
SCHOOL DISTRICTS	52 378	52 378	-	-	-	-	-	-	-
COUNTIES	8 771	-	126	8 637	728	891	-	-	3 387
MUNICIPALITIES	3 382	-	-	-	2 079	-	-	-	1 343
TOWNSHIPS	158	-	-	-	158	-	-	-	-
VARIOUS UNITS	8 045	-	-	-	1 785	2 310	2 706	290	1 837

See footnotes at end of table

Table 6. State Intergovernmental Expenditure, by Function, by Type of Receiving Government, by State: 1977—Continued

State and type of receiving government	Total	By function							
		Education	Public welfare	Highways	General local government support	Health and hospitals	Corrections and law enforcement	Sewerage	Miscellaneous and combined
TENNESSEE	718 851	495 040	2 435	134 735	61 248	8 782	10 130	-	11 641
School districts	8 890	8 840	-	-	-	-	-	-	-
Counties	394 465	280 832	2 435	83 434	10 989	5 887	6 769	-	8 899
Municipalities	305 842	200 318	-	51 301	50 259	545	2 540	-	869
Special districts	5 390	-	-	-	-	-	821	-	3 769
Various units	5 264	-	-	-	-	2 300	-	-	2 064
TEXAS	2 215 920	2 148 690	-	7 300	15 507	96	23 998	-	20 338
School districts	2 145 363	2 145 363	-	-	-	-	-	-	-
Counties	38 818	3 327	-	7 300	9 503	45	14 456	-	5 187
Municipalities	30 740	-	-	-	6 004	51	9 542	-	15 151
UTAH	303 523	259 998	-	11 785	1 000	5 651	3 484	-	21 803
School districts	259 998	259 998	-	-	-	-	-	-	-
Counties	25 832	-	-	7 383	300	5 604	784	-	10 981
Municipalities	11 140	-	-	4 402	700	-	-	-	6 838
Special districts	1 252	-	-	-	-	47	-	-	1 205
Various units	6 181	-	-	-	-	-	2 702	-	3 399
VERMONT	82 862	56 384	-	5 785	140	12	537	2 517	17 287
School districts	56 384	56 384	-	-	-	-	-	-	-
Municipalities	9 352	-	-	448	-	-	-	-	8 904
Townships	8 278	-	-	5 336	7	-	-	-	53
Various units	11 530	-	-	-	133	12	[1]537	[1]2 517	[1]8 331
VIRGINIA	1 062 863	721 989	222 983	37 195	28 623	8 972	25 153	8 730	20 438
Counties	581 836	464 502	84 561	8 618	18 338	1 482	-	3 492	8 841
Municipalities	444 739	257 487	138 422	28 577	10 285	3 490	-	5 238	8 240
Special districts	3 745	-	-	-	-	-	-	-	3 745
Various units	28 765	-	-	-	-	-	25 153	-	1 612
WASHINGTON	1 050 912	776 872	6 837	69 141	41 741	33 485	20 636	12 668	98 332
School districts	776 872	776 872	-	-	-	-	-	-	-
Counties	186 706	-	6 837	45 597	17 160	30 149	13 909	11 231	31 998
Municipalities	88 235	-	-	23 544	21 845	-	6 727	1 437	35 008
Special districts	21 992	-	-	-	2 736	1 336	-	-	16 483
Various units	15 995	-	-	-	-	-	-	-	15 995
WEST VIRGINIA	430 122	400 151	-	-	12 257	3 180	2 405	21	17 128
School districts	400 151	400 151	-	-	-	-	-	-	-
Counties	13 480	-	-	-	8 276	2 981	-	-	2 252
Municipalities	3 270	-	-	-	-	199	-	-	3 071
Various units	13 212	-	-	-	3 981	-	2 405	21	6 805
WISCONSIN	1 979 186	[2]719 580	314 924	100 407	685 796	80 988	10 903	17 894	48 898
School districts	707 028	707 028	-	-	-	-	-	-	-
Counties	456 108	-	314 924	37 967	126 373	7 995	6 030	1 259	2 833
Municipalities	426 569	-	-	34 152	365 884	-	-	-	5 274
Townships	37 018	-	-	27 012	10 904	-	-	-	-
Various units	311 949	12 552	-	1 296	182 635	72 993	4 873	16 635	40 587
WYOMING	118 811	68 541	-	11 094	31 249	1 346	1 158	-	5 403
School districts	68 541	68 541	-	-	-	-	-	-	-
Counties	20 563	-	-	7 485	8 112	1 301	768	-	2 897
Municipalities	28 342	-	-	3 609	23 137	-	390	-	1 206
Special districts	742	-	-	-	-	45	-	-	697
Various units	603	-	-	-	-	-	-	-	603

- Represents zero or rounds to zero.
[1]Includes amounts for Jacksonville City.
[2]Includes amounts for city-dependent education systems.

Senator DURENBERGER. Thank you.

Senator BRADLEY. Thank you very much, Mr. Butterfield, for your testimony.

Mr. BUTTERFIELD. Thank you, Mr. Chairman.

Senator BRADLEY. Our next group of witnesses is a panel on behalf of the U.S. Conference of Mayors and the National League of Cities. The Honorable Richard Carver, mayor of Peoria, Ill. and president of the U.S. Conference of Mayors and Jessie M. Rattley, councilwoman, Newport News, Va. and president of the National League of Cities.

I would like to welcome you both to the hearing and remind you that we have a 10-minute rule for your presentation and urge you to use that fully.

Before you begin—and you may proceed in any order that you would choose—Senator Byrd, who is a member of this committee, wanted me to express that he is sorry that he is not here, but he is pleased that you are here, Ms. Rattley.

Ms. RATTLEY. Thank you.

STATEMENT BY JESSIE RATTLEY, PRESIDENT, NATIONAL LEAGUE OF CITIES

Ms. RATTLEY. Mr. Chairman and members of the committee, I am Councilwoman Jessie M. Rattley of Newport News, Va. and president of the National League of Cities. Appearing before congressional committees is not a new experience for me, having had the honor several times in the years I have served in leadership positions for NLC.

But my testimony has seldom been as important as this one today, for I am seeking your support in reenacting the single most important program to the Nation's cities. Furthermore, I am certain I speak fully on this issue for the 15,000 cities that NLC represents.

I want to express our appreciation to you, Senator Bradley, for moving expeditiously to hold these hearings. As you know, there is relatively little time until this program expires.

Over the nearly 8 years GRS has been helping State and local governments provide vital service needs, it has proven itself to be one of the most successful of all Federal programs. Its predictability of funding on a multiyear basis has permitted officials to plan its use wisely without fears of sudden termination of funds.

Its flexibility in spending the funds gives elected officials the opportunity to use the funds for locally determined priorities. The program operates without our having to resort to grantsmanship and becoming entangled in endless regulations and redtape, even though GRS has strong civil rights, citizen participation, and audit requirements.

The program has been a winner from the Federal side, too. This program that dispenses nearly $7 billion annually is administered efficiently by only about 200 Federal employees at a cost of approximately one-tenth of 1 percent of total program funds.

Even though GRS has these desirable qualities going for it, we know that its continuation is in jeopardy. However, we are quite prepared to defend this program in the midst of Federal budget pressures. Let me state more specifically what this program means to cities.

In a survey conducted last summer, NLC learned that, despite the ravages of inflation over the years, GRS still represents an average of 12 percent of the budgets of the nearly 5,000 cities that responded. Although GRS is important to cities of all sizes, it is most significant to our small cities, those of less than 25,000 population. These funds represent about 14 percent of their budgets, and for nearly two-thirds of them—63 percent—GRS represents the only direct Federal funding they receive.

This program was criticized in its early years by those who felt that too much money was spent for hardware. Our survey indicates that expenditures are now almost evenly split between operating expenses and capital items. In other words, a loss of funds would mean serious cuts in services, such as police and fire protection, that cannot be put off until next year.

We also asked officials to tell us in that survey what they would do should GRS funds be lost to their budgets. The results were not surprising. For cities under 50,000 population, 63 percent said they would have no alternative but to increase taxes and service fees or reduce services, or both. That figure climbs to 70 percent for cities over 50,000.

We know that the President and the Members of Congress are vigorously searching for ways to slow down the rate of inflation. We all want to see our citizens' dollars buy as much tomorrow as they do today. But city budgets have been as hard hit by inflation as family budgets. The cost of Government services continues to rise while, in addition, cities must undertake new activities, such as assuring safe drinking water and providing access to services for the handicapped, without any reimbursement whatsoever for the cost of doing so.

If these fiscal problems weren't enough, we are now facing a crisis in the credit markets. Municipal bond rates that were 6 or 7 percent a few short weeks ago are now 8 to 9 percent, or higher. Cities are also reporting instances of bond issues in which not a single bid has been received.

For the local elected official faced with a skyrocketing budget pushed by inflation, continued demands for services, increasingly hostile citizens who want their tax bills slashed, and now the evaporation of the bond market, there is no place to turn for help.

I have spoken of what general revenue sharing means for cities. Now let me address the specifics of renewal proposals made by the President and others.

I will say first that we at NLC are deeply grateful to President Carter for his support of this program and his call to the Congress to continue it. We know that decision was a difficult one for him given the demands to fund other programs, but we know that he will not regret having made this choice.

The President has proposed the reenactment of GRS for 5 years on an entitlement basis. I want to emphasize that word "entitlement." Even though the jargon of the Federal budget process is often a mystery to officials outside Washington, D.C., we know full well the significance of that term.

We feel strongly that GRS should be an entitlement program so that local officials know in advance for budget planning purposes how much money they will be receiving. Prudent financial planning at the local level is not possible if we are subject to the uncertainties of the annual appropriations process. Last year, for example, most local governments would not have known whether they would receive GRS funds until 6 months after their fiscal years had begun. For the same reasons, we also think it important that the program be extended for at least 4 years and are quite pleased that the President has asked for a 5-year extension.

The President's bill does not change the three primary factors used in determining the distribution of funds: population, inverse per capita income, and tax effort. Several research studies and the test of time show that this formula, quite simply, allocates money fairly.

The proposal, however, does call for five changes in what we refer to as those factors at the margins, the three present minimum and maximum constraints plus two new ones.

We have not had access to data that would show the full impact of these changes and so we are unable to give you a firm opinion on all of the proposed changes at this time. We will do so as soon as possible.

However, we do want to express our support for raising the cap on funding for individual communities from 145 percent to 175 percent of the statewide per capita average of GRS funds. NLC asked for this increase in the cap at the time of the last renewal, and we are requesting it once again.

It is unfair that a city that otherwise would qualify for a certain amount of revenue sharing funds because of large numbers of poor persons in its population, plus a relatively high tax burden, to have its allocation limited arbitrarily by the 145-percent cap. The proposed increase to 175 percent is a reasonable change.

There is a misconception about this formula change. Many think that this is just a way for big cities to obtain more money. The fact is that numerous small and medium-sized cities are also currently constrained by the 145-percent cap. The common characteristics of local governments that gain from this change are ones with relatively high poverty and high tax effort. Population size is not a key factor.

The President has asked that GRS be continued at its current dollar level, $6.85 billion, for the term of the extension. We must separate ourselves from the President's position on this issue.

As you have heard here today, the purchasing power of the revenue sharing program has declined by 40 percent since its initial enactment in 1972, including the increases it received in the early years of the program. We will very soon reach the point at which the value of this program has been halved.

Many Federal programs are regularly indexed for inflation. We are not asking for a cost of living increase for GRS; that would be irresponsible during the inflation-ridden economy we have now. We believe, however, that the program should be given a prudent increase to help compensate local governments for inflation.

You may think it quite presumptuous on our part to be asking for increased funding at a time when Federal fiscal pressures have never been greater. But we believe an increase is justified for the following reasons:

First, as I have already pointed out, inflation has taken its toll on this program and local government budgets. Second, an increase would help iron out adverse consequences of any formula changes made. The net shift in dollars resulting in formula changes, and subsequent reductions in funding to some recipients, can be nearly offset by a dollar-for-dollar increase in funding.

For the President's five proposed changes, this offset would amount to less than $200 million. An increase in funding, coupled with the proposed formula changes, would help needy jurisdictions without hurting those places that have come to rely on the funds.

At issue this past year, and what will undoubtedly be the subject of controversy this year, is the role of the States in the program. NLC supports continued participation of State governments in this program.

As I have listened to the swirling debate involving the State role, and particularly the argument for dropping the States from the program, I am struck by the ignorance of the intergovernmental nature of our system of government. We speak of the Federal Government, State governments, counties, cities, schools and so forth as if each were an isolated, independent outpost on a distant frontier. They are not.

All governments in this country share the same taxpayers; they must and should share fiscal resources. It is obvious to me that our levels of government are so interdependent that an action taken at one level impacts directly on other levels.

State governments currently provide substantial support for local governments. Cuts in the State share of GRS will undoubtedly affect aid to local government. Yes, States may not be giving their GRS funds to help me balance my budget in Newport News; but they give money to support schools, mental health programs, and so forth that benefit my citizens and those of all cities.

To summarize, Mr. Chairman, let me stress these points. One, GRS is a proven program that helps not only city budgets but the basic services and activities, for public safety, social services and capital improvements, that city government provides.

Two, GRS should be extended on an entitlement basis for both State and local governments. Any reduction in either the State or local share will result in a reduction of services, or in tax increases, or both.

Three, Congress should consider a modest increase in GRS funding over the extension period to help compensate cities for past inflation and to protect against future losses of purchasing power.

Mr. Chairman, we would like to submit for the record NLC's general revenue sharing survey, which we believe you will find very informative.

Thank you.

Senator BRADLEY. Thank you.

[The information referred to follows:]

NATIONAL GRS SURVEY TOTALS

Number of responding states (4788 cities)	34
Rate of response (percentage of surveyed cities which completed the questionnaire)	39.0% (p.2)
Percentage of cities with fiscal years other than July-June	48.0% (p.2)
GRS as a percentage of municipal revenues for all surveyed cities	12.0% (p.4)
- cities with a population of 0-24,999	14.0%
- cities with a population of 25,000- 49,999	9.0%
- cities with a population of 50,000-249,999	11.0%
- cities with a population of 250,000+	3.0%
Percentage of all cities receiving no federal funds other than GRS	66.7% (p.6)
- cities with a population of 0-24,999	68.3%
- cities with a population of 25,000-49,999	40.2%
- cities with a population of 50,000+	13.2%
Percentage of cities receiving a pass through of GRS funds from the county (227 cities $7,012,414)	5.5% (p.8)
Percentage of cities receiving a pass through of GRS funds from the state (470 cities $10,653,486)	12.0% (p.10)
Percentage of cities having problems with the GRS allocation formula (542 cities)	12.4% (p.12)
Percentage of cities having problems with the GRS auditing and accounting requirements	
- cities with a population of 0-49,999	19.3% (p.14)
- cities with a population of 50,000+	27.3%
Percentage of cities having problems with the GRS civil rights requirements	
- cities with a population of 0-49,999	9.5% (p.16)
- cities with a population of 50,000+	23.2%
Percentage of GRS funds used for operating costs	51.7% (p.18)
- cities with a population of 0-24,999	49.7%
- cities with a population of 25,000- 49,999	51.1%
- cities with a population of 50,000-249,999	69.0%
- cities with a population of 250,000+	80.9%

Percentage of GRS funds used for capital expenditures	44.5% (p.20)
- cities with a population of 0-24,999	46.3%
- cities with a population of 25,000- 49,999	51.1%
- cities with a population of 50,000-249,999	27.2%
- cities with a population of 250,000+	20.4%
Average number of citizens at GRS planned-use hearings	12.8 (p.22)
Total lay-offs likely to result from termination of the GRS program	15,468 (p.24)
Likely statewide average increase in local property tax rate if the GRS program is terminated	34.2 (p.26) 3.3 mills

Probable municipal actions which would be necessitated by the termination of the GRS program:

	0-49,999 (p.28)	50,000+ (p.30)
a. increase taxes	23.7%	19.2%
b. increase service fees	3.6%	0.5%
c. reduce capital outlays	18.3%	15.0%
d. reduce maintenance expenditures	11.4%	11.2%
e. increase taxes and/or service fees and reduce services	36.1%	50.0%
f. use surplus funds	2.5%	0.9%
g. increase debt	1.9%	0.5%
h. others	2.5%	2.8%

Preferred municipal uses for GRS funds should congress restrict usage to specific purposes:

	0-49,999 (p.30)	50,000+ (p.34)
a. administration	5.6%	3.3%
b. employment training	2.0%	0%
c. environment	4.2%	3.8%
d. housing and community development	3.5%	5.7%
e. human resources	1.0%	0.5%
f. public safety	38.2%	54.7%
g. public works	35.0%	28.3%
h. recreation and parks	5.3%	1.4%
i. transportation	4.9%	3.3%

Ms. RATTLEY. Originally when I met with the President on behalf of the National League of Cities, I requested a $500 million increase. That was not really adequate to take care of inflation, but the emphasis is to dramatize the need for additional funds in the allocation.

Senator BRADLEY. Very good. Thank you.

Mayor Carver?

STATEMENT OF HON. RICHARD CARVER, MAYOR, PEORIA, ILL., AND PRESIDENT, U.S. CONFERENCE OF MAYORS

Mayor CARVER: Thank you, Senator.

I appreciate very much the opportunity to appear before you and Senator Durenberger and to bring to you my testimony as President of the U.S. Conference of Mayors. I am going to attempt to read a portion of my statement and possibly summarize other portions to allow an opportunity for questions. The general revenue sharing program has been one of the most efficient, least bureaucratic and most flexible Federal grant programs ever enacted. As a result, the program is widely and warmly endorsed by mayors and other elected officials around the Nation. The administrative costs and burdens associated with the revenue sharing program are minuscule compared with other Federal programs. I think the fact that less than 100 Federal employees are required to run a $6.85 billion program offers strong testimony to the program's merit.

The remaining portion of my testimony will go on to reinforce many of the points that have been brought out by the president of the League of Cities, indicating the strength of the decentralization of the program, the local flexibility it offers to the various communities and other municipal governments to participate and, quite honestly, the importance that it plays in the budgets of the cities across this country.

And I do think it is extraordinarily important to continue to reemphasize that this flexibility, in fact, has allowed these Federal dollars to probably play a greater role of importance than any other single program that has been adopted by the Federal Government, and has offered a way in which, each individual community is able to tailor to its own needs the utilization of these shared funds from the Federal Government.

There are two compelling arguments that I would like to read from my written testimony because they do strike to the very heart of important issues. There is a great deal of discussion right now about inflation. I share that. I suspect every man in this country shares that.

Inflation, unfortunately, probably robs local governments of more within our own individual budgets than any outside assistance that we might receive, so as a result, I am not suggesting, in this particular reenactment that there be an increase. We would all like to see it happen. We would like to see some type of indexation or a variety of other things, but we recognize the hard realities.

We further recognize there are potential proposals related to the share that goes to the States. We would not support that reduction, because we do think that, with rare exceptions, those funds flow back into our communities and provide very effective service.

I would want to underscore that in our particular situation, we do not feel that given the current problems with which the Congress and the country are confronted that a request for expanded funding in this area would really be justified.

But, beyond that, I would like to cite two other points and, in many ways, simply to reemphasize points which already have been made by Mrs. Rattley.

First, revenue sharing funds are used primarily for basic, local services. According to studies conducted by the Brookings Institution and the Institute for Social Research at the University of Michigan, the leading uses of revenue sharing funds by municipalities are for police and fire services, transportation services—including street repair—environmental protection efforts, public recreation facilities and libraries. General revenue sharing funds represent over 4 percent of the total general revenue of local governments and nearly 7 percent of cities own-source revenues. Thus, it seems clear to me that Congressional failure to renew revenue sharing at its current level would result in sharp cuts in fundamental city services.

Second, there has been much discussion in the past about the need to target Federal money to where the need is greatest. Targeting was one of the basic tenets of the President's urban policy. As you know, the revenue sharing formula takes into account the tax effort and per capita income of a jurisdiction in determining its allocation. As a result of the way the revenue sharing formula has been designed, revenue sharing is more successful than many other Federal grant programs in distributing funds according to need.

Mr. Chairman, in summary, I urge the committee to take favorable action to renew the revenue sharing program quickly. The Conference of Mayors believes the $6.9 billion level proposed by the administration in its fiscal year 1981 budget represents the minimum amount which is needed. A more responsible course of action would be to index the program to the inflation rate, so as to keep the value of the program dollars constant.

Thank you for this opportunity to express the views of the Conference of Mayors on a vitally important urban program, and we look forward to working with you in the future.

Senator BRADLEY. Thank you very much, Mayor Carver.

Could each of you tell me what difference revenue sharing has made in the functioning of your own cities in the last 8 years?

Mr. CARVER. General revenue sharing has enabled us to try to maintain some type of a handle on the real estate property tax in our city which otherwise would have been dramatically higher than it is.

We are a central city and one of the great problems we deal with is providing services for those who do not live in our community and because of this fact, our real estate property tax is actually higher than some of the surrounding communities.

General revenue sharing has granted us the ability to provide the full range of needed services without having to either further exacerbate that problem by raising the real estate property tax even further. Moreover, in some instances it would not have been possible to raise taxes because of State statutory requirements.

It also has given us an opportunity to target back into our neighborhoods some very specific programs. One of the major uses that we have used for revenue sharing is in street repair and street maintenance and to assist many of our older neighborhoods, areas where it would have been totally impossible otherwise.

Some of the early efforts in this regard, I think, are in part responsible for the tremendous success my community has enjoyed in reversing the blight that has gone into many of our neighborhoods.

I think in the absence of general revenue sharing that the condition of many of the neighborhoods in my State would not be what they are today, which are dramatically better than they otherwise would have been.

I would like to make one last point because my city is not necessarily typical of every city.

The ability in many of the cities across this country to maintain a very minimum level of the important services of police and fire and public works might not have been possible in the absence of general revenue sharing and I might equally say may not be possible if general revenue sharing is not reenacted.

Senator BRADLEY. Could you tell me what is the State sales tax in Illinois?

Mayor Carver: The State sales tax in Illinois is 5 percent, 4 percent to the States, 1 percent returned to the cities.

Senator BRADLEY. To all jurisdictions?

Mayor CARVER. Cities and counties, Senator. The cities and counties must enact, and to my knowledge, all of them have, the 1 percent in order to actually receive it but, as a practical matter, they do in Illinois.

Senator BRADLEY. What is the State income tax in Illinois?

Mayor CARVER. I will not try to speculate. It is 2.5 percent on personal income, a 3-to-5 ratio between personal and corporate, so my guess is it would make it 4. something for corporate. I am not exactly sure.

Senator BRADLEY. What is the State budget surplus in Illinois?

Mayor CARVER. I am told at this point in time by the most recent estimate that it is approximately $493 million out of a budget that the Governor presented yesterday of $13 billion and I might further add, the Governor stated in his budget message that in the absence of the reenactment of general revenue sharing, there most likely will be a deficit, and I think he also added—although I am not absolutely sure of this—that given the current revenue projections, because of the potential of a recession in combination with the increased expenditures that would be mandated because of higher unemployment and a variety of other costs, there may, in fact, not be a surplus in Illinois.

Senator BRADLEY. Is Illinois constitutionally mandated to have a balanced budget?

Mayor CARVER. Yes, sir, as are the cities and all of the units of local government.

Senator BRADLEY. So that you have about 5 percent, or less than 5 percent, right?

Mayor CARVER. Less than that, yes, sir.

Again, I am not the comptroller of Illinois. I am giving you what I have read—less than 4 percent.

Senator BRADLEY. Are you generally in favor of more targetting of revenue sharing dollars, more than in the present formula?

Mayor CARVER. No, sir. I would prefer to see it stay exactly the way it is because I think it gives each community an opportunity to target on its own.

Long before there was any requirement for citizen participation, and interestingly enough, I was selected mayor in the first year of general revenue sharing, we began to hold public hearings and began to try as best we could to identify what our community was seeking from general revenue sharing and then target it in that form.

We have done that ever since.

We operate on a multiyear basis for the allocation of general revenue sharing, so many of the programs that we have undertaken were projected off into the future and in this instance, hopefully beyond the current general revenue sharing program. In order to complete some of the projects we have begun, it will be necessary to have general revenue sharing reenacted.

Senator BRADLEY. Once again, could you tell me of the State share in Illinois, how much of that is returned to the cities?

Mayor CARVER. One hundred percent of the State share goes into the school aid formula for schools. Schools are an independent entity in Illinois but obviously all other funds come off the real estate property tax of the city, so, in my opinion, 100 percent, 100 cents on the dollar, is returned to the local community.

Senator BRADLEY. Thank you.

Senator Durenberger?

Senator DURENBERGER. I want to take about a minute of my time to read a very impressive part of Ms. Rattley's presentation that is particularly appealing to me and this is her quote:

> As I have listened to the swirling debate involving the State role and particularly the argument for dropping the States from the program, I am struck by the ignorance of the intergovernmental nature of our system of government.
>
> We speak of the Federal Government, State government, counties, cities, schools and so forth as if each were an isolated independent outpost on a distant frontier. They are not. All governments of this country share the same taxpayers. They must, and should, share fiscal resources. It is obvious to me that our levels of government are so interdependent that an action taken at one level impacts on all other levels.

I love that statement. It so succinctly States what we are about, and I think it is fortification for the testimony that both of you have given very well on behalf of your constituencies.

The issue of State revenue sharing, fiscal disparities which you talked to, mayor, I think all of those issues are wrapped up in that statement and I come from a State in which I think about 75 percent, or 4 percent sales tax, is shared by local government, a substantial part of 12.5 percent personal income tax and 17 percent corporate income tax is shared with local government and the issue of the interrelationship between Federal revenue sharing and State revenue sharing, I think, is crucial.

So I would like to ask each of you the question that I asked the gentleman representing the National Association of Towns and Townships whether or not your associations have done an analysis of what the States are doing by way of sharing State-collected revenues with local government and whether that research, if done, could be made a part of this record.

Ms. RATTLEY. Yes, we have done some.

It is very difficult to classify it. In the State of Virginia, for example, much of the revenue sharing money the State receives is returned to the city of Newport News in the form of school funds for mental health and other programs. It is coming to the people we serve, the people who live in my community, in the city of Newport News, but not directly through to the city treasury.

We do have some figures that would give you a trend, if not the specific information you are seeking, as to the total number of dollars and we will be glad to share it with you.

Senator DURENBERGER. Thank you.

[The following was subsquently supplied for the record:]

NATIONAL GRS SURVEY TOTALS

Number of responding states (6133 cities)	36
Rate of response (percentage of surveyed cities which completed the questionnaire)	47.2% (p.2)
Percentage of cities with fiscal years other than July-June	47.2% (p.2)
GRS as a percentage of municipal revenues for all surveyed cities	12.2% (p.4)
- cities with a population of 0-24,999	12.8%
- cities with a population of 25,000- 49,999	8.0%
- cities with a population of 50,000-249,999	10.8%
- cities with a population of 250,000+	3.5%
Percentage of all cities receiving no federal funds other than GRS	65.4% (p.6)
- cities with a population of 0-24,999	70.0%
- cities with a population of 25,000-49,999	44.8%
- cities with a population of 50,000+	13.2%
Percentage of cities receiving a pass through of GRS funds from the county (232 cities out of 4454 responding received $7,076,316)	5.2% (p.8)
Percentage of cities receiving a pass through of GRS funds from the state (475 cities out of 4283 responding received $10,934,799)	11.0% (p.10)
Percentage of cities having problems with the GRS allocation formula (627 out of 4163)	13.8% (p. 12)
Percentage of cities having problems with the GRS auditing and accounting requirements	
- cities with a population of 0-49,999 (887 out of 4574)	19.3% (p.14)
- cities with a population of 50,000+ (57 out of 209)	27.3%
Percentage of cities having problems with the GRS civil rights requirements	
- cities with a population of 0-49,999 (434 out of 4556)	9.3% (p.16)
- cities with a population of 50,000+ (50 out of 216)	23.2%
Percentage of GRS funds used for	
- operating expenditures	51.7%
- capital expenditures	44.5%

Average number of citizens at GRS planned-use hearings	12.9 (p.22)
Total lay-offs likely to result from termination of the GRS program (not all cities were able to respond to this question)	15,538 (p.24)
Likely statewide average increase in local property tax rate if the GRS program is terminated (not all cities were able to respond to this question)	
1670 out of 6133 gave percentage increase	39.2% (p.26)
2666 out of 6133 gave millage increase	3.3 mills

Probable municipal actions which would be necessitated by the termination of the GRS program:

	0-49,999 (p.28)	50,000+ (p.30)
a. increase taxes	23.5%	18.3%
b. increase service fees	3.0%	0.4%
c. reduce capital outlays	18.7%	15.2%
d. reduce maintenance expenditures	11.1%	11.2%
e. increase taxes and/or service fees and reduce services	35.9%	50.6%
f. use surplus funds	2.5%	0.8%
g. increase debt	1.9%	0.4%
h. others	2.5%	2.6%

Preferred municipal uses for GRS funds should Congress restrict usage to specific purposes:

	0-49,999 (p.32)	50,000+ (p.34)
a. administration	5.6%	3.1%
b. employment training	1.9%	0%
c. environment	4.3%	2.7%
d. housing and community development	3.7%	5.4%
e. human resources	1.0%	0.4%
f. public safety	38.1%	54.7%
g. public works	35.0%	28.9%
h. recreation and parks	5.3%	1.3%
i. transportation	4.8%	3.1%

Mayor CARVER. Senator, I am a member of the Advisory Commission on Intergovernmental Relations. They do have the data on that. I am sure we will be happy to see that you receive it. I think Mrs. Rattley makes an excellent point, though, that in many instances it is very hard to trace exactly how those funds get back to the cities.

One thing that I would like to stress, because unfortunately, on occasion it does come up to argue against State participation, is the amount of surplus that some of the States have, and the unfortunate aspect of that is that the pension surpluses are included in those numbers, and I would like to suggest that if research were done—and I do not know the answer to this number—if research were done, you would discover that the unfunded liabilities currently confronting most of the pension programs across this Nation would show that there is, in fact, no surplus either in the totality of the States and most likely in any individual State as well.

So I think that oftentimes we are quick to use numbers, if, in fact some—and I hope very few—want to argue the case against the States, but in the analysis of those numbers, I would like to underscore that they discover that, as a practical matter, those surpluses are not there and they certainly are not there to help the units of local governments in the individual States.

Senator DURENBERGER. Thank you. I appreciate that point.

Do I understand the testimony from each of you to the effect that you would be most comfortable given all the facts of political and economic life today, to see a reauthorization of the existing program without major changes in the authorization?

Ms. RATTLEY. Yes.

Mayor CARVER. Yes.

Senator DURENBERGER. One thing I am not quite clear on is whether or not you favor a 4-year extension or 5-year extension as proposed by President Carter, although I must say unless you have talked to him lately, we really do not know where he is at.

Ms. RATTLEY. We support a 5-year extension.

Mayor CARVER. We prefer 4, Senator.

Senator DURENBERGER. Thank you very much.

Mayor CARVER. Thank you, sir.

[The prepared statement of Mr. Carver follows:]

STATEMENT OF HON. RICHARD E CARVER, PRESIDENT OF THE U.S. CONFERENCE OF MAYORS AND MAYOR OF PEORIA, ILL.

Mr. Chairman, Members of the Committee, I am Richard Carver, President of The U.S. Conference of Mayors and Mayor of Peoria, Illinois. Thank you for this opportunity to testify today on the renewal of general revenue sharing—a program of critical importance to cities around the country.

The general revenue sharing program has been one of the most efficient, least bureaucratic and most flexible federal grant programs ever enacted. As a result, the program is widely and warmly endorsed by Mayors and other elected officials around the nation. The administrative costs and burdens associated with the revenue sharing program are minuscule compared with other federal programs. I think the fact that only 82 federal employees are required to run a $6.85 billion program offers strong testimony to the program's merit.

Moreover, as you know, a key feature of the revenue sharing program is its flexibility, allowing local citizens and officials to decide how revenue sharing dollars should be spent, in line with local priorities and objectives. I believe this decentralization of decision-making has been a healthy development in our federal system of government.

The Conference of Mayors has long been on record in support of the renewal of general revenue sharing with annual adjustments for inflation. Inflation imposes a heavy burden on local governments, since local budgets are composed almost entirely of inflation-sensitive items—wages and fringe benefits, energy costs, construction costs and so on. Yet, while local costs have been escalating rapidly because of inflation, real federal grants-in-aid have recently declined. Moreover, revenue sharing and other block grants have been declining as a percentage of total federal assistance to state and local governments. As you know, revenue sharing has been held at the same dollar levels since fiscal year 1977. As a result, the purchasing power of revenue sharing dollars will decline by over 50 percent from fiscal year 1977 through the end of fiscal year 1981.

While we support the President's decision to seek renewal of the revenue sharing program at its current level of $6.9 billion, we would normally support a more reasonable course of action to adjust the program annually so as to compensate for inflation. However, at this point, in order to assist in the overall fight on inflation, we would not oppose the President's proposal.

We are aware that the general revenue sharing program, especially the one-third state share of the program, is vulnerable in a budget-cutting year. However, the Conference of Mayors strongly believes that the revenue sharing program should be spared any cuts. If the revenue sharing program is slashed by one-third, as has been proposed by some members of Congress and Administration officials, state and local governments will be forced to layoff workers, cut important services and raise property and sales taxes significantly. Such actions would exacerbate inflation, prolong and deepen a future recession, and lessen the progressivity of the overall tax structure.

Such tax increases and employee layoffs are likely to result whether the one-third, $2.3 billion cut is borne exclusively by the state or borne by all levels of government. The Conference of Mayors believes that any cut in local revenue sharing allocations would have a disastrous impact on local governments. Yet even if the reduction is made solely at the expense of state governments, many local governments will suffer because of the likely resulting cutbacks in the assistance they receive from states. Our best estimate is that up to 40 percent of total state revenue sharing funds are passed through to local governments and school districts.

The effect of a revenue sharing cut on the economy should also be weighed. According to the Treasury Department, the revenue sharing program accounts for about 350,000 jobs in the public and private sectors. Thus, a reduction of $2.3 billion in the revenue sharing program would translate fairly quickly into a major job loss for the economy—possibly just at the point the economy is sliding into a recession.

There are two other compelling arguments for revenue sharing renewal which I would like to mention.

First, revenue sharing funds are used primarily for basic local services. According to studies conducted by the Brookings Institution and the Institute for Social Research at the University of Michigan, the leading uses of revenue sharing funds by municipalities are for police and fire services, transportation services (including street repair), environmental protection efforts, public recreation facilities and libraries. General revenue sharing funds represent over 4 percent of the total general revenue of local governments and nearly 7 percent of cities own-source revenues. Thus, it seems clear to me that Congressional failure to renew revenue sharing at its current level would result in sharp cuts in fundamental city services.

Secondly, there has been much discussion in the past about the need to target federal money to where the need is greatest. Targeting was one of the basic tenets of the President's urban policy. As you know, the revenue sharing formula takes into account the tax effort and per capita income of a jurisdiction in determining its allocation.

As a result of the way the revenue sharing formula has been designed, revenue sharing is more successful than many other federal grant programs in distributing funds according to need.

Mr. Chairman, in summary, I urge the Committee to take favorable action to renew the revenue sharing program quickly. The Conference of Mayors believes the $6.9 billion level proposed by the Administration in its fiscal year 1981 budget represents the minimum amount which is needed. A more responsible course of action would be to index the program to the inflation rate, so as to keep the value of the program dollars constant.

Thank you for this opportunity to express the views of the Conference of Mayors on a vitally important urban program, and we look forward to working with you in the future.

Senator DURENBERGER. Our next witness is Hon. Sanford Cloud, Jr., State senator from Connecticut, who will be testifying on behalf of the National Conference of State Legislatures.

Welcome. You have been here long enough to understand the time rules and so forth. We appreciate very much your being here on behalf of the Conference of State Legislatures.

STATEMENT OF HON. SANFORD CLOUD, JR., A STATE SENATOR FROM THE STATE OF CONNECTICUT

Mr. CLOUD. Thank you very much, Senator Durenberger. I want to thank the chairman, and you, Senator, for allowing us to come before the subcommittee to testify.

I am Sanford Cloud and I am a member in the Connecticut State Senate from the city of Hartford and a member of the National Conference of State Legislatures and I am appearing on behalf of the National Conference, the official representative of the Nation's 7,500 State legislatures.

We would like to thank the committee for the opportunity to begin discussion on what is the most important intergovernmental issue of the coming year, general revenue sharing. We praise Senator Bradley and this subcommittee for realizing that reauthorization of general revenue sharing is a priority for early action.

States are now acting on budgets for the coming fiscal year and in many States for the next 2 years. It will be essential if States and localities are to budget effectively that action be taken on the reauthorization of general revenue sharing as early as possible.

General revenue sharing is NCSL's top priority in the Federal budget. You may ask how I can come before you and promote a specific program when it is well known that resources are limited and many so-called uncontrollable costs are going through the roof. Let me explain the concerns uppermost in our minds as we developed our policy of support for this program.

Several important concerns guided the development of this policy. International events, the economic condition of the country congressional actions of the fiscal year 1980 budget and increased demands for reduced Federal spending have combined to add new urgency to spending decisions.

Due in large measure to skyrocketing energy costs, every citizen and every level of government has had to cope with the problems of double-digit inflation. What the President's fiscal year 1979 budget had forecast as 7.4 percent inflation was finally recorded as 13.2 percent—almost twice as high.

Last month's figures indicate a current effective rate of 18.2 percent. There is no doubt in my mind and many other legislators that inflation is our most pressing domestic problem. All program costs have increased rapidly, and those indexed in any form have shown dramatic increases.

In the area of energy costs alone, State legislatures have enacted new and expensive programs to help those on fixed incomes to deal with the significant increases in fuel prices.

My own State of Connecticut has just recently completed a special session to deal with energy problems. The Congress has also responded to the need, especially of low-income families.

Inflation raises the revenues of both State and Federal Government. Federal revenues have risen $20 billion above projections for the second budget resolution. But current Census Bureau figures show that State revenues in fiscal 1979 trailed the inflation rate. They rose 10.5 percent to $125.1 billion during an inflation rate of 13.2 percent to $44.9 billion and sales and gross receipts taxes were up 12 percent to $39.5 billion. But revenue from motor fuel, alcoholic beverage, and property levels rose only about 5 percent while tobacco receipts fell 0.4 percent.

Every major economic forecasting organization is predicting a rapid decline in the health of the State and local government sector. Most of them see a deficit throughout fiscal year 1980 and 1981.

There is little that States can do in the face of a recession to arrange for revenues onhand to cover shortfalls. Those States that carry modest protective balances of 5 to 7 percent of expenditures are labeled by some in Congress as having "vast surpluses."

My own State of Connecticut had a surplus of 3 percent in 1978, 1979. We are only one of two States which do not have constitutional or statutory requirements to balance the budget, yet we are already running a level of bonded indebtedness equal to our annual expenditure in the general fund.

We cannot finance deficits today. In fact, this session, and as a member of the appropriations committee of the Connecticut Senate, I am here to be able to tell you that we are, indeed facing a deficit for the next fiscal year of approximately $150 million, with a need for us now to begin to take a look at cutting services and at the same time increasing taxes.

The mood of Congress is clearly moving toward budget restrictions of some form. At such times, it is important that we, as partners in the intergovernmental system, make a clear statement of our priorities and our recommendations.

In our opinion, there can be no question that the reauthorization of general revenue sharing is the top priority of the National Conference of State Legislatures. There are a number of reasons that I think are persuasive.

One, the program is clearly the most efficient with administrative costs of 1½ of 1 percent compared to an average administration cost of 12 to 20 percent in categorical grants. An added efficiency is the ability to target the funds at the State or local level, insuring that they will be used to service the greatest need.

Two, the flexibility in the use of the funds allows us to respond as you and the Congress make decisions lowering funding levels in various programs.

Revenue sharing dollars also give us limited resources in which to meet the costs of mandates that Federal legislation often enforces upon us.

In all of the aid to State and local governments, revenue sharing is the only program which gives this needed flexibility. Nearly 500 narrow categorical grants programs require limited uses and separate administrative procedures. Revenue sharing's streamlining adds to this efficiency.

Three, the program is very controllable. It has lost 40-percent of its value to inflation since 1973, therefore, it cannot be blamed for growing Federal costs.

Four, revenue sharing is the major intergovernmental cooperative program which has displayed the common goals of the various levels of Government by providing necessary services to millions of citizens. This cooperation and efficiency is a model to be copied, not to be ended.

Five, revenue sharing funds have been used for education, for social services, for supporting State and local pension liabilities, for construction costs required by Federal Government and court mandates. Every study of the use of these funds has pointed up their significant role in State and local budgets.

Let me also point out that studies have shown that 83 percent of the uses of these States share are labor intensive, creating jobs for tens of thousands of citizens.

In response to the proposed legislative approaches to the programs, let me briefly make the following points. The program must be authorized as an entitlement to be sure that the uses of the funds remain relevant to State and local budgeting processes. The States have already utilized commissions to improve the structure of the State and local finances. Rather than the restrictive and intrusive arrangements being discussed, State legislatures should be allowed to tailor their commissions to the needs and circumstances of their State, developing a working relationship with the localities such that any recommendations are more likely to be passed as legislation.

We should strive to keep the programs administrative cost as low as possible.

NCSL's current policy calls for a reauthorization of the present program. ~~We view~~ any formula changes as to jeopardizing congressional enactment of this essential program. Finally, we have worked to make the Commission's proposals acceptable as possible to State legislatures. We have yet to see actual legislation and have had no opportunity to modify our policy.

There is little doubt that the conference would support an extension of the current program.

At this point, Senator, I would be glad to answer any questions that you may have.

Senator DURENBERGER. Thank you very much, and your statement, in full, which is very comprehensive, will be made a part of the record.

Let me just ask you some rather simple questions.

I see in your testimony regarding the President's original proposal relative to the Commission, and so forth, that you do something that makes sense, or your recommendation is something that makes sense to me, and that is that legislatures have already taken steps to create either in commission form or some other form, an analysis of the utilization of revenue sharing funds and the impact of those funds on intergovernmental financing, that those commissions should be utilized instead of setting up something that is dictated either by the Secretary of the Treasury or by a federally mandated program, the general guidelines in effect were set out for this intergovernmental analysis, and the States were permitted to use their own procedures for determining the facts and delivering information.

Can you indicate what the States are already doing in the area that the President proposes that these commissions should be doing?

Mr. CLOUD. Yes, Senator.

There are several States which are in the process of setting up similar commissions primarily because this issue of State and local relationship is not a new issue. It has been one that has been on the minds of the State legislators in particular and locally elected officials for some time.

The principal source of the discussions have been a greater share of the State budget, and rightfully so.

As an urban advocate, I feel strongly that the local municipalities and towns should have the continuing increasing share of the State budget. Certainly the State of New Jersey for some time has had an intergovernmental commission dealing with State and local finances.

There are several other States that have long been involved in this particular effort.

So I believe that there are commissions that have been in place for the last several years, Senator. There are others that as a result of the President's proposal are also in the process of being set up, despite the fact that the President's proposal has yet to come before the Congress in actual form.

Senator DURENBERGER. Would it be your opinion that, given the political and economic climate that, if we could reauthorize the current program for some specific period of time, that that would be preferable to trying to make major changes in the existing authorization.

Mr. CLOUD. Yes, sir. As far as the NSCL policy is currently, we do favor the reauthorization of the program as it exists. At the same time, I would suggest to you that I do believe that the commission concept has some merit, if for no other reason, to encourage States even more from an accountability point of view to be sure that the towns and municipalities are getting their fair share.

At the same time, the concept of how that commission should be set up, who should be on that commission, the timetable for the progress that is to be made, really should be left to the States.

We believe that we have been in this business a long time of setting up commissions. Our local elected officials and mayors in particular certainly have a very strong and influential lobby within the State legislatures today and we believe that we can, working together, put the kind of commissions that are necessary to meet some broad, national guidelines, in effect.

Senator DURENBERGER. Given the timing of convening the State legislatures, do you favor 4, 5, or some other year extension of this program?

Mr. CLOUD. We really have not taken a hard position on that particular issue, Senator. I would suggest to you, though, that the 4-year reauthorization based on our recent experience, seems to be a situation where more influence could be impressed upon those who are presently holding the highest elected office in the land as well as being able to determine whether the Presidential candidates support our position with respect to general revenue sharing.

It would give us an opportunity to explore fully what those positions are, whether it is the position of the President, or those who are interested in running for that Office.

Senator DURENBERGER. Is the National Conference of State Legislatures doing an analysis of the impact of decontrolled oil prices on financing of State and local government in this country?

Mr. CLOUD. Yes.

We are in the process of doing that study. I do not know exactly the time by which that study will be completed, but certainly we will keep you informed.

Senator DURENBERGER. I would just say if there is any possibility that preliminary or other data and conclusions of the data could be made available to us before we add on general revenue sharing that we would appreciate that information and have it be made a part of the record.

Mr. CLOUD. I would be glad to, Senator.

Senator DURENBERGER. I thank you on behalf of Senator Bradley and the subcommittee.

Mr. CLOUD. Thank you.

[The study and prepared statement of Mr. Cloud follow. Oral testimony continues on p. 67.]

STUDY AND PREPARED STATEMENT OF MR. CLOUD

SEVERANCE TAXES

In the past decade, state severance tax policies have allowed the mineral rich states to chart energy and natural resource development and to apportion revenues between current and future needs. Severance taxes are those taxes which have a defined relationship to mineral (and timber) production and are imposed as a rate of that production. In a 1978 USDA report, three basic types of severance taxes are defined: (1) "true" severance taxes imposed on the actual act of severing the resource (usually expressed as a set amount per unit mined); (2) gross production or income taxes imposed on total production or income; and (3) net production or income taxes levied on net profit. States may also tax this kind of activity through additional ad valorem property taxes or increased income taxes; these approaches, however, are not treated in this article.

FORMULATING THE TAX

In designing severance taxes, policymakers face several key issues:

Which minerals or resources should be taxed. Factors to be considered are general acceptance (e.g. oil and gas) and importance of the mineral to the economy of the state.

Should various minerals be treated differently? For example, states usually treat gas and oil production in statutes separate from mineral activity. Also, states commonly use different tax bases for different minerals, with coal usually singled out for special treatment.

What should the tax base be—actual production or the value of the resource? Determination of value involves two factors: at what point of the production process is the tax levied, and on what taxable value is the tax imposed?

Should the tax rate be formulated according to unit production, such as the coal tonnage taxes in Alabama, Arkansas, Louisiana, Ohio, Oklahoma and Tennessee? Or should the rate be a percentage of some defined taxable value, such as the gross value tax on coal in Florida, Kentucky, Utah, West Virginia and Wyoming? Should the rate be constant, or should it vary according to level of production, resource quality, or market price?

Point of Imposition: The point at which a severance tax is imposed can cause great variations in tax liability and is usually based on certain goals to be achieved through imposition of the tax:

(1) At point of severance. Such taxes are imposed to compensate the citizens of the state for the irretrievable loss of a nonrenewable resource ("natural heritage" argument).

(2) After benefication, but before actual sales. Such taxes are imposed on the occupation of severing and processing and usually take the form of ad valorem taxation.

(3) On net profits, after processing the sales. Such taxes are usually viewed as net income tax.

Taxable Value: In most cases, taxable value is defined as sales price or market value. For most oil and gas taxes, wellhead price is the determinant of value. When taxing minerals, states often allow deductions for transportation costs (New Mexico, South Dakota and Utah); processing costs (Idaho, New Mexico, South Dakota, Utah and Wyoming), and other taxes paid. In addition, smaller operations, particularly for hard rock mining, are often exempt.

CURRENT APPROACHES

According to the attached chart, twenty-seven states impose severance taxes on oil and natural gas production. Twelve states impose the tax on the gross value (usually wellhead price) of the oil and gas produced. Seven states tax oil and gas according to unit production (barrels, cubic feet), and three tax according to market value. Mississippi taxes oil on the greater of 6 cents/barrel or 6 cents gross value. Colorado taxes oil and gas according to gross income, and in California and Kansas, state agencies determine the tax.

Of the eighteen states which impose severance taxes on coal, nine states levy a production (cents per ton) tax. Six states tax coal on its gross value; only Idaho taxes net value. Montana uses a combination of taxing approaches, levying higher grade coal through either a tonnage tax or a tax based on mined price, whichever produces more revenue. Several states, such as Arizona, Montana, New Mexico and Wyoming allow local governments to impose production taxes.

Twenty states tax other minerals, including uranium, sulfur, molybdenum, taconite, and gold and silver, in a variety of ways. Eight states levy production taxes; seven states impose a tax on the gross value of the mineral. Idaho again imposes a tax on the net value of such minerals, and South Dakota and Wisconsin impose a net profits tax. Michigan levies a property tax based on level of production value.

Eighteen states impose a severance tax on timber. Although, in the strictest sense, timber is a renewable resource, timber taxes are imposed as a "true" severance tax; in eight states they are levied at a flat rate/lumber produced. Five states tax timber on some basis of value, and Washington uses a combination of approaches. Maine and Missouri impose a forest lands tax as part of a general property tax.

POLICY ISSUES

Today's economic, environmental and energy problems bring policy issues raised by severance taxation into sharp focus. For example, the need to diversify and develop the nation's energy resources must be balanced by the need for orderly and environmentally sound resource development. Other issues include:

Treatment of severance tax revenues.—Policy-makers must accomodate a variety of needs when distributing these revenues. First, they need to assure taxpayers that monies will be held for future state needs after the resource is depleted. Many states, including Colorado, Montana, New Mexico, North Dakota and Wyoming have established mineral tax trust funds and use only the interest from the investment of these funds for current activities.

Local impact.—They must also address the "front-end" problem of local communities which cannot provide enough own-source revenue to meet demands of mineral development, demands which are present before the actual mining. Montana requires mining companies to pre-pay estimated property taxes as soon as development activity begins. Kentucky imposes a property tax on unmined coal. In addition, states such as Montana, North Dakota and Wyoming have established agencies to funnel a certain percentage of severance tax revenues to impacted communities.

Tax burden.—In designing a severance tax, policy-makers must try to ascertain tax burden. Is the resource utilized by out-of-state consumers, or will in-state taxpayers eventually pay the bill? Does the tax fall on large and small producers in proportion to their income or other measure of ability to pay?

Administrative burden.—How difficult is it to ascertain tax liability and collect it? For example, a gross production tax may not be equitable as a net income tax, but it is considerably easier to establish liability and to audit information supplied by producers.

SOURCES

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STATE-BY-STATE SEVERANCE TAXES

STATE	OIL AND NATURAL GAS	COAL	MINERALS	TIMBER
Alabama	8% of gross value for both	13.5¢/ton mined	3¢/long ton[1] (iron ore)	Rates range from 12¢-20¢ per 1000' for pine, hardwood and others [3]
Alaska	12.25% of gross value--oil; 10% of gross value--natural gas	-----	-----	-----
Arizona	-----	1) Imposes ad valorem property taxes on value of unmined coal 2) Imposes production taxes at local level only	2.5% of gross value	-----
Arkansas	5% on wells producing more than 10 barrels/day; 4% + .5¢/barrel for others; 3¢/1000 cubic feet for natural gas	2¢/short ton[2]	Rate varies from 1¢-15¢/ton	Pine: 75¢/1000'; all others: 38¢/1000'
California	Rate set annually by State Department of Conservation	-----	-----	6% of harvest + .5% for timber harvested from 4/1/77 through 1982
Colorado	Rate ranges from 2-5% of gross income	1) 60¢/ton after first 8000 tons of quarterly production plus a 3% excise tax on gross receipts (coal used for industrial purposes is exempt) 2) Imposes property tax on value of unmined coal	2.25% of gross income in excess of $11 million	-----
Florida	8% of gross value of oil; 5% of gross value of natural gas	5% of gross value	10% of gross value (phosphate only); 5% all other solid minerals	-----

FOOTNOTES: [1]long ton = 2240 pounds

[2]short ton = 2000 pounds

[3]1000'(as used throughout) refers to 1000' board feet, which equals the volume of a board 12" x 12" x 1".

STATE	OIL AND NATURAL GAS	COAL	MINERALS	TIMBER
Georgia	.5¢/barrel of oil; .5¢/1000 cubic feet of natural gas	-----	-----	-----
Idaho	.5¢/barrel of oil; .5 mill/1000 cubic feet of natural gas	2% of net value	2% of net value	12.5% of value
Indiana	1% of gross value of oil	-----	-----	-----
Kansas	Nominal tax set by State Board of Health	-----	-----	-----
Kentucky	.5% of market value of oil	1) 4.5% of gross value 2) Imposes property tax on value of unmined coal	-----	-----
Louisiana	12.5% of gross value of oil; 7¢/1000 cubic feet of natural gas	10¢/short ton	$1.03/long ton--sulfur; 6¢/short ton--salt; 20¢/short ton--marble; 3¢/short ton--stone, sand, gravel	2.25% of stumpage market value except 5% for pulpwood[4]
Maine	-----	-----	-----	Forest lands tax included in general property tax
Massachusetts	-----	-----	-----	Classified forest lands tax: 8% of stumpage value
Michigan	6.6% of gross value	-----	Property tax set by 5-year production average X 2% value of ore	Private reserves: 5% stumpage tax; commercial forests: 15¢/acre + annual stumpage tax
Minnesota	-----	-----	Ranges from 15-15.5% of value of production	10% of timber yield

4 Stumpage value is the value of standing or uncut timber.

5 WPI refers to the Wholesale Price Index.

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Mississippi	The greater of 6¢/barrel or 6% gross value of oil; greater of 6% of gross value or 3 mills/cubic foot for natural gas	-----	-----	Range from 60-80¢/1000' for pine and hardwoods
Missouri	-----	-----	-----	Forest land tax included in general property tax
Montana	2.1% of gross of first $6000 gross value and then 2.65% of gross value of oil and natural gas	1) Varies with coal's heating quality and is greater of 12-40¢/ton or 20-30% of FOB mine price; and 5-12¢/ton or 3-4% of FOB mine price for underground coal 2) Impose local level production tax also	$25 + .5% of gross value when in excess of $5000 (minerals); $1 + fee based on gross production ranging from .15-1.438% (metals, precious and semi-precious stones)	-----
Nebraska	2% of gross value	-----	-----	-----
Nevada	Conservation tax of 5 mills/barrel of oil or 50,000 cubic feet of natural gas	-----	-----	-----
New Hampshire	-----	-----	-----	12% of stumpage value
New Mexico	51.5¢/barrel of oil; 5.7¢/1000 cubic feet of natural gas	19.2¢/ton on metallurgical coal + surtax; 40.5¢/ton on steam coal + surtax; imposes production tax at local level; imposes excise tax of 4.75% on initial sale of coal	Based on gross value, with rates ranging from .125-2.5%	Imposes a .75% resource tax and .125% processors tax

STATE	OIL AND NATURAL GAS	COAL	MINERALS	TIMBER
Tennessee	1.5% of sale price of both	20¢/ton	-----	-----
Texas	4.875¢/barrel of oil; 7.5% of market value of natural gas	-----	$1.03/long ton of sulfur	-----
Utah	2% of gross value	2% of gross value	1% of gross value	-----
Virginia	-----	-----	-----	Pine and cedar: 65¢/1000'
Washington	-----	-----	5¢/pound	Reforestation lands: $8-16/acre; yield tax on market value: 12.5% average
West Virginia	4.34% of gross value of oil; 8.63% of natural gas in excess of $5000	3.5% of gross value	Taxes range from 2.2% of gross value of limestone to 4.34% of sand and gravel	-----
Wisconsin	-----	-----	Comprehensive net proceeds tax with a progressive rate schedule	10% stumpage value
Wyoming	4% of gross value	10.5% of gross value; local level production tax; 3% excise tax (except for industrial coal)	3.5% of gross value	-----

TESTIMONY OF SENATOR SANFORD CLOUD, JR., OF THE CONNECTICUT STATE SENATE

Thank you, Mr. Chairman, members of the committee. My name is Sanford Cloud and I am a member of the Connecticut State Senate from the City of Hartford. I am appearing before you today on behalf of the national Conference of State Legislatures, the official representative of the nation's 7,500 State Legislatures. We would like to thank the committee for the opportunity to begin discussion on what is the most important intergovermental issue of the coming year, General Revenue Sharing. We praise Senator Bradley and this sub-committee for realizing that reauthorization of general revenue sharing is a priority for early action. States are now acting on budgets for the coming fiscal year and in many states for the next two years. It will be essential if states and localities are to budget effectively that action be taken on the reauthorization of general revenue sharing as early as possible.

General revenue sharing is NCSL's top priority in the federal budget. You may ask how I can come before you and promote a specific program when it's well known that resources are limited and many so-called uncontrollable costs are going through the roof. Let me explain the concerns uppermost in our minds as we developed our policy of support for this program.

A. NCSL AND THE FEDERAL BUDGET

Several important concerns guided the development of this policy. International events, the economic condition of the country, congressional actions of the fiscal year 1980 budget and increased demands for reduced federal spending have combined to add new urgency to spending decisions.

Inflation and cyclical State revenues.—Due in large measure to skyrocketing energy costs, every citizen and every level of government has had to cope with the problems of double-digit inflation. What the President's fiscal year 1979 budget had forecast as 7.4 percent inflation was finally recorded as 13.2 percent—almost twice as high. Last month's figures indicate a current effective rate of 18.2 percent. There is no doubt in my mind and many other legislators that inflation is our most pressing domestic problem. All program costs have increased rapidly, and those indexed in any form have shown dramatic increases. In the area of energy costs alone, State Legislatures have enacted new and expensive programs to help those on fixed incomes to deal with the significant increases in fuel prices. My own state of Connecticut has just recently completed a special session to deal with energy problems. The Congress has also responded to the need, especially of low income families.

Inflation raises the revenues of both states and federal government. Federal revenues have risen $20 billion above projections for the second budget resolution. But current Census bureau figures show that state revenues in fiscal 1979 trailed the inflation rate. They rose 10.5 percent to $125.1 billion during an inflation rate of 13.2 percent to $44.9 billion and sales and gross receipts taxes were up 12 percent to $39.5 billion. But revenue from motor-fuel, alcoholic beverage and property levies rose only about 5 percent while tobacco receipts fell 0.4 percent.

As you can see, these increases at the state level have been due in large part to the increased progressivity of state tax systems as the states move from dependence on property taxes, to sales and income taxes, a move partially encouraged by the revenue sharing program. These temporarily inflated revenues, however, are being used to offset the same inflation driven increases in the costs of goods and services purchased as well as those provided by state governments. It should not be forgotten, too, that if the administration's and the Congress' efforts at reducing the inflation rate are successful, as we hope they will be, these state revenues will drop dramatically as their revenue sources respond to the cycles in the economy. States will not, as commonly thought, be able to live off their huge accumulated "surplus". Most states, in fact, do not enjoy such "surpluses" even now.

Current forecasts of the state and local government sector have shown a dramatic downturn in these operating balances. In the second quarter of 1979, this sector of the National Income Products Accounts was estimated at a $6 billion surplus. The second quarter 1980 figures currently show a deficit of $6 billion. Both Data Resources Inc. (DRI) and Chase Econometrics forecast a deficit in the aggregate operating account on state governments. This is well below the 4-6 percent balance recommended by financial experts for contingencies and prudent budgeting.

In my own state of Connecticut we do not have a constitutional or statutory requirement for a balanced budget. On general fund expenditures in 1978-79 of $2,285,600,000, we ended the year with an operating balance of $66.7 million, or 3 percent of our expenditures. For the current year, 1979-80 we estimated a 7½ percent increase in expenditures and, depending upon various expenditure controls now before the legislature, a nearly balanced budget. During the past decade, we have been faced with several serious deficits. In 1971 we have a 4 year accumulated deficit of $244 million and in 1973, we set up a 10 year bonding program to cover the full amount. Again in 1975, due especially to inflation and rising energy costs during the recession, we experienced a $71 million deficit, and used a series of short term 3 year notes to pay it off.

Lower worker productivity and the recession.—1979 was the first year in more than 30 years to see a decline in worker productivity for each quarter. Both the private and the nonfarm sector shared this decline. Its consequences are not yet fully known. However, there is no doubt that inflation and its devaluation of earnings is a substantial cause, and that a recession of some type is presently unavoidable. This loss of productivity is felt in the public sector as well and it adds to the cost of each level of government.

Throughout the past year, reputable economists have seen this recession just around the corner. The President's budget has isolated the effects of the expected recession in the second and third quarters—January to June 1980—of fiscal year 1980. As this event has been difficult to predict, it is possible that actions taken by the Federal Reserve Board may be triggering the recession, forcing it, and may be making it longer and more intense. Recessions immediately lower revenues as well as increase costs to federal, state, and local governments. Unlike the private sector, governments cannot substantially reduce services during these periods. They must continue to spend or at least stabilize their economies.

I'm sure you are aware, however, that we in the states almost universally must operate with balanced budgets. Recessions are difficult because of the need to identify new resources to meet the costs of increased job programs or unemployment compensation payments. Most states, however, separate their operating costs from their capital costs, allowing long-term bonded indebtedness on the capital costs. In Connecticut at the close of 1978-79, we carried $2,325,800,000 of bonded indebtedness which is nearly 2 percent greater than our total general fund expenditures for the year. There is little room for additional bonding to cover the costs of a recession. Nonetheless, creating new revenues or cutting services are both problematic during a recession.

It may appear strange to discuss the impacts of a recession on governments at a time of record inflation and continued growth in the economy. What is often ignored, however, is that general revenue sharing is being proposed for a full five-year period. A reauthorized program would not begin until October 1980 with the first entitlement payments not made until December 1980, a time when unemployment may be in excess of 7 percent and growing close to 8 percent. Administration and CBO projections support these statistics.

An aging population.—Another long term contributing factor to economic change in the states is the gradual yet dramatic aging of the country's population. In 1970 half our population was age 27 or younger. By 2040, half the population will be age 46 or older. The shift in service demands and in the relative size of the working population are inevitable, and demand immediate and often expensive policy decisions to successfully prepare for this change. Unfunded pension liabilities today approach 175 billion dollars in the state and local sector. These program costs will constantly be increasing. The Congress is facing this same issue in stabilizing and shoring up the Social Secutiry Program. In the near future, automatic increases at the rate of inflation in pension and retirement benefits may not be affordable at any level of government.

National security concerns.—The seizure of the American Embassy in Iran and the holding captive of the 50 embassy staff, along with the recent invasion by Russia of Afghanistan, have been catalysts to convince what is probably a majority in this country that defense spending must increase to insure our safety. But, there are grave difficulties in transferring social funds to military uses, as domestic demands do not decrease with the pressures of international crisis.

B. CONGRESSIONAL SPENDING LIMITS PROPOSED

Against the backdrop of these conditions, there have been significant activity in the Congress related to controlling the federal budget. I am aware of the fact that your own Senate Democratic Caucus has been discussing its stance on these measures and that floor debate is scheduled in the Senate for March 24th. Clearly, there is sentiment for reduced spending, and, while the President is calling for a devicit of $16 billion in fiscal year 1981, there is an open question of how large a deficit the Congress will support. The difficulties in adopting a Second Concurrent fiscal year 1980 budget Resolution and the increased congressional involvement with spending limits augur an equally controversial budget process for fiscal year 1981, NCSL has long supported attempts to reach a balanced budget through Congressional and Administration channels.

We are not here to say that the states need more of this or more of that or else. Instead, for each of the past years we have tried to collect information and opinions and shape them into suggestions that we feel will enhance the effectiveness of the federal dollars being spent. We have focused on an amount we feel is currently between $40 and $50 billion of aid flowing to state and local governments, and we offer suggestions to improve the use of those dollars.

Our support for the continuation of General Revenue Sharing is based on the results of these efforts which show Revenue Sharing to be the single most effective and efficient program.

C. GENERAL REVENUE SHARING REAUTHORIZATION

There is no question that the reauthorization of General Revenue Sharing is the top priority of the National Converence of State Legislatures. There are a variety of reasons to support this position.

1. For seven years, the partnership of sharing federal revenues with states and local governments has fostered cooperation in the provision of necessary services to millions of citizens. This effort has created an understanding of the common goal of all levels of government: The provision of quality services by the most efficient provider.

2. The administrative costs of the program are incredulous compared to all other grant-in-aid programs. Where average costs run 12-20 percent, revenue sharing costs a mere one-twelfth of 1 percent to administer.

3. It is a controllable program in a budget filled with service programs growing by leaps and bounds. It has lost 40 percent to inflation while categorical grants have increased in constant dollars each year before 1980.

4. It decentralizes decision-making and targets funds more accurately, by its entitlement nature, it supports a basic tenet of those who are moving to restrict or control federal spending: it sets out a budget and keeps to it, encouraging the best possible use of those monies because they aren't endless. That is a major sentiment hoped for from spending controls, and it is already alive in this program.

5. It is an efficient and effective program. Numerous compilations of state uses of these funds can demonstrate their essential contribution to the well-being of this country's taxpayers and its local governments. 83 percent of the state share of revenue is labor intensive. It creates jobs for tens of thousands of citizens.

We feel that states have used General Revenue Sharing Funds effectively, primarily to fund education and social services needs. States are feeling increased pressures for major expenditures in the areas of school finance reform, prison improvements or mandates to reduce prison populations, increasing interstate highway and other maintenance demands which have been delayed for lack of resources, and increased assistance to local governments. States have increased their direct aid to local governments over the past few years. Some 40 percent of the state share of general revenue sharing has passed through to benefit local governments.

Although other states may choose to fund different projects depending upon the needs in that state, all use general revenue sharing funds for priority projects. Some may be capital construction projects—others operating expenses. It is the flexibility which is the virtue of the program. It can be targeted to needs not directly served by the Federal or state government, but still supportive of national policy goals. These funds may be put to different uses each year to fill gaps or augment ongoing programs. We strongly feel that this flexibility is the unique feature of the general revenue sharing program which makes it valuable to state and local government.

Many states have significantly increased their aid to local governments in the past few years: state aid to local government substantially exceeds federal aid in all but the largest, neediest cities. In Connecticut for the past year, direct aid to localities made up 21 percent of our general fund expenditures, and we estimate this portion of the budget to increase as a share of total costs in 1979-80. Specifically, states have increased their "revenue sharing" or broad grant programs to localities during the last several years, largely since the passage of the federal revenue sharing program. To fail to renew this program would disrupt this process. States could not simply cut back on those programs funded through general revenue sharing. Many are mandated through state or federal action. States would have to turn to the controllable parts of their budgets just as the federal government must do. We no doubt would have to reduce aid to local governments, many of whom do not receive federal, funds, small governments and school districts that rely almost totally on state transfers and locally raised revenues.

Let me address my comments in turn to the Administration's proposal, the current budget-cutting activities, and proposals for a simple extension of the current program.

A. THE ADMINISTRATION'S BILL

In meeting with the White House, our most serious concern has been the entitlement nature of the present program. It's essential to the efficient and effective use of these funds by states and localities that we be able to plan in advance that the moneys will be available. We understand that we have a promise on this issue from the Administration, but it is a most important point in the reauthorization process. If we must await the outcome of each yearly appropriations cycle, our budgets—which are generally finalized by May—will be in constant jeopardy from the final September Congressional budget deadline.

The White House has announced that in its legislation, it intends to tie the one-third state share to the creation in each state of a commission to look at state/local finance issues. While NCSL has no policy on this specific proposal, it is likely that we could support a commission proposal to look at broad based state-local finance issues if the legislation were not so prescriptive and intrusive. The latest draft of the bill has a significant role for the Secretary of the Treasury in appointing members and reviewing budgets; it has strict membership requirements and constant reporting requirements.

Each state legislature should establish its own commission to meet the needs and circumstances of that particular state. Furthermore, existing bodies which have already undertaken certain of these responsibilites should be able to be designated by a state legislature to carry out the additional responsibilities. We are talking about the one federal assistance program with genuinely minuscule administrative costs—one-twelveth of 1 percent. We would not like to see this efficient effort cripped with millions of dollars of additional administrative costs. By building on existing commissions or broader focus bodies which have expertise in these areas, it is very likely that similar results will be attained at greatly reduced costs.

As you are well aware, the political relationships between the executive and legislative branches of the state governments and the local governments are sometimes smooth but often strained. Tensions exist between cities and counties, townships and towns, special districts, school districts and other local entities. The state often must act as the arbitrator in structuring its programs to address needs in cities and counties without disrupting that government's ability to carry out its responsibilities to its citizens.

The federal government cannot always act effectively to address these individual tensions from a national perspective. To provide for a prescriptive solution to diverse political problems does not recognize the range of ongoing activity, nor the stage of development in each state. A comprehensive look at the state-local problems in California in the wake of Proposition 13 and with the shadow of Jarvis II would not resemble the urban-rural disparities in Mississippi, yet under the present proposal these commissions would be identical.

The commission idea proposed by the Administration has merit and has already been heartily embraced in many states as a way to look comprehensively at a range of state-local problems.

NCSL has conducted a spot survey among states regarding any type of commission which might be looking at those issues identified in administration drafts of the revenue sharing legislation. Mr. Chairman, in your own state of New Jersey, as you're probably aware, there was a county and municipal government study commission established by the state legislature 12 years ago.

The commission has county, municipal and private citizen representation as well as legislative and executive representation. From our conversation with them, it is clear that they have played a major role in the enactment of legislation on standardized accounting and audit procedures, the enactment of a state revenue sharing program, legislation clarifying functional responsibilities in areas such as community health and water quality management, proposed legislation for program consolidation, and they are currently studying the cost of state mandates on cities and counties. From our reading of the administration's legislation, this is more than could be hoped for from their arrangements and it has taken 12 years. There is real question whether an 18 month commission can be expected to have enough time to both develop solid, responsible proposals while at the same time developing the contacts and information flows necessary for effectively dealing with the legislative process.

When we complete a summary of the survey work, I'll be glad to forward it to you for inclusion in the record. Presently, after contacting approximately 20 states, we found 10 statutorily created commissions, two established by executive order, and one, in Michigan, established by joint agreement. The sizes range from 5 to 32 members, with all but the Texas commission including representation from the legislature the governor and localities.

On the average, 4 out of the 6 probable areas of activity are being covered by these groups, and all these organizations have professional staff already employed. The state of Washington has proposed legislation to establish a commission, and the state of New York recently disbanded a temporary commission on State/Local Finance which looked at many of these issues.

If state legislatures can tailor their commissions to their needs and circumstances and play a major role in developing them, it will permit the establishment of a working relationship between states and localities such that recommendations of the commission are more likely to be accepted and passed as legislation.

The notion that states must be "punished"—threatened with forfeiture of state revenue sharing funds—is unnecessary and merely adds to the opinion held in Washington that states must be forced to assist their local govenments in meeting the needs of state citizens. I might reiterate one point made earlier. State aid to local government currently exceeds federal aid in all but the nation's oldest, largest, neediest cities, where state aid is still a substantial source of direct revenues or a contributing resident of the city through an institution of higher education, state hospital or other state facilities. NCSL would strongly urge the federal government through the Congress and the Administration to assist in these efforts to aid local government and our citizens. Federal Revenue Sharing is one way of insuring quality, effective government services at minimal, administrative costs.

The draft administration legislation also contains formula adjustments for intrastate allocations. As municipalities both large and small, counties, towns and townships are, by and large, created by state legislatures, NCSL does not desire to favor one over the other in any national discussion. We are, however, seriously concerned that formula changes jeopardize enactment of any reauthoriation bill by raising too many objections to a currently successful program.

B. FEDERAL BUDGET REDUCTION PROPOSALS

The biggest news in town these days is budget cutting, and I want to take this opportunity to remind this committee that in NCSL's view there is no doubt that a program such as general revenue sharing should be the last to receive a cut in funds. Its low administrative costs, its flexibility and its efficient targetting to actual needs—all point up its value in a time when government wants to act responsibly and efficiently. Revenue sharing is today worth only 40 percent of what it was in 1972—it has constantly been eroded by inflation. All other grants-in-aid have consistently increased in constant dollars up until 1979. With 492 categorical grant programs and one revenue sharing program, we feel there is ample room for budget cuts which can increase governmental efficiency. The state and local portion of the federal budget, however, should not be cut disproportionaltely to other sections of the budget. Reductions in this sector are often transferred costs to other levels of government which would result in no net saving to taxpayers.

C. EXTENSION OF THE PRESENT PROGRAM

NCSL's current policy is most consistent with an extension of the present program. It has been our view that this represented the most feasible approach to Congressional reenactment, allowing the program to stand on its merits as an effective program, meeting a wide variety of needs throughout the states, and delivering more services per dollar appropriately than any other federal assistance program. If efficiency in goverment is a way to reduce federal spending and contribute to the reduction of inflation, General Revenue Sharing merits high priority for renewal.

Thank you and I will be happy to answer any questions.

Senator DURENBERGER. Our next panel is composed of George D. Friedlander and Sylvan G. Feldstein from Smith, Barney, Harris, Upham & Co.; Richard E. Huff, vice president and general manager, Municipal Bond Department, Standard & Poor's.

Thank you very much for being here. I will assume that you have determined the order of presentation here, that we do have a 10 minute time limit here. We have a light you have probably been watching, and we want to extend, on behalf of the subcommittee and to each of you, our appreciation for your being here today.

Thank you.

STATEMENT OF RICHARD E. HUFF, VICE PRESIDENT AND GENERAL MANAGER, MUNICIPAL BOND DEPARTMENT, STANDARD & POOR'S CORP.

Mr. HUFF. Thank you. I will lead off.

I am Richard Huff, representing the Municipal Bond Department of Standard & Poor's Corp.

Since I do represent a certain type of area, the bond-rating activities, our perspective on this subject is rather one from the point of view of the impact on credit worthiness.

Obviously, revenue sharing funds have become an integral part of the ongoing aspects of intergovernmental relations. An early prime motivation for revenue sharing was to help reduce local tax burdens.

The idea was to share an increasing source of Federal revenues with those in need as well as those who were contributing a fair share tax effort. This had, and still does have, much appeal.

In the first year of the program, either local property tax cuts were achieved or the funding was used for capital improvement projects, which ordinarily would have required bond authorization.

Thus, we are able to see actual tax cuts in cities such as Pittsburgh and Newark while other hardpressed cities, such as New York, even borrowed in anticipation of new revenues for regular operations, even before the legislation was approved in the final form.

We view the revenue sharing program from two levels, funding which goes directly to the States and that that goes directly to the local units. We see a significant difference in the Federal revenue sharing program between the State and local levels.

The elimination or reduction of State level Federal revenue sharing does not appear to us to represent as serious a financial problem as it does on the local level. That is not to say it does not represent a problem.

We would like to distinguish between the State and the local level. An exception to this view of the significance of revenue sharing to the State governments would obviously be in those States which pass through a substantial portion of the revenue sharing funds to the local units. There already has been discussion on that point this morning.

The picture at the local level, however, represents quite a contrast. After the first year or two of the program, that is 1972 to 1973, and with the impact of inflation being ready to hit after 1974, localities will be able to funnel revenue sharing funding into their operating budgets rather than capital projects. Atlanta, Ga., is using $12 million for public safety salaries.

As the use of this funding for ongoing operating purposes spread across the country, it became apparent that in the absence of this funding property taxes, in most cases, would have gone higher to absorb the increasing costs.

A greater number of units began using the funding for critical areas, such as police and fire protection, and today this undoubtedly represents a larger spending area on the local level for the application of Federal revenue sharing funding.

Although even at the local level, where revenue sharing funds as such may not represent a large part of the budget, they do represent a key element. For example, Jersey City, N.J., receives approximately $3 million in Federal revenue sharing and the total tax levy in the city is $43 million.

To displace the revenue sharing funding, the tax rate would have to rise by an additional 7 to 8 percent.

However, the New Jersey cap law excludes outside aid such as revenue sharing, from the appropriation limitation calculation, so elimination or a reduction of Federal revenue sharing would seriously compound the city's budget problems in that an amount equal to the Federal revenue sharing would have to be eliminated from the budget.

Similar, although not identical budget problems, would also face other local units around the country, with or without recently adopted spending limitations. Given the inflationary trends of the recent years, there is no question in our minds that reduction or elimination of the Federal revenue sharing program at the local levels would create a serious hardship for most local units.

Even given the same funding levels in terms of total dollars, the shrinking dollar will obtain far less in terms of goods and services than in 1972 when the program was first enacted.

But even at continuing dollar levels the program, by and large, has helped to achieve some stabilization of local property taxes, which is what the program was trying to achieve, to some extent when it was first proposed and enacted.

Local governments are having to contend with inflation impact and operating budgets with revenue raising powers which are becoming more restrictive and less flexible than in the past, with many municipal budgets very narrowly balanced, the loss or reduction of a source of revenue on which they have come to depend—revenue sharing—would seriously hinder their efforts to achieve fiscal stability.

Thank you.

Senator DURENBERGER. Thank you very much.

Mr. Friedlander?

STATEMENT BY GEORGE D. FRIEDLANDER VICE PRESIDENT, AND SYLVAN G. FELDSTEIN, SECOND VICE PRESIDENT, SMITH BARNEY, HARRIS UPHAM & CO., INC.

Mr. FRIEDLANDER. Thank you.

I am George D. Friedlander from Smith, Barney, Harris, Upton and I will be speaking on behalf of myself and Mr. Sylvan Feldstein, also from Smith Barney.

We will both be available to answer any questions that you may have.

First of all, we would like to thank the subcommittee and its chairman, Senator Bradley, for extending an invitation to us to appear here today to present our views on the Federal revenue sharing program.

While the views expressed here represent those of the Smith Barney, Harris Upham research department, we would like to acknowledge the Public Securities Association for having asked us to appear as well.

Analyzing the potential impacts on local government budgets by the elimination of the revenue sharing program is at best a speculative activity since decisions on the cutbacks and their timing have not been made. While we do not know the final course this subcommittee will take on its deliberations, we can offer our thoughts on this issue both as a major underwriter of general obligation municipal bonds, as well as a firm which specializes in providing ongoing research reports to our clients on the investment worthiness of these bonds.

Our basic conclusion is that the financial viability of most levels of local government—State, county, municipal, and school district—is directly or indirectly dependent on the continuation of the revenue sharing program. We have arrived at this conclusion after reviewing the municipal bond market, the economy, and the budgets of numerous local governments. This dependency is countrywide, going from North to South, East to West.

While most State and local governments outside of the major inner-city urban centers are in relatively good financial shape at present, a number of future trends are coming into focus which could change that positive picture in a hurry, especially if combined with a loss of revenue-sharing moneys.

Among these trends are inflation, the impending economic downturn, the taxpayer revolt, and the tight municipal bond market. The latter reflects a current disinterest in fixed income securities in general.

At the State level, the loss of revenue sharing is not likely to cause severe dislocations, but it could cause a decline in credit quality in some cases which would result in sharply increased financing costs, thereby compounding the effect of the revenue loss.

For example, a 20-year double-A State general obligation bond might yield about 8 percent at the current time, while a single-A State would have to pay about 8.75 percent. In the note sector, the difference is equally pronounced, with 1-year MIG 1 notes yielding 9.50 percent, MIG 2 notes yielding 10.25 percent, and MIG 3 notes virtually unmarketable.

In examining the potential impact of the loss of revenue sharing, it may be of interest to examine the way various States and cities utilize these moneys. A sampling of States indicates that many States pass the moneys directly on to local governments, often for school purposes. Our data is for the most recent fiscal year available.

In a number of the above cases, the direct or indirect beneficiaries of the States' revenue-sharing apportionments are local governments—Florida, Illinois, Montana, New York, and Pennsylvania. In Montana, under State law, any loss of revenue-sharing moneys would have to be made up by a statewide real and personal property tax levy.

Consequently, unless the State programs were funded from another source, the local governments would be immediately impacted by a cutback in the States' share of the revenue sharing program. In Massachusetts, where 90 percent of the moneys are earmarked for general obligation debt service, the amount received—$74 million—is more than twice the State's surplus—$34 million. A loss of these moneys would therefore be felt immediately at the State level.

As the list indicates, the cities we examined tend to use revenue-sharing moneys for essential services. To the extent these moneys were unavailable, the impact of the financial well-being of these cities would generally be harsh and immediate. In Philadelphia, for example, the general fund deficit in 1979-80 was projected at $20 million. The additional loss of revenue-sharing moneys would leave a sizable hole to fill.

As we indicated, there are currently a number of trends on the horizon which would increase the need for continuance of revenue sharing at this time. Among these are:

Inflation, which is felt directly in increased operating costs and indirectly in ways which may not be quite so obvious. For example, pension costs are likely to increase dramatically as future benefit levels are increased to allow for higher inflation. Borrowing costs have already increased dramatically, with the Bond Buyer's 20 Bond Index 264 basis points above last year's low.

RECESSION

If the long-awaited economic downturn does arrive later this year as we currently anticipate, the financial condition of many municipalities could deteriorate significantly. Many of these municipalities have been able to keep pace with inflation so far because real estate values and the resulting ad valorem tax receipts have increased dramatically as well.

A combination of a recession and tight money could cause the real estate market to soften and thereby lessen the increase in residential real estate assessments. Other major revenue sources such as sales taxes would, of course, also be impacted by an economic downturn.

Decreasing financial flexibility. In many cases the financial flexibility of municipalities has lessened in recent years. Increasing portions of total operating budgets are being eaten up by federally mandated costs, essential service outlays, and revenues earmarked for debt service.

As a result, the portion of a budget which is "discretionary" is relatively small, and the potential impact of a loss of revenue sharing moneys on that portion would therefore be magnified. While the shortfall could, of course, also be erased by increasing revenues, the ability of State and local governments to replace lost revenues would be hindered by the trends discussed above, as well as by the taxpayer revolt.

The taxpayer revolt. In the wake of proposition 13 in California, a large number of States and municipalities have passed measures which were intended to cut the size of government. The way in which a loss of revenue-sharing moneys would interact with this phenomenon depends upon the nature of the tax revolt measure.

For example, a tax-cut/tax-ceiling measure such as proposition 13 would severely hinder the ability of State or local government to replace these moneys. On the other hand, expenditure limitations such as that passed in Michigan would not hinder replacement of revenue sharing from local sources.

While we do not believe that it is the function of the Federal Government to bail out municipalities which approve tax or spending limitations, it is important to recognize how changes in Federal programs such as revenue-sharing can interact with these measures to lessen the financial well-being of State and local governments.

Furthermore, these measures tend to increase Federal tax receipts by decreasing deductions of State and local taxes on Federal tax returns and by hindering the ability of some governments to qualify for matching grant programs. To compound this by decreasing or eliminating revenue sharing would obviously increase the difficulties.

In California, for example, increased Federal taxes in the current year because of the cut in the ad valorem tax are estimated at $2 billion.

In conclusion, most State and local governments appear to be in precisely the financial position one would hope for in the face of the impending economic turndown. Nevertheless, a number of clouds have appeared on the horizon which, when combined with a loss of revenue sharing at this time, could cause budgetary imbalances which could be difficult to overcome.

In the case of our weaker urban centers, the impact could be especially harsh. Failure to continue the revenue sharing program would clearly jeopardize financial well-being and thus bond ratings, resulting in sharply higher financing costs and therefore compounding the financial impact on residents of such municipalities.

Senator DURENBERGER. Thank you very much.

Have any of you an observation on the role that predictability plays in the decisions that are being made by State and local government in terms of the utilization of revenue-sharing funds as to where they seem to be putting their money, how they budget revenue sharing against general revenue versus bond revenue, and so forth?

In fact, you know, after September 1, 1980, it may not be around, so let's put it here rather than there.

Mr. FRIEDLANDER. No.

As we have looked at it, it would seem that most municipalities are directly plugging this money into their current operating budget and if it were not available, it would be quite difficult in the near term to replace it. It is not being used for 1-year-type projects, as I understand it.

Mr. HUFF. I would agree with that. I think they have gotten very used to having revenue sharing. It has become an integral part of their revenue planning and budgeting and the withdrawal of it would have some serious implications.

Senator DURENBERGER. I think that you indicated, Mr. Huff, in your presentation that you have seen some stabilization of local property taxes over the period of time. Have you engaged in, or are you aware of any studies that have been undertaken that would prove that point that might be made a part of this record?

Mr. HUFF. I am not myself, personally, but there are one or two other people on my staff who follow the general bond obligation area much more closely than I do, particularly in the revenue sharing, and I can certainly inquire of them because they were the ones who furnished me with that particular reference.

I will see what I can find for you.

Senator DURENBERGER. All right. I would appreciate that.

Do any of the other of you have a comment on the issue of the property tax?

Mr. FELDSTEIN. If I understand your question correctly, you are saying has revenue sharing helped to stabilize property taxes?

Senator DURENBERGER. Yes.

Mr. FELDSTEIN. I would say indirectly, definitely yes. You are looking for a causal relationship where a specific policy was adopted by a State or municipality as a result of Federal revenue-sharing money.

Senator DURENBERGER. In addition to that, have you seen, in the period of time in the last 8 or 9 years that we have been working with the concept of general revenue sharing and also working with related programs such as the community development block grant programs and so forth, a growth within the States in the State legislatures in the concept of State revenue sharing with local government and tying together the sharing of State-collected revenues with local government and tying that in with general revenue sharing?

Mr. FELDSTEIN. I would have to review that more closely.

From the States that I have reviewed, I would say there has been an increase in State sharing of revenues along with the growth of the Federal revenue-sharing programs. My answer would be yes.

Mr. HUFF. It is probably true, because I think there is a recognition that this is a way that a higher level of government who has a better ability to tap the revenues can flow them back to the local government where the real needs are.

So I think there has been an expansion of the sharing concept on the State level.

Mr. FELDSTEIN. Getting back to your earlier question about property taxes, I do recall in the State of Montana it is written into State law that if the Federal revenue sharing funds are eliminated, the personal property and real estate property taxes automatically have to go up to make up for that elimination.

Senator DURENBERGER. Thank you very much for taking the time to be here today. I appreciate it.

[The prepared statements of the preceding panel follow:]

STATEMENT OF RICHARD E. HUFF, VICE PRESIDENT AND GENERAL MANAGER, MUNICIPAL BOND DEPARTMENT, STANDARD & POOR'S CORP.

As we understand it, the federal revenue sharing program had as its prime objective the beginning of a deliberate federal-state movement away from categorical aid and towards a new federalism of less direct federal involvement in local day-to-day governmental activities. Although the Congress did want to keep as few strings as possible on these programs, one must view the political realities of the situation and not expect the political process of "having a say" where the money is to go to disappear entirely. Revenue sharing funds have become an integral part of the ongoing aspects of intergovernmental relations.

An early prime motivation for federal revenue sharing was to help reduce local tax burdens while reducing the federal presence at the local level as it had been with the earlier versions of federal aid. The idea of sharing an increasing source of federal revenues with those in need, as well as those who were contributing a fair share of tax effort, had and still does have much appeal.

Indeed, in the first year or two of the program, either local property tax cuts were achieved or the funding was used for capital improvement projects, which ordinarily would have required bond authorization. Thus, we were able to see actual tax cuts in cities such as Pittsburgh and Newark, while other hard pressed cities, such as New York, even borrowed in anticipation of the new revenues for regular operations even before the legislation was approved in final form.

We view the revenue sharing program from two levels—funding which goes directly to the states and that which goes directly to the local units. We see a significant difference in the federal revenue sharing program between the state and local levels. Although no one likes to lose money once obtained, the elimination or reduction of state-level federal revenue sharing does not appear to us to represent as serious a financial problem as it does on the local level, even in states which may have already budgeted such funding beyond September 30, 1980. Even though such budgeting is imprudent from the view of the credit analysts, the funding level at the states is such as not to represent either a significant part of the total budgets nor a significant part of total state aids to the local units. It is interesting to note that not all states have budgeted full receipt of revenue sharing beyond September 30, 1980—and they include New Jersey, which currently indicates a gap of some magnitude for next year. (Local budgets in New Jersey also will not be allowed to assume funding beyond the third quarter of their fiscal year.) An exception to this view of the significance of revenue sharing to the state governments would be in those states which pass through a substantial portion of their revenue sharing funds to their local units.

The picture at the local level, however, presents quite a contrast. After the first year or two of the program, that is 1972-73, and with inflation beginning to hit after 1974, localities began to funnel revenue sharing funding into their ongoing operating budgets, rather than into capital projects. Thus, we find Atlanta, Georgia, for example, using some $12 million for public safety salaries. As the use of this funding for ongoing operating purposes spread across the country it became apparent that in the absence of this funding, property taxes in most cases would have gone higher to absorb the increasing costs. A greater number of units began using the funding for critical areas such as police and fire protection and today this undoubtedly represents the largest spending area on the local level for the application of federal revenue sharing funding.

Although even at the local level, where revenue sharing funds as such may not represent a large part of the budget, they do represent a key element. For example, Jersey City receives approximately $3 million in federal revenue sharing and the total tax levy in the city is about $43 million. To displace the revenue sharing funding, the tax rate would have to rise by an additional 7-8 percent. However, the New Jersey CAP law excludes outside aids from the appropriation limitation calculations so that elimination or reduction of federal revenue sharing would seriously compound the city's budget problems in that an amount equal to the federal revenue sharing would have to be eliminated from the budget. Similar, although perhaps not identical, budget problems would also face other local units around the country, with or without recently adopted spending limitations.

Given the inflationary trends of the recent years, there is no question in our minds that reduction or elimination of the federal revenue sharing program at the local levels would create a serious hardship for most local units. Even given the same funding levels in terms of total dollars, the shrinking dollar will obtain far less in terms of goods and services than in 1972 when the program was first enacted. But even at continuing dollar levels, the program, by and large, has helped achieve some stabilization of local property taxes, which is what the program was trying to achieve to some extent when it was first proposed and enacted.

Local governments are having to contend with inflation-impacted operating budgets with revenue-raising powers which are becoming more restricted and less flexible than in the past. With many municipal budgets very narrowly balanced, the loss or reduction of a source of revenue upon which they have come to depend, revenue sharing, could seriously hinder their efforts to achieve fiscal stability.

SUMMARY STATEMENT—THE POTENTIALLY SERIOUS IMPACTS FOR GENERAL OBLIGATION MUNICIPAL BOND ISSUERS IF FEDERAL REVENUE SHARING IS ENDED, BY GEORGE D. FRIEDLANDER, VICE PRESIDENT, AND SYLVAN G. FELDSTEIN, SECOND VICE PRESIDENT, SMITH BARNEY, HARRIS UPHAM & CO., INC. NEW YORK, N.Y.

Our basic conclusion is that the financial viability of most levels of local government is directly or indirectly dependent on the continuation of the revenue sharing program. While most state and local governments, outside of the major inner city urban centers, are in relatively good financial shape, a number of future trends are coming into focus which could change that positive picture significantly especially if combined with a loss of revenue sharing monies. Among these trends are inflation, the impending economic downturn, the taxpayer revolt, the tight municipal bond market, and decreasing financial flexibility among many municipalities.

In examining State and local uses of revenue sharing monies, we find great diversity. In a number of cases, state revenue sharing monies directly or indirectly benefit local governments. At the local level, we find that most cities utilize their share for essential services. To the extent these monies were unavailable, the impact on financial well-being of the cities would generally be harsh and immediate.

First of all, we would like to thank the Subcommittee and its Chairman, Senator Bradley, for extending an invitation to us to appear here today to present our views on the Federal revenue sharing program. While the views expressed here represent those of the Smith Barney, Harris Upham research department, we would like to acknowledge the Public Securities Association for having asked us to appear as well.

Analyzing the potential impacts on local government budgets by the elimination of the revenue sharing program is at best a speculative activity since decisions on the cut-backs and their timing have not been made. While we do not know the final course this Subcommittee will take in its deliberation, we can offer our thoughts on this issue both as a major underwriter of general obligation municipal bonds, as well as a firm which specializes in providing ongoing research reports to our clients on the investment worthiness of these bonds.

Our basic conclusion is that the financial viability of most levels of local government—state, county, municipal, and school district, is directly or indirectly dependent on the continuation of the revenue sharing power. We have arrived at this conclusion after reviewing the municipal bond market, the economy, and the budgets of numerous local governments. This dependency is countrywide; going from North to South, and East and West.

While most state and local governments, outside of the major inner city urban centers, are in relatively good financial shape at present, a number of future trends are coming into focus which could change that positive picture in a hurry, especially if combined with a loss of revenue sharing monies. Among these trends are inflation, the impending economic downturn, the taxpayer revolt, and the tight municipal bond market; the latter reflects a current disinterest in fixed income securities in general.

At the state level, the loss of revenue sharing is not likely to cause severe dislocations, but it could cause a decline in credit quality in some cases, which would result in sharply increased financing costs, thereby compounding the affect of the revenue loss. For example, a 20-year double-A State General Obligation Bond might yield about 8 percent at the current time, while a single-A State would have to pay about 8.75 percent. In the note sector, the difference is equally pronounced, with 1-year MIG 1 notes yielding 9.50 percent, MIG 2 notes yielding 10.25 percent, and MIG 3 notes virtually unmarketable.

In examining the potential impact of the loss of revenue sharing, it may be of interest to examine the way various states and cities utilize these monies. A sampling of states indicates that many states pass the monies directly on to local governments, often for school purposes (our data is for the most recent fiscal year available).

UTILIZATION OF REVENUE SHARING FUNDS

State	Amount received (millions)	Use
California	$263.0	Supplemental welfare payments
Florida	70.0	Public school aid.
Illinois	115.0	Local school aid.
Massachusetts	74.0	90 percent for debt service on G.O. bonds.
Minnesota	45.0	State's share of medical assistance
Montana	8.3	Local school aid.
New York State	256.0	General fund purposes—earmarked for local aid.
Pennsylvania	110.0	Aid to local schools, municipalities, county court costs.

In a number of the above cases, the direct or indirect or indirect beneficiaries of the states' revenue sharing apportionments are local governments. (Florida, Illinois, Montana, New York, and Pennsylvania. In Montana, under State law, any loss of revenue sharing monies would have to be made up by a statewide real and personal property tax levy.) Consequently, unless the State programs were funded from another source, the local governments would be immediately impacted by a cut-back in the States' share of the revenue sharing program. In Massachusetts, where 90 percent of the monies are earmarked for General Obligation Debt Service, the amount received ($74 million) is more than twice the State's surplus ($34 million). A loss of these monies would therefore be felt immediately at the State level.

The impact of the loss of revenue sharing monies would be more direct in the case of many local governments. We also took a sampling of cities in various parts of the country, some of which are shown below:

UTILIZATION OF REVENUE SHARING FUNDS

City	Amount received (millions)	Use
Atlanta	$7.5	Firemen's salaries
Chicago	74.3	Primarily street maintenance and sanitation ($38 million) Health and welfare ($26 million).
Jersey City	5.9	Sanitation, library, welfare
New York City	292	Police, fire and sanitation salaries
Philadelphia	48.4	General purposes
San Francisco	5.0	Public building maintenance
Seattle	9.0	Police and firemen's salaries

As the above list indicates, the cities we examined tend to use revenue sharing monies for essential services. To the extent these monies were unavailable, the impact on the financial well-being of these cities would generally be harsh and immediate. (In Philadelphia, for example, the General Fund deficit in 1979-80 was projected at $20 million. The additional loss of revenue sharing monies would leave a sizeable hole to fill.)

As we indicated above, there are currently a number of trends on the horizon which increase the need for continuance of revenue sharing at this time. Among these are:

I. Inflation, which is felt directly in increased operating costs and indirectly in ways which may not be quite so obvious. For example, pension costs are likely to increase dramatically as future benefit levels are increased to allow for higher inflation. Borrowing costs have already increased dramatically, with the Bond Buyer's 20 Bond Index 264 basis points above last year's low.

II. Recession.—If the long-awaited economic downturn does arrive later this year as we currently anticipate, the financial condition of many municipalities could deteriorate significantly. Many of these municipalities have been able to keep pace with inflation so far because real estate values and the resulting ad valorem tax receipts have increased dramatically as well. A combination of a recession and tight money could cause the real estate market to soften, and thereby lessen the increase in residential real estate assessments. Other major revenue sources such as sales taxes would, of course, also be impacted by an economic downturn.

III. Decreasing financial flexibility.—In many cases, the financial flexibility of municipalities has lessened in recent years. Increasing portions of total operating budgets are being eaten up by federally mandated costs, essential service outlays, and revenues earmarked for debt service. As a result, the portion of a budget which is "discretionary" is relatively small, and the potential impact of a loss of revenue sharing monies on that portion would therefore be magnified. While the shortfall could, of course, also be erased by increasing revenues, the ability of state and local governments to replace lost revenues would be hindered by the trends discussed above, as well as by the Taxpayer Revolt.

IV. The taxpayer revolt.—In the wake of Proposition 13 in California, a large number of states and municipalities have passed measures which were intended to cut the size of government. The way in which a loss of revenue sharing monies would interact with this phenomenon depends upon the nature of the tax revolt measure. For example, a tax-cut/tax-ceiling measure such as Proposition 13 would severely hinder the ability of state or local government to replace these monies. On the other hand, expenditure limitations such as that passed in Michigan would not hinder replacement of revenue sharing from local sources.

While we do not believe that it is the function of the federal government to bail out municipalities which approve tax or spending limitations, it is important to recognize how changes in federal programs such as revenue sharing can interact with these measures to lessen the financial well-being of state and local governments. Furthermore, these measures tend to increase federal tax receipts, by decreasing deductions of state and local taxes on federal tax returns, and by hindering the ability of some governments to qualify for matching grant programs. In California, for example, increased federal taxes in the current year because of the cut in the ad valorem tax are estimated at $2 billion.

In conclusion, most state and local governments appear to be in precisely the financial position one would hope for in the face of the impending economic downturn. Nevertheless, a number of clouds have appeared on the horizon which, when combined with a loss of revenue sharing at this time, could cause budgetary imbalances which could be difficult to overcome. In the case of our weaker urban centers, the impact could be especially harsh. Failure to continue the revenue sharing program would clearly jeopardize financial well being and thus bond ratings, resulting in sharply higher financing costs and therefore compounding the financial impact on residents of such municipalities.

Senator BRADLEY. Our next witness will be Governor Alexander of Tennessee, and we have our colleague, Senator Sasser, who will introduce the Governor.

I would like to welcome the Senator to the committee. Please proceed.

STATEMENT OF SENATOR JIM SASSER, A U.S. SENATOR FROM THE STATE OF TENNESSEE

Senator SASSER. Thank you, Mr. Chairman.

I first want to commend you this morning, you and your colleagues, for holding these very important hearings on a very important topic.

Mr. Chairman, I am pleased and honored this morning to have the opportunity to introduce the Governor of my native State of Tennessee, Lamar Alexander.

Governor Alexander has taken a strong interest in the issue of revenue sharing, both in Tennessee and Nashville. He has a solid background on this issue.

As a matter of fact, Governor Alexander worked on the original revenue sharing legislation as a member of Senator Howard Baker's staff when my colleague was then, I think, a member of the Government Affairs Committee where the revenue sharing legislation originated.

The Governor has assumed a leadership role on this issue, which is of vital interest to State governments. Last July, he was honored by his colleagues, the fellow Governors of this country from the 50 States, by being elevated to the role as cochairman of the National Governors' Association Task Force on Revenue Sharing.

The Governors' Association met here last week and revenue sharing was one of the chief topics of discussion. I was pleased, Mr. Chairman, to be invited to meet with the Governors and give my views, not only on revenue sharing but on a number of other matters affecting the inter-relationship of Federal fiscal policy and State government.

But Governor Alexander, in his dual concerns as a State chief executive and as cochairman of the revenue sharing task force, testified on revenue sharing last September before the Subcommittee on Intergovernmental Relations which I chair. We found his testimony to be very helpful and meaningful to the subcommittee, and I am confident that he will stimulate the same type of constructive dialog today. I am sure the members of this subcommittee will benefit from his informed testimony.

So, Mr. Chairman it is with a great deal of pleasure that I introduce Gov. Lamar Alexander of Tennessee.

I might say, Mr. Chairman, that I left a meeting of the Budget Committee to come over here and I am going to have to take my leave quickly, but this does not indicate that I am not vitally interested in the Governor's testimony today and the workings of this committee.

Senator BRADLEY. I would like to thank you, Senator Sasser, for making your introduction and I know that the Governor is appreciative too.

Senator SASSER. Thank you.

Senator BRADLEY. Governor?

STATEMENT OF HON. LAMAR ALEXANDER, GOVERNOR, STATE OF TENNESSEE ON BEHALF OF THE NATIONAL GOVERNORS' ASSOCIATION

Governor ALEXANDER. Mr. Chairman, Senator Durenberger, may I offer my thanks to Senator Sasser for taking time out from another very important hearing to introduce me before the subcommittee. I greatly appreciate the courtesy that he has extended and the way his office has worked with mine since I became Governor of Tennessee.

I think it is appropriate for Senator Sasser to be here for two reasons. First, the Senator is chairman of the Intergovernmental Relations Subcommittee, on which I believe Senator Durenberger also serves, and which has a companion interest in the revenue sharing legislation. Second, the Senator is a leader in the effort to simplify and consolidate existing Federal grant-in-aid programs, which the Governors all feel is of extraordinary importance as we try to make grant programs work better and, as we all try to choose where we should spend the decreasing amount of money we seem to have.

So for those reasons, I am grateful to the Senator for his time and his leadership in this work.

Senator SASSER. Thank you.

Governor ALEXANDER. I have a statement which highlights the points that I wish to make today in my capacity as spokesman for the National Governors' Association.

I would like to submit it to the subcommittee for its consideration without reading it all the way through.

In lieu of reading it, I would like, instead, to focus briefly on some points of change between last year and this year as the revenue sharing discussion has progressed, and then if there are any questions which the chairman or Senator Durenberger or others may want to ask me, I would be glad to try to answer.

I am joined by Steve Farber who is director of the National Governors' Association and Deirdre Riemer who does most of the work on this area and who has done an extraordinary amount of work with us.

The points I would like to make are these. There are ten of them, but do not let that worry you. I am going to be very brief.

I am going to spend about a minute on each one.

They all represent a change. My first point is that there has been a change in policy between the 1979 Governors conference and the 1980 Governors conference. Those are things that probably Governors pay more attention to than anybody else, perhaps.

A year ago there was an almost hostile attitude between many of the Governors and many of the Members of Congress. The Governors advised that the Federal Government should balance its budget, and the Congressman responded that State grants ought to be cut first, all of which was not a very rational approach and did not produce a good result.

The major topic of discussion among the Governors in 1979 was energy—it is still widely discussed among the Governors—but the major topic this year was revenue sharing.

So the attention of the Governors is riveted on this and we are glad that the attention of the U.S. Senate is, too.

I think a change that came out of the 1980 Governors conference, and which I see now expressed in my conversations with the Tennessee members of the delegation—including Senator Sasser—and with other Members of Congress who visited with us at our Governors Conference is that there is a general agreement, I would presume to say, that the question is not whether we are going to reduce the real dollars that the Federal Government is contributing to State and local government, but how. And we are going from a level, in fiscal year 1978 where 17.3 percent of the Federal budget was aid to State and local governments to a projected 15.6 percent in fiscal year 1981.

I am not here to suggest cuts in aid to State and local governments, but I am here prepared to say that if there are going to be cuts, and the budget must be balanced and spending must be reduced, that we are prepared to help.

The second change is that I believe there is a better understanding of how revenue sharing fits into the overall system of Federal aid to States and localities.

Discussions about revenue sharing must recognize at the outset that Federal aid to State and local government amounts to more than $90 billion annually.

What we now call the State and local portion of revenue sharing is only $2 billion of that more than $90 billion. That $2 billion is obviously not the reason the Federal Government is in deficit.

But I believe there is progress on that point in that most Members of Congress recognize that we are looking at nearly $1 out of $5, more like $1 out of $6 now, in the Federal budget and if we are going to talk about cutting, we are talking about if the President has recommended $96 billion and if you want $2 billion saved, we are talking about going from $96 billion to $91 billion instead of $2 billion of the State share to zero.

Now, I know both Senators who are here today understand this much better than I and have strongly supported these concepts, but it is something that I think I must say and I recognize progress there.

The third point of progress. I believe there is a better understanding of the State surplus than there was a year ago.

States set aside some money in case things go wrong. In Tennessee, we have set aside $22 million. If things go wrong, that would run the State for 2 days, and they might run the Governor out of the State if that should happen, because constitutionally we cannot have a deficit.

So the statement that the States have great surpluses is terribly wrong reasoning. No State has a deficit. States set aside some money for rainy days.

My testimony indicates that there are 29 States that have less surplus than the 5 percent that would be normal to set aside for rainy days. Ours is certainly less than that.

Half of all surpluses in the country right now are in California and Alaska. However, it is misleading to reason that because a State surplus exists, Federal aid to State and local governments is not necessary. For example, California has a big surplus and its bond rating was just lowered. So a surplus is a poor indication of fiscal health, or at least only one of many indications.

There is a better understanding of the surplus issue today than a year ago.

Fourth, and I referred to this first, the congressional understanding of the Governors attitude and I think the Governors' restraint and understanding of the congressional attitudes is better. And we, as Governors, appreciate that and hope that we have done a better job of making our presentation in a more effective way.

I know that is true with the Tennessee delegation and I have heard other Governors say that is true in their visits last week.

Fifth, a very important change is President Carter's change of position. He has had reservations about State's share of revenue sharing since he was a Governor. He was one of the few, maybe the only Governor at that time who felt that way. Now he has announced his support for the State share and the continuation of revenue sharing.

We are aware that there is a review going on of the budget now and the need to cut spending more, perhaps, but again, we hope that the White House, as it reviews its budget will look at the whole question and if they need $2 or $3 billion out of the Federal aid to State and local governments that they look at the $96 billion that they have allocated for State and local grants.

In his preliminary recommendations, the President announced some changes in the revenue-sharing program. I think the chairman has characterized those changes as modest, and we agree with this characterization.

Regarding the proposed commissions, let me emphasize that while we feel strongly that there is no need for a punitive and complicated commission, we do believe that minor problems that remain in the drafts we have seen can be resolved.

We believe the President's impulse was to take a better look at the services that local governments render and how they can be financed. Let's do that if we can.

We Governors want to do that. In Tennessee we are doing that.

Eighteen States now have small, intergovernmental relations subcommittees. If the President, through revenue sharing, wants to set an agenda, or ask for more reports, within reason, to take advantage of the existing commissions we have and encourage the formation of others and if he is going to respect our attitude toward the importance of the State's role in revenue sharing, then even though none of us want more strings on revenue sharing, I believe we ought to respect his reasonable request.

The sixth important change that has taken place is that there is a much more intense desire for cuts in the budget, for balance in the budget, and for restraint in Federal spending.

You, of course, know that because you are in the midst of it, but it is important for me to point out that we are aware of that, and we know that you are struggling with that, and we know that in the last year important efforts have been made in Congress through its committee structures, through various proposals both in the Senate and in the House to limit Government spending as one method of fighting inflation.

In the seventh area of change that I want to cover today progress has been made. I am speaking about one of the most important arguments on behalf of the State's role in revenue sharing and one which at I hope your subcommittee might look a little further: That is, who shall manage the money that you appropriate. The real choice is not whether you Senators will, with all due respect, because you do not have time for that. That is not your job.

The question is whether the bureaucracies downtown will, or in regional agencies, or whether State and local government officials—who are popularly elected, as you are—will. And it is my thesis that we who are popularly elected and who have to respond to many of the same considerations you do, are more likely to be responsive to the goals of the legislation you establish in Washington for the spending of nearly $100 billion a month, than are your own agencies downtown or in the regions.

Let me emphasize that. If you should decide here that something must be done about the learning of basic skills across America, you can set up, as you have, more of a bureaucracy in Washington to look at that and to focus attention on the issue. But in our State, which is reasonably small, there are 210,000 children entering grades kindergarten through three next fall alone, and it is a big enough job for the State government to focus attention on just those grades and those children.

It is my thesis that if you set goals and appropriate moneys and you want money spent to try to increase the learning of basic skills in school districts all across the country, that you will find Governors and State departments of education and local school boards better able to respond to your desires than persons who are not elected and who live in Washington.

Eighth, we hope there is a better understanding today that the formula which was invented in 1972 to distribute revenue sharing among the States and the counties and the cities and the townships and the parishes remarkably effective given the diversity of our country, which includes the situation in Hawaii where the State government funds 80 percent of all local government activities.

It works very, very well in Texas where Senator Bentsen lives, where they do not want revenue sharing, according to him—because they get relatively little. They are 47th. The reason is because they have oil wells on their university campuses which pay for their schools and give them an endowment greater than Harvard's and that is a wonderful, unique State—mainly founded by Tennesseeans (in fact, my wife came from Texas) and we are very proud of it.

But to say the Texas situation is an indication of what ought to be done in all the other States is the same as suggesting that because Saudi Arabia has a balance-of-payments surplus that we should forget the rest of the world. It is not the norm, and it is not a very good argument to suggest that because Texas does not need taxes because it has oil wells that revenue sharing somehow is not a useful way to make Federal aid to State and local governments more flexible.

Finally—and this is a point that I want to end with—on behalf of the Governors, I would like to commend Chairman Bradley, Senator Durenberger and the members of this committee, for their leadership in focusing attention on the variety of things we need to do, not only in revenue sharing, but in grant consolidation, simplification, and targeting of aid, so that if we are going to spend 1 out of 6 Federal dollars on services that are managed by, or used by, State or local units of government, that we do it in the most effective way.

I would argue, very, very strongly, that especially when we are going to be cutting Federal aid to local governments, that we ought to be increasing revenue sharing, because when there are more than 500 programs to administer; more flexibility is needed when cuts are being made.

We are managers. We are going to support the President in his effort to bring the Federal Government under control. But we would strongly urge that of the more than 500 programs, as my testimony indicates, revenue sharing is a very effective program, the very best, the most important step toward decentralization of government in this country in 40 years, and the only real significant one—one that has really been decreasing in real dollars.

But it is the cornerstone of the intergovernmental system, and we want to work with you to make the program better and, if necessary, to absorb our fair share of the cuts in all of our aid to State and local governments.

Thank you for your time and the opportunity to appear before your subcommittee.

Senator BRADLEY. Thank you very much, Governor.

I think we would each like to ask you a few questions.

The first question I would like to ask relates to how you view the effect of a cut in State share. Do you think that if the State share of revenue sharing was eliminated, it would have consequences on Federal-State relations? What do you think those consequences would be?

Governor ALEXANDER. Well, there are two consequences. The second most important is the purely fiscal consequence.

In our State, for an example, where we have only $22 million set-aside in case we have a rainy day, or two rainy days in a row, it would cut $43 million out of our budget. That is about a third of one percent on the sales tax. It would increase the pressure for taxes wrongly, because it would avoid putting pressure on the other 500 programs of yours that we administer that could be cut more easily.

So it exert fiscal pressure, and virtually all of it would be passed on to local counties and cities which are terribly stretched. So there would be a significant fiscal impact, most of which would be absorbed by local government.

All of our revenue sharing money is dedicated to the pension funds for local teachers.

State revenue sharing, of course, does not go into the Governors' pockets, it goes to local governments for education, primarily. We have a listing of that in this testimony.

But the most important consequence is that such a cut would be a step backward at a time when Congress is working to determine a better way to administer the spending of nearly $100 billion at the local level. The States have a role in that, because it creates the local governments. They are part, the counties are part, of the State government in our State and there is this tremendous amount of diversity all around the country.

But it would reduce in a significant way the State's ability to serve as a better manager, a better clearinghouse and a better coordinator of Federal objectives. Most of the county and city governments in our State recognize that and strongly agree with this statement.

Senator BRADLEY. Are you personally in favor of a balanced Federal budget?

Governor ALEXANDER. Yes, personally I am, but only as one step toward a restraint on Federal spending. Since I am only talking personally, I will say what I really think about a balanced Federal budget.

If you measured your budget the way most States measure theirs, you would be in balance today. We separate our capital outlays from our operating expenditures.

You can balance a budget every year and still have an enormous increase in taxes. But it is, at the same time, I guess, a symbol of fiscal responsibility, of not spending more than you take in, and that symbol ought to be pretty important.

I much more prefer for the Senate and the House to discipline itself at the beginning with a spending limitation and then not spend more than that or, if it does, to then take a vote on raising it and let the people in the next election decide who is in favor of busting spending limitations and who is not.

I think the constitutional amendment to impose fiscal limitations is a last resort and would be totally unnecessary if the trend which I perceive in the Congress to discipline itself, if I may be presumptuous enough to say that, continues.

Senator BRADLEY. Of all the Federal programs that come into your State, which ones could you do without?

Governor ALEXANDER. I have recommended $60 million in Federal programs by a separate memorandum to the Governors' Conference which Mr. McIntyre now has, which would be our first targets for cuts, if reductions had to be made.

That is, $60 million of cuts instead of a $43 million cut in our State share of revenue sharing.

Senator BRADLEY. A $60 million cut?

Governor ALEXANDER. Right.

In other words, if you cut our State share, it would be $43 million. We know we should not ask you to spare revenue sharing unless we tell you where else to cut, so we can give you $60 million worth of cuts which, if you are determined to cut, we would prefer that you make before you reduce revenue sharing.

Now, we do not want them all cut.

Senator BRADLEY. Is that part of your testimony?

Governor ALEXANDER. No, but I will submit it, and I gave it to each member of our congressional delegation 6 months ago.

[The following was subsequently supplied for the record:]

STATE OF TENNESSEE

I. DEPARTMENTAL PROGRAMS

DEPARTMENT OF EMPLOYMENT SECURITY

Catalogue No.	$ Amount	Name of Program	% Of Reduction
17.232	$34,999,460	Title VI CETA	(see explanation)
17.211	275,440	Job Corps	(100%)
17.230	50,000	Seasonal & Migrant Farmworkers	(100%)
	$35,324,900		

DEPARTMENT OF EDUCATION

Catalogue No.	$ Amount	Name of Program	% Of Reduction
13.433	$ 16,000	Follow Through	(100%)
13.566	10,000	Alliance for Art Education	(100%)
13.554	13,000	Career Education Planning	(100%)
13.553	45,200	State Dissemination Program	(100%)
13.563	40,000	Community Education	(100%)
13.562	40,000	Gifted & Talented Education	(100%)
13.541	594,000	Education T. V.	(100%)
13.475	19,300	Library & Archives	(100%)
13.576	112,400	Library Services & Construction	(100%)
13.400	2,008,600	Adult Basic Education	(100%)
13.486	1,335,200	Strengthing State Services	
	188,300	State Finance Equalization Program	
	$4,422,000		

DEPARTMENT OF PUBLIC HEALTH

Catalogue No.	$ Amount	Name of Program	% Of Reduction
13.232	$ 750,000	Maternal & Child Health Reducation	(17%)
13.284	400,000	Emergency Medical Services	(100%)
13.260 or 13.974	250,000	Family Planning	(5%)
	1,400,000		

Catalogue No.	$ Amount	Name of Program	% Of Reduction
		DEPARTMENT OF HUMAN SERVICES *	
13.579	$ 143,071	Indochinese Refugee	(100%)
13.644	$1,170,400	Title XX - Training	(100%)
13.646	500,000	WIN-Title IV-C (use CETA)	
13.629	1,700	Voc Rehab (Training)	
13.637	30,000	AFDC Title IV-A (Training)	
	$1,845,171		
		* ($3,000,000 additional savings if AFDC/Food stamps programs merged at the State level.)	
		TENNESSEE COMMUNITY SERVICES ADMINISTRATION	
49.015	$ 119,170	Recreation Support Services	(100%)
49.013	215,000	State Office Administration	(65%)
	$ 334,170		
		TENNESSEE HEALTH PLANNING & RESOURCES DEVELOPMENT AUTHORITY	
13.293	39,379	Proposed Use of Federal Funds & Review Funds	(100%)
		TENNESSEE LAW ENFORCEMENT PLANNING AGENCY	
16.500	$ 470,000	Planning & Administration	(50%)
		TENNESSEE DEPARTMENT OF SAFETY	
16.305	$ 357,990	Uniform Crime Reporting	(100%)
16.509	30,000	Arson Data	(100%)
16.304	68,850	Basic Police Records	(100%)
16.513	50,072	Training TBCI Supervisors	(100%)
16.503	8,642	Lab Technicians Training	(100%)
16.513	11,000	N. W. Training Grants	(100%)
16.503	31,145	Color Process for Lab	
	$ 515,554		

DEPARTMENT OF AGRICULTURE

Catalogue No.	$ Amount	Name of Program	% Of Reduction
10.153	$ 2,500	News Letter	(100%)
10.478	7,800	Fruit & Vegetable Inspection	(100%)
10.475	22,000	Poultry Grading	(100%)
	$ 32,300		

DEPARTMENT OF CONSERVATION

Catalogue No.	$ Amount	Name of Program	% Of Reduction
10.663	$1,400,000	Young Adult Conservation Corps	(100%)
10.661	211,000	Youth Conservation Corps	(100%)
45.001-45.015	644,000	Historical Preservation Grants	(100%)
	$2,255,000		

DEPARTMENT OF ECONOMIC & COMMUNITY DEVELOPMENT

Catalogue No.	$ Amount	Name of Program	% Of Reduction
11.900	$ 70,000	OMBE Grant (To be assumed by State)	(100%)

DEPARTMENT OF MILITARY

Catalogue No.	$ Amount	Name of Program	% Of Reduction
12.312	$ 4,300	Nuclear Civil Defense	(5%)
12.310	6,624	Radiological Maintenance	(10%)
12.312-12.316	25,000	Civil Defense Planning	(100%)
	$ 35,924		

TENNESSEE ENERGY OFFICE

Catalogue No.	$ Amount	Name of Program	% Of Reduction
81.050	$ 323,600	Energy Extension Service	(50%)

DEPARTMENT OF MENTAL HEALTH & MENTAL RETARDATION

Catalogue No.	$ Amount	Name of Program	% Of Reduction
13.237	$ 50,000	Hospital Improvement	(100%)
13.630	25,000	Development Disabilities	(5%)
13.282	34,400	Title IV-C	(100%)
	$ 109,400		

DEPARTMENT OF COMMISSION ON AGING

Catalogue No.	$ Amount	Name of Program	% Of Reduction
13.633	$ 156,226	State Administrative Funding (Title III_A)	(50%)
13.633	50,000	Advocacy (Title III)	(100%)
13.634	50,000	Training (Title IV-C)	(100%)
13.633	180,000	Area Planning & Coordination (Title III)	(100%)
	$ 436,226		

TENNESSEE WILDLIFE RESOURCES AGENCY

Catalogue No.	$ Amount	Name of Program	% Of Reduction
20.001	$ 65,000	Boating Safety Program	(100%)

TENNESSEE DEPARTMENT OF TRANSPORTATION

Catalogue No.	$ Amount	Name of Program	% Of Reduction
20.205	$ 4,500,000	Great River Road (Deferral)	
20.205	230,000	Planning Research & Development	(10%)
20.102 or 20.103	600,000	Bureau of Aeronautics,	(50%)
	$ 5,330,000		

TENNESSEE DEPARTMENT OF ARTS COMMISSION

Catalogue No.	$ Amount	Name of Program	% Of Reduction
45.001-45.015	$ 408,000	National Endowments for the Arts	(100%)

TENNESSEE DEPARTMENT OF PERSONNEL

Catalogue No.	$ Amount	Name of Program	% Of Reduction
27.012	$ 300,000	Intergovernmental Personnel Act	(100%)

TENNESSEE DEPARTMENT OF INSURANCE

Catalogue No.	$ Amount	Name of Program	% Of Reduction
83.002	$ 10,000	Fire Administration	(100%)

TENNESSEE OFFICE OF CHILD DEVELOPMENT

Catalogue No.	$ Amount	Name of Program	% Of Reduction
23.013	$ 43,800	ARC Child Development Program	(50%)

GOVERNMENTS HIGHWAY SAFETY PROGRAM

Catalogue No.	$ Amount	Name of Program	% Of Reduction
20.600	$ 22,000	Selective Traffic Enforcement Training	(100%)
20.600	10,000	Drivers License Examine Training	(100%)
20.600	10,000	Hearing Officer Training	(100%)
20.600	100,000	Safety Education	(100%)
	$ 142,000		

TENNESSEE HIGHER EDUCATION COMMISSION

Catalogue No.	$ Amount	Name of Program	% Of Reduction
13.510	$ 58,166	1202 Commission (Planning)	(100%)
13.510	45,454	Education Information Centers	(100%)
13.510	116,000	Title I-A (Innovation)	(100%)
	$ 219,620		

II. CAPITATION AND RELIEF ASSISTANCE

Catalogue No.	$ Amount	Name of Program	% Of Reduction
13.386	$ 1,100,000	Medical School	(100%)
	1,400,000	Fiscal Relief	(100%)
	$ 2,500,000		

III. CAPITAL OUTLAY

Catalogue No.	$ Amount	Name of Program	% Of Reduction
3.0	$ 3,000,000	Armory Construction & Renovation Department of Military	(Fed.) (100%)

SUB-TOTAL	I.	Departmental Programs	$54,132,044
	II.	Capitation & Relief Assistance	2,500,000
	III.	Capital Outlay	3,000,000
		GRAND TOTAL	$59,632,044

COMMENTS

When Congress reauthorized CETA in 1978 after much debate and discussion of pervasive abuse, they did recognize the need for and provided tools to deal with structural and cyclical unemployment as parts of different economic syndromes. The new Title II programs, including the Title II-D PSE programs are targeted at structural unemployment. These counter-structural programs are intended to provide structured experiential and educational situations to enable the unskilled and undereducated members of our society to become competitive in the job market. This enhances the long-range development of our work force and impacts on local, as well as national, industrial and other economic development efforts.

Congress retained Title VI of CETA as a PSE program designed to remain as an economic stimulus tool to attack cyclical unemployment. This program is primarily intended to provide emergency or stop-gap, employment to those generally skilled and educated individuals who suddenly find themselves without work through no fault of their own, but rather due to economic conditions.

Unfortunately, the CETA system has been forced to operate both a counter-structural program (II-D) and a counter-cyclical program (VI) when we are not in a cyclical unemployment phase in Tennessee. There has not, recently, been a real need for the Title VI program here; but the U.S. Department of Labor has been placing extremely heavy pressure on us to enroll approximately 4,200 people in this program. In other words, attempts are being made to force us to: (1) get the enrollment up, and (2) spend the money or it will be reallocated. We have recently begun to enroll eligible individuals due to our recessionary forecast. This enrollment is probably somewhat premature but is considered necessary to tie up the funds until we actually experience high unemployment conditions later this calendar year.

Due to these factors and our considered judgment of congressional intent, we have therefore recommended that Title VI either be consolidated as a special sub-part of Title II-D or that it at least remain dormant until activation is indicated by economic conditions. In either case, funds should not be available to any Prime Sponsor until local unemployment hits 6 percent—6.5 percent and other definitive conditions of cyclical unemployment have been met. Why have a program in operation which is intended to address non-existent conditions?

Governor ALEXANDER. It was part of the study that Governor Snelling did with the Governors' Association where 25 of us Governors worked with our budget departments and came up with a series of recommendations with which I believe you are familiar, to try to assist the Congress and the President in cutting the Federal aid.

Now, we do not think that Governors ought to make those cuts, that it would be presumptuous of us to make them, but we are willing to help, and if you want to cut Tennessee's State share we can suggest $60 million in cuts that you ought to make before the $43 million.

LEAA is an area where you can make some cuts. The job training programs are an abomination, by and large, because they fall all over one another and because so many agencies of government—city, State, county, and Federal—are involved.

In Tennessee, I am calling together, in Memphis, every single agency of any government that has anything to do with job training at one meeting to see how many millions of dollars and how many people we have falling over one another.

My guess is that if we were to administer all of that in one program managed by whichever level of local government would be the most effective—and I am not sure which one would—and make that a block grant to Shelby County or Memphis, that you could cut the dollars by 20 to 25 percent.

I am not ready to recommend that, but I might be in a year. It would be the kind of thing that could be done, and it is the kind of cutting that we would recommend to you as opposed to cutting out our only flexible money.

Senator BRADLEY. Are you in favor of more targetting of all Federal programs?

Governor ALEXANDER. As a personal matter, Senator, not especially. You would have to tell me a little bit more about what you mean on that.

Senator BRADLEY. Well, we have general revenue sharing. We have targetted fiscal assistance. We have countercyclical. We have community development block grants. We have UDAG grants.

Setting aside the question of general revenue sharing but addressing the others, are you in favor of making the formulas very stringent so that the moneys go to areas that are severely distressed, as defined by unemployment, tax effort, or various other social indices?

Governor ALEXANDER. I guess the only way to answer that is yes and no, and I do not mind saying it that way, because the country is so diverse. I imagine there are large cities in some places in the country where it is in the national interest to appropriate money directly to handle specific disasters or emergencies or prop up governments or activities that cannot fund themselves.

And while that may not be the case in Tennessee as a part of the whole country, I would recognize that it may be necessary in some States, and some of our Governors feel strongly that way.

As a general matter, I think there are more examples of the need for what Senator Sasser is working on, and which you all have talked about, which is grant consolidation, the simplification of grants in broad areas and objectives such as health and job training.

Maintain oversight by the committees of Congress. Monitor us. Check and see how we do. I think we will spend the Federal money better under those conditions. However, I cannot say, while it may not affect Tennessee, that there should not be targeted fiscal assistance in some parts of the country.

Senator BRADLEY. Well, what about in revenue sharing? What would you think about a formula which would give your State the same amount of total revenue but require you to redistribute it within the State differently, so that areas of more distress would get more?

Governor ALEXANDER. I would think that would be a horrible idea, with all due respect, because it suggests that the people of our state do not know anything.

They elect the legislature and they elect the Governor to decide what the most pressing priorities are, and if they can get to us and convince us, we will do what they want, or we will make our own judgment and take the risk at the next election.

It would be a logical thing for the Federal Congress to make a grand decision, a large decision, that health in rural areas or job training in big cities is a priority, and we in Congress want something done.

Then we are going to trust locally-elected officials to make the final decisions about how to best spend the money. We are going to monitor that. We are going to use our oversight responsibility, we can just as easily monitor the Governor and the mayor of Memphis and the mayor of Knoxville as we can the regional director of HEW or the regional director of the new Department of Education. In fact, Congress might find that elected officials understand what you are saying and are willing to do it more rapidly.

Senator BRADLEY. If I understand what you are saying, you would not support more targeting in the revenue sharing program, but you would support Federal specifications of how the Governors should spend Federal money in the specific categories that you have outlined—HEW, Transportation, whatever?

Governor ALEXANDER. I want to be careful I am not misunderstood on the targeting question. There may be situations in the country where the Congress, in its wisdom, decides targeting to specific big cities or local projects is desirable and while that is not true in my State, it may be in others.

I want to recognize that. But except for that, the answer to your question is yes. The more you can remove restrictions on what we do with large blocks of money in areas that are your priorities, the better we believe we can spend the money and the more money we think you will save.

Senator Domenici suggested we pick some pilot programs and see if we could do that, perhaps like the job training area I discussed in Memphis. What if we worked for a couple of years and came back to your committee and said, look what we have been able to do. We have made an inventory of 125 government agencies in this one city that are spending x million dollars and several thousand employees to get at this many people. This is what we would propose. Let's block all the Federal, State, and local money into one program, pick the level of government that is the best manager, and monitor that expense and cut the total expense by 25 percent.

Now, that would be hard to do.

Senator BRADLEY. I am waiting for the program.

Governor ALEXANDER. I am just getting started.

Senator BRADLEY. Thank you very much.

Senator Durenberger?

Senator DURENBERGER. Thank you, Governor, for your presentation. Again, it was very enlightening and I enjoyed meeting you at the Intergovernmental Relations Subcommittee meeting on this same subject.

Just one introductory comment on your response to Senator Bradley's last line of questioning. I agree with you totally in principle and I suppose if I were running a State like Tennessee or a State like Minnesota I would sure say the proof is in the pudding, but since I have been out here living in Virginia and watching the Virginia Legislature operate in obvious ignorance of the needs of the urban parts of this State, I guess I have had some reason to question the validity of the principle.

I do not worry about it a great deal because, as you accurately point out, the percentage of Federal revenue that is being devoted to being shared with State and local government is dwindling to the point where perhaps our concern with targeting is not as real as we would sometime believe that it would be. I just think it is offset by the incentives that the revenue sharing approach, the block grant approach and so forth, provide for local governments.

Somehow I think we have insensitized to a degree those persons who, like us, have been elected at a State and local government to the responsibilities for spending by categorical grant programs, and part of the desensitization would be to move more in the direction of revenue sharing and block grants and just saying we trust you. You go do your thing.

I do not know that we need to go through several years of pilot projects and demonstration. I think it is instinctive in human nature. It is instinctive in the representative process that persons would react this way.

So I cannot compliment you nor Governor Hughes nor Governor Byrne nor any of the other people who have been involved in this process. I will limit my questions to the technical ones and add another compliment.

I am continually amazed at the way people who live farther south in this country than I do are able to treat subjects like Senator Bentsen's attitude toward revenue sharing in such a nice, polite, diplomatic fashion. I have a great deal of difficulty reacting to a Senator from a State that is living off of the funds that my constituents are providing by way of added gas taxes and added home heating oil prices and everything else coming in here and threatening to dump revenue sharing for all the rest of the country when such a big percentage of his State budget and his State's ability to attract jobs away from my State is being provided financially by the people who live in my State.

I just want to compliment you for, I trust, saying the same thing but saying it in a way that would not offend Senator Bentsen the way my reaction might.

Do the Governors favor a 4- or 5-year authorization for this program?

Governor ALEXANDER. Our preference is for a 4-year extension, but we would support the President's approach.

Senator DURENBERGER. We do not know what the President is going to come up with next week, or whenever he comes up with something. I do not even know what the Democratic caucus has been meeting on and what they may be coming up with in this area, but I will rely on the chairman of this subcommittee to fight that battle.

But if we were to do no more than reauthorize the current program, would we be making any mistakes? Are there any changes that the Governors feel should be made in the current program if we do not have another crack at it for another 4 or 5 years?

Governor ALEXANDER. In 1 minute, let me give you the diplomatic answer and the real answer.

I think the diplomatic answer would have to be, given the pressures that are on the Congress at the moment to cut and the difficulty in cutting, which we know, because we are faced with it ourselves every day, is a simple reauthorization of the program for 4 or 5 years, would be something that we would strongly support and especially in light of the fact that the President has reversed his position—or seems to have reversed his position—and the Congress is under great internal pressure to reduce spending.

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I think the real honest answer is that you ought to increase it. The more you cut aid to State and local governments the more you ought to increase revenue sharing and block grants.

Last year we had a sudden drop in AFDC payments and we had to shift $1 million to it. The drop was caused because the Federal Government has been cutting back on AFDC payments and we had to have some flexible money to shift over there. If we had not had revenue sharing in our State budget, we would have had so much pressure on the budget that we might have had to drop it out.

We also have had to route extra money—a lot of extra money for the last 2 years, as have most States—into local roads. That may not seem like a great, big, overwhelming international issue in Washington but it is the present concern there.

Those are the priorities which we have. So I strongly believe that the proposal ought to be, as you decrease aid to State and local governments you should increase revenue sharing, or at least increase revenue sharing combined with block grants.

Senator DURENBERGER. Thank you.

While I have you, one last question.

Mayor Carver, when he testified on the subject of State surpluses, made what I thought was a pretty good point and I do not know whether it can be demonstrated. Perhaps you can, or the association can.

That is, in all of this business of so-called State surpluses we really have not adequately addressed ourselves to the issue of unfunded pension liabilities, both at the State and local level, and any information that you or the association might have on that subject, I think would not only be understood by most of us, but would be appreciated.

Governor ALEXANDER. Senator, we would be glad to provide you with information for the record on the pension question.

[The following was subsequently supplied for the record. Oral testimony continues on p. 148.]

BY THE COMPTROLLER GENERAL

Report To The Chairman, Joint Economic Committee Congress Of The United States

OF THE UNITED STATES

An Actuarial And Economic Analysis Of State And Local Government Pension Plans

At the request of the Joint Economic Committee, GAO estimated the annual cost of future benefit payout to State and local government pension plans. Our analysis of several measures of financial soundness demonstrated an increasing financial burden on these pension plans in the aggregate. An increasing proportion of retirees in population of State and local employees is a basic cause of the problem. Varying the economic parameters does not change this fact, but merely changes the year in which the problem is first evident.

Our analysis is not intended to substitute for a detailed actuarial analysis of the more than 6,600 State and local pension plans, but concentrates on identifying emerging trends that should be brought to the attention of policy makers.

UNITED STATES GENERAL ACCOUNTING OFFICE

PAD-80-1
FEBRUARY 26, 1980

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

B-164292

The Honorable Lloyd M. Bentsen, Jr.
Chairman, Joint Economic Committee
Congress of the United States

Dear Mr. Chairman:

As part of the Special Study on Economic Change, the Joint Economic Committee has asked the GAO ~~to~~ estimate the annual cost of future benefit payout to State and local government pension plans. This report presents those estimates. Forecasts of other relevant economic and demographic factors are also presented and compared to benefit payout projections to provide perspective. The effect of these factors on the financial viability of State and local government pension plans in the aggregate is discussed. No recommendations are made for action by the Congress.

Copies are also being sent to the Pension Task Force, the President's Commission on Pension Policy, the Social Security Administration, the Department of Labor, and others who participated in our review process.

Sincerely yours,

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

AN ACTUARIAL AND ECONOMIC ANALYSIS OF STATE AND LOCAL GOVERNMENT PENSION FUNDS

D I G E S T

State and local government pension plans exert an important and growing influence on the United States' economic, social, and political fabric. These plans held roughly $108 billion in assets in 1975, and their management will affect the economic security of the 13 million current participants as well as of future participants.

The number of active employees in plans administered by State and local governments grew from 1.6 million in 1940 to 11.2 million in 1975. The assets in State and local plans as a percentage of total assets of all pension plans grew from 13.6 percent in 1950 to 26 percent in 1975 and grew from 20 percent of all government-administered plans in 1950 to 55.5 percent in 1975. Thus, State and local plan enrollment and assets have increased at an even faster rate than that of all pension plans. (See p. 2.)

CONCLUSIONS

At the request of the Joint Economic Committee, GAO estimated the annual cost of future benefit payout to State and local government pension plans. Our analysis of several measures of financial soundness showed evidence of an increasing financial burden on State and local government pension plans in the aggregate. In our analysis this problem is caused largely by the increasing proportion of retirees in the population of State and local government employees. Varying the economic parameters does not change this fact but merely changes the year in which the problem is first evident. Furthermore, growth in employment above the levels shown does not seem likely, and the characteristics of the plans were purposely unchanged, since a basic tenet of the review was to see what would happen if current benefit and financing provisions were continued.

Therefore, under the assumptions of this report a worsening financial status for State and local plans in the aggregate is certain.

Aggregating plans masks the differences among them. Our projections are driven by large plans, which are generally better funded (94 percent of the employees surveyed by the Pension Task Force were in large plans). Smaller plans, which often are not as well funded, are given less weight. The Pension Task Force report estimated that only 20 percent of State and local employees are enrolled in plans that are fully funded by actuarial standards. 1/ Furthermore, a recent GAO report 2/ reviewed 72 State and local government pension plans and found that 53 could not meet the funding standards imposed by the Employee Retirement Income Security Act of 1974 on private pension plans. These facts, combined with the inexorable growth in the proportion of retirees, explain why the financial status of the plans in the aggregate begins to deteriorate in the 21st century. Under some conditions, the decline is more rapid but the conclusion is the same: if present funding practices continue, a deterioration in the financial condition of the plans in the aggregate is likely. The few fully funded plans should remain in good shape, but the numerous poorly funded plans can expect financial difficulty in this century.

METHODOLOGY

Our analysis is not intended to be a substitute for a detailed actuarial analysis of the more than 6,600 State and local pension plans, but rather concentrates on

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1/The Pension Task Force was created by the Employee Retirement Income Security Act of 1974 to study public employee retirement systems. See discussion of funding techniques on p. 43, app. II.

2/"Funding of State and Local Government Pension Plans: A National Problem," U.S. General Accounting Office, HRD-79-66, August 30, 1979.

identifying emerging trends that should be brought to the attention of policymakers. The basic approach was to (1) divide the universe of over 6,600 State and local pension plans into homogeneous subdivisions, (2) develop prototypical plans representing the current characteristics of State and local government employees, (3) forecast employment and salary levels for each subdivision using reasonable assumptions about future economic and demographic growth, and (4) create an actuarial model to project cost streams and employment levels for the prototypical plans.

Several scenarios were developed showing the effect of varying the actuarial model's economic and demographic parameters, such as employment growth and the inflation rate. Other scenarios could have been presented showing the effect of varying other parameters, but time and resource constraints prevented further analysis. The projections show what would happen in the aggregate if the conditions that prevailed in the mid-1970s were combined with reasonable assumptions concerning future economic and demographic growth.

Benefit Projections

For the base case assumptions, benefit payments grow steadily through the remainder of the 20th century and then begin to grow more rapidly after the end of the century. (See p. 9.) Total payroll increases steadily, being driven upward mainly by inflation. The ratio of benefits to payroll remains roughly constant throughout the remainder of the 20th century. Benefits begin to grow more rapidly after the year 2000, reaching 17 percent of payroll in 2020. The ratio of retired employees to the total of active and retired employees grows at a roughly linear rate (see p. 11), increasing from 15 percent in 1980 to 24 percent in 2020. These figures indicate an increasing financial burden on State and local government retirement systems.

Flow of Funds Analysis

The review's main focus was projecting the cost to State and local government pension plans of future benefit payout. To place benefit payout in perspective, benefit projections were compared to contribution and asset growth projections which allowed a simplified flow of funds analysis.

The base case assumptions show that assets grow throughout the 20th century but at a much lower rate after the year 2000. (See p. 11.) Benefits exceed estimated contributions after 2012. In the 21st century, the ratio of assets to benefits declines steadily until benefits exceed the sum of asset growth and contributions in 2049. This indicates that the plans in the aggregate would not be able to meet obligations from current income. (See p. 14.)

Contents

CHAPTER 1

INTRODUCTION

State and local government pension plans exert a substantial and growing influence on the economic, social, and political fabric of the United States. Recent experience shows their growth in size and scope to be rapid. Roughly $108 billion in assets were held by these plans in 1975. The way these assets are managed will affect the economic security of the 13 million current participants as well as that of future participants.

The Special Studies on Economic Change Subcommittee of the Joint Economic Committee is directing a study of future economic problems. One goal of the study is to obtain more accurate estimates of future outlays from pension plans and the potential effect of these outlays on the Nation's economic resources. The Joint Economic Committee asked us to estimate the cost of benefit payouts to State and local pension plans through the year 2020. We have based our estimates on actuarial and economic analyses of data obtained from the Pension Task Force Survey, the Bureau of the Census, and other sources.

The projections presented here do not pretend to predict future events exactly. Their purpose is to provide a better understanding of emerging financial problems, given reasonable assumptions about future economic and demographic changes. The projections are a result of aggregating all State and local government pension plans into two prototypes. Aggregating masks differences among plans, but allows a clear look at long-term trends so that problems can be addressed before they become worse. Note, however, that to an extent well-funded plans offset poorly funded plans; even when the plans are financially sound in the aggregate, some plans will be in serious financial straits.

GROWTH OF PUBLIC PENSION PLANS

The development of employee retirement systems began in the public sector. Before the turn of the century, groups of policemen, firemen, and teachers were covered under service-related retirement systems in New York, Boston, and other cities. Over 12 percent of the large State and local plans now in operation were established before 1930.

Social Security was instituted in 1935 but was not extended to State and local government employees. Nearly one-half of large State and local plans were established during

1931 to 1950 when Social Security coverage for public employees was being debated. Over one-third of the large plans began or underwent a major restructuring after 1950 when State and local employees were given the option to join the Social Security System. In contrast, nearly two-thirds of the small plans were started after 1950 and nearly one-fourth since 1970.

The number of active employees in plans administered by State and local governments grew from 1.6 million in 1940 to 11.2 million in 1975. The assets held by all pension plans in the U.S. (including Social Security) totaled over $400 billion in 1975, up from $38 billion in 1950. The assets in State and local plans as a percentage of total assets of all pension plans grew from 13.6 percent in 1950 to 26 percent in 1975. As a percentage of all government-administered plans, State and local plans grew from 20 percent in 1950 to 55.5 percent in 1975. Thus, while enrollment and assets in all pension plans have grown substantially, State and local plan enrollment and assets have increased at an even faster rate. This increase is largely the result of the substantial overall growth of State and local government in the last 20 years.

GROWING CONCERN OVER PENSION PLAN PERFORMANCE

As the number of people depending on pensions for future financial security grew, concern developed about the integrity of pension plans. In the 1960s, public awareness was heightened by news articles describing various abuses by the administrators of pension plans. Few plans actually failed. More frequent were complaints about restrictive age and service requirements, mismanagement of funds, and termination of coverage for employees who were close to retirement.

The closing of the Studebaker plant in South Bend, Indiana, in 1964, which inflicted heavy pension losses on workers, led to congressional hearings. Subsequent hearings on related pension concerns preceded the passage of the Employee Retirement Income Security Act (ERISA) on Labor Day, 1974. Although this law does not require that an employer have a pension plan, it does provide partial protection to the participants in plans by setting standards for participation, vesting, funding, and fiduciary responsibility.

The Congress chose not to include public retirement systems in the provisions of ERISA. Two reasons for this decision were the small number of complaints from public beneficiaries and the absence of reliable information about public plans. However, the Congress did create the Pension Task Force to investigate public pension plans. Data gathered by GAO for the Pension Task Force were a basic data source for this report.

A bill was introduced in the 94th Congress that prompted hearings on public pension systems. Because of its similarity to ERISA, it was referred to as the Public Employee Retirement Income Security Act. PERISA bills have been introduced in subsequent sessions of Congress, and President Carter has appointed a commission to develop a national policy for both public and private pension plans.

SCOPE OF THIS REVIEW

Our primary source of information is data collected by GAO for the Pension Task Force Report issued in March 1978. We also collected data from the Bureau of the Census, the Bureau of Labor Statistics, and other sources. Chapter 2 discusses our methods of estimating future employment and salary levels of State and local government employees, creating prototypical pension plans, and forecasting the future costs of State and local pension plans.

To place the projections of benefit payouts in perspective, we compared them to projections of contribution and asset growth, which allowed us to make a flow of funds analysis. Chapter 3 summarizes the benefit payout projections and the flow of funds analysis. Several scenarios are presented covering a wide range of economic and demographic assumptions. Data limitations prevented a detailed actuarial analysis; our analysis is descriptive of the general financial conditions of the plans in the aggregate as measured by certain rough measures discussed in Chapter 3.

Appendix I contains information on the projections of State and local government employment and salary levels. Appendix II provides technical information on the development of the model to project benefit payout and other actuarial variables.

CHAPTER 2

METHODOLOGY

We developed our estimates of the future cost of State and local government pension plans by

--dividing the universe of 6,630 State and local pension plans into homogeneous subdivisions and determining the characteristics of the two prototypical plans that could be used to estimate the future costs of all plans;

--forecasting employment and salary levels for each subdivision; and

--creating an actuarial model to project benefit streams for these prototypical plans.

To determine the number and characteristics of the prototypical plans, we analyzed the Pension Task Force survey data and other sources. 1/ Forecasts of employment and salary levels for State and local government employees were based on an econometric analysis of historical data from the Bureau of the Census and forecasts from a national economic model. 2/

The characteristics of the prototypical plans and the forecasts of employment and salary levels were used as inputs to the actuarial model that projected benefit payout for State and local government pension plans. We developed the actuarial model for age and service retirees for large plans, and extended the results to the universe of all plans. Social Security benefits are not included in our estimates, because the plans were not integrated with Social Security to any appreciable degree.

CHARACTERISTICS OF PROTOTYPES

A review of the Pension Task Force survey and other material led us to conclude that two prototypes would be necessary--one representing teachers' plans, another representing those of other State and local government employees. We designed the types to conform initially to data collected by the Pension Task Force survey. The prototypes began in the base year 1975 with the characteristics shown in table 1.

1/See appendix II.

2/See appendix I. It was our judgment that historical growth levels would not continue unabated.

Table 1

Membership, Benefits, and Salaries for 1975 for the Two Prototypes

Characteristics	Teachers	Other State and local employees
Active membership	2,480,772	5,333,925
Retired membership a/	401,841	788,024
Total benefit payments (millions)	$2,300	$3,200
Total payroll (millions)	$25,500	$45,100
Average annual salary	$10,275	$8,451

a/Age and service retirees only.

Other data sources were used for areas that the Task Force survey did not cover. The age and sex distributions of the active populations were based on the Census Bureau's "Current Population Survey" (January 1978). For age and benefit distributions of the 1975 retirees, we aggregated data from actuarial valuations of certain large State, local, and teachers' retirement systems. Based on a review of 23 large plans conducted by the Pension Task Force, we set the post-retirement cost-of-living adjustments at half the future increases in the cost-of-living index. The Unisex Pension 1974 Table (adjusted for varying male-female ratios and future improvements in mortality) was used for mortality rates. Information on ancillary benefits was obtained from the Census Bureau.

PROJECTION OF SALARY AND EMPLOYMENT LEVELS

To capture the effect of different growth patterns among different regions of the U.S. and among different categories of State and local employees, we projected salary and employment levels for the four U.S. census regions and for six State and local government employment categories. Employment categories were aggregated into two prototypes for the actuarial model discussed in the next section.

Real per capita income correlates with several factors (such as urbanization, education, real per capita Federal Government transfers) that affect State and local government employment, and therefore is used as a proxy for all these factors. Our econometric model forecasts employment per million population as a function of real per capita income. By constraining the amount of employment per million population, an upper limit to the income effect is achieved, thereby constraining the future growth rate to a level lower than that found in the historical data.

- The average annual salary in each employment category of State and local government in each of the six regions is based on fixed salary scales which are periodically increased for cost-of-living adjustments. Increases in the average nominal salary reflect increases in average years of experience, urbanization, cost of living, productivity improvements, and overall labor market conditions. The average nominal salary in each employment category in each region is considered as a function of two broadly classified categories--the cost-of-living index and other factors. Factors other than the cost of living adjustment correlated highly with regional real per capita income, and hence, we used the real per capita income in each region as a proxy for all the independent variables that can explain the variation in the real annual average salary.

The projections of State and local employment and salary levels, along with the national cost-of-living index, were the primary economic and demographic inputs for the actuarial model to project future benefit payout.

MODEL TO PROJECT BENEFIT PAYOUT

The characteristics of the prototypical plans and the projections of employment and salary levels were used as inputs to the actuarial model to estimate future benefit payout. Within each prototype, we projected benefits for three groups--persons retired in 1975, active employees in 1975, and new entrants after 1975. Projections of the growth in teachers' and in State and local governments' work forces determined the number of new pension plan entrants needed each year in the future.

To the first group, those retired in 1975, we assigned an initial age and benefit distribution, and then "aged" the group using our assumed mortality rates. A projection of inflation through 2020 was used to give the surviving retirees post-retirement cost-of-living adjustments. The total payroll (average salary times number of employees) was distributed initially among the active employees using a merit scale to

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reflect a typical worker's career salary progression, neglecting inflation.

The active employees in 1975 and the new entrants who "survived" to retirement were accorded a benefit using the average benefit formulas constructed from the Task Force data. Retirement ages were spread uniformly over a 10-year period, with the median age determined by a review of actuarial valuations and plan provisions. Entry ages were set at 30 and 34 for the teachers' and the State and local prototypes. Note that they represent the average entry age for a typical retiree and not for a typical new entrant. The benefit formulas, entry ages, and retirement ages resulted in an average replacement ratio (that is, percentage of final compensation) of 52 percent for teachers and 50 percent for State and local retirees. Final compensation in both prototypes was the average of the last 4 years' salary.

The assumed benefit formulas were applied only to those employees retiring on account of age and service. Furthermore, the benefits so generated were confined to the modeled population--that is, large, defined benefit 1/ teachers' and State and local pension plans. Before a projection for all 6,630 plans could be obtained, the benefits had to be increased to take into account ancillary benefits 2/ and those plans (and members) outside the modeled population.

From 1970 to 1975 contributions to State and local pension plans increased but at a slower rate than benefits. As a percentage of payroll, however, contributions stayed roughly constant while benefits grew steadily. The Pension Task Force survey showed that contributions were approximately 15 percent of payroll in 1975 for large plans. For the flow of funds analysis, we assumed that this rate would continue through 2020. This assumption shows what the 1975 contribution level might lead to if allowed to continue unchanged.

1/A defined benefit plan is one in which a participant's benefit is computed by a formula relating such factors as pay, age, and years of service. In contrast, a defined contribution plan is one in which the contribution is fixed and a participant's benefit is determined by such factors as the plan's investment earnings and annuity purchase rates at retirement.

2/Ancillary benefits include disability and survivor benefits and withdrawal payments. Data were obtained from the Bureau of the Census for 1974 through 1977.

The Pension Task Force survey showed that State and local government pension plans held $108.3 billion in assets in 1975. A rate of return on assets of 7.5 percent 1/ was assumed for the base case, and assets were projected by adding contributions and interest income and subtracting benefit payments each year.

Several scenarios were developed showing the effect of varying several key parameters of the actuarial model. The effect of varying the growth rate for State and local government employment is discussed in the text. The effect of varying the inflation rate is discussed only in general terms because of the subjective judgments involved in applying different inflation rates to the model. Other scenarios could be presented showing the effect of varying other parameters, but time and resource constraints prevented further analysis.

1/Since the assumed average inflation rate is 7.18 percent per year for the projection period, a small amount of real growth (that is, growth above the level of inflation) is allowed although this level of growth has not always been achieved in the recent past.

CHAPTER 3

RESULTS

The review was directed primarily toward projecting the future cost of benefit payout for State and local government pension plans. In the course of the review, projections were also made for the total number of active (contributing) employees, total age and service retirees, and total payroll. Finally, contributions and asset levels were projected to allow a flow of funds analysis that provides perspective for the benefit projections.

BASIC PROJECTIONS

The projection of benefit payout was made using the parameters determined by the analysis of salary and employment levels, the long-term trends estimated by the national economic model, and the basic characteristics of the prototypical plans. The assumptions underlying the national economic model affect the projections of State and local government employment and salary levels. The model's basic economic assumption is that the economy will grow steadily at about 2.5 percent (except for a small downturn in 1980), leading to a balanced Federal budget in the mid-1980s. State and local government employment is projected to continue growing through 2020, but the rate of growth declines sharply after 1990. Nonetheless, employment will increase by 62 percent from 1980 to 2020. (The ratio of State and local government employment to total U.S. population will only increase from 5.3 percent in 1980 to 6.6 percent in 2020.) The average salary in 2020 is 20 times greater than the 1980 salary, the result of an average annual inflation rate of approximately seven percent and a real growth rate of about one percent per year. 1/

The elements of the prototypical plans are summarized in chapter 2 and detailed in appendix II. This information is used as a starting point for the projection of benefit payout. The projections show what would happen in the aggregate if the conditions that prevailed in the mid-1970s were combined with reasonable assumptions concerning future economic and demographic growth.

1/The inflation rate is 7 percent after 1995 and is higher before that year. The average annual inflation rate is 7.18 percent overall. Real salary growth also fluctuates with an average annual growth rate of 0.90.

Table 2

Benefit Payout Projections
Base Case Assumptions

	1980	1985	1990	1995	2000	2005	2010	2015	2020
Total benefit payout (billions of dollars)	13	28	47	69	101	173	341	613	995
Total payroll (billions of dollars)	162	274	466	748	1160	1768	2629	3905	5809
Benefits as a percentage of payroll	8	10	10	9	9	10	13	16	17
Active employees (millions)	11.6	13.0	14.2	15.3	16.1	16.9	17.7	18.4	19.1
Retired employees (millions)	2.0	2.6	2.9	3.0	3.0	3.4	4.3	5.3	6.1
Retired employees as a percentage of total active and retired employees	15	17	17	16	16	17	20	22	24

Average annual percentage increase in salary (inflation)	7.18	Average annual percentage increase in employment growth	1.37
Average annual percentage increase in salary (real)	0.90	Average annual percentage increase in post retirement	3.59

Benefit projections

Table 2 shows the basic projections. Benefit payments grow steadily through the remainder of the 20th century and then begin to grow faster in the 21st century. Total payroll increases steadily, being driven upward primarily by inflation. Benefits as a percentage of payroll remain roughly constant throughout the 20th century and begin increasing after the year 2000, as benefits grow at a more rapid rate. As this ratio increases, the financial burden on State and local government pension systems increases. A steadily increasing ratio of retired employees to the total number of active and retired employees is the basic cause of this phenomenon.

The ratio of retired employees to the total number of active and retired employees grows at a roughly linear rate except for a period early in the 21st century. 1/ As mentioned in chapter 1, pension plan enrollment grew rapidly beginning in the 1940s until, by 1975, over 90 percent of all government workers were enrolled in public pension plans. During this same period, there was a trend toward early retirement and a gradual increase in the average lifespan in the U.S. These factors helped cause an overall "maturing" of State and local government pension plans as evidenced by the growing proportion of retired members. Figure 1 shows that this trend is forecast to continue through 2020.

Flow of funds analysis

To place benefit payout in perspective, we computed a flow of funds analysis. Table 3 shows the results for the base case. Total assets grow throughout, but at a rapidly decreasing rate during the 21st century. Benefit payout exceeds contributions after 2012. The ratio of assets to benefits has been suggested as a rough measure of financial soundness for individual plans, with 15 to 1 or 10 to 1 as a minimal level of funding. 2/ For the base case assumptions,

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1/The downturn around the year 2000 stems from the original distribution of State and local employees. The age groups 35 through 55 start with roughly the same number of employees. Consequently, fewer of the younger ones actually make it to retirement. Because the possible retirement ages are centered at age 60, there is a significant decline in the number of new retirees in the 1990s, causing a corresponding decrease in the total number of retirees.

2/Pension Task Force Report, p. 150.

Figure 1

Retired Employees as a Percentage of Total

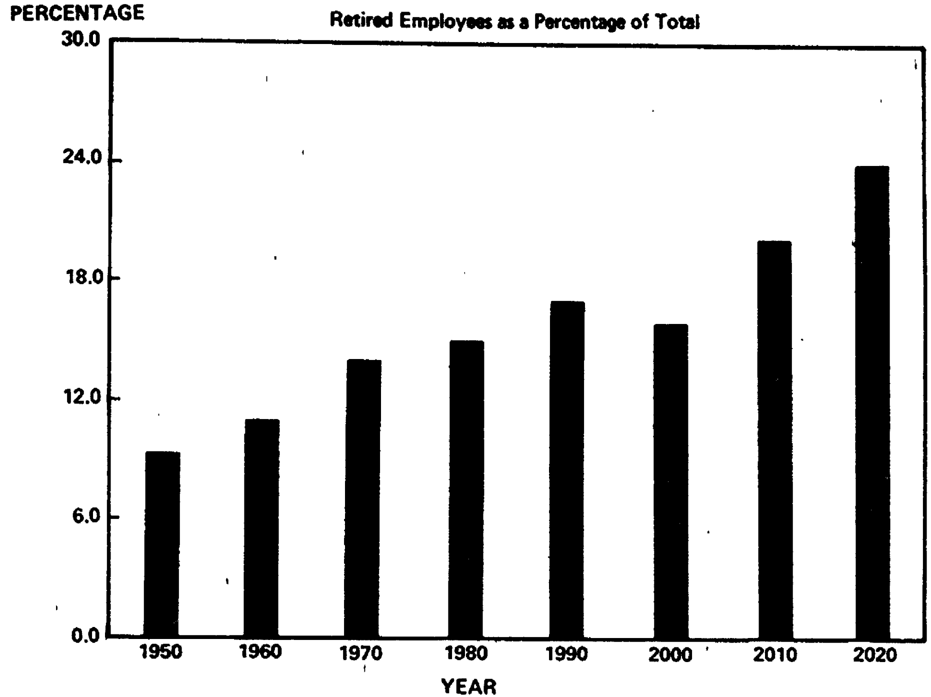

Table 3

Flow of Funds Analysis
Base Case Assumptions

	1980	1985	1990	1995	2000	2005	2010	2015	2020
Assets (billions of dollars)	182	329	562	975	1703	2919	4648	6757	9231
Percentage growth in assets from previous year	14	12	11	12	12	11	9	7	6
Contributions (billions of dollars)	24	40	68	110	170	259	385	572	851
Benefits (billions of dollars)	13	28	47	69	101	173	341	613	995
Ratio of assets to benefits	14	12	12	14	17	17	14	11	9

Average annual percentage increase in salary (inflation) a/	7.18	Average annual percentage increase in cost of living	3.59
Average annual percentage increase in salary (real)	0.90	Assumed average annual rate of return on assets	7.50
Average annual percentage increase in employment growth	1.37		

a/1975 is the base year for all forecasts shown in this report.

this ratio begins at 14 to 1 in 1980 and fluctuates throughout the remainder of the 20th century. In the 21st century, it decreases steadily reaching a level of 9 to 1 in 2020. The analysis was continued to 2050 for the base case. After 2020 the ratio of assets to benefits declines steadily until benefits exceed the sum of asset interest and contributions in 2049, showing that the plans in the aggregate would not be able to meet obligations from current income. The projected decline in the ratio of assets to benefits and the fact that benefit payments exceed the sum of asset interest and contributions in 2049 are evidence of a lack of financial soundness in State and local government pension plans in the aggregate. 1/

THE EFFECT OF VARYING SOME KEY PARAMETERS

The assumptions used to project the economic and demographic factors are deliberately conservative in the sense that they postpone the financial difficulties caused by the increasing proportion of retirees as discussed previously. The employment growth rate used for our basic analysis allows State and local government employment to continue growing throughout the projection period, though at a much slower rate than recent historical rates of growth. Lowering this growth rate has the effect of making the financial decline occur sooner, in the 20th century.

Further, the inflation rate shown favors the financial soundness of the plans, and the interest rate applied to asset growth is sufficient to allow a small amount of annual real growth. Many State and local government pension funds have not grown more rapidly than the inflation rate in recent years. A lower employment growth rate, inflation rate, or interest rate for asset growth would further exacerbate the financial difficulties.

The characteristics of the prototypical plans used for the benefit projections and the flow of funds analysis are based on our analysis of the Pension Task Force data and other sources and represent typical provisions in the mid-1970s. The effect of lowering the projected growth rate or changing the inflation rate or the manner in which it is applied to the projections is discussed in subsequent sections. Varying

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1/This simplified flow of funds analysis cannot be a substitute for a detailed actuarial analysis of the 6,600 individual pension plans. Our analysis concentrates rather on identifying emerging trends that need to be brought to the attention of policymakers.

the characteristics of the prototypical plans is not discussed: our analysis is designed to show what would happen if the typical characteristics of the pension system in the 1970s was projected into the future. 1/

Lower Employment Growth

For the base case, growth is limited after 1990 by a limit on growth in per capita employment. To test the sensitivity of the projections to a change in the employment level, we developed a second scenario that limits per capita employment in most cases to the average level attained by 1980. In this scenario, we curtailed the growth of per capita employment throughout the projection, and employment grew 47 percent from 1980 to 2020. Table 4 shows the estimates. The total number of active employees reaches 16.9 million by 2020 compared to 19.1 million for the base case estimate. Retirees, who are affected less by this change, reach 5.8 million in 2020 instead of 6.1 million.

The number of retirees is affected less than the number of actives because no new entrants are assumed to retire until the 21st century. During the 20th century, the retirees come primarily from the active employees in 1975. The first new employees hired after 1975 take a minimum of 24 years to retire. Growth in the total number of active employees is achieved by adding new entrants. As a result, the forecast number of retired employees remains the same for any scenario until the year 1999, when the effect of new 1975 entrants retiring is first felt.

An extension of the lower growth-rate scenario is a zero growth-rate scenario. Table 5 presents this result, assuming the 1975 employment level. Retirees as a percentage of the total increase dramatically in this case.

We performed a flow of funds analysis for both the lower-growth and the zero-growth cases. Flow of funds estimates for the lower-growth case (table 6) reveal that benefits exceed contributions after 2010, or 2 years earlier than in the base case, and that the ratio of assets to benefits declines very rapidly in the 21st century, reaching a level of 8 in 2020.

1/The sensitivity to changes in the contribution rate was tested. If the contribution rate is changed from 14.65 percent of payroll (as shown in the historical data) to 16 percent, the asset to benefit ratio changes from 9 to 1 as shown in Table 3 to 12 to 1 for 2020 and the year in which benefits first exceed contributions changes from 2012 in the base case to 2016.

Table 4

Benefit Payout Projections
Lower Growth Rate Scenario

	1980	1985	1990	1995	2000	2005	2010	2015	2020
Total benefit payout (billions of dollars)	13	28	47	69	101	172	333	583	927
Total payroll (billions of dollars)	159	264	440	696	1067	1605	2361	3476	5134
Benefits as a percentage of payroll	8	11	11	10	9	11	14	17	18
Active employees (millions)	11.5	12.4	13.4	14.2	14.8	15.3	15.9	16.4	16.9
Retired employees (millions)	2.0	2.6	2.9	3.0	3.0	3.3	4.2	5.1	5.8
Retired employees as a percentage of total active and retired employees	15	17	18	17	17	18	21	24	25

Average annual percentage increase in salary (inflation)	7.18
Average annual percentage increase in salary (real)	0.90
Average annual percentage increase in employment growth	1.01
Average annual percentage increase in post-retirement cost of living adjustment	3.59

Table 5

Benefit Payout Projections
Zero Growth Rate Scenario

	1980	1985	1990	1995	2000	2005	2010	2015	2020
Total benefit payout (billions of dollars)	13	28	47	69	101	167	299	478	701
Total payroll (billions of dollars)	148	226	351	524	766	1101	1554	2217	3191
Benefits as a percentage of payroll	9	12	13	13	13	15	20	22	22
Active employees (millions)	10.4	10.4	10.4	10.4	10.4	10.4	10.4	10.4	10.4
Retired employees (millions)	2.0	2.6	2.9	3.0	3.0	3.3	3.9	4.3	4.5
Retired employees as a percentage of total active and retired employees	16	20	22	22	22	24	27	29	30

Average annual percentage increase in salary (inflation)	7.18	Average annual percentage increase in employment growth	0.00
Average annual percentage increase in salary (real)	0.90	Average annual percentage increase in post-retirement cost of living adjustment	3.59

Table 6

Flow of Funds Analysis
Lower Growth Rate Scenario

	1980	1985	1990	1995	2000	2005	2010	2015	2020
Assets (billions of dollars)	182	329	542	915	1559	2611	4048	5702	7522
Percentage growth in assets from previous year	13	11	11	11	11	10	8	6	5
Contributions (billions of dollars)	24	39	65	102	156	235	346	509	752
Benefits (billions of dollars)	13	28	47	69	101	172	333	583	927
Ratio of assets to benefits	14	12	12	13	15	15	12	10	8

Average annual percentage increase in salary (inflation)	7.18
Average annual percentage increase in salary (real)	0.90
Average annual percentage increase in employment growth	1.01
Average annual percentage increase in cost of living	3.59
Assumed average annual rate of return on assets	7.50

Table 7

Flow of Funds Analysis
Zero Growth Rate Scenario

	1980	1985	1990	1995	2000	2005	2010	2015	2020
Assets (billions of dollars)	180	304	465	701	1061	1575	2103	2404	2349
Percentage growth in assets from previous year	13	10	9	9	9	8	5	1	-2
Contributions (billions of dollars)	22	33	51	77	112	261	228	325	467
Benefits (billions of dollars)	13	28	47	69	101	167	299	478	701
Ratio of assets to benefits	14	11	10	10	11	9	7	5	3

Average annual percentage increase in salary (inflation)	7.18
Average annual percentage increase in salary (real)	0.90
Average annual percentage increase in employment growth	0.00
Average annual percentage increase in cost of living	3.59
Assumed average annual rate of return on assets	7.50

For the zero growth case (table 7), the situation is worse. Lowering the assumed growth rate in State and local government produces a distinct deterioration in the financial condition of the plans in the aggregate. Figure 2 displays this effect.

Inflation

The effect on the forecasts of varying the inflation rate depends on the extent to which the changes in the rate are passed through to the active and retired populations. We based our forecasts of salary increases on historical wage rates adjusted for changes in productivity and the cost of living. A limited survey taken by the Pension Task Force of 23 large retirement systems (with total 1975-76 active membership of 4.5 million) reveals that post-retirement adjustments from 1969 to 1978 averaged about one-half the increase in the Consumer Price Index.

Our analysis of the limited Pension Task Force survey shows that most post-retirement cost-of-living adjustments were either ad hoc or automatic with annual increases. The weighted average of all cost of living adjustments was approximately half the average CPI increase from 1969 to 1978. Accordingly, for the analysis presented in this report, we gave half the annual increase in the cost of living 1/ to retirees. Since inflation rates are currently much higher than in the immediate past, it could be argued that employees will demand cost-of-living increases nearer to the inflation rate.

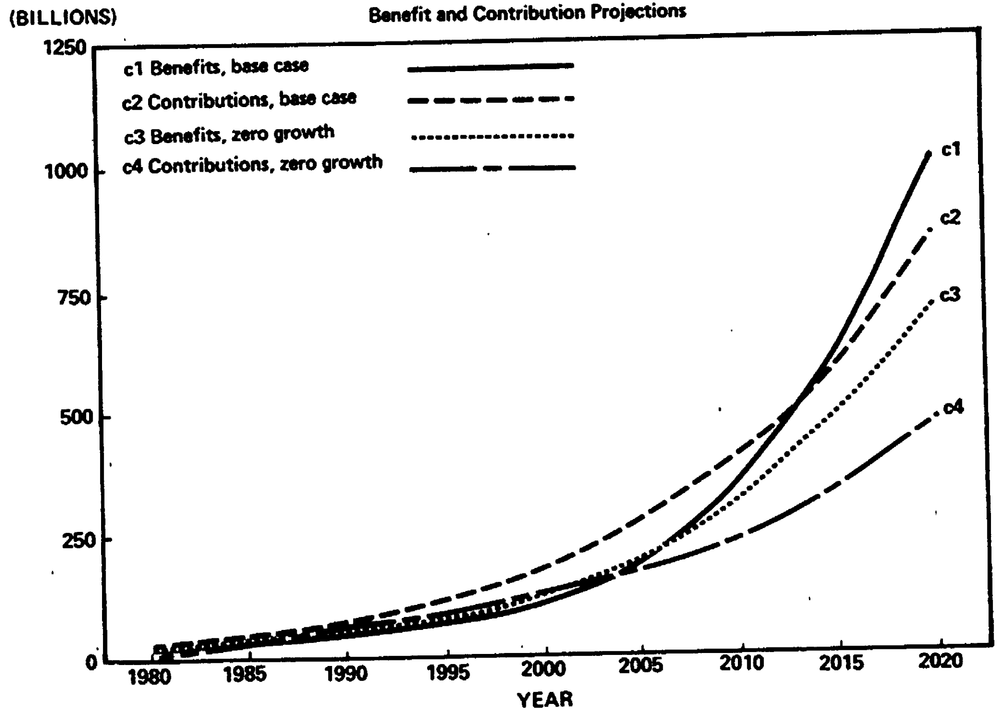
We used a long-term inflation rate of 7 percent. Appropriate monetary and fiscal policy could lower the rate; however, 7 percent is conservative for our purposes: since only half the cost-of-living increases is passed through the model to retirees, a higher inflation rate increases payroll more than benefits and further delays any difficulties that would be encountered by the plans in the aggregate. Giving retirees a higher percentage of future increases in the cost of living or lowering the projected inflation rate would exacerbate the financial difficulties discussed previously in this chapter. 2/

1/See p. 29 of app. I for a discussion of the cost-of-living index used.

2/For example, if the inflation rate is changed to an average yearly rate of approximately 4.5 percent and all other parameters are unchanged, the ratio of benefits to payroll increases to 22 percent in 2020, up from 19 percent in the base case.

Figure 2

Benefit and Contribution Projections



SUMMARY AND CONCLUSIONS

We have concentrated primarily on projecting benefit payout to employees covered by State and local government pension plans through the year 2020. Our base case assumptions estimate that the ratio of benefits to payroll would increase from 8 percent in 1980 to 17 percent in 2020. The ratio of retired employees to the total of retired and active employees increases from 15 percent in 1980 to 24 percent in 2020. These figures indicate an increasing financial burden on State and local government retirement systems.

To place benefit payout in perspective, a simplified flow of funds analysis was also computed. For the base case, the ratio of assets to benefits begins to decline in the 21st century until by 2049 benefits exceed the total of asset growth and contributions, showing that the plans in the aggregate would not be able to meet obligations from current income.

The increasing ratio of benefits to payroll, the decline in the ratio of assets to benefits, and the fact that benefit payout exceeds the sum of asset growth plus contributions in 2049 for the base case are all evidence of an increasing financial burden on State and local government pension plans in the aggregate. In our analysis this problem is caused, to a large extent, by the increasing proportion of retirees in the population of State and local government employees. Varying the economic parameters does not change this fact but merely changes the year in which the problem is first evident. Furthermore, growth in employment above the levels shown does not seem likely and the characteristics of the plans were purposely unchanged. Therefore, under the assumptions of this report a worsening financial status for State and local plans in the aggregate is foreseen.

Aggregating plans masks the differences among them. Our projections are driven by large plans, which are generally better funded (94 percent of the employees surveyed by the Pension Task Force were in large plans). Smaller plans, which often are not as well funded, are given less weight. The Pension Task Force estimated that only 20 percent of State and local employees are enrolled in plans that are fully funded by actuarial standards. 1/ Furthermore, a recent GAO

1/See discussion of funding techniques on p. 43 of app. II.

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report 1/ reviewed 72 State and local government pension plans and found that 53 could not meet the funding standards imposed by ERISA on private pension plans. These facts combined with the inexorable growth in the proportion of retirees explain why key measures of the financial status of the plans in the aggregate begin to deteriorate in the 21st century. Under some conditions, the decline is more rapid but the conclusion is the same: if present funding practices continue, a deterioration in the financial condition of the plans in the aggregate is likely. The few fully funded plans should remain in good shape, but the numerous poorly funded plans can expect financial difficulty in this century.

1/"Funding of State and Local Government Pension Plans: A National Problem," U.S. General Accounting Office, HRD-79-66, August 30, 1979.

PROJECTION OF SALARY AND EMPLOYMENT LEVELS FOR STATE AND LOCAL GOVERNMENT EMPLOYEES

State and local government employment and salary levels were estimated based on econometric analysis of long-term economic trends of historical data obtained from the Bureau of the Census. Forecast trends obtained from the Data Resources, Inc., national economic model were used as inputs to forecast future employment and salary levels. To capture the effect of different growth patterns among different regions of the U.S. and among different categories of the State and local government employees, four regions of the U.S. and six employment categories were considered. Employment categories and regions were aggregated for the actuarial model discussed in appendix II.

Table 8 shows the growth in State and local government employment as forecast by our model. State and local government employment is forecast to increase as a percentage of total U.S. population, but the rate of growth is considerably lower after 1990. The Bureau of Labor Statistics has estimated that total State and local government employment for the U.S. will reach 13.7 million by 1990. The estimate of 14.2 million shown in table 8 compares well with that estimate.

Figure 3 and table 9 show expected total State and local government employment by region for the period 1960 to 2020.

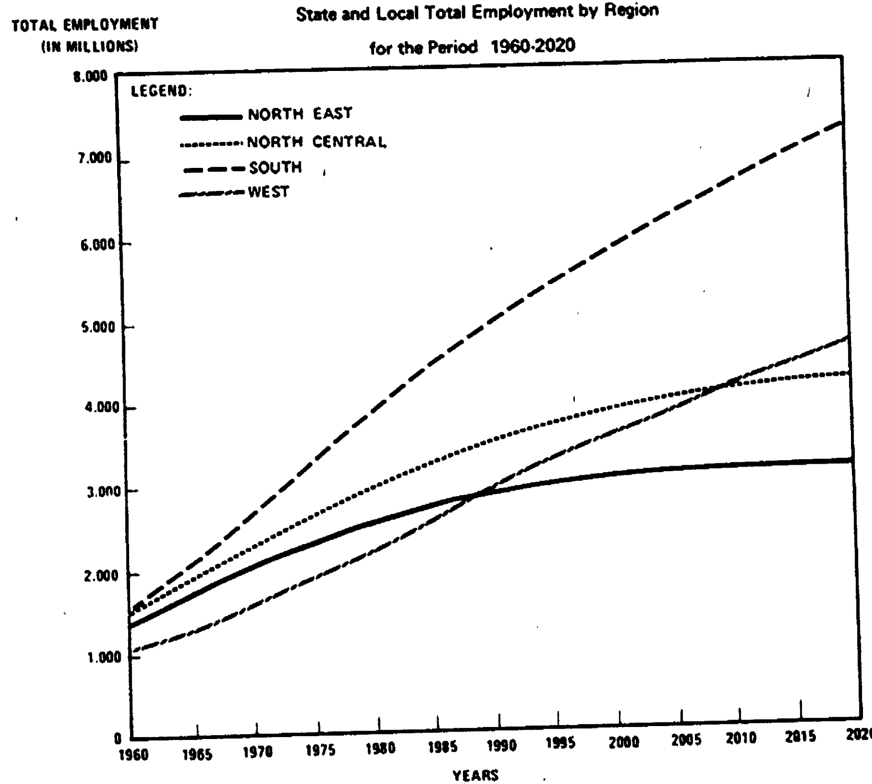
Table 8

U.S. Employment and State and Local Government Employment 1960-2020

Year	Total U.S. Population (millions)	Total State and Local Government Employment (millions)	State and Local Government Employment as a Percentage of Total Population
1960	180.4	5.6	3.1
1970	204.1	8.5	4.2
1980	222.0	11.6	5.2
1990	243.3	14.2	5.8
2000	264.1	16.1	6.1
2010	274.8	17.7	6.4
2020	289.6	19.1	6.6

Source: U.S. population is DRI, State and local employment estimated by GAO.

Figure 3
State and Local Total Employment by Region
for the Period 1960-2020



APPENDIX I

Table 9

State and Local Government Employment by Region and For U.S. for the Period 1960 - 2020 at an Interval of Five Years (in Millions)

Year	Northeast	North Central	South	West	U.S. Total
1960	1.391	1.530	1.629	1.021	5.571
1965	1.679	1.899	2.061	1.297	6.936
1970	2.079	2.278	2.577	1.594	8.528
1975	2.316	2.596	3.266	1.933	10.111
1980	2.531	2.923	3.866	2.266	11.585
1985	2.724	3.203	4.406	2.608	12.941
1990	2.876	3.455	4.918	2.947	14.196
1995	2.960	3.635	5.356	3.253	15.204
2000 a/	3.016	3.778	5.744	3.538	16.076
2005	3.065	3.903	6.118	3.817	16.903
2010	3.099	4.005	6.488	4.102	17.694
2015	3.127	4.085	6.851	4.392	18.455
2020 b/	3.144	4.132	7.181	4.669	19.126

a/Alicia H. Munnell and Ann M. Connolly of the Federal Reserve Bank of Boston projected local and State government employment of 22.8 million in the year 2000. Their projections are based on: an increasing ratio of employment in education to population in the 5-24 year age group and an increasing ratio of employment in the noneducation sector to population in the 25 year and older age groups. Their projected number is the total of permanent and part-time employment whereas our estimate is for full time equivalent employees. Their ratios are projected to increase by a constant amount whereas ours are nonlinear. The population projections used by them are different than ours. Thus their figures are not comparable with ours.

b/The medium (of low, medium, high) projection of employment by the Social Security Administration for the year 2020 is 149.2 million. This estimate is based on their population projection of 297.4 million. We used the Bureau of Census medium population projection of 289.6 million. The percentage of total local and State government employment (as projected by GAO) to total employment (as projected by Social Security Administration) for the year 2020 is 12.82. This percentage will be a little higher if the GAO estimate of local and State government employment is based on the population projection used by Social Security Administration. This percentage appears to be reasonable in view of the fact that the share of local and State government employment in the total employment is expected to stabilize because of proposition 13. This is also clear from the fact that the percentage of local and State government employment to total population does not substantially increase in the next 45 years. This percentage was 4.74 in 1975 and is projected to be only 6.604 for the year 2020.

Although total State and local government employment for the U.S. is forecast to almost double between 1975 and 2020, the total employment figure hides significant regional variations. The employment growth rates in the South and West are higher during the period 1960 to 1980 because of the rapid increase in population in these two regions. The growth rates in all regions are projected to drop off during the next two periods from 1980 to 2000 and 2000 to 2020. This decline is due to the slower increase in population compared to the previous period and the tapering-off in the growth rate for real per capita income. Figure 4 shows real average annual salaries by region as forecast by GAO based on DRI projections of regional per capita income. The average annual salary is forecast by adjusting the estimated real average annual salary for cost-of-living increases.

INPUTS OBTAINED FROM NATIONAL ECONOMIC MODEL OF U.S. ECONOMY

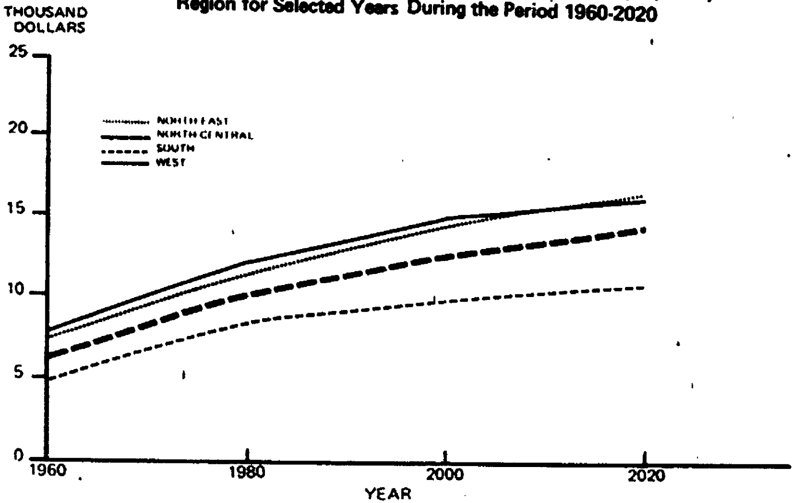
As described in the previous paragraph, the Data Resources, Inc., national and regional economic models were used to obtain forecasts of U.S. population and real per capita income by census region. These forecasts were in turn used as inputs for our econometric model that estimates employment and salary levels for State and local government employees.

The results of our model are based on the assumption that the underlying trends in the economy are actually reflected in the forecasts produced by the DRI model. This premise requires that the economy not be subject to any major disruptions, such as a curtailment of oil supplies, rampant inflation, war, natural catastrophe, and the like. DRI's basic economic assumption is that the economy will grow steadily at an average annual rate of 2.5 percent, leading to a balanced Federal budget in the mid-1980s.

Two important determinants of long-term economic growth that are critical for our estimates are demographic forecasts and the forecast of the potential output of the economy. Demographic estimates used by the economic model are based on the population statistics contained in the Census Bureau's Series II projections. The dominant element in the Series II projections is the fertility rate. Census forecasts that the total fertility rate will gradually increase from 1.8 in 1976 to 2.1 in 2015. Net immigration is assumed to stabilize at about 20 percent of total population growth.

Figure 4

Real Average Salaries of Local and State Government Employees by Region for Selected Years During the Period 1960-2020



APPENDIX I

Figure 5 shows the total U.S. population and the population by census region as obtained from the national economic model and a forecast by the Social Security Administration. The Social Security forecast is slightly higher than the national economic model forecast. Both forecasts of total U.S. population show a slowdown in the rate of population growth. Regional population growth as forecast by the DRI national economic model provides for slow growth in the north-central region, substantial growth in the western and southern regions, and a modest decline in the northeast region.

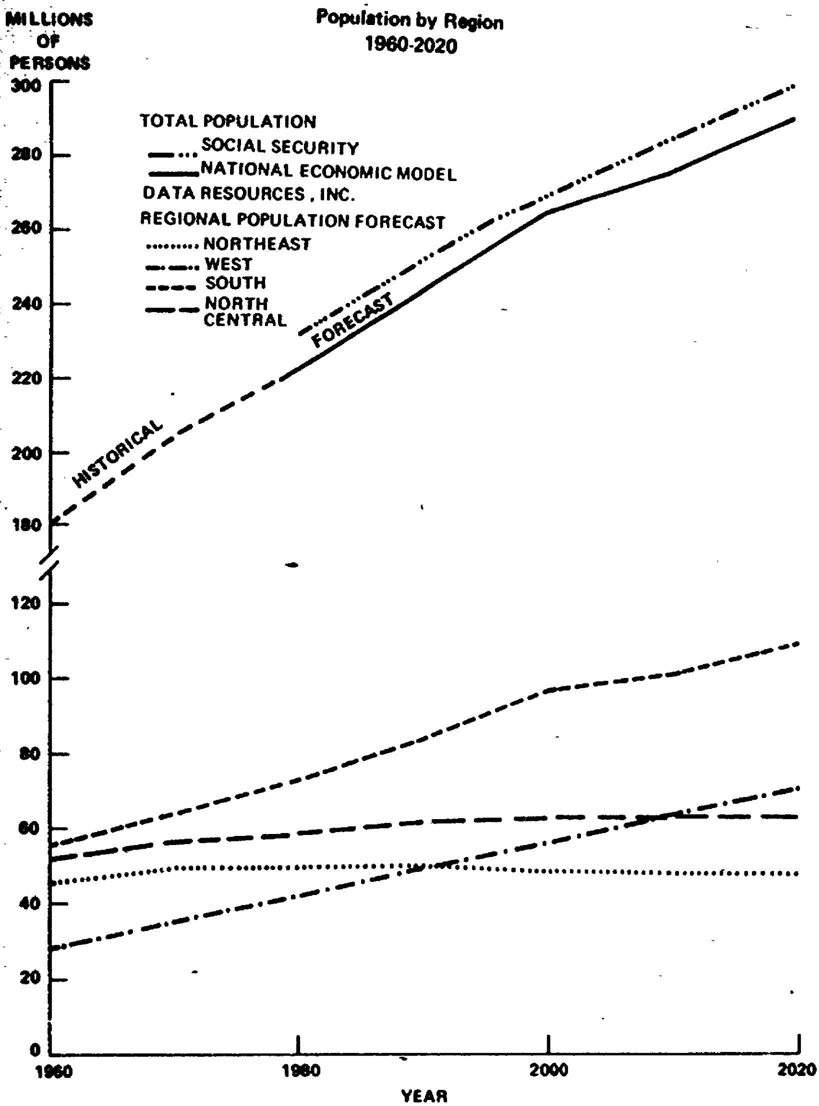
The other important factor is the forecast of the potential output of the economy. The DRI model's forecasts of inflation and real GNP growth rates are similar to Social Security Administration estimates of these variables. The DRI model forecasts a long-term real GNP growth rate of 2.5 percent and a long-term inflation rate of 4.5 percent 1/; the Social Security Administration 2/ forecasts 3.0 percent and 4.0 percent, respectively, for real GNP and inflation. Recent, persistent economic events have forced the choice of a higher inflation rate. An inflation rate of roughly 7 percent was chosen as representative of recent trends.

The following sections present the projections of State and local government employment and salary growth along with a detailed description of the employment and salary model's structure and assumptions.

1/The national economic model uses the personal consumption deflator while Social Security uses CPI. The personal consumption deflator is a broad-based inflation index used to deflate total personal consumption expenditures for all consumers, not just inflation's impact on urban consumers as measured by the Consumer Price Index (CPI). For a 25-year forecast period (1979-2003), the average annual rate of increase in the personal consumption deflator is 0.4 percent below the respective forecast of the Consumer Price Index - All Urban Consumers.

2/1978 Annual Report of the Board of Trustees, Old-Age and Survivors Insurance and Disability Insurance, p. 24. The economic assumptions for the Alternative II forecast for the year 1978-1981 are similar to the economic assumptions underlying the President's FY 1979 Budget.

Figure 5
Population by Region
1960-2020



THE EMPLOYMENT MODEL

The employment model projects six employment categories within each region--police, firemen, local teachers, State teachers, all other local employees, and all other State employees. Projections in each category of employment were made using econometric techniques that accounted for the impact of population and real per capita income on the demand for services from State and local government employees. Real per capita income is highly correlated with a number of other factors which affect local and State government employment, such as urbanization, education, and real per capita Federal Government transfers to State governments. (See figure 6.) These others are not included since they would measure the same effect as measured by real per capita income. Figure 7 shows historical and forecast real per capita income as obtained from the national economic model.

Constraining the employment projections

As the population in a region increases, the demand for additional services from each functional State and local government employment category increases. Rising real per capita income increases the standard of living, which, in turn, increases the demand for police and fire protection, higher education and other State and local government services. In our opinion there is a limit to the demand for services even if real per capita income increases. By constraining the level of employment per million population in the employment model, the effect of increasing real per capita income on the demand for State and local government services is limited. We analyzed historical data on the growth of State and local government employment to establish our employment constraints.

Table 10 shows historical State and local government employment per million population by census region. These figures can be viewed as showing a real income effect on employment of providing a given level of State and local government service. For example, increased real per capita income was associated with an increase in police employment in the northeast region from 2,098 per million in 1957 to 2,956 per million in 1977. This is much higher than in the other regions although other regions have grown faster in the last 20 years. The higher demand for police protection in the northeast compared to other regions can be attributed to higher levels of real per capita income, urbanization and education. Similar regional growth patterns can be seen for firemen.

Figure 6
Direct and Indirect Linkages of Population and Real Per Capita Income to Local and State Government Employment

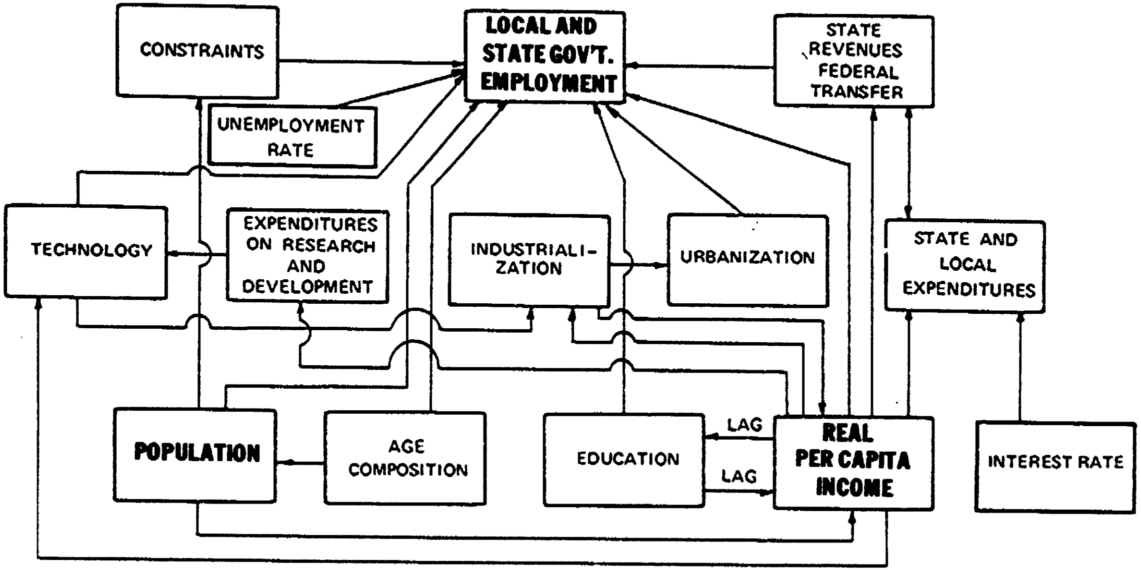
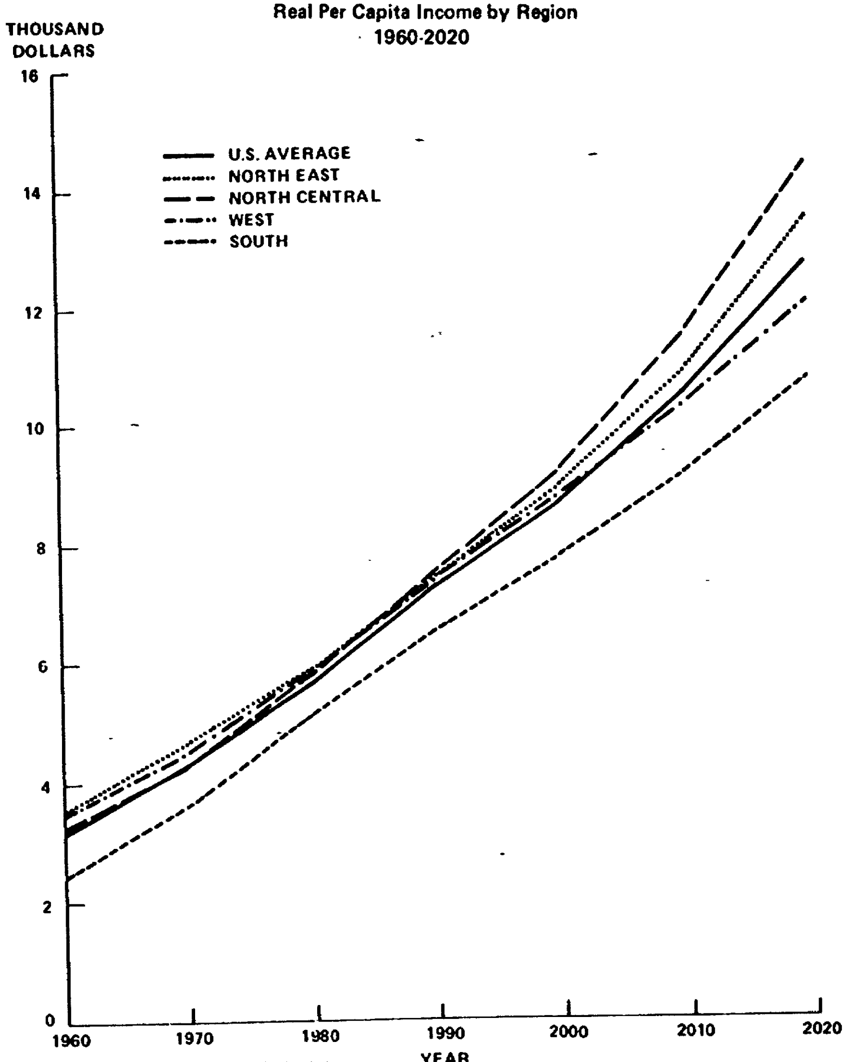


Figure 7

Real Per Capita Income by Region

1960-2020



SOURCE: DATA RESOURCES, INC.

Table 10

Employment Per One Million Population by Region in Each Functional Category of Local and State Government for 1957, 1967, and 1977

Year	Northeast	North-Central	South	West
		POLICE		
1957	2,098	1,444	1,261	1,600
1967	2,437	1,762	1,675	2,005
1977	2,956	2,384	2,395	2,777
		FIREMEN		
1957	1,084	685	569	879
1967	1,121	852	770	918
1977	1,144	876	979	1,135
		LOCAL TEACHERS		
1957	9,382	10,657	10,374	12,009
1967	15,373	15,562	15,992	17,370
1977	17,980	18,963	19,614	18,900
		STATE TEACHERS		
1957	688	1,773	2,580	2,261
1967	1,695	3,461	3,292	4,303
1977	2,494	4,890	5,322	5,741
		LOCAL ALL OTHERS		
1957	9,817	8,214	6,767	9,638
1967	10,936	9,768	9,143	11,199
1977	13,448	11,845	12,227	14,694
		STATE ALL OTHERS		
1957	5,769	4,278	5,182	5,320
1967	6,984	5,488	6,723	6,804
1977	8,845	6,961	9,487	8,249

The growth in real per capita income from 1957 to 1977 in all the regions has created a substantial demand for higher education, as evidenced by a dramatic increase in local and State government employment in education in all the regions. Similarly, increased real per capita income and the parallel growth in urbanization and education in all the regions has caused substantial increases in the demand for various traditional services. It has also created a demand for new types of services in all the regions in the last 20 years. This is substantiated by the increase in all other local and State government employment.

Increases in regional employment per million population have been substantial. This trend is not forecast to continue at the historical rate. The employment model constrains employment per million not to exceed the limits shown in table 11.

Table 11

Constraints on Employment Per Million by Functional Category

Functional category	Employment per million people	Number of persons served by one job
Police	3,498	286
Firemen	1,210	826
Local teachers	26,871	37
State teachers	7,250	138
All other local	17,464	57
All other State	11,805	85

Statistical estimation

Employment is projected taking into account both the population effect and a constrained real income effect. The employment model traces the real income effect on each category of State and local government employment in each region when population is kept constant. By limiting the amount of employment per million population, an upper limit to the income effect was incorporated into the model. The model is

$$\left(\frac{E}{P}\right)_t = e^{(B_0 + B_1 / X_t)}$$

Where $\frac{E}{P}$ is the employment per million people in the year t and X_t is the real per capita income in the year t. B_0 and B_1 are the parameters to be estimated. B_0 is positive and B_1 is negative. The functional upper limit for $\frac{E}{P}$ is e^{B_0};

judgmental limits were added as discussed in the previous section. The model was estimated in logarithmic form and adjusted for serial correlation for the six functional State and local government employment categories and the four Census regions.

Table 12 shows the regression coeffficient, $\bar{R}^2$ and rho values for the regression equations fitted for all the functional categories of employment in all the regions. All the coefficients are statistically significant at the five percent level. The $\bar{R}^2$ values are generally higher than 0.90, indicating that the real per capita income serves to explain more than 90 percent of the variation of the ratio of employment to population in all functional categories in all regions except two cases during the past 20 years.

THE SALARY MODEL

Real annual salaries for State and local government employees correlated with real per capita income in each region. Hence, real per capita income in each region was used as a proxy for all the independent variables which can explain the variation in the real annual average salary:

$$Z_t = e^{(B_0 + B_1/X_t)}$$

where: Z_t = real average annual salary

X_t = real per capita income.

B_0 and B_1 are the parameters to be estimated. The equations were adjusted for serial correlation. Using the reciprocal of real per capita income in the equation provides estimates of real average annual salary increasing at a decreasing rate. The nominal average annual salary is estimated by inflating the estimated real average annual salary by the estimated cost-of-living adjustment.

Statistical estimation

Table 13 shows the regression coefficients, $\bar{R}^2$ and rho values for the regression equations fitted in all the functional categories of employment in all the regions. The t-statistic values are not specifically given in the table because all the coefficients are statistically different from zero even at the 1 percent level of significance. In most cases, the $\bar{R}^2$ values are higher than 0.90 indicating that the real per capita income in the reciprocal form explains more than 90 percent of the variation in real annual average salary in most functional categories in most of the regions during the past 20 years.

Table 12

The Regression Coefficients, $\bar{R}^2$ and rho Values in the Functions Fitted in All Functional Categories of Employment in all Regions

Region	Constant Term	Coefficient	$\bar{R}^2$	rho
		POLICE		
Northeast	9.02753	-0.514545	0.9557	0.769005
North Central	8.35954	-0.247047	0.9671	0.822922
South	8.43121	-0.304263	0.9816	0.824848
West	9.18427	-0.487819	0.9727	0.725204
		FIREMEN		
Northeast	6.92650	-0.606711	0.6534	0.568054
North Central	6.68000	-0.181161	0.4672	0.024509
South	7.44157	-0.424566	0.9714	0.729988
West	8.76935	-0.815335	0.9104	0.508397
		STATE TEACHERS		
Northeast	9.42259	-0.186327	0.9877	0.150395
North Central	9.89154	-0.420489	0.9718	0.410339
South	9.45790	-0.401093	0.9623	0.783857
West	10.4506	-0.609410	0.9718	0.699416
		LOCAL TEACHERS		
Northeast	11.0924	-0.388012	0.9691	0.479518
North Central	10.7469	-0.361185	0.9591	0.131219
South	10.5037	-0.359309	0.9854	0.517653
West	10.5314	-0.304363	0.9591	0.576608
		ALL OTHER STATE EMPLOYMENT		
Northeast	9.91185	-0.351661	0.9735	0.708181
North Central	9.50252	-0.190730	0.9610	0.408203
South	9.74615	-0.414401	0.9786	0.874219
West	9.56413	-0.253079	0.9198	0.500326
		ALL OTHER LOCAL EMPLOYMENT		
Northeast	10.1113	-0.333090	0.9433	0.708823
North Central	9.76047	-0.207495	0.9205	0.595405
South	9.93314	-0.287703	0.9743	0.826614
West	10.6485	-0.497117	0.9526	0.727322

Table 13

The Regression Coefficients, $\bar{R}^2$ and rho Values in the Functions Fitted in all the Functional Forms in all Regions for Real Average Annual Salaries

Region	Constant term	Coefficient	$\bar{R}^2$	rho
		POLICE		
Northeast	10.4465	-5.49074	0.9460	-0.12388
North Central	9.96977	-3.57118	0.9632	0.579616
South	9.58124	-2.23339	0.9854	0.310168
West	10.1709	-4.00828	0.9644	0.709396
		FIREMEN		
Northeast	10.4286	-5.33522	0.9790	0.29997
North Central	10.0186	-3.53814	0.9570	0.604772
South	9.64333	-2.24138	0.9887	0.59363
West	10.3759	-4.46636	0.9598	0.71527
		LOCAL TEACHERS		
Northeast	9.95138	-3.39246	0.9386	0.56105
North Central	9.79694	-2.96925	0.9135	0.53234
South	9.40977	-1.78034	0.9276	0.748328
West	9.97067	-3.44135	0.9548	0.884518
		STATE TEACHERS		
Northeast	10.16230	-4.22144	0.9298	0.511627
North Central	9.89789	-2.89829	0.8908	0.575996
South	9.70700	-2.35806	0.9525	0.824976
West	10.00500	-3.31563	0.8293	0.531574
		ALL OTHER STATE		
Northeast	10.00230	-4.47651	0.9780	0.77894
North Central	9.83174	-3.59774	0.9570	0.60509
South	9.52789	-2.47126	0.9863	0.55148
West a/	10.0543	-3.91404	0.9344	OLS
		ALL OTHER LOCAL		
Northeast	9.93239	-4.271930	0.9721	0.70312
North Central	9.51163	-2.55642	0.8630	0.28098
South	9.31501	-2.15596	0.9870	0.49750
West	9.84193	-3.41135	0.9839	0.92258

a/The equation was estimated using ordinary least squares.

MODEL TO FORECAST BENEFIT PAYMENTS

In 1975, the Pension Task Force and the GAO undertook a study of State and local government retirement systems, as required under Section 3031 of the Employee Retirement Income Security Act of 1974 (ERISA). An integral part of the study was a survey of pension plan membership characteristics and requirements, contributions, vesting, benefits, portability, and financing. The survey generated a large data base, with information representing 6,630 State and local pension plans.

The Task Force data base was used as the starting point to project benefit payout. To that extent, the data merit a discussion because of the picture they present of the overall characteristics of State and local government retirement systems in 1975. Table 14 shows the membership in all State and local plans, in all large plans (those with 1,000 or more active employees), and in all large defined benefit plans. Large plans, although only 6 percent of all plans, represent about 94 percent of the total active membership, while the 297 defined benefit plans contain over three-fourths of the total membership.

In 1975 active membership in large defined plans was 8.1 million, of whom 70 percent were also covered by Social Security. Social Security benefits were not included in any of our projections because they were not integrated with the State and local plans to any appreciable degree. In addition, there were 1.6 million retirees, over three-fourths of whom were retired because of age and service.

Most of the 82 large plans that are not defined benefit plans have features of both defined contribution and defined benefit plans and are referred to as "combination" plans. As might be expected, the large State and local government

Table 14

Membership in
State and Local Retirement Systems in 1975

	Number of plans	Membership (thousands) Active	Inactive	Total	Percentage of Total	Number of Members per Plan
All	6,630	10,387	2,347	12,734	100.0	1,920
All large	379	9,859	2,112	11,971	93.9	21,600
Large defined benefit	279	8,070	1,612	9,682	76.0	32,600

retirement systems have a financial impact commensurate with the size of their membership.

Table 15 shows that large defined benefit plans account for about three-fourths of the total of all State and local government plans in key financial areas, while all large plans are over 90 percent of the total. We restricted our detailed analysis to the large defined benefit plans in an effort to ensure a level of homogeneity that would make projections practical. The intention was to use the information from the Task Force survey to build prototypes of State and local government plans and then project pension costs for State and local government retirement systems as a whole. Defined benefit plans exhibited sufficient similarities in provisions, experience, and funding to allow the construction of "typical" plans.

Most of the active members were in plans whose benefit formulas were a simple percentage (rate) of final compensation times years of service. Post-retirement cost-of-living adjustments took various forms, including ad hoc increases, automatic increases with the cost of living (but subject to

Table 15

General Financial Characteristics (in billions of dollars)

	Large Defined Benefit Plans	Percent of all Plans	All Large Plans	Percent of all Plans	All Plans
Assets	$80.7	75	$101.5	94	$108.3
Investment Income	4.3	72	5.5	93	5.9
Benefit Payout	5.8	73	7.5	95	7.9
Employer Contributions	7.4	73	9.3	92	10.1
Employee Mandatory Contributions	4.1	77	5.1	95	5.4
Payroll	74.2	76	92.6	95	97.5

a limit), and constant percentage increases. The Task Force's limited survey of 23 very large retirement systems (with total 1975-76 active membership of 4.5 million) revealed that post-retirement adjustments averaged, from 1969 to 1978, about one-half the increase in the Consumer Price Index. At least 87 percent of the large defined benefit plans featured mandatory employee contributions, usually at a simple percentage of salary, and 92 percent of the employees were in plans with some advanced funding.

MODEL TO FORECAST BENEFIT PAYOUT

The large defined benefit plans were divided into two groups--teachers' plans and other plans. A review of the responses to the Task Force survey and other actuarial material led to the conclusion that these two types of plans were too dissimilar to combine. For example, the teachers had in general more generous benefits, higher salaries, a different age and sex distribution, and higher withdrawal rates. Because each of these characteristics weighs heavily in a benefit projection, we developed two separate prototypical plans whose 1975 membership, total benefits, and average annual salaries are shown in table 1, page 5. Each prototype was designed to conform initially to these characteristics. In addition, we used the Task Force data to determine the number of years on which to base "final compensation" and to construct the two prototypical benefit formulas.

Other data sources were used in those areas that the Task Force survey had not covered. The age and sex distributions of the active populations were based upon information in the Census Bureau's "Current Population Survey" (January 1978). For age and benefit distributions of the 1975 retirees, data were aggregated from actuarial valuations of several large State, local and teachers' retirement systems. These valuations also supplied us some data on retirement ages, entry ages, withdrawal and disability rates, and salary scales. Post-retirement cost-of-living adjustments were set at half the future increases in the cost of living. We used the Unisex Pension 1984 Table, adjusted for varying male-female ratios and future improvements in mortality.

PROJECTING BENEFITS

Within each prototype, benefits were projected for three groups: persons retired in 1975, active employees in 1975, and new entrants after 1975. Projections through the year 2020 of the growth both in teachers' and in other State and local governments' work forces were incorporated into the model and served to predetermine the number of new entrants needed each year in the future.

The 1975 retirees were assigned an initial age and benefit distribution and then "aged" using the assumed mortality rates. A projection through 2020 of the cost of living was used in computing the remaining retirees' post-retirement cost-of-living adjustments. 1/

An age distribution from the BLS "Current Population Survey" was imposed on the 1975 active employees in each prototype. The total payroll (average salary times number of employees) was distributed initially among the age groups using a merit scale to reflect a typical worker's career salary progression, neglecting inflation. The career average annual merit increase was 1 percent for State and local government employees and 1-1/2 percent for teachers, with accelerated increases in the early years. At each year of the projection, salary growth forecasts were applied across the board to the total payroll.

Those actives who "survived" to retirement were accorded a benefit using the average benefit formulas constructed from the Task Force data. Retirement ages were spread uniformly over a 10-year period, with the median age determined by a review of actuarial valuations and plan provisions.

Entry ages were set at 30 and 34 for the teachers' and the State and local prototypes, respectively, and represent the average entry age for a typical retiree. The benefit formulas, entry ages, and retirement ages result in an average replacement ratio (that is, percentage of final compensation) of 52 percent for teachers and 50 percent for other State and local retirees. Final compensation in both prototypes was the average of the last 4 years of salary.

Augmenting the benefits

The average benefit formulas as computed could be applied directly only to those employees retiring because of age and service. Furthermore, the benefits so generated were confined to the modeled population--that is, large defined benefit teachers' and other State and local pension plans. To obtain projection for all 6,630 plans, the prototypical benefits had to be augmented first for ancillary benefits and second for all those plans outside the modeled population. Four augmentations were made in each year of the projections.

The prototypes dealt exclusively with members who retired because of age and service. Survivor benefits, disability

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1/See p. 29, app. I.

benefits, and returns of contribution were not separately calculated. Instead, we augmented the average benefit going to age and service retirees to take into account the payments for these ancillary benefits. The augmentation factors we used were based on the Bureau of the Census data for 1974 to 1977.

Among the 297 large defined benefit plans were 46 plans for police and firemen. Although 15 percent of the plans, they represented just 3 percent of the active employees and as such were considered too insignificant to merit their own prototype. To take these plans into account, total benefits were increased proportionately.

The combination and defined contribution plans were found to be similar to the large defined benefit plans in key financial areas. Differences in average benefit and average salary for 1975 were recognized before augmenting the prototypes' benefits by the ratio of total actives in all 379 plans to total actives in the 297 defined benefit plans. 1/

The 6,251 small plans accounted in 1975 for less than 5 percent of the active membership in State and local government pension plans. The model's total benefit payments were increased proportionately to take into account these additional plans and thereby extend the model to the known 1975 universe of State and local government retirement systems. Table 16 summarizes the assumptions used.

About 42 percent of State and local government systems of all types were funded on a nonactuarial basis. Moreover, many claiming to use an actuarial basis were not using the "dynamic normal cost" approach 2/ recommended by GAO for all Federal plans. The Task Force went on to estimate that only 20 to 25 percent of all State and local government pension plans would meet ERISA's minimum funding standards.

1/See table 14.

2/This approach takes into account future cost-of-living increases and general pay hikes.

Table 16

Base Case
Projection Assumptions

Age at retirement	Median age 60 for teachers, with 10-year spreading Median age 62 for State and local employees, with 10-year spreading		
Entry age	30 for teachers 34 for State and local employees		
Rates of mortality	Unisex Pension-1984 Table, with one-year setback for every 17 years of projection		
	Sample annual rates of termination are as follows:		
	Age	Teachers	State & local
Rates of withdrawal (original actives)	25	15.9%	16.0%
	30	5.7%	11.4%
	35	2.6%	7.4%
	40	1.2%	5.1%
	45	0.6%	3.9%
	50	0.3%	3.0%
(New entrants)	35	5.4%	13.9%
	40	1.1%	5.3%
	45	0.4%	3.2%
	50	0.2%	1.6%
	55	0.1%	1.0%
Rates of disability	Age	Rate per thousand	
	25	0.600	
	30	0.672	
	35	0.768	
	40	0.920	
	45	1.926	
	50	1.920	
Benefit formulas	Teachers 1.85% x years of service x final compensation. State & local 1.78% x years of service x final compensation.		

Table 16--Cont.

Final compensation	Average of last 4 years of salary.
Average service at retirement	28 years
Replacement ratios	Teachers 51.8%
	State & local 49.7%
Ancillary benefits	Teachers Projected as a constant 7.6% of total payout.
	State & local Projected as a constant 16.4% of total payout.
Withdrawal payments (Return of contributions)	Teachers Projected at 9.5% of total payout.
	State & local Projected at 15.2% of total payout.

Governor ALEXANDER. In our State, all $43 million of the State share of revenue goes to that. It is for the pensions for local school teachers. That pays about a half to a third of is.

On the surplus question, just to give you a rough idea of how big a surplus we have, or the kind of constraints we are under, if we increased our budget this next year just to keep up with inflation, gave no pay increase above that, no agency, no program got anything more than an increase to keep up with inflation, it would cost us $480 million new dollars. We only have $87 million new dollars, including our State revenue sharing money.

So we only have $87 million and we need $480 million just to stand still, so we are cutting severely in our State—and so are most others.

Senator DURENBERGER. Thank you very much.

Senator BRADLEY. Thank you very much, Governor Alexander.

Governor ALEXANDER. Thank you, Mr. Chairman.

[The prepared statement of Governor Alexander follows. Oral testimony continues on p. 245.]

TESTIMONY OF

GOVERNOR LAMAR ALEXANDER

Mr. Chairman and Members of the Subcommittee:

I am appearing today on behalf of the National Governors' Association and the NGA Committee on Executive Management and Fiscal Affairs on which I serve. I am Co-Chairman, with Governor Harry Hughes of Maryland, of the Committee's Task Force on Revenue Sharing. Governor Brendan Byrne will also participate in these hearings.

The program we are discussing today, General Revenue Sharing, is uniquely suited to meet the demands that will be placed on the intergovernmental system in the 1980's. The following points support this conclusion:

- Revenue sharing permits state and local governments to allocate federal dollars to their <u>highest priorities</u> at a time when all public funds must be spent in the most effective way possible.
- Revenue sharing is a <u>productive</u> method for using federal funds at a time when increased productivity in the public and private sectors is a major national goal.
- Revenue sharing is <u>controllable</u> at a time when a consensus is building for slowed growth in federal spending.
- Revenue sharing promotes <u>cooperation</u> among the three levels of government at a time when shifting roles will place new strains on intergovernmental relations.

<u>REVENUE SHARING FUNDS SUPPORT HIGH PRIORITY PROGRAMS</u>

General Revenue Sharing has an important role in an intergovernmental grant system shaped by increased controversy over expenditure of federal funds because it permits state and local governments to the money for high priorities. As the squeeze on federal funds increases, it will become more difficult to maintain nationwide programs of categorical aid that respond directly to problems in one region of the country but are only marginally important to other areas.

The range of purposes for which states currently use revenue sharing funds demonstrates that the program is now accommodating the diverse priority needs of different sections of the nation. Over half of the money which states receive are earmarked for education and social service programs. Thirteen states spend all of their funds for educational programs; these states are Florida, Illinois, Montana, Nebraska, Nevada, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Virginia, and Wisconsin. Eight states -- Alaska, California, Connecticut, Colorado, Idaho, Michigan, Minnesota, and New Mexico -- spend all of their funds for social service programs.

State funds are also used to:

- finance construction projects. These provide immediate job opportunities and lasting benefits to state citizens and help make public facilities accessible for handicapped persons.
- support pension benefits. This is an emerging area of public sector concern in light of the House Pension Task Force finding that public pension plans face a $150-$175 billion unfunded liability. Revenue sharing supports part of an effort in many states to put their pension systems on an actuarially sound basis, and many of the workers covered by pension plans aided with state revenue sharing dollars are local government employees. Tennessee uses the funds it receives for this purpose.

inflation far outran what could reasonably have been expected when the program was adopted. The result has been a substantial decline in the value of revenue sharing. To have maintained the purchasing power of the $6.1 billion outlay for revenue sharing in FY 1974, the program would have to provide a little more than $10 billion this fiscal year. If the Congress adopts the President's proposal that revenue sharing be renewed, but at a constant dollar level, the value of revenue sharing would drop sometime in FY 1981 to half the real value of the program in FY 1974 and would continue to decline thereafter--how fast would depend upon the future rate of inflation.

The declining value of the revenue sharing dollar parallels the course of federal spending for grants-in-aid in recent years. Grants reached a high point of 17.3 percent of the budget in FY 1978 and have been declining steadily since. In the President's proposed budget, all grant programs--including income assistance and Medicaid--account for 15.6 percent of federal spending. By FY 1983 the Administration projects that grants will be one full percentage point less, or 14.5 percent of the total federal budget.

The fiscal problems of the federal government, with its projected budget of more than $600 billion, have not been caused by the $2 billion state revenue sharing program, the cost of which--as we have seen--has hardly changed in the last eight years. To the extent that grants-in-aid have contributed to these problems, the difficulty has been the inability of the Congress, with its more than 300 committees and subcommittees, to control hundreds of billions of dollars in narrow categorical grant programs.

REVENUE SHARING PROMOTES INTERGOVERNMENTAL COOPERATION

Mandates

In a time of scarce resources, cooperation between levels of government is vital if the goals and policies of government are to be accomplished. The federal government has imposed on state and local governments about 1200 mandates, of which about 1,000 have been imposed since the enactment of revenue sharing. General Revenue Sharing is one way for the federal government to recognize the assistance state and local governments have provided--at considerable expense in some cases--in meeting these national goals. Through GRS, the federal government can, in turn, provide assistance for locally-set priorities.

Intergovernmental mandates will continue to be an issue in the 1980's. Then, as now, the debate is likely to center around how the costs can be met in an era of limited resources, not on whether the mandated programs are justifiable or even desirable. I believe that General Revenue Sharing plays a direct role in alleviating the burden that these important but unfunded mandates place on state and local governments and that this aspect of the program will take on increased importance during the belt-tighting of this decade.

State Aid to Local Units of Government

Over the years, states have developed sizeable programs of aid to local governments. The NGA Center for Policy Research has calculated that the level of state aid to localities was $78.1 billion (compared to $16.6 billion in direct local aid provided by the federal government) in 1977. For example:

- In Tennessee, 25 percent of state tax revenues are used to support local schools, and another 10 percent of state taxes are shared with local governments.
- In Oregon, $1.6 billion is distributed from state funds to local units of government to support a variety of programs,

including education, tax relief, mental health, and drug abuse prevention.

- In Connecticut, $572 million out of a total $2.6 billion state budget will be spent for local programs of tax abatement, aid to the elderly, urban aid, and education. The state is now implementing the results of a study on education equalization and an Urban Action study.
- In Wisconsin, state aid payments account for approximately 50 percent of total local government revenues.
- In New Jersey, 52 percent of state expenditures are for local aid programs. The state pays 60 percent of the urban school costs, and 100 percent of the state income tax goes to local jurisdictions.

General Revenue Sharing has an important role in these extensive programs of state aid to local governments. In some cases, revenue sharing funds are used directly to finance a variety of local aid programs; in other cases revenue sharing funds are not dedicated to local assistance purposes but form part of the overall state revenues that make substantial programs of local assistance possible. According to Bureau of Census figures, over 40 percent of all state revenue sharing payments are passed directly through to local units of government.

In this regard, you may be interested in research recently conducted by the NGA Center for Policy Research on the relative degree to which state-administered grants have been successful in targeting aid to "distressed" cities between 1965 and 1977. The results of this research indicate that state aid, in conjunction with federal funds that pass through the state, are more responsive to distressed cities than is direct federal aid to cities. This conclusion was reached after analysis of four definitions of hardship and two distinct measures of financial aid, and the analytical work has been reviewed by scholars and government officials with expertise in this field of research. The study gives added credence to an intuitive belief that Governors have long held: that it makes sense for targeting formulas to be devised by a level of government capable of taking a broad view and of drawing on detailed knowledge of appropriate measures for determining the need of program recipiente. It suggests that programs like General Revenue Sharing, which establish a partnership between federal funds and state priority-setting and targeting abilities, have a track record for efficient targeting.

I am submitting a copy of the report for the record.

FISCAL CONDITION OF THE STATES

Mr. Chairman, I would be remiss if I closed my statement without touching on an issue that has been raised in every debate in Congress this session on the revenue sharing program, namely, the fiscal condition of the states. It may be that this topic has become such an emotional one that no amount of clarification will set the record straight. However, I think it is important that the facts be placed in the record of these hearings.

As you know, revenue sharing payments have never been based solely on need; if they were, the program would not have included all state governments and all 39,000 local governments in the nation. Congress was well aware, when it first enacted revenue sharing, that it was creating a program that had important dimensions, in terms of its implications for federalism, beyond fiscal need. To be sure, need is a factor in the formula for determining the amount of funds distributed to each government, but it is not and never was intended to determine whether a government participated.

But even assuming that need should be the primary criterion of participation, the fiscal situation of the states does not justify elimination of the state role. Our own fiscal surveys have shown state government balances have been, in the aggregate, relatively small compared to expenditures, in many cases below what municipal bond raters and other experts would recommend. Our estimates are that twenty-nine states will have balances below the 5 percent generally assumed to be necessary to meet emergencies in 1980. This year in Tennessee, for example, we have $22 million in what is technically called a "surplus". It is not really a surplus. It would run the state for just two days. That is what we have set aside.

Operating balances at the state level are a function of uncertainty about the future, not of excessive prosperity. Forty-eight of the 50 states have legal constraints against incurring deficits and must maintain balances to deal with emergencies, protect their credit rating, and provide reserves against cash flow problems.

I have said that the existence of a surplus in a state reflects uncertainty about the future. Because states cannot have deficits, they must plan for a surplus. But planning revenues and expenditures so they come out at a precise point is a tricky business, as the members of this Subcommittee well know. Let me illustrate the problem by discussing the effect that incorrect inflation projections has on revenue projections. In the following table, the left hand column shows the Administration's inflation forecast made early in the year and the right hand column gives the actual December-to-December increase in the consumer price index.

	Predicted	Actual
1977	5.3%	6.8%
1978	6.1%	9.0%
1979	7.4%	13.2%
1980	6.3% (FY 80 Budget Prediction)	10.4% (FY 81 Budget Prediction)

As a result of discrepancies such as this, actual receipts and expenditures often vary from the projections. Recent underestimates of revenues by federal agencies reflect the lack of precision in predicting even national economic trends. For example, the U.S. Congressional Budget Office estimated in January 1979 that the FY 1979 federal government receipts would total $453.3 billion whereas actual receipts were $12.6 billion (2.8%) higher, or $465.9 billion, largely because the inflation rate was greater than projected Inflation also caused state revenues in 1979 to be larger than projected, while the failure of an expected economic slowdown to materialize helped some states to hold expenditures slightly below projected levels.

This difficulty of translating national forecasts into revenue projections creates even more uncertainties in state-level revenue and expenditure estimates. When states, using national economic forecasts, underestimate the rate of inflation, their balances rise because revenues respond more quickly to inflationary forces than do expenditures. However, the record clearly shows that inflation takes its toll on the expenditure side of state budgets also, and the temporary balances rapidly evaporate.

State operating balances are necessary because of the accounting system used at the state level. As Senate Majority Leader Robert Byrd and others have noted, if the federal government were to use the state accounting system and to separate its operating and capital expenditures, it too would have a balance. Yet, its underlying fiscal condition would not have changed; nothing would be different but the bookkeeping. Perhaps the best example of how misleading undue emphasis on state balances can be is that California, which is projecting a $1.5 billion balance for FY 1980, has just had its bond rating downgraded by Standard and Poor. California is projecting a minuscule $112 million balance for FY 1981, less than one percent of its budget, and that does not take into account the very possible adoption of a major new tax limitation in June.

Thus, states are not in a good position to experience a major change in funding responsibilities which failure to renew general revenue sharing would entail. More important, if there is to be some sort of shift of costs from the federal government to the states, it would seem more logical to make that shift by reducing categorical program funding rather than revenue sharing. If the state leaders had to choose where to take a cut of the magnitude that would be involved in non-renewal of general revenue sharing, preference would be in programs at the federal level that involve high administrative costs and little flexibility. Revenue sharing has none of these characteristics.

REAUTHORIZATION LEGISLATION

For the reasons I have explained in this testimony, I believe that reauthorization legislation reported by this Subcommittee and approved by the Congress must retain the present one-third allocation for the states, the flexibility of state and local officials to decide how the funds should be allocated, and the simple administrative structure that makes revenue sharing so productive.

We would like to have the opportunity to submit written comments on the reauthorization legislation you are considering when it is introduced. In the meantime, I will simply note that we have reviewed the Administration proposal that states be required to establish commissions to study state-local fiscal relations as a condition of continued participation. Although Governors support reauthorization of revenue sharing in its present form we feel that a fresh look at the complicated fiscal relationship between states and local governments could yield some useful results.

We strongly believe that the reauthorization legislation, if it contains a commission requirement, must set up a balanced, simple process that maintains the normal relationship between constitutionally created institutions and ad hoc commissions. In addition, it should not place roadblocks in the way of existing state processes for resolving intergovernmental questions. Approximately twenty states have already established state-local advisory bodies.

In our view, the case for the commissions might be more persuasive if the federal government would set the example by directing greater attention to the recommendations of its own commission, the Advisory Commission on Intergovernmental Relations, which two years ago recommended a comprehensive approach to federal aid reform. Neither the Administration nor the Congress has yet responded to those recommendations, which were based on the most comprehensive study of the federal aid system ever undertaken and which the Governors have been urging for the last two years as the most sensible way to control federal spending and to reduce the cost of government at all levels.

CONCLUSION

Revenue sharing should continue as a part of the federal aid package after 1980 because it permits controllability in a time of scarce resources, priority setting by state and local governments, productive use of federal funds, off-setting of unfunded federal mandates, and flexibility when the roles of the three levels of government are in flux.

Mr. Chairman, the Governors greatly appreciate the leadership you have shown with respect to revenue sharing and look forward to working with you for reauthorization of this important program.

National Governors' Association

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HOW THE STATES USE GENERAL REVENUE SHARING FUNDS

April 27, 1979

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The research for this report was completed under the direction of the NGA Committee on Executive Management and Fiscal Affairs by the NGA Center for Policy Research, the Washington Representatives of the Governors, and the National Conference of State Legislatures.

<u>Technical Note</u>: Unless otherwise indicated, figures cited for each state's revenue sharing allocation are based on Entitlement Period 10 payments (i.e., federal fiscal year 1979). Final EP 10 allocations have not yet been calculated, so the state payments were constructed from the second quarterly payments for EP 10 made on April 6, 1979.

HOW THE STATES USE GENERAL REVENUE SHARING FUNDS

Summary

This report shows how state governments expect to spend the funds allocated to them under the General Revenue Sharing (GRS) program. Data is drawn from a survey of forty-nine states; information from New Hampshire has not been received at this printing.

The states use revenue sharing funds as follows:

EDUCATION: The category for which the most states allocated their revenue sharing resources was education. Nineteen states set aside all or a substantial portion of their revenue sharing payments for education purposes; the funds targeted to education total $744 million, or 32 percent of all GRS payments to states.

Thirteen states earmark all of their revenue sharing funds for education purposes. Twelve of these distribute the money to local units of government to support elementary and secondary education; these states are Florida, Illinois, Montana, Nebraska, Nevada, North Dakota, Oklahoma, Oregon, South Dakota, Utah, Virginia, and Wisconsin. Texas spends all of its revenue sharing funds for higher education programs. An additional six states allocate a substantial portion of the funds they receive for education programs. These are Hawaii (23 percent), New York (29 percent), North Carolina (37 percent), Ohio (75 percent), Pennsylvania (68 percent), and Rhode Island (20 percent). In addition, nine states allocate their funds to state retirement systems, many of which cover elementary and secondary school teachers and university professors.

SOCIAL SERVICES: Thirteen states earmark all or a portion of the revenue sharing funds they receive for a variety of social services. The funds spent for social services total $588 million or 26 percent of all GRS payment to states. Services supported with these funds included retirement aid for the elderly, medical care for the indigent, and care for the mentally ill. States also use the funds for family service, emergency medical, and environmental health programs.

States which spend their entire revenue sharing allocation for social service programs are Alaska, California, Connecticut, Colorado, Idaho, Michigan, Minnesota, and New Mexico. In addition, five states allocate a portion of their funds for social service programs. These are Alabama (46 percent), Hawaii (78 percent) New York (29 percent), Pennsylvania (3 percent), and Rhode Island (18 percent).

CAPITAL IMPROVEMENTS: Ten states use all or a substantial portion of the General Revenue Sharing payments they receive for capital improvements; the funds targeted to construction projects total $329 million, or 14 percent of all GRS payments to states. Funds are used to build university buildings, public libraries, vocational-technical schools, correction facilities, public hospitals, and highways. GRS dollars have also been used to alleviate flooding problems and eliminate hazardous road conditions. Funds are used in part to comply with federal construction codes, including OSHA regulations and regulations dealing with accessibility of buildings to handicapped persons. Seven states use all of their revenue sharing funds for construction purposes. These are Arkansas, Kentucky, Louisiana, Massachusetts, Mississippi, Missouri, and West Virginia. In addition, three states use a portion of the funds they receive for capital improvements: Alabama (31 percent), Kansas (64 percent), and North Carolina (44 percent).

PENSION BENEFITS: Nine states use all of their revenue sharing payments to cover the cost of retirement benefits for state or local employees. GRS payments set aside for this purpose total $346 million; this amounts to 15 percent of GRS payments to states.

According to an estimate of the House Pension Task Force, the unfunded liability facing public plans is $175 billion. Many of the states using revenue sharing payments to help pay the cost of pension benefits are operating under multi-year programs to put their pension systems on an actuarially sound basis. Revenue sharing payments are helping with this effort. In eight of the nine states, GRS allocations help pay the cost of teacher retirement systems; these funds augment efforts by state governments to aid education and to reduce local property taxes noted elsewhere in this summary.

The nine states using their revenue sharing payments to support pension benefits are Delaware, Georgia, Indiana, Maine, Maryland, New Jersey, South Carolina, Tennessee, and Washington.

TAX REBATES: Four states set aside all or a substantial portion of the revenue sharing funds they receive for tax rebates targeted to homeowners, farmers, renters, and handicapped persons. Funds allocated for this purpose total $70 million; this is 3 percent of the state share of revenue sharing payments. The three states which put all of their funds into the tax rebates are Arizona, Iowa, and Vermont. Kansas sets aside 26 percent of the funds it receives for this purpose.

MISCELLANEOUS AID TO LOCAL UNITS OF GOVERNMENT: In addition to the funds set aside for elementary and secondary education, teacher pension funds, social service payments, local capital improvements, and property tax relief, three states earmark a portion of their revenue sharing funds for waste water system construction and operation of local courts. These funds account for 2 percent of all General Revenue Sharing Payments to state governments. The states which set aside a portion of the funds they receive for this purpose are Alabama (1 percent), Kansas (5 percent), and Pennsylvania (34 percent).

STATE-BY-STATE SUMMARY

ALABAMA

Revenue sharing payments to Alabama will total $36 million in FY 1979. The state distributes the funds it receives among five general areas: mental health programs, highway programs, corrections, economic and community development, and the General Fund. This distribution has been used for the past three years, as mandated by the legislature's appropriations bill. The largest portion of the revenue sharing funds, $16.4 million, was allocated to the Mental Health Department. These funds were used to operate and maintain the state's 11 mental institutions for the mentally ill and mentally retarded.

The Highway Department received approximately $11 million in shared revenues. Most of the funds were used to finance the Governor's Death Trap Elimination Program. Under the program, such road hazards as bad curves, narrow approaches to bridges, and narrow bridge beds were eliminated. Some of the funds were also used to supplement existing maintenance funds for the resurfacing of roads.

The Board of Corrections received $7 million from the revenue sharing funds. These funds help pay for the operation and maintenance of the state's 7 prisons and 13 work release centers.

The Department of Economic and Community Development received $500,000 last year for the installment of local water systems in rural areas. Approximately 67 counties have been assisted in either the development or expansion of their water treatment facilities.

ALASKA

The state of Alaska will receive $8 million in revenue sharing funds for FY 1979. Alaska currently uses the funds to make up the state's matching portion of the Medicaid program. In Alaska, the program is 50% state funded and 50% federally funded; local units of government are not responsible for defraying any of the costs of the program.

ARIZONA

Arizona will receive $26.6 million in revenue sharing funds in FY 1979. The funds are all allocated to a program of homeowner tax relief under which the state spends $95 million to rebate a portion of the tax bill of every Arizona homeowner. The amount that the state spends for this program has been increasing over the last three years. On a statewide average, the tax relief program permits the state to keep average homeowner property levies at less than 1.25 percent of full cash value.

ARKANSAS

Arkansas received $22.3 million in general revenue sharing funding for fiscal 1979. Under a 1977 state law, the first $20 million of revenue sharing that the state receives must be allocated to the State Highway Department for planning, construction, maintenance and improvement of state highways. The amount in excess of $20 million ($2.3 million in fiscal 1979) is placed in the Municipal Road Aid Program, which promotes state-local-federal cooperation for highway construction. Each city in Arkansas receives a portion of these funds based on the ratio of its population to the total urban population in the state. The amount of state funds available to a city covers 70 percent of the total local cost of a road project. Cities apply the state grant toward meeting the required 10 percent or 30 percent match needed to receive federal funds.

CALIFORNIA

The state of California uses its $259 million allocation under the revenue sharing program to supplement federal payments to 700,000 aged, blind, and disabled state residents under the Supplemental Security Income (SSI) program. The revenue sharing funds account for about one-third of the total state add-on to federal SSI payments.

COLORADO

The State of Colorado appropriated $34 million in federal general revenue sharing payments for fiscal year 1978-79. These funds were distributed to three state agencies--the Department of Health, the Department of Social Services, and the Department of Institutions.

Approximately $19.5 million of the revenue sharing funds was allocated to the Department of Social Services, which divided the money among the following four welfare-related functional areas:

- Medical Care for the Indigent: About $10 million was used to reimburse hospitals for services provided to persons not eligible for Medicaid benefits. Most recipients are low-income, single individuals. The program supplies medical services to 10,000 individuals annually. The $10 million in revenue sharing funds covers 45 percent of the cost of the program.

- Social Services Payments to Counties: Some $4 million of the $19.5 million is used to reimburse counties for their share of disproportionately large welfare costs. The $4 million pays for 100 percent of the program.

- Aid to the Needy and Disabled: The third area within social services that uses revenue sharing funds is the Aid to the Needy and Disabled Program, which received $3.2 million. This program provides services to individuals not eligible for the federal Supplemental Security Income (SSI) program.

COLORADO (con't)

- Residential Child Care Facilities: The balance of the $1[illegible].5 million, about $2 million, was used for the state's share of the cost of residential child care facilities for the placement and administration functions of these facilities. The $2 million covers 100 percent of the state share of this program.

The Department of Institutions allocated all of the $14.5 million it received to operation and maintenance of its Community Mental Health Program. The department provides approximately 50 percent of the funds needed by community centers and clinics throughout the state for services to 77,000 persons. The other 50 percent of program costs comes from federal grants, county government and other sources. The use of these revenue sharing funds by the department is mandated by the state legislature.

The Department of Health received approximately $43,000 in revenue sharing funds, which it used to purchase vaccines and pay salaries for administering personnel under an immunization program.

CONNECTICUT

The state of Connecticut allocates all of its revenue sharing funds, $29 million in FY1979, to mental health programs. The funds help to support outpatient care, training and education activities, occupational therapy, community service and outreach efforts, social services, and programs at state hospitals and mental health centers. Approximately 20,000 Connecticut residents are served with the help of the General Revenue Sharing payment.

DELAWARE

The state of Delaware pays 70% of the cost of elementary and secondary education, and the $7 million in revenue sharing funds the state receives contributes to this effort. Revenue sharing funds are allocated to the state pension system. More than one-half of the 28,000 members of the system are employees of school districts.

In addition to providing direct aid to local school districts, revenue sharing funds are being used to put the Delaware pension fund on an actuarily sound basis. Until 1970, the fund was operated on a pay-as-you-go basis, and a sizeable unfunded liability was accumulated. (As of December 31, 1976, the unfunded liability of the system was $391 million.) The state is now under a 40-year program to fund the past liability, and revenue sharing assists this undertaking.

FLORIDA

All of the $68 million in revenue sharing funds received by the state of Florida are allocated to the Florida Education Finance Program (FEFP) through which the operation and maintenance costs of the state's local school systems are paid. In 1979 the state share of the overall expenditure for elementary and secondary education is approximately 59 percent, and the local share is 41 percent. In fiscal year 78-79, the FEFP total cost was $2.177 billion, of which $1.285 billion was supplied by the state. The earmarking of General Revenue Sharing funds for local education reflects the Governor's intention to increase the state's share of the financial support for the public school system from 59 percent to 71 percent in 1980 in order to decrease the tax burden placed on the local governments.

GEORGIA

The state of Georgia will receive $50.7 million in revenue sharing funds this fiscal year. Every year since 1974, the Georgia General Assembly has appropriated all of the state's revenue sharing funds to teachers' retirement as a portion of the employers' contribution. The state pays 83% of the cost of elementary and secondary education overall.

HAWAII

The estimated $11 million in revenue sharing funds allocated to the state of Hawaii will be used to pav part of the non-federal cost of a number of social programs. In Hawaii, the state pays the full non-federal share of costs for these programs, while elsewhere local units of government are expected to pick up part of the tab.

For the current fiscal year, the General Revenue Sharing payment to Hawaii will be disbursed as follows:

- Medical Assistance: $3 million will be used as part of the state matching funds required under the Medicaid program. Local governments do not contribute to the Medicaid match, as they do in some states.

- Local Education: $2.5 million will be set aside to supplement the program of aid for elementary and secondary education under which the state pays 100% of the cost of education in Hawaii. The revenue sharing funds are sufficient to pay the salaries of 140 teachers.

- Aid to Families with Dependent Children: $2 million will be allocated for the state match required under the AFDC program.

- Community Mental Health: $1.3 million in revenue sharing funds will pay for 12 percent of total funds available from the state and federal governments for community-based mental health services. Under the program, out-patient and partial short-term hospital care services are provided to 11,500 clients.

HAWAII (con't)

- Health Care for Handicapped Children: $1 million in revenue sharing funds will offset 30% of the cost of providing health care for 3,700 handicapped children under programs for crippled children and maternal and child health.
- Mental Retardation: $1 million in revenue sharing funds will be used to meet 48 percent of the total requirements for early identification and treatment for 2,400 mentally retarded children in Hawaii.
- Programs for the Elderly: $.5 million will be set aside as 12 percent of the total funds spent in Hawaii for a wide variety of service programs for 40,000 senior citizens.

IDAHO

The $8.5 million revenue sharing allocation which Idaho receives is used as part of the matching share for the Medical Assistance program. The full match is provided by the State of Idaho; no local funds are required to be set aside for the program. Availability of revenue sharing funds in FY 1980 will be particularly critical for Idaho in light of the $1.5 million deficit projected in the state funds budgeted for Medicaid match in that year.

ILLINOIS

The revenue sharing entitlement of the state of Illinois, about $114 million in fiscal year 1979, has always been allocated to the state program of aid to education. All elementary and secondary school districts receive state aid. About 40 percent of the total state of Illinois budget is allocated for education programs.

INDIANA

The revenue sharing entitlement for the state of Indiana in FY 1979 is $46 million. For the past two years, all of Indiana's revenue sharing funds have been allocated by the Budget Committee to the Teachers Retirement Fund. Last fiscal year, these revenue sharing funds equalled approximately $50 million out of the total of $85 million in the retirement funds budget. The retirement fund covers all 66,500 Indiana elementary and secondary school teachers and employees of three of the state's five state universities (Indiana State, Ball State, and Vincennes).

IOWA

Iowa used the entire $27.6 million state share of federal revenue sharing payments it received in the fiscal year ending last June 30 for a program of property tax relief for homeowners and farmers. The total state expenditure for this tax credit program was $122 million, which helped keep property taxes low in the state without reducing the quality of education programs. Half of the funds were used to reimburse counties that grant tax credits to homeowners who live in their own homes. The other half was used to reimburse counties that grant agricultural land tax credits to the farmers who live on their own farms.

KANSAS

The state of Kansas expects to receive $20 million in General Revenue Sharing funds in FY 1979. Last year, about $31 million in revenue sharing funds was available for expenditures in Kansas due to delayed construction schedules. The state used $16.8 million for capital improvements for the state university system in fiscal 1978. Some $8.2 million was used for property tax rebates to homeowners and renters targeted to aid the elderly and handicapped persons in the state. The remainder of the revenue sharing funds was used for capital improvement of vocational and technical schools($2 million); reimbursements to local governments for the operating costs of the state district court system ($1.7 million); establishment of a public television system to serve rural areas currently not able to get public television ($600,000); construction of a new state supreme court building ($1 million); and financing of communication systems for emergency medical services ($400,000).

KENTUCKY

Kentucky will receive $36.8 million in general revenue sharing funds in FY 1979. All state revenue sharing funds are used to support state capital construction projects. This year Kentucky allocated its revenue sharing funds as follows: 17 percent for construction projects designed to develop the riverport system to facilitate the movement of goods; 13 percent for construction of the Kentucky Natural Resources and Human Résources Laboratory; 14 percent for construction of roads and lodges in the state park system; 12 percent for construction projects designed to aid access of handicapped persons to state facilities; 12 percent for capital improvements of state prisons; 9 percent for capital improvements of state hospitals, nursing homes, and other health and social service facilities; 6 percent for construction projects in support of the state community college system; 5 percent for emergency maintenance, mainly mechanical and electrical, of state-owned building; 5 percent to regular maintenance of state-owned buildings; and 7 percent for miscellaneous projects.

LOUISIANA

Louisiana will receive $44 million in revenue sharing funds for FY 1979. Louisiana's entire revenue sharing allotment went to the Department of Transportation and Development. The state identified transportation as a high priority item because it provides statewide benefits and because the swampy terrain in the state makes it both costly and difficult to build and maintain a good transportation system. Many roads built in Louisiana must be supported by pilings, which adds to the expense of road construction projects.

MAINE

General Revenue Sharing payments to Maine, currently $15.6 million, have been used entirely to assist local governments since the program began. The funds are earmarked for teachers' pensions, which are fully paid through state funds and revenue sharing. By defraying a portion of teacher pension costs, revenue sharing is providing this year $1 of tax relief for each $1,000 in real estate for each of the 500 cities and towns in Maine.

MARYLAND

Maryland will receive $45.7 million under the General Revenue Sharing program in FY 1979. All revenue sharing funds are used for retirement benefits and over half of these funds are used for teachers' benefits. Teachers have 5% of their salary withheld and contributed to their retirement fund. The State then matches this amount at the time of retirement. Because the value of the earned credits and benefits frequently exceed the amount which was withheld, the state makes up the difference. Overall, the state pays approximately 33% of the total local education costs.

MASSACHUSETTS

The Commonwealth of Massachusetts will receive $72.5 million under the General Revenue Sharing legislation in FY 1979. All of the state's revenue sharing allocation is transferred to the General Debt Service Retirement Fund, through which the Massachusetts construction and capital improvements program is financed. Revenue sharing payments account for about 27% of all contributions to the General Debt Service Retirement Fund. If Massachusetts were to lose its revenue sharing allocation, a 3 percent tax increase or a 5 percent cut in programs would be necessary in order to compensate for the loss.

MICHIGAN

The state of Michigan will receive $96 million in revenue sharing funds in FY 1979. The revenue sharing funds are appropriated for state mental health programs and services. Specifically, revenue sharing funds are used to support the operations (i.e., staff salaries, programs and services) in the state's 26 facilities for the treatment of mental conditions.

These include 10 regional facilities providing care and treatment for the mentally ill (five of which have specialized children's units); 12 regional centers for the developmentally disabled; one specialized clinic for research and training which treats mentally ill adults and children; one center for examination, diagnosis, and treatment of individuals who are or have been under criminal indictment and who are or may be mentally ill; one specialized facility for the treatment of mentally ill children; and one center for the treatment of children who are both mentally ill and developmentally disabled.

During the current fiscal year, Michigan state government will spend $492 million in the state mental health program. Revenue sharing funds will be financing approximately one-fifth of the total effort in this area.

Without revenue sharing funds, the state would have to either cut existing programs or raise taxes, the latter approach being very difficult given Michigan's tax limitation amendment.

MINNESOTA

The state of Minnesota expects to receive $45.7 million in revenue sharing funds in FY 1979. Minnesota spends all of its allocation to match federal funds under the Medicaid program. About 200,000 Minnesota residents are served by Medicaid.

MISSISSIPPI

The state of Mississippi expects to receive $33.7 million in revenue sharing funds in FY 1979. Funds have been allocated for the renovation and construction of state and local buildings. The bulk of the state's payment has been used for construction projects on college and university campuses. Some of the funds have been targeted to making the campuses accessible to handicapped students in accordance with federal regulations.

Revenue sharing dollars have also been appropriated to the Library Commission to be spent for renovation and new construction of libraries. Local units of government must provide 50 percent of the cost of the library project, and the state assists with the remaining 50 percent with revenue sharing funds.

Other renovation and construction projects for which revenue sharing funds have been allocated are state mental health hospitals, corrections facilities, and improvements in the state capitol.

MISSOURI

Missouri will receive $43 million in General Revenue Sharing payments in FY 1979. Revenue sharing funds are allocated for new capital construction and physical plant maintenance. These projects have fallen into three main categories: higher education, mental health, and general state improvement projects. The state has committed a significant portion of its revenue sharing entitlement to projects aimed at complying with such federal mandates as Title XIX of the Social Security Act (mental health space requirements) and Section 504 of the Vocational Rehabilitation Act. The state has also used the funds to improve the facilities of the University of Missouri system, relieve overcrowding in the state's correctional facilities, as well as to construct and maintain schools for severely handicapped persons.

MONTANA

Montana uses its entire $8.7 million General Revenue Sharing payment for elementary and secondary education programs in the state. The funds are targeted to aid the least affluent counties in the state in maintaining quality education programs where 40 mills of property taxation does not raise funds adequate to support programs at a standard level statewide. Localities have discretion to levy a limited additional property tax which also is supplemented by the state if it does not raise adequate funds. Under state law, property taxes raised for education purposes may not rise above the level of 55 mills unless voters give their approval.

NEBRASKA

The state of Nebraska uses the $14.2 million it receives under the revenue sharing program to support elementary and secondary education in the state. The funds are allocated as general purpose aid and distributed to local school districts under the state's $55 million Foundation/Equalization formula. The formula weighs average daily school attendance and local per pupil expenditures. The state picks up 20 percent of the total cost of elementary and secondary education in Nebraska.

NEVADA

The revenue sharing payments to the state of Nevada are estimated at $5.7 million in FY 1979. All of the funds are transferred into the Distributive School Fund, through which state aid is given to local school districts on the basis of an equalization formula. The formula takes into account the size, property tax capacity, transportation needs, and size of the schools of each school district. The federal revenue sharing funds represented 5.77 percent of the total Distributive School Fund in 1977-78. Overall, the state pays about 50 percent of the total cost of elementary and secondary education in Nevada.

NEW JERSEY

New Jersey state government will receive $75.5 million in FY 1979 under the revenue sharing program. These funds are earmarked for the state's share of social security costs for state government employees.

Elimination of GRS would affect not only state programs but would also be detrimental to local governments. The state budget supports more than one-third of all public spending in the major cities of New Jersey. State government pays over 55 percent of all its resources in direct aid to locals and sends 100 percent of all revenue from the state income tax to local units of government. In addition, the state pays all of the local share of Medicaid, or $300 million. New Jersey supports almost 60 percent of all urban school costs. For example in Newark, the state pays 76 percent of the school budget and in Camden 79 percent of the budget.

If GRS is eliminated, the costs of social security would have to be made up at the expense of other programs including many of those involving local government. New Jersey does not have a projected surplus large enough to fill that void. The expected 1980 state budget balance is $36 million, less than 1 percent of the recommended expenditures.

NEW MEXICO

New Mexico uses the $14 million in federal revenue sharing funds it receives to support programs administered by the state's Department of Health and Environment. Programs that have been supported by General Revenue Sharing funds include the Emergency Medical Services Program which provides emergency medical care to rural residents; the Family Service Program which provides family planning, nutrition, and other services to women of child-bearing age, expanded community-based mental health, developmental disability, alcohol and drug abuse programs and geriatric treatment programs.

NEW YORK

New York state will receive $256 million in revenue sharing funds in 1979. The current plan of the state is to spend the funds for public education ($75 million), health ($62 million), public safety ($25 million), transportation ($24 million), social development programs($11 million), and a variety of other activities, including recreation, housing, economic development, consumer, and environmental programs.

NORTH CAROLINA

The state of North Carolina will receive $56.8 million in revenue sharing funds in FY 1979. The state now divides its allocation between construction projects and education programs, as described below:

- Construction: About $25 million of North Carolina's entitlement was appropriated for the construction of corrections, education, and port facilities, hospitals, and other public buildings. Some of the revenue sharing funding (particularly in the education facilities, public buildings, and hospital projects) was spent for compliance with federal codes, including OSHA regulations and the Section 504 guidelines dealing with accessibility of buildings to handicapped persons.

- Education: About $21 million of the state's revenue sharing funds are allocated for textbooks and school buses for elementary and secondary schools. Revenue sharing funds support 100% of the state program in both cases. School textbook resources are allocated to districts on the basis of school enrollment; under the school bus transportation program, the state pays the cost of replacing buses on an as-needed basis.

NORTH DAKOTA

The $ 6 million North Dakota received last year as its state revenue sharing allotment was spent entirely on education. The $ 6 million was distributed to education agencies as part of a $180 million state foundation grant program. Under this program, the state legislature determines the cost of education on a per pupil basis. For the upcoming fiscal year, the statewide average is $920 per pupil. Funds from the foundation grant program supplement spending by localities as needed to bring them up to this level. The average tax levy at the county level raises about 30 percent of the needed funds, with the state supplementation paying for the remainder.

OHIO

Ohio used the $93 million it receives as the state's share of general revenue sharing to support three main functions: the School Foundation Fund, higher education, and general operating expenses for over 100 state agencies.

About half of the general revenue sharing money goes into the School Foundation Fund. An Ohio statute guarantees state aid to localities based on their local tax effort in an attempt to equalize the revenues raised by property "poor" and property "rich" communities and thereby maintain quality education throughout the state. Counties which cannot raise a specified amount per pupil through a standard tax levy receive a supplement from the state to bring them up to a minimum statewide per pupil expenditure. Localities with a high tax effort receive a second subsidy. Local school districts have wide discretion in the way they spend the funds.

The other half of the state's revenue sharing payment is split about evenly between funding for higher education and general operating expenses for state agencies. The largest proportion of aid for state agency operating expenses goes for mental health and retardation programs.

OKLAHOMA

Oklahoma will receive $23.7 million in federal general revenue sharing funds in FY 1979, all of which will be spent on education. In 1977-78, the education budget for the state was $810.2 million. State aid accounted for 32 percent of total education funding, with revenue sharing funds making up 6.2 percent of the state share. The revenue sharing money aids the state program to equalize education expenditures throughout the state and maintain quality education programs for all students. Counties which cannot raise a specified amount per pupil through a standard tax levy receive a supplement from the state to bring them up to a minimum statewide per pupil expenditure. Localities with a high tax effort receive a second subsidy based on their tax effort and the wealth of the district.

OREGON

The state of Oregon will receive $25 million in revenue sharing payments in FY 1979. All of the state's revenue sharing dollars are legislatively appropriated to the Basic School Support Fund (BSSF). The total Basic School Support Fund in 1978-79 amounted to $341,000,000, of which federal revenue sharing amounted to 7.72 percent. The BSSF represents a state contribution of 40% of the total approved current operating expenditures of school districts statewide. All school districts receive an apportionment from the Fund. The money is distributed for the purposes of:

- Transportation: Each district is reimbursed approximately 50% of the prior year's home to school transportation cost.
- Basic Grants: Every district receives reimbursement in the form of a basic grant equal to 30% of its prior year's approved operating expenditures up to a maximum of $501 per pupil. A slightly higher allowance is made to those districts operating necessary small schools.
- Equalization Allocation: Approximately 70 percent of the districts qualify for equalization funds based upon the relative ability of the district to support its approved program from property tax sources.
- Changed Enrollment Allocation: A comparatively small dollar amount from the total appropriation is allocated to districts demonstrating growth or decline in pupil population.

PENNSYLVANIA

The state of Pennsylvania will receive $111 million in General Revenue Sharing funds in FY 1979. All of the money is transmitted to local units of government for the following purposes:

- Aid to Local Education: $75.8 million is allocated for elementary and secondary education purposes. About $55.1 million is earmarked for the education of mentally retarded or handicapped children. Subsidies for pupil transportation account for $20.7 million of the state's revenue sharing funds.
- County Court System: $24 million is allocated for general support to local courts.

PENNSYLVANIA (con't)

- Wastewater Treatment: $13.6 million supports the cost of operating municipal sewage treatment plants. The state provides a grant equal to 2 percent of the construction costs of a treatment plant so that operating funds are available once a plant is in place.

- Environmental Health: $3.3 million is allocated for local environmental health programs. Most of the funds have been used for inspection and monitoring of water supplies, public swimming pools, and radiological health and for rodent control.

RHODE ISLAND

The state of Rhode Island will receive $9.7 million in revenue sharing funds in FY 1979. This year funds are allocated for a variety of programs, including $3.5 million for health and hospital programs, $1.9 million for higher education programs, $1.7 million for service programs for the elderly, children, and youth, $700,000 for transportation and $670,000 for public safety and corrections.

SOUTH CAROLINA

The state of South Carolina uses the $30.7 million in revenue sharing funds it receives for the state retirement system and for social security contributions for state employees. A portion of the state funds is allocated to the state teacher retirement system.

Like many states, South Carolina offers a program of aid to local units of government which is much larger than the federal revenue sharing payment received by the state. South Carolina provides $95.8 million in general purpose fiscal assistance to municipalities and counties.

SOUTH DAKOTA

The entire amount of revenue sharing funds which South Dakota receives, $7.7 million in FY 1979, is earmarked for elementary and secondary education purposes. Funds are distributed on a classroom unit basis for general purpose aid programs to local school districts. Instructions accompanying the state aid payments to the school districts request that revenue sharing funds be used for teacher salaries and non-federal programs. Revenue sharing funds for FY 1979 constitute approximately 23% of the state share of aid to elementary and secondary education.

TENNESSEE

The state of Tennessee will receive $42.5 million in revenue sharing payments in FY 1979. Revenue sharing is used to help fund the teachers' retirement system. The state pays the employer's contribution for retirement and social security benefits for all public school teachers in the state. In FY 1980, the cost to the state will be more than $140 million for the two programs.

Allocation of revenue sharing funds to the Teachers' Retirement System is part of an intensive effort by the state in recent years to ensure that pensions keep pace with inflation and that the retirement system is operated on an actuarially sound basis. A 3 percent cost-of-living increase for retirees was recently enacted by the legislature, and the state is now operating under a forty-year plan to fully fund the retirement system.

Revenue sharing payments provide approximately 43 percent of the employer contribution for teachers' retirement programs. Some revenue sharing funds in Tennessee have been allocated to education initiatives since the inception of the program, and the funds received have gone to education exclusively since FY 1976.

TEXAS

The state of Texas will receive $111 million in revenue sharing funds in FY 1979. All of the funds are allocated to the University of Texas System, the Texas A&M System, and twenty other state colleges and universities. The funds are used to defray the day-to-day operating expenses of the universities, and a small portion (11%) is spent on capital improvements.

UTAH

Utah will receive $13.9 million in General Revenue Sharing funds for FY 1979. During the past four years, Utah has allocated its entire allotment to support the public education system. Money is allocated to the general school program and is used for the operational expenses of elementary and secondary schools. The distribution is made on the basis of the number of pupils in a school. Revenue sharing accounts for approximately 5 percent of the state aid.

VERMONT

The state of Vermont will receive $6.8 million as its revenue sharing entitlement in FY 1979. All of the state share is allocated to a property tax relief fund, and Vermont taxpayers are entitled to a credit for property tax paid in excess of an established sliding scale in the case of homeowners or in excess of 20 percent of gross rent in the case of renters. In 1977, about 15,000 elderly persons received a rebate under the program (about 40 percent of the total number of beneficiaries were over 65 years of age) and about 76 percent of the beneficiaries were families with annual incomes of less than $8,000.

VIRGINIA

The state of Virginia allocates the entire amount of its revenue sharing program, $47 million this year, for its $412 million Basic School Aid Program. The program is targeted to communities having a low "ability-to-pay" for education and assists local school districts in meeting statewide standards of quality for elementary and secondary school programs.

WASHINGTON

The state of Washington uses its $31.5 million annual revenue sharing allocation to finance costs associated with the state retirement systems. About 67 percent of the employees covered by the systems work for local units of government, including all teachers in the state, all local law enforcement officers, all firefighters, most local judicial personnel, and all the other employees of all local governments except Seattle, Spokane, and Tacoma. The revenue sharing funds contribute to a 40-year state effort to ensure that the pension plans are funded adequately so that they are capable of providing the benefits to which participants are entitled.

WEST VIRGINIA

The state of West Virginia will receive about $21 million in revenue sharing funds in FY 1979. In 1978-79, the bulk of the funds has been allocated for the construction of public hospitals ($8.6 million) and vocational-technical schools ($6.7 million). Some of the funds will be used to make the buildings accessible to handicapped persons. In addition to these projects, funds have been earmarked for park improvements ($1 million), alleviation of flooding problems by improving municipal storm sewer facilities ($500,000), completion of a scenic overlook ($250,000), and expansion of a state-owned series of regional farmers' markets ($20,000).

WISCONSIN

In Wisconsin, the $53.3 million state share of revenue sharing is used entirely to offset local property taxes and is targeted to school districts having a low taxing capacity relative to the rest of the state. One hundred percent of Wisconsin's revenue sharing funds is allocated to the school aid fund, through which the state of Wisconsin pays 40 percent of the statewide cost of elementary and secondary education. The amount each district receives is determined under a formula which takes into account school enrollment and "equalized value" (that is, the value of the property tax base adjusted by the state to account for differing assessment practices in local jurisdictions.) General Revenue Sharing funds account for about 9 percent of state aid to local education.

WYOMING

Wyoming will receive $½ million in revenue sharing funds in FY 1979. The state allocates its share for the operating expenses of the Department of Revenue and Taxation. Percentage-wise, the state of Wyoming is growing at a tremendous rate in order to produce coal and other fossil fuels for the rest of the nation. Because of this growth, and the related "people problems" which accompany it, Wyoming cannot afford to lose its revenue sharing allocation, which is approximately 3 percent of its annual budget. Increases in tax base are years behind the needs which must be provided by the state. Wyoming now, perhaps more than ever before, needs all available funds.

National Governors' Association

Otis R. Bowen, M.D.
Governor of Indiana
Chairman

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Executive Director

REVIEW OF GRANT-IN-AID PRIORITIES

September 1979

HALL OF THE STATES • 444 North Capitol Street • Washington, D.C. 20001 • (202) 624-5300

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SUMMARY OF RECOMMENDATIONS

INTRODUCTION

This report presents the results of a review conducted by Governors over the past eight months to obtain:

- an evaluation of federal grants-in-aid received by states; and
- suggestions for specific areas of intergovernmental assistance in each state where greater program flexibility and/or consolidation would produce savings.

The review was initiated by Governor Richard A. Snelling of Vermont, Chairman of the Committee on Executive Management and Fiscal Affairs of the National Governors' Association, in response to a request from President Carter and James T. McIntyre, Jr., Director of the Office of Management and Budget.

At a White House meeting in December 1978 the National Governors' Association pledged to support President Carter and Mr. McIntyre in their efforts to achieve a balanced federal budget by 1981. The Governors made eight general recommendations to control federal spending and suggested several significant reforms in the federal grant-in-aid system. President Carter and Mr. McIntyre expressed appreciation for the Governors' support and suggestions and asked them for specific recommendations for changes in intergovernmental assistance. Governor Snelling and the Committee on Executive Management and Fiscal Affairs agreed to take up this challenge for two reasons. First, continuing the NGA support for a balanced federal budget and repeating demands for reform in the grant-in-aid system without a concomitant effort to focus on specific programs and elements of the federal grant system would be an inadequate response to growing public sentiment for controlling public sector growth. Second, the nation's Governors are in a strong position to evaluate the relative importance of intergovernmental assistance programs, to observe how they are administered, and to suggest improvements.

The conclusions that can be drawn from the survey responses are set forth below. A summary of individual comments is presented in the section entitled "Responses from Governors on Grant-In-Aid Priorities."

The Governors' review has been undertaken at a time when federal domestic assistance has already been substantially reduced in real dollar terms. In his fiscal year 1980 budget, the President proposed an $800 million increase in grants-in-aid--a 1 percent increase over the fiscal year 1979 level of $82.1 billion. But because the rate of inflation is more than 10 percent, the spending power of grants-in-aid has been reduced by about $8 billion between 1979 and 1980.

The Governors offer this report in good faith that it will be used by the Administration and the Congress in undertaking comprehensive reforms in the federal aid system along lines recommended not only by the Governors but also by the Advisory Commission on Intergovernmental Relations. Such reforms include grant consolidation, simplified grant management procedures, improved program design and evaluation, and review of realignments in the responsibilities of each level of government. The savings that accrue from these and other reforms should account for a substantial percentage of any further reductions in federal grants to state and local governments.

The Governors should not bear the entire burden of recommending budget reforms, however, nor should cuts in programs take place based solely on the recommendations in this report. The Administration and Congress have an equal, if not greater, responsibility to identify and undertake reforms in federal programs. The Governors stand ready to work with the Administration and Congress on a comprehensive approach to controlling government spending by increasing flexibility and reducing overhead costs in the federal aid system.

RECOMMENDATIONS

An Overhaul of the Federal Grant-in-Aid System

The Governors' responses to the survey of federal grant-in-aid programs reiterate a recurring theme embodied in policy positions of the National Governors' Association: that the federal government, in designing and implementing programs, fails to recognize the high level of state involvement in financing and administering these programs. The Governors believe that reductions in the total cost of the grant-in-aid system and improvements in service delivery can result from the reforms advocated in this report.

Reaffirmation of the Governors' conviction that the grant-in-aid system needs a thorough overhaul is the center of their analysis and recommendations. Such an overhaul should involve a program-by-program review and should result in a series of grant consolidations and regulatory reforms designed to introduce greater flexibility.

The Governors responding to the NGA grant-in-aid survey made two overriding recommendations:

- Federal grants-in-aid to state and local government should be consolidated in at least the following areas:

  employment and training
  environmental protection
  community and economic development
  education
  law enforcement
  energy
  social services
  health

Governors believe that consolidation would ease problems of duplication and excessive administrative requirements and would result in increased program effectiveness and cost savings of up to 10 percent.

- <u>Consolidations should bring flexibility to the federal grant-in-aid system, not overlay new requirements.</u>

Governors stress that the federal aid system must respond to the diverse needs of the states. The federal response to this diversity in the past has been to expand categorical programs nationally to meet new needs rather than to reallocate existing resources or to allow greater state discretion. Reducing federal program costs and consolidating or realigning federal grant-in-aid programs can be achieved only if this diversity is recognized. Greater recognition of diversity as an element of federal aid reform can be achieved by consolidating similar grant programs, giving the states the flexibility to target the funds, and simplifying administrative requirements.

In addition to grant consolidation and greater flexibility, the overhaul of the grant-in-aid system must focus on administrative reforms such as forward funding, standardizing "maintenance of effort" and "crosscutting" requirements, and including, rather than bypassing, states in programs aimed at local government.

Identifying Appropriate Program Responsibilities for Federal, State, and Local Governments

The Governors believe that sorting out the roles of state, local, and federal government is essential to fundamental reform of the grant-in-aid system.

The three levels of government currently share funding responsibilities for a wide variety of programs. While this cooperation was intended to ease the financing burden for each level of government, it has often led to administrative complications and lack of accountability for effective delivery of services.

Individual Governors have suggested that program responsibilities be shifted so that state and local governments shoulder most of the cost and administrative load for some programs while the federal government takes over other efforts. Some Governors have suggested that state government assume responsibility for education and the federal government take responsibility for welfare, health insurance, and macro-economic stimulus programs. The Governors recommend that a joint federal-state task force be appointed to study this fundamental issue and to make recommendations in time for incorporation in the FY 1982 budget proposals.

Evaluation of Federal Programs

As the remainder of this report demonstrates, Governors can make substantive critiques of federal priorities and programs. However, an overriding problem concerning the operation of federal programs is the federal government's inability to evaluate its own programs.

It is not always realistic to expect states to critique federal programs before agreeing to administer them. With some notable exceptions, federal funds are for dedicated purposes, and states are usually faced with the choice of participating or not participating in each federal program. Once this decision is made, state officials concentrate their analyses on the largest federal program because it is not within their purview to alter the basic guidelines or to reprogram the federal funds to higher state priorities. Instead, states tend to focus on programs and problems that they are responsible for financing and operating.

The federal government needs a stronger evaluative capacity. State officials would be more than willing to work closely with professional program evaluators who are charged with determining the effectiveness of federal programs from a national perspective.

RESPONSES FROM GOVERNORS ON

GRANT-IN-AID PRIORITIES

INTRODUCTION

In January, Governor Richard A. Snelling, Chairman of the Committee on Executive Management and Fiscal Affairs, wrote to each Governor requesting an evaluation of grant-in-aid programs and suggestions for specific reforms. In response to Governor Snelling's request, thirty-five states communicated with his office or NGA; twenty-five states sent written responses. The twenty-five responses are representative of the states in terms of geography and population. Six responses were from the Northeast, seven from the Southeast, five from the Midwest, and seven from the West. Thirteen responses came from states with populations above the 1975 median for the fifty states; twelve came from states with populations below the median. In addition, a written response was received from the Commonwealth of the Northern Mariana Islands.

While the responses account for a majority of the states and provide a representative sample, the program-specific comments outlined in this section must be considered to be the views of individual Governors who responded to Governor Snelling rather than a consensus view of the members of the National Governors' Association. The information request was intended to elicit Governors' opinions on the federal grant-in-aid system and their priorities for the use of federal funds in their respective states. It was not intended to be a methodologically precise instrument.

ADMINISTRATION OF JUSTICE

Programs Included In Review

National Institute of Corrections

Juvenile Justice

Law Enforcement Assistance

Specific Grants:

Planning Grants
Technical Assistance

ADMINISTRATION OF JUSTICE

The Governors had mixed reactions to federal administration of justice programs. They placed a high priority on juvenile justice and delinquency prevention programs and generally supported a few other programs administered by the Law Enforcement Assistance Administration. However, some Governors felt that LEAA programs were ineffective in their states.

The major contribution of LEAA funds has been in the areas of planning and coordination. Many Governors believe that before LEAA was enacted, insufficient thought was given to coordinating criminal justice services to develop a system in which relevant groups work out problems together. Since the enactment of LEAA, however, many Governors see the value of such planning and coordination. One Governor pointed out that LEAA-funded planning in his state costs 3/10 of 1 percent of the annual cost of the criminal justice system. He asked: "Do you know of a successful business with. . .the kinds of responsibilities of a criminal justice system which only used 3/10 of 1 percent for planning and coordination?"

Governors felt that many programs under LEAA did not allow the flexibility needed to handle law enforcement problems in their states. For example, one Governor said:

"A great deal of research has already been conducted on the impact of federal law enforcement assistance and alternatives to the LEAA program. Some of the areas that might be easily consolidated or eliminated are the following:

a. The regional planning units' planning functions are largely duplicative of the statewide council on criminal justice administration.

b. The courts planning grants have been grossly misused by the courts administrator's offices and have been used primarily to operate the offices, rather than exclusively for judicial planning.

c. In addition to the block grant system administered by the states, a discretionary grant program is operated directly from Washington. These funds are often received without input from the state planning agency or from state or local officials. These projects may often duplicate projects funded at the state level and often do not fit into the state planning process and therefore could be subject to a possible elimination.

d. LEAA was originally designed principally as a block grant program. However, it is now divided into Part B funds for planning, Part E funds for correction, and a separate block of money for juvenile delinquency. Thus, it is turning more and more into a categorical program. Consideration needs to be given to going back to consolidation of grants with more discretion to the state; some reduction of funding in this area could accompany such flexibility."

These comments underscore the Governors' feeling that federal categorical grant-in-aid programs in general do not permit the flexibility necessary to deal with the range and complexity of the problems the programs are designed to solve. Another Governor commented: "Close scrutiny of the entire LEAA program is essential. Where local governments have replaced local funding with federal subsidies for the same service, the program should be phased out."

Finally, a few Governors believe that certain LEAA programs have not lived up to their original intent and should be eliminated. For example, one Governor responded: "I know of no other area where money has been spent less effectively. The elimination of the $650,000,000 appropriation along with the elimination of concomitant regulations would not significantly impair the effectiveness of our law enforcement programs."

The general feeling is that most LEAA programs, with a major emphasis on juvenile programs, should continue but with major revisions that reflect Governors' concerns about overcategorization and ineffective programs. One Governor concluded: "Given our limited resources, we need to pay for those programs that work effectively."

EMPLOYMENT AND TRAINING

Programs Included In Review

CETA

Specific Programs:

- Job Corps
- Youth Community Conservation and Improvement Projects

WIN

Employment Service

Specific Programs:

- Job Matching
- Migrant and Seasonal Farmworkers
- Administrative Expenses

Unemployment Compensation Administration

Veteran Apprenticeship/On-the-Job Training

Senior Community Service

BLS Statistical Program

OSHA

EMPLOYMENT AND TRAINING

CETA

Governors' comments concerning the CETA program ranged from a call for elimination of the program to consolidation of titles into a single employment and training program. Consolidation of these programs with the WIN program was also suggested.

As administered prior to the 1978 amendments, CETA was criticized by some Governors as too much of an "add on" program within state government.

As one Governor commented:

> "I realize that CETA employees have been widely utilized by every level of local government. However, I personally believe that local governments would rather have an increased amount of local government revenue sharing in which they would have greater latitude in expenditure than the CETA program. I also feel that the purposes of the CETA program can be better addressed through a strengthening of the training component.
>
> I am suggesting that the CETA program be assessed on two fronts. First, OMB should work closely with state and local budget officers, Governors, and others to give consideration to expanding skill training programs. Second, methods should be explored to subsidize local governments in a way more acceptable to the American public."

Other Governors emphasized the value of the program but suggested the consolidation of titles. One Governor said:

> "We would recommend consolidation of all titles of this program, but short of that, at least consolidating Titles II-A, B, C, and D, and IV, into a single training program, and providing additional flexibility to the states to administer the program, would be desirable."

A reduction from the current requirement that seven applications, grants, or modifications be submitted to a single application or modification for funding was recommended to facilitate administration of the system. The staffing requirements of the CETA program were also addressed, particularly for advocate and compliance positions.

Consolidation of CETA with other job training programs was recommended to decrease costs and increase effectiveness. Comments from Governors included:

> "Consolidation of the CETA and WIN programs could result in savings through a reduction of administrative duplication. Both programs provide basic manpower services and job skill development to the same or similar client groups. An alternative to consolidation would be elimination of these very staff-heavy programs with an accompanying increase in state revenue sharing based on state unemployment rates and the consumer price index."

"Job Corps should be absorbed into other job training titles of CETA. Proliferation of programs under CETA, Vocational Rehabilitation, Vocational Education, Work Incentive Programs, and others results in high administrative costs and poor cost-effectiveness."

Public Employment Services

Some Governors recommended concentration of job placement in state-administered Employment Service offices. One Governor said:

"Employment services provided through the Department of Labor and the U.S. Employment Service are duplicated by social services agencies for specific client groups. Job development for isolated client groups is done by welfare, corrections, and rehabilitation agencies, while the real expertise and opportunity for job development efforts is with the Employment Service office."

Some Governors deplored the red tape and unnecessary special programs in the Employment Service. One Governor said:

"The real total impact of nine different sub-programs which (the state) is currently required to staff and operate, because of special DOL mandates, is hard to estimate. Savings would be realized through reduced reports, computer utilization, and other administrative costs which are hidden within each program. If DES had authority to shift funds between programs and did not have the multitude of DOL performance criteria, significant savings would result."

One Governor estimated that administrative costs could be reduced by 16 percent if DOL mandates were eliminated. The "Model Information and Public Communication" program was used as an illustration of special program efforts which "creep up from time to time." The basic grant should be broad enough to accommodate such special programs. Job Matching was described as another effort that should be combined into existing grants. One Governor questioned the need for an Employment Service program designed to encourage the private sector to create more job opportunities: "No special effort should be needed to assist a healthy private sector expand its employment opportunities."

The Veteran's Apprenticeship Program

Operations by state labor agencies for the Veterans Administration are both costly and declining in importance, according to two Governors' comments:

"The program could be run much more efficiently at some savings to the federal government. For example, to enroll an apprentice in the veterans program requires the completion of approximately 10 separate questionnaires and forms. By contrast this department enrolls an apprentice by completing a single form."

"It is recommended that this is a low priority program of domestic aid to state governments and could be abolished at the federal level."

Governors' reactions to employment and training programs are summarized by this comment: "These programs need consolidation and appear to be in need of special attention in terms of simplification and removing red tape."

Costly duplication of services can be eliminated if Governors are given the flexibility and responsibility to develop state employment assistance plans that identify the employment needs of their constituents and describe how the plans will work with and through the CETA prime sponsor system, education agencies, vocational rehabilitation programs, and economic development agencies.

The Governors support the general thrust of combining employment and training programs and the provisions of the Administration's welfare reform proposals that address that need. It is equally essential to reduce the duplication of the federally controlled employment service and the locally controlled CETA system.

HUMAN SERVICES

Programs Included In Review

Child Support Enforcement

Child Welfare Services: State Grants

Child Abuse and Neglect

Aid to Families with Dependent Children

Title XX

Training Grants

Vocational Rehabilitation

Special Programs for Aging:
Title III, A & B

Nutrition Services for Aging

Other Programs for Aging (Employment, Senior Centers, Ombudsman)

Rehabilitation Services and Facilities and Training and Research

Disability Determination Programs

Community Services Administration

Specific Programs: VISTA
RSVP

Foster Grandparents
Headstart
Emergency Energy Conservation

Alcohol Abuse Programs

Drug Abuse Programs

Mental Health Programs

Medicaid

Health Financing Research

Medicare

Maternal and Child Health Services

Comprehensive Public Health Services

Comprehensive Health Planning

Crippled Children Services

Family Planning

Emergency Medical Services

Immunization Program

Infant Death Program

Specific Disease Programs

Health Professions Programs

HUMAN SERVICES

Within the broad area of human services, the Governors made a number of specific suggestions. These proposals are summarized below.

CONSOLIDATIONS

At present, a multitude of assistance programs with different requirements and different levels of assistance are directed to the same families or individuals. Because of statutory prohibitions or administrative resistance, the relationship of one program to another has not been analyzed in any but a perfunctory way. The result is ineffective and wasteful delivery of services.

The narrowness of programs and competition among them create duplication and confusion in service delivery and program administration. Many programs have their own eligibility workers, accounting services, and planning groups which produce an annual service plan intended in part to ensure adequate coordination among programs. Unfortunately, coordination is often difficult to achieve at the state level because programs are organized in an entirely vertical system from federal agency to special client group.

Problems also are created when a federal agency undertakes a "reorganization" that does not seek to reduce or eliminate duplicative administrative procedures and costs. One Governor cited the example of the recent reorganization of the federal Social and Rehabilitative Services (SRS): "The recent reorganization in the guise of improved efficiency, has created many more demands upon us and an apparent increase in the size of the federal bureaucracy. When HEW's Division of SRS existed, the Medicaid, AFDC, and Title XX programs were monitored by the single SRS organization. One regional staff person, for example, processed our grant awards. We now have, under the eorganization, four different systems. Such reorganization doesn't always bring about improvements and consolidation, and, if not planned correctly, could create as many problems as it solves."

Reasonable program consolidation services could improve and reduce costs in the following areas:

- Title XX

  A number of Governors had suggestions for including categorical programs under the Title XX quasi-block grant. Programs suggested for inclusion are: Developmental Disabilities Act, Child Welfare Social Services, Vocational Rehabilitation, Alcohol and Drug Abuse, and some Community Services Act and Older Americans Act programs.

- Family Planning Programs

  Under the general family planning head, states may be funded under two federal acts and four titles. One Governor suggested that "services could be increased in family planning by one-third if these programs were consolidated and we had more latitude. Conversely, we could cut the costs of these programs by one-third and still have the same level of operation."

- Mental Health Programs

Governors recommended a basic federal block grant program for mental health. They also supported the major consolidation proposal for the alcohol and drug abuse programs. There was also a suggestion for block grants to states to fund community mental health centers rather than individual grants to each center.

- Welfare and Other Transfer Programs

Short of complete overhaul of the welfare system, suggestions were received for consolidations aimed at reducing administrative overhead. One Governor proposed a consolidation of several categorical programs into four basic areas: income assistance, energy conservation and utility assistance, nutrition, and medical assistance.

- Environmental Health Programs

Water, air, and solid waste programs should be consolidated into a single environmental block grant to states to provide flexibility to meet individual states' most pressing needs. In addition, Governors suggested that the meat and poultry inspection program be combined with the interstate food inspection program to allow for some efficiencies and greater state flexibility.

- Crippled Children Programs

One Governor recommended that the current programs could be combined to provide flexibility and efficiency with no loss in services.

ADMINISTRATIVE REFORMS

Most Governors participating in the survey suggested reforms and changes in the administration of federal human service programs. The following are excerpts from their reponses:

- Title XX

"Reducing planning and reporting requirements."
"Eliminate current eligibility requirements and require that 50% of individuals served be below the poverty level."
"Arbitrary reduction of Title XX to 1978 federal ceiling limits states' ability to meet national guidelines for deinstitutionalization."

- Day Care

"Day Care programs are fragmented among Title XX, WIN, and Vocational Rehabilitation. Eligibility requirements, subsidy amount, provider standards, and methods of payment all vary, causing confusion and administrative problems."

- Food Subsidy Programs

"Continued funding for the basic food stamp program and the WIC program should be reevaluated in terms of their effectiveness and efficiency. These programs presuppose a funding mechanism and a program thrust which ensures that low income clients will receive an acceptable nutritious diet. However, under the present service delivery system there appears to be little evidence that these objectives are being achieved or could even be achieved through these funding sources. Also there is a question as to whether the federal government can effectively force clients to spend their income subsidies to achieve national nutritional goals."

"Due to the dual eligibility requirements for Food Stamps and AFDC, a possible reduction of $3,000,000 could be realized if the administration of both Food Stamps and AFDC could be merged."

- Medicaid

"States should be given more latitude in establishing standards for medical facility certification (especially staffing requirements). More latitude is also needed in setting reimbursement rates, especially nursing home rates, major improvements in controls on medical care facility utilization, new options for providing home health services, and finally, alternatives to current fee-for-service payment mechanisms."

- Federal Mandate of State Administrative Structure

"The federal laws which mandate state administrative structure for relatively small programs should be changed. Examples are the requirements for a separate administrative unit in the welfare department for the WIN program for AFDC recipients, and a separate unit for child support functions. States should be permitted to administer these functions in the most cost effective manner, which may well be as part of a larger related unit, instead of a separate unit."

Governors also expressed strong support for human services planning reforms. One Governor commented:

"While the merits of providing an overall block grant for alcohol, drug abuse, mental health administration, etc. are not totally undebatable, certainly the planning requirements of those various programs could be consolidated into one state plan which would provide greater administrative control and less money spent on planning at the state level."

PROGRAM REDUCTIONS

Some Governors identified specific programs as targets for reduction or elimination. At least one Governor viewed the following programs as duplicative or wasteful:

- the state office of economic opportunity program
- Title XX training
- summer youth recreation program of CSA
- the Business Enterprise program for the blind

EDUCATION

Programs Included In Review

Grants for Disadvantaged Children

Migrants

In-State Institutions

Bilingual Education

Basic Skills Improvement

Strengthening State Departments of Education

Follow Through

Indian Education

Guidance, Counseling, and Testing

Emergency School Aid

Civil Rights Assistance and Training

School Assistance in Federally Affected Areas

Education for the Handicapped

Special Education Personnel Development

Higher Education and Student Assistance Programs

Vocational Education

Basic Grants to States

Consumer and Homemaking

State Advisory Council

Professional Development

Bilingual Vocational Training

Adult Education

Library Resources

- Library Services and Construction
- School Library and Instructional Resources
- Interlibrary Cooperation

Special Projects and Training

- Environmental Education
- Consumer Education
- Arts in Education
- Career Education
- Metric Education
- Alcohol and Drug Abuse
- Gifted and Talented
- Women's Educational Equity
- Indochinese Refugees
- National Diffusion Program
- Educational TV Programming
- Community Schools
- Educational Personnel Training
    - Teacher Centers
    - Teacher Corps

EDUCATION

The number of federal categorical grant-in-aid programs for education is extensive; ACIR has counted 78 federal elementary, secondary, and vocational education programs. The Governors responding to the survey reacted to the proliferation of categorical education grants with suggestions for consolidation and administrative reform.

CONSOLIDATIONS

Nearly all Governors had suggestions for consolidations. Some envisioned broad comprehensive education block grants. Others suggested combining similar programs on a more limited basis.

- Special Education and Handicapped Block Grant

  "Consolidate all special education and handicapped programs, equal employment opportunity programs, innovative education programs, neglected and delinquent programs, etc. into a single block grant program. If necessary, provide minimum guidelines for use of funds."

- General Education Block Grant

  "Eliminate all special grant programs and include some reduced level of support in a general education block grant to states. Consolidate such programs as adult basic education, disadvantaged youth, migrant, school library materials, right to read, library research, program improvement and administrative support and so forth."

- Bilingual Education Programs

  "All programs combined including Bilingual Vocational Training."

  "All programs except training combined, with a change in the funding formula to a state entitlement."

- Early Childhood Education (Title XI)

  "Combine with Innovation and Development."

- Telecommunications (Title XI)

  "Consolidate with Communications Act (Title III) and Section 611 of Emergency School Aid Act."

- Other Programs

  "Educational Proficiency - consolidate with Title II programs."

"Women's Educational Equity - consolidate with Title II programs."

"Ethnic Heritage - consolidate with Title IV programs."

"Alcohol and Drug Abuse Education - consolidate with Title IV programs."

ADMINISTRATIVE REFORMS

The Governors included two specific suggestions for administrative changes to improve program efficiency or equity:

- Indirect Costs Rate for Research Grants

  "All research grants to institutions of higher education currently permit an open-ended indirect cost rate to be assessed from grant funds. In lieu of this, federal grants should either cut that procedure to a standard administrative percentage or require that any administrative costs be absorbed by the recipient institution."

- Education of All Handicapped

  "The present state plan requirements have become so detailed, complex, and voluminous, and the safeguards, procedures, and assurances so involved, that, as in Vocational Education, a full-time staff is required to begin work on one plan even before the preceding plan is approved. Lack of standardized terminology and lack of clear-cut procedures for program development, operation, and reporting make it very difficult to administer this program."

PROGRAM ELIMINATION, SIGNIFICANT CUTS, AND REASSIGNMENT OF RESPONSIBILITIES

Several Governors made suggestions and comments that, if acted upon, would eliminate or at least significantly change programs and the delivery of education services. One Governor commented on the broad question of participation by both federal and state government in the same programs:

- Federal Impact Aid

  "This aid is designed to pay the fair share of school taxes for children of federal employees who reside on tax exempt federal property. Conceptually, this program is reasonable, but it has been known to be manipulated and misused in some areas. It is suggested that this program be considered as low priority and that consideration be given to laws that allow (or require) federal employees to pay their share of property taxes if they have students attending public schools."

- <u>Library Service Construction Act</u>

  "This program operates on the premise that by increasing the funding, more library services will be provided and state legislatures will make a greater financial commitment to libraries. This is not realistic, as legislatures have their own priorities. There is no coordination from federal sources and funding for school, public, academic, and special libraries."

- <u>Teacher Corps and Teacher Centers</u>

  "A total of $134,472,000 was appropriated for this program in the past fiscal year. This is a duplication of staff development activities at the state level which could be eliminated without an adverse impact on our educational system."

- <u>Grant Eligibility</u>

  Although states are assuming a higher percentage of education costs, eligibility requirements restrict their use of federal aid:

  "The state, however, is not eligible to apply for 70 percent of the elementary and secondary education program grants available. Many of these grants are available only to local education agencies, thus penalizing the state for having a centralized system."

ENERGY

Programs Included In Review

Energy Extension Service

State Energy Conservation Program

Supplemental Energy Conservation Program

Research and Development: Fission, Fossil, Solar, Goethermal, Electric, Etc.

Energy Conservation for Schools, Hospitals, Local Government and Public Care Institutions

Weatherization Assistance for Low Income Persons

ENERGY

The survey responses reflect the priority Governors place on energy conservation as a key to combatting the energy shortage. As with other programs, Governors feel that increased state flexibility resulting from consolidations and more streamlined regulations could result in substantial dollar savings. Among the comments made were:

> "Reporting requirements for the State Energy Conservation and the supplemental grant programs are very demanding and time consuming; a 5 to 10 percent savings could be realized from fewer requirements and greater flexibility."

> "Community Services Administration energy-related programs should be consolidated with DOE programs if they are not included in comprehensive welfare reorganization. All funds should be channelled directly to the states so that a comprehensive program can be coordinated with state efforts."

In addition, the Governors support the concepts contained in the Energy Management Partnership Act (S. 1280/HR.4382), which would consolidate all existing state energy grant programs and expand the states' capacity to plan and manage a broad range of energy-related activities, including energy conservation, renewable resource development, research and development, and energy emergencies. This legislation is partly a result of a pledge the administration made to the Governors in July 1977 to reexamine existing federally assisted energy grant programs and propose measures to improve their management.

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NATURAL RESOURCES, ENVIRONMENT, AND RECREATION

Programs Included In Review

Drought Emergency Assistance

Boating Safety

Water Pollution

Sewage Treatment Plant Construction

Water Resources Planning

Public Water System Supervision Grants

Pesticide Control

Air Pollution Control Grant

Water Quality Management State Plan

Solid Waste Disposal Planning

Construction Management Assistance

Lake Restoration Grants

Wildlife Research

Endangered Species

Anadromous Fish Conservation

Animal Damage Control

Cooperative Forestry

Forest Fire Control

General Forest Assistance Programs

Youth Conservation Corps

Young Adult Conservation Corps

Resource Conservation and Development

Fish Restoration

Commercial Fisheries Research and Development

Coastal Zone Management Program Development

NATURAL RESOURCES, ENVIRONMENT, AND RECREATION

Consolidation of grant programs was the common theme of Governors' comments in this area. Increased flexibility in directing funds to state problem areas and the potential of significant economies were mentioned. One Governor said:

> "As any Governor is well aware, there are numerous grants available to the states for wastewater treatment, safe drinking water, water supply systems, air quality, solid waste management, and noise pollution abatement. The administrators of the environmental programs would much prefer to see a consolidation of these grants into a single environmental block grant with a reduced level of funding than to maintain the current congressional authorizations. Not only would a significant savings result, but the interests of the people of the states would be better served by applying these limited dollars to our greatest areas of need."

Other Governors mentioned their support for the proposed "Integrated Environmental Program Grant" bill now before Congress. The bill calls for the consolidation of existing EPA categorical programs on a voluntary basis and gives Governors authority to transfer up to 20 percent of their states' annual categorical funding among integrated programs to support their management objectives.

Consolidation of categorical grants in three other natural resource areas was recommended: Heritage Grant Programs, Wildlife Grant Programs, and Forest Service Programs. One response called attention to the recent move toward flexibility, consolidation, and increased state responsibility in this area, citing the Cooperative Forestry Act of 1978 as an example. One Governor recommended state or private assumption of costs for three programs: Boating Safety, Commercial Fisheries Research and Development, and Research on Sport Fish and Wildlife.

The Governors have supported the Administration's FY 1980 budget request for $3.8 billion to finance sewage treatment facilities under the Clean Water Act. This level of funding represents a 10 percent reduction from current-year appropriations of $4.2 billion and a 24 percent reduction from the $5 billion that Congress had previously authorized. While state allocation reductions would inhibit the states' ability to meet national water clean-up goals, the Governors have agreed to support the Administration's proposed reduction of $400 million in view of current budget constraints.

However, Congress has indicated the desire for even further reductions in FY 1980 funding for the program. If this trend of declining congressional funding support continues, current federal requirements will have to be reexamined.

COMMUNITY AND ECONOMIC DEVELOPMENT

Programs Included In Review

Project Grants:

- EDA Title I Public Works
  - Title III Governor's Discretion
  - Title V Regional Commissions
  - Title IX Special Impact
- HUD UDAG
  - CDBG
- FmHA Rural Development Grants
- Water and Waste Disposal
- Fire Protection

Planning Grants:

- EDA 301 Technical Assistance
  - 301 Multi-County Planning
  - 302 Comprehensive Planning
  - 302 Sub-State Planning
- HUD 701 Comprehensive Planning
  - 107 CDBG Planning
- FmHA 111 Rural Development
- Title V Regional Commissions

Local Programs:

- EDA Title II Business Development
  - Title IV Trade Adjustment
- FmHA Business and Industrial Loans

Historic Preservation Grants

COMMUNITY AND ECONOMIC DEVELOPMENT

In the words of one Governor, "Community and economic development programs are perhaps the most impressive area for consolidation." NGA's Committee on Community and Economic Development has proposed an economic development block grant program that would consolidate most functions of the Economic Development Administration as well as some HUD community development grants. This program would allow states, working extensively with local governments, to plan a coordinated attack on economic development problems.

In addition, Governors favored the retention and expansion of the Title V regional commission program as the primary vehicle for multi-state economic development. Another Governor commented, "Federal regulations in the Title V program are minimal and the program is very flexible." Governors believe that the flexibility of this program must not be eroded in the future.

In general, the responses indicated that Governors value highly project grant programs under EDA's Titles I, III, V, and IX. EDA planning grants in the 301 and 302 programs were rated as a priority in conjunction with overall economic development strategies. Governors also favored retention of the Farmers Home Administration rural development program (Section III), which serves as a model of state-federal cooperation in many states.

Some Governors were critical of Economic Development Administration Title II and Title IV programs, which operate primarily through localities. Some Governors also criticized the administrative complexity of the coastal zone management program. Some suggested that much of the work under this program should be completed in the next few years and that a reevaluation of the program's goals and funding level would be in order.

In general, Governors favored increased flexibility in community and economic development programs so that states can adequately plan for the varied and changing economic circumstances that confront them. Rapidly developing states in the West, for example, have community development needs vastly different from those states with aging infrastructures. Governors suggested that with a block grant and economic development planning approach and strong regional commissions, the total amount of funds flowing to community and economic development programs can be utilized much more effectively.

TRANSPORTATION

Programs Included in Review

State and Community Highway Safety

Basic Grants

Specific Programs:

- Special Bridge Replacement
- School Bus Training

Federal Aid to Highways:

Planning, Research and Development

Interstate

Urban Systems

Primary - Rural

Secondary - Rural

Forest Highways

Off-Systems Road Projects

Airport and Airway Development

Highway Beautification

Federal Railroad Administration

Urban Mass Transit Administration

TRANSPORTATION

The Governors who responded to the survey agreed that the State and Community Highway Safety Basic Grant program is important. The traffic safety program was described as helpful but difficult to operate because of the justification process. "Block grants with annual reports on use of funds" were recommended.

The Governors supported securing adequate financing for the nation's basic road system--interstate, urban, primary, and secondary--and are concerned that these top priority needs are not served effectively by the proliferation of categorical grant programs. In addressing this problem, one Governor said that categories of uses for federal aid highway projects do not necessarily coincide with real transportation needs. Another Governor suggested that "the twenty-nine categorical programs of the Federal Highway Administration should be consolidated to no more than seven."

While the Governors have repeatedly urged the simplification and consolidation of many of the categorical federal highway and public transportation programs, a flexible approach to addressing priority investment needs is particularly critical given the high inflation rate in construction costs and budget constraints.

The combination of aging transportation facilities, escalating construction costs, and dwindling resources requires that transportation systems be used as efficiently as possible. For this reason, Governors viewed federal assistance for the reconstruction and maintenance of the interstate highway system as a top priority in the years to come, as is assistance for renewing the primary and secondary rural road systems. Resurfacing, restoring, and rehabilitating--the 3R programs--must be continued and expanded.

The growing need to conserve energy has increased state interest in federal support of mass transit systems. There was consensus among the Governors that the urban mass transit capital improvements and operating assistance programs are crucial to promoting national energy conservation efforts. Because each state has responsibility for planning and implementing urban and rural public transportation programs, all transportation funds--except for directly administered federal programs--should flow to the states for allocation to local agencies through formulas developed with local officials.

The current airport development aid program neither provides sufficient flexibility to target funds to areas of greatest need nor takes into account the Governors' role and responsibility for overall economic development within their states. Local and regional airport plans should be integral elements in overall state planning efforts. This objective can be accomplished more effectively with a strengthened state role in the administration of the general aviation, commuter, reliever and small air carrier airport programs. The Governors have therefore recommended a consolidation of airport development grants for all but the nation's largest and busiest airports, to be administered by the states under a block grant approach.

GENERAL PURPOSE ASSISTANCE

Programs Included In Review

General Revenue Sharing

Counter-cyclical Fiscal Assistance

GENERAL PURPOSE ASSISTANCE

The National Governors' Association has no higher priority than the renewal of the General Revenue Sharing program. General Revenue Sharing embodies the reform principles that the Governors believe are essential to the federal grant-in-aid system. The Governors feel that this program has been a successful experiment in promoting state and local initiatives to meet important program goals and to advance national priorities. The lack of red tape and flexibility of revenue sharing has enabled the Governors to spend these dollars in areas of most importance to their respective states. The following are some comments reflecting this position:

> "It is my opinion that the revenue sharing program should be the last program to be reduced or cut. It is the most flexible of all aid programs. . .State and local officials, who are the closest to the needs of the people, can target the funds for use in areas they deem most necessary. Finally, revenue sharing has the lowest overhead cost of all programs. . . ."

> "Revenue sharing is. . .one of the most effective federal assistance programs available to state and local governments."

> "Most of the growth in state government is a result of federal programs. We view revenue sharing as simply returning to the states a small part of the money we need to help administer these federal programs."

As the current recession deepens, the fiscal position of state and local governments may be imperiled. One of the key federal programs that can help state and local governments overcome economic hard times is timely counter-cyclical fiscal assistance. Many Governors believe that such assistance, if provided on a basis that allows for effective planning, will have great value during the current recession, and therefore they feel that the revenue sharing program should be reenacted and should include state governments.

Bypassing the States

Wrong Turn for Urban Aid

National Governors' Association
Center for Policy Research
Washington, D.C.

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Research Notes 4, November 1979

Printed in the United States of America

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FOREWORD

The issue of the responsiveness of state and federal aid to distressed cities has generated a great deal of attention in recent years. During periods of fiscal austerity, it is particularly important that the federal and state governments distribute aid so as to reflect the relative needs of our nation's largest cities. Whereas many officials assert that direct federal aid to localities is the most efficient way of allocating funds, the nation's governors have long argued that state governments, working with local governments, are better equipped to distribute state and federal funds to distressed communities than is the more removed federal bureaucracy.

This monograph examines the relative degree to which a combination of direct state aid and state-administered federal aid has been responsive to distressed cities from 1965 to 1977. The results of this study indicate that direct state aid, combined with state-administered federal aid, is more responsive to distressed cities than is direct federal assistance. This conclusion suggests that bypassing state governments with direct federal aid may not be in the interest of distressed cities, and that a stronger state role in federal programs may be the most efficient way of distributing intergovernmental assistance to localities.

DICK THORNBURGH
Governor of Pennsylvania
Chairman, NGA Committee on Community and Economic Development

ELLA T. GRASSO
Governor of Connecticut
Chairman, NGA Subcommittee on Urban Policy

BYPASSING THE STATES: WRONG TURN FOR URBAN AID

Introduction

In response to public sentiment against high taxes and government expenditures, the Carter administration has pledged to balance the federal budget. State governments have been under similar pressure to reduce spending and limit tax increases.[1] These parallel forces require both levels of government to distribute their scarce resources in a manner that recognizes the relative needs of distressed localities.

Cities receive state and federal aid in three ways:

- direct state aid through programs such as education aid formulas, state revenue sharing programs, and states' sharing in the costs of city services
- state/federal programs under which states distribute federal and state funds to local jurisdictions using federal guidelines
- direct federal aid whereby the federal government distributes aid directly to a locality for such programs as community development and anti-recessionary assistance

States and the federal government often disagree on the best method for distributing aid. Federal officials often argue for direct federal aid to localities. In contrast, governors believe that combining direct state aid with state-administered federal aid results in a more efficient and responsive system. The Advisory Commission on Intergovernmental Relations contends that direct federal aid often ignores or undermines state plans and priorities in program areas for which states bear substantial responsibilities,

This report was prepared by Fred Teitelbaum, director of research studies, and Alice E. Simon, research associate, National Governors' Association Center for Policy Research.

[1] *Tax and Expenditure Limitations, 1978* (Washington, D.C.: National Governors' Association, December 1978).

creating "management as well as policy headaches for the states."[2] This monograph addresses this issue by examining the relative degree to which a combination of direct state aid and state-administered federal aid (hereinafter referred to as state/federal aid) has been responsive to "distressed" cities from 1965 to 1977 versus the degree to which direct federal aid has been responsive to these cities.

Two sets of measures of state/federal and direct federal aid are employed in the analysis:

- per capita state/federal and per capita direct federal aid
- the percentage of each city's general revenues derived from state/federal and direct federal aid

Four indices of hardship are used to measure distress:

- Nathan and Adams' Hardship Index
- Congressional Budget Office (CBO) Social Index
- CBO Economic Index
- CBO Fiscal Index

Pearson Product Moment Correlation Coefficients were computed between each index and each of the two sets of assistance measures to compare the relative responsiveness of state/federal and direct federal aid to distressed cities. In general, the findings of this study indicate that state/federal aid is consistently more responsive to distressed cities than is direct federal aid.

1. Aid to American Cities

The federal government assists local governments through three major funding sources: grants-in-aid (which include general revenue sharing), loans, and tax expenditures. The largest of the three is grants-in-aid. Direct federal aid to localities grew from $1.2 billion to $16.6 billion between 1965 and 1977.[3] Areas in which the federal government awards grants include: education, employment, energy, commerce and housing credit, transportation, community and regional development, health, administration of justice, and general purpose fiscal assistance.

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[2] "A Tilt toward Washington Federalism in 1977," *Intergovernmental Perspective*, vol. 4, no. 1 (Winter 1978), p. 6.

[3] U.S. Department of Commerce, Bureau of the Census, *Governmental Finances in 1964–65*, p. 20, and *Governmental Finances in 1976–77*, p. 19.

In recent years, the federal government has increased its support of central cities through direct subsidies, focusing on distressed cities in particular. According to the Advisory Commission on Intergovernmental Relations, this growth has been spurred by the war on poverty programs instituted in the 1960s, the State and Local Fiscal Assistance Act of 1972 (general revenue sharing), the "blocking" of community development programs in 1974, and various economic stimulus programs such as anti-recession fiscal assistance, local public works, and Titles II and VI of the Comprehensive Employment and Training Act in 1976 and 1977.[4]

States assist local governments primarily through state intergovernmental transfer payments and direct state expenditures for state-local functions. Major services supported by the states include local schools, highways, public welfare, local criminal justice, health, and general local government support. Although state assistance to local governments has always been much larger in absolute terms than federal assistance and state assistance has increased substantially since 1965,[5] the rationale for many of the direct federal-local programs has been the claim that "state governments are generally unresponsive to the needs of the cities" and that the federal government "is more responsive to urban problems than state governments."[6] To test the merits of this rationale, it is necessary to compare the impact of direct federal grants, which as we have seen totaled $16.6 billion in 1977, with state-federal grants, which totaled $60.3 billion in that year,[7] on

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[4]John Shannon, "Our Central Cities: Creatures of the State or Wards of the Federal Government?" Remarks presented before the Committee on Taxation, Resources, and Economic Development, Cambridge, Massachusetts, October 22, 1977.

[5]In 1977, states spent from their own resources (exclusive of federal pass-through funds) a total of $78.1 billion to help local governments, a 272 percent increase from the $20.9 billion spent in 1965. In both years, the state contribution far exceeded that of the federal government, although the federal contribution, starting from a lower base, has increased more rapidly. Most of the state spending is through grants, often in conjunction with state aid, but a substantial portion is through direct state expenditures that do not show up in local government budgets and are therefore difficult to measure in terms of their distributional impact. A more comprehensive discussion of state aid to local governments can be found in *Allocation of State Funds to Local Jurisdictions* (Washington, D.C.: National Governors' Association, June 1978). For 1977 information, see *Significant Features of Fiscal Federalism, 1978-79* (Washington, D.C.: Advisory Commission on Intergovernmental Relations, May 1979), p. 18.

[6]Thomas R. Dye and Thomas L. Hurley, "The Responsiveness of Federal and State Governments to Urban Problems," *Journal of Politics*, vol. 40, no. 1 (February 1978), p. 203.

[7]*Governmental Finances in 1976-77*, p. 19.

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samples of the nation's largest cities. Such a comparison sheds new light on the effectiveness of the state-federal partnership in responding to urban distress.

2. Defining Distress

Defining a city as either distressed or subject to extreme hardship is a politically sensitive issue, given the amount of aid that is targeted directly or indirectly on this basis. For example, should cities in distress be restricted to only central urban areas or include older suburban areas and/or surrounding rural areas? Which economic, socioeconomic, and demographic indicators should be used to measure levels of hardship? Because of the problems inherent in developing a precise conceptual definition of distress, both the government and academic communities have developed a variety of indicators. Examples of measures of distress used in the past include attributes of the economic condition of the areas, the types of people inhabiting certain areas, and the "fiscal health" of city governments.

A key issue to be considered with respect to the distribution of funds to any urban area is the distinction between central cities and the metropolitan areas in which they are located. In the context of the responsiveness of aid to cities, emphasis is usually placed on central cities rather than on localities in general.

Two general approaches are used to determine the relative distress of cities. One defines distress in terms of disparities within metropolitan areas, for example, a central city relative to its suburbs. The other defines distress by measuring a city's level of distress against that of another city.

The rationale behind measuring distress within metropolitan areas is that the distress experienced by a central city is compounded by more affluent people and businesses leaving the central city for the suburbs. The Nathan and Adams' Central City Hardship Index is based on this premise. It is a composite index, calculated from 1970 census data, that measures the city-suburban ratio of six socioeconomic and demographic indicators: the unemployment rate, the number of persons either less than eighteen or over sixty-four years of age, the number of persons aged twenty-five or more with less than twelve years of formal education, per capita income level, the number of occupied housing units with more than one person per room, and the number of families with incomes below

125 percent of the low-income level.[8] The ratios were standardized, summed, and adjusted to a base of 100. A value below 100 indicates that a central city is better off than its suburbs. The index was calculated for the most populous cities in fifty-five of the sixty-six largest standard metropolitan statistical areas (SMSAs) having a population of over 500,000 in 1970 (see Table 1).[9] Fifty-four of these cities will be used in this analysis.[10]

The rationale behind the second approach is that cities differ in their ability to provide services that meet the basic needs of their citizens. In August 1978, the Congressional Budget Office (CBO) issued a report on the responsiveness of federal aid to city need that employed three such indices measuring three dimensions of distress: social, economic, and fiscal. A sample of forty-five cities was initially selected. However, because certain data were unavailable to calculate needed variables in each index, the final sample sizes for the economic, social, and fiscal indices were thirty-nine, forty-five, and thirty-eight, respectively.[11]

The social need index is a combination of the Nathan and Adams' inter-city and central city-suburban indices and is composed of six measures of distress: unemployment, income, poverty, dependency, education, and overcrowded housing. The economic index is composed of measures reflecting changes in a city's population, per capita income, manufacturing employment, total employment within metropolitan areas, population density, and proportion of housing stock built prior to 1940. Four measures were used to ascertain fiscal need: tax effort, property tax base,

[8]1970 census data are the most current data available for the indicators used to calculate this index. Consequently, an index of hardship that relies upon dated socioeconomic and demographic data will not truly represent the current situation of relevant localities.

[9]For an explanation of why eleven of these cities were omitted, see Richard P. Nathan and Charles Adams, "Understanding Central City Hardship," *Political Science Quarterly*, vol. 91, no. 1 (Spring 1976), p. 49.

[10]Recent census data indicate that the level of state revenues allocated to New York City is extremely high relative to all other cities in this index. For example, in 1976, New York State's contribution to New York City's general revenue fund was 15 percent higher than the total amount of state contributions made by nine states (in which the hardest-pressed cities are located) to their respective general revenue funds. To avoid biasing the analysis, New York City was omitted.

[11]For a complete description of these indices, see U.S. House of Representatives, Subcommittee on the City of the Committee on Banking, Finance and Urban Affairs, *City Need and the Responsiveness of Federal Grants Programs*, 95th Congress, 2nd session, August 1978. These indices were used to examine the distribution of general revenue sharing, community development block grants, anti-recession fiscal assistance, CETA, and local public works assistance programs.

Table 1

INDEX OF CENTRAL CITY HARDSHIP RELATIVE TO THE BALANCE OF SMSA FOR FIFTY-FIVE SELECTED SMSAs

Primary Central City of SMSA	Index Score	Rank	Primary Central City of SMSA	Index Score	Rank
Newark	422	1	Cincinnati	148	27
Cleveland	331	2	Pittsburgh	146	28
Hartford	317	3	Denver	143	29
Baltimore	256	4	Sacramento	135	30
Chicago	245	5	Minneapolis	131	31
St. Louis	231	6	Birmingham	131	32
Atlanta	226	7			
Rochester	215	8	Jersey City	129	33
Gary	213	9	Oklahoma City	128	34
Dayton	211	10	Indianapolis	124	35
(New York)	(211)	(—)	Providence	121	36
			Grand Rapids	119	37
Detroit	210	11	Toledo	116	38
Richmond	209	12	Tampa	107	39
Philadelphia	205	13	Los Angeles	105	40
Boston	198	14	San Francisco	105	41
Milwaukee	195	15	Syracuse	103	42
Buffalo	189	16	Allentown	100	43
San Jose	181	17			
Youngstown	180	18	Portland	100	44
Columbus	173	19	Omaha	98	45
Miami	172	20	Dallas	97	46
New Orleans	168	21	Houston	93	47
			Phoenix	85	48
Louisville	165	22	Norfolk	82	49
Akron	152	23	Salt Lake City	80	50
Kansas City, Mo.	152	24	San Diego	77	51
Springfield, Ma.	152	25	Seattle	67	52
Ft. Worth	149	26	Ft. Lauderdale	64	53
			Greensboro	43	54

Source: Richard P. Nathan and Charles Adams, "Understanding Central City Hardship," *Political Science Quarterly*, vol. 91, no. 1 (Spring 1976), Table 1, pp. 51–52.

and tax measures of service needs relative to tax base and tax effort.

To ensure that the results of this study are not artifacts of the hardship index used, the Nathan and Adams' and the three CBO

Table 2

INDEX OF SOCIAL NEED
(39 cities)[a]

City	Index Score	Rank	City	Index Score	Rank
Newark	100	1	Pittsburgh	43	20
Cleveland	67	2	(New York)	(41)	(21)
St. Louis	64	3	Sacramento	40	22
Detroit	62	4	Milwaukee	37	23
New Orleans	61	5	San Jose	37	24
Buffalo	61	6	Akron	37	25
Miami	60	7	Columbus	34	26
Gary	58	8	San Diego	30	27
Baltimore	55	9	Norfolk	30	28
Tampa	51	10	Oklahoma City	30	29
Birmingham	51	11	Kansas City, Mo.	29	30
Philadelphia	49	12	Los Angeles	27	31
Jersey City	48	13	Phoenix	24	32
Atlanta	47	14	San Francisco	22	33
Boston	45	15	Houston	21	34
Chicago	46	16	Indianapolis	21	35
Cincinnati	45	17	Denver	20	36
Louisville	45	18	Minneapolis	20	37
Rochester	44	19	Seattle	16	38
			Dallas	11	39

[a]Thirty-eight cities were used in this analysis. New York City was omitted for reasons cited on page 5.
Source: House of Representatives, *City Need and the Responsiveness of Federal Grants Programs,* Table 11, pp. 44–45.

indices were all used as indicators of city distress.[12] Fifty-nine cities appear in at least one of the indices, although no one index contains all fifty-nine. Tables 2, 3, and 4 present the cities and index scores for CBO's social, economic, and fiscal need indices, respectively.

3. Measuring Aid to Distressed Cities

One approach to a distributional study would be to focus on the extent to which programs designed to provide assistance to dis-

[12]A discussion of the problems inherent within each of these indices and the interrelationships among them is presented in the Appendix.

Table 3

INDEX OF ECONOMIC NEED
(45 cities)[a]

City	Index Score	Rank	City	Index Score	Rank
Newark	84	1	Los Angeles	57	23
(New York)	(80)	(2)	Kansas City, Mo.	56	24
Jersey City	78	3	(Washington, D.C.)	(54)	(25)
Cleveland	78	4	New Orleans	53	26
Buffalo	77	5	Louisville	51	27
Chicago	76	6	Columbus	51	28
St. Louis	74	7	San Bernadino	49	29
Boston	74	8	Atlanta	45	30
Patterson	72	9	Birmingham	45	31
Pittsburgh	71	10	San Diego	43	32
Rochester	70	11	Sacramento	43	33
Philadelphia	70	12	Miami	42	34
San Francisco	68	13	Denver	41	35
Seattle	66	14	Norfolk	40	36
Detroit	66	15	Indianapolis	37	37
Cincinnati	65	16	Dallas	35	38
Akron	64	17	Oklahoma City	34	39
Milwaukee	64	18	Anaheim	31	40
Baltimore	63	19	El Paso	30	41
Minneapolis	62	20	Tampa	29	42
Albany	59	21	Houston	26	43
Gary	58	22	San Jose	24	44
			Phoenix	16	45

[a] Forty-three cities were used in this analysis. New York City was omitted for reasons cited on page 5. Washington, D.C. was omitted because of its non-state status.
Source: House of Representatives, *City Need and the Responsiveness of Federal Grants Programs,* Table 12, p. 48.

tressed cities accomplish that goal. Such an analysis would evaluate the responsiveness of each of these programs but would not deal with the aggregate effect across programs. Yet, because different levels of government or various states may have different program approaches to alleviate distress among states and localities, a program-by-program comparison of aid to localities has significant limitations. For example, some states may allocate relatively large amounts of economic and community development assistance to their cities and less aid in the areas of social services

Table 4

INDEX OF FISCAL NEED
(38 cities)[a]

City	Index Score	Rank	City	Index Score	Rank
(Washington, D.C.)	(84)	(1)	Louisville	35	20
Boston	72	2	El Paso	34	21
(New York)	(67)	(3)	Denver	33	22
Newark	65	4	Miami	31	23
St. Louis	61	5	Gary	31	24
Philadelphia	53	6	Tampa	29	25
Baltimore	52	7	Columbus	28	26
Jersey City	47	8	San Bernadino	28	27
Detroit	46	9	Albany	28	28
Birmingham	46	10	Akron	27	29
New Orleans	45	11	Sacramento	24	30
Patterson	45	12	Minneapolis	23	31
Buffalo	44	13	Indianapolis	22	32
Cincinnati	44	14	Phoenix	18	33
Norfolk	44	15	Los Angeles	18	34
Cleveland	42	16	San Diego	17	35
San Francisco	39	17	Seattle	13	36
Pittsburgh	37	18	San Jose	12	37
Rochester	36	19	Anaheim	10	38

[a]Thirty-six cities were used in the analysis. New York City was omitted for reasons cited on page 5. Washington, D.C. was omitted because of its non-state status.
Source: House of Representatives, *City Need and the Responsiveness of Federal Grants Programs*, Table 13, pp. 50–51.

and housing; other states may take the opposite approach to alleviating distress. Consequently, there is a trade-off between undertaking a program-by-program analysis, which involves precise but possibly misleading comparisons, and undertaking an analysis of the total amount of aid, which combines programs that are designed to target funds with those that are not. Because of the unavailability of data on a program level and on the assumption that all types of aid will directly or indirectly alleviate distress, this study focuses upon the aggregate assistance provided by direct federal and state/federal programs to city governments.

With this perspective in mind, this analysis employs two sets of measures of state/federal and direct federal aid to *city governments.*[13] These measures are:

- per capita state/federal and per capita direct federal aid
- the percentage of each city's general revenues derived from state/federal and direct federal aid

Per capita aid is defined as total dollars by source received by a city divided by its population. The percentage of each city's general revenues from state/federal and direct federal aid was derived by dividing each city's total general revenues into that portion accounted for by state/federal and direct federal aid. Each set of measures was constructed for 1965 and 1970 to 1977.[14]

The data from which the measures were derived came from Census of Government reports of the cities under examination. In the context of this study, one problem of this data set is the inability to separate from "state" contributions that portion of federal dollars that is passed through the states to the localities. Thus, for example, in U.S. Census Bureau reports, funds that pass through the states to a school district, such as under Title I of the Elementary and Secondary Education Act, are counted as a state contribution, not as federal assistance. Because the issue is *not* whether states acting independently have a better record of distributing aid to distressed cities than does the federal government, but whether in conjunction with the federal government states better allocate combined state and federal funds to distressed cities, this data problem is not significant.

The reader also should be aware that some state and federal aid that benefits city residents goes not to the city government but to special districts for such purposes as schools, mass transit, housing, and sewage treatment. Only the school funds are sufficiently large and traceable as to lend themselves to adjustments for purposes of this study. In some cities, school districts are part of the city government and are included in the revenue figures reported by the Census of Governments. However, thirty-five of the fifty-nine cities that are in one or more of the samples in this study have independent school districts that are not part of the

[13]State-federal and direct federal contributions to welfare payments are not included in any of the revenue measures as collected in the Census of Governments because none of the cities in our samples directly administers welfare programs. All of these distressed cities have been relieved of the burden of financing welfare by state or county governments.

[14]Further explanation regarding the construction of these measures is presented in the Appendix.

city government and whose revenues are not included in these data. In order to ensure comparability of revenue data across cities, the budgets of these cities and their independent school districts were combined. Adjusted state/federal and adjusted direct federal aid figures reflect these school districts' revenues. Unfortunately, adjustments could be made only for 1971 and 1976, as data on independent school district allocations were available only for these two years. However, it appears that exclusion of these funds from the remaining years does not significantly alter the basic conclusions of this study.

To determine whether state/federal aid or direct federal aid is more closely related to urban distress, the relationship between the two measures of aid and the four hardship indices was examined. If state/federal aid is better distributed to distressed cities, the relationship between the measures of state/federal aid and the hardship indices will be stronger than that between direct federal aid and the hardship indices. To test the strength of these relationships, Pearson Product Moment Correlation Coefficients were calculated. The Pearson Product Moment Correlation is a measure of the linear association between two variables. The results of the test indicate the direction and strength of the relationship. If the correlation coefficient is zero, there is no relationship between the two variables being studied. The closer the correlation is to 1.0 or −1.0, the stronger the relationship between the two variables. If the value is positive, a positive change in one variable is associated with a positive change in the other variable. In contrast, a negative correlation indicates that a positive change in one variable is associated with a negative change in the other.

Correlation coefficients were computed between the two measures of state/federal aid and the hardship indices on the one hand and between direct federal aid and the hardship indices on the other. The degree to which state/federal aid is responsive to distressed cities will be reflected in a higher positive correlation coefficient between these two sets of variables—aid and hardship. Consequently, by comparing the correlation coefficients between state/federal aid and the hardship indices and the correlation coefficients between direct federal aid and the hardship indices, one can ascertain the relative responsiveness of state/federal aid and direct federal aid to distressed cities. For example, if the correlation coefficient between state/federal aid and the social index is .5270 and the comparable correlation coefficient for direct federal aid is .3507, state/federal aid is more highly related to the hardship index than is direct federal aid. This finding can be interpreted as meaning state/federal aid is more responsive to distressed cities than is direct federal aid. The correlations between state/federal and direct federal aid and the hardship indices can be compared only within each of the four indices independently. To examine the relative distributional responsiveness of these two sources of funds over time, correlation coefficients were computed for 1965 and 1970 through 1977.

4. Results

Per Capita Aid. Allocations of state/federal and direct federal aid on a per capita basis are, perhaps, the most direct measure of assistance to the sample cities because they take into account differences in the size of the populations. Table 5 shows the correlation coefficients between state/federal and direct federal aid and the four hardship indices. These correlations indicate that regardless of the hardship index used, state/federal aid is more responsive to distressed cities than is direct federal aid, and state/federal aid becomes increasingly more responsive across time.

In terms of the first conclusion, only in 1965 for both the social and fiscal hardship indices are the correlations between direct federal aid and these indices higher than those between state/federal aid and the indices. In 1976, direct federal aid and state/federal aid are distributed essentially the same with respect to the fiscal hardship index. When the revenues for independent school districts are included, state/federal aid is more responsive in 1971 and 1976 on all indices.

Generally, these data suggest that state/federal aid is increasingly more responsive from 1965 to 1976 on the economic and fiscal indices and from 1965 to 1975 on the Nathan and Adams' and social indices, and only slightly less responsive thereafter. For example, the correlations between state/federal aid and the Nathan and Adams' hardship index were .2101 in 1965, .5060 in 1975, and .4830 in 1977.

A scrutiny of the responsiveness of direct federal aid to distressed cities shows a somewhat different pattern. The correlations using the social index were low in all years, the highest correlation being .2438 in 1977. On the Nathan and Adams' index, direct federal aid apparently was not very responsive to distressed cities from 1965 to 1973. The correlations between per capita

Table 5

CORRELATIONS BETWEEN PER CAPITA STATE/FEDERAL AND DIRECT FEDERAL AID AND HARDSHIP INDICES[a]

Index	1965	1970	1971	1972	1973	1974	1975	1976	1977
NATHAN/ADAMS INDEX									
State/federal	.2101	.2710	.2921	.3771	.4112	.4161	.5060	.4913	.4830
Direct federal	.0735	.0862	.1595	.0759	.1259	.3129	.2516	.0888	.3144
Adjusted state/federal			.2851					.5555	
Adjusted direct federal			.1102					.0764	
CBO SOCIAL INDEX									
State/federal	.0261	.1333	.1510	.2679	.3312	.3529	.4391	.4096	.3962
Direct federal	.0538	−.0360	.0337	−.0239	.0793	.1241	.1851	.1156	.2438
Adjusted state/federal			.1817					.5232	
Adjusted direct federal			.0169					.1146	
CBO ECONOMIC INDEX									
State/federal	.3163	.3960	.3859	.4287	.4582	.4466	.4488	.4597	.4557
Direct federal	.1035	.2762	.3152	.2696	.2360	.2585	.2622	.3258	.3612
Adjusted state/federal			.4062					.5607	
Adjusted direct federal			.2768					.3153	
CBO FISCAL INDEX									
State/federal	.3872	.3946	.4064	.4509	.5507	.5340	.5631	.5706	.5551
Direct federal	.4347	.2265	.2960	.3330	.3121	.4183	.4955	.5742	.5040
Adjusted state/federal			.4068					.5977	
Adjusted direct federal			.2778					.5643	

[a]Correlations of .2516, .2679, .2585 and .2960 or greater are statistically significant to at least the .05 level for the Nathan and Adams', social, economic, and fiscal hardship indices, respectively.

direct federal aid and this hardship measure were extremely low. In contrast, the distribution of direct federal aid to distressed cities improved in 1974, 1975, and 1977. However, the increase in federal responsiveness is seen primarily in terms of the economic and fiscal hardship indices. The correlations between direct federal aid and the economic hardship index over time indicate that direct federal aid was poorly allocated in 1965, improved significantly in 1970, and remained at that level fairly consistently until 1976 when it improved again. Using the fiscal hardship index, direct federal aid was distributed well in 1965 and less well until 1974, when it became more responsive.

In general, these correlations show that per capita state/federal aid is much more responsive to distressed cities than is direct federal aid, regardless of the measure used to reflect city hardship. Moreover, as measured by per capita aid, state/federal assistance to distressed cities has been rather well distributed since 1965 and has been increasingly better allocated thereafter.

Aid as a Percent of a City's Budget. The relationships between state/federal and direct federal aid as a percent of a city's budget further buttress the findings that state/federal aid is more responsive to distressed cities than is direct federal aid. As shown in Table 6, only in 1965 for the social and fiscal hardship indices is direct federal aid better distributed than state/federal aid. As indicated by the negative correlations between direct federal aid and the hardship indices, direct federal aid for all of the hardship indices is so poorly allocated that a disproportionate amount of aid appears to be distributed to the least distressed cities. In seven of the nine years for the Nathan and Adams' index, six years for the economic index, and five years for the other hardship indices, direct federal aid as a percentage of a city's budget is *negatively* related to the hardship indices. In most other years, the correlations between these measures hover around zero, suggesting poor allocation of direct federal aid to distressed cities.

In contrast, only in 1965 does the correlation for the social hardship index indicate that state/federal aid is negatively related to hardship. Using the Nathan and Adams' and the fiscal hardship indices, state/federal aid is fairly well distributed to distressed cities from 1965 to 1971 and better distributed thereafter. From 1970 to 1977, the correlations between this measure of aid and the economic hardship index consistently range from a low of .3389 in 1971 to a high of .4443 in 1973. On the social hardship index, state/federal aid to distressed cities is poorly distributed from

Table 6

CORRELATIONS BETWEEN STATE/FEDERAL AND DIRECT FEDERAL AID AS A PERCENT OF CITY REVENUES AND HARDSHIP INDICES[a]

Index	1965	1970	1971	1972	1973	1974	1975	1976	1977
NATHAN/ADAMS INDEX									
State/federal	.1683	.1753	.1935	.3074	.3407	.2827	.4041	.4175	.3932
Direct federal	.0167	−.0004	.1047	−.0630	−.1435	−.0177	−.0708	−.2371	−.0740
Adjusted state/federal			.1303					.4714	
Adjusted direct federal			−.0319					−.2479	
CBO SOCIAL INDEX									
State/federal	−.0573	.0703	.0754	.2308	.2908	.3244	.4154	.3913	.3764
Direct federal	.0464	−.0705	.0452	−.0268	−.0633	−.0308	.0143	−.0639	.0415
Adjusted state/federal			.1629					.5618	
Adjusted direct federal			−.0414					−.1244	
CBO ECONOMIC INDEX									
State/federal	.2483	.3827	.3389	.4258	.4443	.3804	.4250	.4310	.3907
Direct federal	−.0713	.0747	.1940	.0213	−.1122	−.1602	−.2068	−.1238	−.0383
Adjusted state/federal			.1837					.5261	
Adjusted direct federal			.0314					−.1568	
CBO FISCAL INDEX									
State/federal	.1131	.2001	.2011	.2910	.4021	.3288	.4133	.4120	.3429
Direct federal	.2579	−.0464	.0471	−.0615	−.2001	−.0960	−.0738	.1075	.0142
Adjusted state/federal			.2327					.4147	
Adjusted direct federal			.0265					.1931	

[a] Correlations of .2371, .2908, .2483 and .2910 are statistically significant to at least the .05 level for the Nathan and Adams', social, economic and fiscal hardship indices, respectively.

1965 to 1971, fairly well distributed in 1972, and even better distributed from 1973 through 1977. When independent school district revenues are included, the correlations either remained the same or increased, ~~except for~~ 1971 on the Nathan and Adams' and the economic hardship indices.

Thus, using this measure of aid, state/federal aid is much more responsive to distressed cities than is direct federal aid. This conclusion is generally true regardless of the hardship index used or the year examined.

The Role of State Government in State-Local Functions. Throughout this analysis, the underlying assumption has been that all of the states represented in the four samples of cities have similar views of the roles and functions of state governments relative to their local governments; that is, the analysis assumed implicitly that all of these states have similar perspectives regarding the appropriate scope of governmental services that state, as opposed to local, governments should provide, as well as which level of government—state or local—should finance these services. States that assume a larger role in the provision and financing of services would be less likely to contribute more funds to all cities, including distressed cities, than those states that allow local governments to provide and finance more services.[15] Thus, the findings reached in this analysis might be artifacts of the systematic variation among states in the scope of services provided for cities.

To determine whether the findings have been distorted by such variations, correlations between the measures of state/federal and direct federal aid and the four hardship indices were calculated controlling for the effect of the role of the sample states relative to their localities. Thirty states are represented in the Nathan and Adams' index; twenty-four in the social index; twenty-four in the economic index; and twenty in the fiscal index. Two measures of the state role versus the local role were employed: the proportion of total state and local tax revenues generated by the state and the percentage of state and local expenditures from own revenues accounted for by state government. The higher a given state's proportion of total state and local expenditures and revenues, the larger the role that ~~state plays in~~ providing and financing services relative to its localities.

As indicated by the partial correlations in Tables 7 through

[15]See James A. Maxwell and J. Richard Aronson, *Financing State and Local Governments*, 3rd ed. (Washington, D.C.: Brookings Institution, 1977), pp. 31–32.

10, the conclusion that state/federal aid is more responsive to distressed cities than is direct federal aid is substantiated. While the partial correlations between the measures of state/federal aid and the four hardship indices are sometimes lower than those for which no account was taken for the effect of differing state roles, they are higher than the federal aid partial correlations with few exceptions across all the measures and years; that is, the states remain more responsive after taking into account the effects of the differences in the roles they play with respect to their localities. Thus, the proposition that state/federal funds are more responsive to distressed cities than are direct federal funds is not altered when the effects of different roles and functions of state governments are taken into account.

5. Conclusion

On the basis of four hardship indices and two measures of financial aid, this study found that a state-federal partnership in allocating aid to local jurisdictions has produced greater responsiveness to distressed cities than has federal aid alone. Among plausible explanations for this finding are the substantial management difficulties inherent in the federal attempt to deal directly with vast numbers of local governments, the perceived need for direct federal aid programs to include a sufficient number of local jurisdictions to assure majority votes in the Congress, and the inability of federal grant programs to take account of differing fiscal relationships among levels of government. For example, the percentage of state-local costs borne by state governments ranges from 48.3 percent in New York to 79.5 percent in Hawaii. Similarly, the functions of counties, townships, municipalities, and special districts vary greatly from state to state; it is virtually impossible for the federal government to accommodate these complex relationships in its aid programs.

In contrast, individual states deal with smaller numbers of local governments, have a fuller understanding of their problems, and therefore can deal with those problems in a more flexible manner. States can target funds, for example, by buying out fixed percentages of certain local government functions, such as court, health, or education costs, that are disproportionately burdensome to distressed areas. State formulas for distributing aid are not immune to technical problems or to the need for building legislative majorities, but these shortcomings may not be as pronounced at the state level because of the smaller scale and more homogeneous

Table 7

CORRELATIONS BETWEEN PER CAPITA STATE/FEDERAL AND DIRECT FEDERAL AID AND HARDSHIP INDICES CONTROLLING FOR STATE TAX REVENUE AS PERCENT OF STATE/LOCAL TAX REVENUES[a]

Index	1965	1970	1971	1972	1973	1974	1975	1976	1977
NATHAN/ADAMS INDEX									
State/federal	.1863	.2503	.2533	.3357	.3693	.3800	.4245	.4085	.4205
Direct federal	.1270	.0638	.1375	.0350	.1454	.3421	.3225	.0563	.2877
Adjusted state/federal			.2670					.5060	
Adjusted direct federal			.0959					.0503	
CBO SOCIAL INDEX									
State/federal	.0066	.1141	.1341	.2539	.3199	.3425	.3929	.3592	.3602
Direct federal	.0815	−.0450	.0317	−.0284	.0848	.1564	.2077	.1120	.2313
Adjusted state/federal			.1721					.4918	
Adjusted direct federal			.0195					.1154	
CBO ECONOMIC INDEX									
State/federal	.2914	.3667	.3394	.3780	.4084	.3987	.3481	.3585	.3867
Direct federal	.1804	.2772	.3365	.2824	.2928	.4105	.3689	.3639	.3823
Adjusted state/federal			.4020					.5353	
Adjusted direct federal			.3151					.3627	
CBO FISCAL INDEX									
State/federal	.3905	.3998	.4108	.4593	.5636	.5442	.5321	.5406	.5421
Direct federal	.4444	.2267	.2989	.3354	.3245	.4628	.5684	.6026	.5160
Adjusted state/federal			.4063					.5786	
Adjusted direct federal			.2832					.5981	

[a]Correlations of .2325, .3199, .2772 and .2832 or greater are statistically significant to at least the 0.5 level for the Nathan and Adams', social, economic, and fiscal hardship indices, respectively.

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Table 8

CORRELATIONS BETWEEN STATE/FEDERAL AND DIRECT FEDERAL AID AS A PERCENT OF TOTAL CITY REVENUES AND HARDSHIP INDICES CONTROLLING FOR STATE TAX REVENUES AS PERCENT OF TOTAL STATE AND LOCAL TAX REVENUES[a]

Index	1965	1970	1971	1972	1973	1974	1975	1976	1977
NATHAN/ADAMS INDEX									
State/federal	.1487	.1609	.1391	.2519	.2865	.2433	.3166	.3338	.3371
Direct federal	.1278	−.0108	.0936	−.0783	−.1185	.0411	.0267	−.1702	−.0072
Adjusted state/federal			.1483					.4431	
Adjusted direct federal			−.0128					−.1963	
CBO SOCIAL INDEX									
State/federal	−.0725	.0544	.0524	.2140	.2775	.3128	.3699	.3441	.3446
Direct federal	.1129	−.0633	.0527	−.0125	−.0475	.0200	.1599	.0493	.1157
Adjusted state/federal			.1664					.5476	
Adjusted direct federal			−.0229					−.0507	
CBO ECONOMIC INDEX									
State/federal	.2239	.3517	.2685	.3578	.3800	.3124	.3160	.3313	.3208
Direct federal	.0614	.0974	.2418	.0756	−.0420	.0224	.0287	.0836	.1024
Adjusted state/federal			.1991					.5312	
Adjusted direct federal			.1017					−.0451	
CBO FISCAL INDEX									
State/federal	.1141	.2040	.2047	.3022	.4227	.3398	.3613	.3611	.3091
Direct federal	.2830	−.0468	.0514	−.0583	−.2031	−.1029	.0675	.2578	.0997
Adjusted state/federal			.2331					.3997	
Adjusted direct federal			.0337					.2908	

[a]Correlations of .2775, .2433, .2685, and .2830 or greater are statistically significant to at least the 0.5 level for the Nathan and Adams', social, economic, and fiscal hardship indices, respectively.

Table 9

CORRELATIONS BETWEEN PER CAPITA AID AND HARDSHIP INDICES CONTROLLING FOR STATE EXPENDITURES AS PERCENT OF STATE/LOCAL EXPENDITURES[a]

Index	1965	1970	1971	1972	1973	1974	1975	1976	1977
NATHAN/ADAMS INDEX									
State/federal	.2034	.2617	.2915	.3672	.4011	.4101	.5000	.4836	.4732
Direct federal	.1207	.0970	.1642	.0774	.1828	.3492	.2693	.1043	.3140
Adjusted state/federal			.2876					.5503	
Adjusted direct federal			.1112					.0913	
CBO SOCIAL INDEX									
State/federal	.0144	.1109	.1320	.2461	.3099	.3332	.4434	.4138	.3926
Direct federal	.0889	.0268	.0477	−.0105	.1037	.1937	.1948	.1187	.2464
Adjusted state/federal			.1725					.5235	
Adjusted direct federal			.0358					.1179	
CBO ECONOMIC INDEX									
State/federal	.3236	.3719	.3663	.4029	.4327	.4219	.4440	.4549	.4569
Direct federal	.1962	.3403	.3590	.3137	.3054	.4045	.3142	.3565	.3677
Adjusted state/federal			.4135					.5689	
Adjusted direct federal			.3304					.3474	
CBO FISCAL INDEX									
State/federal	.3858	.3749	.4039	.4497	.5519	.5398	.5923	.5997	.5730
Direct federal	.4845	.2667	.3097	.3487	.3398	.4937	.4922	.5672	.4997
Adjusted state/federal			.4063					.6004	
Adjusted direct federal			.2948					.5573	

[a]Correlations of .2617, .3099, .3025, and .2948 or greater are statistically significant to at least the .05 level for the Nathan and Adams', social, economic and fiscal hardship indices, respectively.

Table 10

CORRELATIONS BETWEEN AID AS A PERCENT OF CITY REVENUE AND HARDSHIP INDICES CONTROLLING FOR STATE EXPENDITURES AS PERCENT OF TOTAL STATE AND LOCAL EXPENDITURES[a]

Index	1965	1970	1971	1972	1973	1974	1975	1976	1977
NATHAN/ADAMS INDEX									
State/federal	.1862	.1729	.1921	.2960	.3284	.2832	.4035	.4138	.3888
Direct federal	.1277	.0245	.1153	−.0461	−.0978	.0129	−.0449	.2178	−.0513
Adjusted state/federal			.1519					.4715	
Adjusted direct federal			−.0067					−.2208	
CBO SOCIAL INDEX									
State/federal	−.0476	.0531	.0576	.2111	.2710	.3049	.4166	.3419	.3738
Direct federal	.1404	−.0358	.0812	.0217	−.0201	.0705	.0211	.0709	.0660
Adjusted state/federal			.1711					.5648	
Adjusted direct federal			.0087					.1364	
CBO ECONOMIC INDEX									
State/federal	.2889	.3542	.3143	.3971	.4163	.3468	.4204	.4282	.3904
Direct federal	.0998	.1697	.2679	.1020	−.0323	−.0164	−.1950	−.0969	−.0314
Adjusted state/federal			.2015					.5506	
Adjusted direct federal			.1103					−.1373	
CBO FISCAL INDEX									
State/federal	.1229	.1632	.1955	.2875	.4037	.3272	.4556	.4436	.3597
Direct federal	.3653	.0094	.0639	−.0473	−.1956	−.0824	−.1734	.0481	−.0206
Adjusted state/federal			.2344					.4077	
Adjusted direct federal			.0473					.1568	

[a]Correlations of .2832, .2710, .2679, and .2875 or greater are statistically significant to at least the .05 level for the Nathan and Adams', social, economic and fiscal hardship indices, respectively.

nature of the intergovernmental system. Finally, state aid programs are much more likely to take account of fiscal relationships among levels of government because these relationships are defined in state laws, constitutional provisions and customs.

Governors have long argued that state governments, working with local governments, are in a better position to allocate state and federal funds to distressed communities than is a distant federal bureaucracy. Consequently, the federal government should not bypass the states in its efforts to define and respond to the problems of distressed communities. While the data do not permit a conclusion that states by themselves always respond successfully to distressed cities, this analysis demonstrates that the state-federal partnership works for the distressed cities of America. Because most aid to cities originates from the state level, these findings suggest that bypassing state governments with direct federal-local aid may be counterproductive for those who seek greater responsiveness to areas of need.

Within this context, states are pressing to gain flexibility in coordinated management of federal grants-in-aid programs. No longer do governors and legislatures appear to be the automatic enemies of the distressed urban communities. In fact, mayors often find more understanding of the problems of urban revitalization, mass transit, and housing in the state capitols than in Washington. The findings of this study suggest that the goal of greater public sector responsiveness to areas of need should be accomplished through a true state-federal partnership in which the states play an important role.

APPENDIX

Description of Measures Used in the Analysis

Per Capita State/Federal and Direct Federal Aid Measures. For these measures, the following population data by city were used to calculate per capita aid for both state/federal and direct federal assistance. The formulas used for these calculations were:

- 1965 revenue data/1960 population
- 1970, 1971, and 1972 revenue data/1970 population
- 1973 and 1974 revenue data/1973 population
- 1975, 1976, and 1977 revenue data/1975 population

Percentage of Total State and Local Tax Revenues Generated by State Government. For these measures, the following percentage data were used as control variables for revenue data:

- 1967 percentages: applied to 1965 and 1970 revenue data
- 1971 percentages: applied to 1971, 1972, 1973, and 1974 revenue data
- 1975 percentages: applied to 1975 and 1976 revenue data
- 1977 percentages: applied to 1977 revenue data

Source: *Significant Features of Fiscal Federalism, 1978–79* (Washington, D.C.: Advisory Commission on Intergovernmental Relations, May 1979), Table 32, p. 50.

Percentage of Total State and Local Expenditures Generated from Own Sources. For these measures, the following percentage data were used as control variables for revenue data:

- 1966 percentages: applied to 1965 and 1970 revenue data
- 1971 percentages: applied to 1971, 1972, 1973 and 1974 revenue data
- 1975 percentages: applied to 1975 and 1976 revenue data
- 1977 percentages: applied to 1977 revenue data

Source: *Significant Features of Fiscal Federalism,* Table 8, p. 14.

Adjustment Description

Thirty-five of the fifty-four cities selected for analysis from the Nathan and Adams' Hardship Index have independent school districts. The revenues allocated to these school districts are separate from the monies included in the revenue figures recorded by the Bureau of the Census. Therefore, the federal and state revenue figures for these cities undercount the amount of money available to a city. In addition, these independent school districts serve both city and non-city resident students. City resident students may also attend schools outside the independent school district according to their residential location.

In order to reflect accurately the amount of education revenue that should be added to the Census tabulations, data were collected on the percentage of students attending a particular independent school district who reside within that particular city. This percentage was applied to the total amount of state and federal revenue allocated to that particular independent school district and then added to the total state and federal revenue figures. The result is the adjusted state/federal and adjusted direct federal revenue figures. Percentage data were only available for 1971 and 1976.

Data Sources

Total Revenue, State Revenue, Federal Revenue, and Population. U.S. Department of Commerce, Bureau of the Census, *City Government Finances,* 1964–65, GF 65, no. 4; 1969–70, GF 70, no. 4; 1970–71, GF 71, no. 4; 1971–72, GF 72, no. 4; 1972–73, GF 73, no. 4; 1973–74, GF 74, no. 4; 1974–75, GF 75, no. 4; 1975–76, GF 76, no. 4; 1976–77, GF 77, no. 4; Table 5.

Nathan's Index. Richard P. Nathan and Charles Adams, "Understanding Central City Hardship," *Political Science Quarterly,* vol. 91, no. 1 (Spring 1976).

Social, Economic and Fiscal Need Index. Congressional Budget Office, *City Need and the Responsiveness of Federal Grant Programs,* a report prepared for the House Subcommittee on the City by Peggi Cucitti of the CBO staff, August 1978.

State/Federal and Direct Federal Revenues Allocated to Independent School Districts. U.S. Department of Commerce, Bureau of the Census, *Fiscal Government Finances in Selected Metropolitan*

Areas and Large Counties: 1970–71, GF 71, no. 6; 1975–76, GF 76, no. 6, Table 2.

Percent of Students in Independent School Districts within Sample Cities. Data supplied by the Bureau of the Census.

Adjusted State/Federal and Adjusted Direct Federal Aid. Compiled by NGA staff using *City Government Finances, Government Finances in Selected Metropolitan Areas,* and data supplied by the Bureau of the Census.

Interrelationships among Indices

The use of these hardship indices does not imply that these indices are ideal. The Nathan and Adams' index has two major drawbacks. First, a relatively well off city in absolute terms, for example, Denver, may appear distressed on the Nathan and Adams' index only because the gap between it and its suburbs is greater than in a poorer city that resembles its suburbs more closely. Second, four of the six variables used in the Nathan and Adams' index do not take into account population size and consequently may be biased toward large cities. The CBO social index, which is a combination of the Nathan and Adams' central city and city-suburban indices, suffers from this same problem. In addition, the three indices used in the CBO study can also be criticized because the measures that were used to tap social, economic, and fiscal distress of a city do not take into account all facets or consider only some aspects of the dimensions of distress to which these indices speak. It should also be noted that these four hardship indices represent initial attempts to measure distress and are solid attempts to address this most difficult conceptual and measurement problem. Despite these possible shortcomings, the relatively high correlations among these indices suggest that all four of these indices reflect an underlying phenomenon of distress.

CORRELATIONS AMONG THE NATHAN AND ADAMS', SOCIAL, ECONOMIC AND FISCAL INDICES

	Nathan and Adams	Social	Economic	Fiscal
Nathan and Adams		.8124	.5715	.5961
Social	.8124		.5041	.6579
Economic	.5715	.5041		.6353
Fiscal	.5961	.6579	.6353	

It also should be noted that the National Governors' Association has pointed out that conventional measures of distress used in many federal programs often ignore the problems of small communities, rural areas, and communities whose infrastructure is overwhelmed by rapid growth because of energy development. This study, however, focuses on whether state/federal aid is responsive to the conventional measures of urban distress because these conventional measures are part of the rationale for many direct federal-local programs.

Senator BRADLEY. We appreciate your testimony. We found it extremely enlightening We will now proceed with our next witness, the Governor of my State, New Jersey—our State, New Jersey—Gov. Brendan Byrne.

Welcome to the subcommittee, Governor.

Governor BYRNE. Thank you. It is nice to be here. I was going to just join Governor Alexander, but he has to go somewhere else. He is a pretty talented musician, outstanding tennis player, brilliant administrator. You would think with all those qualities, he would be a Democrat. [Laughter.]

I have some testimony prepared, Senators, and in deference to your ability to read it, I will mark it, if I may, and just make a couple of comments which I think will save some time.

Senator BRADLEY. That will be fine.

STATEMENT OF HON. BRENDAN BYRNE, GOVERNOR, STATE OF NEW JERSEY

Governor BYRNE. I suspect that Governor Alexander pointed out that there is a popular myth abroad that all of the States are running huge surpluses. I presented a budget which identified $210 million worth of deficit for the coming fiscal year and I asked the legislature to try to find $210 million somewhere.

Besides from doing that, I identified a number of programs which had to be deferred in New Jersey because we could not fund them. I signed with very mixed emotions several bills, including one dealing with the inspection of boarding homes in our State which was a meaningless and maybe even a misleading gesture because the bill had no funding attached to it and it cost money to do what the legislature wanted done.

In my budget, I provided a 7-percent increase for aid to dependent children.

So I could give you 100 more dramatic examples of things we ought to be doing at the State level which cannot be done because we do not have the money.

We also, in our State, take somewhere between 52 and 53 cents out of every dollar that I run through the budget and we give that back to local government by way of a type of State revenue sharing.

And out of a budget of about $5 billion that would represent some $2.5 billion.

I think that the Congress, in dealing with revenue sharing, is dealing with something a little bit different from the concept of just saving money—and I am in favor of saving money where you can save it. I think that when you cut out revenue sharing, you are not dealing with saving money, you are dealing in problem transfers. You are transferring a problem from the Federal level to the State level. And if the States are in the bind that I have just described, and I think most of the industrial States and a lot of the States with other problems are in that bind, our tendency, then, is to cut out this, or at least to some extent, to cut out this State aid to localities.

So what you are really talking about is moving the problem from the Federal level to the State level to the local level. When you transfer it to the local level, you are transferring it, basically, to the property tax.

In cities like Newark, N.J., where the property tax typically represents 10 percent of the value of a house, to transfer more of that problem to the local property tax becomes increasingly more self-defeating because, as the property tax gets higher, the abandonment of the cities becomes more accelerated and the problem more acute.

So I would just urge, and I have a good many statistics in my presentation about what we are doing at the State level for cities like Newark and Camden, the fact that we pay 76 percent of the cost of education in Newark and 79 percent in Camden, a lot of statistics that buttress the point.

I think that when you are dealing here in the Congress with questions of saving money, there ought to be a distinction made between money that is really saved and problems that are only transferred, and when you are dealing with problems that are transferred, there may be justification for transferring the problems.

I think that by transferring the problem of raising money from the Federal income tax to a local property tax, you are creating more problems than you solve, even if you get a headline about balancing the budget. So I would ask the Congress to look at revenue sharing in those terms.

If I could make one more minor point, it has to do with the predictability of the budget process. You can do a lot of things if you have time to do it. If you tell us to live without $75 or $80 million and you give me time to organize a way of doing that, whether it is increasing the property tax or doing without services or what have you, it is a lot easier to do it than if you tell me now that you are going to take $20, $30, or $60 million away from me very suddenly.

I think all of us have a certain amount of control over what is happening and the more advanced planning we can do, the better control we have.

To respond irrationally to sudden changes in revenue sharing that we are getting from the Federal Government is, I think, again self-defeating.

So I ask the committee to take those matters into consideration in your position. I understand the problems of inflation and I understand the advantages of a balanced budget, but I think that understanding has got to be in the proper context.

Senator BRADLEY. Thank you very much, Governor.

I would like you to put on your philosophical hat, if you will, and tell us what you think would be the longer term implications in Federal-State relations if general revenue sharing was cut out for the States.

Governor BYRNE. I am not sure that I understand what philosophy you would like me to get at.

Let me tell you a little bit about revenue sharing. I think if you talk to 50 Governors and you ask them which Federal program they like best, they would tell you revenue sharing.

They would tell you revenue sharing because it is a way of giving back a few tax dollars to a State and letting the State make the judgment as to how to spend that money. As a matter of fact, we live in our little State houses, but we sort of find out what is going on here in that we talk to each other a little bit.

I have been talking to some of my fellow Governors lately and one of them made a suggestion to take all of the Federal categorical programs and you forget about them and just give us the one pot of money and let us make the judgment as to how best to spend it.

Revenue sharing is a way of letting us make the judgment on how to spend the Federal money.

It also has the advantage of not setting up artificial criteria or criteria which are relatively meaningless in the context of our State problems.

Senator BRADLEY. I am thinking about your observation that cutting out the State share of revenue sharing is just problem transference. A number of other witnesses this morning have testified that if you cut State share you have to raise taxes in the State in some form—property, sales, or income. Yet increasing taxes does have some effect on private job creation, particularly in the manufacturing sector. I wonder if you could share with us what you think it might mean in New Jersey if the State share was cut out and you had to raise the money from other forms of taxation? Whether that might not, indeed, perpetuate a trend of losing jobs from a region that needs those jobs.

Governor BYRNE. We have just been through a dramatic experience in New Jersey. As I said I have identified $210 million of deficit.

One of the things we did at the end of last year was to impose a modest increase on the corporate income tax and even that had a chilling effect on the business climate of New Jersey.

There are two things that I would like to identify in response to your question. One I think that a Federal income tax is probably, as of now, with all of its problems and loopholes, still the fairest form of taxation.

Second, when you dump a burden back on the States, then you get the jockeying among States as to what kind of a tax I am going to impose and when I am going to impose it and how many businesses are going to move out of my State into another State because we impose this form of tax and some other State imposes that form of tax.

I think that it is destructive and would especially be destructive in those States that have the kind of unemployment problems and property tax burden problems that our State has.

Senator BRADLEY. Another aspect of your testimony was the predictability point. Are you saying that if there is to be any reduction in State share, it should at least be phased in?

Governor BYRNE. Yes. I think to tell me that next year I am going to have $10 million less is something that gives me time to reorganize my services, to identify those things where I can say to a municipality hey, next year, you are going to get a passthrough of $10 million less and here is the way we are all going to have to adjust to it.

Senator BRADLEY. In New Jersey, what have you done with your budget to target revenues?

You say 52 cents of every dollar goes back to municipalities. How do you actually target those funds? Do you feel that what has happened in New Jersey in the way of targeting is something that we might think about at the Federal level as we look at the budget?

Governor BYRNE. I have gone into that in some detail in my testimony but the fact is that we have tried to target things like urban aid and safe and clean street programs and other housing programs in terms of what the local need has been.

We have targeted our economic development authority loans in terms of trying to solve problems in urban areas and frankly, I would like to come back some day and testify on that whole economic—there is an article in the Sun paper this morning about it.

I think if you are looking for money that has been ineffectively lost to the Federal Government, that is one area where we could have some productive discussions.

But we are in very many of our local aid formula targeting it to problems and targeting it to need.

Senator BRADLEY. Senator Durenberger is not here, so I might as well ask his questions.

Are you in favor of a 4- or 5-year reauthorization for revenue sharing?

Governor BYRNE. I think that the longer leadtime you give us, the better off we are in being able to do things on an orderly basis.

Senator BRADLEY. OK.

Let me just go back to one other point. What happens to the State share of general revenue sharing dollars in New Jersey? A lot of that money is passed through, as I understand it.

Could you tell me exactly how much it is passed through, and how it is passed through?

Governor BYRNE. We take it in as part of general revenues so that I cannot trace it through. All I can tell you is that when we take in——

Senator BRADLEY. Let me tell you how refreshing it is to hear a Governor actually say that, as opposed to saying that they, use general revenue sharing for this or that or whatever. I think you are extremely correct and direct and honest to point to how you use your general revenue funds. Fifty-two cents on every dollar back to the local level is impressive.

I think that is what you were leading to.

Governor BYRNE. That is right.

Senator BRADLEY. All right.

I appreciate your testimony and your work in New Jersey and look forward to talking with you soon about our State.

Governor BYRNE. Good. We are very proud of the job that Senator Bradley is doing for our State in Washington and it is always a privilege and something I look forward to to talk to him either formally or informally. If I had not said that, I would not run the risk of further cross-examination.

Senator BRADLEY. And here is Senator Durenberger.

Senator DURENBERGER. I have a feeling I missed something.

I just express my appreciation to you, Governor, for the many contributions that you have made, to my understanding or expanding my understanding of the role between Federal and State Government. I have seen you now in a variety of settings in your own State, the back room, out here at the table and I compliment you not only for your thoughtfulness but you are willing to spend time impacting on this and on this process and I am indebted.

Thank you.

Governor BYRNE. Thank you. I am glad I stayed.

Senator BRADLEY. Thank you, Governor.

[The prepared statement of Governor Byrne follows:]

TESTIMONY OF BRENDAN BYRNE, GOVERNOR OF NEW JERSEY

I appreciate the opportunity to appear before you today to stress our strong support—indeed our absolute need—for the reauthorization and full funding of the general revenue sharing program. General revenue sharing is vitally important to this State, especially in this time of rising inflation, tight budgets and limited resources. New Jersey receives approximately $225 million annually—state government receives $76 million. This money is impossible to duplicate with our own resources without extraordinary tax increases or massive program reductions, neither of which are desired by the citizens of our state.

Some groups have developed a rationale which suggests that states could be eliminated from the general revenue sharing program because state governments have large surpluses or because they have some other magical way to produce more money. I oppose such rationale. Such arguments are faulty and misleading.

In New Jersey we project to end our fiscal year 1980 budget with a surplus which will be less than 3 percent of appropriated dollars; and by the end of fiscal year 1981, our surplus will be less than half of 1 percent, on a budget of over $5 billion. I think you will agree that this is an extremely narrow margin and does not provide much room for error. Our projected surplus of $36 million would run the state for about three days, and in addition, we have other obligations which are not readily seen by looking at the fund balance statement. The existence of a surplus, for example, does not mean that we are free of debt. Unlike the Federal government, States have separate capital budgets and such budgets are supported by issuing long-term bonds which become future obligations of the State. In addition to bonded debt, states have unfunded pension liabilities which must be met, and in many northeastern and mid-western states, we have large deficits in our unemployment compensation funds which one way or another, will have an impact on the fiscal status of states. Additionally, the budget which I recommended to the legislature last month requires that $210 million be raised in new taxes if we are merely to continue our existing programs—our total budget for fiscal year 1981 represents an increase of less than 8 percent, significantly below the rate of inflation. Without these new taxes, not only will we have no surplus, but sizable program reductions will have to be made in an already modest budget.

More than one-half of our shortfall can be attributed to the Federal Government. For example, we cannot anticipate the receipt of general revenue sharing without authorization by the Congress, and recent changes in regulations by the Department of Health and Human Services will require states to make more frequent deposits of social security payments—this will cause us to appropriate an additional $40 million. In addition, this state is providing $22 million to local governments to offset the loss of anti-recession funds. This will be the second year in a row that state government has had to recommend emergency appropriations to help mitigate the loss of federal aid at the local level. We cannot afford these continued drains in the state budget. And, we have great difficulty trying to manage our financial affairs through the fits and starts of changing federal policies. As is evident by our small surplus, by our need to raise new taxes, and our constant attempts to fill the revenue voids created at the local level, we are operating at the base margin of safety.

The elimination of the general revenue sharing would not only effect state programs, but it would also prove detrimental to local government. More than 52 percent of New Jersey's resources, including 100 percent of all revenue from the income tax, provide direct aid to local governments. In New Jersey, this means $2.6 billion and this includes three-fourths of the non-federal welfare burden, and over 40 percent of the cost of local education. Not only is this amount quite large, but it is well targeted to our areas most in need. For example, on the average 60 percent of all urban school costs are borne by the state, with 76 percent of the school district budget for Newark and 79 percent of the Camden school budget supported with state aid. We target $52 million per year to 32 of our most needy municipalities based upon a formula which stresses need, and 75 percent of our in lieu of tax payment program goes to our 32 urban aid cities.

In our urban aid cities, 34 percent of all municipal expenditures are supported with State aid. In addition to direct payments to local governments, New Jersey also pays the entire non-federal share of the $620 million medicaid program—a program which is well-targeted in our most needy areas. In addition to these programs which are supported directly by state revenues, we have many off-budget items which are also targeted to our local areas and which require state direction. Our housing finance agency is the leading producer of subsidized housing in the nation, and our mortgage finance agency has successfully raised over $100 million for city mortgages and improvement loans. Major state complexes, such as medical schools, colleges, and a major new justice complex give new life to central cities.

I cite these facts to stress the importance states like New Jersey place in allocating resources, time and planning talents to improve our local governments. To suggest that a decrease in general revenue sharing would have no impact on states and local governments is a belief that I feel few of us really share: and to suggest further that the elimination of the state governments from revenue sharing would have no impact on aid to the cities is naive and self-serving. It would have an impact at least equal to the dollar cut-back in general revenue sharing to state governments, and more importantly, it would severely damage the federal-state-local partnership which has been nurtured in New Jersey during the latter half of this decade. The cities and the state government need help beyond the resources available from taxing sources presently in existence.

Most states have tremendous problems at both the state and local level. Most states, in a partnership between executive and legislative branches and local governments, are constantly reviewing their state-local fiscal structure in an attempt to identify the most responsible way to meet the problems. I have already told you the extent to which New Jersey has directed its resources to local problems, but I have not told you what some of the impact has been. For example:

In five short years we have shifted our entire tax structure so that it is less dependent on the property tax. In 1976, 53 percent of all state and local revenue was raised by property taxes—in the current year, only 42 percent comes from the property tax.

Our property taxes in 1979 are less than they were in 1976 by over $128 million.

State aid to local governments in the last five years has increased by $1.3 billion.

State support for local education has increased from 28 percent to 40 percent of total costs, and the expenditures are based upon need-oriented formulae.

State aid has increased at a faster rate than any other component of the budget.

Let me now make some observations about the state commissions to study state and local fiscal conditions which have recently been under discussion. General revenue sharing has been successful in my judgment. It has been good for state and local governments. At each level of the intergovernmental system, all of us have issued the phrases "cut the red tape," "reduce the paperwork," and "simplify the grant-in-aid system."

I understand the reasons behind the requirement that states establish these commissions and can support the concept. As I mentioned previously, many states continuously review the fiscal conditions of their local governments and the state's responsibility for providing them with assistance where needed.

During the last seven years in New Jersey, I can think of at least four major studies which have included as their focus the study of intergovernmental relations. In fact, I have just received a report from a group of mayors which I appointed to study the state aid formulae. All of these study groups have had a significant impact on state-local relations, and I would expect as the needs arise, I and other governors will ask for further guidance. Many other states share similar experiences.

Overly prescriptive mandates would be a mistake. The national governors' association has made recommendations for changes in some of the commission requirements and I would urge you to review these recommendations and make modifications in the more punitive provisions if they are still a part of the proposal you will be considering.

Our intergovernmental system is full of examples of where federal rules and regulations or laws have created unnecessary responsibilities and mandates for state and local governments. Instead of creating more burdensome mandates, let us begin to examine in earnest ways to: streamline the categorical grant system, reduce the excessive reporting requirements, modify the maintenance of effort provisions, and provide for better planning by authorizing forward funding for major categorical programs.

At the state level, we are faced year-in and year-out with federal programs that provide no growth in funding, which in turn forces states to fund the inflationary costs. For example, federal funding for the title XX social services program has not increased in the last two years, but costs continue to rise which must be met with state appropriations. Federal formulae for such major programs as welfare and medicaid do not realistically measure or consider the fiscal capacity of states and localities to bear this nation-wide phenomena. Why should, for example, New Jersey and other industrial states which provide a decent level of support for the poor in our society be penalized for this policy in the formula, such that we receive 50 percent reimbursement, and other states receive up to 82 percent. I believe the resources of the federal bureaucracy can be better applied to solving the issues of formula revision and improvements to the grant-in-aid system, than to complicate a viable, workable program which is overwhelmingly supported by state and local governments throughout the country.

The State government will do its part, but we need the continued Federal commitment—at the very least we need reauthorization of the general revenue sharing program.

I appreciate your kind attention, and I urge the support of you and your colleagues for the renewal of general revenue sharing.

Senator BRADLEY. Our final witness for today is Mr. Frank Francois, who is a councilman of Prince Georges County and president of the National Association of Counties.

Mr. Francois?

STATEMENT OF FRANCIS B. FRANCOIS, COUNCILMAN, PRINCE GEORGES COUNTY, MD., PRESIDENT, NATIONAL ASSOCIATION OF COUNTIES

Mr. FRANCOIS. Thank you, Mr. Chairman. We are very pleased to be here today.

I am Francis B. Francois, as you noted. We do have a formal statement which I would like to submit for the record, if I might, and then just briefly skim through it and respond to questions which you might have.

After this week, at least—and I doubt if there ever has been, but certainly not after the last few days activity of a few thousand county officials on Capitol Hill—I do not think there is any doubt but that the National Association of Counties firmly supports the reenactment of general revenue sharing.

This has been a longstanding policy of NACO and of the counties which we represent, and we continue to hold that policy.

Some of the reasons as to why we do support it are, I think, important.

We are, of course, acutely aware of the inflationary problems in which this Nation finds itself and of the need to exercise restraint at all levels of government. We believe that NACO, over the years, has become a responsible national organization.

For several years, we have tried to exercise, within our own organization and among our members, a degree of fiscal restraint. We have tried to help target programs which we think should be trimmed and terminated. Sunset legislation, regulatory reform and grant reform legislation are all things which we have strongly sponsored and we believe this is the right direction in which to move.

At this time, though, we think that the reauthorization of general revenue sharing and the development of a national Federal spending policy are not inconsistent or at cross purposes. Indeed, I think we can share some of the views I just heard from some of the

Governors that, if anything, at a time like this we should increase, rather than decrease, or talk about eliminating general revenue sharing.

We have, as I said, tried to deal with specific program cuts to offset the need to cut budgets. It is difficult to do, but we will keep trying to do it.

Ultimately, of course, the Congress is the jury as to which ones of those programs ought to be cut back and which ones ought to be maintained at their current level.

This week at our National Association of Counties legislative conference meeting here in Washington I am pleased to note that we did restrain ourselves on some spending programs, and held them back as far as the recommendation of our board, pending a further look at just what is happening with the national budget.

In the case of revenue sharing, we are holding back nothing. We believe it is a good program. We think it is one that ought to stay in effect. It is a program that allows us flexibility to deal with the differing mandates that we receive from State government, from the Federal Government.

It is a program that, factually speaking, has suffered a cut in the last several years simply because of inflation. A heavy cut that has left us with less real dollars to work with but, nevertheless, the program still functions and functions well.

Part of the issue, with respect to general revenue sharing, as I have said, is to deal with the mandates that counties, especially, must face from both the State level and the Federal level. A recent survey by the University of California at Riverside identified some 1,000 mandates placed on local governments, and to quote from that report, it says that nearly 500 of these are direct order mandates, which have added to the cost of local government and altered substantially the activities of local governments and their budget pictures.

Because local governments are restrained, in the most part, and county governments especially, to financing their activities with the property tax, when you receive a mandate from the State or the Federal Government saying "Thou shalt do this," and your only recourse is the property tax, you are faced with a problem.

And general revenue sharing has been part of the answer to that problem.

Now, compounding it, of course, is that in some states there are limitations placed on the ability of county governments especially to tax. There are millage limitations imposed either from the State level or, in some instances, locally which cannot be exceeded. With an inflationary period of the kind we now have, coupled with mandated programs, county governments are very hardpressed.

Now, we believe that there are ways to restrain spending and to better use much of the money which is currently available from the Federal Government—and again, I come back to the issue of grant reform. We hope that that legislation and the paperwork reform legislation will move through Capitol Hill. We see large savings there, estimated in the billions of dollars, which are in essence wasted and which could be utilized to offset some of the real needs that are out there.

The issues of inflation, as I have said, are very much with us these days, and we understand that problem. We are not, at this time, asking for an increase in general revenue sharing, although we probably should be, to offset inflation because of budgetary restraints.

We do, however, think it might be something worth looking at for the next 3, 4, or 5 years of an ongoing program, if inflation is going to stay with us. We cannot keep doing what we are doing, which is making the program swallow the full brunt of the problem.

The question of targeting has come up several times here today, and I would like to address some of our comments here to that. Let me, first of all, make clear that NACO has always backed the concept of targeting to areas of need as a desirable goal. I want to emphasize, though, that we are saying need, not geography.

Too often, for political or other reasons, we seem to set a central city against a suburban jurisdiction just a block away, where the suburban county may well have more problems than the central city does. So in any targeting program, we would strongly urge that need be the test and not geography.

We are cautious this time, however, in talking about the issue of need, because we frankly do not have a context within which to talk about. We are very disappointed that the Carter administration, while it has indicated it strongly backs revenue sharing, has not yet presented a bill for us to meaningfully examine.

We have seen, as I am sure you have seen, computer runs. We have seen proposed legislation. We have heard rumors, but we are not going to react—and indeed, cannot responsibly react—to those rumors until such time as we have a specific piece of legislation in front of us.

This past week we had hoped again that we could bring the talents of some 1,000 county officials to bear on analyzing the President's bill. Our timing was off, or his was off, one or the other.

We will, of course, be back to you with our recommendations once we see a bill itself. But I would like to underline a point that was mentioned here earlier this morning, we act as if there was already no targeting within general revenue sharing, and that simply is not true.

The current program, with its three-factor formula, to a great extent, does target the money to where it is most needed. The Office of Revenue Sharing itself states that generally the formula distributes a greater percentage of funds to the governments with higher unemployment rates. It also says that the general revenue sharing formula is relatively responsive to need, fiscal capacity and effort, especially when compared to several other Federal programs, and it does tend to direct more funding per capita to high-strained large cities than to those under moderate and low strain.

So we should not lose sight of the fact that we already have a large amount of targeting in the general revenue sharing program. We believe that the current formula, if enacted, is a targeted formula, and that it achieves much of what one would hope to achieve through targeting.

If we are going to do further targeting, though, we want to take a look at it first. We hope that we do not get lost in the argument between minor shifts in money, and in the process lose the overall program itself.

Another point I would like to make, relates to what general revenue sharing is being used for. More and more, it is being used for operating costs. Our local governments, our county governments, have come to depend on general revenue sharing as operating revenue.

Why? In part, because of the mandate issue. In part, because of the legislative limitations on real property taxes which more and more say that we must use other revenues, that is, general revenue sharing, simply to pay policemen and firemen and build roads.

Therefore, any cut in general revenue sharing at this time, much more so than 4 years ago, is going to mean a reduction in services to people. We are to the point where we are not cutting capital programs and golf courses, but where we are cutting policemen and firemen out of the budget because general revenue sharing has been reduced or eliminated.

Mr. Chairman, my time has expired. Let me stop at that point, again referring to my formal statement as to a further explanation of all of these and other points, and I open myself for any questions you might have.

Senator DURENBERGER. Thank you very much for an excellent statement and an excellent summary.

On the last point, where the money is being spent, what factor would you say, or what role, do you think the factor of predictabilty is playing in the increase in using the funds for operating expenses rather than other——

Mr. FRANCOIS. I think, Senator, it has a big factor. I have traveled a lot this past year talking to county officials across the Nation, and there is no question in my mind but that a continuing program of general revenue sharing is being relied upon by public officials all over this country.

They have come to accept, after 8 years, that it is a relatively stable program, which is part of the reason it is being turned to for operating funds. To now disrupt that, either in whole or in part, at the county level, and the city level, I believe, is going to cause very severe problems.

If there is to be any interruption of the program at the State level, that is going to affect us, too. There are many States, as you are well aware and as has been pointed out here in testimony early this morning, where the State passes through all or most of its general revenue sharing funds, to units of local government. For example, one State that has not been mentioned, is South Dakota. A relatively small State, in State labor all of the general revenue sharing money goes directly to the local school systems. If that money is not there, then the county governments somehow are going to have to find the money for those school systems. It will not be a State burden, rest assured.

So yes, predictability, and reliability, are important. It is a program that has become important for that reason, as a continuing source of revenue. To the extent that we damage it, we are going to damage a lot of people.

Senator DURENBERGER. If I were to introduce a bill this afternoon to reauthorize revenue sharing on the same terms that it has existed in the past 3- or 4-year period of time, would you find anything that you could not support in that bill or anything that should be in that bill while I am doing it?

Mr. FRANCOIS. We would do everything possible to pass that piece of legislation. We think that the best, the most reasonable, the most rational thing to do is precisely that, to extend the current program.

We believe that in the approaches that the President has offered thus far where we are going to reprogram some $160 million or so out of a $6 billion program, that it is a very small retargeting that is going to have a very high political cost. It will drag through a Congress which is already very busy, and which is facing July conventions and a lot of other issues.

We are not certain that those things can be resolved.

One day this week I sat in with the counties from Senator Bradley's State as they sat around in consternation trying to figure out what is happening. Eighteen counties, 14 of whom took cuts, 4 of which get increases, which is not so bad, but those 4 have nothing in common—or so they said—and they are a little bit baffled as to why these changes occurred.

We believe that the changes that are being talked about are so small that the amount of political discussion they are going to entail is not going to be worth the cost, and that it would make much more sense to simply extend the current program.

Senator DURENBERGER. I will bet those counties did not have those problems before you were elected.

Senator BRADLEY. They had them in a much more severe condition until I was elected. It has actually gotten better.

I think that Senator Durenberger probably touched on the one issue that is of gravest interest to me and that was your reaction to the formula change. I did hear that.

What is your feeling about the commissions? Did you ask about that?

Senator DURENBERGER. No, except indirectly, and I think he answered it.

Mr. FRANCOIS. I think I answered it indirectly. If they are in a bill, we have several concerns about the concept, and especially about the detailed approach which is being taken.

The commission, as in the legislation we saw, requires that there be a series of time tables which must be responded to by set dates, which presumably then ties up and disrupts the uniform flow of funding that we believe is so important. But more fundamentally is the question of whether or not the Federal Government ought to be mandating that any State re-examine its fiscal priorities.

Many States are already doing that. To tie the revenue sharing program to that is to imply a number of things. It is implying, first of all, that the States and the local governments are not capable of doing the jobs themselves—which I challenge. It is also imposing, presumably, some form of a Federal uniformity on the approach that is to be taken, which also bothers me.

But philosophically, it seems to be saying this, and I suspect this is probably true of the Carter administration, that this is the first step toward the dismantling of the revenue sharing program. It appears to say that these commissions are an essential first step and, once they have done their work, then the next time around we do not need to reauthorize the program at all.

That, I think, is the most serious objection we have. We see general revenue sharing as a good concept, a vitally needed concept at the State, city and county level that should be accepted as part of the fabric of American government into the foreseeable future.

We cannot understand why it is opposed as strongly as it is by some people and why we keep tinkering with it. We think we have a good program.

It is one that, especially in these times when we must cut a number of categorical and other programs, does assure some flexible Federal money to carry out Federal concerns and Federal mandates at all levels of Government.

It is, as has been said here, a program which we probably ought to be talking about increasing, not lowering.

Senator BRADLEY. Thank you very much, Mr. Francois, for your testimony and I welcome any continued thinking you have about the subject as we continue our deliberations.

Mr. FRANCOIS. Thank you.

[The prepared statement of Mr. Francois follows:]

STATEMENT OF FRANCIS B. FRANCOIS, COUNCILMAN, PRINCE GEORGES COUNTY, MD. AND PRESIDENT, NATIONAL ASSOCIATION OF COUNTIES

Mr. Chairman and distinguished members of the Subcommittee, I am Francis B. Francois, Councilman from Prince George's County, Maryland and President of the National Association of Counties. I am testifying here today not only as a representative of my own urban county but on behalf of the urban, suburban and rural counties throughout the United States.

Let me begin by expressing our appreciation to this Subcommittee for initating an examination of the issues surrounding reauthorization of the General Revenue Sharing Program. As you know, the public interest groups representing state and local government have been actively seeking Administration and Congressional forums to discuss the many issues emerging in the renewal debate.

I would first like to express the general policy position of the National Association of Counties and offer a background statement relevant to the basis of our position.

NACo's policy position, as indicated in our American County Platform totally supports a permanent general revenue sharing program. Reauthorization is our number one legislative priority in this 96th Session of Congress. Furthermore, our Taxation and Finance Policy Steering Committee recommends the Association support the continuation of a strengthened general revenue sharing program which includes the following provisions:

1. Funds should be directly distributed to the states and general purpose local governments. Continuation of this distribution method recognizes the inseparability and interdependence of the Federal fiscal system.

2. Funds should be distributed through an automatic, annual appropriation to entitlement jurisdictions, recognizing current costs of providing basic services and reflecting annual increase to compensate for inflation;

3. Adequate enforcement of the current civil rights, citizen participation, and financial accountability provisions in the current law should be continued.

NACo feels the above provisions, in keeping with adopted policy, will in the long run significantly serve to improve the fiscal conditions and economic stability of all levels of government.

We wish to emphasize that we are not insensitive to the fiscal responsibility we all have to the health of our economy. Our policy also strongly recognizes that the future of our system of Government depends upon our willingness to accept responsibility for spending restraints and to assist the Federal government in developing a rational spending policy. As many on this Subcommittee know, NACo has been out front in many of the legislative efforts we feel addresses fiscal responsibility. In particular we would not our support for Sunset, Regulatory Reform and Grant Reform legislation.

Reauthorization of general revenue sharing and the development of a national federal spending policy are not inconsistent or at cross purposes. With limited federal funds available, we recognize that some programs may have to be eliminated or reduced. This is a legitimate goal. But we strongly feel that general revenue sharing must not be eliminated or reduced. This program should come first before all others.

Having said this, your question will then be "What programs can you identify that Congress can cut in order to accommodate revenue sharing reauthorization?" This is a legitimate question and one which you have been consistent in asking. The National Association of Counties is made up of elected officials each of whom reflect differing communities and needs—urban, rural and suburban. We have tried to establish a priority listing of the many categorical grant programs in which we have an interest and have been unsuccessful. Each program has a purpose which addresses a need in some or many parts of the country and each has a vocal constituency. This is no different from the pressures the members of congress face when an aid area is facing termination. But we will continue to try to identify these programs for the benefit of both of us and, although we cannot single out specific programs, we can say to you that there is no divergency in our total support for reauthorization of general revenue sharing.

Counties stand united behind general revenue sharing because, for a great many local governments, it is the one aid program that can be counted on to help cushion the blow that inflation has dealt to our budgets. The county welfare dollar buys fewer services; the road dollar provides less construction and lower maintenance support; capital projects—such as juvenile homes, health clinics, alcohol and drug abuse centers—must be deferred.

And while counties have launched anti-inflation programs and have worked at streamlining their bureaucracies and eliminating competing and overlapping programs, they are still lagging behind.

We have witnessed a phenomenal growth of county government in the past decade. More and more, counties are assuming responsibilities for services previously provided by municipal governments. Nonetheless, as these responsibilities grow, counties are limited in their revenue generating power. The property tax still accounts for 40 percent of local revenues. Even in fast growing suburban counties with frequent reassessment, the property tax lags behind recent inflationary increases.

It also must be remembered that many counties and municipal governments have limitations on their property tax levies and sales tax rates imposed by the state. And there is increasing tendency for states, among other things, to impose new limitations in the name of property tax reform.

The state role in another aspect of local government operation also cannot be overlooked—that of state mandates. Programs which are mandated by the state and federal government make up a large part of county budgets. A recent survey by the University of California at Riverside put the number of combined mandates placed on local governments at over one thousand.

The report went on to say that "nearly 500 of these are direct order mandates . . ." which and I quote "have added to the cost of local government and have altered, substantially, the activities of local governments and their budget mixes."

These mandated responsibilities, plus the basic costs of running a county government, do not leave room for a county to deal with emergency situations like recession and inflation.

We in county government realize that there is no one overall panacea in our battle against inflation. But to cut back on federal assistance to state and local governments would severely affect those programs our citizens have come to rely on—especially those social programs whose sole purpose is to help the needy. Cutting back on these "people" programs would only pass the buck on to county governments which are obligated to help those in need. County governments are already at the breaking point and there is nowhere they can turn to find the additional revenue to sustain the ongoing programs—even at their current operating level.

Mr. Chairman, having talked at some length about the need for continued federal assistance to counties through revenue sharing, I would like to switch from legislative spending to legislative savings.

No one would argue that all federal domestic programs operate as efficiently and as economically as they can. On the contrary, there are many areas of waste in domestic programs caused by improper planning, inefficient operation and poor evaluation. It is here that all levels of government must work together to develop well-coordinated programs which will reduce duplication and save money.

This type of effort is exemplified in current grant reform legislation which provides flexible general standards and centralizes the administration of national policy requirements affecting all federal grant programs. These reforms would substantially cut down on the administrative costs which each federal agency must spend to establish and monitor separate and duplicative regulations for each national program.

In earlier testimony before this Subcommittee, NACo pointed out that there are 330 categorical project programs requiring competitive applications. Federal appropriation for these project grants is about $30 billion a year or roughly 5 percent of the overall federal budget. Estimating 30 percent of appropriations for administrative-related costs for both the grantor and grantee, if half the existing grants were consolidated, it would likely cut administrative costs in half for these programs. . . . amounting to between $3 to $4.5 billion a year.

The $3 billion dollar savings is a popular target we would like Congress to look to in saving on federal expenditures.

It is in this vein that counties urge the Administration and Congress to put a greater emphasis on those programs which enable states and local governments to take advantage of federal funds without costly bureaucratic requirements and red tape. When certain specified amounts of money are authorized for an extended time period, counties can better plan for the use of funds without creating a local bureaucracy just to handle paperwork. The budget planning ability of local governments is our most important benefit from these types of automatic unrestricted funds.

General revenue sharing offers a fine example of this non-bureaucratic, action-oriented approach. Revenue sharing offers local governments the flexibility of directing their resources into programs they know will best meet the needs of their people without requiring the creation of large bureaucracies at the federal or county level. It is for this important reason that state and local officials are unanimous in their desire to see an extension of the program during the 96th Congress.

From here, I would like to present NACo's views on some hard questions which have been posed to us:

Question 1. In light of the many current demands on the federal budget, can the federal government afford to fund general revenue sharing at current levels?

It is no news to the subcommittee that over the last seven years inflation has eroded about 40 percent of the purchasing power of federal revenue sharing dollars. The question as to whether current levels are sufficient is then answered by noting that these current levels already represent a significant cut due to inflation. However, these monies gain significant value when viewed in the context of their flexibility for use and automatic payment schedule. This is particularly true when one realizes that while there has been an increase in the dollar amount of federal assistance, there has been a reduction in the real constant dollar value of grants-in-aid. NACo is not suggesting we increase Federal aid to state and local governments at a time when you are trying to balance the budget, but I would suggest we increase Federal revenue sharing as the flexible support mechanism to bolster the shortfall in the grants-in-aid categories used by our local governments.

Question 2. Given the increasing health of the state and local public sector, should the revenue sharing program be modified to direct funds away from states and localities which are extraordinarily wealthy or which are developing healthy fiscal surpluses in their operating budgets?

The question asked is whether funds should be further targeted to fiscal need.

This, as you may guess, is a difficult question to answer given the fact that our constituency, like yours, is made up of communities in all financial situations. Everyone is for "targeting" funds to genuine need but the complicating factor is the "penalty" imposed on those you must take from. A hold-harmless provision would be a pat answer except that assumes increased total program funding levels, should a targeted program come into play.

NACo has always supported the idea that targeting to areas of need is a desirable goal. Let me emphasize however that we are saying "need", not geography. Too often, for political or other reasons, need gets interpreted into the central confines of a major city and residents of a needy community—which happens to be one block outside a city's boundaries—are penalized because of where they live and are not judged fairly on the conditions of how they live. That is why we are cautious. NACo, absent any Administration proposal, supports reauthorization of the current program and formula allocation.

I would like to mention a few points before moving on. These points revolve around the basic priemise of whether or not there is increasing fiscal health of the state and local public sector and whether or not the current general revenue sharing program is already targeted to need.

Many who have written on the economic outlook for the public sector indicate that the fiscal health of state and local government is already in a period of decline and this trend will continue. To quote the Congressional Research Service:

The Council of Economic advisors (CEA) notes in the 1979 Economic Report of the President, that, "The operating balance of the State and local sector which was in surplus by about $6.6 billion in 1978, is expected to shift to a small deficit in 1979 and 1980." [1]

The Council goes on to state: ". . . . given the strong demands by citizens to reduce State and local taxes, a return to surplus seems unlikely over the next five years." [1]

In a recent issue, Fortune magazine warned of "great fiscal trouble" with the State-local sector running a $10 billion deficit in the near future.[1]

Data Resources, Inc., a private economic consulting firm, has presented a forecast of the State-local sector showing a $700 million surplus in 1979 and deficits of more than $3 billion in both 1980 and 1981.[1]

The question you pose then must be viewed with caution so we do not get into the positon of having to revisit this issue and find we cannot address the problem of need on a timely basis. We must recognize that, given the continued projections of a combination of inflation and recession, that state and local governments fiscal positions will continue to erode and that reauthorization should reflect these conditions.

As for targeting the program to areas of fiscal distress, I believe the question should be clarifid to say "additional" targeting. The current program, through the formula allocation process, has been shown to "provide far more per capita aid to hard pressed central cities than to their affluent suburban neighbors." [2]

This is suported by the Office of Revenue Sharing which states:

Generally, the formula distributes a greater percentage of funds to governments with higher unemployment rates.

The GRS formula is relatively responsive to need, fiscal capacity, and effort when compared to selected other Federal programs. It also directs more funding per capita to high strain large cities than to those under moderate and low strain.

It is our understanding that a great many categorical grant programs are directed toward areas of distress and that high stress areas tend to receive a proportionally higher percentage of these funds. The existing GRS formula, to NACo, appears adequate.

Question 3. How are GRS funds being used at the state and local level? Are revenue sharing funds being primarily used to fund operating or capital construction projects? Are GRS funds being used for the most essential needs of our state and local communities?

The subcommittee is aware, I am sure, of the numerous studies that have been conducted on General revenue sharing which show that a broad range of activities have been funded over the life of this program. What is most revealing is recent reports confirmed by the Office of Revenue Sharing, that

"There has been a shift over time in the use of GRS funds from new spending on capital and operations to spending on program maintenance and revenue stabilization."

This underscores the fact that these funds are revenues for existing operations and services and not monies that can be banked. A good portion of these funds go to public safety, transportation and environmental protection. I wish to add that of all Federal funds, the GRS program is the only one where the monies can be used to pay for unfunded Federal mandates on local government.

NACo, in conducting a small survey of its counties, has learned that a signficant portion of county GRS funds go to public safety and public works. Of interest to some of the members of this Subcommittee, is the following state breakdown of fund use.

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[1] Congressional Research Service, General Revenue Sharing and Alternatives, April 1979, and U.S. Council of Economic Advisors. Economic Report of The President, January 1979.

[2] ACIR, Renewing General Revenue Sharing, Running the Congressional Gauntlet, June 4, 1979.

[3] Internal Memorandum: Office of Revenue Sharing, Options Relative to the Future of General Revenue Sharing, September 1978.

GENERAL REVENUE SHARING FUNDS

State	Number of counties reporting	Percent of funds for operating and maintenance
Louisiana	5	58
Maryland	14	71
Minnesota	12	34
Missouri	30	66
New Jersey	7	49
Pennsylvania	17	69

We understand that the sample size is lacking, but the general picture of activity is viewed as an accurate reflection of the counties in these states.

As to whether the GRS funds are being used for the most essential needs, we would emphatically say "yes." The whose premise of the program is that unrestricted aid should be available to address state and local need based on the view that state and local elected officials are in the best position to judge what are their most pressing needs. This concept, bolstered by citizen participation mechanisms, is still a valid and working concept and one that allows aid to be directed and used most efficiently.

Question 4. The current general revenue sharing formula bases its allotments on population, state or local tax effort, and per capita income of a State or locality. If the GRS program is to be reauthorized, would you recommend any changes in the current allotment formula?

The National Association of Counties current policy supports the existing revenue sharing formula bases. NACo was active in looking at alternatives in 1971 and in 1976 and we feel that the current formula bases represent a good compromise among many factors involved in those earlier deliberations. Our initial response to computer runs provided by the Department of Treasury are mixed. We do know that when there are winners and losers, the political problems of passing legislation are significantly made greater.

In closing, NACo wishes to emphasize that the reauthorization of general revenue sharing as an entitlement program is critical to county government and to our ability to assist Federal efforts at economic stabilization. We feel GRS meets both national and local interests and is the only aid program that is completely adaptable to the diversity in our state-local system. It is the single best form of fiscal federalism.

We thank you for this opportunity to share the views of the National Association of Counties on this most important subject. We look forward to working with you to reenact the general revenue sharing program in its present form.

Thank you.

Senator BRADLEY. Before we adjourn, I would like to place Senator Moynihan's and Senator Dole's statement in the record as if they were here.

[The statements of Senators Moynihan and Dole follow:]

STATEMENT OF SENATOR MOYNIHAN

GENERAL REVENUE SHARING

Mr. Chairman, it is unfortunate that our hearings on General Revenue Sharing take place at a time when the future of the program seems to have become so uncertain. We read in the press that the President will likely propose broad cuts in the revenue sharing program, both for this fiscal year and for years following. Just a few weeks ago, he had announced that he would call for the extension of General Revenue Sharing at its present level of funding. Althought I support the President's strong commitment to cure inflation, I find it disturbing that his Administration's social policies should fluctuate so wildly, simply on the basis of one month's economic data. What if next month's economic data are less alarming? Will the fiscal priorities change once again?

It is particularly disturbing that we should witness such abrupt gyrations with respect to a program with the extraordinary success record of General Revenue Sharing. Unlike so many other Federal programs, General Revenue Sharing has met every expectation of those of us who advocated it originally. It has functioned smoothly and automatically, without the slightest taint of mismanagement or political abuse. A year ago, I introduced a bill to extend the program, in its present form, beyond its curreent expiration date of September 30, 1980. This was the first bill before the Senate to extend General Revenue Sharing, introduced long before the Administration made its initial decision to seek continuation of the program. It was clear to me a year ago, as it has been since the inception of the program, that General Revenue Sharing is one of the most creative contributions to American federalism in our recent history.

In hammering out the details of an anti-inflationary fiscal package, neither the Administration nor the Congress can afford to lose sight of the underlying merit of the program. It is premised on a simple but fundamental fact: the progressive nature of federal taxation is such that as the economy grows the revenues of the national government grow faster than do the revenues of State and local governments. In order to preserve a balanced federal system, it is of great importance that we preserve the ability of State and local governments to respond to their distinctive circumstances in their own ways. In that spirit, the idea began to be developed in the Kennedy and Johnson administrations that the Federal government ought to direct a portion of its growing revenues to states and localities without the restrictions and specifications attached to categorical programs. This was a large idea. It was developed and advanced by such distinguished political economists as Walter Heller and Joseph Pechman. In time, it was proposed to Congress by President Nixon and adopted in its present form in 1972.

The program has lost none of its luster since then. The concept of federalism which underlies it remains vital. And the economic trends upon which it is based have proved durable. Even with revenue sharing, state and local taxes per capita have more than doubled in the last decade. Had the Federal government kept its aid at the levels experienced before enactment of revenue sharing, state taxes would have risen still further, or services would have diminished, or—most likely—the Federal government would have stepped in with yet more detailed and complicated categorical efforts. This latter option would inevitably have reduced the independence of the states and their ability to manage their affairs.

We must not forget that by extending General Revenue Sharing at current funding levels, we are deciding, implicitly, to reduce the costs of the program in real terms. Last year alone, inflation eroded the value of General Revenue Sharing by close to a billion dollars in real terms. I realize, given the current political environment, that the Congress would not agree to expand General Revenue Sharing, even if only to compensate for inflation. But we ought not to exacerbate the erosion of General Revenue Sharing by reducing the program outright. At least, we ought not do so casually. If this is to happen, it should be the result of as sustained and serious an examination of the proper workings of a federal system as that which produced the original legislation. We must not, in our zeal to curb inflation, lash out at programs indiscriminately. And insofar as we do decide to trim federal spending, we should first reduce those programs which have not proven effective, rather than those which have.

Prepared Statement of Senator Dole

Mr. Chairman, as you and others have said, we are having these hearings because the general sharing program expires at the end of the current fiscal year. I have always supported general revenue sharing.

The providing of block grants by the central government to the States and local governments is consistent with a philosophy of federalism that allows governmental decisions to be made at the lowest possible level. Categorical, specific purpose, programs run out to Washington, by contrast, often lead to over regulation and rule by bureaucratic fiat. In the long run, control by officials in Washington is often counterproductive to the aims of the programs and often leads to the disenchantment with government that is so evident in this country.

This same philosophy of federalism has led Chairman Long and me, along with several other Finance Committee Senators, to introduce a bill that would use the block grant approach to reform the current family welfare program. This bill, we believe, will show that welfare decisions can be made more effectively at the State and local level than by the Federal welfare bureaucrats. Such local decisionmaking will both be more efficient and do more for the truly needy in our society.

Because of my support for general revenue sharing, I was pleased to see the administration propose a continuation of the program at current funding level. I understand that this position is now being reconsidered. Given the general economic crisis in this country, and particularly the over 18 percent inflation rate, I can see why the administration is rethinking its entire economic policy including its support for this program.

I have long argued in the Senate that substantial cuts must be made in the Federal spending programs if inflation is ever going to be controlled. We cannot forever continue to spend money we do not have. It is encouraging that this elemental economic principle is now widely accepted. At the same time, I believe that categorical programs should be cut before general revenue sharing. If we cut specific purpose programs and keep this broad-use money flowing, the State and local government will be able to reorient their own spending to best serve their citizens.

This program, I submit, will make it easier for our citizens to live with other spending cuts that we must make. I acknowledge, however, that every part of the budget may need some trimming.

Finally, I note that the administration has proposed some changes in the gneral revenue sharing program. For one thing, it has proposed that each state be required to set up a commission "to develop recommendations for improving local financial management and the balance between local fiscal resources and responsibilities." I would like to know why this change has been suggested. What complaints has the office of revenue sharing received that this commissiion will correct? My initial reaction to this proposal is that it is just another example of how we continuously create more government in this country.

I look forward to hearing the testimony of our witnesses today and hope that we can quickly complete work in the committee on this important piece of legislation.

Senator BRADLEY. With that, these hearings will stand in recess subject to the call of the Chair.

[Thereupon, at 12:20 p.m. the hearing in the above-entitled matter was recessed, to reconvene subject to the call of the Chair.]

[By direction of the chairman the following communications were made a part of the hearing record:]

STATEMENT OF AFL-CIO PUBLIC EMPLOYEE DEPARTMENT

The AFL-CIO Public Employee Department urges the reauthorization for five more years of the General Revenue Sharing Program.

Generally speaking, with all of its weaknesses, the federal income tax is more progressive and equitable then are the revenue collection methods of the States and local governments. Then too, the problems of State and cities in meeting there financial obligations and providing services necessary to modern communities, are—in the aggregate—a national problem; accordingly reauthorization at the present $6.85 annual level is appropriate and desirable.

It does not seem that federal assumption of the welfare cost is imminent, neither are other such policy changes which would somewhat relieve State or local government of revenue requirements. Accordingly, the General Revenue Sharing can to a degree help meet the ravages of inflation which all levels of government fact.

The high rate of unemployment in most of our metropolitan areas contribute to our 6.2 percent national unemployment rate but jobs generated by the estimated $88.9 billion in GRS in 1980 helped meet this problem.

We want to add special emphasis to an aspect of the testimony of March 6 by the AFL-CIO although we cannot improve upon that statement. We quote:

We feel . . . that Congress should take this opportunity to improve the program's effectiveness in targeting funds where needs are greatest. The Revenue Sharing Act should also become a framework for assuring minimum, basic standards for State and local government employees. The federal government has established certain basic standards in legislation as the Fair Labor Standards Act and the Labor-Management Relations Act setting forth certain basic conditions for private sector employment.

In 1974, Congress extended coverage of the Fair Labor Standards Act to additional employees of State and local governments. In extending coverage to most of these employees, Congress exercised its authority under the Commerce clause of the Constitution. However, the Supreme Court (National League of Cities versus Usery) held that this was not an appropriate exercise of Congress' power to regulate commerce and denied coverage to the newly covered as well as to employees of schools and hospitals who were previously covered and affirmed by the Supreme Court. The majority opinion noted that Congress might be able to seek coverage by "exercising authority granted it under other sections of the Constitution such as the Spending Power."

Now that Congress is considering extending the Revenue Sharing Act, it is appropriate to include the basic minimum wage and overtime provisions of the Fair Labor Standards Act in this statute. Such action would be a reaffirmation of the intent of the 1974 Fair Labor Standards Act in a manner cited by the Supreme Court.

Similarly, standards granting State and local government workers the right to organize and to bargain collectively should be a prerequisite for revenue sharing funds. In 1935, the Congress found that it was in the public interest to establish a method for determining the wishes of workers regarding their desires to be represented by a union and to assure workers a basic right to bargain collectivey with employers concerning wages and conditions of employment. Congress found that the denial of the right of employees to organize and the refusal to accept the procedure of collective bargaining led to strikes and other forms of strife or unrest. In the 1935 Wagner Act, Congress recognized the beneficial effects of establishing a system to determine workers' desires regarding union representation and the encouragement of collective bargaining. Similar requirements for State and local government employees should be enacted to enhance their basic rights. Currently, 38 States and the District of Columbia have statues or executive orders providing the legal framework for collective bargaining for some or all of the employees. Comprehensive statutes covering all employees are currently in force in 23 States and the District of Columbia.

The importance of States establishing full protection of the right of Public Employees to collective bargaining cannot be overemphasized. The opportunity to advance this step is here, now.

Statement of the International Association of Fire Fighters, AFL-CIO-CLC

The International Association of Fire Fighters is pleased to express our views concerning the proposed five-year extension of the General Revenue Sharing Program included in the President's 1981 Budget. The IAFF represents over 175,000 fire fighters working in Federal, State, and local capacities. Fire protection is a crucial and basic service for all communities in this Nation. In this statement for the record to the Senate Revenue Sharing Subcommittee, we wish to outline several areas that trouble us regarding assertions that perhaps funds allocated to the States should no longer be provided. We would also wish to remind the Subcommittee of several reasons why the general revenue sharing program continues to be a necessary element in the federalist tradition of shared responsibility.

Since the Subcommittee hearings on March 6, economic circumstances have compelled the Administration to propose alterations in the 1981 Budget proposals. Whereas the President initially supported a five-year extension of the General Revenue Sharing program at current levels of $6.85 billion, on March 14, President Carter outlined five elements of a new "anti-inflation" program. It was later disclosed that one component of the program involves eliminating the States' share of general revenues for a purported savings to the federal government of $1.7 billion. This cut in funds, along with other provisions, is designed to balance the 1981 budget. This is to be done more to stem the inflationary "psychology" since it is yet to be demonstrated that the single act of putting the federal budget in balance will substantially dampen our rampant inflationary spiral. At the same time, further harm will be perpetrated upon state and local governments already struggling to provide basic services to their citizenry.

Opponents of the states' continued receipt of general revenue sharing funds point to the existence of state budget surpluses and an inability of the states to transfer funds by pass-through to needy local programs as reasons for eliminating the practice. They do not question that many local governments are in need of general revenue sharings funds. In testimony before this Subcommittee, the AFL-CIO correctly outlined the real reduction in general revenue sharing funds going to state and local governments over the past five years. The AFL-CIO also outlined the sources of the more recent modest growth in federal outlays to state and local governments; primarily the result of the economic stimulus measures enacted in 1976 and 1977.

Since revenue sharing payments have been capped at current levels for nearly five years, state and local governments have really had to do more with less because of steadily escalating inflation. Thus, concerning the charge that states have failed to commit adequate pass-through of funds to local governments, we must note that state governments have faced terrible choices in determining the amounts to be funneled to local government programs as the cost for all state and local government services has been pushed upward by inflation. The AFL-CIO also identified the growth of payments to states for "categorical" programs. As a consequence, less money has been available as a proportion of total federal aid for state and local government functions in traditional areas of fire protection and other services. The burden on the state and local governments to provide services that are essentially national concerns has increased to the detriment of their ability to provide traditional and necessary local services.

Many states are prohibited by state constitution from accruing budget deficits. It cannot be said that states sought to rid themselves of fiscal responsibility through these measures and that these prohibitions against budget deficits conveniently allow state governments to rail against federal budget deficits. State government officials have testified that, where surpluses exist, they are one-time occurrences. Indeed, projections for state budget surpluses cannot be found when one looks at fiscal year 1980 and beyond. Fire fighters in states such as California are already dreading the moment when the full effects of measures such as Proposition 13 take effect to further eradicate the providing of services such as fire protection. In an era when tax burdens are prohibitive, the likelihood that property taxes can be hiked to compensate for lost federal aid is dubious politically. If the states lose general revenue funds, further cutbacks in services and increased recessionary pressures will surely follow.

As citizens of this nation, fire fighters are only too well aware of the serious economic problems we face. As public employees, we also realize the consequences that the proposed cutback in general revenue funds will have in our cities and rural areas. There will be fire fighter layoffs, with an attendant increase in fire deaths and other casualties and greater loss of property. Costs of these tragedies will reach far above $1.7 billion.

We face a current situation that is certainly difficult. We also have the opportunity to meet the challenges we face through bold and proper actions. Experts have traced the growth of categorical grants through a period when we were to be enhancing the federalist heritage of shared responsibility between federal and local governments. Supposedly, an enlightened perspective would be reached regarding what were properly federal responsibilities and what were properly local responsibilities. Instead, categorical grants increased and the red-tape of standards and reporting for states recipients of the categorical grants increased in costs and time also.

The Administration seems to recognize that federal responsibility has its limits. What must be explored is the proper mix of programs administered through federal or state authority. The record reflects that of all such programs, general revenue sharing has gone farthest toward the ideal situation of allowing state and local governments the freedom to effectively allocate federal aid with a minimum of abuse. The program is not deserving of reduction but it needs support from an enlightened federal authority.

If restrictions are sought for the general revenue sharing program, they should be based on achieving improved standards for state operation of their basic service functions. One way to aid this process is to provide the mechanism that would retard the growth of labor disputes through using the spending power of the Congress to require states to comply with wage and hour provisions of the Fair Labor Standards Act in order to qualify for revenue sharing funds. By targeting funds to those states in compliance with FLSA standards, more effective service could be provided by state and local governments. Many labor disputes in the public sector could be avoided if basic employee rights were standardized through the application of the FLSA and the National Labor Relations Act. We also agree with the AFL-CIO that changes in the allocation and enactment formula are desirous to achieve targeting of funds to areas that are most in need of essential services. Reduction or elimination of the 20 percent minimum payment floor and expansion of the 145 of the statewide per capita allocation ceiling would allow more effective identification of needy government units.

Elimination of the states' share of general revenues will bring about a deeper recession, increased unemployment, and increased suffering for the citizens of this nation.

As professional fire fighters, we have witnessed the tragic loss of life and property that comes about when fire crews are understaffed and underequipped. There can be no tradeoff of human suffering against $2 billion to balance a budget for "symbolism". We urge the Subcommittee to continue its work to steady the national ship of state through treachorous fiscal waters. We urge the Subcommittee to adopt the changes proposed by the AFL-CIO that will allow the promise of fedealism as embodied in the Constitution to be realized in an improved general revenue sharing program.

On behalf of our membership, the International Association of Fire fighters extends our appreciation to the Subcommittee for the opportunity to contribute to your deliberations on this most important program.

TOWN OF MONTCLAIR,
BOARD OF COMMISSIONERS—DEPARTMENT OF PUBLIC WORKS,
Montclair, N.J., February 15, 1980.

Hon. BILL BRADLEY,
U.S. Senator from New Jersey, Dirksen Senate Office Building, Washington, D.C.

DEAR SENATOR BRADLEY: As discussed with your Administrative Aide, Ms. Marcia Aronoff, in your office on February 6, 1980, I respectfully request the privilege of presenting oral and written testimony to the Subcommittee on Revenue Sharing, Intergovernmental Revenue Impact and Economic Problems of the Senate Committee on Finance, which you Chair, to urge amendment of the General Revenue Sharing renewal legislation to eliminate a serious inequity in entitlements which is unjustly enriching most of the affluent, densely populated, suburban townships in New Jersey, principally at the expense of many of New Jersey's large cities (encl. A, 3/27/78, p. 28).

Specifically, I would like to suggest that Sec. 108(D)(3) of the Act be amended by the addition of the italicized words as follows:

"(3) TOWNSHIPS.—The term "township" includes equivalent sub-divisions of government having different designations (such as "towns") and shall be determined on the basis of the same principles as are used by the Bureau of the Census for general statistical purposes, *except that, for the State of New Jersey, local governments classified as type 3 (townships) by the Bureau of the Census, shall be reclassified as type 2 (places), for the purposes of this Act only.*"

I also respectfully request that you ask the Department of the Treasury to run a computer "trial" of the effects of such an amendment using EP-11 Initial Data Elements, and understand that such an inquiry should be directed to the attention of Mr. Robert Rafuse, Deputy Assistant Secretary for State and Local Finance. I would appreciate receiving a copy of such a "trial" run when available.

The existing definition of Township in Sec. 108(D)(3) is irrelevant in the distribution of general revenue sharing funds in New Jersey because the term "township" is used interchangeably with the "place" terms of "city", "town", "village", and "borough", as a designation only, with no functional differences. Such use creates distortions in revenue sharing because municipalities, similarly situated except for the presence or absence of the township designation, receive entitlements from separate pots which are apportioned differently.

If you will kindly review the data elements and entitlements in the County of Essex in New Jersey as shown on the Department of the Treasury computer printouts for EP-10 and EP-11 which I left with Ms. Aronoff during my visit, you will note that the townships of Cedar Grove, Livingston, Maplewood and Millburn receive disproportionately large entitlements per capita for their data elements compared with the places in the County (encl. B, 6/20/79; C, 6/21/79).

When the Village of South Orange changed its name to the "Township of South Orange Village" in 1977, the mere change of designation increased its general revenue sharing entitlement from $73,791 in EP-9 to $336,587 in EP-10. Similarly when the Borough of Fairfield reverted to the "Township of Fairfield" in 1978 by referendum, its entitlement increased from $77,152 in EP-10 to $235,832 in EP-11 (encl. B & C) and would have been $346,972 except for a 145% constraint rule (encl. D, 1/18/80). These windfalls were at the expense of other municipalities in Essex County and elsewhere in the State, since the State total for each entitlement period did not change. Something obviously is wrong and is in need of correction.

New Jersey's Faulkner Act permits municipalities with Faulkner Act governments to change their designations by referendum pursuant to petition, with no concurrence by the State legislature required. Without enactment of the suggested amendment to Sec. 108(D)(3), I fear that there will be a proliferation of such designation changes to "townships" because there is such a strong incentive. For example, I have calculated that the City of Trenton, by changing its designation to the "Township of Trenton City", would receive a $545,000 increase in its general revenue sharing (encl. E, 7/20/78).

This "Township Inequity" has been recognized since 1972 and all efforts to correct it to date have failed. There have been recurring suggestions of exhaustion of other remedies. All such other remedies have now been exhausted, and amendment of the Act which I have suggested is the last hope.

In 1976, Congressman Joseph G. Minish offered an amendment (encl. F. August '76, p. 3) to Sec. 108(D)(3) when the Act was first renewed but it failed on June 10 of that year despite the overwhelming support of the New Jersey Congressional Delegation (encl. A, p. 22), because its possible impact on other States had not been identified. It was subsequently learned that it would have applied to only 5 States, including New Jersey. My suggested amendment would apply to New Jersey alone, and there is a precedent for such special legislation in the provision for Sheriffs' Offices In Louisiana which was enacted in the 1976 renewal.

A federal administrative remedy was sought by passage of New Jersey Senate Concurrent Resolution 3004 which I personally drafted (encl. A, pp. 23-25). SCR 3004 was unanimously passed by the New Jersey Senate on April 28, 1977 and unanimously passed by the New Jersey General Assembly on June 30, 1977. In addition, it was endorsed by Governor Brendan T. Byrne (encl. G, 7/27/77). This Concurrent Resolution urged the Bureau of the Census to classify all New Jersey municipalities in a single classification, but the relief sought was denied because Census wished to retain the township designation for demographic reasons. My proposed amendment would permit Census to retain such demographic distinctions.

In denying the administrative relief sought by SCR 3004, Mr. Kurt L. Schmoke, Assistant Director, Domestic Policy Staff, the White House suggested reclassification of N.J. townships by State legislation (encl. A. pp. 38, 39). Accordingly, Senate No. 907 (encl. H, 2/27/78), which I personally drafted, was sponsored by Senator Carmen A. Orechio and was passed by the New Jersey Senate on December 4, 1978. According to a newspaper report (encl. J 12/27/78), Governor Byrne "told a press conference he would sign the Senate bill". However, the bill was bottled up in the Assembly Finance Committee.

An identical companion bill, A-1414, was sponsored by Assemblyman John A. Girgenti and cleared the Assembly Municipal Government Committee but was not called up by the Assembly Speaker. Both bills were thoroughly analyzed (encl. K & L, July '78; M, 9/14/78), based on Department of the Treasury "trial" printouts. In addition, all municipalities in the 27th Legislative District, except the sole township, passed resolutions favoring enactment of S-907 (encl. N, 4/26/79; O, 3/19/79; P, 1/23/79; Q, 4/17/79; R, 4/9/79; S, 2/28/79; T, 3/7/79; U, 2/5/79). However, due to inaction by the General Assembly, the bills died at the end of the Legislative Session last month.

I respectfully urge you to amend the General Revenue Sharing Act to end the "Township Inequity" which has persisted for eight long years and has resulted in gross misallocations of funds in New Jersey due to a quirk in the law. A favorable response to my request to testify before your Subcommittee will be deeply appreciated.

Sincerely yours,

RICHARD I. BONSAL,
Commissioner.

Note: The following enclosures were made a part of the committee files.

LIST OF ENCLOSURES

Enclosures	Date	Item
A	Mar. 27, 1978	Testimony re: Senate No. 907.
B	June 28, 1978	Essex County General Revenue Sharing Allocation, EP-10 Final.
C	June 21, 1978	Essex County General Revenue Sharing Allocation, EP-11 Initial.
D	Jan. 18, 1980	Memo from Office of Revenue Sharing re: Fairfield Township.
E	July 20, 1979	Worksheet: Effect of Trenton Change to Township.
F	August 1976	Testimony re: H. 13367.[1]
G	July 27, 1977	Letter of Governor Byrne Re: SCR-3004.
H	Feb. 27, 1978	Senate No. 907 (second official copy reprint)
J	Dec. 27, 1978	"Trentonian" headline re: Governor Byrne support of S-907.
K	July 1978	Effect of S-907 by county.
L	do	Effect of S-907 by legislative district.
M	Sept. 14, 1978	N.J. Senate Committee Report re: S-907.
N	Apr. 26, 1979	Effect of S-907 on 27th Legislative District (annotated).
O	Mar. 19, 1979	Resolution of Town of Bloomfield re: S-907.
P	Jan. 23, 1979	Resolution of Borough of Caldwell re: S-907.
Q	Apr. 17, 1979	Resolution of Borough of Essex Fells re: S-907.
R	Apr. 9, 1979	Resolution of Borough of Glen Ridge re: S-907.
S	Feb. 28, 1979	Resolution of Town of Montclair re: S-907.

LIST OF ENCLOSURES—Continued

Enclosures	Date	Item
T	Mar. 7, 1979	Resolution of Town of Nutley re: S-907.
U	Feb. 5, 1979	Resolution of Borough of Verona re: S-907.

[1] See also: Congressional Record, 94th Cong., 2d sess., vol. 122, No. 89, pp. H-5644—H-5646.

PROPOSED GENERAL REVENUE SHARING EXTENSION

WEDNESDAY, MAY 21, 1980

U.S. SENATE, COMMITTEE ON FINANCE, SUBCOMMITTEE ON REVENUE SHARING, INTERGOVERNMENTAL REVENUE IMPACT, AND ECONOMIC PROBLEMS,

Washington, D.C.

The subcommittee met at 9:35 a.m., pursuant to notice, in room 2221 of the Dirksen Senate Office Building, Senator Bill Bradley, chairman of the subcommittee, presiding.

Present: Senators Bradley, Dole, Danforth, and Durenberger.

[The press release announcing this hearing and the bills, S. 2414, S. 2574, S. 2678, and S. 2681 follow:]

62-376 O - 80 - 18

P.R. #H-26

PRESS RELEASE

FOR IMMEDIATE RELEASE
May 12, 1980

COMMITTEE ON FINANCE
UNITED STATES SENATE
SUBCOMMITTEE ON REVENUE SHARING
2227 DIRKSEN SENATE OFFICE BLDG.

FINANCE SUBCOMMITTEE ON REVENUE SHARING, INTERGOVERNMENTAL REVENUE IMPACT, AND ECONOMIC PROBLEMS TO HOLD HEARINGS ON S. 2574 AND RELATED BILLS

The Honorable Bill Bradley (D., N.J.), Chairman of the Subcommittee on Revenue Sharing, announced today that the Subcommittee will hold a hearing on the extension of the State and Local Fiscal Assistance Act of 1972 (general revenue sharing). The hearing will be held on Wednesday, May 21, 1980, beginning at 9:30 A.M., in Room 2227, Dirksen Senate Office Building.

The Subcommittee will be reviewing S. 2574, introduced at the request of the Administration. The bill provides for the extension of general revenue sharing for 5 additional years. It also would eliminate general revenue sharing payments to States and modify the intrastate distribution of funds. The Subcommittee will also hear testimony on S. 2414, introduced by Senator Durenberger to extend general revenue sharing for four years without modification, and S. 2681, introduced by Senator Dole, and S. 2678 introduced by Senator Exon. The latter two measures would extend general revenue sharing for 5 years and would give State governments the option of receiving general revenue sharing funds or specific categorical grants but not both.

The Honorable G. William Miller, Secretary of the Treasury will be the lead-off witness. Additional witnesses requesting to testify will also be scheduled.

In announcing the hearing, Chairman Bradley stated "The general revenue sharing program is an efficient and cost-effective intergovernmental program which helps State and local governments provide essential services. It features decentralized decision-making and flexibility, and serves as a balance and complement to the Federal decision-making role in categorical programs." Indicating that the Subcommittee is concerned about the economic condition of State and local governments, Bradley observed "elimination of the Revenue Sharing funds for States could significantly reduce State aid to local governments." According to the Senator, "the Subcommittee hopes to review in detail the impact the various proposals would have on State and local finances during this time of economic uncertainty."

Requests to Testify.--The Chairman advised that witnesses desiring to testify during this hearing must submit their requests in writing to Michael Stern, Staff Director, Committee on Finance, 2227 Dirksen Senate Office Building, Washington, D. C. 20510, not later than Monday, May 19, 1980. Witnesses will be notified as soon as possible after this cutoff date as to when they are scheduled to appear. If for some reason the witness is unable to appear, he may file a written statement for the record of the hearing in lieu of a personal appearance.

Consolidated Testimony.--Senator Bradley also stated that the Committee urges all witnesses who have a common position or with the same general interest to consolidate their testimony and designate a single spokesman to present their common viewpoint orally to the Committee. This procedure will enable the Committee to receive a wider expression of views than it might otherwise obtain. The Chairman urged very strongly that all witnesses exert a maximum effort, taking into account the limited advance notice, to consolidate and coordinate their statements.

Legislative Reorganization Act.--Senator Bradley stated that the Legislative Reorganization Act of 1946, as amended, requires all witnesses appearing before the Committees of Congress "to file in advance written statements of their proposed testimony, and to limit their oral presentations to brief summaries of their argument."

Witnesses scheduled to testify must comply with the following rules:

(1) A copy of the statement must be filed by noon the day before the day the witness is scheduled to testify.

(2) All witnesses must include with their written statement a summary of the principal points included in the statement.

(3) The written statements must be typed on letter-size paper (not legal size) and at least 100 copies must be submitted by the close of business the day before the witness is scheduled to testify.

(4) Witnesses are not to read their written statements to the Subcommittee, but are to confine their oral presentations to a summary of the points included in the statement.

(5) No more than ten minutes will be allowed for oral presentation.

Written Statements.--Witnesses who are not scheduled to make an oral presentation, and others who desire to present their views to the Subcommittee, are urged to prepare a written statement for submission and inclusion in the printed record of the hearings. These written statements should be typewritten, not more than 25 double-spaced pages in length, and mailed with five (5) copies to Michael Stern, Staff Director, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D. C. 20510, not later than Thursday, June 26, 1980.

P.R. #H-26

II

96TH CONGRESS
2D SESSION

S. 2414

To extend for 4 years the general revenue sharing program under the State and Local Fiscal Assistance Act of 1972.

IN THE SENATE OF THE UNITED STATES

MARCH 12 (legislative day, JANUARY 3), 1980

Mr. DURENBERGER (for himself, Mr. GARN, Mr. HATCH, and Mr. PERCY) introduced the following bill; which was read twice and referred to the Committee on Finance

---

A BILL

To extend for 4 years the general revenue sharing program under the State and Local Fiscal Assistance Act of 1972.

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

SECTION 1. EXTENSION OF PROGRAM.

Paragraph (3) of section 105(c) of the State and Local Fiscal Assistance Act of 1972 (31 U.S.C. 1224(c)) is amended—

(1) by striking "and" at the end of subparagraph (C),

(2) by striking out the period at the end of subparagraph (D) and inserting in lieu thereof a semicolon, and

(3) by adding at the end thereof the following new subparagraphs:

"(E) The entitlement period beginning October 1, 1980, and ending September 30, 1981;

"(F) The entitlement period beginning October 1, 1981, and ending September 30, 1982;

"(G) The entitlement period beginning October 1, 1982, and ending September 30, 1983; and

"(H) The entitlement period beginning October 1, 1983, and ending September 30, 1984.".

SEC. 2. CONFORMING AMENDMENTS.

(a) Subparagraph (C) of section 108(c)(1) of the State and Local Fiscal Assistance Act of 1972 (31 U.S.C. 1227(c)(1)) is amended by striking out "September 30, 1980" and inserting in lieu thereof "September 30, 1984".

(b) Paragraph (7) of section 141(b) of such Act (31 U.S.C. 1261(b)) is amended by striking out "and 1979" and inserting in lieu thereof "1979, 1980, 1981, 1982, and 1983".

II

96TH CONGRESS
2D SESSION

S. 2574

To authorize an extension and amendment of the revenue sharing program to provide general purpose fiscal assistance to local governments, and for other purposes.

IN THE SENATE OF THE UNITED STATES

APRIL 16 (legislative day, JANUARY 3), 1980

Mr. LONG (for himself and Mr. MOYNIHAN) (by request) introduced the following bill; which was read twice and referred to the Committee on Finance

---

A BILL

To authorize an extension and amendment of the revenue sharing program to provide general purpose fiscal assistance to local governments, and for other purposes.

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 "Local Government Fiscal Assistance Amendments of 1980".

SEC. 2. The Congress finds that—

(1) the vitality of State and local governments is essential to this Nation's unique system of government and to the welfare of the American people;

(2) continuation of general purpose fiscal assistance to local governments is fundamental to their capacity to provide basic public servicсs;

(3) provision of general-purpose fiscal assistance on a basis that offers reasonable assurance of predictable funding is essential to provide localities with the critically important capability of planning ahead in order that the funds can be used to support those services and facilities most important to their citizens;

(4) localities exercise the same care and prudence in their use of general-purpose fiscal assistance as they do in the use of funds drawn from their own revenue sources;

(5) the formula for allocating general-purpose fiscal assistance should be revised so that the distribution of funds makes greater and more consistent contributions to reducing intrastate fiscal inequities;

(6) the civil rights and public participation requirements help ensure that decisions about the use of local funds are made democratically and do not involve discriminatory practices;

(7) the audit requirements ensure that funds are spent in accordance with relevant Federal, State, and local laws and contribute to a general upgrading of fi-

nancial management practices employed by local governments throughout the Nation;

(8) reduced funding for general fiscal assistance is necessitated by the need to slow the rate of growth of Federal expenditures, and it is appropriate that these reductions be in payments to State governments because their capacity to adjust to the loss of the revenue are superior to those of local governments; and

(9) the termination of revenue sharing payments to the State governments will result in significant reductions in State aid to many local governments, and temporary, additional Federal assistance to localities most likely to experience these losses is necessary to assist them in adjusting to the lower levels of State aid.

SEC. 3. Section 101 of the State and Local Fiscal Assistance Act (31 U.S.C. 1222 et seq.) is amended as follows:

"SEC. 101. SHORT TITLE.

"This title may be cited as the 'Local Government Fiscal Assistance Act of 1980'".

SEC. 4. Section 102 of the State and Local Fiscal Assistance Act (31 U.S.C. 1222) is amended—

(a) by striking "STATE AND" from the title;

(b) by amending subsection (a) to read as follows—

"(a) IN GENERAL.—Except as otherwise provided in this title, the Secretary shall, for each entitlement period, pay out of the Trust Fund to each unit of local government a total amount equal to the entitlement of such unit determined under section 108 for such period. Such payments shall be made in installments, but not less often than once for each quarter, and shall be paid not later than 5 days after the close of each quarter. Such payments for any entitlement period may be initially made on the basis of estimates. Proper adjustment shall be made in the amount of any payment to a unit of local government to the extent that the payments previously made to such government under this subtitle were in excess of or less than the amounts required to be paid.";

(c) by amending subsection (b) by striking "a State government or"; and

(d) by amending subsection (c) as follows—

(1) by striking "State government and all" and by striking "such" and inserting "a" in lieu thereof;

(2) by designating the paragraph entitled "RECOVERY OF CERTAIN OVERPAYMENTS" as subsection (d) and by inserting at the end thereof the following new sentence: "No adjustment shall be made to increase or decrease a payment made for any entitlement period beginning prior to Oc-

tober 1, 1980, on the basis of revisions to the 1970 census-based population and income estimates for years prior to 1980 as a result of the data from the 1980 census.".

SEC. 5. Section 105 of the State and Local Fiscal Assistance Act (31 U.S.C. 1224) is amended as follows:

(a) by striking "APPROPRIATIONS; AUTHORIZATION OF ENTITLEMENTS" and inserting "AUTHORIZATION OF APPROPRIATIONS OF ENTITLEMENTS." in lieu thereof;

(b) by amending subsection (a) by striking "State and" from paragraph (1);

(c) by striking the provisions of subsection (b), by redesignating subsection (c) as (b) and by amending redesignated subsection (b) to read as follows:

"(1) IN GENERAL.—For each of the entitlement periods described in paragraph (3), there are authorized to be appropriated to the Trust Fund, $4,566,666,667 for the purpose of making the entitlement payments hereinafter provided in section 106(a)(1) for such periods.

"(2) NONCONTIGUOUS STATES ADJUSTMENT AMOUNTS.—For each of the entitlement periods described in paragraph (3), there is authorized to be appropriated to the Trust Fund, $3,282,506 for the purpose of making the entitlement payments hereinafter provided in section 106(c)(1) for such periods.

"(3) ENTITLEMENT PERIODS.—The following entitlement periods are described in this paragraph—

"(A) The entitlement period beginning October 1, 1980, and ending September 30, 1981;

"(B) The entitlement period beginning October 1, 1981, and ending September 30, 1982;

"(C) The entitlement period beginning October 1, 1982, and ending September 30, 1983;

"(D) The entitlement period beginning October 1, 1983, and ending September 30, 1984; and

"(E) The entitlement period beginning October 1, 1984, and ending September 30, 1985.

"(4) "AUTHORIZATION OF TRANSITIONAL AMOUNT.—In addition to the amounts authorized in paragraphs (1) and (2), there is authorized to be appropriated to the Trust Fund $500,000,000 for each of the entitlement periods beginning October 1, 1980, and October 1, 1981, for the purpose of making entitlement payments as provided in section 106(d) for such periods."; and

(d) by redesignating subsection (d) as (c), and striking "State governments and" from redesignated subsection (c).

SEC. 6. Section 106 of the State and Local Fiscal Assistance Act (31 U.S.C. 1225) is amended as follows:

(a) by amending subsection (a) to read as follows:

"(a) IN GENERAL.—There shall be allocated an entitlement to each State for allocation to units of local government as provided in section 108—

"(1) for each entitlement period beginning on or after October 1, 1980, out of amounts authorized under section 105(b)(1), for that entitlement period, an amount that bears the same ratio to the amount authorized under that section for that period as the amount allocable to that State under subsection (b) bears to the sum of the amounts allocable to all States under subsection (b); and

"(2) for each entitlement period beginning October 1, 1980, and October 1, 1981, out of amounts authorized under section 105(b)(4) for such periods, an amount as determined under subsection (d).";

(b) by amending paragraph (b)(1) to read as follows:

"(1) IN GENERAL.—For purposes of subsection (a)(1), the amount allocable to a State under this subsection for any entitlement period shall be determined under paragraph (2), except that such amount shall be determined under paragraph (3) if, in the case of an entitlement period beginning on or after October 1, 1980, the amount allocable to such State under paragraph (3) is larger than the amount allocable to such State under paragraph (2).";

(c) by amending paragraph (c)(1) to read as follows:

"(1) IN GENERAL.—In addition to the amounts allocated to the States under subsection (a), there shall be allocated out of amounts authorized under section 105(b)(2) for each entitlement period beginning on or after October 1, 1980, an additional amount to any State in which civilian employees of the United States Government receive an allowance under section 5941 of title 5, United States Code.";

(d) by amending the second sentence of paragraph (c)(2) to read as follows: "If the total amount authorized under section 105(b)(2) for any entitlement period beginning on or after October 1, 1980, is not sufficient to pay in full the additional amounts allocable under this subsection for that period, the Secretary shall reduce proportionately the amounts so allocable."; and

(e) by inserting after subsection (c) the following new subsection:

"(d) DETERMINATION OF TRANSITIONAL AMOUNT.—

"(1) IN GENERAL.—In addition to the amounts otherwise allocable under this section, there shall be allocated to each State and the District of Columbia for allocation to units of local government, as provided in section 108, an additional entitlement out of the $500,000,000 authorized under section 105(b)(4) for each entitlement period beginning on or after October 1, 1980, and October 1, 1981.

"(2) TRANSITIONAL ALLOCATION.—For purposes of paragraph (1), the amount allocable to a State under this paragraph is the amount which bears the same ratio to $492,600,000 as—

"(A) the aggregate amount (excluding State government aid for education) transferred by a State government to units of local government in such State, bears to—

"(B) the sum of the amounts (excluding State government aid for education) transferred by all State governments to units of local government.

"(C) for purposes of this paragraph, the amount allocable to the District of Columbia for the applicable entitlement periods shall be $7,400,000.

"(3) DEFINITIONS.—For purposes of this paragraph, the—

"(A) aggregate amount transferred by a State government to units of local government in such State shall be the State government intergovernmental expenditures to units of local government in the State, as determined by the Bureau of the Census for general statistical purposes; and

"(B) State aid for education shall be the State government intergovernmental expenditures for education to units of local government in the State, as determined by the Bureau of the Census for general statistical purposes.".

SEC. 7. Section 107 of the State and Local Fiscal Assistance Act (31 U.S.C. 1226) entitled "ENTITLEMENTS OF STATE GOVERNMENTS" is repealed.

SEC. 8. Section 108 of the State and Local Fiscal Assistance Act (31 U.S.C. 1227) is amended as follows:

(a) by amending subsections (a), (b), and (c) to read as follows:

"(a) IN GENERAL.—The amount allocated for any entitlement period to a State under section 106 shall be allocated among the units of local government within such State in accordance with this section.

"(1) ALLOCATION TO UNITS OF LOCAL GOVERNMENT.—Except as otherwise provided in this section, the amount allocated to a State under section 106 shall be allocated among the units of local government (other than Indian tribes and Alaskan native villages) located in that State so that each unit of local government will receive an amount which bears the same ratio to the total amount to be allocated to all such units as—

"(A) the population of that unit of local government, multiplied by the general tax effort factor of that unit of local government, multiplied by the relative income factor of that unit of local government, bears to

"(B) the sum of the products determined under paragraph (A) for all such units.

"(2) INDIAN TRIBES AND ALASKAN NATIVE VILLAGES.—If within a State there is an Indian tribe or Alaskan native village which has a recognized governing body which performs substantial governmental functions, then before applying paragraph (1) there shall be allocated to such tribe or village a portion of the amount allocated to the State for the entitlement period which equals the product resulting from multiplying—

"(A) the population of that tribe or village within that State, by

"(B) an amount equal to 110 percent of the amount allocated to such State as determined under section 106, divided by the population of that State.

"(b) ENTITLEMENT.—

"(1) IN GENERAL.—Except as otherwise provided in this subsection, the entitlement of any unit of local government for any entitlement period shall be the amount allocated to such unit under this section.

"(2) MAXIMUM AND MINIMUM PER CAPITA ENTITLEMENT.—Subject to the provisions of paragraphs (3) and (4), the per capita amount allocated to any unit of local government within a State under this section for any entitlement period shall not be less than 10 percent nor more than 175 percent of the amount allocated to the State under section 106, divided by the population of that State.

"(3) LIMITATION.—The amount allocated to any unit of local government under this section for any entitlement period shall not exceed 25 percent of the sum of—

"(A) such government's adjusted taxes (as determined without regard to subsection 109(d)(3)); and

"(B) the intergovernmental transfers of revenue to such government (other than transfers to such government under this subtitle).

"(4) ENTITLEMENT LESS THAN $200, OR GOVERNING BODY WAIVES ENTITLEMENT.—If (but for this paragraph) the entitlement of any unit of local government—

"(A) would be less than $200 for any entitlement period, or

"(B) is waived for any entitlement period by the governing body of such unit,

then the amount of such entitlement for such period shall (in lieu of being paid to such unit) be distributed to other units of local government in the State in accordance with regulations prescribed by the Secretary.

"(c) ADJUSTMENT OF ENTITLEMENT.—

"(1) IN GENERAL.—In adjusting the allocation of any unit of local government, the Secretary shall make any adjustment required under paragraph (b)(2) first, any adjustment required under paragraph (b)(3) next, any adjustment required under paragraph (b)(4) next, any adjustment required under subsection (e) next, and any adjustment required under paragraph (3) last.

"(2) ADJUSTMENT FOR APPLICATION OF MAXIMUM OR MINIMUM PER CAPITA ENTITLEMENT AND LIMITATION.—Except as otherwise provided in paragraph (3), the Secretary shall adjust the allocations made under this section to units of local government in any State in order to bring those allocations into compliance with the provisions of paragraphs (b)(2) and (b)(3).

"(3) EXCEPTION TO ADJUSTMENT APPLICATION.—In any case in which (A) the amount allocated to a unit of local government is reduced under subsection (b) by the Secretary, and (B) no other unit in the State in which it is located may receive the amount on account of the application of subsection (b), the amount of that reduction shall be added to and increase the entitlement of all units of local government within the State in proportion to their allocations, without regard to the limitations in (b)(2) and (b)(3).";

(b) by striking "(1), (2), (3), (5), (6)(C), and (6)(D) of subsection (b), and except for purposes of subsection (c)," from paragraph (d)(1) and by inserting "(a)(1), (b)(2), (b)(3), (b)(4)(A), and section 109(d)(1)(C)" in lieu thereof;

(c) by striking the provisions of paragraphs (4) and (5) and redesignating paragraph (6) as (4); and

(d) by amending subsection (e) as follows:

(1) by inserting "and the parish of Orleans" after the first reference to "East Baton Rouge" in paragraph (1);

(2) by striking "January 1, 1977" and inserting "October 1, 1980" in lieu thereof;

(3) by amending paragraph (2) to read as follows:

"(2) REDUCTION OF ENTITLEMENT OF LOCAL GOVERNMENTS.—The entitlements of the units of local government of a county (parish) area for an entitlement period shall be reduced proportionately by an amount equal to the entitlement for the separate law enforcement officer for such county (parish) area for such entitlement period."; and

(4) by striking paragraphs (3) and (4).

SEC. 9. Section 109 of the State and Local Fiscal Assistance Act (31 U.S.C. 1228) is amended as follows:

(a) by inserting after paragraph (a)(7) the following new paragraph:

"(8) INDIAN TRIBE AND ALASKAN NATIVE VILLAGE POPULATION.—For entitlement periods beginning on or after October 1, 1980, the Bureau of the

Census shall develop population estimates for Indian tribes and Alaskan native villages, in accordance with regulations prescribed by the Secretary for purposes of this title, whenever such estimates are provided for other classifications of units of local government. Such estimates shall be used by the Secretary to determine allocations in accordance with section 108(a)(2).";

(b) by striking the provisions of subsection (d);

(c) by inserting after paragraph (e)(1)(B) the following new paragraph:

"(C) For a unit of local government with a per capita income in excess of 115 percent of the State per capita income, the general tax effort shall be reduced by a percentage equal to the percentage point difference between its per capita income and 115 percent of the State's per capita income. The per capita income of a State or unit of local government shall be as determined by the Bureau of the Census for general statistical purposes.";

(d) by redesignating paragraph (e)(2)(B) as (e)(2)(D) and by inserting after paragraph (e)(2)(A) the following new paragraphs:

"(B) PROCEDURE FOR DETERMINING EDUCATION TAXES.—To determine the amount of compulsory contributions allocable to expenses for education in cases where—

"(i) the tax revenues from a general levy are deposited in a fund containing nontax amounts; and

"(ii) appropriations or expenditures are made from such fund for education and at least one other purpose—

The Bureau of the Census shall multiply the ratio of available taxes to total available amounts by education expenditures (excluding dedicated amounts) for such fund.

"(C) DEFINITIONS.—For purposes of paragraph (B) the term—

"(i) available taxes means local tax revenues not restricted to any particular expenditure category as determined by the Bureau of the Census;

"(ii) total available amounts means the sum of unrestricted revenues, cash and investment assets expended during the year as determined by the Bureau of the Census; and

"(iii) dedicated amounts (as defined by the Secretary and determined for each unit by the Bureau of the Census) means moneys that must be spent on one or more specified expenditure categories.";

(e) by inserting after redesignated paragraph (e)(2) the following new paragraphs:

"(3) ADJUSTED TAXES REDUCED.—Except as otherwise provided, the adjusted taxes (as determined in accordance with paragraph (2)) of a unit of local government with per capita adjusted taxes (as determined in accordance with paragraph (2)) in excess of $250, and in excess of 250 percent of the average per capita adjusted taxes of similarly classified units within the State in which it is located (as determined by the Bureau of the Census for general statistical purposes) shall be reduced by the product resulting from: multiplying the population of such unit by the amount its per capita adjusted taxes exceed an amount equal to 250 percent of the average per capita adjusted taxes for similarly classified units: *Provided, however,* That the per capita adjusted taxes of a unit shall not be reduced to an amount less than $250 or the State average per capita adjusted taxes for similarly classified units (whichever is higher).

"(4) EXCEPTION.—The provisions of paragraph (3) shall not apply to a unit of local government that is the only unit (other than an Indian tribe or Alaskan native village) within the county area in which it is located. A unit shall be treated as located in a county area if all or part of its geographic area is located in such area.

"(5) DEFINITIONS.—For purposes of paragraphs (3) and (4) the term—

"(A) 'average per capita adjusted taxes' means the sum of the adjusted taxes (as determined in accordance with paragraph (2)) for similarly classified units of local government (as determined by the Bureau of the Census for general statistical purposes), divided by the sum of the population of such similarly classified units; and

"(B) per capita income shall be determined on the basis of income as defined in paragraph (a)(3).";

(f) by amending subsection (f) as follows:

(1) redesignating paragraph (3) as (2); and

(2) by striking "county area" from redesignated paragraph (2) and inserting "State" in lieu thereof; and

(g) by redesignating subsections (e), (f), and (g) as (d), (e), and (f), respectively.

SEC. 10. Section 121 of the State and Local Fiscal Assistance Act (31 U.S.C. 1241) is amended:

(a) by striking "REPORT ON USE OF FUNDS:" from the title; and,

(b) by striking the provisions of subsection (a) and (d); and

(c) by redesignating subsections (b), (c), (e), (f), and (g), as (a), (b), (c), (d), and (e), respectively.

SEC. 11. Section 123 of the State and Local Fiscal Assistance Act (31 U.S.C. 1243) is amended:

(a) by amending subsection (a) as follows:

(1) by striking "State government or" and "and with respect to a unit of local government";

(2) by striking "and" from the end of paragraph (7);

(3) by amending paragraph (8) to read as follows—

"(8) it will comply with the provisions of section 121; and" ; and

(4) by inserting after paragraph (8) the following new paragraph:

"(9) it will comply with the provisions of subsection (c).";

(b) by amending subsection (c) as follows:

(1) by inserting at the end of paragraph (1) the following new sentence: "For any entitlement period beginning on or after October 1, 1980,

such audit shall be conducted not less often than once every two years, and shall include the financial statements for each such fiscal year. Such audits shall be submitted to the Secretary for approval at such time as required by regulations prescribed by the Secretary.";

(2) by striking the first reference to "State or" from paragraph (2):

(3) by striking "every 3 years" from paragraph (2) and inserting "every 2 fiscal years (provided the financial statements for each fiscal year are included in the audit)" in lieu thereof;

(4) by striking "3" from paragraph (3) and inserting "2" in lieu thereof and inserting in that paragraph "for each fiscal year" after "government"; and

(5) by amending paragraph (5) to read as follows:

"(5) WAIVER.—The Secretary may waive the requirements of paragraph (1) or paragraph (2), in whole or in part, with respect to any State government or unit of local government for any fiscal year as to which (in accordance with the regulations prescribed by the Secretary) there is a finding that—

"(A) the financial accounts of such government for such period are not auditable, and that such government demonstrates substantial progress toward making such financial accounts auditable, or

"(B) such government is audited by a State audit agency which does not follow generally accepted auditing standards or which is not independent (in accordance with regulations prescribed by the Secretary): *Provided, however,* That such State audit agency demonstrates progress toward meeting generally accepted auditing standards or becoming independent.".

SEC. 12. Section 141 of the State and Local Fiscal Assistance Act (31 U.S.C. 1261) shall be amended as follows:

(a) by inserting at the end of subsection (b) the following new paragraph—

"(8) The one-year periods beginning October 1 of 1980, 1981, 1982, 1983, and 1984."; and

(b) by amending paragraph (c)(1)(B) to read as follows:

"(B) as a county area and as the sole unit of local government in such area.".

SEC. 13. Section 143(a) of the State and Local Fiscal Assistance Act (31 U.S.C. 1263(a)) is amended by striking

"State which receives a notice of reduction in entitlement under section 107(b), and any".

SEC. 14. The State and Local Fiscal Assistance Act (31 U.S.C. 1221 et seq.) is amended by repealing section 145, entitled "Study of Revenue Sharing and Federalism".

SEC. 15. The State and Local Fiscal Assistance Act (31 U.S.C. 1221 et seq.) is amended by inserting after section 145 the following new section:

"SEC. 146. FISCAL IMPACT REPORT.

"The reports required under section 105(a)(2) to be submitted to the Congress for March 1, 1982, and for March 1, 1984, shall include an assessment of the fiscal impact on State and local governments of the entitlement payments made under this title. The assessments shall include estimates of the extent to which the payments have: (1) resulted in lower State and local taxes than would otherwise have prevailed; (2) increased State and local expenditures, and the functional allocation of those increases; and (3) caused higher State and local fund balances. The assessment shall also estimate how these fiscal impacts vary by region of the country, by the underlying condition of State and local economies, by the size and type of jurisdiction, and by the general nature of State-local fiscal relationships including, but not limited to, the nature and magnitude of State aid provided to local governments; and in general, how the fiscal impacts differ from the impacts of the resources available to local governments from their own sources.".

SEC. 16. The State and Local Fiscal Assistance Act (31 U.S.C. 1221 et seq.) is amended by inserting after new section 146 the following new section:

"SEC. 147. EFFECTIVE DATE.

"Except as otherwise provided, the 'Local Government Fiscal Assistance Amendments of 1980' shall apply to the administration of the provisions of this title on or after October 1, 1980.".

II

96TH CONGRESS
2D SESSION

S. 2678

To extend for five years the operation of the State and Local Fiscal Assistance Act of 1972, and to provide that each State will receive the State government allocation only if it elects an equivalent reduction in the amount it would otherwise receive in specific categorical grant programs.

IN THE SENATE OF THE UNITED STATES

MAY 8 (legislative day, JANUARY 3), 1980

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

---

A BILL

To extend for five years the operation of the State and Local Fiscal Assistance Act of 1972, and to provide that each State will receive the State government allocation only if it elects an equivalent reduction in the amount it would otherwise receive in specific categorical grant programs.

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

SECTION 1. EXTENSION OF PROGRAM; ESTABLISHMENT OF SEPARATE ACCOUNTS.

(a) IN GENERAL.—Subsection (c) of section 105 of the State and Local Fiscal Assistance Act of 1972 (31 U.S.C. 1224) is amended—

(1) by striking out "and" at the end of subparagraph (C) of paragraph (3),

(2) by striking out the period at the end of subparagraph (D) of paragraph (3) and inserting in lieu thereof "; and", and

(3) by adding at the end of paragraph (3) the following new subparagraphs:

"(E) The entitlement period beginning October 1, 1980, and ending September 30, 1981;

"(F) The entitlement period beginning October 1, 1981, and ending September 30, 1982;

"(G) The entitlement period beginning October 1, 1982, and ending September 30, 1983;

"(H) The entitlement period beginning October 1, 1983, and ending September 30, 1984; and

"(I) The entitlement period beginning October 1, 1984.".

(b) ESTABLISHMENT OF SEPARATE ACCOUNTS FOR STATE GOVERNMENTS AND LOCAL GOVERNMENTS.—

(1) IN GENERAL.—Subsection (a) of such section (31 U.S.C. 1224(a)) is amended by adding at the end thereof the following new paragraph:

"(3) ESTABLISHMENT OF SEPARATE ACCOUNTS.—

"(A) IN GENERAL.—For entitlement periods beginning after September 30, 1980, the Secretary shall establish within the Trust Fund a State government account and a local government account.

"(B) STATE GOVERNMENT ACCOUNT.—The State government account shall be credited only with amounts transferred to that account under section 107A(d). Amounts in the account may be used only for the payments to State governments provided by this subtitle.

"(C) LOCAL GOVERNMENT ACCOUNT.—The local government account shall be credited only with amounts appropriated to the Trust Fund for entitlement periods beginning after September 30, 1980. Amounts in the account may be used only for the payments to local governments provided by this subtitle.".

(2) REDUCTION IN AUTHORIZATION OF APPROPRIATIONS.—Subsection (b) of such section (31 U.S.C.

1224(b)) is amended by adding at the end thereof the following new paragraph:

"(5) REDUCTION OF AUTHORIZATION FOR FISCAL YEARS 1981 THROUGH 1985.—For the purpose of applying this subsection in the case of an entitlement period described in subparagraph (E), (F), (G), (H), or (I) of paragraph (3), the amounts authorized under paragraphs (1) and (2) shall be reduced by one-third.".

(c) CONFORMING AMENDMENTS.—

(1) Subparagraph (C) of section 108(c)(1) of such Act is amended by striking out "September 30, 1980" and inserting in lieu thereof "September 30, 1985".

(2) Paragraph (7) of section 141(b) of such Act is amended by striking out "and 1979" and inserting in lieu thereof "1979, 1980, 1981, 1982, 1983, and 1984".

SEC. 2. STATE GOVERNMENT MAY ELECT ENTITLEMENT IN LIEU OF CATEGORICAL GRANT FUNDING.

Subtitle A of title I of the State and Local Fiscal Assistance Act of 1972 (31 U.S.C. 1221-1228) is amended by inserting immediately after section 107 the following new section:

"SEC. 107A. STATE GOVERNMENT MAY ELECT ENTITLEMENT IN LIEU OF CATEGORICAL GRANT FUNDING.

"(a) GENERAL RULE.—Notwithstanding the provisions of section 107, the amount a State government shall be entitled to receive under this subtitle for any entitlement period beginning after September 30, 1980, shall not exceed the amount of the categorical grant funding reduction elected by that State for that entitlement period.

"(b) CATEGORICAL GRANT FUNDING REDUCTION ELECTION.—For purposes of this section, the amount of the categorical grant funding reduction elected by a State for any entitlement period is the sum of that State's allotments under categorical grant programs for the fiscal year which coincides with the entitlement period—

"(1) which have been designated by the chief executive officer of that State as categorical grant programs under which the State's allotment is to be transferred to the State government account established under section 105(a)(3), and

"(2) under which the amount allotted to the State for the fiscal year is transferred to that account.

"(c) DEFINITIONS; SPECIAL RULES.—For purposes of this section—

"(1) CATEGORICAL GRANT PROGRAM.—The term 'categorical grant program' means any program for which the budget authority is included in Appendix H of the Special Analyses, Budget of the United States Government, 1981 (or in the corresponding part of the Special Analyses, Budget of the United States, for any subsequent fiscal year) other than—

"(A) any such program designated by the President for the fiscal year as a program of grants for payments to individuals, or

"(B) any such program under which each State's allotment is not determined by reference to the allotment of other States and which is not intended to operate in all States (as determined by the Secretary after consultation with the head of the administering department or agency charged with the administration of the program).

"(2) ALLOTMENT.—The term 'allotment' means any allotment, apportionment, or other division of funding under a categorical grant program, determined before any reallotment, reapportionment, or redivision of funding.

"(3) DESIGNATION BY CHIEF EXECUTIVE OFFICER.—In order for the allotment of a State under a categorical grant program to be transferred to the State government account, the designation shall be—

"(A) irrevocable,

"(B) made in writing, in such form and manner as the Secretary may prescribe, by the chief executive officer of that State, and

"(C) received by the Secretary, and by the head of the department or agency charged with administration of the program—

"(i) before September 1, 1980, for the entitlement period beginning on October 1, 1980, and

"(ii) before February 1 of each year thereafter for any entitlement period beginning in such year.

"(d) TRANSFER OF ALLOTMENTS TO STATE GOVERNMENT ACCOUNT.—Whenever the chief executive officer of a State designates a categorical grant program under subsection (c)(3), the Secretary shall transfer the amount of that State's allotment for the fiscal year under that program from the appropriation for that program for the fiscal year to the State government account established under section 105(a)(3). The amounts required to be transferred to the Trust Fund under this subsection shall be transferred at least quarterly from the account to which the appropriation is credited to the State government account on the basis of estimates made by the Secretary. Proper adjustment shall be made in the amounts subsequently transferred to the extent prior estimates were in excess of or less than the amounts required to be transferred.

"(e) APPLICATION WITH CERTAIN REALLOTMENT PROVISIONS.—Notwithstanding any other provision of law to the contrary now or hereafter enacted (except to the extent that such provision explicitly overrides this subsection), if the chief executive officer of a State designates a categorical grant program under this section as a program from which that State's allotment for the fiscal year is to be transferred to the State government account established under section 105(a)(3), then such transfer shall be treated, for purposes of any provisions of law providing for the reallotment of amounts not paid under the program to a State government, as if it constituted a payment to that State under the program.".

II

96TH CONGRESS
2D SESSION

S. 2681

To amend the State and Local Fiscal Assistance Act of 1972 to provide a five-year extension of the general revenue sharing program and to provide that each State make an annual election to receive its State government allocation or the equivalent amount in specific categorical grant programs, but not both.

IN THE SENATE OF THE UNITED STATES

MAY 8 (legislative day, JANUARY 3), 1980

Mr. DOLE (for himself, Mr. BAKER, Mr. PERCY, Mr. MCCLURE, Mr. DOMENICI, Mr. ARMSTRONG, and Mr. DANFORTH) introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To amend the State and Local Fiscal Assistance Act of 1972 to provide a five-year extension of the general revenue sharing program and to provide that each State make an annual election to receive its State government allocation or the equivalent amount in specific categorical grant programs, but not both.

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

SECTION 1. EXTENSION OF PROGRAM; ESTABLISHMENT OF SEPARATE ACCOUNTS.

(a) IN GENERAL.—Subsection (c) of section 105 of the State and Local Fiscal Assistance Act of 1972 (31 U.S.C. 1224) is amended—

(1) by striking out "and" at the end of subparagraph (C) of paragraph (3),

(2) by striking out the period at the end of subparagraph (D) of paragraph (3) and inserting in lieu thereof "; and", and

(3) by adding at the end of paragraph (3) the following new subparagraphs:

"(E) The entitlement period beginning October 1, 1980, and ending September 30, 1981;

"(F) The entitlement period beginning October 1, 1981, and ending September 30, 1982;

"(G) The entitlement period beginning October 1, 1982, and ending September 30, 1983;

"(H) The entitlement period beginning October 1, 1983 and ending September 30, 1984; and

"(I) The entitlement period beginning October 1, 1984.".

(b) ESTABLISHMENT OF SEPARATE ACCOUNTS FOR STATE GOVERNMENTS AND LOCAL GOVERNMENTS.—

(1) In general.—Subsection (a) of such section (31 U.S.C. 1224(a)) is amended by adding at the end thereof the following new paragraph:

"(3) Establishment of separate accounts.—

"(A) In general.—For entitlement periods beginning after September 30, 1980, the Secretary shall establish within the Trust Fund a State government account and a local government account.

"(B) State government account.—

"(i) Amounts credited to account.—The State government account shall be credited only with amounts transferred to that account under section 107A(d).

"(ii) Amounts to be paid to states.—Amounts in the account may be used only for the payments to State governments provided by this subtitle.

"(iii) Maximum amount.—The amount credited to the State government for any entitlement period with respect to a State shall not exceed one-half of the sum of the amounts credited to the local government account for that period with respect to all local governments located in that State.

"(C) LOCAL GOVERNMENT ACCOUNT.—The local government account shall be credited only with amounts appropriated to the Trust Fund for entitlement periods beginning after September 30, 1980. Amounts in the account may be used only for the payments to local governments provided by this subtitle.".

(2) REDUCTION IN AUTHORIZATION OF APPROPRIATIONS.—Subsection (c) of such section (31 U.S.C. 1224(c)) is amended by adding at the end thereof the following new paragraph:

"(5) REDUCTION OF AUTHORIZATION FOR FISCAL YEARS 1981 THROUGH 1985.—For the purpose of applying this subsection in the case of an entitlement period described in subparagraph (E), (F), (G), (H), or (I) of paragraph (3), the amounts authorized under paragraphs (1) and (2) shall be reduced by one-third.".

(c) CONFORMING AMENDMENTS.—

(1) Subparagraph (C) of section 108(c)(1) of such Act is amended by striking out "September 30, 1980" and inserting in lieu thereof "September 30, 1985".

(2) Paragraph (7) of section 141(b) of such Act is amended by striking out "and 1979" and inserting in lieu thereof "1979, 1980, 1981, 1982, 1983, and 1984".

SEC. 2. STATE GOVERNMENT MAY ELECT ENTITLEMENT IN LIEU OF CATEGORICAL GRANT FUNDING.

Subtitle A of title I of the State and Local Fiscal Assistance Act of 1972 (31 U.S.C. 1221–1228) is amended by inserting immediately after section 107 the following new section:

"SEC. 107A. STATE GOVERNMENT MAY ELECT ENTITLEMENT IN LIEU OF CATEGORICAL GRANT FUNDING.

"(a) GENERAL RULE.—Notwithstanding the provisions of section 107, the amount a State government shall be entitled to receive under this subtitle for any entitlement period beginning after September 30, 1980, shall not exceed the amount of the categorical grant funding reduction elected by that State for that entitlement period.

"(b) CATEGORICAL GRANT FUNDING REDUCTION ELECTION.—For purposes of this section, the amount of the categorical grant funding reduction elected by a State for any entitlement period is the sum of that State's allotments under categorical grant programs for the fiscal year which coincides with the entitlement period—

"(1) which have been designated by the chief executive officer of that State, after consultation with the State legislature, as categorical grant programs under which the State's allotment is to be transferred to the State government account established under section 105(a)(3), and

"(2) under which the amount allotted to the State for the fiscal year is transferred to that account.

"(c) DEFINITIONS; SPECIAL RULES.—For purposes of this section—

"(1) CATEGORICAL GRANT PROGRAM.—The term 'categorical grant program' means any eligible program for which the budget authority is included in Appendix H of the Special Analyses, Budget of the United States Government, 1981 (or in the corresponding part of the Special Analyses, Budget of the United States, for any subsequent fiscal year) other than—

"(A) any such program designated by the President for the fiscal year as a program of grants for payments to individuals, or

"(B) any such program which contains discretionary grant authority (as determined by the Secretary after consultation with the head of the administering department or agency charged with the administration of the program).

"(2) ELIGIBLE PROGRAM.—The term 'eligible program' means any program related to any of the following functions:

"(A) Agriculture.

"(B) Energy.

"(C) Natural resources and environment.

"(D) Transportation, other than the Highway Trust Fund.

"(E) Community and regional development.

"(F) Education, training, and social services other than Unemployment Trust Fund: Social Service.

"(G) Health, other than medicaid.

"(H) Administration of justice.

"(I) General government: intergovernmental personnel assistance only.

"(3) ALLOTMENT.—The term 'allotment' means any allotment, apportionment, or other division of funding under a categorical grant program for State governments for a fiscal year, determined before any reallotment, reapportionment, or redivision of funding.

"(4) DESIGNATION BY CHIEF EXECUTIVE OFFICER.—In order for the allotment of a State under a categorical grant program to be transferred to the State government account, the designation shall be—

"(A) irrevocable,

"(B) made in writing, in such form and manner as the Secretary may prescribe, by the chief executive officer of that State, and

"(C) received by the Secretary, and by the head of the department or agency charged with administration of the program—

"(i) before September 1, 1980, for the entitlement period beginning on October 1, 1980, and

"(ii) before May 15 of each year thereafter for any entitlement period beginning in such year.

For entitlement periods beginning after September 30, 1981, the chief executive officer of a State shall submit a tentative designation under paragraph (3) before February 1 of the year in which the entitlement period begins. If the amount of any allotment designated by the chief executive officer of a State for an entitlement period is different from the amount of the allotment contemplated at the time of the designation because of differences in amounts later appropriated or otherwise, appropriate adjustments in designations shall be made, in accordance with procedures prescribed by the Secretary, before September 15 of the year in which the entitlement period begins.

"(5) MULTISTATE PROJECTS.—Whenever the Secretary determines that a single project under a categorical grant program is being carried out in more than one State, then—

"(A) in order for a designation of that program to be given effect, it must be made by the chief executive officers of a majority of the States in which the project is being carried out, and

"(B) the designation shall be treated as having been made by the chief executive officer of each such State if it is made by the chief executive officers of a majority of the States in which the project is being carried out.

For purposes of the preceding sentence, closely related and coordinated projects which are being carried out in more than one State shall be treated as a single project.

"(d) TRANSFER OF ALLOTMENTS TO STATE GOVERNMENT ACCOUNT.—Whenever the chief executive officer of a State designates a categorical grant program under subsection (c)(4), the Secretary shall transfer the amount of that State's allotment for the fiscal year under that program from the appropriation for that program for the fiscal year to the

State government account established under section 105(a)(3). The amounts required to be transferred to the Trust Fund under this subsection shall be transferred at least quarterly from the account to which the appropriation is credited to the State government account on the basis of estimates made by the Secretary. Proper adjustment shall be made in the amounts subsequently transferred to the extent prior estimates were in excess of or less than the amounts required to be transferred.

"(e) APPLICATION WITH CERTAIN REALLOTMENT PROVISIONS.—Notwithstanding any other provision of law to the contrary now or hereafter enacted (except to the extent that such provision explicitly overrides this subsection), if the chief executive officer of a State designates a categorical grant program under this section as a program from which that State's allotment for the fiscal year is to be transferred to the State government account established under section 105(a)(3), then such transfer shall be treated, for purposes of any provisions of law providing for the reallotment of amounts not paid under the program to a State government, as if it constituted a payment to that State under the program.".

Senator BRADLEY. The committee will come to order.

This is the second hearing of the Subcommittee on Revenue Sharing, Intergovernmental Revenue Impact, and Other Economic Problems, the second hearing on the reauthorization of the 1972 Revenue Sharing Act.

Today we have a long list of witnesses who will bring the committee their views of this important program and its role in the fiscal picture of the country and of the States and localities of America.

A number of things have occurred since the last hearing—things that relate to the budget, to State revenue sharing, to targeted fiscal assistance, to a wide variety of issues that affect the whole fiscal picture and intergovernmental relationships.

This morning I am pleased to have before the subcommittee a colleague, Senator James Exon from Nebraska, who will offer us his views on general revenue sharing. Senator Exon, welcome to the committee. As a former Governor and as someone who has thought about these problems a great deal, I am sure you can bring an expertise and wisdom to it. We welcome you to the committee.

STATEMENT OF HON. J. JAMES EXON, A U.S. SENATOR FROM THE STATE OF NEBRASKA

Senator EXON. Mr. Chairman, thank you very much. I am pleased to be here this morning to give you some views and to support S. 2678, which is a bill that I have introduced in the Senate.

I am pleased to testify on the subject of general revenue sharing and specifically, Mr. Chairman, about S. 2678. But I am not pleased to be the bearer of some rather bad tidings this morning with regard to the future of general revenue sharing.

I am a member of the Senate House conference committee on the first concurrent budget resolution. As a Senate conferee and as a supporter of the Kassebaum-Bradley amendment in the Senate, and as a spokesman on behalf of continuing State revenue sharing in the budget conference, I regret that I must report to you the fact that there is virtually no chance that State revenue sharing will be funded in the conference report on the first concurrent budget resolution.

The bottom line for 1981 is a balanced budget, of course. The conferees have been simply unable to fit all of the priority spending requests within the available revenue, even though there has been substantial support in the House and an impressive vote in the Senate on behalf of continuing State revenue sharing.

The conference committee will recommend, however, a continuation of local revenue sharing basically at its current levels.

If the current Budget Committee conference kills the State revenue sharing plan as it has tentatively decided to do, it is ironic, but perhaps fitting, since the Budget Committees of the Congress were established to control priorities in spending.

(I emphasize the word "tentatively," Mr. Chairman, because we are having great, great difficulty over there. In fact, last evening it even got so tough it was indicated that the Conference might break up and report back to the respective houses that we cannot agree.

We are going at it again this morning and attempt to hammer out some kind of a compromise.)

The reason spending got out of control in Congress was the fact that Federal categorical grant-in-aid programs were not phased out—and I emphasize were not phased out—when Federal revenue sharing was inaugurated. It was never the intent, I submit, for Congress to fund both revenue sharing without scaling back on categorical grant programs.

The revenue sharing program was established to allow State and local governments to set more of their own priorities and get away from the rigidity and redtape of the many categorical programs.

The Congress, however, continued through its authorization and appropriations committees to fund both types of grant in aid. Then, rather than cutting back on one approach or the other, Congress established budget committees to set an overall spending ceiling.

These committees are now doing their job. They are forcing the Congress to make the choice between categorical grants and States' share of general revenue. If either State revenue sharing or certain categorical grants must come to an end, and if the authorizing and appropriations committees will not realistically give up funding the categorical programs through which they have special relationshipments with certain constituencies, then State revenue sharing as we have known it, must be deleted from the budget.

But I come here today, Mr. Chairman, with a bill which I believe is one of the last hopes to preserve the very worthy State revenue sharing program. The bill I am offering is founded on the realization that the authorizing and appropriations committees of the Congress will not, based upon history of the past several years, easily consolidate, terminate or otherwise end categorical grant-in-aid programs.

If the committees of the Congress were willing to do this, the saving could be used to continue State revenue sharing. Knowing that this is not going to happen, however, my bill approaches the question of consolidation, termination, and budget savings by shifting the focus of categorical grant funding from Washington to the 50 States.

My bill would allow each State through its Governor to consolidate, terminate, package or otherwise rearrange categorical grants to fit the needs of the State's own constituents. After all, States participate in categorical grant-in-aid programs on a voluntary basis. They are not compelled by law to apply for their share of the funds, and the States often have primarily or at least shared responsibility under the Constitution for the governmental functions addressed by the categorical grant program.

The bill I am offering is therefore in the best traditions of the federal system of government, with its divisions of powers between the Central Government and the individual States.

The way S. 2678 would work is simply this. When an amount of categorical grant funds is set aside for State government by a particular formula to address a certain need or population, the State would have the option of rejecting the grant entirely—an option, of course, which it already has now—applying for the grant under the conditions set forth by law and regulations—another option that it currently has—or choosing a new option which my bill addresses, and that is notifying the funding agency that the State will not apply for its share of the funds but that the funds should be transferred from the funding agency directly into the revenue sharing trust fund and credited to that State's account on a dollar-for-dollar basis.

Let me give you an example of how S. 2678 would operate. When I was Governor of Nebraska, we participated in many Federal programs that we felt were well-intentioned; but, although the Congress was well-meaning, the redtape, the rules and regulations and fighting the bureaucracy simply weren't worth it.

For example, the State of Nebraska passed a comprehensive law, and State tax funds were increased by many millions of dollars, in order to provide appropriate education for the handicapped. A few years later, the Congress passed the "Education for the Handicapped Act," which was similar in both philosophical approach and intent to the Nebraska law that we had already passed and had functioning.

When the State of Nebraska applied for Federal funds provided under the Handicapped Education Act, however, it found that the amount of the funding was very small in comparison to what the State of Nebraska was already providing, but that the Federal funds had a myriad of petty and impractical rules and regulations which were attached if we wanted to use those funds.

The State of Nebraska has seriously considered dropping out of the Federal program in this area and giving up the Federal money simply because of the problems and the needless expense associated with accepting the Federal categorical funds for the education of the handicapped.

Under my bill, the State of Nebraska would have had the option to consolidate all of the different Federal categorical grants for education of the handicapped, notify the new Federal Department of Education it will not be applying for the funds in the categorical program, and have those funds directed back, if you will, to the State of Nebraska through the revenue sharing trust fund.

I am sure that all of those who have been Governors or State legislators or other State officials can recount other examples in many areas where they could have utilized Federal money to much greater advantage had they been allowed to exchange the rigid categorical grant moneys for the more flexibile revenue sharing approach.

The Exon alternative which I am advocating here this morning does not incur any additional spending. In fact, by funding the revenue sharing trust fund through transfers from the categorical grant program and not funding the revenue sharing trust fund directly by congressional appropriation, there will be significant savings.

Furthermore, the bill I am proposing avoids the difficult question of a precise and just allocation formula for State revenue sharing money. The amount of the State revenue sharing that each State would receive would be directly dependent upon the amount of categorical programs it voluntarily relinquishes.

Mr. Chairman, I think you can see why there are many advantages to the bill that I am suggesting. It saves money; it potentially allows for a more efficient use of Federal moneys at the State level;

it provides an answer to the question of categorical grants versus State revenue sharing without forçing difficult and complicated legislation through the committees of the Congress—which have special relationships to certain clientele and groups; and the noble objective set forth in the original revenue sharing act is preserved for the States even in view of the action to eliminate revenue sharing in the budget we are now discussing.

It allows us to continue the idea of letting the States make the best use of the dollars that they receive in the form of revenue sharing from Washington.

I would not be honest with this subcommittee, however, if I did not discuss with you some of the potential objections which would be raised against S. 2678. One objection that will almost certainly be raised is that Governors, acting on behalf of their States will transfer large amounts of categorical grant funds into the revenue sharing trust fund, will use revenue sharing money for, say, tax relief, and the needs which would be addressed through the categorical program will go unmet. I do not believe this is a likely prospect. Federal categorical programs have been operating in many years in almost all of the States and have built up important constituencies which desire to see a continuation of the programs as intended by the Congress.

The more likely result of S. 2678 is that constituent groups in the States would work cooperatively with State officials to tailor programs more to their own needs. Furthermore, the very existence of the additional option provided under this bill will afford State officials and constituent groups important leverage over other attempts by the Federal bureaucracy to make programs conform to their own preconceived notion regardless of the intent of the Congress.

I do not see, therefore, any wholesale shifting of money away from the priorities established over the years by the Congress to meet the country's real needs, but rather I see this bill as a weapon to aid State officials and their constituencies in addressing the same problems the Congress has identified.

The objection also may be raised that S. 2678 is a good idea but it is not administratively possible. I reject this notion from the outset. After my experience as Governor of a State, I am sure that the Governors know how to make this work.

Would Governors willingly give up categorical grants in advance of knowing their final congressional appropriation in exchange for revenue sharing? It is a good question. My experience has been that indeed they would. The differing budget cycles of the Federal and State Governments certainly are going to be a problem in some cases, but I think that this is an objection that certainly should not be given other than its normal due consideration.

Before drawing my testimony to a close, Mr. Chairman, I want to say that I am very pleased that Senator Dole, who has come into the room now along with several other members, has introduced an approach to revenue sharing that is very similar to my bill. There are some differences between the Exon and Dole bill, and I would like to address some of these differences.

The basic differences in the Exon and Dole bills are, first, that the Dole bill limits the amount of categorical grant money which could be transferred into State revenue-sharing. The limitation is one-half of the amount set aside for local governments in the same State, therefore maintaining the same two-thirds/one-third split which exists under the current revenue-sharing law.

Second, the Dole bill limits the participating categorical grant programs more restrictively than does the Exon bill. Whereas neither bill applies to categorical grants which are actually payments to individuals, nor to programs which are essentially discretionary in nature and not intended to operate in all States, the Dole bill further limits participation to certain functional areas of the budget. If I understand the Dole bill correctly, and I may not, categorical grants in veterans' functions and highway trust funds and the transportation function, along with certain other functions and programs are off limits.

My response to these differences is this. While it may be appropriate to set dollar limitation on transfers of a program limitation by specifying eligible programs, I would not endorse Senator Dole's approach completely in this area. First, by limiting the amount of transfers by a dollar limitation, the savings which can be achieved through the use of flexible revenue sharing funding rather than categorical funds is also limited. People knowledgeable in the subject of intergovernmental relations assert that general revenue sharing is 10 or even 20 percent more efficient than categorical funding. Limiting State participation limits the savings and efficiencies which can be achieved by the States which desire to participate in this new concept.

When Congress is almost surely going to end direct funding of State revenue sharing, the States should be allowed to maximize categorical grant transfers in order to compensate for this funding reduction.

Furthermore, while the Congress may wish to exempt certain categorical programs from S. 2678, I would not necessarily recommend the exemptions provided in the other bill. As a former Governor, I am aware of the categorical programs in the veterans' function which logically should be subject to State consolidation efforts.

In addition, I am not sure that the rationale behind exempting the Highway Trust Fund while not exempting some of the other transportation grants, as in the area of mass transportation, has been as well thought out as it should be.

Mr. Chairman, let me express my appreciation to you and to the Finance Committee for this opportunity to testify here this morning. I hope your subcommittee and the full Finance Committee wil seriously consider this new approach to a very old problem.

I do not come before you to tell you that S. 2678 is a perfect bill. I will be happy to receive constructive suggestions as to how it might be changed or improved in order to make it more workable.

Thank you very much, Mr. Chairman. If I can answer any questions, I will be happy to try and do so.

Senator BRADLEY. Thank you very much, Senator Exon, for your testimony and your creative suggestion on this problem.

As a member of the Budget Committee and as a former Governor, could you tell us how the Budget Committee would be able to determine what cuts by function were going to be made by the various Governors around the country.

Senator EXON. Mr. Chairman, the Budget Committee, of course, would not do that because, as you know, the Budget Committee is not a specific authorization committee. The idea of the Budget Committee is to set overall spending limits.

With regard to this categorical grant program, once again, the bill simply says that whatever money is appropriated through the processes of the Federal Government, through the authorizing committee, through the limitations of overall spending by the Budget Committee, and the choices that are made by votes in the House and Senate, whatever comes out that goes into categorical grants, the State simply would have an option of going in and taking all or any part of that money and simply saying we aren't going to apply for that particular grant.

When that happened, the bureaucrats in Washington would be required to simply transfer that money into the State general-revenue-sharing fund and the States would have the option of doing with that as they will.

I would just emphasize that under my bill, under the extreme, the Governor of a State could say, We don't want any of the categorical grants as funded by the Congress to be funded in that manner. We aren't going to apply for any of them. This, in essence, would transfer all of them into this special State revenue-sharing fund and they could spend it the way they wanted.

I think a legitimate objection to this plan under that kind of a scenario would be that it might be that we in the Congress feel that we should have certain such and such money for such and such a program. Let's take the handicapped programs. Let's take the mentally handicapped people. We might think it is critically important. It would be true under the Exon plan that the Governor of any State could thwart, if he wanted to, the intention of that particular funding in that particular area.

The other side of that is that the idea, as I understood it, when general revenue sharing was created was basically to get away from the Federal Government telling the States how to use the revenue that had been cited to be shared. As I pointed out in the opening part of my statement, it was clear that it was intended on an ongoing basis to phase out both categorical grants and make the States the master of what they feel are their critical responsibilities and obligations to their constituencies out there rather than in Washington.

Senator BRADLEY. The Federal revenue-sharing program has been at about $6.9 billion, and total Federal grants to State and local government are close to $85 billion. Under your proposal could a State in effect, or could all the States chose to receive, the $85 billion in a revenue-sharing program?

Senator EXON. Mr. Chairman, that is correct, subject to the limitations I previously discussed.

Senator BRADLEY. Do you feel that a Governor can make those decisions? My impression is that sometimes Governors—in Nebraska that was never the case—but in some States the Governors don't always get their way with legislatures. I was curious whether they might disagree with the categoricals that you might want to cut.

How would that be resolved?

Senator EXON. I am very appreciative of the fact that the chairman made an exception. Actually, the way it would work, Mr. Chairman, is that in Nebraska and in all of the other States, you have to have an appropriations process. I really think that the way this should be handled is that if the Governor of Nebraska feels that a particular categorical program is not worthwhile or not helpful to his State, he would exercise the options suggested in the Exon bill.

Then that money would go into the trust fund, and I think that that then becomes a function of the State treasury, and it could not be spent for a particular program without being appropriated by the State legislature. So that gets that legislative body involved.

Senator BRADLEY. Thank you very much.

Senator Dole, I am sorry, I know you had an opening statement to make.

Senator DOLE. I have no questions. I just wanted to say to the Governor, or Senator, whichever title you prefer, that I appreciate your comments concerning our proposal. I think it is an indication that probably neither one is perfect, but maybe there are enough of us who have pretty much the same idea that we might be able to forge some, not compromise, but just something that will work.

I really appreciate your testimony and hope we can work with you on putting together a package of some kind that will pass the Congress and meet the needs of the State, and also the problems of the budget.

Senator EXON. I thank you very much, Senator Dole. I certainly do not claim that my bill is perfect, and it might be that we could well get together. Obviously, as I said, both of these measures are intended to do the same thing.

Senator BRADLEY. Senator Danforth.

Senator DANFORTH. I think that there are certain similarities between this issue and another one that Senator Exon and I were involved in a few weeks ago on the floor of the Senate, namely, the institutionalized persons bill. Obviously there are differences of opinion in the Senate on the merits or—demerits—of that bill and the merits of revenue sharing.

It seems to me that the fundamental question, the underlying question is, What is the role of the Federal Government and State and local governments? Where are decisions supposed to be made in this country, and to what extent do we have a system, preserve a system or recreate a system in which decisions can be made somewhere other than in Washington?

It is interesting to me that a former Governor—for two terms is that right?

Senator EXON. That is right.

Senator DANFORTH [continuing]. That the former Governor of Nebraska sees the issues so clearly and has spent so much time and energy addressing himself to the question.

I don't have any final views of the details of your bill, but I think that the questions you raise are exactly the right ones and really are—and I wonder if you would agree—the same sorts of questions that were raised a couple of weeks ago.

Senator EXON. I would agree with you, Senator Danforth, that what will really back you here is States rights and cooperation that

I think is very necessary between the Federal Government and State governments. I think that while the categorical grant programs have done a tremendous amount of good in lots of areas, I think once again it sets up, and practical experience would show, it sets up controversies between the Federal and State governments.

Oftentimes, the best intentions of the Members of the House and Senate are thwarted; but when you get the Federal bureaucracy with a "we know it all" attitude trying to run a program, a good program that was well thought out and sometimes well funded, when the Federal bureaucracy comes between the appropriating authorities in the Federal Government and authorities that have to carry out those responsibilities on the local level, we have seen time and time again we have not made efficient use of the taxpayer's dollar.

I think a move like this would establish a new era of cooperation between the Federal Government and the States. For example, let's say that the Governor of Nebraska wanted to do away with some kind of a program that I as a Senator who voted for him might feel very strongly about.

I would think that in a case like that, the Governor of Nebraska and both U.S. Senators and the Members of the House of Representatives would be consulting together. We could probably at least have some input as to what changes are going to be made in the program. The overall hammer, of course, that we have here in Washington is that should the State, should the Governor, should the legislature not handle this money as we had basically intended, there is always the chance that we could hammer it down, down, down and eliminate it altogether.

So I do think that as the Federal appropriating authority, we would have some indirect control, which is probably all we need in this particular area.

Senator BRADLEY. Senator Durenberger.

Senator DURENBERGER. Thank you, Mr. Chairman.

Jim, you have lived in your Governorship with the implementation of a specific revenue-sharing program. Just by way of background from where my question or questions would come from, I was very involved in the mid- to late sixties in the beginning of the program.

So I come from a somewhat different perspective on revenue sharing, a perspective that says the concept of revenue sharing is not just another grant-in-aid program to State and local government.

But it is a reflection of the concern that State and local governments have about an unindexed income tax system in this country which is draining financial resources into the Federal Treasury. This makes it very, very difficult for local government in particular, which is dependent not on an income tax in most States but on property taxes, to meet local needs at a local level through local resources.

So I come at this whole thing with a philosophy that says a portion of that bracket creep, a portion of that windfall inflation tax that occurs every year on people's income ought to go back automatically to State and local government without any strings attached.

Now, that is a clear philosophical difference with those who feel that this is an income redistribution program or it is a substitute for categorical grants or whatever. But I guess when I go back to my State and hear criticisms of revenue sharing, the criticism is only this: Why don't we keep the money in the first place? Why do we have to send it to Washington and then have it come back to us?

So I have been somewhat frustrated on this subcommittee by the lack of proposals from the administration, the lack of proposals from anybody until all of a sudden now in the last couple of weeks we have your bill and we have Bob Dole's bill and we even, I think, are going to have something from the administration today for the first time since they promised it to us way back in February.

So I dumped in a bill that I don't necessarily believe in 100 percent which seems to me very practical. That is, just reinstitute the program on the same basis that has been in existence in the previous 8 years for the next 4 years.

My first question to you, then, I guess is if we run out of time in this process, if we can't do things the right way as you would perceive it or as Bob Dole would perceive it or as Bill Bradley would perceive it or as the administration would perceive it, do you find some serious failures in the existing system as a former Governor that would make it difficult for you to support reinstitution of revenue sharing on the basis that presently exists?

Senator EXON. Yes, David, I would certainly feel that we have to make some changes. Let me explain it to you. When Federal revenue sharing came about, all at once as Governor of the State of Nebraska, I found myself in the wonderful position of receiving a bonanza from Washington without strings attached.

Now, the first shock of that was really something when you have worked in the State government for a long time and you recognize that anything that comes from Washington has all kinds of strings attached to it.

So it was one of those things that hit us. As I understand it—and some of you were here then—but as I understand it, basically when the Nixon administration originally proposed revenue sharing, it was to do essentially what the Exon and Dole bills are attempting to do, basically to eliminate the categorical grant program and allow the flexibility to spend that money in the States.

What happened somewhere along the way to the passage of the bill was that people here would not give up the categorical grants to take care of their constituencies back home. So a happy compromise was reached that will continue the grant-in-aid programs and will set up more money over here.

During discussions of this inside the Budget Committee, that background was probably what aided in the creation of a Budget Committee to try to set some overall spending limits and goals.

So I guess basically we are agreeing. I think that I buy the basic philosophy that it would be better not to take this money away from people at home. I would only caution you somewhat in that regard, however.

I do not know what overall contribution to the Federal Treasury Minnesota makes, but I do know that in some of the States that are not wealthy, they do considerably better on the sharing of revenue to carry on their activities at the State level than they would if we left that money at home.

But that doesn't mean that that still isn't a good philosophy. What we have done, I think, is come up with a combination of basically all of the worst programs that have fed the everincreasing demands for budget increases at the Federal level that all of us are wrestling with at this time.

This would be, hopefully, a step back to exercising some control at this level and make the local officials, the Governor and the State legislatures and the local officials share in the responsibility of how this money can be best used.For example, when we got our first year's revenue sharing in Nebraska, I recommended and the legislature went along with appropriating about half of it for State aid to education, I think a very worthy program that we needed in Nebraska.

Now, you can have all kinds of arguments as to whether or not that is a proper use of Federal revenue-sharing funds, but in this case the Governor of Nebraska and the State legislature, and I think correctly so, felt that it was much better to put this money into a program like this than go out and start some brandnew initiatives where you start brandnew spending programs that are not designed to hold down taxation at the local level.

Senator BRADLEY. Thank you very much, Senator Exon, for your testimony today.

Senator EXON. Thank you, Mr. Chairman. Thank you, members of the committee.

Senator BRADLEY. Our next witness will be the Honorable G. William Miller, Secretary of the Treasury.

Senator DOLE. Mr. Chairman, I wonder if I might just take a minute to insert my statement. I am not going to read it, but I would just say that I certainly appreciate Senator Bradley having these hearings. I think it is an indication of the widespread, bipartisan interest in the area under discussion.

I am pleased that Secretary Miller is here. I am familiar with Senator Durenberger's bill which would simply renew the revenue-sharing program with full funding for 5 years, and I am also familiar with Senator Kassebaum's efforts, along with Senator Bradley, to at least salvage some part of revenue sharing. I understand the Budget Committee, or at least the budget conference, has not agreed to that effort in the Senate.

I appreciate very much the testimony of Senator Exon. He did discuss his legislation and the legislation introduced by myself, Senator Danforth and Senator Baker and others. So I believe that we are in pursuit of some solution to a problem.

I will ask that my entire statement be made a part of the record, along with some talking points on our particular proposal, which gives the strength and also the weaknesses as we see them in looking at our proposal. As I indicated to Senator Exon, perhaps we can all get together on and forge some remedy that would be helpful to the States, and at the same time come within the budget restraints.

[The prepared statement of Senator Dole follows:]

Statement of Senator Dole

Mr. Chairman, I want to thank you for promptly scheduling hearings on the several proposals that have been introduced to renew the federal general revenue sharing program. We ought to decide as soon as possible what form the renewal legislation will take. Timely action on this question will make it easier for state and local governments to plan their own fiscal affairs for the coming year.

I am particularly pleased that Secretary Miller has agreed to appear before the subcommittee to explain the details of the administration proposal to renew revenue sharing. In general, the administration would eliminate the states' one third share of the revenue sharing funds and would make adjustments in the allocation formula by which funds are distributed to various communities within each state. Certainly, any proposed changes in a program that has been as successful as revenue sharing ought to be scrutinized very carefully before they are adopted.

However, there are other proposals before us that merit at least as much consideration as the administration bill. For example, Senator Durenberger has introduced legislation that would simply renew the revenue sharing program at full funding for five years. The question is, for those of us who would like to see the states' share preserved, how can that money be provided without increasing spending in the budget? That is, how can we maintain control over the level of federal funds flowing to the states? This question was recently debated in the senate's consideration of the First Concurrent Budget Resolution and the matter is now being worked out in conference. The Senate adopted the Kassebaum amendment which was cosponsored by our distinguished chairman, Senator Bradley. That amendment leaves room in the budget for approximately 40 percent funding of the states' share of revenue sharing. The funding for that 40 percent share is provided by making offsetting reductions in certain categorical grant programs that go to the states.

The states and the governors have called loudly and clearly for continuation of the states' portion of revenue sharing. They also agree on the need for budgetary restraint. Many of the governors have indicated that they would prefer reductions in categorical grant funding rather than reductions in revenue sharing. The problem has been that the governors and the states have been unable to reach a consensus on the categorical grant programs they would prefer to see reduced. It would seem to this Senator that the most appropriate solution would be to allow each state to choose its own set of reductions in categorical grant funding. States could then take their share of revenue sharing funds in lieu of those categorical grant reductions.

Mr. Chairman, the approach I have just described is contained in S. 2681, my bill to renew the general revenue sharing program. Under this bill each state would have to choose and commit itself to accepting certain reductions in categorical grant aid. To the extent those reductions are made, the state could take revenue sharing funds in lieu of the categorical grant funding. However, no state could receive more in revenue sharing funds than it presently receives under the existing revenue sharing program. I believe that this proposal will preserve the states' share without violating budget restraint. It will also restore the original concept of revenue sharing, which was not to increase the total level of federal aid to the states, but to make a form of that aid more flexibile and adaptable to the varying needs of states and localities. Furthermore, under my proposal we would get some idea of which categorical aid programs are most valuable to the states. In effect, the states will be voting on various categorical programs when they make their elections of programs to be cut.

In a federal system of government each level of governmental authority ought to make those decisions for which it is best suited. If my proposal is adopted state and local governments will have more flexibility in meeting the day-to-day needs of our citizens. I think that that is a desirable goal, and I hope the witnesses will take time to address themselves to the alternative proposals that are before the Finance Committee. I would just like to add that S. 2681 is cosponsored by the distinguished minority leader, Senator Baker. The other cosponsors are Senator Percy, Senator McClure, Senator Domenici, Senator Danforth, and Senator Armstrong.

With those remarks I would just like to welcome today's witnesses. I look forward to hearing your testimony.

Talking Points—Dole Revenue-Sharing Proposal, S. 2681

The Dole bill has two outstanding virtues. It allows for continuation of the states' share of revenue sharing and it does so in a way that guarantees budgetary restraint. This is because each state must agree to equivalent reductions in other federal funds in order to receive revenue sharing funds.

While the Dole proposal does not increase total federal funds flowing to the states, it should be welcomed by the states. Representatives of the Governors' Association have stated that they would prefer cuts in categorical grant programs to cuts in revenue sharing. S. 2681 provides a means by which each state can choose its own categorical grant cuts, reflecting its own priorities.

Revenue sharing funds are of vital importance to both state and local governments. This is because they offer states and localities the most flexibility in how they are used. At a time when severe economic problems threaten to undermine government's ability to provide basic services, it makes no sense to deny state and local governments the funds that would be most helpful in managing the economic crisis.

Cutting the states' share does not just hurt the states. It is estimated that, on the average, about 40 percent of the states' share is passed through to local governments. Thus this is an issue for cities and towns as well as states.

The opponents of the states' share argue that "the Federal government has no revenues to share" and "if the States want us to balance the budget, we'll do it at their expense." The Dole proposal cuts through these arguments by casting the states' share in the form of a substitute for other federal funding: the states' share would not be financed through a deficit.

When the Federal government is absorbing a record share of our national wealth through taxes (from taxflation, the Windfall Profits Tax, and other proposals) it should be obliged to return some of those revenues to state and local governments whose revenue base is undermined by excessive federal taxation.

The bill introduced by Senator Exon, S. 2678, is similar to the Dole proposal. However, the Exon bill does not expressly limit the states to their allocated share under the existing revenue sharing program. Nor does the Exon bill provide for multistate projects and adjustments in appropriations, both of which are covered in the Dole bill.

The Dole proposal carries forward the original goal of revenue sharing, which was to give state and local governments more direct authority over revenues collected by the Federal government but spent at the state and local level.

As the national government has grown at the expense of state and local governments, the authority of those governments has been undermined. The Dole proposal would help bring a better distribution of power and responsibility among these three levels of government, as was intended by the original revenue sharing proposal.

Under the Dole bill a wide range of programs would be eligible for the states election for a funding reduction. Accordingly, there is every reason to believe that no one program would be devastated, since the actual reductions may be expected to cut across that range.

At the same time, the bill can provide a useful experiment in evaluating categorical grant programs. We will see which programs are most important to the states, when they elect their cuts.

The range of programs eligible for reduction is also sensibly limited. For example, income security programs and Medicaid are excluded, as is the highway trust fund and veterans' benefits. Generally, the programs excluded are either appropriately a primary concern of the national government, or they involve payments to individuals that may be regarded as entitlements.

The following points counter possible arguments against the Dole revenue sharing bill:

The Dole proposal would guarantee a genuine trade-off of categorical grant funds for revenue sharing funds. Categorical funds transferred to a state's revenue sharing account would be deemed paid out of monies allocated to the categorical grant programs that are cut. This way, the money a state foregoes under a categorical program can not be reallocated to other states under that program.

While states cannot be certain how much grant funding will be available in a given year, they can make an informed judgment based on historical experience. Obviously, any new grant programs would have to be worked into the process.

An element of uncertainty still remains, but the bill provides that the states' election of categorical reductions would be modified as necessary in light of changes in authorization or appropriations with respect to the categorical programs. However, there is no more uncertainty than presently exists under categorical programs—the problem lies with the unstructured array of grant programs, and in possible delays in authorizations and appropriations with respect to those programs. The Dole proposal at least gives the states more flexibility in planning the use of such funds as are made available by Congress, and enables them to have reasonable certainty that a certain amount of revenue sharing funds will be made available.

Along these lines, legislation (S. 878) is pending in the Governmental Operations Committee that would simplify and permit consolidation of Federal assistance programs to state and local governments. This approach is consistent with the Dole revenue sharing bill and with the trend towards block grant funding. The trend is, and should be, toward simplification and more flexibility for grant recipients.

No doubt the agencies that administer the categorical programs will object to the Dole proposal, because it limits their direct authority over some of the funds appropriated by Congress. No doubt some additional paperwork would be involved. However, some paperwork would also be cut, as states move away from more strictly tied categorical programs and toward the freer revenue sharing payments. Besides, all legislation requires administrative adjustment and working in—the question is whether the net result is an improvement. The Dole proposal would be an improvement, and could point the way towards a simpler, more streamlined approach to Federal aid for state and local governments. The Advisory Commission on Intergovernmental Relations has for a long time advocated such a simplification (Treasury Secretary Miller is a member of the Commission).

Senator BRADLEY. Thank you, Senator Dole.

Welcome to the subcommittee, Mr. Secretary. Please proceed.

STATEMENT OF HON. G. WILLIAM MILLER, SECRETARY OF THE TREASURY

Secretary MILLER. Mr. Chairman, I have submitted to you a prepared statement which I would suggest, with your permission, be included in the record.

Senator BRADLEY. Without objection, so ordered.

Secretary MILLER. Then I would make a few comments to summarize that statement so that it would be a basis for our further discussion.

I am pleased to have this opportunity to discuss with you the program to extend and somewhat modify the program for revenue sharing with States and local governments. The President is committed to the principle of unrestricted fiscal assistance.

As you all know, the current program involves funding of $6.9 billion a year, of which one-third, or $2.3 billion, has gone to State governments, and two-thirds, or $4.6 billion, to local governments.

In the context of the current conditions—including the situation as to inflation, the outlook for Federal spending and budgets, the need to reduce Federal spending—we are proposing a reduction in revenue sharing through elimination of the State share.

There are some other basic proposals that we are making, and those are to extend the program with this change for 5 years, to continue to allocate payments to localities at the current level of $4.6 billion per year, to make some changes and improvements in the targeting among local governments to—we believe—achieve greater equity, and, on a temporary basis, to supplement the funding for local governments by $500 million a year in two years, fiscal year 1981 and 1982, to aid in the transition from the period of revenue sharing payments to State governments to the period when there would be none.

The revenue sharing program originally came into being when there was a fiscal mismatch between the ability of governments to raise money and their service responsibilities. The capacity of the Federal Government in the early seventies was substantial in increasing its revenues while the public service burdens on States and local governments were substantial.

Today that situation has changed somewhat. The State governments have improved their condition. Some of the demographic features that led to high burdens on State and local governments have changed. With the aging population and many requirements on the Federal Government for services to the Nation at large, there is a somewhat different situation.

This leads us to believe that it would be appropriate at this time of fiscal austerity to discontinue the payments to State governments and to concentrate the effort on the local governments where a serious fiscal mismatch continues.

The heart of revenue sharing, of course, is the distribution formula, how the moneys get to the localities. We are suggesting some changes, rather modest in overall effect. We are proposing to keep the essential logic of the allocation system but to try to make some improvements that target the funds better to the jurisdictions that have the lowest incomes and the highest service burdens, and to achieve a more equal treatment of like types of communities.

In particular, we are proposing that the allocation among States, the interstate distribution, remain unchanged. As to the allocation inside a State, the intrastate allocation, we are proposing to eliminate the two-tier allocation, that is, the process of first allocating to counties and then to local government areas inside the counties.

The purpose of this detiering proposal is to achieve a situation where like local governments with similar populations, tax effort, and incomes are treated equally. The present system results in some distortion.

Another change we are proposing is to increase the maximum per capita revenue sharing payment to a particular local government from the present cap of 145 percent of the statewide average to 175 percent. Correspondingly, we are proposing to reduce the minimum payment from the present 20 percent to 10 percent.

The purpose here, again, is to try to allocate the limited funds to the areas that have the greatest tax burdens and the greatest needs.

Another constraint, based on the jurisdiction's general revenues, limits the amount of revenue sharing paid to any one local government to 50 percent of its total adjusted taxes and transfers. We are proposing to reduce that to 25 percent, so that revenue sharing would not become as large as one-third of local budgets, as it now is in many communities.

There is one other change, and that is to deal with communities that have substantially higher-than-average incomes. We are proposing that, for local governments where the per capita income is above 115 percent of the State average there be some gradual scaledown in the payment beyond that provided in the current formula, the scaledown being related to tax effort as a means to adjust the allocation to well-to-do communities, thereby preserving funds for those who are more needy.

Finally, there is a proposal to deal with the areas where local governments, in effect, are able to export a good deal of their taxes where they do not represent a burden on local citizens. The jurisdictions affected are tax enclaves where, because of special circumstances—vacation areas as one example, which are seasonal, cyclical areas—they can export their taxes. We would adjust the formula to try to reflect more normal tax efforts. This is done through adjusting when the amount of tax effort exceeds 250 percent of the average for the State. It would be a gradual scaledown.

The effect of these formula modifications would be to reallocate about 5 percent of the funds. So in terms of dollars, it is not enormous; but in terms of equities and benefits, we think it is important. It means that well-to-do jurisdictions would receive somewhat less. It means that lower income jurisdictions—some large cities, some small—would receive more, and small towns and poor rural areas would also receive somewhat more.

On the subject of compliance matters—the civil rights requirements, the public participation, the audit procedures—we are proposing to continue these. However, as to audit, we are proposing that, for any jurisdiction receiving over $25,000, the audits be at least once every 2 years for all of the years of the jurisdiction, rather than the present formula, which was phasing in the requirement by auditing 1 out of 3 years.

So in the future we propose to require an audit of all years and do so at least every other year.

In addition to the continuation of the $4.6 billion revenue sharing for local governments, we are proposing additional payments totaling $500 million per year for 2 years, which would also go to local governments. The purpose of this is to ease the burden of the loss of revenue sharing to State governments, which will result in reduced State aid to local governments.

It is our estimate, from a study of the likely effects in nine States of terminating revenue sharing to States, that State aid to local governments over time would probably be reduced by as much as $1.4 billion per year. Now, the amount of $500 million we are proposing is the way to cushion that loss. It is not unlike the $900 million that the Senate has proposed in the budget resolution, but we are proposing to target it directly to local areas rather than to the State.

This $500 million is proposed to be allocated among States in proportion to the degree of assistance which State governments are now giving to local governments. That particular method was selected as the best proxy for determining where losses of assistance to communities would take place in cutting out State revenue sharing.

So it is an effort to try to hit the areas that would be most affected. Once the decision is made as to allocation among States, the allocation inside a State, the intrastate allocation, would follow the regular formula. There would be no variation there.

The transition, as I mentioned, would be for 2 years.

Mr. Chairman, I think we all recognize that a vital and responsive Federal system should be a national priority. It is important, as we renew this program and look at its future, that there be a thorough review by the Congress and a discussion of the merits and possible adjustments.

We believe that the revenue sharing program we are proposing would address the fiscal problems of local governments in the 1980's, and would help build a firm financial foundation for government in America.

Thank you very much.

Senator BRADLEY. Mr. Secretary, thank you for your testimony.

We are clearly heading into a recession. In an effort to balance the budget, we already have made deep cuts in transportation, education, CETA jobs, and a lot of vital social programs, cuts that literally paralyze some States such as mine.

Do you think that it is appropriate at this precise time to cut out the State's share of revenue sharing as well, thereby aggravating the dislocations that local governments and State governments are going to have to face in the coming year?

Secretary MILLER. The discontinuance, Mr. Chairman, would be for fiscal year 1981. The way revenue sharing is handled, the reduction would not take effect until calendar year 1981. The final revenue sharing payments under the current program will be in the first quarter of fiscal year 1981, so the reduction that we are talking about for fiscal year 1981 for States would be $1.7 billion.

The answer to your question is that I do believe it is appropriate to make this reduction for several reasons. I think it is a national purpose that we bring Federal spending under control.

While that may be difficult and require some sacrifices and adjustment, I think that the total objective of regaining control of spending and avoiding the escalation, the geometric progression, that could lead us to higher and higher deficits and larger and larger claims of the Federal Government on the economic system, and a reduction correspondingly of the private sector activity in creating jobs is a national direction that we must pursue.

State governments have had, since the early seventies, improvement in their fiscal condition. In recent years there has been a surplus. It is true during a recession that surplus may evaporate.

Senator BRADLEY. Fifty percent of that surplus is in three States, and Standard and Poors say it is reasonable to keep a 5-percent surplus, particularly if your constitution mandates that you have a balanced budget.

Secretary MILLER. Some States have had more surplus than others, that is correct. Revenue sharing represents 1 percent of State revenues. In that sense, I think even the States that have not had as comfortable a financial position are in a position to adjust their expenses and their taxing to cover the loss.

It would be ideal if we could do all things for all people. I think in terms of national policy, we have to tighten our belts, and here is a place where I think we could do it.

As to local governments, the flexibility is not as great. They do not have as much control over the amount of services needed and over their taxing ability. The States have more flexibility, and the amount of money in relation to the scale of State expenditures makes it a manageable situation.

We do not propose, of course, to cut payments to local governments. We intend for 2 years to try to increase them and make up for some of the support they have had from State governments so that we can make this cut in State revenue and cause as little dislocation as possible.

Senator BRADLEY. How many States would you estimate would run deficits if you cut out the full State share—to run deficits or be forced to impose taxes?

Secretary MILLER. I am sure that I have a number of States in mind. I would have to get the number of States, Mr. Chairman. I know that this year State governments are expected to be in deficit by $8 billion. I believe that is the number. I don't know how many States that is. I can get that.

Senator BRADLEY. The list is almost 20 States.

Secretary MILLER. Is it? Yes.

Senator BRADLEY. If the administration is committed to this transitional assistance, why were you not more active in assuring that there was authority in the budget for transitional assistance?

Secretary MILLER. Our budget proposal includes it. The budget resolution in the House, of course, has not accepted our position. The Senate, through your particular efforts, has included tentatively $900 million, perhaps handling it in a little different way.

Our proposal of $500 million is something that might be a reasonable compromise between the House and the Senate positions.

Senator BRADLEY. But you feel that the Treasury has been active in trying to promote that interest on Capitol Hill?

Secretary MILLER. We have been trying to. We certainly have. I have testified very strongly for it in the House. Of course, in the Senate you have allocated money which would allow us to have room for this. So we feel that it is very much needed. There is no question that localities are going to be pinched very hard and we should try to ease the burden.

Senator BRADLEY. Senator Dole.

Senator DOLE. Secretary Miller, have you had an opportunity to look at some of the other proposals, Senator Durenberger's and also that of Senator Exon, who just testified? A number of the rest of us have proposals that would at least address some of the very problems you address to give the States an option by reducing categorical aid programs.

Are those proposals under study by Treasury?

Secretary MILLER. Senator Dole, they are. Let me say that as I understand Senator Durenberger's bill, it would extend revenue sharing as it is, or at least the amounts. You know our view on that. Since we must cut some $17 billion from Federal spending in fiscal year 1981, all things considered, eliminating payments to States is one area where we could make a cut.

On the bills that you and Senator Exon have introduced, I have become generally familiar with them. I would like to make a few comments about it and say that we do need to study it more. I think my offhand reaction from my study of it to this point is that I appreciate the concept. The implementation of it gives me considerable problems.

We look over the list of categorical grants and we see administrative problems in trying to have an optional system. We see a number of areas where a national purpose is served, and I am not sure we want to give up that national purpose on a helter skelter basis, on a hit or miss basis.

There are matters of environment, matters of conservation, matters of transportation. There could be a cherry picking result. If we are not careful, we could end up with the worst of all worlds, where States with certain kinds of needs pick this way and that way.

There also is the problem of timing because many of these programs are on different time schedules, so how you phase it in and avoid being whipsawed, I am not sure. I can appreciate what you are trying to get at. I am just not sure whether it could be administered very well.

Senator DOLE. Right. Well, that is one of the areas we are addressing. There is a bill, as I understand it, in the Government Operations Committee, S. 878, which would simplify consolidation of Federal assistance programs with State and local governments. This is consistent, I think, with the approach that some of us would take. That might help simplify the administration.

On the other hand, I don't see too much wrong with the Governors of various States determining which of the categorical aid programs are worthwhile, if that can be done. But I think we would appreciate, and I am certain it is probably in the works, some detailed analysis as you see it as far as administration.

It may be that changes can be made and we can reach some agreement. As I understand your statement, the administration proposes essentially three major changes. You eliminate the State's one-third share, you have a $500-million transitional fund for fiscal 1981 and 1982, and you make about a half-dozen changes in the allocation formula.

Secretary MILLER. The intrastate formula, yes.

Senator DOLE. Yes. So the $500 million transitional fund is not distributed according to the existing allocation to States but is based on State aid to local governments. Just to take a few States, for example, if the old formula were used, each State's allocation of shared revenues would rise by about 10.9 percent.

Instead, for example, New York was up 23 percent; California nearly 17; Wisconsin, 25; Indiana, 15; Kansas, 4; Missouri, 3; Delaware, 4. Is there any relationship between this formula and the financial difficulty of a State?

Secretary MILLER. Senator, our approach is to make the allocation based upon the financial needs of communities rather than the State, and the purpose of the allocation is to say where are local governments depending on State aid heavily, and allocate the $500 million where that is true, and therefore to make up what otherwise will be a loss.

Of course, we are not proposing to make up 100 percent of the loss in State assistance, but what would appear to be about maybe 35 or 38 percent of it. So that is the theory. It does not go to the capacity of a State government. Your point, I suppose, has some validity. A wealthy State adding assistance to local governments perhaps could find some other way to keep it going. It is hard for us to judge that.

So we just think that the best thing in a transition is to base it on making sure that at least a third or more of State aid likely to be lost could be made up. It is that simple, the best we can think of.

Senator DOLE. I have other questions. I will wait.

Secretary BRADLEY. Senator Danforth.

Senator DANFORTH. Mr. Secretary, let me ask you a question concerning the administration's theory, a broad question on the reason for allocation formulas. Why do we have such things as allocation formulas? What is the adminstration's theory behind them?

Secretary MILLER. The administration's theory is the continuation of a theory developed much earlier. I assume that the original founders of this concept would agree with what I am saying because I think the whole philosophy is basically the same. It is that revenue sharing would try to allocate Federal resources to where there was a fiscal mismatch, a disproportionate capacity to raise revenues in a State or a locality, and a higher degree of service responsibilities that need to be met.

That, I think, is behind it. That is the reason, I believe, that the formulas have developed. They have been very controversial.

Senator DANFORTH. Do you agree with that theory?

Secretary MILLER. I think the general philosophy is correct.

Senator DANFORTH. Is that the reason for the changes that have been proposed in the formulas?

Secretary MILLER. Yes.

Senator DANFORTH. That this is a matter which should be looked at from time to time, whether the formulas are adequate.

Secretary MILLER. I think there should be good continuity to this program and that it should not be whipsawed around. I think that, when it is reviewed every 4 or 5 years, we do need to examine the changes that have taken place in our system.

The reason we are making these changes is not to change the fundamental philosophy. It is to try to target a little better on the basis of experience, on the basis of a 1-year study by our Office of Revenue Sharing, to see where the shoe is pinching more and whether, in the one case, money is going to where it is needed, and in the other cases, whether money is going where it is just being put in a savings account because the local government doesn't need it.

Senator DANFORTH. If there is a limited amount of money for revenue sharing, it would stand to reason that Gary, Ind. should get consideration of a greater sort than, say, Palm Springs, Calif. Is that the concept?

Secretary MILLER. That would be my concept.

Senator DANFORTH. Mr. Secretary, I know the administration's position with respect to the States, but does something of the same problem exist with respect to States? Are there some States which are relatively well off and have a very bright economic future, and other States which are going to have increasingly hard times?

Secretary MILLER. I think that is generally true. Of course, we have a formula now that, I believe, takes that into account. As you know, the formula for interstate allocation was extremely difficult to hammer out and resulted in a best of Senate system or House system as a compromise.

Senator DANFORTH. That is the practicality of politics.

Secretary MILLER. Yes, that is right.

Senator DANFORTH. Everybody does his best, and generally the chairman of the Finance Committee does better than anybody else. [General laughter.]

Secretary MILLER. There are those who do well.

Senator DANFORTH. What is the theory, do you think, that should be applied if there is to be a State allocation formula?

Secretary MILLER. I believe that the present formula properly takes into account population, income levels, tax effort, the degree of urban concentration, and State income tax collections. These are not irrational. I suppose one could spread out the formula.

I think our view was that there was very little additional improvement we could make on that allocation system based on experience. It does seem to end up going in different directions.

The average per capita revenue sharing payment has been about $32 per person, and it varies from a high per State of $57, I think, to $24, so there is substantial variability.

Senator DANFORTH. Is the theory of the administration's position, again, the same with the States as it is with localities, namely, that there should be a greater consideration for those States which are hard-pressed economically, and, on the other hand, the States which are doing very well, which have a very strong tax base, which have sources of wealth that are perhaps not universally shared, should not come off as well in revenue sharing or other Federal reimbursements?

Secretary MILLER. Senator Danforth, in general, yes. I think our feeling has been that the formula that now exists, while perhaps not perfect, does that in an adequate way.

Senator DANFORTH. Mr. Secretary, I wonder if I could just be indulged in one other short point. Several months ago the Finance Committee asked the Treasury Department for a report on the likely effect of the decontrol of oil prices and increased severance tax and royalty incomes from decontrol on revenue sharing.

It was my understanding that Treasury was working on such a report, and I wonder if you have any idea when it will be available.

Secretary MILLER. I understand that within 2 weeks we will have that available.

Your point, if I may indulge for a second, I think the point that you have been targetting toward, is the question of whether there is a major change from severance taxes, either now or prospectively, that would change the wealth of States and change the need for formula. There may well be in the future.

I guess our view now is that, with the lag of data—because the formula uses figures that are about 3 years old because these are the most recent reliable data we can get—our study would indicate that in the next 5 years it is not likely that the increase in severance taxes in the States that have natural resources—oil, gas, coal, whatever—are going to create a significant distortion in the allocation.

There are two reasons. One, the increased tax collections will come in slowly. Two, these States will have higher per capita incomes, which will reduce their allocation.

Now, States that rely on these kinds of taxes, I believe, were getting 8.5 percent of their revenues from severance taxes when revenue sharing was last renewed 4 or 5 years ago. I think this ratio is now about 12 percent. So there has been that change from 8 percent of their revenues to 12 percent. Maybe in an individual State it is higher, but that is roughly what it is.

Given the data lags, increasing severance taxes will have some effect and would have to be weighed. Our view is that this is not a time when that would need to be done in order to avoid major distortions.

Senator BRADLEY. Senator Durenberger.

Senator DURENBERGER. Thank you.

Mr. Secretary, I think that what Senator Danforth is suggesting to you is that before we use the recession and the inflation and the balancing of the budget as a rationale for eliminating State revenue sharing, that we really need, particularly those of us who sat through the hearings and the markup and everything else on the windfall profits tax, we really need to know that what we are doing in eliminating State revenue sharing is the right thing to do.

The fiscal mismatch that you spoke to that relates particularly to local government, the mismatch between its responsibilities and its resources, is more than adequate justification for revenue sharing. But I think what some of us believe on this committee, as Senator Danforth spoke to very eloquently on the floor of the Senate, is that the major problem of the eighties in this fiscal mismatch area is going to be the mismatch between the States.

It seems to me it would be a very serious mistake for us to abandon either the concept or the actuality of State revenue sharing at this particular point in time when we have not adequately addressed the nature of the problem, the dimensions of the problem, the consequences of the problem. I, frankly, think it is coming on a lot faster than you think it is coming on.

When I read, even before the windfall profits tax was passed, of contests in Alaska to give away money, it is coming on one whale of a lot faster than 8.5 percent a year, 12 percent a year, or whatever you are saying. I think that is one strong argument.

A second question you make a point in, I think, the second page of your printed statement, that a lot of changes have taken place since 1972: It is no longer true that State, local, and particularly State revenue systems are inferior; they have made major strides in broadening and refining their tax systems.

I would suggest that perhaps you have information available to you that would indicate that one of the reasons that the States have made a lot of progress, particularly in State revenue sharing with local government, is the fact of State revenue sharing.

Would you comment on that?

Secretary MILLER. Undoubtedly, the State revenue sharing has in many instances resulted in additional assistance to local governments. No question. That is one of the reasons we have proposed the transition, so that if States are to continue that, they would have enough years to adjust their own tax base and programs to avoid disturbances to the local governments. That is the reason for our transition.

Senator DURENBERGER. Do you have studies available to you that would indicate the impact on State revenue sharing with local governments that has come about since 1972, and any kind of evidence that in part, at least, it is due to State revenue sharing?

Secretary MILLER. We have done some studies. One of the problems, of course, is that revenue sharing is fungible. While we require States to report how they use their revenue sharing, quite frankly, they can list almost anything. That merely means that the payments go into a common pot. The net effect is that revenue sharing is merely another source of revenue to the State.

So we have felt that the indications of use of the State share do not really reflect the fiscal impact. As a result of that, we had

Peat, Marwick, Mitchell do a study of nine States to see what would really be the impacts if you withdrew revenue sharing, and not what their reports are, because I think that is different.

This study led us to the conclusion that termination of the State share would result in about $1.4 billion less aid for localities than they now receive. We tried to get that allocated by category. This was based upon what happens if a State does not have the revenue: How would it adjust?

Most of the adjustment would appear to be accomplished by reduced expenditures rather than by increasing taxes. So that is the anlysis that has been done.

Senator DURENBERGER. On the other side of the argument, which is inflation, balancing the budget, reducing outlay, can you tell me what analysis the administration went through in coming to the conclusion that it would bind its outlay reduction at State revenue sharing rather than at inflation-causing programs like social security, medicare, railroad retirement, or other categorical grant programs that are heavily impacted by inflation, such as the food stamp program and a variety of other programs, that when you measure the dollars involved, are substantially greater than the dollars involved in State revenue sharing?

Secretary MILLER. In our effort to propose a balanced budget to the Congress, we looked at every possibility for reductions. Categorical grants have been reduced by something like $4.25 billion, the State share of revenue sharing by $1.7 billion in fiscal year 1981, and we eliminated a countercyclical proposal for $1 billion.

Those add up to the areas where we have tackled particular issues. We went across the board, however, on many other programs. In food stamps, there will be some tightening up. In Federal retirement programs, we are proposing savings of $1.5 billion by going to once-a-year indexing instead of twice a year.

We are proposing Federal pay reforms that would save $2.7 billion per year. We would like to propose some change in the indexing of many of the payments. Our consultations to date have failed to identify an alternate method. I think we have felt that we need to study it and come back with some specific proposals, but there is a potential for considerable saving in this area without really changing the fundamental purpose or value of the benefits.

So I think we have done many things, and I think we would like to do more things in the future.

Senator DURENBERGER. As you recite the things you have done, this is the only area in which you basically recommended a policy change. You haven't recommended a policy change in any of the categorical grant programs. You have only said let's spend less money on them, or let's tighten up administration or something like that.

Why is it that this program was chosen to make a major policy change in the relationship between Federal, State and local government, rather than any one of these much more expensive and in many cases inflation-causing programs?

Secretary MILLER. We proposed eliminating countercyclical aid, which is eliminating a program. We proposed deferring and eliminating another program. But if one looks at this functionally, and if our analysis is correct that of the $2.3 billion going to State governments, $1.4 billion goes on to localities, then, in fact, we are cutting back a program rather than eliminating it.

Again, one can criticize all these judgments, and Congress certainly can work its will. Our judgment is this was a place in which a cut could be made where there is the capacity to adjust at the State level, and there are means to reduce spending or to increase local taxes to deal with the service requirements; and that, in the overall scheme of things, this was an appropriate place to cut.

Nothing should be immune from examination. If there are other places where we could have eliminated or cut, we would welcome suggestions. I have a list here of all the cuts we have proposed to be made, and they are pretty widespread. We hope that they will gain support.

Senator BRADLEY. Mr. Secretary, in response to Senator Danforth's questioning, I thought I did hear you say that you recognized that over the next decade, some States were going to be better off than other States as a result of their natural endowments and tax bases, and so forth. Is that correct?

Secretary MILLER. Yes. This has historically always been true. Parts of the country go through economic cycles where they have advantage. The early development of the industrial revolution in the Northeast gave it a comparative advantage. The development of the financial markets there gave it an advantage.

The agriculture parts of the Nation were poor and now there has been a shift for many reasons. The resource base is the greatest relative change. As energy prices escalate because of factors beyond our control, they do change the wealth mix.

Senator BRADLEY. It is also true, given your analysis, that at times when there was comparative advantage with one region of the country, the Federal budget did, in fact, offset that comparative advantage by sending Federal dollars to the more depressed region of the country.

Secretary MILLER. I think we have long had a philosophy—I say not forever, but for substantial period of time—of trying to address that imbalance by giving assistance to areas in more need. There have been programs both in defense spending, locations, categorical grants, and all kinds of ways to help, that is true.

Senator BRADLEY. Could you tell me, with reference to the 1981 budget what is there that reflects this concern and that reallocates resources to the more depressed areas of the country. What analysis has the Treasury Department done in considering this problem and its impact on the political economy of this country over the next decade?

Secretary MILLER. I think the budget is full of programs that continue to address the issues. The aid to mass transit helps certain areas. The UDAG programs help certain areas. EDA helps certain areas.

Senator BRADLEY. I am asking whether you feel the present level of analysis and the present categorical grant programs sufficiently address the problems that are emerging and becoming clearer every day as we see the success of some States fiscally and the failure of other States?

Secretary MILLER. Mr. Chairman, I think that we are in a living, dynamic system, and I think that anything that was good last year and remains so this year, we still have to look at and adapt. I would not think we have a perfect system. To the degree to which we are imperfect, I think our job is to try to improve it.

Our effort here is, I hope, in that direction. While we do not yet find a basis for changing the congressional system for allocating among States, our minds are not closed on this. If there is a better system, we are not locked in. We have been trying to deal with it on the intrastate basis very directly because we think there have been some very demonstrable inequities.

Where you know you have exactly the same kind of communities in the same State getting different revenue sharing payments just because of a method of allocation, we are trying to correct that. Among States, we have felt, as I say, that the wealth generation will change the formula because incomes and income taxes change.

But if the formula could be improved, we are certainly not closed to that.

Senator BRADLEY. All of those programs that you have mentioned that were intended to redress the imbalance have been cut this year, and the only program that you are suggesting prospectively to redress the imbalance is this $500 million transitional assistance.

Could you tell me who in the Department of the Treasury, what part of the Department of the Treasury, is charged with the responsibility for analyzing the impact of this imbalance over the next 10 years and developing the programs that might redress that imbalance more specifically?

Secretary MILLER. In our case, of course, our domestic policy group is the one that looks at this sort of thing. Mr. Altman is here, our Assistant Secretary.

Senator BRADLEY. What is the level of analysis that is presently going on?

Secretary MILLER. Our analysis is not for the whole Government. It is for the areas of Treasury responsibility, which relate partially to the areas I have mentioned and partially also in our tax policy area, where tax policies are looked at for the same reason.

Senator BRADLEY. For example, you have been asked to do the study on the impact of oil price decontrol on various State governments. Are there any other current studies going on that would be illustrative of this concern?

Secretary MILLER. I am told that we have no formal studies; that we are continuing to look, again, at our areas of responsibility, which are the State and local financing and the taxing areas.

In terms of the broader issue that you are raising, Mr. Chairman, I think that it is somewhat beyond the Treasury Department itself. I think it relates more to some of the work of the Economic Policy Group, where we are looking at the automobile industry, for example.

We are looking at the steel industry and we are looking at those kinds of issues. We are doing some work on the reindustrialization of America, to look at the broader questions you are raising. That is not purely Treasury. That is an interagency activity.

Senator BRADLEY. Specifically with reference to the administration's proposed transitional assistance, there have been other suggestions for the allocation of those moneys, countercyclical aid and assistance directly to States based on fiscal need among them. What is your reaction to those two suggestions?

Secretary MILLER. On the fiscal assistance, we have a proposal that has been through both houses of Congress for some targeted fiscal assistance. We still would like to see that go to conference and be approved, and it could be immediately available to go to distressed areas.

The variation between the House and Senate is something like between two hundred and some odd million.

Senator BRADLEY. $340 million.

Secretary MILLER. $340 million. And we would like to see that immediately.

Senator BRADLEY. Do you think that is enough? If the administration was devising the type of program that would address the problem, do you think that is enough?

Secretary MILLER. I think that it is not entirely enough, but I think it was better that we do that than that we continue to defer it, which is what we have been doing.

Senator BRADLEY. What figure do you think might be more appropriate to address the needs of these areas?

Secretary MILLER. Mr. Chairman, I would be hard pressed for a number. I think we have felt that the overall budgetary plan that we have submitted will address in aggregate—not just targeted fiscal assistance but other Government programs as well—the overall economic pattern we are now going into, including the kinds of trade adjustment assistance, unemployment assistance, the other programs that——

Senator BRADLEY. The thing I am getting at is this of the figure is between $200 million and $340 million for the 1980 budget, and the administration has proposed $500 million for the 1981 budget for a very similar type of program, what was the analysis that made you believe that the $500 million was needed in 1981?

Secretary MILLER. It was our judgment that, of the $1.4 billion likely decrease in State aid for localities that would come about from removal of revenue sharing payments to the States, roughly one-third of that was an adequate——

Senator BRADLEY. The $1.4 billion? What is the $1.4 billion?

Secretary MILLER. The $1.4 billion is an estimate that, if the State share of revenue sharing is terminated we think from our study that States would adjust their assistance to local governments by a total of $1.4 billion.

Senator BRADLEY. You mean they would raise their taxes to——

Secretary MILLER. The States would not give $1.4 billion to local governments they have been giving, in the aggregate. In other words, this is an analysis of how we think they would adjust their budgets.

Based on going into nine States in detail—and the nine States included a sampling of agricultural States and industrial States to get a data base—we project that without the State share of revenue sharing, that about $1.4 billion less will go to communities from States, and that since one-fourth of that will be available in fiscal year 1981, that if we would make up another $500 million, that we would be roughly 60 percent covered in 1981.

In the next year you would be roughly one-third covered, and this would allow time for the States and local governments to adjust the programs.

Senator BRADLEY. If the committee will indulge just one quick question, earlier you noted that the 1981 budget was amended to provide an additional $900 million in authority and $700 million in outlays for revenue sharing, and you mentioned that that might be where the money for transitional assistance would come from. My question to you is that if that was your assumption, why wasn't the administration supportive of the Kassebaum-Bradley amendment?

Secretary MILLER. I was not aware that we took any action one way or the other. I think the amendment came up rather quickly. I wasn't even aware of it being offered. I believe it passed without our assistance, which shows the weight of the merits.

Senator BRADLEY. Thank you.

Senator Dole.

Senator DOLE. To follow on, there is the $500 million in the budget, then, for this transitional assistance. That money is in the budget?

Secretary MILLER. It is in our proposal. It has not been approved by the House in passing its budget resolution. The Senate accepted the $900 million, which is slightly different in its allocation. It is going to States rather than being allocated directly to communities as we have proposed.

So our proposal has not been accepted by either the Senate or the House. The House accepted no transitional assistance. The Senate has accepted the Bradley-Kassebaum $900 million.

Senator DOLE. As I understand it, you have lost in conference? If there is no money in the budget, what do you propose to do?

Secretary MILLER. We are going to continue to try to seek its inclusion.

Senator DOLE. You are not relying on the import fee, I hope, for anything.

Secretary MILLER. No, sir, not for anything.

Senator DOLE. Pardon?

Secretary MILLER. We are not relying on the import fee for any of the funding; we are relying on that to conserve energy.

Senator DOLE. Is there some new study out that indicates it would do that?

Secretary MILLER. Yes, sir.

Senator DOLE. It is one that escaped our attention, then.

Secretary MILLER. I know that we would all like to save more energy. If we would be willing to have a large gasoline tax passed by Congress, that would probably aid us. We could recycle it and so forth. That hasn't caught on.

Senator DOLE. Why not just speed up decontrol, and maybe conserve energy and raise prices?

Secretary MILLER. And increase the funds to the producers rather than in the gasoline conservation fee where we are passing those funds to our Government rather than to the producers.

Senator DOLE. I don't want to get off onto the import fee. I assume we will have a chance to discuss that——

Secretary MILLER. That will be the headline.

Senator DOLE. Right. But just going down the list, we just by chance took a look at the formula you used and applied it to the 20 States represented on this committee. Five do better and fifteen don't do as well as we would do under the normal allocation, if that is any indication what this committee might do. You have 5 benefiting and 15 losing, so we might have our own difference.

Let's take the chairman of this committee, who has some influence. Louisiana would receive about half as much under your formula as they would under using the usual allocation system.

Secretary MILLER. They would receive about half as much?

Senator DOLE. That is my understanding, right. I like Wisconsin, Michigan, New York, California, Ohio and New Jersey, but I like Kansas even more. We are going to be dropped down to about 0.38 percent. Wisconsin would get about 5.51 percent. It looks almost like a New York aid proposal. They would get about a quarter of the $500 million, followed by California, Ohio, New Jersey and other very important States as we look down the road. [General laughter.]

Or up the road, depending. I guess the question is why didn't we just use the usual allocation system? You didn't take into account State aid to education, is that correct?

Secretary MILLER. That is correct. That is, of course, handled in a different channel. It is not in this program.

Senator DOLE. I am told by my staff that States can get about 10.9 percent more under the usual allocation. So if you start going down the committee, for example, in Kansas we would drop to about less than half that amount. The only States who would benefit represented on this committee are Minnesota, New Jersey, New York, Wisconsin and Wyoming. All of the other States represented on this committee would receive less, which would indicate to me that there might be some disagreement with the formula.

I would think the same would be true on the House side where you have got congressional districts involved.

Secretary MILLER. We realize, Senator Dole, that any formula has that problem. One of the problems of seeking perfection is that everyone wants a share. What we have merely tried to do is to say where the hardship is going to come from discontinuing State revenue sharing in terms of the effect on local governments.

As to State governments, again, as I have pointed out, the whole program is 1 percent of their revenues. I think States can adapt to the loss of 1 percent. I think communities will have a harder time doing so. The formula that we selected, and we are not defending it as perfect—again, we would welcome any constructive suggestions to improve it—but the purpose of it was to say where are local governments going to be losing out, and how do we help them?

If that is true, we thought that the proxy for that is where are they getting aid now? It is there we would put the money. The formula then comes out the way it comes out. In California, the per capita grant is a lot lower than in many other States. The highest per capita grant happens to be to the District of Columbia, where local assistance is more involved.

It is true that New York gets about $6.60 per capita, Wisconsin $5.80, and so forth. But States come out the way the formula works, and that is based on trying to replace this aid to local governments.

Senator DOLE. I don't want to belabor it. They come out with less than they would if we used the usual allocation.

Secretary MILLER. Some would come out with less and some more.

Senator DOLE. If I look at the committee which has the jurisdiction over the program, three-fourths come out with less and one-fourth with more. Maybe that isn't the way we ought to decide this formula, but in my 12 years here it has been known to happen. [General laughter.]

You go to the floor to vote, and everybody has a list and you look at whether your State does better or worse under my formula than they do under someone else's formula.

Secretary MILLER. Every time we go through this program we make the computer operators happy because we have to do a computer run for everyone and see what happens in his district.

Senator DOLE. It seems to me if you are just talking about a 2-year transition, there is not much reason to disturb the present allocation. That is the point that probably will be discussed. I was just hoping we would have an opportunity to have Treasury input on other proposals that are before the committee.

I think the administration proposal now is before us and there are others before us, and maybe we can do what we should do under the restraint that we have without doing violence to the fiscal 1981 budget.

Secretary MILLER. We are prepared to run an analysis and would be happy to provide you the figures. I think we have a program set up so we can do that.

Senator DURENBERGER. One observation on the impact on States. Apparently the chairman of the subcommittee has some figures that indicate at least 20 States will be running deficits. I just wanted to call to his attention and to yours, if you are going to go back and analyze that figure, that there are a number of States that have already made the cuts that you anticipated they would.

I think my own State went through quite an argument. The legislature wanted to assume that there would be revenue sharing, and the Governor said let's not assume it. As a result, we cut back services in Minnesota by approximately $50 million and made our contribution to the $1.4 billion.

I would just argue that this isn't good public policy, but that is the kind of effect that we are asking for.

On the subject of your decontrol study, may I ask whether or not that study will also look at State taxing policies and the impact of those policies on alternative fuel? I am concerned principally about coal.

Secretary MILLER. Excuse me. I will have to get a little input from the people doing the study. Why don't you just answer?

Mr. ATEN. Bob Aten, the Treasury staff, State and Local Finance. For the same reason that we have talked about before, the lag in the data elements, the effect of coal and the massive increases in production that people are talking about will probably occur late enough not to have any substantial impact on the interstate allocation under the revenue sharing formula during the present renewal period.

Secretary MILLER. I think your question is whether State taxing itself would affect——

Senator DURENBERGER. I was going to get to Bob's point in the next question. My principal question was, in the study of the impact of decontrol of oil that we asked for last fall in this committee, are you logically going beyond the impact of decontrol on severance and royalty taxes into the alternative fuel sources such as coal?

Mr. ATEN. The particular study that I am talking about—and I am not sure it tracks what you asked for last fall—the one we are responding to is a letter that we got from the Committee in February. What we are trying to do is to look at major energy-related severance tax effects.

We are not looking at royalties because, again, royalties are not part of the State and local tax amounts which are used to calculate the interstate allocation.

Senator DURENBERGER. So let me ask the Secretary if he believes that royalties ought to be included in determining principally the ability of the States to finance public service. Should they be another measure of income rather than just personal income and other income figures?

Secretary MILLER. As you know, tax effort has excluded other kinds of income. It excluded rents, operations, utilities, royalties and what not. As to a change of circumstances, I would reserve judgment. Your point is well taken. It may be that this is a different situation than the traditional kinds of revenues we were leaving out of the formula.

I believe our Tax Policy Group is looking at some of these issues. That may be why I am not getting you a good answer right now. We have another office that is doing some of this question of the decontrol. Perhaps I could get you a more specific answer.

Senator DURENBERGER. My last question relates to tax indexing. Do you have a current position on the merits of indexing inflation out of the——

Secretary MILLER. Our taxing system generally?

Senator DURENBERGER. Yes.

Secretary MILLER. Yes, I am generally opposed to it. The problem with indexing is that it contributes to the illusion that we can get rid of the burden of inflation. The trouble is that it destroys the opposition to inflation. If everyone is indexed perfectly, then you would just accept inflation as a way of life.

I think that we have to have penalties for inflation, so that we can marshall the American people to get rid of it.

I think that it is a deadly disease. We have indexed too many things; I wish we could unindex them. Then we could be sure that everybody is getting a bite of this dreadful disease. Then they would be out there putting pressure on all of us to change it. As soon as we make it easy, then no problem. Every time we have inflation, the result is that nobody cares. Then the result is bad long-term policy.

Senator DURENBERGER. As I recall, that was your stated public position, when you came into the administration. I just noticed that there were a lot of people who held that position, that same position, at the time that you first stated it, and they have changed their opinions in light of what has happened to the economy, and what has happened to this country since then.

In a sense, I suppose that I am disappointed that you have not changed your position.

Secretary MILLER. You know, real income in the past 5 years, I think, has grown about 15 percent in this country despite inflation. We should do better, we could do better.

I retain my position that the best way to do it is to go back to fundamentals, not try to index ourselves away from the realities of inflation, but to face them squarely. They are hard. They are difficult. Unless we reverse inflation, the inflationary forces, we will become a second-rate nation.

If we had a perfect indexing system where everyone held their relative shares, then inflation would not hurt anyone. It would just destroy society.

Senator DURENBERGER. There are a lot of people in this country who would agree with you as far as the indexing of wages and entitlement programs, and that sort of thing. Those are the sort of people being made insensitive to the impact of inflation.

On the other side, the biggest problem that we have is the one institution affecting us that is totally insensitive to inflation. That is the government.

The only way that you make it sensitive is by taking the inflation out of the revenue side of government.

Secretary MILLER. There is another way of course.

A few years ago, the Federal Government was borrowing 26 percent of all the capital raised in the American economy. This year we are down below 10 percent. If we can continue on our austerity, we can get down below one percent. I think we would do more to fight inflation and restore real incomes if we return the capital markets to the private sector where the availability of capital, which would be available at lower interest rates if the Government weren't a major borrower, would allow investment, productivity, jobs—all the things we need.

Conversely, if we index the tax system, unless we can cut spending at the same time, all we are going to do is be back in there borrowing more because we won't be collecting enough to cover our outgo. We all know that two-thirds of our budget is now uncontrollable. It would take, I think, more power than Congress has to do the——

Senator DURENBERGER. But only because of indexing.

Secretary MILLER. Not entirely. Again, I would wonder if Congress has the will even to remove the existing indexing for people who perceive themselves to be disadvantaged in society and seek to be protected in their way. Social Security is a case in point. So it is a tough problem.

I think we all have to struggle with it. I think we are all seeking the same objective. I can't fault intellectual approaches that may be different from my own. I just believe that overall we have got to work together to go at the basic policies we need to take out inflation. It is only then that our country will be returned to the preeminence which it needs for its own economic well-being and to enhance its leadership in the world.

So these are common objectives.

Senator BRADLEY. Thank you, Mr. Secretary. I appreciate your giving us so much time. We still have 17 witnesses left.

[The prepared statement of Secretary Miller follows:]

FOR RELEASE ON DELIVERY
~~EXPECTED AT 10:00 A.M.~~ E.D.T.
Wednesday, May 21, 1980

STATEMENT OF THE HONORABLE G. WILLIAM MILLER
SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON REVENUE SHARING,
INTERGOVERNMENTAL REVENUE IMPACT, AND ECONOMIC PROBLEMS
SENATE COMMITTEE ON FINANCE

Mr. Chairman and Members of this distinguished Subcommittee:

My purpose today is to discuss the President's proposal for a new Revenue Sharing Program. The proposed bill, S. 2574, the "Local Government Fiscal Assistance Amendments of 1980," was submitted to Congress on April 16, 1980. It expresses the President's continued commitment to the principle of general fiscal assistance.

The current Revenue Sharing Program is funded through fiscal 1980 at an annual rate of $6.9 billion. Since the Program was enacted in 1972, one-third of the payments have been allocated to State governments and two-thirds to localities. The need for a balanced 1981 budget has caused the President to propose that, in the future, no Revenue Sharing payments be made to States. The future Program would involve, therefore, only payments to local governments. These would be made at the rate of $4.6 billion annually, the present level, and be distributed on the same entitlement basis as the current Program.

As you know, persistent inflation continues to be our nation's most pressing economic problem, and the Administration has redoubled its efforts to reduce it. A central element of the intensified anti-inflation program is greater fiscal discipline, leading to a balanced Federal budget in fiscal year 1981. To achieve that balance, the Administration has proposed to reduce 1981 outlays by $17.2 billion. It was necessary to eliminate funding for Revenue Sharing payments to State governments as part of this outlay reduction. The need to cut Federal spending to reduce inflation must take precedence.

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Revenue Sharing payments currently represent about 1.1 percent of the total general revenues of State governments. The States have a far greater ability than localities to absorb a loss of this magnitude, given both their current financial condition and their legal authority to adjust revenues and expenditures.

However, the loss by State governments of $2.3 billion per year in Revenue Sharing payments is likely to force them to cut back their own payments of aid to local governments. To assist localities, especially those experiencing the most fiscal stress, in adjusting to the reduced amounts of State aid, the President has proposed that an additional $500 million in transitional assistance be paid to local governments in fiscal years 1981 and 1982.

Why Revenue Sharing?

Before turning to our recommendations for the new Program, let me review the history of Federal Revenue Sharing. The Program was first enacted in 1972 to redress a "fiscal mismatch." Federal taxes were perceived to be more equitable and responsive to economic growth than the taxes levied by State and local governments. At the same time, it was believed that the demands for State and local government services were rising more rapidly than the demands for the services provided by the Federal government.

Many changes have taken place since 1972. It is no longer true that State and local--and particularly State--revenue systems are inferior. They have made major strides in broadening and refining their tax systems so that they are more equitable and more responsive to economic change.

At the same time, it is no longer clear that expenditure demands are rising most rapidly at the State and local level. For instance, the pressure for increasing education expenditures at the State and local level has eased. At the same time, the aging of our population presents the Federal government with rapidly escalating outlays for social security and medical care.

Because of these trends, the underlying rationale for Revenue Sharing needs to be reconsidered, and the Program adapted to changed circumstances. A "fiscal mismatch" remains the overriding problem. But the mismatch is quite different from the one addressed by the original Program.

The primary fiscal problem of the American federal system today is the imbalance between resources and responsibilities at the local level. Many local governments in our nation have responsibilities for providing public services that are disproportionate to the fiscal resources to which they have access.

The objective of the new Revenue Sharing Program must be to ensure the access of every general-purpose local government to fiscal resources in reasonable proportion to its responsibilities for providing public services.

Fiscal imbalances are due in part to the workings of our economy. In some cases, the resources of local governments are inadequate because their economies are declining or lagging behind growth in the rest of the nation as industry shifts to other areas. This is a continuing problem in many areas of the Northeast and upper Midwest. In other cases, resources are inadequate because the locality's economy is underdeveloped. This problem is especially acute in the South and in many rural areas throughout the nation. Neither of these reasons for inadequate fiscal resources is easily overcome by local initiatives, or even by State action. Revenue Sharing is essential to enable localities whose economies are weak to provide adequate levels of public services.

The Administration's proposals are designed to relieve the fiscal problems of the most acutely stressed local governments. This will be accomplished by improved targeting of Revenue Sharing payments to local governments making an above-average tax effort and whose residents have below-average incomes. With Revenue Sharing relieving the most serious disparities, the States will be able to devote their energies and resources to addressing the underlying structural sources of local fiscal problems. Treasury will be monitoring the extent to which the Revenue Sharing Program continues to assist State governments to fulfill their responsibilities for solving local fiscal problems.

Better Targeting of Revenue Sharing

The heart of the Revenue Sharing Program is the formula that allocates funds to over 39,000 local jurisdictions. This formula is generally sound. However, our analysis over the past two years has indicated that certain modifications should be made to ensure that the distribution of funds makes a consistent contribution to the reduction of disparities in local fiscal capacities. Briefly, under the proposed legislation:

1. Current procedures for distributing funds among States remain unchanged. These procedures allocate resources in accordance with general patterns of need and are based on carefully wrought compromises between a host of legitimate political interests. However, the $500 million in transitional assistance in fiscal years 1981 and 1982 will be allocated in proportion to the current amount of aid provided by each State to its general-purpose local governments.

2. The essential logic of the intrastate distribution formula is valid and should be maintained. However, the formula has been adjusted so that higher levels of funding are directed toward full-service jurisdictions whose residents have comparatively lower incomes and bear high tax burdens.

3. The allocation procedure of the intrastate distribution has been modified so that jurisdictions of comparable size with the same incomes and tax efforts receive the same Revenue Sharing payments.

4. The revised formula is consistent with the principle that virtually every general-purpose local government in the nation should participate in the Program.

These recommendations, although modest, will significantly improve the equity of the Revenue Sharing Program. They are based on discussions with intergovernmental fiscal experts throughout the country, and with officials at all levels of government. The proposal also reflects the conclusions of a year-long review by the Office of Revenue Sharing of the impacts of the current formula and known alternatives, and an additional year of research and development conducted by Treasury's Office of State and Local Finance.

The Proposed Allocation of Local Revenue Sharing Funds

Let me now describe our specific recommendations for a new, five-year Revenue Sharing Program involving $4.6 billion in annual payments to local governments.

Interstate Distribution

The allocation of funds under the current Program begins with an interstate allocation. Each State (not the State government) receives the higher amount of what it would receive under the three-factor Senate formula (population, relative income, and tax effort) or the five-factor House formula (population, tax effort, relative income, income tax receipts, and urbanized population). This approach reflects a compromise effected when the Program was first approved by Congress. It is particularly important to continue the interstate allocation procedure because the sectional and regional conflicts it resolves may be even more intense today than they were in 1972.

It should be pointed out that these procedures have more to recommend them than the fact that they effectively resolve significant conflicts in our national politics. For example, the Advisory Commission on Intergovernmental Relations reports that the interstate distribution of Revenue Sharing funds is generally consistent with its index of fiscal stress.

Intrastate Allocation of Funds

Once the Revenue Sharing funds are allocated among the States, the intrastate allocation procedure begins. The fundamental strength of the allocation of Revenue Sharing funds rests with this intrastate formula. The key variables of the formula--population, relative income, and tax effort--direct funds among county areas within a State and within each area in a manner that tends to reduce disparities in the fiscal capacities of local governments. In its current form, however, the capacity of the intrastate formula to contribute to fiscal equity is unduly limited in several important respects. Thus, we are proposing several changes.

1. De-Tiering

The current formula first allocates funds to county areas within a State and then to individual jurisdictions within each county. This "tiering" procedure causes some significant inequities in the allocation of funds. For example, low- and moderate-income jurisdictions in relatively wealthy counties receive substantially less funding than they would receive if they were located in a county with a per capita income the same as their own. Conversely, wealthy jurisdictions located in relatively low-income counties receive disproportionately high payments.

To eliminate these inequities, the Administration is proposing to eliminate the initial allocation to county areas. Indeed, all local governments within a State will compete for funds on a common basis. As a result, all jurisdictions with the same income levels and tax efforts in a given State will receive the same level of funding on a per capita basis.

2. Maximum and Minimum Grant

The formula now ensures each locality a per capita Revenue Sharing payment equal to 20 percent of the average per capita payment to all local governments in the same State. The formula also limits per capita grants to 145 percent of the State average. The minimum guarantees a substantial level of funding for all jurisdictions, regardless of their wealth or the scope of their responsibilities. The maximum limits the funding available to severely stressed jurisdictions; that is, those with relatively low per capita incomes and very high tax efforts.

In order to reduce the seriousness of the inequities introduced by these constraints, the Administration is recommending that the minimum be lowered from 20 to 10 percent and that the maximum be raised from 145 to 175 percent. The 175-percent limitation is needed to avoid directing a disproportionate share of Revenue Sharing funds to large cities in several States. The 10-percent lower limit is appropriate because no single formula change should result in more than a 50 percent reduction in funding.

3. Budget Constraint

Some limited-purpose jurisdictions collect very small amounts of taxes and receive little intergovernmental revenue. For such governments, the minimum-payment provision results in payments sufficient to finance a very large proportion of their budgets. To limit these governments' dependency on Revenue Sharing, the current formula restricts the amount of the grant to 50 percent of a jurisdiction's total adjusted (non-education) tax collections and intergovernmental revenues (not including Revenue Sharing). This provision is commonly referred to as the budget constraint. As this constraint is currently defined, Revenue Sharing is financing one-third of the budgets of more than 500 jurisdictions. (In contrast, Revenue Sharing finances less than 6 percent of the budgets of all local governments.)

As presently constituted, this provision has provided a strong incentive for the preservation of limited-purpose jurisdictions. Every increase of a dollar in local tax revenue or intergovernmental transfers received by such a locality, if the minimum payment is limited by the budget constraint, qualifies it for an additional 50 cents in Revenue Sharing funds.

Reduction of the minimum per capita payment from 20 percent to 10 percent will reduce the significance of this inequity, but no government receiving the minimum should be able to finance more than a fifth of its budget from Revenue Sharing. Thus, we are recommending that the budget constraint be reduced from 50 to 25 percent. This recommendation is in keeping with the principle that no single formula change should result in more than a 50 percent reduction in any locality's funding.

The reduction of the budget constraint necessitates a complementary formula change. Under the current formula, funds not allocable to a city or town because of the budget constraint are assigned to the county government that overlies the jurisdiction.

If the county government is also constrained, the funds are allocated to the State government. Since State governments will no longer be eligible to receive Revenue Sharing, the Administration is proposing that these funds be reallocated to unconstrained local governments throughout the State.

4. Scale-Down for High-Income Jurisdictions

From the beginning of the Revenue Sharing Program, concern has been expressed that wealthy jurisdictions receive excessively large payments. Many very high-income communities now receive Revenue Sharing payments that cannot be justified by any reasonable concept of need. This is thoroughly inconsistent with the fundamental objectives of the Program. Thus, we are proposing that the Revenue Sharing entitlements of very high-income jurisdictions be scaled-down, at a moderately more rapid rate than the current formula provides, by an amount that increases with the income level of the jurisdiction.

This can best be accomplished by the following formula modification: for each jurisdiction with a per capita income higher than 115 percent of its State's average, the jurisdiction's tax-effort factor in the formula will be reduced by somewhat more than the percentage that its per capita income exceeds 115 percent of the State average. The rationale for initiating the scale-down at 115 percent is to limit the effect of the provision to the wealthiest 10 percent of all local governments.

5. Normalization of Adjusted Taxes

The current Revenue Sharing formula credits several hundred relatively small jurisdictions with very high tax effort, but in actual fact their citizens are not subject to onerous tax burdens. These jurisdictions are "tax enclaves" that export very large proportions of their taxes. In order to normalize the tax efforts of such jurisdictions, the following formula modification is proposed: the adjusted taxes included in the calculation of tax effort for a jurisdiction will be reduced by one dollar per capita below 250 percent of the per capita adjusted taxes of similar jurisdictions in the State (counties, cities, or towns) for each dollar that its per capita adjusted taxes exceed 250 percent of that statewide average.

This provision would not apply to a jurisdiction with per capita adjusted taxes under $250, or to a jurisdiction that is the sole local government for its geographic area (for example, a city-county government). The $250 limitation is designed to protect counties and townships that provide fairly high levels of services in States where the overwhelming majority of similar governments provide only very limited services. The sole-government limitation protects jurisdictions whose taxes are high simply because they are responsible for services that are provided by two or more overlying jurisdictions elsewhere in the State.

Overview of the Impacts of the Formula Modifications

In the aggregate, the proposed formula changes will shift approximately $228 million among local governments (about 5 percent of total payments to localities). In terms of net impacts: cities, Indian tribes, and rural counties realize the largest gains; urban counties experience modest losses, and townships fairly significant losses. Computer printouts detailing the consequences of the Administration's proposals for every local government in the nation have been made available to this Subcommittee.

In general, the formula changes will increase funding for large cities, and will improve the responsiveness of the allocation to variations in tax effort and per capita income. Wealthy jurisdictions will experience substantial reductions in funding. Payments to a majority of the nation's 105 largest county governments, typically suburban jurisdictions, will be reduced moderately; a few very high-income counties will experience large reductions. Lower-income counties will experience moderate gains. Small towns and poor rural jurisdictions that offer a full range of local services will be provided additional funds.

The consequences of the formula changes vary from State to State depending on interactions between local government organization and geographical patterns or demographic structure. For example, the impacts on major cities tend to be different in the Northeast and Midwest from those in the South and Southwest. In the Northeast and Midwest, most very large cities have relatively low per capita incomes and much higher tax efforts compared with the rest of their States, and especially compared with their surrounding suburbs. As a consequence, they will experience increases in Revenue Sharing funding under the revised formula, often at the expense of their suburbs. In the South and Southwest, many cities have per capita incomes significantly higher than the rest of their States. Consequently, the new formula shifts Revenue Sharing funds from these jurisdictions to relatively poor, high-tax-effort jurisdictions, often in the rural areas of those States.

Compliance Requirements

Under the present Program, no recipient may discriminate on the basis of race, color, national origin, sex, age, handicap, or religion in activities funded by Revenue Sharing. In addition, recipients must hold public hearings on their budgets to provide their residents an opportunity to comment on proposed appropriations of the Revenue Sharing grants. The Administration recommends continuation of these compliance requirements.

Jurisdictions receiving annual payments totaling $25,000 or more must have an audit in accordance with generally accepted auditing standards at least once every three years under the present Program. The Administration proposes to require an audit of every year's books conducted at least once every other year during the new Program.

Transitional Assistance

The termination of Revenue Sharing payments to State governments, beginning in January 1981, will reduce State revenues by $2.3 billion per year. Revenue Sharing is a relatively minor component of State budgets--averaging 2 percent of their total tax receipts. Nevertheless, the loss of Revenue Sharing payments to State governments is likely to result in substantial reductions in the aid that the States provide to their localities.

Reliable estimates of the likely losses in State aid are not available for most individual local governments because the fiscal impact analysis necessary to identify the magnitudes of such losses has been done in only a few cases. For the same reason, estimates of the aggregate losses to all localities in each State are also unavailable. However, a recent study commissioned by the Treasury Department of the fiscal impacts of terminating Revenue Sharing payments to the States concludes that the total loss to local governments nationwide may be as large as $1.4 billion.

Accordingly, the Administration has recommended that an additional $500 million be distributed to all local governments along with their regular Revenue Sharing payments in fiscal years 1981 and 1982. The objective will be to give local governments time to adjust their financial plans to the loss of State aid.

Even though estimates of direct local losses of State aid are unavailable, we expect that the losses will be most severe in States where aid to local governments is a large proportion of State government budgets. On the other hand, in States where such aid is a less important factor in State budgets, the local losses are likely to be relatively minor. Accordingly, the Administration is proposing that the $500 million in transitional assistance be allocated among the States in proportion to the amount of aid that each State government pays to its general-purpose local governments for purposes other than education. For example, if a particular State accounts for 5 percent of all State aid to general-purpose local governments in the country, that State will receive 5 percent of the $500 million, or an additional $25 million in 1981 and 1982.

The transitional assistance will be added to each State's share of the $4.6 billion in regular Revenue Sharing payments. The total amount allocated to a State will then be distributed among all general-purpose local governments in the State by the revised Revenue Sharing formula.

This procedure for allocating the transitional assistance was designed to ensure (1) that the funds will be distributed to local governments in States where the loss of Revenue Sharing is most likely to reduce State aid to local governments, and (2) that the distribution of the payments within each State will favor the fiscally stressed local governments that are most likely to need help in adjusting to the loss of State aid.

Conclusion

The President believes, and I believe, that through Revenue Sharing we can address the fiscal problems of local governments in the 1980's, and build a firm financial foundation for the future of government in America. A vital and responsive federal system should be a national priority. But setting priorities, and finding ways to meet them, always require debate. I hope my appearance here today will contribute to that debate.

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Senator BRADLEY. Next will be the Resident Commissioner of Puerto Rico, Mr. Corrada.

Your full statement will be made a part of the record. You can summarize your statement or proceed in any way you wish.

STATEMENT BY BALTASAR CORRADA, RESIDENT COMMISSIONER OF PUERTO RICO

Mr. CORRADA. Thank you very much, Mr. Chairman and honorable members of the subcommittee.

I am accompanied today by Mayor Ramon Luis Rivera, the mayor of the city of Bayamon, one of the largest cities in Puerto Rico, and a member of the Puerto Rico Mayor's Federation. There are two mayor organizations in Puerto Rico, one composed of the Mayor's Association, and the chairman of that association will later testify, and the other composed of 40 mayors of the principal cities in Puerto Rico—the Mayor's Federation, of which Mr. Rivera is a member.

Mr. Chairman and members of the subcommittee, thank you for this opportunity to speak to you on behalf of 3.5 million U.S. citizens in Puerto Rico and the other U.S. territories on the reauthorization of the general revenue sharing program.

Since its enactment, the general revenue sharing program has excluded Puerto Rico and the U.S. territories from participation, essentially because these jurisdictions do not pay Federal income taxes. This total exclusion cannot be justified any longer in 1980.

In an effort to balance the Federal budget, it is expected that Congress will be reducing or eliminating a host of Federal domestic assistance program funds which will result in the loss of millions of Federal dollars for Puerto Rico and the territories.

While these cuts will also affect thousands of communities on the mainland, they will at least be able to count on revenue sharing funds to cushion the impact of these cuts. Puerto Rico and the territories will not have this cushion to fall back on.

A short review of the relevant statistics brings home quite brutally the degree of unfairness in continuing the policy of total exclusion of the territories from the general revenue sharing program. Let me use Puerto Rico as an example for this exercise.

Puerto Rico has over 3.3 million U.S. citizens, ranking 25th in the Nation on the basis of population. However, it is fourth in the Nation in total number of poor, with over half the population qualifying for food stamps, and official unemployment hovering at 17 percent.

For those who claim that Puerto Rico is already well taken care of by Federal aid programs, let me point out that in spite of the fact that we are fourth in the number of poor in the Nation, according to 1978 Census Bureau data, Puerto Rico received $344 in Federal aid per capita, which is $1 below the U.S. median.

Twenty-four States and the District of Columbia received more Federal aid per capita than Puerto Rico. The District of Columbia alone received $1,639 per capita in Federal aid in 1978. Appendix A of my testimony contains a State-by-State list of Federal aid per capita, which I would like to submit for the record.

[The material referred to follows:]

APPENDIX A.—FEDERAL AID TO STATE AND LOCAL GOVERNMENTS, 1978

Area	Total Federal aid (millions)	Federal aid per capita
United States	$75,293	$345
Puerto Rico	1,157	344
Alabama	1,241	332
Alaska	408	1,012
Arizona	763	324
Arkansas	779	356
California	8,013	359
Colorado	826	309
Connecticut	1,053	340
Delaware	225	286
District of Columbia	1,105	1,639
Florida	2,364	275
Georgia	2,037	401
Hawaii	413	460
Idaho	336	383
Illinois	3,467	308
Indiana	1,260	234
Iowa	797	275
Kansas	616	262
Kentucky	1,133	324
Louisiana	1,358	342
Maine	470	431
Maryland	1,318	318
Massachusetts	2,582	447
Michigan	3,280	357
Minnesota	1,351	337
Mississippi	916	381
Missouri	1,279	263
Montana	397	506
Nebraska	459	293
Nevada	269	408
New Hampshire	289	332
New Jersey	2,552	348
New Mexico	608	502
New York	8,373	472
North Carolina	1,656	297
North Dakota	259	397
Ohio	2,905	270
Oklahoma	937	325
Oregon	1,075	440
Pennsylvania	3,912	333
Rhode Island	388	415
South Carolina	903	309
South Dakota	288	417
Tennessee	1,331	305
Texas	3,295	253
Utah	434	332
Vermont	241	495
Virginia	1,468	285
Washington	1,311	347
West Virginia	708	381
Wisconsin	1,607	343
Wyoming	236	557

Source: "Statistical Abstract of the U.S., (100th Edition)," Bureau of the Census, U.S. Department of Commerce, at p. 291.

Mr. CORRADA. Moreover, U.S. citizens in Puerto Rico and the U.S. Territories do not enjoy equal treatment in several large key domestic programs, which has forced our local governments to make up the difference through higher local tax efforts.

For example, we are excluded totally from the SSI program, which represents a loss of some $370 million for Puerto Rico alone, and under the medicaid program, we are limited to a $30 million ceiling, or $120 million less than what we would receive under equal treatment.

If you then look at the level of local tax effort, which is a key factor in the revenue-sharing allocation formula, you will discover that Puerto Rican income tax is the highest in the Nation, bar none, higher even than the Federal income tax. Yet, there are seven States—eight if you include Alaska's recent changes virtually eliminating their income tax—which receive general-revenue-sharing funds even though they do not have a State income tax.

I submit Appendix B for the record, which lists State income tax rates across the Nation. Indeed, on a per capita basis, only 15 States and the District of Columbia surpassed Puerto Rico in 1978 State government tax ~~collections,~~ according to the Census Bureau. This information is included in Appendix C, which I submit for the record.

[The material referred to follows:]

APPENDIX B.—INCOME TAXES

State	Taxable income rates (percent)	Taxable income brackets	
		Lowest: Amount under	Highest: Amount over
Federal	14 to 70	$2,300	$215,400
Puerto Rico	12 to 79	2,000	200,000
Alabama	1.5 to 5	1,000	5,000
Alaska	3 to 14.5	4,000	400,000
Arizona	2 to 8	1,000	6,000
Arkansas	1 to 7	2,999	25,000
California	1 to 11	2,000	15,500
Colorado	3 to 8	1,000	10,000
Connecticut	No income tax		
Delaware	1.5 to 16.65	1,000	100,000
District of Columbia	2 to 11	1,000	25,000
Florida	No income tax		
Georgia	2 to 11	1,000	25,000
Hawaii	2.25 to 11	500	30,000
Idaho	2 to 7.5	1,000	5,000
Illinois	2.5	(1)	(1)
Indiana	1.9	(1)	(1)
Iowa	0.5 to 13	1,000	75,000
Kansas	2 to 9	2,000	25,000
Kentucky	2 to 6	3,000	8,000
Louisiana	2 to 6	10,000	50,000
Maine	1 to 10	2,000	25,000
Maryland	2 to 5	1,000	3,000
Massachusetts	5	(1)	(1)
Michigan	4.6	(1)	(1)
Minnesota	1.6 to 16	500	27,500
Mississippi	3 to 4	5,000	5,000
Missouri	1.5 to 6	1,000	9,000
Montana	2 to 11	1,000	35,000
Nebraska	(17 percent of adjusted Federal income tax liability).	(1)	(1)
Nevada	No income tax		
New Hampshire	5	(1)	(1)
New Jersey	2 to 14	20,000	20,000
New Mexico	0.8 to 9	2,000	100,000
New York	2 to 14	1,000	23,000
North Carolina	3 to 7	2,000	10,000
North Dakota	1 to 7.5	3,000	30,000

APPENDIX B.—INCOME TAXES—Continued

State	Taxable income rates (percent)	Taxable income brackets: Lowest: Amount under	Taxable income brackets: Highest: Amount over
Ohio	0.5 to 3.5	5,000	40,000
Oklahoma	0.5 to 6	2,000	15,000
Oregon	4 to 10	500	5,000
Pennsylvania	2.2	(1)	(1)
Rhode Island	(19 percent of modified Federal income tax liability).	(1)	(1)
South Carolina	2 to 7	2,000	10,000
South Dakota	No income tax		
Tennessee	6	(1)	(1)
Texas	No income tax		
Utah	2.25 to 7.75	750	4,500
Vermont	(23 percent of Federal income tax).	(1)	(1)
Virginia	2 to 5.75	3,000	12,000
Washington	No income tax		
West Virginia	2.1 to 9.6	2,000	200,000
Wisconsin	3.4 to 10	3,000	40,000
Wyoming	No income tax		

[1] Flat rate.

Sources: "Statistical Abstract of the U.S. (100th Edition)," Bureau of the Census, U.S. Department of Commerce, at p. 302. Puerto Rico Department of the Treasury.

APPENDIX C.—STATE GOVERNMENT TAX COLLECTIONS [1], 1978

Area	Total collected (millions)	Per capita
Puerto Rico [2]	$1,792	$534
Alabama	1,589	425
Alaska	563	1,397
Arizona	1,307	555
Arkansas	926	424
California	15,018	674
Colorado	1,212	454
Connecticut	1,550	500
District of Columbia	848	1,258
Delaware	450	772
Florida	3,764	438
Georgia	2,184	430
Hawaii	755	842
Idaho	416	474
Illinois	5,774	514
Indiana	2,455	457
Iowa	1,402	484
Kansas	1,051	448
Kentucky	1,842	527
Louisiana	1,980	499
Maine	527	483
Maryland	2,405	580
Massachusetts	3,301	572
Michigan	5,445	593
Minnesota	2,759	688
Mississippi	1,094	455
Missouri	1,784	367
Montana	338	431
Nebraska	680	435
Nevada	391	592
New Hampshire	240	276
New Jersey	3,440	469

APPENDIX C.—STATE GOVERNMENT TAX COLLECTIONS [1], 1978—Continued

Area	Total collected (millions)	Per capita
New Mexico	761	628
New York	10,934	616
North Carolina	2,608	468
North Dakota	310	475
Ohio	4,135	385
Oklahoma	1,315	457
Oregon	1,159	474
Pennsylvania	6,266	533
Rhode Island	458	490
South Carolina	1,364	467
South Dakota	224	325
Tennessee	1,704	391
Texas	5,390	414
Utah	606	464
Vermont	234	480
Virginia	2,336	454
Washington	2,448	649
West Virginia	981	527
Wisconsin	3,089	660
Wyoming	289	682

[1] Includes local shares of State-imposed taxes, and collections on individual and corporate income taxes, motor fuel taxes, general sales and gross receipts taxes, alcoholic beverages and tobacco product taxes, and motor vehicle and operator's licenses.
[2] Includes corporate, personal, and indirect business taxes.

Source: "Statistical Abstract of the U.S. (100th Edition)," Bureau of the Census, U.S. Department of Commerce, at pps. 14, 301, and 878.

Mr. CORRADA. The third element in the allocation formula for revenue sharing—besides population and tax effort—is per capita income. Puerto Rico's per capita income in 1976 was $2,414, almost $1,000 less than Mississippi's 1975 per capita income—$3,323—which is the lowest among the 50 States, according to the latest Census data.

Mr. Chairman, my desire would be for statelike treatment for Puerto Rico in this program. But we know the old argument that we don't pay Federal income taxes. We are asking for basic fairness and equity. We cannot continue to use this "us versus them" argument today within our Nation, dividing our citizens into classes.

We are all one Nation. We are all American citizens. The exclusion of Puerto Rico and the U.S. Territories from Federal income tax coverage was a conscious policy decision made by Congress decades ago to aid these offshore jurisdictions in their economic development.

Indeed, the true beneficiaries of this tax exemption policy are those U.S. corporations and their stockholders with investments in these islands who also benefit from local public services. It does not make any sense to negate this Federal tax policy by forcing Puerto Rico and the Territories, already fiscally stressed, to come up with even more local funds to make up for these Federal budget cuts.

In 1977, the Congress saw through this tired argument and granted at my request a 1-percent set-aside to Puerto Rico and the Territories in the countercyclical program, which is the companion program of General Revenue Sharing. How can we in fairness allow one and disallow the other, and in light of the clear evidence of need we have shown to you today?

Furthermore, of course, as you know, the countercyclical fiscal assistance program is not being reauthorized, so we are losing or will be losing some of those funds also.

Naturally, we would like to have an equal share of general revenue sharing, but we realize that to some extent we must defer to the tax argument to reach a compromise. But I also know that you understand that the other extreme, total exclusion, is just as unreasonable and inequitable.

We need to provide our citizens with police and fire protection, health and education programs, parks, recreation, sanitation, highways, and the many other essential public services which our mainland communities provide today with the help of revenue sharing funds.

You will listen today, Mr. Chairman, to an argument made by Mr. Benjamin Cole, mayor of the city of Mayaguez, that I should be asking for the 3.3 percent of equal treatment of Puerto Rico as a State. I would like to ask for that. It is quite ironic that Mr. Cole would want Puerto Rico to be treated as a State, yet he does not favor statehood for Puerto Rico. He will be telling Puerto Ricans down there not to support statehood, but he will come up here and tell you that he wants Puerto Rico to be treated like a State under this program.

I expect to ask that Puerto Rico be treated as a State, with full dignity, when we are partners in this Union. I will be the first one to ask for treatment as a State, and I often do ask for Puerto Rico's treatment as a State. I feel I have a right to do so because I also believe that Puerto Rico should have some other responsibilities of statehood as well.

I am not asking in this particular program that Puerto Rico be treated as a State, because we don't pay Federal taxes, although that is the position that I usually take with reference to programs that are favoring individuals in Puerto Rico, as I believe that we should be treated as a State.

Finally, if I may be allowed to proceed for one more minute, Mr. Chairman, I would like to state that with reference to how that 1-percent set-aside is applied, if you decide that there should be a State share as well as a local community share of revenue sharing, like under the existing legislation that one-third goes to the State and two-thirds to the local communities, I believe that also in the case of Puerto Rico, one-third should go to the State government and two-thirds to the local communities.

In the event that the State share is eliminated from this program, then I submit that in the case of Puerto Rico, the full amount should go to the units of local governments, which are the 78 municipalities in the island, under a plan to be submitted by the Governor of Puerto Rico and the Governors of the other territories, to the U.S. Treasury Department as to how these funds will be allocated in Puerto Rico on the basis of local tax effort, population, and income per capita.

So that while the Governor would be responsible in submitting the plan to the U.S. Treasury Department, the formula would be on that basis and the Governor would simply be a conduit so that these funds are properly distributed on that basis to the units of local government.

Thank you, Mr. Chairman.

Senator BRADLEY. Thank you very much, Mr. Corrada. I don't have questions because I think I fully understand your testimony. Our conversations have answered many of my questions.

Mr. CORRADA. Thank you, Mr. Chairman.

Senator BRADLEY. Senator Dole.

Senator DOLE. I appreciate very much your testimony. You made it very clear. I have no questions.

Mr. CORRADA. Thank you, Mr. Chairman and members of the subcommittee.

Senator BRADLEY. Thank you, Mr. Corrada.

[The prepared statement of Mr. Corrada follows:]

TESTIMONY BY BALTASAR CORRADA, RESIDENT COMMISSIONER OF PUERTO RICO

Mr. Chairman, honorable members of the Subcommittee—thank you for this opportunity to speak to you today on behalf of the 3½ million U.S. citizens in Puerto Rico and the other U.S. Territories on the reauthorization of the General Revenue Sharing Program.

Since its enactment, the General Revenue Sharing Program has excluded Puerto Rico and the U.S. Territories from participation because these jurisdictions do not pay Federal income taxes.

This total exclusion cannot be justified any longer in 1980.

In an effort to balance the Federal budget, it is expected that Congress will be reducing or eliminating a host of Federal domestic assistance program funds which will result in a loss of millions of Federal dollars for Puerto Rico and the Territories. While these cuts will also affect thousands of communities on the mainland, they will at least be able to count on revenue sharing funds to cushion the impact of these cuts. Puerto Rico and the Territories will not have this cushion to fall back on.

A short review of the relevant statistics bring home quite brutally the degree of unfairness in continuing the policy of total exclusion of the Territories from the General Revenue Sharing Program. Let me use Puerto Rico as an example in ths exercise:

Puerto Rico has over 3.3 million U.S. citizens, ranking 25th in the nation on the basis of population. However, it is 4th in the nation in total number of poor, with over half of the population qualifying for food stamps, and official unemployment hovering at 17 percent. For those who claim that Puerto Rico is already well taken care of by Federal aid programs, let me point out that according to 1978 Census Bureau data, Puerto Rico received $344 in Federal aid per capita, which is the U.S. median. Twenty-four states and the District of Columbia received more Federal aid per capita than Puerto Rico. The District of Columbia alone received $1,639 per capita in Federal aid in 1978. Appendix A of my testimony contains a state-by-state list of Federal aid per capita, which I submit for the record.

Moreover, U.S. citizens in Puerto Rico and the U.S. Territories do not enjoy equal treatment in several large key domestic programs, which has forced our local governments to make up the difference through higher local tax efforts.

For example, we are excluded totally from the SSI program, which represents a loss of some $370 million for Puerto Rico alone, and under the Medicaid program, we are limited to a $30 million ceiling, or $120 million less than we would receive under equal treatment.

If you then look at the level of local tax effort, which is a key factor in the revenue sharing allocation formula, you will discover that the Puerto Rican income tax is the highest in the nation, bar none, higher even than the Federal income tax. Yet, there are seven states—eight, if you include Alaska's recent changes virtually eliminating their income tax—which receive general revenue sharing funds even though they do not have a state income tax. I submit Appendix B for the record, which lists state income tax rates across the nation. Indeed, on a per capita basis, only 15 states and the District of Columbia surpassed Puerto Rico in 1978 State government tax collections, according to the Census Bureau. This information is included in Appendix C, which I submit for the record.

The third element in the allocation formula for revenue sharing (besides population and tax effort) is per capita income. Puerto Rico's per capita income in 1976 was $2,414, almost $1,000 less than Mississippi's 1975 per capita income ($3,323), which is the lowest among the fifty states, according to the latest Census data.

Mr. Chairman, my desire would be for state-like treatment for Puerto Rico in this program. But, we know the old argument that we don't pay Federal income taxes. We are asking for basic fairness and equity. We cannot continue to use this "us versus them" argument today within our nation, dividing our citizens into classes. We are all one nation. The exclusion of Puerto Rico and the U.S. Territories from Federal income tax coverage was a conscious policy decision made by Congress decades ago to aid these offshore jurisdictions in their economic development. Indeed, the true beneficiaries of this tax exemption policy are those U.S. corporations and their stockholders with investments in these islands who also benefit from local public services. It does not make any sense to negate this Federal tax policy by forcing Puerto Rico and the Territories, already fiscally stressed, to come up with even more local funds to make up for these Federal budget cuts.

In 1977, the Congress saw through this tired argument and granted at my request a 1% set-aside to Puerto Rico and the Territories in the countercyclical program, which is the companion program of general revenue sharing. How can we in fairness allow one and disallow the other, and in light of the clear evidence of need we have shown to you today? This is particularly true now that it is expected that the countercyclical fiscal assistance program will not be authorized.

Naturally, we would like to have an equal share of GRS, but we realize that to some extent we must defer to the tax argument to reach a compromise. But, I also know that you understand that the other extreme—total exclusion—is just as unreasonable and inequitable. We need to provide our citizens with police and fire protection, with health and education programs, with parks, sanitation, highways and the many other essential public services which our mainland communities provide today with the help of revenue sharing funds.

Therefore, Mr. Chairman, I hope that your Committee will agree that a 1% set-side for Puerto Rico and the U.S. Territories should be included in the GRS reauthorization bill. This is a very modest figure, Mr. Chairman. The "Economic Study of Puerto Rico," a two-volume report published just last February by the U.S. Commerce Department, states that according to the U.S. Treasury Department, if Puerto Rico had received state-like treatment in the GRS program, it would have received, during entitlement period number 6 (July 1975 to June 1976), an estimated $210 million, or over 3.3 percent of the national total for that period. This level of allocation would have ranked Puerto Rico eighth in total GRS funds and first in GRS funds per capita among the states.

But, we are not asking for that 3.3 percent, Mr. Chairman. We know well how difficult it is to propose equal treatment given the Federal income tax exemption. Rather, we believe a 1 percent level would reasonably span both extremes of total GRS exclusion and full state-like treatment.

Also, Mr. Chairman, we do not favor any proposal which would grant some participation for us in GRS at the expense of allocations to other mainland jurisdictions. Our request should not be viewed as one which seeks to shave away any GRS funds to be allocated nationally. Otherwise, our 1 percent proposal would never receive serious consideration on its merits. I hope this point clarifies any concern you may have on this question.

Mr. Chairman, we obviously want to receive state-like treatment someday, but we want it as full-fledged partners in the Union. That day is not too far off, Mr. Chairman. But, in the meantime, some relief should be provided to Puerto Rico and the Territories under the set-aside formula I am proposing.

Thank you very much, Mr. Chairman.

Senator BRADLEY. Our next witness will be Dr. Richard Nathan, director of the Princeton Urban and, Regional Research Center, Princeton University, in Princeton, N.J.

Welcome to the subcommittee, Mr. Nathan. You may proceed.

STATEMENT OF RICHARD NATHAN, DIRECTOR OF THE PRINCETON URBAN AND REGIONAL RESEARCH CENTER, PRINCETON UNIVERSITY, PRINCETON, N.J.

Mr. NATHAN. Thank you.

I am going to just read a couple of comments from my testimony and ask that it be put in the record.

In a column written 4 years ago, in the year of the first extension of the revenue sharing program, Roland Evans, Jr. and Robert Novak wrote, "Federal-State relations, no matter how important, is perhaps the most confusing and surely the most deadly boring of all political issues."

Confusing, yes. Boring to many people. Nevertheless, the issues before this subcommittee as you consider the second legislative extension of the general revenue sharing program are tremendously important for American federalism and domestic public policy.

The essential idea of this testimony is to urge the subcommittee to take a longer look at the intergovernmental fiscal scene, and not to be inordinately swayed by the retrenchment fever of this year.

In 1976, it was felt by proponents of the revenue sharing program that it should last another 4 years so it would expire on the eve of a Presidential election, at precisely the time when the pressures would be the strongest, it was felt, for the continuation of this fiscal flow into the coffers of 39,000 State and local governments.

It was not expected then that in 1980 a crescendo of domestic budget cutting would make the election this year a time of challenge and testing for the general revenue sharing program. Only a miracle on the scale of the Red Sea parting would save the State share of revenue sharing today. The local share, which apparently is going to remain intact, has depreciated by 30 percent over the past 8 years.

A year ago, Senator Bradley, in a speech which you made before the U.S. Conference of Mayors, you listed three revenue sharing programs that the Congress would be considering this year: general revenue sharing, targeted fiscal assistance, and a standby countercyclical program. You said that you felt there is merit in considering these three programs together as three components of a single package of intergovernmental assistance.

My basic point in this testimony is best expressed in the form of a question. Are there ways that Congress can move toward a three-part revenue sharing law in 1980, even if some parts of this program will not be funded in 1981?

The answer that I hope can be given is that we should not forgo a multiple or broader strategy this year, and that in fact, there may be benefits to proceeding on this basis. One possible benefit of a three-part revenue sharing approach in 1980 has to do with the condition of the economy. If the economy turns down sharply this year—and the first quarter figures have just been revised downward—it would be advantageous to have a program designed and agreed to that could provide payments to communities hard hit by high unemployment, either in the form of structural fiscal assistance or in the form of a standby countercyclical revenue sharing program.

My understanding is that it is not possible for the Congress to authorize an entitlement program in any year if it is not funded in that year. What this means, I gather, is that you cannot authorize this year such measures as, first, the restoration of the one-third share for the States in the revenue sharing program, which I would favor; second, a program for 1982, not for 1981 but for 1982, of aid for communities which have structural economic problems; and three, a standby or countercyclical revenue sharing program to aid communities hard hit by the decline in the national economy.

Nevertheless, there may be steps short of actual authorization which would make it possible to move quickly in the future if either the political mood or the economic conditions change sufficiently to warrant an expansion of the revenue sharing program.

Again, I would ask a question. Would it not be possible in report language by the committee to come to agreement on the concept, on the approach and on the operations of these three components of a revenue-sharing package as just described?

I would add, Mr. Chairman, that so much useful work has been done in getting ready for the debate this year on the reauthorization of the revenue sharing program that it seems to me it would be a shame to let this moment go by without in some way having the Congress set forth a contingency plan that reflects a consensus on the issues discussed this year, which then could be acted upon quickly next year should there be support for a multiple revenue sharing program.

The administration, in conjunction with its budget revisions this year proposed something which is called transitional assistance. The administration went so far as to develop what I consider an extraordinarily ill-considered proposal for distributing this $500 million.

The Senate, I am happy to say, under the Kassebaum-Bradley-Durenberger amendment, added $700 million to budget function 850 without adopting this distribution proposal.

I have included this background in my testimony to lead up to a discussion of some formula ideas that we have been experimenting with at Princeton. At this point in my testimony, I have what is like a cigarette pack warning which reads: "As an aside to the reader who has gotten this far: Now you see why Evans and Novak said Federal-State relations is the most deadly boring of all political issues."

Turning to the formula approach that we have been working on, it is based on four objectives which are listed in my testimony. The first objective is to rely on the State to allocate and administer these transitional or special funds. The second principle is that it should be based on an allocational system and national data that are easily accessible, widely recognized as reliable, and can be updated periodically.

The third principle is what I call efficiency. "Targeting" is last year's word; efficiency is a better term in the current policy setting. By that I mean providing money to the communities with the greatest need.

The fourth criterion is simplicity, using a straightforward, uncomplicated eligibility formula.

The testimony goes on to describe work that we have done, and since then we have developed it a little more fully, where we use the urban development action grant program eligibility test to identify urban need. I brought with me today a variant which also takes into account rural poverty and puts the two together.

There are actually three variations, the data we have show how the States would be affected if you allocate funds to the State on the basis of the areas with urban need and rural need.

Once a share is determined for a State, the States would then suballocate these funds. There are many options that could be adopted at that point. We have been looking at the New Jersey program for providing special funds for needy communities. A good argument can be made to leave it to the States to distribute this money to communities that have particular needs; New Jersey does a good job in this respect. So do other States. Another approach is suggested in the prepared statement.

Finally, in my testimony on page 17, Mr. Chairman, I touch upon other issues. I commend the administration for some of the formula changes it has proposed, which were formula changes that have been considered in our Brookings Institution research on this subject.

I mention some formula changes, which I would be happy to discuss, also the issue of severance taxes. Then I have a final sentence which says that if I haven't proven that Evans and Novak are entirely correct, I will try to do so in answering questions.

Senator BRADLEY. Thank you very much, Dr. Nathan.

I am curious about the UDAG-type formula you propose. We are now talking about no moneys for a State share, for a transitional assistance for a countercyclical program. However, if we were to have a State share with a different kind of formula, could you tell us why you think that the UDAG formula is appropriate for a State share allocation. Why shouldn't other factors be taken into consideration for determination of State eligibility and for the formula elements involved in the distribution of the moneys.

Mr. NATHAN. What we have been seeking to do in the work that I described is to identify urban areas that have particular needs. In this period in which the State share is being reduced—and you can't provide, apparently, the full State share—the funds that are provided to the States would then be provided on a basis that gives special recognition to urban areas and in the variant to the formula that I mentioned, also rural areas with a high concentration of poverty.

It seems to me that this is a pretty simple and hopefully useful approach. That is, to say how many and what kinds of areas of urban need are there in a State, and what kinds of rural needs does a particular State have? Then, use that as the basis for determining the reduced but prorated share of funds that the State governments would get.

Then it seems to me that one option—and I think I would favor this—would be to say to the States that each State should adopt its own formula for determining how to allocate these moneys below the State level. You could require that it all be suballocated to urban communities and rural communities with special needs.

One way of doing this which is mentioned in the testimony would be to say that the States can adopt a formula, any formula that they want—and various different iterations, of course, are possible—that provides money on a uniform basis. The formula could, for example apply the same way to all communities that are eligible under the urban development action grant program, with a set-aside for rural areas.

Now, what that would do is give the States a lot of discretion; but at the same time it would identify the places that have what is customarily regarded as social and economic need; they would be the places affected by these restored funds.

Senator BRADLEY. What do you think of the proposal of Senator Exon and the distinguished member of this committee, Senator Dole, about how to rewrite revenue sharing for the States?

Mr. NATHAN. I have looked at that and have talked to some people about it. I think in concept it certainly moves in the right direction, placing more reliance on State governments and letting them set priorities and pick out areas in which they want to set their own priorities.

The way I understand the legislation is that States would identify categorical grant-in-aid programs that they would then cash out and then they would recoup those funds. The Dole amendment, in particular, eliminates the welfare, AFDC, medicaid and highway programs from such treatment.

So I went through the report on grants-in-aid for 1979 of the Secretary of the Treasury to pick out all of the closed-ended formula grants that would lend themselves to such treatment. You couldn't do it for open-ended formula grants, and I really don't think you could do it for a project grant because you don't know what projects are going to be approved.

I have a list, curiously for the State of Kansas, of all of the closed-ended formula grants that could be on the menu for the Governor. I would make two points about this. One, there are not as many programs as some people think, although there are enough to recoup the full State share. Second, the difficulties—political and tactical and programmatic—of cashing out these programs are going to be very great.

If in later questioning it would be helpful to do so, I could list some of those programs, but I won't do that now.

Senator BRADLEY. Thank you very much.

Senator Dole.

Senator DOLE. I am not certain I have a question. I thnk you have addressed the one that I had. I was going to ask you about what you may have done with reference to the legislation introduced by myself and others, Senator Exon, Senator Baker and Senator Danforth. I think it would be helpful for ~~us~~, I think, to have that information you have already put together.

I am not certain it need to be made a part of the record, but if it could be furnished to us because we are working on some of the problems that you have already foreseen. The Congressional Budget Office is also working on how much might be available, and that would be very helpful to us if we could just maybe pick it up after you finish.

Mr. NATHAN. Fine, Senator. I understand that some effort was made to get CBO to give you an estimate of the affected programs and they said it would take a month to do that. I am skeptical about that because, indeed, the characteristics of the programs you would have to look at can, as I indicated, be identified. Then you can go through the annual report on grant funds to each State and pick out those programs.

There are 161 columns in the report. It didn't take me very long yesterday to look across those columns and identify the programs that might be candidates. I will be happy later to provide that information to your staff. I have talked to people about this proposal, and if I can help refine it, I would like to do that.

Senator BRADLEY. Senator Danforth.

Senator DANFORTH. As to where we go from here right now, let's suppose that for 1981 there is $4.6 billion plus another half-billion, just any number around that area where we have $5 billion for something that looks like revenue sharing that we can divide up to the best of our ability.

We could drop the State share completely, or we could revive countercyclical. I don't mean just in principle but in fact. Of course, if you took this $4.6 billion and you gave it to State governments and there were no pass-through requirements, which I take it you are talking about, that would reduce what would otherwise be available for local governments.

Now, what is the best way for us to approach this at the time of budget stringency? I think that there are two subquestions there. First is the question of where the greatest need is, how you can most wisely use the available dollars.

The second is the political judgment. There are those who feel that the future of local revenue sharing is integrally bound up with the future of State revenue sharing, and that the survival of one depends on the other, depends on the kind of coalition of support that now exists.

That is my sole question. What do we do?

Mr. NATHAN. If I could answer you in three parts, and really on three levels, I would like to do that. First of all, I remember when we were working on revenue sharing when I was in the Government back in the early seventies. The original Heller-Pechman plan, of course, provided funds just to the States, and the States would allocate the funds to local governments or use them in some appropriate way.

That was rejected, and since then we have come a very long way, I feel, in changing our governmental system by increasingly providing Federal grant funds directly to localities. I think the time has come for a reconsideration on that point, and that is why I am personally unhappy to see the State share the victim of the budget ax this year.

So the first point I would make is that if I could spend your $4.6 billion to go back in time to a decade ago, the Heller-Pechman plan, or if you know Joe Pechman, the Pechman-Heller plan, I think we ought to consider some portion of the funds going to the States.

There is recent research by the National Governors Association and by the National Academy of Public Administration that shows that States do a good job of targeting; in fact it is arguable, and demonstrable in New Jersey, that State governments do better targeting than the Federal Government is doing in this period in which we talk about targeting so much in Washington.

The second point I would make is a practical one, and that is that having been around this town, until recently, quite a lot, I guess I think that focusing on the Treasury Department proposals is not enough. Many are good, but some of them may have problems—for instance, the way in which they do the de-tiering raises questions as they de-tier, that is, get rid of tiering for county areas, in a way that nobody else has done. It is different from what we did in our research; the National Science Foundation research did not do it that way.

The third part of my answer to you relates to my testimony. I suggest—and I would make this my main answer—that maybe the committee could write into its report proposals for report language that says we want to restore the State share in this way, and if we don't restore the full share, we want to do this: We want to have a countercyclical program that looks like this, building on the best ideas of the House and Senate and Treasury expertise; and we want to have a structural program focused on the permanent needs of distressed communities that looks like this; and lay out the elements or at least the concepts where there is some level of agreement, or the issues that particularly ought to be considered and worked out in the final stages of development of such a program.

In this way, there will be on the record in a very authoritative way a blueprint that could be turned to if the unemployment rate goes up as high as some people think it will this year, or if the mood changes on the State share or the efficiency principle.

In these times of constant pie or even budget cutting, the principle of efficiency of defining and dealing with the places that have the most serious needs would be dealt with in a way that there would be something to turn to.

So I think the idea of some contingency planning is the most practical thing at this juncture. I also think you should look very hard at the Treasury proposals, the 115-percent cap. There are a lot of questions, I think, about that, too. There are questions about the way they do the de-tiering.

Basically I think they move in the right direction, I would like to say, on the 145-percent ceiling, on the 20-percent floor, and on the so-called budget constraint. I have been through all the figures in getting ready to come down here, so if at some point I could be helpful, I would be happy to do that. But that is about all I think I should say in a general way responding to your question about strategy now.

Senator BRADLEY. Senator Durenberger.

Senator DURENBERGER. Dick, I think you know the respect with which members of this subcommittee hold you and your judgment. If I could try to summarize your recommendation to us, given the fact somebody told me recently there are only about 40 legislative days left in this part of the session, I understand your message to be this is probably the best time to address ourselves to a 4-year reauthorization of revenue sharing and try to set in place for the next 4 years in this country a philosophy of the interrelationships between Federal, State, and local government.

Am I correct in that sort of brief summary?

Mr. NATHAN. That is correct, Senator. I think that people felt is was very clever 4 years ago to have, instead of 5 years, a 4-year extension. But now it doesn't look so good. Therefore, I think you have to consider ways in which you can make the best of the current situation.

There are very important issues of domestic government raised by the revenue-sharing program. Increasingly, revenue sharing and formula issues have become the key issues of American domestic public policy at the level of the National Government.

So I think even in 40 legislative days, that at least consideration ought to be given to seeing whether there aren't some points, ideas, general descriptions of strategy that members of your committee could agree to, things that ought to be done next, such that there would be a report that would be, in effect, a blueprint or a map that you could turn back to when the economy and the political situation shift, as indeed they both are shifting in this decennial year.

I think that one of the things to do would be to restore the State share, and to say if the full amount isn't restored, we want the State to have a key position, and this is how we want to provide funds if the full amount isn't restored. Second, we think there should be authority, and indeed, maybe there could be authority for a countercyclical program.

I have always said that ARFA, the antirecessionary fiscal assistance act, would have had the worst acronym in Washington if they had called it the budgetary anti-recessionary fiscal assistance act. It is really important. It sounds very technical. I bet I have testified 15 times, and that is not exaggerated—I make my living at this—on revenue sharing legislation. Last time the act was up for revewal in 1976, my wife asked me what we would do if the program wasn't extended.

There are a lot of issues, very important issues, that are not going to go away. A whole year has been spent thrashing about on these issues, and it shouldn't just be chucked away. Someone ought to figure out a way to draw together, in the name of an authoritative and thoughtful group like this Subcommittee, ideas that you want to come back to.

There is a House formula that the House hates for targeting money, and the Senate dislikes it too. There is a Senate bill that the House doesn't like. There are all kinds of questions of what your triggers ought to be, whether you should use unemployment data—I think you should not. The best trigger for countercyclical aid is decline in the gross national product two quarters in a row in real terms.

There are things that are widely agreed to now, is what I am saying, and it seems a shame in the furious pace of budget cutting to not take account of those things and to fail to record them in a way that you could go back to them and people would remember that you had made these decisions about guidelines and possible future directions that you could reference again.

There is a lot of learning and a lot of expertise that, it seems to me, could be drawn on in ways that would make it more efficient in future rounds. These same formula issues come up on lots of programs. This Subcommittee, indeed, is closest to the most critical issues of definition and formulas.

When I worked as a Senate aide 20 years ago and a formula was changed, nobody knew what you had done except for one or two committee staff members who were very experienced. Today in the age of what I call the politics of the printout, everybody votes on a formula issue with a printout on their desk that tells them how much money their jurisdiction is going to get per capita in relation to income, in relation to and in comparison to other jursdictions.

That accumulates a tremendous body of knowledge which is hard to work with. Now that you have been working with it and some ideas, it seems to me, have developed on which there is agreement and which are good ideas that make sense, my fallback position is to suggest that you preserve that work so that you can go back to it.

Senator DURENBERGER. It seems to me that there are, and I think some of this has come up this morning, two really rather powerful related issues here, and unfortunately or fortunately, they both have some substantial constituencies involved with them.

One is the issue that you have been addressing in terms of the changes that have taken place in this country over the last 8 years and the argument that perhaps the old Heller-Pechman approach of more money going to the States because they do a better job of State revenue sharing with local governments needs to be addressed.

Of course, that is being reflected in all of the bills that you see coming up now. It started with our resolution on the floor, let's start cutting into categorical and substitute revenue sharing. It is now in the Dole bill where the decisions on the system are going to be made at the State level.

It is in part in the administration's proposal where the decisions are made at this level rather than at the State level. That seems to me to be a very major issue.

The other one that we have been touching on here today is the issue of fiscal disparity, and particularly the State fiscal disparities. I notice at the end of your statement you make reference to severance taxes and so forth. If you would just take a minute to comment on the importance of that issue as it relates particularly to energy-related mineral resources, and how you think that that should be related to the policy issues that we have on revenue sharing, I would appreciate it.

Mr. NATHAN. I could discuss some formula ideas that I have heard about and looked at myself and, indeed, that we have worked with. This gets into very complex issues of measurement and definition.

The larger point, it seems to me, has to be looked at in this way. By the action of the National Government in decontrol and the imposition of the windfall profits tax, there are 10 to 12 States in this country, in particular, which will have very large gains in revenue over this next decade, particularly as the data gets updated. The Secretary is right about that.

There are huge changes in our intergovernmental fiscal system brought about by the new economics of energy and particularly oil price decontrol, though this applies to all depletable mineral resources where the tax on those resources can be exported.

Now, we have made certain policies, and it seems to me in our formula decisions which the Government makes every day in a myriad of ways, we have to take what I would call compensatory action. We have got to adjust for that. This requires creative thinking about what are the best adjustment techniques.

Decontrol is a very important action which has huge implications for domestic public finance. Now there is a need for compensating adjustments in many program areas, including the revenue sharing program—I would like to see it dealt with now, even—but I know that that is probably not likely, and it is true that the data does lag for updating.

Already in 1979 the fastest growing taxes at the State and local level in the United States are severance taxes. So we may be kidding ourselves that we have got as much time as we are told before we need to look at this issue.

I started out by saying I know some proposals that involve complex measures of definition and formula that I could talk about. But the larger question is one of principle, of compensatory action to adjust to a tremendous change in the terms of trade and the functioning of our public economy and, indeed, our total economy.

I think there are ways to do that. The revenue sharing program, any program that uses tax effort, raises that question obviously and immediately. But the question is raised in many other areas. Indeed, I would go back and say that in this proposal, which is the basis of the testimony that I made today, for laying out some guidelines for the future, that surely should be one of the issues that should be addressed if you were to adopt this kind of an approach.

The last time I testified on revenue sharing, which was just a couple of months ago, I concentrated on the first part of your question, which is the State share. I discussed some research findings which show that the notion that States don't care about depressed communities is one that we ought to examine much more closely, particularly in relation to what has been happening in Washington as the budget cuts are coming in the most targeted programs, time and time again.

Senator BRADLEY. Thank you very much, Dr. Nathan, for your usual fine effort in enlightening the subcommittee and giving us some direction. I wish you a pleasant trip home. Thank you.

[The prepared statement of Mr. Nathan follows:]

Testimony Before the

Senate Finance Committee

May 21, 1980

Richard P. Nathan
Princeton University

"The Most Deadly Boring Political Issue"

In a column written four years ago (in the year of the first extension of the revenue sharing program) Roland Evans, Jr. and Robert Novak wrote, "...federal-state relations, no matter how important, is perhaps the most confusing -- and surely the most deadly boring -- of all political issues."

Confusing, yes, and boring to many. Nevertheless, the issues before this Subcommittee, as you consider the second legislative extension of the general revenue sharing program, are tremendously important for American federalism and domestic public policy.

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The essential message of this testimony is to urge the Subcommittee to take a longer look at the intergovernmental fiscal scene, and not to be inordinately swayed by the retrenchment fever of 1980.

In 1976, it was felt by proponents of revenue sharing that the program should last another four years so it would expire on the eve of a Presidential election, at precisely the time when the pressures presumably would be strongest for the continuation of this fiscal flow into the coffers of 39,000 State and local governments. It was not expected that in 1980 a crescendo of domestic budget cutting (most fiercely felt in this Body) would make the election a time for challenge and testing for the revenue sharing program. Only a miracle on the scale of the Red Sea parting would save the State share of revenue sharing today. The local share, which remains intact, has depreciated by 30 percent over the past eight years. A 1972 revenue sharing dollar for Jersey City, Minneapolis, or St. Louis is today worth 70 cents in real purchasing power. For the States, the strong likelihood is that decisions made this year will mean that a 1972 revenue sharing dollar will have no purchasing power at all in 1981.

The message of this Washington watcher and revenue sharing afficionado is to avoid drawing firm and final conclusions about this program and the issues it involves on the eve of a Presidential campaign -- <u>the absolute worst time to generalize about anything</u>.

<u>A Multiple Approach</u>

A year ago, Senator Bradley, in a speech to the U.S. Conference of Mayors, listed three revenue sharing programs that the Congress would be considering this year: (1) general revenue sharing, (2) targeted fiscal assistance, and (3) a standby countercyclical program. He said he felt "there is merit in considering these three programs together as three components of a single package of intergovernmental assistance."

The unrelenting Eastward movement of Proposition 13 has changed the signals since then and it looks increasingly as if the revenue sharing program will be tackled for a loss in 1980.

But the legislation before this Committee is not for just 1981 -- it is, according to the Administrations's proposal, for 1982, 1983, 1984, and 1985 as well. The world doesn't end this year, though some may think so to judge from all of the hand wringing that is being done about the current mood of fiscal austerity in Washington on domestic policy issues.

The point is best expressed in the form of a question: Are there ways the Congress can move towards a three-part revenue sharing law in 1980, even if some parts of this program will not be funded in 1981?

The answer that I hope can be given is that we should not forego a multiple strategy this year, and that, in fact, there may be benefits to proceeding on this basis.

One possible benefit to a three-part revenue sharing approach in 1980 has to do with the condition of the economy. If the economy turns down sharply this year, as many economists now forecast, it would be advantageous to have a program designed and agreed to that could provide payments to communities hard hit by high unemployment, either in the form of structural fiscal assistance or in the form of a standby countercyclical revenue sharing program.

My understanding is that it is not possible for the Congress to authorize an entitlement program in any year if it is not funded in that year. What this means, I gather, is that you cannot authorize this year such measures as: (1) the restoration of the one-third State share of revenue sharing in 1982; (2) a program for 1982 of aid for communities which have deep structural economic problems; and (3) a standby countercyclical aid program to aid communities hard hit by a decline in the national economy. Nevertheless, there may be steps short of actual authorization which would make it possible to move quickly in the future if either the political mood or economic conditions change sufficiently to warrant an expansion of the revenue sharing program. Again a question: Would it not be possible in report language by the Committee to come to agreement on the concept, approach, and operation of the three components of a revenue sharing package described in this paragraph? So much useful work has been done getting ready for the debate on the re-authorization of the revenue sharing program this year that it would be a shame to let the moment go by without in this way, or some other appropriate way, having the Congress set forth a set of contingency plans that reflect a concensus on the issues discussed this year which then could be acted upon quickly next year should there be support for a multiple revenue sharing strategy along the lines proposed by Senator Bradley and others.

The availability of such contingency plans with the status of Congressional report language would mean that the Congress could move more quickly to make payments, and have them made when they are needed, if it is determined that a fiscal stimulus is required later this year or next. Such a strategy can be thought of as precautionary. It would not be binding. If a decision were made against having a stimulus or in favor of having one administered in some other form (for example, in the form of a tax cut or added funds for job programs or local public works) then these contingency plans would simply not be put into effect.

In this context, it seems to me -- albeit a visitor from New Jersey -- that some of the ideas discussed as recently as last month could be revived. Let me be specific.

"Transitional Assistance"

The Administration, in conjunction with its March 1980 budget revisions for fiscal 1981, proposed that there be $500 million in the form of what is now called "transitional assistance" to meet the needs of places that would be inordinantly affected by the withdrawal of the State share of the general revenue sharing program.

The Administration went so far as to develop and announce an extraordinarily ill-considered proposal as to how this $500 million should be distributed.

The Senate, without I am happy to say adopting the Administration's distributional plan, added $700 to Budget function 850 in the 1981 budget resolution, on a basis that involved purposes similar to those of the

Administration's recommendation for "transitional assistance."

I have included this background in my testimony to lead up to a discussion of formula ideas we have been experimenting with at the Urban and Regional Research Center of Princeton University. This work was undertaken in response to the Administration's proposal for "transitional assistance."

Let me comment a minute on some definitions. "Transitional assistance" was designed to offset part of the loss of the State share of general revenue sharing for needy localities and to be administered through the States.

"Targeted fiscal assistance," on the other hand, is a Carter Administration proposal, which for the initiated has its roots in ARFA and SUFA. It was envisioned as direct federal-local aid to meet structural (as opposed to cyclical) needs and presumably to be provided on a permanent (as opposed to countercyclical) basis, though in this mysterious world of intergovernmental finance, the Administration asked that "targeted fiscal assistance" be a temporary program. (Don't ask me to explain this).

An aside to the reader who has gotten this far: Now you see why Evans and Novak said federal-state relations is "the most deadly boring of all political issues."

Back to the point made earlier about the formula approach we have experimented with for "transitional assistance." In light of the strongly negative reaction to the Carter Administration's distributional scheme for these funds, we decided to look for a more acceptable distributional approach which would meet the following criteria:

1. State role - relying on State governments to allocate and administer these funds;

2. Established - based on an allocational system and national data that are easily accessible, widely recognized as reliable, and can be updated periodically;

3. Efficiency - providing money to the cities with the greatest need;

4. Simple - using a straightforward, uncomplicated eligibility formula.

A Proposal

There are many different approaches which could employ these criteria. This testimony describes a plan based on UDAG eligibility. Forty-eight states have cities and urban counties which meet the UDAG eligibility standards of physical and economic distress. The six criteria are: age of housing, per capita income, population lag/decline, unemployment, job lag/decline, and poverty. Eligible areas must meet three of these six; four if the poverty standard is not met. The UDAG definition of distress was chosen becuase it can be relatively easily updated and because of its comprehensiveness, flexibility, and general acceptance.

Our proposal would allocate money to the States (using $500 million dollars as the base) according to the following formula*

$$\frac{\text{UDAG eligible state population}}{\text{Total state population}}$$

Allocations are based on each State's score on this measure in proportion to the scores of other states. Table I shows the per capita allocations and per capita rank for thirty-nine States with UDAG eligible places in SMSAs or that are urban counties.** The calculations are preliminary. They are, as noted, based on data from SMSA cities and urban counties. The population of eligible cities outside SMSAs is not included. This would not affect the general relationships shown, but it would affect the eligibility and amounts received by less densely populated States. Eleven States are not included in Table 1; nine of these States have UDAG eligible places and would be included if data for non-metrolitan UDAG cities were included in these calculations.

Once a State share is determined, the States would suballocate these funds. They could be required to distribute all (or most) of these funds to localities, and could futhermore be limited to an allocation to UDAG eligible places, using a formula which the State decides is appropriate for distributing funds to this group of eligible places.

For those who have such curious tastes as to be very interested in

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* All data on UDAG eligibility is taken from 1980 eligibility rolls. Population figures for States, counties and cities are Bureau of the Census estimates for 1977.

** An alternative to the plan shown in table 1 would earmark a portion of the overall funds for rural areas within each State. Additional information can be provided on this alternative.

Table 1

State-based Allocation of $500 Million in Transitional Assistance Using UDAG Eligibility Criteria (States ranked by per capita amount received)

State	Allocation (in millions)	Dollars per Capita
New York	$82.65	$4.61
Pennsylvania	41.00	3.48
Massachusetts	20.15	3.48
Illinois	38.15	3.39
California	68.50	3.13
Indiana	16.35	3.07
Rhode Island	2.75	2.94
Ohio	29.15	2.72
Connecticut	7.50	2.41
Michigan	21.60	2.37
New Jersey	17.20	2.35
Washington	8.35	2.28
Missouri	10.75	2.24
Louisiana	8.50	2.17
Utah	2.65	2.09
Alabama	7.50	2.03
Colorado	5.25	2.00
Wisconsin	9.10	1.96
Kansas	4.40	1.89

Table 1 (cont.)

State	Allocation (in millions)	Dollars per Capita
Florida	$15.70	$1.86
Texas	23.45	1.83
Maryland	7.30	1.76
Minnesota	6.90	1.73
Georgia	8.55	1.69
New Hampshire	1.35	1.59
Oregon	3.45	1.45
Virginia	6.80	1.32
Kentucky	4.30	1.24
Delaware	.65	1.12
West Virginia	2.00	1.08
Maine	1.15	1.06
S. Carolina	3.00	1.04
S. Dakota	.70	1.02
Iowa	2.90	1.01
Tennessee	4.30	1.00
Arkansas	1.85	.86
Montana	.55	.72
N. Carolina	2.60	.47
Missisippi	1.00	.42

the arcane world of grant-in-aid formulas, it will be obvious that there are many variations possible under the approach described here. The key is that, if the State share is not fully restored, then there is an argument -- I would say a strong argument -- for coming up with a plan that would allocate whatever money is restored, to fiscally and economically distressed places that will be hurt the most by the elimination of the State share of revenue sharing.

Table 2 shows the fifteen States with the highest amounts of per capita allocations using this approach and UDAG eligible cities in each of these States.

Table 3 shows the amounts that would be provided to two cities in each of these States, assuming that the States allocate these funds to each eligible UDAG place according to its share of unemployment in that State.

The View From New Jersey

While it may be that New Jersey is too far away to participate anymore in the development of revenue sharing legislative ideas, let me at the risk of being impractical offer some suggestions for combining the various elements discussed here.

Several courses of action are available for drawing together these ideas. One would be to develop a contingency plan which includes the restoration of the one-third State share of revenue sharing for 1982 along with a back-up plan for "transitional assistance" to go into effect only

Table 2

UDAG Eligible Areas in 15 Highest Per Capita Aid States
(States listed alphabetically)

STATE	Eligible Metro City/Urban County UDAGs	
California	Alhambra	Pasadena
	Bakersfield	Pico Rivera
	Bellflower	Pomona
	Berkeley	Richmond
	Burbank	Riverside
	Chula-Vista	Sacramento
	Compton	San Bernadino
	El Monte	San Francisco
	Glendale	Santa Barbara
	Hawthorne	Santa Cruz
	Inglewood	Santa Monica
	Lompoc	Seaside
	Long Beach	South Gate
	Los Angeles	Stockton
	Norwark	Riverside County
	Oakland	Fresno County
	Ontario	Kern County
Connecticut	Bridgeport	New London
	Hartford	Norwark
	Meriden	Norwich
	New Britain	Waterbury
	New Haven	West Haven
Illinois	Illinois	Peoria
	Chicago	Rantoul
	Cicero	Rockford
	Decatur	Rock Island
	East St. Louis	Springfield
	Joliet	Urbana
	Kankakee	Waukegan
	Moline	Madison County

Table 2 (cont.)

STATE	Eligible Metro City/Urban County UDAGs	
Indiana	Anderson	Indianapolis
	Bloomington	Kokomo
	East Chicago	Muncie
	Evansville	South Bend
	Fort Wayne	Terre Haute
	Gary	West Lafayette
	Hammond	
Louisiana	Alexandria	New Orleans
	Lake Charles	Shreveport
	Monroe	
Massachusetts	Boston	Lowell
	Brockton	Lynn
	Brookline	Malden
	Cambridge	Medford
	Chicopee	New Bedford
	Fall River	Pittsfield
	Fitchburg	Quincy
	Haverhill	Sommerville
	Holyoke	Springfield
	Lawrence	Waltham
	Leominster	Worcester
Michigan	Battle Creek	Kalamazoo
	Bay City	Lansing
	Dearborn	Lincoln Park
	Detroit	Muskegon
	East Lansing	Muskegon Heights
	Flint	Pontiac
	Grand Rapids	Saginaw
	Jackson	
Missouri	Kansas City	St. Louis
	St. Joseph	Springfield
New Jersey	Asbury Park	Long Branch
	Atlantic	Millville
	Bayonne	Newark
	Bloomfield	New Brunswick
	Bridgeton	Passaic
	Camden	Paterson
	Clifton	Perth Amboy
	East Orange	Trenton
	Elizabeth	Union City
	Irvington	Vineland
	Jersey City	Hudson County

Table 2 (cont.)

STATE	Eligible Metro City/Urban County UDAGs	
New York	Albany	Rochester
	Binghamton	Rome
	Buffalo	Schenectady
	Elmira	Syracuse
	Mount Vernon	Troy
	New Rochelle	Union Town
	New York	Utica
	Niagara Falls	White Plains
	Poughkeepsie	Yonkers
Ohio	Akron	Lima
	Canton	Lorain
	Cincinnati	Masfield
	Cleveland	Marietta
	Cleveland Heights	Middletown
	Columbus	Springfield
	Dayton	Steubenville
	Elyia	Toledo
	Hamilton City	Warren
	Lakewood	Youngstown
Pennsylvania	Allentown	Reading
	Altoona	Scranton
	Bethlehem	Upper Darby
	Chester	Wilkes-Barre
	Easton	Williamsport
	Erie	York
	Harrisburg	Beaver County
	Hazleton	Luzerne County
	Johnstown	Washington County
	Lancaster	Westmoreland County
	Philadelphia	York County
	Pittsburgh	
Rhode Island	Cranston	Providence
	Pawtucket	
Utah	Ogden	Salt Lake City
	Provo	
Washington	Everett	Tacoma
	Seattle	Yakima
	Spokane	

Table 3

City Allocations of State Aid Distributed by
Unemployment Shares for 15 Highest
Per Capita Aid States
(Two largest eligible cities in each state)

State	City	Allocation (in millions)	Dollars per capita
California	Los Angeles	$25.6	$9.27
	San Francisco	6.4	9.77
Connecticut	Bridgeport	1.4	10.21
	Hartford	1.3	10.00
Illinois	Chicago	29.0	9.47
	Rockport	1.0	7.32
Indiana	Fort Wayne	1.4	7.68
	Indianapolis	6.6	9.37
Louisiana	New Orleans	5.1	9.09
	Shreveport	1.5	7.95
Massachusetts	Boston	5.9	9.54
	Worcester	1.3	7.87
Michigan	Detroit	12.7	9.85
	Grand Rapids	1.3	7.03

Table 3 (cont.)

State	City	Allocation (in millions)	Dollars per capita
Missouri	Kansas City	$4.3	$9.38
	St. Louis	4.8	9.27
New Jersey	Jersey City	1.9	8.18
	Newark	3.7	11.41
New York	Buffalo	4.9	12.56
	New York City	65.2	8.93
Ohio	Cleveland	5.9	9.69
	Columbus	4.1	7.70
Pennsylvania	Philadelphia	17.7	9.96
	Pittsburgh	4.0	9.04
Rhode Island	Cranston	.5	6.80
	Providence	1.6	9.94
Utah	Ogden	.8	11.09
	Salt Lake City	1.5	8.96
Washington	Seattle	4.4	9.06
	Spokane	1.4	7.99

if <u>less than</u> the one-third State share is appropriated.

Such a plan could also include the rebirth of ARFA. By the way, if this program had been called the <u>Budgetary</u> Anti-Recession Fiscal Assistance, this countercyclical form of revenue sharing would have had the worst acronym in Washington. A third structural fiscal assistance plan could also be included in this package, perhaps using some variation of the State-based/UDAG eligibility plan just described.

<u>Other Issues</u>

Other important issues are raised by the Administration's extension proposal. Personally, I am delighted that the Administration has now dropped its paternalistic "Mickey Mouse" plan for State fiscal planning commissions, even though they were dropped for the wrong reason -- namely because the State share was dropped also.

On a more positive note the Administration is to be commended for its forward-looking proposals for formula changes such as, raising the ceiling, lowering the floor and de-tiering the program. These changes are consistent with a large body of formula research (ours at Brookings included) and move in the direction of a more rationale (to me anyway) allocation of resources according to the relative conditions and needs of the receiving jurisdictions. I know that some Subcommittee members have considered other changes, for example, to delete severance taxes from the calculation of tax effort. I support changes in this area in light of the "new economics of oil" and especially as a consequence of oil-price decontrol.

* * * * * * * *

Mr. Chairman, if I have not proven Evans and Novak entirely correct on the dullness of my subject, I would be happy to try to do so now in answering questions.

Excerpts from Monitoring Revenue Sharing, Brookings, 1976

RICHARD P. NATHAN
ALLEN D. MANVEL
SUSANNAH E. CALKINS
and associates

Monitoring Revenue Sharing

THE BROOKINGS INSTITUTION
Washington, D.C.

The Formula in Perspective

The foregoing sections examine a number of possible changes in the formula provisions of the revenue-sharing law. The authors' conclusions are summarized below and future steps to be taken are noted briefly.

SUMMARY OF CONCLUSIONS

First, per capita income as a proxy for the relative fiscal capacity of various areas and jurisdictions should be replaced by other types of comparative measures: (1) for state areas, annually updated estimates of the potential tax capacity (or total revenue-raising capacity) of state and local governments, to be developed by the Bureau of the Census or the Treasury Department; (2) for individual municipalities and townships, annual state-certified figures as to their equalized taxable property values; and (3) for county areas, either corresponding state-certified figures as to taxable property values or estimates of potential local tax capacity to be developed annually by the Bureau of the Census or the Treasury Department.

Second, the arbitrary provision in the law by which two-thirds of all revenue-sharing funds are designated for local distribution in each state should be amended so that the state-local proportion would vary from state to state according to the relative fiscal roles of the two levels of government. The split could be based on any one of several alternative financial measures—for example, tax revenue, all general revenue raised (as proposed by the administration's revenue-sharing bill), or all direct expenditures. If desired, the overall national two-to-one local preference could be maintained by giving added weight to the local component of whatever measure is employed for this purpose.

Third, the provisions which limit the per capita amount of shared revenue for county areas and individual municipalities and townships to 145 percent of the statewide local per capita should be eliminated. Such action would benefit the most hard-pressed local jurisdictions, curtail the law's bias in favor of multilayered local government, simplify its administration, and make the resulting allocations far more understandable to concerned officials and the public.

Fourth, the 20 percent per capita floor for the entitlements of individual municipalities and townships should be eliminated. It works consistently against consequential local governments and accounts for much of the law's strong tendency to shore up marginal jurisdictions.

Fifth, the provision that no local government may receive shared revenue amounting to more than 50 percent of the sum of its nonschool tax revenue plus its intergovernmental receipts in the base year has the desirable effect of limiting amounts that the 20 percent floor provision would otherwise direct to nearly 1,600 small governments. A similar result could be achieved by eliminating the 20 per cent floor and raising to a higher level the $200-a-year minimum for local government entitlements. But even then, if the 145 percent ceiling provisions were eliminated, as suggested above, some version of the 50 percent ceiling would be desirable to constrain the effect of the distributional formula in certain circumstances, notably in regard to industrial enclaves and resort communities. This provision should be revised, however, to eliminate the measure of intergovernmental receipts and instead to tie the limit only to nonschool tax revenue.

Sixth, if provision for Indian tribes and Alaskan native villages is continued in the law, the method for determining their entitlements should be revised so as to spread the costs nationally or by state, rather than by reducing the amounts otherwise due local governments only in the particular counties in which tribal members reside, which is the effect of present provisions. A logical alternative would be to establish a separate and distinct arrangement for Indian tribes and Alaskan native villages, one specifically related to their particular conditions and needs.

No specific suggestions for statutory change are offered to deal with problems that result from the exclusion of nontax revenue (and in the case of local governments, of tax revenue for education) in measuring the relative fiscal effort of various areas and jurisdictions. Those problems are important and merit careful attention as part of any debate over possible extension of the revenue-sharing law.

LOOKING AHEAD

Further consideration of possible changes in the formula provisions of the revenue-sharing law requires the development and analysis of comprehensive nationwide data on the impact of alternative formulas. Such an effort currently is under way as part of the ongoing Brookings monitoring project on the revenue-sharing program, with support from a supplementary grant by the National Science Foundation. The results will appear in the second published volume from this project.

Table 6-3. General-Purpose Local Governments with Revenue-Sharing Allocations for 1972 That Are Affected Directly by the Statutory Floor and Ceiling Provisions

Group	*Number of governments affected*				*Percent of all existing governments*[a]			
	All types	*Counties*	*Munici-palities*	*Town-ships*	*All types*	*Counties*	*Munici-palities*	*Town-ships*
1. Affected jurisdictions	**12,641**	**173**	**5,463**	**7,005**	**32.9**	**5.6**	**29.6**	**41.4**
2. Jurisdictions receiving shared revenue	**11,541**	**173**	**5,028**	**6,340**	**30.0**	**5.6**	**27.2**	**37.5**
3. Affected by 145 percent per capita ceiling	1,238	...[b]	822	416	3.2	...[b]	4.4	2.5
4. Affected by 50 percent of taxes plus intergovernmental receipts	3,085	173	1,584	1,328	8.0	5.6	8.6	7.8
a. Still receiving more than 20 percent per capita minimum	1,514	171	1,208	135	3.9	5.6	6.5	0.8
b. Receiving less than 20 percent per capita minimum	1,571	2	376	1,193	4.1	0.0	2.0	7.1
5. Affected by 20 percent per capita minimum	7,218	...[b]	2,622	4,596	18.8	...[b]	14.2	27.2
6. Jurisdictions receiving no shared revenue	**1,100**	**0**	**435**	**665**	**2.9**	**0.0**	**2.4**	**3.9**
7. Affected by having no taxes or intergovernmental receipts	539	0	212	327	1.4	0.0	1.1	1.9
8. Excluded for other reasons	561	0	223	338	1.5	0.0	1.2	2.0

Source: Calculated from Treasury Department data.
a. Because of rounding, detail may not add to totals.
b. The 20 percent minimum and 145 percent maximum provisions do not apply directly to county governments.
c. Less than 0.05 percent.

Three Illustrative Alternative Inter-State Allocation Formulas for Transitional Assistance

Formula 1: UDAG Population Share Formula (Table 1 in testimony)

$$\frac{\text{UDAG eligible state population}}{\text{sum of above for all states}}$$

Formula 1a: UDAG Population and Rural Poverty Share Formula

$$\frac{\text{UDAG eligible state population} + \text{Rural state population living in poverty*}}{\text{sum of above for all states}}$$

Formula 1b: Weighted UDAG Population and Rural Poverty Share Formula

$$\frac{2\,(\text{UDAG eligible state population}) + \text{Rural state population living in poverty}}{\text{sum of above for all states}}$$

* The rural state population living in poverty is computed using 1977 estimates of the rural population in each state and 1970 estimates of rural poverty in each state.

3 Possible Inter-state Formulas for Allocating $500 Million

(Per capita)

State	1	1a	1b
Alabama	$2.03	$2.56	$2.35
Arkansas	.86	2.43	1.83
California	3.13	2.67	2.91
Colorado	2.00	1.68	1.85
Connecticut	2.41	2.04	2.22
Delaware	1.12	1.28	1.28
Florida	1.86	1.94	1.93
Georgia	1.69	2.04	1.90
Illinois	3.39	2.95	3.19
Indiana	3.07	2.79	2.95
Iowa	1.01	1.45	1.28
Kansas	1.89	2.18	2.06
Kentucky	1.24	2.28	1.84
Louisiana	2.17	2.68	2.48
Maine	1.06	1.72	1.41
Maryland	1.76	1.57	1.68
Massachusetts	3.48	2.94	3.23
Michigan	2.37	2.08	2.24

(cont.)

State	1	1a	1b
Minnesota	$1.73	$1.86	$1.83
Mississippi	.42	2.62	1.65
Missouri	2.24	2.39	2.35
Montana	.72	1.88	1.14
New Hampshire	1.59	1.73	1.71
New Jersey	2.35	1.99	2.17
New York	4.61	3.93	4.27
North Carolina	.47	1.33	.94
Ohio	2.72	2.43	2.58
Oregon	1.45	1.58	1.55
Pennsylvania	3.48	3.05	3.27
Rhode Island	2.94	2.50	2.74
South Carolina	1.04	1.94	1.55
South Dakota	1.02	2.08	1.62
Tennessee	1.00	1.56	1.31
Texas	1.83	1.94	1.90
Utah	2.09	1.96	2.03
Virginia	1.32	1.68	1.53
Washington	2.28	2.14	2.22
West Virginia	1.08	2.15	1.67
Wisconsin	1.96	1.96	1.98

Senator BRADLEY. Our next witnesses are Richard I. Bonsal, commissioner of the town of Montclair, N.J., and Arthur Holland, the mayor of Trenton, N.J., and William T. Merritt.

Welcome to the committee, Mr. Bonsal and Mayor Holland. I want to ask you, if you could, to abbreviate your remarks because we do have a number of other witnesses.

STATEMENT OF RICHARD I. BONSAL, COMMISSIONER OF THE TOWN OF MONTCLAIR, N.J., ACCOMPANIED BY ARTHUR J. HOLLAND, MAYOR OF TRENTON, N.J.; AND WILLIAM T. MERRITT, COUNCILMAN OF PLAINFIELD, N.J.

Mr. BONSAL. Accompanying me today is Mayor Arthur Holland on my left, of the city of Trenton, and Councilman William Merritt of Plainfield. Mr. Pascrell of Paterson was unable to be here. I will give the principal remarks, which I will abbreviate, and then Mayor Holland will comment briefly.

It is a privilege to be here to seek legislative correction of an inequity in the allocation of general revenue sharing funds, between townships on the one hand, and other municipalities such as cities, towns, villages and burroughs on the other hand. The township designation has been creating severe distortions in the funding, principally to the disadvantage of the large cities.

When the general revenue sharing legislation was last up for renewal 4 years ago, I testified before Chairman Fountain's House subcommittee and submitted a statement to the Senate Committee on Finance seeking relief from this inequity, but to no avail. At that time, Congressman Minish submitted a corrective amendment to the House of Representatives, but that too failed.

Since then, with the assistance of the cities of Paterson, Trenton, Plainfield and other New Jersey municipalities, various alternative avenues of relief have been pursued in an effort to have townships and nontownships compete simultaneously with each other within their respective county areas in our State, the only State which has had a long-time, ongoing concern about the matter. Governor Byrne has been supportive of these efforts, for which we are deeply appreciative.

Our long sought goal now seems to have been more than met by the new provision in the administration bill, S.2574, which would eliminate all tiers and cause all types of local governments to compete simultaneously with each other within their respective States.

For years, because of the difficulty in having any changes made, we have sought relief from the township inequity in New Jersey alone. The administration has now responded by eliminating the township distinction throughout the entire country, with the distinctions as to county areas and county governments eliminated also. This is breathtaking.

Having had so many disappointments, however, we are concerned about the support for enactment of the administration's new provision. Should the provision be amended out of the bill, the township inequity would continue in New Jersey, where the problem is acute.

Worse still, under New Jersey law, nontownships, by independent action, can reclassify themselves as townships for demographic and revenue sharing purposes. By this means, South Orange increased its entitlement from $73,000 to $336,000. Similarly, Fairfield increased from $77,000 to $235,000 and now West Orange contemplates changing to township for an increase from $252,000 to an estimated $939,000. These increases, of course, are at the expense of other local governments.

Thus, should the administration provision fail, a worsening situation may further deteriorate. This would be most unjust.

Therefore, it is our plea that, as a fallback alternative, section 108(d)(3) of the act be amended to eliminate distinctions between townships and other municipalities in New Jersey alone, for the purposes of the act only. The Louisiana rule is ample precedent for such special legislation.

I would also like to comment on one additional provision of the bill, the so-called wealthy jurisdiction provision, which provides a deduction from the general tax effort factor equal to the percentage that a municipality's per capita income exceeds 115 percent of its State's average per capita income.

I urge that this new provision be studied further and question whether it is targeted as intended. Per capita income is at best a crude measure of wealth because of variations in income distribution. Use of per capita income as the single measure of wealth can constrain needy as well as wealthy jurisdictions.

For example, the provision will cost my hometown of Montclair $113,000 per year. Yet Montclair is one of 32 New Jersey municipalities designated for State urban aid funding. We have a $13 million urban renewal project, two additional neighborhood strategy areas, the fifth highest percentage of food stamp recipients in the county, and three public housing projects. The property tax abatement on this housing alone costs us $115 per month per unit or $138,000 per year for 100 units—and we have 342 such units.

Montclair is not the bastion of privilege our municipality high per capita income would indicate. I urge that we and others similarly situated be exempted from the new wealthy jurisdiction provision.

Please consider it. Thank you.

Senator BRADLEY. Mayor Holland.

Mr. HOLLAND. Senator, it is most appropriate that Commissioner Bonsal be the spokesman, in that he has almost made this a life's work. He is to be commended, I think, and be thanked by mayors across the State who feel as he does about this matter.

We are here primarily to correct what is a quirk. Just because a few States and townships supply services to incorporated communities within their boundaries, townships across the country share on that basis. We would hope, and this bill will do it, that detiering will be put into effect.

There are others who would be here. The mayor of Irvington, Robert Miller, for example, has written in his support of this legislation——

Senator BRADLEY. You may submit his letter to the record.

Mr. HOLLAND. ~~Yes. We have~~ heard from the treasurer, Wade Cooper, of Lower Township in Cape May. I have a letter here from the mayor of West Orange which is addressed to the U.S. Senate, which I haven't presumed to open but which I do assume is in support of our stand in this matter.

[The following were subsequently supplied for the record:]

OFFICE OF THE MAYOR

CITY OF TRENTON, NEW JERSEY 08608

ARTHUR J. HOLLAND
MAYOR

May 22, 1980

Ms. ~~Martha Darling~~
~~Office of Senator Bradley~~
4104 Dirksen Senate Office Building
Washington, D. C. 20515

Dear Ms. Darling:

Enclosed please find testimony provided to our office by Hon. Thomas S. Dunn, Mayor of the City of Elizabeth, New Jersey, Hon. Anthony M. DeFino, Mayor of the City of West New York, New Jersey, Hon. Samuel A. Spina, Mayor of the City of West Orange, New Jersey, and Hon. Robert H. Miller, Mayor of the City of Irvington, New Jersey. Also enclosed is a copy of a telephone message received in our office from Mr. Wade Cooper, Treasurer of Lower Township, Cape May, New Jersey. We would like to have this information added to the testimony presented by Mayor Holland, Commissioner Bonsal, Mr. Pascrell and others to the Senate Finance Committee on May 21, 1980 at said Committee's hearing in Room 2221 of the Dirksen Senate Office Building, in support of the Carter Administration's bill (S.2574) on General Revenue Sharing reauthorization.

Your cooperation will be appreciated very much. Should you have any questions on this matter, contact me at (609) 989-3032.

Sincerely,

Robert M. Boyles III

Robert M. Boyles, III
Legislative Aide

RMB:vp

The following message was received in the Office of the Mayor, City of Trenton, New Jersey, Tuesday, May 20, at 3:55 p.m. The message was dictated to me by Mr. John Papetti, Finance Director for Elizabeth.

Mayor Arthur J. Holland
City of Trenton
City Hall
Trenton, New Jersey 08608

Dear Mayor Holland:

I sincerely regret that my present schedule does not permit me to accompany you to Washington, D.C. on May 21, 1980. Please convey to the United States Senate Finance Committee that I wholeheartedly endorse and vigorously support President Carter's General Revenue Sharing Reauthorization Bill (S.2574). The City of Elizabeth has used the entire revenue sharing funds in the past for police salaries and wages, thus avoiding lay-offs and providing essential services to the City. Any restriction or loss to the City of this money would cause great harm to the City of Elizabeth and its residents.

Sincerely yours,

Thomas S. Dunn, Mayor

OFFICE OF THE MAYOR

WEST NEW YORK, NEW JERSEY

ANTHONY M. DEFINO

May 19, 1980

Mayor Arthur J. Holland
319 East State Street
Trenton, NJ 08608

Dear Mayor Holland:

I am in receipt of your letter dated May 15, 1980, in which you advised my office that yourself and Commissioner Richard I. Bonsal of Montclair Township will be attending a meeting of the U.S. Senate Finance Committee on May 21st. You further stated that at said time you will testify in support of the Carter Administration's General Revenue Sharing reauthorization bill (S.2574).

I am also aware that under such proposed bill my municipality, West New York, NJ, will receive the amount of $183,813 in revenue sharing monies. I am also aware that said financial assistance is of the utmost importance to not only my municipality, but many municipalities throughout the state.

I regret that I cannot accompany you to said meeting, but I wish that you would extend to the U.S. Senate Finance Committee that I am in full accord with the reauthorization bill S.2574. Thank you for your time and consideration on the above matter, and I wish you the best of success at the meeting on May 21st.

Very truly yours,

A. M. DeFino

Anthony M. DeFino
Mayor

pma

OFFICE OF THE MAYOR

SAMUEL A. SPINA
MAYOR

WEST ORANGE, NEW JERSEY 07052

May 20, 1980

The United States Senate
Finance Committee
Washington, D.C. 20020

Gentlemen:

The Town of West Orange completely supports the General Revenue Sharing Reauthorization Bill S.2574.

Revenue Sharing has been an important financial aid to our town. New Jersey, by law, has a cap on the amount of money that can be appropriated.

If Revenue Sharing is not reauthorized the results would be layoffs and cutbacks in necessary programs.

The Town of West Orange urges the passing of Senate Bill S.2574.

Very truly yours,

Samuel A. Spina
Samuel A. Spina
Mayor

SAS:lal

Robert H. Miller
Mayor
Irvington, New Jersey 07111

201-372-2100

May 16, 1980

The Honorable Russell Long
Chairman
Senate Finance Committee
U. S. Senate
Washington, D. C.

Dear Senator Long:

I am writing to urge your approval of Senate Bill No. 2574 which would renew the General Revenue Sharing Program for five years.

I believe that this bill, the Local Government Fiscal Assistance Act of 1980, better targets assistance to communities most in need. I am particularly in favor of Section 8 which would amend Section 108 of the existing legislation. The amendments would revise the existing formulas to more accurately channel Revenue Sharing funds to communities which are most in need. This direction of funds would be accomplished by reducing the minimum per capita Revenue Sharing of a municipality from 20% to 10% of the state's allocation and raising the maximum from 145% to 175%.

Two other changes which would help to accomplish this more accurate direction of Revenue Sharing funds are reduction of the limitation of the amount of funds any recipient may receive from 50% of the sum of the adjusted taxes and intergovernmental transfers received by that government to 25% and by provisions for adjustment of the tax effort for local governments with per capita adjusted taxes in excess of $250 and in excess of 250 percent of the average per capita adjusted gross taxes of similar governments within the state.

This more accurate targeting of Revenue Sharing funds would assist the local governments which have been suffering disproportionately from the unhealthy state of economy and which will experience greater suffering as the current economic slowdown continues. Of course, Irvington is one of the municipalities in this category and would benefit from these amendments. We strongly urge your support of this legislation and the support of the committee as a whole.

Sincerely yours,

Robert H. Miller

Robert H. Miller,
Mayor

CITY OF TRENTON FILE NO.

To: Mayor

Mr. Wade Cooper, Treas Phone No.

Of: Lower Twnsp- Cape May

TELEPHONED	✓	MESSAGE
CAME IN		
RETURNED CALL		
PLEASE CALL HIM		
WILL CALL AGAIN		
WANTS TO SEE YOU		
DISCUSS WITH ME FIRST		
URGENT		

read letter re 5-2574. They cannot send anyone with you to Wash but they do support you and you will ~~[illegible]~~ receive letter ~~[illegible]~~ stressing that support

Date: 5-21-80 Time: 12:20 By: L. D. [ ] Rev

Senator BRADLEY. We thank you for your consideration and we hope that revenue sharing will be reenacted and, with other actions, that for detiering.

Senator BRADLEY. Councilman.

Mr. MERRITT. The sentiments of our situation have been expressed by Commissioner Bonsal and Mayor Holland. Cities sueh as ours continuously receive disproportionate kinds of revenues in reference to revenue sharing. We all consider the times and the situations that we all live in. However, cities such as Plainfield, especially, which has disproportionate numbers of persons who are unemployed, suffer from these kinds of conditions, especially with our State cap, which places other kinds of pressures on us.

So increases that we can receive from this change would be very helpful.

Senator BRADLEY. First let me say, Mr. Bonsal, that I am aware of your work, and I think that Mayor Holland paid proper tribute—I would as well—for your efforts, which have been enormous over the last few years, in calling attention to this disparity, which I am sure was not intended in the original revenue sharing legislation.

As you have correctly pointed out, I think we have addressed it in a general sense through this year's detiering proposal. Do you see anything in the older tiering formula that should be maintained?

Mr. BONSAL. First of all, Mr. Chairman, let me thank you for your kind remarks. I do not have the broad overview that the committee has and the staff has of the other States. I am aware of the distribution within the State of New Jersey and the disparate per capita constraints that were imposed when we had the county area system which we have now.

I think it is a tremendous improvement and a great advance for equity to have all local governments within the State competing simultaneously. I am not aware of any advantages of the system which hopefully we will move from.

Senator BRADLEY. I want to thank all three of you for coming down and making these statements for the record. I think that is important. It is particularly important just from the standpoint of the realization on the part of colleagues that there is this disparity. The numbers speak for themselves and you have read those numbers into the record, and each of you are officials in communities where this kind of plan has had an unfortunate effect.

So I am pleased and gratified that you are here today, and I think that your contribution has been significant and will be heard.

Mr. BONSAL. Thank you very much.

Senator BRADLEY. Thank you.

[The prepared statement and resolution of Mr. Bonsal follow:]

STATEMENT BY

COMMISSIONER RICHARD I. BONSAL
DIRECTOR, DEPARTMENT OF PUBLIC WORKS
TOWN OF MONTCLAIR, NEW JERSEY

ON BEHALF OF

THE TOWN OF MONTCLAIR, CITY OF PATERSON, CITY OF TRENTON,
CITY OF PLAINFIELD AND OTHER NEW JERSEY MUNICIPALITIES

BEFORE THE

SUBCOMMITTEE ON REVENUE SHARING, INTERGOVERNMENTAL
REVENUE IMPACT AND ECONOMIC PROBLEMS

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

RE: PROMOTING MORE EQUITABLE LOCAL GOVERNMENT
ALLOCATIONS OF GENERAL REVENUE SHARING IN NEW JERSEY
BY ENACTING THE DETIERING PROVISION OF S. 2574
OR BY AMENDING SEC. 108 (D) (3) OF THE ACT

MAY 21, 1980

SUMMARY

1. An Amendment is urgently needed to the general revenue sharing act to correct a serious inequity in New Jersey's local government entitlements which unjustly enriches most of the affluent, densely populated, suburban townships, principally at the expense of many of the State's large cities.

2. This "Township Inequity" is a problem of serious concern in New Jersey alone. Efforts have been made to correct the "Inequity" since general revenue sharing was commenced in 1972.

3. The "Inequity" has worsened in New Jersey as municipalities have independently changed their designations to "township". By such means, the entitlements of South Orange Village increased from $73,791 to $336,587 and the Borough of Fairfield increased from $77,152 to $235,832. The entitlement of West Orange may increase from $252,043 to $939,712. subsequent to its prospective change.

4. Enactment is sought of the detiering provision in the Administration Bill, S. 2574, which causes all types of local governments (other than Indian tribes and Alaskan native villages) to compete for general revenue sharing allocations simultaneously with each other within their respective States.

5. Should this Administration provision not be enacted, it is urged that, alternatively, Section 108 (D) (3) of the Act, the "Townships" definition, be amended to reclassify New Jersey townships to the same classification as other New Jersey municipalities for purposes of general revenue sharing only. The Louisiana Rule is a precedent for such special legislation.

STATEMENT

My name is Richard I. Bonsal. I am a business man, and also a Commissioner of the Town of Montclair in the County of Essex in New Jersey, where I have served as Director of the Department of Public Works since 1976 and Director of the Department of Revenue and Finance from 1972 to 1976.

Since 1977, the Town of Montclair, the Cities of Trenton, Paterson, Plainfield and other municipalities have worked cooperatively to correct a serious inequity in New Jersey's intra-county general revenue sharing entitlements which has unjustly enriched most of the affluent, densely populated, suburban townships, principally at the expense of many of the State's large cities. Earlier efforts to correct this problem date from the inception of the general revenue sharing program in 1972.

We are here to urge that this "Township Inequity" be eliminated either: 1., by enacting the detiering provision in the Administration Bill, S. 2574, to cause all types of local governments (other than Indian tribes and Alaskan native villages) to compete simultaneously with each other within their respective States, or; 2., alternatively, should this provision of S. 2574 not be enacted, by amending the definition of "Townships" in Sec. 108 (D) (3) of the act by the addition of the underlined words as follows:

(3) TOWNSHIPS. - The term "township includes equivalent subdivisions of government having different designations (such as "towns") and shall be determined on the basis of the same principles as are used by the Bureau of the Census for general statistical purposes, <u>except that, for the State of New Jersey, local governments classified as type 3 (townships) by the Bureau of the Census, shall</u>

be reclassified as type 2 (places), for the purpose of this Act only.

The existing definition of "township" in Sec. 108 (D) (3) results in the creation in each county of three intra-county "pots", one each for the county government, the townships and the "places", i.e., the cities, towns, villages and boroughs as a group. Since the income factor does not apply in the formula by which the act apportions the intra-county "pots", there is a large overallocation to the township "pot" and a large underallocation to the places "pot" in each county in which townships as a group have a high per capita income and places as a group have a low capita income. The intra "pot" allocations are then excessively high for such townships and woefully low for such places. Many counties in New Jersey are afflicted with this problem, which has become known as the "Township Inequity".

The effect of the proposed amendment to Sec. 108 (D) (3) would be to provide for only two "pots", instead of three, for intra-county allocations in New Jersey, one for the county government and the other for all of the municipal governments including the townships. Thus all municipalities in New Jersey would be treated equitably by the same allocation procedure. This is appropriate because, in New Jersey, the term "township" is used interchangeably with the "place" terms of "city", "town", "village" and borough", as a designation only, with no functional differences. This distinction without a difference" does not justify separate funding for general revenue sharing purposes with the resulting disparities.

The Bureau of the Census has determined that only six States are organized like New Jersey with all of their municipalities having general purpose governments, regardless of designation, with no unorganized areas and no dependent jurisdictions [1]. The other five such States are Massachusetts, New Hampshire, Pennsylvania, Rhode Island and Wisconsin. Of these six, New Jersey alone has sought, over a period of many years down to the present, to have the "Township Inequity" corrected.

Thus, should the detiering provision of S. 2574 fail to be enacted, we seek special legislation to correct the "Township Inequity" in New Jersey alone. The Louisiana Rule is a precedent for such special legislation.

In 1976, I received a letter from the General Counsel of the Treasury, Richard R. Albrecht, dated September 1 of that year [2], expressing the awareness of Treasury of the degree to which New Jersey's townships and places are governmentally similar, but advising that the Bureau of the Census did not seem to feel that it could justify reclassifying the governments below the county level in our State. The letter also expressed concern about the impact of such reclassification on the other States which are organized as New Jersey is.

Now, however, with the precedent of the Louisiana Rule, our proposed amendment to Sec. 108 (D) (3) will maintain the integrity of the demographic concerns of the Bureau of the Census and will not impact on any other State,

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[1] Source: U. S. Department of Commerce, Bureau of the Census, 1977 Census of Governments, Volume 1, No. 1, Governmental Organization, page 3, column 2

[2] Appendix A, pages 16-17

however it may be organized. Therefore, the relief we pray for ought to be granted.

The "Township Inequity" in New Jersey is of a very substantial magnitude. I have calculated that in just the four counties of Essex, Hudson, Mercer and Passaic, the 19 townships in these counties will receive, in the 12 months of the current entitlement period 11, about $2.5 million more than they would if they were treated as other municipalities [3]. This is an average windfall of $130,000 per year for each of these townships. Since the total of all entitlements is a constant for each entitlement period, this huge sum is at the expense of many other municipalities, with the largest impact on cities. For example, the current deprivations to the larger cities of these four counties are calculated to be: East Orange, $102,491; Jersey City, $151,112; Trenton, $591,726; Paterson, $258,840; Passaic, $83,029; and Clifton, $62,005.[3]

The record is replete with New Jersey's efforts to correct the "Township Inequity". The concerns of Congressman Joseph G. Minish, 11th District, New Jersey about general revenue sharing allocations were recorded in the Congressional Record on October 12, 1972. The Town of Montclair, New Jersey, passed its first of a number of resolutions urging more equitable revenue sharing allocations on December 12, 1972. In a letter of December 29, 1972 to the Secretary of the Treasury, Mr. Minish stated, "Townships are treated differently than towns, villages, cities, and other types of local governments". He also stated, "For example, the communities of Verona and

[3] Appendix B, C, D & E, pages 18-21, Windfall portions of township entitlements: Essex, $1,116,774; Hudson, $277,917; Mercer, $609,254; Passaic, $484,496

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Cedar Grove border each other, differ in population by only a few hundred, cover almost identical land areas, and have similar concerns, taxes and income levels. Yet Cedar Grove has been granted nearly six times the amount of money as Verona." (It should be noted that Cedar Grove is a Township, while Verona is a Borough.)

On October 23, 1975, while renewal of the general revenue sharing act was being considered, I presented oral and written testimony urging an end to separate township allocations in New Jersey at a hearing on H.R. 6558 before Chairman L. H. Fountain's Subcommittee of the Committee on Governmental Operations of the House of Representatives.

On June 10, 1976, Mr. Minish strongly urged the House "to correct this absurd inequity" by passing an amendment[4] to H.R. 6558 but his amendment failed of passage despite the overwhelming support of the New Jersey Congressional Delegation[5] because its possible impact on other States had not yet been identified[6].

During the debate, Mr. Minish stated, with reference to Cedar Grove and Verona, "They have similar concerns and tax levels and the same type of mayor-council government. While the per capita income levels of the two communities do differ to some extent, this is not sufficient justification for the township of Cedar Grove receiving six times the amount of revenue sharing money as the borough of Verona. Thus far, under the revenue sharing

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[4] Appendix F, page 22

[5] Appendix G, page 23

[6] Congressional Record, pages H 5644 - H 5646

program, Verona has received a total of $213,333 while Cedar Grove's total is $1,242,151." [6]

On August 25, 1976, I submitted written testimony to The Committee on Finance of the United States Senate urging elimination of the "Township Inequity" by enactment of the Minish Amendment [7], but to no avail.

A federal administrative remedy thereupon was sought by passage of New Jersey Senate Concurrent Resolution SCR-3004 [8], without dissent, by the New Jersey Senate on April 28, 1977 and the New Jersey General Assembly on June 30, 1977. In addition, it was endorsed by Governor Brendan T. Byrne [9]. This Concurrent Resolution urged the Bureau of the Census to classify all New Jersey municipalities in a single classification, but the relief sought was denied because Census wished to retain the township designation for demographic reasons. The amendment we are proposing now would permit Census to retain such demographic distinctions and this has been confirmed by a letter dated March 11, 1980 from Mr. Vincent P. Barabba, Director of the Bureau of the Census [19].

A conference was held at the Office of Revenue Sharing on August 24, 1977 to pursue the relief sought by SCR-3004. The conference was attended by Mayors Arthur J. Holland and Lawrence F. Kramer of Trenton and Paterson, respectively, together with members of their staffs, officials of Plainfield and Montclair, officials of the Office of Revenue Sharing and the Bureau of the Census, and representatives of Congressmen Minish and Rinaldo and of the House Government Operations Committee.

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[6] Congressional Record, pages H 5644 - H 5646
[7] U. S. Government Printing Office 76-822 O, pages 219-244
[8] Appendix H, pages 24-26
[9] Appendix I, page 27
[19] Appendix R, page 39, 3rd paragraph

In denying the relief sought by SCR-3004, Mr. Kurt L. Schmoke, Assistant Director, Domestic Policy Staff, the White House, in a letter dated October 20, 1977[10], suggested reclassification of New Jersey townships by State legislation.

Accordingly, a bill, Senate No. 907[11], sponsored by Senator Carmen A. Orechio, 27th Legislative District, was introduced before the New Jersey State Senate on January 27, 1978, and was passed by the State Senate on December 4, 1978. The bill provided substantial, but not complete, relief because the Bureau of the Census, for demographic reasons, would not recognize reclassifications below a threshold population density of 500 persons per square mile. A front page newspaper report[12] stated that Governor Byrne "told a press conference he would sign the Senate Bill". However, the bill was bottled up in the Assembly Finance Committee.

An identical companion bill, A-1414, sponsored by Assemblyman John A. Girgenti, 35th Legislative District, was introduced on May 22, 1978 and cleared the Assembly Municipal Government Committee, but was not called up by the Speaker.

To measure the depth of support for S-907 (A-1414), a request was made of all seven municipalities, other than the one township, in the 27th Legislative District of New Jersey to pass resolutions supporting the legislation and all seven, comprising over 92% of the population of the District, did

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10 Appendix J, pages 28, 29
11 Appendix K, pages 30-32
12 Appendix L, page 33

so, even though two of them, being constrained by the 20% rule, would not have gained an additional dollar [13], Typical was the resolution of the Borough of Verona [14], which would have received no benefit whatsoever. It stated,

> "Be it resolved by the Mayor and Council of the Borough of Verona, N. J.
>
> WHEREAS, Assembly 1414 and Senate 907 entitled "Urban Township Redesignation Bills" have been placed before the legislature for consideration and.
>
> WHEREAS, serious inequities exist throughout the State of New Jersey because of an improper interpretation of "Township", and
>
> WHEREAS, the municipalities of similar income and character are receiving disproportionate Federal revenue sharing payments, and
>
> WHEREAS, equity among New Jersey municipalities should be a guiding principle,
>
> NOW, THEREFORE, BE IT RESOLVED that the Mayor and Council of the Borough of Verona do endorse A-1414 and S-907 in order that equity and fairness can be achieved.
>
> BE IT FURTHER RESOLVED that Senate and Assembly members of the Essex County delegation receive copies of this resolution as well as municipalities within the County of Essex."

Despite all efforts to have the legislation enacted, however, the bills died at the end of the legislative session in January 1980, due to inaction by the General Assembly, two years after the introduction of S-907.

Even though further action by the New Jersey Legislature is unlikely, existing State law permits municipalities to change their designations to

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[13] Appendix M, page 34

[14] Appendix N, page 35

township, and benefit from the "Township Inequity" to the detriment of other municipalities. Municipalities having charters pursuant to New Jersey's Optional Municipal Charter Law (Faulkner Act) can change their designations by referendum alone, without the necessity of concurrence by the Legislature.

In appearing before Chairman Fountain's Subcommittee of the Government Operations Committee of the House of Representatives on October 23, 1975, I testified that Montclair could receive 223% more revenue sharing, according to data elements for EP-1 plus EP-2, by changing its designation to township [15].

In my written testimony to the Committee on Finance of the United States Senate on August 25, 1976 [16], I advised that the Town of Montclair could increase its entitlements by $534,552 or 232.9%, according to EP-6 data elements, by changing its designation to township. Montclair's governing body remained unanimous in opting not to do this, as it was felt that the "inequity" should be corrected and not made worse. Furthermore, it seemed inconceivable that such unilateral reclassifications by municipalities would have been tolerated by State or federal authorities. However, we were mistaken.

In 1977 the Village of South Orange changed its name to the "Township of South Orange Village". The Legislature ratified the new name and the mere change of designation increased South Orange's general revenue sharing entitlements from $73,791 in EP-9 to $336,587 in EP-10. It should be noted that South

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[15] Transcript of Hearings of Subcommittee of House Government Operations Committee, page 847

[16] U. S. Government Printing Office 76-811 O, pages 233, 242

Orange has a per capita income of $10,899 which is the seventh highest of all of New Jersey's 567 municipalities, according to the data elements for EP-11. Similarly, when the Borough of Fairfield became the "Township of Fairfield" in 1978, its entitlement increased from $77,152 in EP-10 to $235,832 in EP-11 [17] and would have been $346,972 except for the 145% constraint rule [18]. Fairfield having a Faulkner Act charter, changed its designation by referendum alone.

In April 1980, the Town of West Orange, which has a Faulkner Act government, announced its intention to reclassify itself as a township to gain additional general revenue sharing funds. Although the anticipated gain was said to be $200,000, I estimate there would be a bonanza of $687,669 [20]. This huge increase, from $252,043 to $939,712, would hurt every other Essex County municipality which is not already constrained by the 145% or the 20% rule. Furthermore, 60% of the gain would be at the expense of other municipalities and county governments throughout the State.

If the Congress does not eliminate township distinctions, I fear that there will be a proliferation of such designation changes to "townships" because the incentive is so strong. For example, I have calculated that the City of Trenton, which has a Faulkner Act charter, could independently change its designation to the "Township of Trenton City", and receive a $545,000 increase in its general revenue sharing. If all else fails, the Town of Montclair, which will have a Faulkner Act charter on July 1, 1980, and many other municipalities may have no choice but to become townships, and that would be a shame. It would require awkward nomenclature, such as "Township of Montclair Town", and, more importantly, would violate principles of equity.

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[17] Appendix O & P, pages 36, 37
[18] Appendix Q, page 38
[20] Appendix S, page 40

A question has arisen about whether New Jersey should be granted the relief it seeks, because the most recent State action was blocked in the Legislature, indicating opposition.

We submit that the record amply justifies relief. The bill in question, N. J. Senate No. 907, the only option available at the time, provided an incomplete solution, because Census would not recognize reclassification of sparsely populated townships for demographic reasons. This caused anomolies in certain counties, such as Mercer, in which the unreclassified townships would have gained additional windfalls. Nonetheless, the bill was not defeated. It passed the N. J. Senate and was reported to be supported by the Governor, but was assigned to an inappropriate Committee of the General Assembly where it languished.

Although such legislation was not enacted, the Legislature and the Governor <u>are</u> on record in favor of a complete reclassification of <u>all</u> New Jersey townships by the federal government to correct the "Township Inequity". This is an important point. N. J. Senate Concurrent Resolution No. 3004 [8] sc attests as to both houses of the Legislature, as does the Governor's supportive letter [9].

Furthermore, the Minish Amendment, which would have provided complete reclassification of New Jersey townships, received the overwhelming support of the New Jersey Congressional Delegation [5] in the House of Representatives. The vote was 11 for, 1 against and 3 paired for.

Finally, as to the opposition, naturally the townships which stood

[5] Appendix G, page 23
[8] Appendix H, page 24-26
[9] Appendix I, page 27

to lose their windfalls were in opposition. However, almost all of them had very low tax rates for municipal purposes, and could have made up the lost revenue by increased tax rates which still would have been low compared with the cities in their counties. Furthermore, the bill had no provision for retroactivity.

We are elated that the Administration has included a provision in S. 2574 which will eliminate all intra-State tiers[21] and cause all types of local governments (other than Indian tribes and Alaskan native villages) to compete simultaneously with each other within their respective States.

We applaud the Administration for recognizing that the "Township Inequity" is a serious problem which merits correction. The broad applicability of the new detiering provision is unequivocal evidence of the Administation's concern.

Although the detiering concept is not new (I had recommended complete detiering to the Director of the Office of Revenue Sharing as early as February 1975[22]), it has proved so difficult to have any changes made in general revenue sharing that for years we have pursued a limited goal of seeking relief from the "Township Inequity" in New Jersey alone. The administration's broad new provision to eliminate intra-State township distinctions, and County area and County government distinctions also, is positively breathtaking.

In testifying before Chairman L. H. Fountain's House Subcommittee on April 16, 1980 together with Mayor Arthur J. Holland of Trenton, I presented an April 15, 1980 letter from Governor Brendan T. Byrne[23], in which the Governor reaffirmed his support of eliminating the township distinction as irrelevant

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[21]Appendix T, page 41
[22]Appendix U & V, pages 42 & 43
[23]Appendix W, page 44

in New Jersey, his only reservation being a desire to review the data before deciding whether the change most equitably and appropriately should be applied intra-county, intra-State or nationally.

While Mayor Holland and I, as well as others in New Jersey associated with us in this endeavor, fully support and urge enactment of the detiering provision of S. 2574, we have misgivings that this new provision's very broadness may limit its support because of the widespread changes it would cause, possibly resulting in the provision being amended out of the Bill, thereby perpetrating the "Inequity" in New Jersey where the problem is acute. This would be a dreadful fate for such an urgently need reform.

Should the detiering provision in S. 2574 fail to be enacted, we urge that, as a fall-back alternative, the definition of "Townships" in Sec. 108 (D) (3) of the Act be amended to eliminate the distinction between townships and other municipalities in New Jersey alone, for the purposes of the Act only. The Louisiana Rule is adequate precedent for such special legislation.

Thank you.

APPENDIX A

THE GENERAL COUNSEL OF THE TREASURY
WASHINGTON, D.C. 20220

RECEIVED
SEP 2 1976
TOWN OF MONTCLAIR
DEPT. OF PUBLIC WORKS

SEP 1 1976

Dear Commissioner Bonsal:

I have been given responsibility within the Treasury Department for the renewal of General Revenue Sharing. On behalf of President Ford, I would like to express appreciation for the copy of your report to the Senate Finance Committee recommending amendment of H.R. 13367 which you sent to the President.

The Treasury Department has given careful attention to the issues raised in your paper. Our conclusion is that while a real problem is raised relative to the use of separate intra-county "pots" for places and townships in allocating revenue sharing funds, a suitable solution to the problem has not presented itself.

Please find enclosed a copy of my letter to Chairman Fountain of the House Government Operations Subcommittee on Intergovernmental Relations and Human Resources on this subject.

Since the preparation of this letter additional relevant data have come to our attention. This data indicates that use of a common intra-county "pot" for places and townships in New Jersey would in some counties not result in a distribution of revenue sharing monies more in line with tax effort or taxes per capita.

The proposal by Representative Minish described in your report would utilize a common place-township "pot" only for the four States where the entirety of the State's territory is divided into general purpose municipalities and townships none of which overlap.

In commenting on this proposal, I would first call attention to the June 10, 1976 letter from Census Director Barabba to Mr. Minish which you reprint in your report. This letter states that a number of other States almost meet the criteria contained in the Minish proposal. Thus, these criteria would not establish a clear-cut standard by which to vary the intra-county allocation method.

APPENDIX A (CONTINUED)

- 2 -

More importantly, the criteria do not really relate to anything which is relevant to deciding whether places and townships should be dealt with separately or not. The separate "pot" approach resulted from the fact that in some States places and townships overlap and, more importantly, the thought that these two types of units are usually quantitatively different.

As a matter of fact, in Massachusetts, Rhode Island, and Wisconsin, the other three States which would meet the standards of the Minish amendment, townships and places generally differ significantly in terms of population, per capita income, per capita taxes, and tax effort. Consequently, the standard for determining which mode of allocation is to be used, does not seem to be a reasonable one.

In conclusion, I think you are to be commended for the careful study you have given to the subject of your report to the Finance Committee. We at the Treasury are aware that New Jersey is almost unique in the degree to which its townships and places are governmentally similar. In fact, we have even inquired of the Bureau of the Census if there are grounds to reclassify governments below the county level in your State. The Bureau does not seem to feel that such action could be justified.

Again, your interest in this important matter is appreciated.

Sincerely,

Richard R. Albrecht
General Counsel

Mr. Richard I. Bonsal
Commissioner
Department of Public Works
647 Bloomfield Avenue
Montclair, N.J. 07042

Attachment

APPENDIX B

ESSEX COUNTY ALLOCATIONS

WITH TOWNSHIPS RECLASSIFIED THE SAME AS OTHER MUNICIPALITIES

Basis: Entitlement Period 11 Data Elements

Municipalities	Actual Entitlement	Reclassified Entitlement (Est.)	Change
Cedar Grove Township	305,086	78,861	- 226,225 #
Livingston Township	259,287	122,634*	- 136,653 #
Maplewood Township	395,276	102,174	- 293,102 #
Millburn Township	199,828	84,639*	- 115,189 #
South Orange Township	268,992	69,531	- 199,461 #
Fairfield Township	235,832**	89,688	- 146,144 #
Township Total	1,664,301	547,527	- 1,116,774 #
Belleville Town	289,037	315,462	+ 26,425
Bloomfield Town	344,108	375,568	+ 31,460
Caldwell Borough	45,289	49,429	+ 4,140
East Orange City	1,121,072	1,223,563	+ 102,491
Essex Fells Borough	10,299 *	10,299*	0
Glen Ridge Borough	34,508	37,663	+ 3,155
Irvington Town	494,104	539,277	+ 45,173
Montclair Town	171,844	187,555	+ 15,711
Newark City	9,673,757 **	9,673,757 **	0
North Caldwell Borough	28,552 *	28,552 *	0
Nutley Town	174,566	190,525	+ 15,959
Orange City	448,847	489,881	+ 41,034
Roseland Borough	39,911	43,559	+ 3,648
Verona Borough	60,936 *	60,936 *	0
West Caldwell Borough	61,151	66,741	+ 5,590
West Orange Town	252,043	275,086	+ 23,043
Places Total	13,250,024	13,567,853	317,829
Combined Total	14,914,325	14,115,380	- 798,945

* Constrained by 20% rule
** Constrained by 145% rule

Windfall portion of entitlement

RB 2-80

Notes: South Orange, as a Village, was allocated $73,791 in EP-9.
Fairfield, as a Borough, was allocated $77,152 in EP-10.

Actual entitlement is based on U. S. Treasury Department Printout.
Reclassified entitlement (est.) is subject to refinement by computer to reflect redistribution of constrained overages/underages throughout the State.

APPENDIX C

HUDSON COUNTY ALLOCATIONS
WITH TOWNSHIPS RECLASSIFIED THE SAME AS OTHER MUNICIPALITIES
Basis: Entitlement Period 11 Data Elements

	Actual Entitlement	Reclassified Entitlement (Est.)	Change
North Bergen Township	881,192	676,376	- 204,816 #
Weehawken Township	314,505	241,404	- 73,101 #
Township Totals	1,195,697	917,780	- 277,917 #
Bayonne City	961,470	985,945	+ 24,475
East Newark Borough	57,033 **	57,033 **	0
Guttenberg Town	60,949	62,501	+ 1,552
Harrison Town	344,412	353,180	+ 3,768
Hoboken City	948,861	973,014	+ 24,153
Jersey City City	5,936,379	6,087,491	+ 151,112
Kearny Town	689,934	707,496	+ 17,562
Secaucus Town	232,690	238,613	+ 5,923
Union City City	942,593	966,587	+ 23,994
West New York Town	734,888	753,595	+ 18,707
Places Total	10,909,209	11,185,455	+ 276,246
Combined Total	12,104,906	12,103,235	- 1,671

RB 2-80

** Constrained by 145% rule

Notes: Actual entitlement is based on U. S. Treasury Department Printout.

Reclassified entitlement (est.) is subject to refinement by computer to reflect redistribution of constrained overages/underages throughout the State.

Windfall portion of entitlement

APPENDIX D

MERCER COUNTY ALLOCATIONS
WITH TOWNSHIPS RECLASSIFIED THE SAME AS OTHER MUNICIPALITIES
Basis: Entitlement Period 11 Data Elements

Municipalities	Actual Entitlement	Reclassified Entitlement (Est.)	Change
East Windsor Township	280,010	201,881	- 78,129 #
Ewing Township	247,026	178,100	- 68,926 #
Hamilton Township	1,071,795	772,740	- 299,055 #
Hopewell Township	56,337	43,059*	- 13,278 #
Lawrence Township	407,748	293,977	- 113,771 #
Princeton Township	58,104 *	58,104*	0
Washington Township	53,298	38,426	- 14,872 #
West Windsor Township	76,061	54,838	- 21,223 #
Townships Total	2,250,379	1,641,125	- 609,254 #
Hightstown Borough	32,269	44,439	+ 12,170
Hopewell Borough	9,003 *	9,003*	0
Pennington Borough	9,546 *	9,546*	0
Princeton Borough	52,642 *	61,795	+ 9,153
Trenton City	1,568,905	2,160,631	+ 591,726
Places Total	1,672,365	2,285,414	+ 613,049
Combined Total	3,922,744	3,926,539	+ 3,795

* Constrained by 20% rule

RG 2-80

Notes: Actual entitlement is based on U. S. Treasury Department Printout.

Reclassified entitlement (est.) is subject to refinement by computer to reflect redistribution of constrained overages/underages throughout the State.

Windfall portion of entitlement

APPENDIX E

PASSAIC COUNTY ALLOCATIONS
WITH TOWNSHIPS RECLASSIFIED THE SAME AS OTHER MUNICIPALITIES
Basis: Entitlement Period 11 Data Elements

	Actual Entitlement	Reclassified Entitlement (Est.)	Change
Little Falls Township	103,982	69,083	- 34,899 #
Wayne Township	806,260	535,660	- 270,600 #
West Milford Township	533,325	354,328	- 178,997 #
Township Totals	1,443,567	959,071	- 484,496 #
Bloomingdale Borough	88,530	97,140	+ 8,610
Clifton City	637,564	699,569	+ 62,005
Haledon Borough	45,289	49,693	+ 4,404
Hawthorne Borough	116,628	127,970	+ 11,342
North Haledon Borough	49,918	54,773	+ 4,855
Passaic City	853,729	936,758	+ 83,029
Paterson City	2,661,486	2,920,326	+ 258,840
Pompton Lakes Borough	76,219	83,632	+ 7,413
Prospect Park Borough	33,834	37,124	+ 3,290
Ringwood Borough	139,719	153,308	+ 13,589
Totown Borough	104,232	114,368	+ 10,136
Wanaque Borough	101,058	110,886	+ 9,828
West Paterson Borough	73,568	80,722	+ 7,154
Places Total	4,981,774	5,466,269	+ 484,495
Combined Total	6,425,341	6,425,340	- 1

RB 2-85

Notes: Actual entitlement is based on U. S. Treasury Department Printout.

Reclassified entitlement (est.) is subject to refinement by computer to reflect distribution of constrained overages/underages throughout the State.

Windfall portion of entitlement

APPENDIX F

THE MINISH AMENDMENT TO H.R. 13367

(Defeated June 10, 1976: Ayes 158, Noes 229, Not Voting 44)

Section 108 (D) (3) of the Act is amended as follows:

"(3) TOWNSHIPS. - The term "Township" includes equivalent subdivisions of government having different designations (such as "Towns"), and shall be determined on the basis of the same principles as are used by the Bureau of the Census for general statistical purposes, but shall not include any subdivisions of government located in States which have the entirety of their territorial limits divided into general purpose municipalities and townships (as defined by the Bureau of the Census for general statistical purposes), none of which overlap."

Note: The special criteria of the Minish Amendment would have applied only to Massachusetts, New Jersey, Pennsylvania, Rhode Island, and Wisconsin.

SOURCE: Congressional Record, Vol., No.89, page H5644

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APPENDIX G

VOTE OF THE NEW JERSEY DELEGATION ON THE MINISH AMENDMENT TO H.R. 13367

AYES: 11	Florio
	Hughes
	Howard
	Fenwick
	Maguire
	Roe
	Rodino
	Minish
	Rinaldo
	Meyner
	Patten
NOES: 1	Forsythe
NOT VOTING: 3	Thompson (paired for)
	Helstoski (paired for)
	Daniels (paired for)

SOURCE: Congressional Record, Vol. 122, No. 89, page H5646

APPENDIX H

Passed by New Jersey State Senate on April 28, 1977

Passed by New Jersey State General Assembly on June 30, 1977

SENATE CONCURRENT RESOLUTION No. 3004

STATE OF NEW JERSEY

INTRODUCED JANUARY 11, 1977

By Senators ORECHIO, LIPMAN, GREENBERG, DODD, IMPERIALE, MERLINO, MARESSA, BURSTEIN, DUGAN and MUSTO

Referred to Committee on County and Municipal Government

A Concurrent Resolution urging the Bureau of Census of the United States Department of Commerce to classify all New Jersey municipalities in a single category for general statistical purposes.

Whereas, The entirety of the territorial limits of the State of New Jersey is divided into 21 counties, none of which overlap; and

Whereas, The entirety of the territorial limits of each county is divided into equivalent subdivisions of government having different designations, such as townships, cities, towns, villages and boroughs, none of which overlap; and

Whereas, The entirety of the territorial limits of the State of New Jersey is divided into 567 such subdivisions, none of which overlap; and

Whereas, The laws of the State of New Jersey empower each such subdivision, irrespective of designation, to act as a general purpose local government to levy ad valorem taxes on a uniform basis on the nonexempt real property and certain business personal property within its territorial limits, and to provide or arrange to provide certain general services for its individual, group, commercial and industrial inhabitants; and

Whereas, Within the State of New Jersey, there are no differences of form or function between townships and other equivalent subdivisions of government which justify separate classification for general statistical purposes by the Bureau of the Census of the Department of Commerce of the United States; and

WHEREAS, According to the existing determination by the said Bureau of the Census, townships within the State of New Jersey are classified separately from other equivalent subdivisions of government for general statistical purposes; and

WHEREAS, Such determination, when applied to section 108 (d) (3) of the State and Local Fiscal Assistance Act of 1972, as amended (31 U.S.C. 1221 et seq.) has resulted in inequitable allocations of general revenue sharing funds between townships and other equivalent subdivisions within the State of New Jersey whereby some subdivisions have unfairly benefited and others, including most of the State's major cities, have been unfairly penalized; now, therefore

BE IT RESOLVED *by the Senate of the State of New Jersey (the General Assembly concurring):*

That the Bureau of the Census of the Department of Commerce of the United States be urged to find and determine that, within the State of New Jersey, all subdivisions of government below the county government level having different designations, such as townships, cities, towns, villages and boroughs, be classified in a single category for general statistical purposes; and

BE IT FURTHER RESOLVED that a certified copy of this concurrent resolution be forwarded to the Director of the said Bureau of the Census and to each of the members of the House of Representatives and Senate of the United States who represent New Jersey.

STATEMENT

The Federal revenue-sharing formula makes a distinction between townships and municipalities because in most states the former represent jurisdictions (usually sparsely populated) which are not incorporated and which exercise few of the governmental powers normally assigned to local governments. The revenue-sharing law provides that money be allocated separately to townships and to other municipalities.

This distinction is not relevant to New Jersey, where a township enjoys the same full municipal authority as any other municipality. "Township" here is only a name, not a peculiar classification of local jurisdiction.

But because revenue-sharing moneys are allocated out of what are effectively two separate accounts, townships in many parts of the state receive different allocations than nearby communities of similar social characteristics that go under the name of town,

APPENDIX H (CONTINUED)

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borough, city or village. In some (but not all) counties, such as Essex, the separate classification enables townships to escape sharing the "township" share of the county entitlement with the county's largest and neediest city. This means the other municipalities must forego a larger share of their potential revenue-sharing because the major city draws its entitlement from their smaller "pot".

If this inequity were eliminated in New Jersey, the entire allocation per county would come out of a single account. In Essex, for example, this would mean that Newark's share would be calculated on a larger base; $593,523.00 more would go to that city. The smaller cities and towns in Essex would also gain, since the money previously segregated for Essex townships would now be in the one county-wide funding pool.

Because the Federal revenue-sharing formula relies on census data, this resolution is directed to eliminating the distinction in census reports between New Jersey townships and other municipalities.

The listing below indicates how the current false distinction penalizes large and needy communities. It presents the revenue-sharing gain for fourteen communities if the township inequity were cured.

EFFECT ON SELECTED CITIES IF TOWNSHIP INEQUITY IS ELIMINATED

Basis: Entitlement Period 6 (7/1/75 to 6/30/76)

City	Gain in General Revenue Sharing Allocation
Bayonne	+ $34,584
Camden	+ 367,176
Clifton	+ 43,537
East Orange	+ 55,552
Elizabeth	+ 115,556
Jersey City	+ 149,180
Linden	+ 40,892
Newark	+ 593,523
New Brunswick	+ 40,746
Passaic	+ 37,198
Paterson	+ 175,114
Perth Amboy	+ 52,910
Plainfield	+ 50,620
Trenton	+ 584,985

SOURCE: Department of the Treasury, General Revenue Sharing RS-385-A 03-22-76 20:03:53 Printout of Normal Allocation vs. Trial No. 68 Allocation.

APPENDIX I

STATE OF NEW JERSEY
OFFICE OF THE GOVERNOR
TRENTON
08625

BRENDAN T. BYRNE
GOVERNOR

July 27, 1977

Mr. Manuel Plotkin, Director
Bureau of Census
Federal Building No. 3
Suitland, Maryland 20233

Dear Mr. Plotkin:

I would like to convey to you my support for Senate Concurrent Resolution No. 3004.

Although New Jersey does not require gubernatorial review of concurrent resolutions, I wish to express my endorsement for the concept which this resolution advances. The distinction between townships and municipalities is irrelevant in its application to the distribution of general revenue sharing funds in New Jersey. I hereby endorse efforts to seek an administrative change from the Bureau of the Census whereby all units of government below the county level in New Jersey be classified in a single category for statistical purposes.

Sincerely,

GOVERNOR

APPENDIX J

THE WHITE HOUSE

WASHINGTON

October 20, 1977

Dear Mr. Bonsal:

Thank you for your letter to the President of August 25, on the classification of units of local government in New Jersey.

The Department of the Treasury implements the General Revenue Sharing Program according to the provisions of the State and Local Fiscal Assistance Act of 1972 (Public Law 92-512) as amended by the State and Local Fiscal Assistance Amendments of 1976 (Public Law 94-488). Section 108(d)(1) of the statute clearly specifies that the classification of local governments shall be determined on the basis of the same principles as are used by the Bureau of the Census for general statistical purposes.

As you mentioned in your letter, a meeting on the New Jersey situation was held on August 24, 1977 at the Office of Revenue Sharing. The Census Bureau representatives at the meeting made it clear that that Agency did not intend to reclassify New Jersey local governments at this time.

Since the meeting the Census Bureau has reaffirmed its position that the distinction between cities, towns, villages, and boroughs on the one hand, and townships on the other, is not based primarily on governmental or corporate differences between these types of entities. The classification takes into account the demographic contrasts as to density and character of settlement that still distinguish most townships, even in New Jersey, from most cities, towns, villages, and boroughs. The Census Bureau finds that such demographic distinctions are too great to justify treating all local governments in New Jersey alike for general statistical purposes. Consequently, the Office of Revenue Sharing has no basis for making a change in its treatment of New Jersey governments.

APPENDIX J (CONTINUED)

-2-

Since the Census Bureau does not intend to reclassify New Jersey townships, perhaps the most appropriate way to achieve such a change in classification would be through State action altering the legal designation of larger townships to another type of municipality. The Office of Revenue Sharing will be pleased to forward any State legislative proposal to the Census Bureau for an analysis of how that agency would treat the classification of governments under such legislation.

I cannot comment on your claim that the Governor's recent reclassification of South Orange to a township from a village will greatly increase its revenue sharing allocation at the expense of the City of Newark. Your letter gave no indication as to the methodology or computations which were used to arrive at these figures. The Office of Revenue Sharing will reclassify South Orange for future computer allocations once the Census Bureau recognizes the change in South Orange's corporate status.

Any reclassification of New Jersey governments, however, will have no effect on revenue sharing allocations until at least Entitlement Period 10 (October 1, 1978 - September 30, 1979). The data definitions for the allocations and entitlements of recipient governments for Entitlement Period 9 were declared final on June 15, 1977 by an entry published in the Federal Register on June 13, 1977 (42 FR 30261).

I trust this information will be useful to you. Please let me know if I can be of further assistance on this matter.

Sincerely,

Kurt L. Schmoke

Kurt L. Schmoke
Assistant Director
Domestic Policy Staff

Mr. Richard I. Bonsal
Commissioner
Town of Montclair
Montclair, New Jersey 07042

APPENDIX K

[SECOND OFFICIAL COPY REPRINT]

SENATE, No. 907

STATE OF NEW JERSEY

INTRODUCED FEBRUARY 27, 1978

By Senator ORECHIO

Referred to Committee on County and Municipal Government

An Act concerning the redesignation of densely populated townships.

Be it enacted *by the Senate and General Assembly of the State of New Jersey:*

1. This act shall be known and may be cited as the "Urban Township Redesignation Act."

2. The Legislature hereby finds that the classification for general statistical purposes of townships within this State that are densely populated and thereby urban in character, in a single classification with townships that are less densely populated and thereby rural in character, distorts statistical groupings of municipalities according to their urban character; and, that such single classification of all New Jersey townships creates distortions and inequities in the allocation of Federal aid, such as General Revenue Sharing, among New Jersey municipalities.

The Legislature, therefore, declares it to be the public policy of this State to facilitate more meaningful statistical classifications of municipalities and more equitable allocations of Federal aid, such as General Revenue Sharing.

The Legislature further declares it to be the public policy of this State to insure that townships that are densely populated are redesignated pursuant to the provisions of this act to enable them to be classified for general statistical purposes together with cities, towns, villages and boroughs, and separately from more rural townships so that no confusions, misconstructions or misrepresentations may thwart the purposes hereof.

3. As used in this act:

a. "Municipality" means a city, town, village, borough or township within this State.

Explanation—Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and is intended to be omitted in the law.

APPENDIX K (CONTINUED)

2

b. "Census Bureau" means the United States Bureau of the Census

c. "Densely populated" means that the population density of a municipality equals or exceeds *[1,000]* *7,500* persons per square mile, by determination of the Director of the Division of Local Government Services, as provided in this act.

d. "Designation" means the complete legal name of a municipality according to its charter or any general incorporation act, except as provided in this act.

e. "Director" means the Director of the Division of Local Government Services.

f. "Division" means the Division of Local Government Services in the State Department of Community Affairs.

g. "New designation" means the redesignated complete legal name of a municipality, which is designated as a "township" according to its charter or any general incorporation act and is densely populated, as provided in this act.

h. "Old designation" means the designation of a township immediately prior to its becoming densely populated, as provided in this act.

4. The Director of the Division of Local Government Services shall maintain a certified, current listing of population densities for each township calculated by dividing the population according to the most recent decennial census conducted by the Census Bureau, by the most recent land area as determined by the New Jersey *[Office of Demographic and Economic Analysis]* *_Department of Community Affairs_*.

5. A municipality which is designated as a "township" according to its charter or any general incorporation act, and is densely populated as determined by the director from calculations based on population data according to the 1970 census of the Census Bureau, or which becomes densely populated as determined by the director from calculations based on population data according to any subsequent decennial census conducted by the Census Bureau, immediately shall become redesignated as follows:

a. The first two words of the new designation shall be "Town of"; and,

b. The last word of the new designation shall be "Township," unless the old designation included the word "City," "Town," "Village," or "Borough" in addition to the word "Township," in which case the last word of the new designation shall be such word other than "Township"; and,

APPENDIX K (CONTINUED)

c. The words between the first two words and the last word of the new designation shall be all of the words of the old designation in the same order, except that the words "Township," "City," "Town," "Village" or "Borough" shall be deleted, and the word "of," if it otherwise would be the third word as well as the second word of the new designation, shall be deleted as the third word.

6. The new designation of a densely populated former township, as provided in this act, shall replace and supersede the old designation of such township as stated in its charter or any general incorporation act.

7. The new designation of a former township, which has been redesignated as provided in this act, may be amended in accordance with the laws of this State, provided that such amended designation shall not include the word "township."

8. Notice shall be provided, as follows:

a. The Director of the Division of Local Government Services shall forward a certified copy of this act, within 5 days following its enactment, to the Director of the Census Bureau, and to the Director of the Office of Revenue Sharing of the United States.

b. The Director of the Division of Local Government Services shall notify each municipality, which is designated as a "township" according to its charter or any general incorporation act and has ceased to be a "township" as provided herein, of its new designation with 10 days of the date of such redesignation.

*9. Nothing contained in this act shall be construed so as to affect the form of government of any township redesignated pursuant to this act. This act shall be limited to the classification of municipalities for the purposes specified herein, and shall not be construed to alter, modify, or amend any statute or regulation of this State as the same presently applies to the townships herein redesignated as towns.

10. In the first budget year to which the provisions of this act apply, any municipality which receives a distribution of federal revenue sharing funds in an amount less than that which such municipality received in the immediately preceding budget year, shall be entitled to an exception from the local budget limitations imposed pursuant to P. L. 1976, c. 68 (C. 40A:4-45.1 et seq.) in the amount of the reduction of such distribution.

The Director of the Division of Local Government Services shall certify to each such municipality the amount of the exception to which it is entitled pursuant to this section.*

[9.] *11.* This act shall take effect immediately.

BYRNE BACKS CITIES IN NJ MONEY DISPUTE

APPENDIX L

440

He'll OK 530Gs For Trenton

33

By TONY WILSON
Staff Writer

Gov. Brendan Byrne took Trenton's side yesterday in the dispute with townships — especially Hamilton — over the distribution of federal revenue sharing funds in New Jersey.

Byrne told a press conference he would sign the state senate bill — barring some unforeseen technical problem with the legislation — that would give Trenton an extra $530,000 in annual federal aid.

Hamilton, the second largest municipality in Mercer County, would lose about $366,000. Four other Mercer townships would lose too: Ewing, $83,000; Lawrence,

Related Story on Page Three

$68,000; East Windsor, $55,000, and Princeton, $3,000.

The measure, which barely cleared the senate Dec. 4, still faces an uncertain fate in the assembly.

"I'm for the concept," Byrne said of the measure, which redefines townships as "towns" — for federal revenue sharing purposes only.

The Democratic governor previously had not taken a public position on the legislation.

Proponents of the legislation contend a quirk in the federal distribution formula now permits many townships in New Jersey to reap an unfair share of the aid, while opponents argue that it is unconstitutional for ~

(Continued on Page [illegible])

Byrne Sides with Cities

(Continued from Page One)

state legislature to tamper with anything that affects the distribution of federal money.

The "inequity" surfaced in September when the former "village" of South Orange in Essex County changed its name to "township" to pick up an increase of $260,000 in revenue sharing funds. Other Essex communities cried foul when their federal allocations were trimmed to make up for South Orange's gain.

Not all townships would lose under theproposed state legislation. Hopewell Township, for example, would gain $18,000, while Washington and West Windsor townships would gain $24,000 each.

Among the other Mercer municipalities, Hightstown Borough would gain $9,000, Hopewell Borough would get an extra $3,000, Princeton Borough would get $13,000 more and Pennington Borough would remain the same.

Senate President Joseph Merlino (D-Trenton and Hamilton) pushed hard to get the measure through the upper house even though his district is split over the issue.

In the assembly, Trenton-Hamilton Democrats Francis McManimon of Hamilton and Gerald Stockman of Trenton are split on the sides of their respective hometowns.

Trentonian 12/27/78

EFFECT OF S-907 (A-1414) ON THE 27th LEGISLATIVE DISTRICT

CHANGE IN GENERAL REVENUE SHARING GRANT

Basis: Entitlement Period 10 (Prelim.)

Municipality	1976 Population	Present Grant, Per Capita	Resulting Grant, Per Capita	Present Grant Amount	Resulting Grant, Amount	Gain (+) or Loss (-) Amount
* Bloomfield Town	53,112	$ 7.06	$ 7.74	$375,350	$411,358	+ $ 36,008
* Caldwell Borough	8,411	4.62	5.06	38,889	42,619	+ 3,730
Cedar Grove Twp.	12,888	27.44	6.37	353,699	82,134	- 271,565
* Essex Fells Borough	2,569	4.10	4.10	10,533	10,533	0
** Glen Ridge Borough	8,552	4.10	4.39	35,064	37,547	+ 2,483
* Montclair Town	42,301	4.52	4.96	191,622	210,005	+ 18,383
* Nutley Town	31,477	5.67	6.21	178,639	195,776	+ 17,137
* Verona Borough	14,786	4.10	4.10	60,624	60,624	0
Total	174,096	$ 7.15	$ 6.03	$1,244,420	$1,050,596	- $193,824

* Passed Resolutions urging enactment of S-907 (A-1414) - Combined population: 152,656 or 87.7% of District Total

** Passed Resolution of conditional support for provisions of S-907 (A-1414) - Combined population with above: 161,208 or 92.6% of District Total

NOTE: Cedar Grove's per capita grant of $27.44 compares with Newark's per capita grant of $29.72, the maximum legally permitted in the current Entitlement Period.

Prepared by:
Richard I. Bonsal
April 30, 1979

APPENDIX M

APPENDIX N

RESOLUTION

Be it resolved by the Mayor and Council of the Borough of Verona, N.J. that

WHEREAS, Assembly 1414 and Senate 907 entitled "Urban Township Redesignation Bills" have been placed before the legislature for consideration, and

WHEREAS, serious inequities exist throughout the state of New Jersey because of an improper interpretation of "Township", and

WHEREAS, the municipalities of similar income and character are receiving disproportionate Federal revenue sharing payments, and

WHEREAS, equity among New Jersey municipalities should be a guiding principle,

NOW, THEREFORE, BE IT RESOLVED that the Mayor & Council of the Borough of Verona do endorse A1414 and S907 in order that equity and fairness can be achieved.

BE IT FURTHER RESOLVED that Senate and Assembly members of the Essex County delegatio receive copies of this resolution as well as municipalities within the County of Essex.

Record of Council Vote

Councilman	Aye	Nay
Albright		
Foley		
Franciosi		
Lally		
LeVecci		
Russo		
Mayor		

Approved February 5, 19

Rome D. Greco
Mayor

Attest:
Borough Clerk

RS-338-A
06-21-79
11:38:33 31 NEW JERSEY

DEPARTMENT OF THE TREASURY
GENERAL REVENUE SHARING
ALLOCATION (79-1)

ENTITLEMENT PERIOD TEN FINAL X

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06-20-79
14:40

GOVT-CODE	NAME	POPULATION	PERCAP	ADJ-TAX	INTER-GOVT	POT	PLUS-50	MINUS-50	ST	COU	UNI	I	AMT	
						TOTAL * * * *							1,530,863*	
311006006	CUMBERLAND COUNTY	133456	4309	11053588	16955626	1436759			31	006		5	1,436,759	
						COUNTY TOTAL ** ** **							3,060,973**	
	COUNTY AREA TOTAL	872447	5730	336264787	397116743	24978490			31	007		3		
311007007	ESSEX COUNTY	872447	5700	111904732	151344241	8312514			31	007		5		
	TOWNSHIPS TOTAL	106869		22862157	3671891	1698248			31	007		6		
313007002	CEDAR GROVE TOWNSHIP	12488	5761	1769442	212949				31	007	002	7	354,789	27.52
313007003	LIVINGSTON TOWNSHIP	30929	8677	3450641	2464641				31	007	003	7	304,917	9.65
313007004	MAPLEWOOD TOWNSHIP	24474	8444	5057328	358674				31	007	004	7	471,895	19.26
313007005	MILLBURN TOWNSHIP	21026	13638	6910191	453357				31	007	005	7	248,269	11.83
313007601	SOUTH ORANGE TWP	17552	13889	5674115	178537				31	007	601	7	318,378	18.13
						TOTAL * * * *							1,698,248*	
	PLACES TOTAL	765583		201497898	242133638	14967678			31	007		8		
312007001	BELLEVILLE TOWN	37235	5501	6747198	1013337				31	007	001	9	304,692	8.18
312007002	BLOOMFIELD TOWN	53112	6109	9945537	1352343				31	007	002	9	344,283	6.45
312007003	CALDWELL BOROUGH	8411	7589	1570765	141361				31	007	003	9	37,273	4.43
312007004	EAST ORANGE CITY	72604	5259	22428644	13131448				31	007	004	9	1,108,198	15.26
312007005	ESSEX FELLS BOROUGH	2569	12217	667363	8287				31	007	005	9	10,465	4.07
312007006	GLEN RIDGE BOROUGH	8552	8531	1698234	33743				31	007	006	9	34,836	4.07
312007007	IRVINGTON TOWN	57815	5471	8721927	2127613				31	007	007	9	478,175	8.27
312007008	MONTCLAIR TOWN	42331	9431	9264883	3843738				31	007	008	9	179,390	4.24
312007009	NEWARK CITY	331495	3586	106544122	213413033				31	007	009	9	9,789,871	29.53
312007010	NORTH CALDWELL BOROU	7264	9774	1294428	45545				31	007	010	9	29,598	4.07
312007011	NUTLEY TOWN	31477	6272	4494999	463345				31	007	011	9	173,818	5.51
312007012	ORANGE CITY	30242	4979	8235428	4652579				31	007	012	9	452,311	14.95
312007013	ROSELAND BOROUGH	4636	6595	1304153	117437				31	007	013	9	40,975	8.83
312007015	VERONA BOROUGH	14786	8200	2293426	173466				31	007	015	9	60,230	4.07
312007016	WEST CALDWELL BOROUG	11910	7543	2717948	264741				31	007	016	9	65,279	5.48
312007017	WEST ORANGE TOWN	43087	7318	10227669	661348				31	007	017	9	260,703	6.05
312007701	FAIRFIELD BOROUGH	8114	5757	1871207	666344				31	007	701	9	77,152	9.53
						TOTAL * * * *							13,467,218*	
311007007	ESSEX COUNTY	872447	5730	111904732	151344241	8312514			31	007		5	8,312,514	
						COUNTY TOTAL ** ** **							23,477,980**	
	COUNTY AREA TOTAL	196718	4736	31378137	15468432	3419455			31	008		3		
311008008	GLOUCESTER COUNTY	196718	4706	11085515	12171088	1238052			31	008		5		
	TOWNSHIPS TOTAL	127470		12657364	2223845	1379345			31	008		6		
313008001	DEPTFORD TOWNSHIP	24199	4310	2526141	351326				31	008	001	7	310,870	12.83
313008002	EAST GREENWICH TOWNS	3461	5319	461704	52349				31	008	002	7	59,993	17.33
313008003	ELK TOWNSHIP	3025	4372	204657	21769				31	008	003	7	28,189	9.31
313008004	FRANKLIN TOWNSHIP	10289	4158	698406	144435				31	008	004	7	92,259	8.96
313008005	GREENWICH TOWNSHIP	5686	4596	476621	331625				31	008	005	7	73,157	12.86
313008006	HARRISON TOWNSHIP	2773	5137	235736	64822				31	008	006	7	23,642	7.44
313008007	LOGAN TOWNSHIP	1415	5127	316518	76547				31	008	007	7	27,580	19.43
313008008	MANTUA TOWNSHIP	11210	4629	557331	153349				31	008	008	7	59,371	5.29
313008009	MONROE TOWNSHIP	19466	4158	2343750	333443				31	008	009	7	309,607	15.90
313008010	SOUTH HARRISON TOWNS	1273	4383	83662	18542				31	008	010	7	9,635	7.57
313008011	WASHINGTON TOWNSHIP	23845	5324	2275313	131861				31	008	011	7	205,078	8.63
313008012	WEST DEPTFORD TOWNSH	19299	5183	1954134	467857				31	008	012	7	166,132	8.60

GOVT-CODE	NAME	POPULATION	PERCAP	ADJ-TAX	INTER-GOVT	POT	PLUS-SC	MINUS-SC	ST	COU	UNT	I	AMT	
						TOTAL • • • •							1,426,021*	
311006006	CUMBERLAND COUNTY	133175	4309	12653077	19059334	1521767			31	006		5	1,521,767	
						COUNTY TOTAL ** ** **							3,376,48(**	
	COUNTY AREA TOTAL	852345	5700	340738344	431232860	24585694			31	007		3		
311007007	ESSEX COUNTY	852345	5700	116550006	179946800	8409413			31	007		5		
	TOWNSHIPS TOTAL	111168		24866454	2913468	1775490			31	007		6		
313007002	CEDAR GROVE TOWNSHIP	12822	5761	1802489	271869				31	007	002	7	305,486	23.79
313007003	LIVINGSTON TOWNSHIP	29791	8677	3475151	686607				31	007	003	7	259,287	8.70
313007004	MAPLEWOOD TOWNSHIP	23577	8444	5017780	501925				31	007	004	7	395,276	16.76
313007005	MILLBURN TOWNSHIP	20561	13668	6587167	586246				31	007	005	7	199,628	9.71
313007601	SOUTH ORANGE TWP	16515	10684	5677655	323619				31	007	601	7	266,992	16.20
313007602	FAIRFIELD TOWNSHIP	7902	5757	2647116	559707				31	007	602	7	235,832	29.84
						TOTAL • • • •							1,664,301*	
	PLACES TOTAL	741179		199579732	257363392	14630243			31	007		8		
312007001	BELLEVILLE TOWN	37097	5501	6574194	1193678				31	007	001	9	289,037	7.79
312007002	BLOOMFIELD TOWN	50957	6109	9652525	2176481				31	007	002	9	344,108	6.75
312007003	CALDWELL BOROUGH	8141	7589	1966497	175455				31	007	003	9	45,289	5.56
312007004	EAST ORANGE CITY	71863	5259	23364804	18055172				31	007	004	9	1,121,072	15.60
312007005	ESSEX FELLS BOROUGH	2502	12217	657851	17074				31	007	005	9	10,299	4.11
312007006	GLEN RIDGE BOROUGH	8222	8501	1874916	43197				31	007	006	9	34,508	4.19
312007007	IRVINGTON TOWN	56036	5271	10318355	2723493				31	007	007	9	494,104	8.81
312007008	MONTCLAIR TOWN	41060	8401	9135955	4330407				31	007	008	9	171,644	4.19
312007009	NEWARK CITY	329138	3586	104904000	218682060				31	007	009	9	9,673,757	29.84
312007010	NORTH CALDWELL BOROU	6936	9774	1239870	49817				31	007	010	9	28,552	4.11
312007011	NUTLEY TOWN	30692	6272	5161512	916766				31	007	011	9	174,566	5.68
312007012	ORANGE CITY	30265	4979	8363495	6976431				31	007	012	9	448,847	14.86
312007013	ROSELAND BOROUGH	4961	6575	1304742	195164				31	007	013	9	39,911	8.04
312007015	VERONA BOROUGH	14803	8260	2387047	364111				31	007	015	9	60,936	4.11
312007016	WEST CALDWELL BOROUG	11707	7543	2615145	425849				31	007	016	9	61,151	5.22
312007017	WEST ORANGE TOWN	41919	7318	10145342	984597				31	007	017	9	252,643	6.01
						TOTAL • • • •							13,250,024*	
311007007	ESSEX COUNTY	852345	5700	116550006	179946800	8409413			31	007		5	8,409,413	
						COUNTY TOTAL ** ** **							23,323,738**	
	COUNTY AREA TOTAL	196370	4706	33798908	18185839	3577684			31	008		3		
311008008	GLOUCESTER COUNTY	196370	4706	12644232	12759786	1359584			31	008		5		
	TOWNSHIPS TOTAL	128871		13920683	3334439	1473533			31	008		6		
313008001	DEPTFORD TOWNSHIP	24976	4310	2652244	466919				31	008	001	7	335,514	13.43
313008002	EAST GREENWICH TOWNS	3620	5019	697188	74069				31	008	002	7	60,478	16.70
313008003	ELK TOWNSHIP	3081	4672	217945	47718				31	008	003	7	28,722	9.38
313008004	FRANKLIN TOWNSHIP	10472	4158	1486419	257907				31	008	004	7	187,867	17.94
313008005	GREENWICH TOWNSHIP	5726	4596	643737	471297				31	008	005	7	71,765	12.53
313008006	HARRISON TOWNSHIP	3312	5107	230798	93590				31	008	006	7	19,337	6.41
313008007	LOGAN TOWNSHIP	1731	5127	401526	94877				31	008	007	7	33,376	19.28
313008008	MANTUA TOWNSHIP	10460	4629	1030347	224872				31	008	008	7	105,072	10.04
313008009	MONROE TOWNSHIP	19641	4150	2139506	484463				31	008	009	7	270,410	13.76
313008010	SOUTH HARRISON TOWNS	1324	4380	82743	20657				31	008	010	7	9,425	7.11
313008011	WASHINGTON TOWNSHIP	23567	5024	2184789	295087				31	008	011	7	189,142	8.02
313008012	WEST DEPTFORD TOWNSH	20157	5183	1725911	727535				31	008	012	7	140,389	6.96

APPENDIX Q

Department of the Treasury
Office of Revenue Sharing
Data and Demography

to *Richard Bonsal*

room: ________ date: *1/18/80*

Here are the books you requested.

For EP-11, Fairfield Township's (31 3 007 001) unconstrained allocation was $346,972. That was reduced to its initial allocation of $235,832 due to the application of the 145% per capita constraint.

MB

Matthew Butler
2401 E Street NW.
room 1535
phone 634-5166

62-376 0 - 80 - 29

APPENDIX R

UNITED STATES DEPARTMENT OF COMMERCE
Bureau of the Census
Washington, D.C. 20233

OFFICE OF THE DIRECTOR

MAR 1 1 1980

Mr. Richard I. Bonsal
Commissioner
Board of Commissioners
Department of Public Works
Montclair, New Jersey 07042

Dear Mr. Bonsal:

This is in response to your letter of February 22, 1980, which concerns the position of the Bureau of the Census on a proposal to alter the classification of township governments in New Jersey in connection with the Federal Revenue Sharing Program. The Census Bureau takes no position on the desirability of making such a change for revenue sharing purposes.

The Bureau of the Census is, of course, interested in maintaining the stability of its statistical classification methods and criteria. The value of any data series depends in large part on the uniformity and historical consistency of the categories in which the data are presented.

We would, however, have no objection from an operational standpoint to the type of amendment you are proposing. As you point out, the State and Local Fiscal Assistance Act now includes a number of provisions which explicitly authorize the treatment of governmental organizations or transactions at variance with the way in which they are handled by the Bureau of the Census in its general statistical programs, and the Bureau is able to accommodate such variations.

Please let us know if any further information is needed on this matter.

Sincerely,

VINCENT P. BARABBA
Director
Bureau of the Census

TOWN OF MONTCLAIR
DEPT. OF PUBLIC WORKS
RECEIVED
MAR 17 1980
AM 7 8 9 10 11 12 1 2 3 4 5 6 PM

APPENDIX S

ESSEX COUNTY ALLOCATIONS

WITH WEST ORANGE RECLASSIFIED AS A TOWNSHIP

Basis: Entitlement Period 11 Data Elements and Present Procedure

Municipalities	Actual Entitlement	Reclassified Entitlement (Est.)	Change
Cedar Grove Township	305,086	269,396	- 35,690
Livingston Township	259,287	228,954	- 30,333
Maplewood Township	395,276	349,035	- 46,241
Millburn Township	199,828	176,451	- 23,377
South Orange Township	268,992	237,524	- 31,468
Fairfield Township	235,832 **	235,832 **	- 0
West Orange Township	252,043	939,712	+ 687,669
Township Total	1,916,344	2,436,904	+ 520,560
Belleville Town	289,037	279,232	- 9,805
Bloomfield Town	344,108	332,435	- 11,673
Caldwell Borough	45,289	43,752	- 1,537
East Orange City	1,121,072	1,083,040	- 38,032
Essex Fells Borough	10,299*	10,299*	0
Glen Ridge Borough	34,508	33,846*	- 662
Irvington Town	494,104	477,342	- 16,762
Montclair Town	171,844	168,776*	- 3,068
Newark City	9,673,757**	9,673,757**	0
North Caldwell Borough	28,552*	28,552*	0
Nutley Town	174,566	168,644	- 5,922
Orange City	448,847	433,620	- 15,227
Roseland Borough	39,911	38,557	- 1,354
Verona Borough	60,936*	60,936*	0
West Caldwell Borough	61,151	59,076	- 2,075
Places Total	12,997,981	12,891,864	- 106,117
Combined Total	14,914,325	15,328,768	+ 414,443

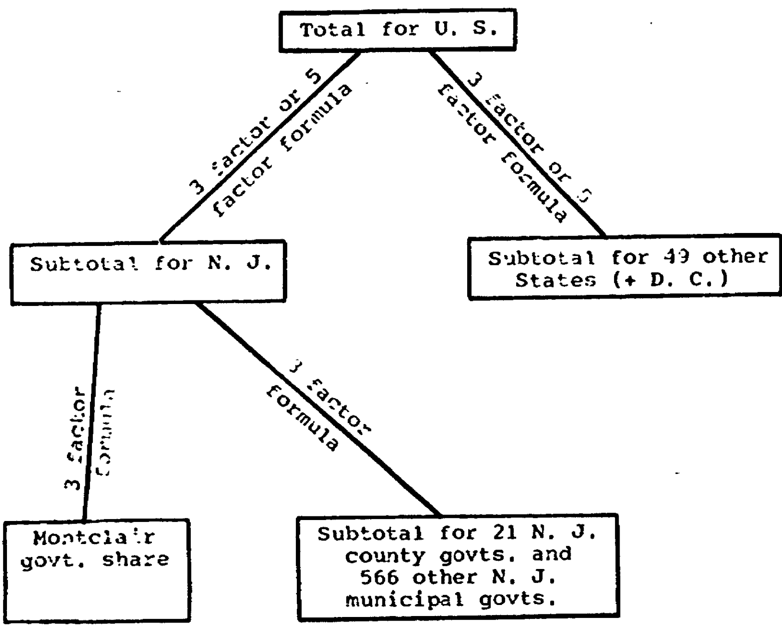
RB 4-80

* Constrained by 20% rule
** Constrained by 145% rule

Notes: Actual entitlement is based on U. S. Treasury Department Printout. Reclassified entitlement (est.) is subject to refinement by computer to reflect redistribution of constrained overages/underages throughout the State.

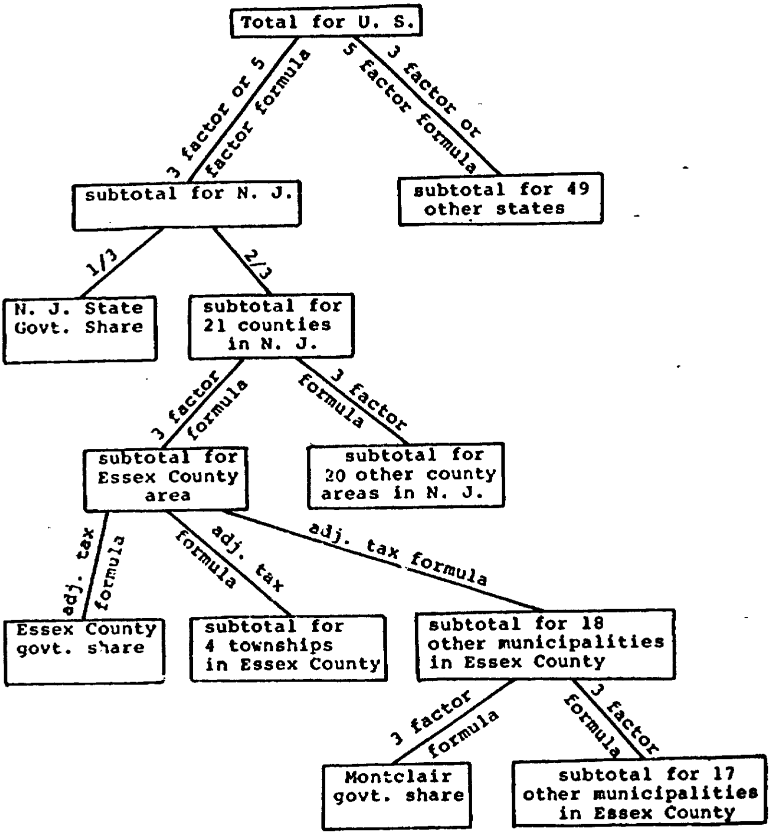
APPENDIX T

ALLOCATION OF GENERAL REVENUE SHARING FUNDS PER 1980 DETIERING PROVISION OF S. 2574



APPENDIX U

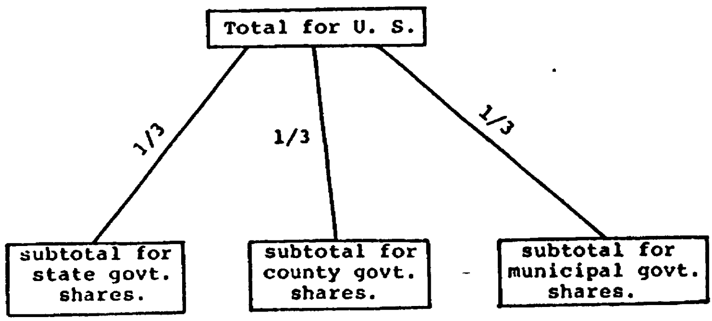
ALLOCATION OF GENERAL REVENUE SHARING FUNDS



Source: Proposals for Correcting Weaknesses in the General Revenue Sharing Program, To: Mr. Graham W. Watt, Director, ORS, From: Commissioner Richard I. Bonsal, Montclair, N. J., Feb. 10, 1975, page 10

APPENDIX V

PROPOSED ALLOCATION OF GENERAL REVENUE SHARING FUNDS



Source: Proposals for Correcting Weaknesses in the General Revenue Sharing Program, To: Mr. Graham W. Watt, Director, ORS, From: Commissioner Richard I. Bonsal, Montclair, N. J., Feb. 10, 1975, page 12

APPENDIX W

STATE OF NEW JERSEY
OFFICE OF THE GOVERNOR
TRENTON
08625

BRENDAN T BYRNE
GOVERNOR

April 15, 1980

Commissioner Richard I. Bonsal
Director, Department of Public Works
Municipal Building
Montclair, New Jersey 07042

Dear Commissioner Bonsal:

In July of 1977, I did communicate with the Bureau of the Census concerning the distinction between townships and municipalities. I share your concern that such a distinction now utilized in the General Revenue Sharing program has led to certain inequities, and I concur that such distinctions between townships and non-townships are not relevant in the State of New Jersey where both perform the same functions.

The merits of your position are clear. What is needed, however, is a greater understanding of what the full impact of treating all such local governments equally would be within the State as a whole, within individual counties and the impact nationally. Clearly, we need the necessary data to make a final judgment on what is the most equitable and appropriate way to resolve this problem.

I applaud you for your efforts in this regard and will continue to work with you and with Congressman Minish, who has played such a leadership role in this effort on your behalf, to develop the best possible resolution.

Sincerely,

Brendan Byrne

GOVERNOR

COMMISSIONER BONSAL May 27, 1980

WHEREAS, the Administration's General Revenue Sharing Renewal Bill, S. 2574 and H.R. 7077, contains a new provision for scaling-down the allocations of so-called wealthy jurisdictions; and

WHEREAS, the Town of Montclair, in the County of Essex, in the State of New Jersey, has an income profile which includes many high income persons and many low income persons such that its per capita income would subject it to the scale-down of the said provision; and

WHEREAS, the said Town of Montclair has significant aspects of need rather than of wealth, having been designated by the State of New Jersey as one of thirty-two municipalities in the State qualified for Urban Aid funding and having a $13 million urban renewal project, two additional neighborhood strategy areas, the sixth highest percentage of food stamp recipients of the twenty-two municipalities in the County and three public housing projects totaling 342 units which cost the Town in tax abatement alone $115.00 per month per unit or $138,000.00 per year per 100 units; and

WHEREAS, per capita income is already taken into account twice in the allocation formula, once by itself and again in the general tax effort factor; and

WHEREAS, per capita income alone is a crude measure of wealth for application of the said wealthy jurisdiction proposal; now therefore

BE IT RESOLVED that the Town of Montclair, in the County of Essex, in the State of New Jersey, urges the President and the Congress of the United States that the new wealthy jurisdiction proposal of the General Revenue Sharing Renewal Bill be amended to include an exemption for local governments recognized to be needy as evidenced by the funding and construction of public housing which has property tax abatement; and

BE IT FURTHER RESOLVED that copies of this resolution be forwarded to the President of the United States, the Secretary of the Treasury of the United States, the Subcommittee on Revenue Sharing, Intergovernmental Revenue Impact and Economic Problems of the Committee on Finance of the United States Senate, the Subcommittee on Intergovernmental Relations and Human Resources of the Committee on Government Operations of the United States House of Representatives, the United States Senators from the State of New Jersey and the Member of the United States House of Representatives from the 11th Congressional District of the State of New Jersey.

I hereby certify the foregoing to be a true copy of a resolution adopted by the Board of Commissioners of the Town of Montclair, in the County of Essex, at its meeting held May 27, 1980.

Anthony B. Arnett

Clerk of the Town of Montclair, N.J.

Senator BRADLEY. Our next witness is John Petersen, director of government finance and research, and Jeffrey Esser, director of liaison, Municipal Finance Officers Association.

If you gentlemen will keep in mind the pressures that build on a freshman subcommittee chairman toward the end of the hearing process.

STATEMENT OF JOHN PETERSEN, DIRECTOR OF THE GOVERNMENT FINANCE RESEARCH CENTER, ACCOMPANIED BY JEFFREY ESSER, DIRECTOR OF LIAISON, MUNICIPAL FINANCE OFFICERS ASSOCIATION

Mr. ESSER. Mr. Chairman, we are well aware of the hour and we will summarize our statements.

I am Jeffrey L. Esser, director of liaison for the Municipal Finance Officers Association. We appreciate this opportunity to present the views of State and local government finance officers from throughout the United States on the general revenue sharing program.

The MFOA has been a strong supporter of the general revenue sharing program since we adopted our first resolution of support in 1969. My intent in providing you with these introductory comments to the testimony is to indicate the strong support of the MFOA for general revenue sharing.

We do not want to duplicate the testimony that has already been presented to you by the organizations representing State and local government officials. The primary purpose of this appearance is so that the independent Government Finance Research Center of MFOA can provide the subcommittee with current information on the fiscal condition of cities and the State of the tax exempt bond market.

Mr. Chairman, it is my pleasure to introduce to you and the subcommittee Mr. John Petersen, who is the director of the Government Finance Research Center.

Senator BRADLEY. Mr. Petersen.

Mr. PETERSEN. I would like to submit for your consideration a study that was recently completed by our center with the Joint Economic Committee of the U.S. Congress concerning city financial conditions.

Senator BRADLEY. It will be submitted for the record.

[The material referred to follows:]

96th Congress }
2d Session } JOINT COMMITTEE PRINT

TRENDS IN THE FISCAL CONDITION OF CITIES: 1978–1980

A STUDY

PREPARED FOR THE USE OF THE

SUBCOMMITTEE ON FISCAL AND INTERGOVERNMENTAL POLICY

OF THE

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

APRIL 20, 1980

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1980

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(Created pursuant to sec. 5(a) of Public Law 304, 79th Cong.)

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Congress of the United States
JOINT ECONOMIC COMMITTEE
WASHINGTON, D.C. 20510

April 16 , 1980

The Honorable Lloyd Bentsen
Chairman
Joint Economic Committee
U. S. Congress
Washington, D.C.

Dear Mr. Chairman:

I am pleased to transmit herewith a study prepared for the use of the Subcommittee on Fiscal and Intergovernmental Policy of the Joint Economic Committee entitled "Trends in the Fiscal Condition of Cities: 1978-1980."

This study assesses the fiscal condition of over 300 cities with populations greater than 10,000. It analyzes their current revenues and expenditures, balance sheet, assets and liabilities, borrowing, employment patterns, and capital and selected functional expenditures. The study reports 1978 and 1979 data as well as 1980 projections.

The Subcommittee is particularly grateful to the city officials who gave so generously of their time and expertise in completing our lengthy and detailed survey. I am hopeful that this report will be useful to Members of Congress, the Executive Branch, and State and local officials in determining policies for the coming year.

The study was conducted by Deborah Matz of the Committee staff and John Petersen of the Government Finance Research Center of the Municipal Finance Officers Association. Research assistance was provided by Michael Nardone of the Committee staff and Jack Haley and Michael O'Hanlon of MFOA.

Sincerely,

Bill

William S. Moorhead
Chairman, Subcommittee
on Fiscal and
Intergovernmental Policy

CONTENTS

INTRODUCTION AND SUMMARY

This report is a reflection of the Subcommittee's continuing interest in and commitment to analyzing the fiscal condition of American cities. Conducted jointly by the Government Finance Research Center of the Municipal Finance Officers Association and the Subcommittee, this survey is intended to provide an up-to-date and comprehensive picture of recent trends in city government finances.

The survey was mailed to 539 cities with populations of 10,000 or more, of which 302 responded. Throughout, the data are reported on the basis of city size. To enhance comparability, the New York City data are not included in this report. (Additional discussion of the methodology of the survey can be found in the Methodology Section.)

The major findings are:

- For all cities, current expenditures are rising faster than current revenues. As a result, the percentage of cities with operating deficits increased between 1978-1979 and by 1980 a greater proportion of cities are anticipating deficits than are anticipating surpluses.

. In the wake of Proposition 13 and similar measures, city property tax receipts declined in absolute terms and as a proportion of total city revenues in fiscal year 1979. Although property tax receipts are anticipated to rebound somewhat in 1980, their overall significance in city budgets has greatly diminished in the past two years.

. Federal funds used for city operating purposes have declined both absolutely and as a proportion of current total revenues for all sizes of cities except the largest cities during the period under review. Federal aid to the largest cities increased slightly in absolute terms while declining relative to other revenue sources.

. Reductions in property tax and Federal aid revenues are being partially offset by increases in local non-property taxes, as well as by new and increased user charges and State aid.

. In terms of their balance sheets, cities evidently have been successful in strengthening their overall asset position in 1978 and 1979 and have maintained good levels of liquidity. However, a sustained move toward operating deficits could erode these positions and subject cities to cash-flow problems.

City capital outlays, buoyed by Federal grants, generally increased between 1978 and 1979. Further increase is planned for 1980, especially by the largest cities, as cities plan to catch up on deferred capital spending plans. However, these plans are contingent on increases in long-term borrowing and, for the largest cities, a dramatic upsurge in Federal grants for capital purposes. Failure to borrow and to receive Federal capital grants will torpedo the anticipated growth in such spending.

In contrast to general government activity, expenditures and revenues of self-supporting city enterprises (such as water, sewer, electric, and transit utilities) have grown sharply over the period for cities of all sizes. However, growth in expenditures has outstripped revenue growth. As a result, the operating revenues net of operating expenditures have dropped rapidly, especially in the case of the largest cities. Failure to reverse this trend could halt the capital spending plans of many city enterprises, especially in times of tight monetary conditions.

. City long-term borrowing has been eratic during the period 1978 and 1979, a pattern anticipated to continue into 1980. Most noticeable -- and in keeping with the surge in enterprise capital spending -- has been the growth in long-term debt incurred for enterprise activities. As a result of low levels of borrowing for general government purposes, there has been practically no growth in such (usually tax-supported) debt outstanding.

. For all cities, the simple average of the change in their total workforces between 1978-1979 was only 0.9 percent and the change in their full-time, permanent workforces averaged only 2 percent. For 1980, the small and largest cities plan reductions in full-time workers and all cities foresee reductions in their total workforces, including part-time and CETA workers.

62-376 O - 80 - 30

- Except for small cities, all cities experienced large reductions in their CETA workforces in 1979. All categories of cities are projecting further large reductions in 1980.

- Police, fire, and sanitation expenditures increased at a greater rate than total expenditures between 1978 and 1979, and the same trend is projected for 1980. Wages and salaries, however, lagged the increase in the total of such expenditures and, in all cases, fell well short of the rate of inflation.

Conclusions

Despite the fact that the period under study was one of economic recovery, cities, generally, have not flourished. An increasing proportion of cities experienced operating deficits in 1978 and 1979, a trend which is projected to continue in 1980.

In the coming decade, one can expect a growing number of cities to experience severe fiscal stress. Most cities enhanced their solvency in recent years as a result of three factors: national economic recovery, increased direct Federal assistance, and deferred capital expenditures. These factors, however, are changing. For most cities, the unexpectedly high rate of inflation will probably increase city expenditures more than revenues.

Generally, projected city budgets have tended to be conservative, with revenues intentionally underestimated and expenditures overstated. As a result, a greater number of cities tend to budget for operating deficits than actually realize them. However, the unexpectedly high rate of inflation this year may ultimately force expenditures to meet or exceed budgeted amounts. For example, the modest wage and salary increases in 1979 (an average of 4.9 percent in the largest cities) indicates that negotiated settlements in 1980 may exceed budget projections.

Also, increased reliance on cyclically sensitive income and sales taxes and user charges renders more and more cities vulnerable to fiscal stress in economic downswings. In addition, Federal aid to cities has tapered off and is rapidly declining in real terms, a trend not likely to be reversed in the near future. Finally, expenditures which have been deferred will ultimately need to be made to maintain a viable city operation. It seems likely that employees will demand compensatory increases in 1980 to make up for losses to inflation. In addition, because in past years capital expenditures have frequently been deferred to adjust for revenue shortfalls, the deterioration of the capital plant in many cities has reached a critical stage. Capital expenditures, therefore, may be deferred in the future, only at the risk of physical collapse.

Above and beyond these potential problems, it appears that the burden of substituting user charges and sales and income taxes for property taxes is likely to be borne by the lower income populations. These taxes and fees are generally a flat rate from which none of the population is exempted. If services previously provided by the general fund are now placed on a user-pays-cost basis, lower income residents are likely to be more adversely affected than higher income individuals.

While the fiscal outlook for cities is stern, there are some favorable prospects on the horizon. It is clear that cities have already begun to retrench. They will not be caught by surprise. City workforces are getting leaner. Cities are attempting to hold the line on expenditures and already rely more on user-pays-cost revenues. In addition, Federal aid dependency is already in decline and cities consequently have begun the process of adjusting to less assistance from that source. Thus, because many cities have begun the retrenchment process, further retrenchment may not be as difficult or as disruptive as initial efforts may have been.

METHODOLOGY

Cities -- like other governments -- typically keep their books and control their activities through a series of funds. Because of this, it is frequently difficult to get a comprehensive picture of their financial activities unless special pains are taken to recognize the accounting and programmatic distinctions among the fund groups. The survey attempted to simplify some of these difficulties by asking cities to consolidate their finances into two major groups: first, the finances of "general government" activities that are typically supported by general revenues (primarily taxes) and second, the "enterprise" activities that are run largely on a self-supporting basis through the "sale" of certain goods and services by means of user charges and fees. Furthermore, within the general government accounting structure, capital outlays and debt transactions are frequently carried on through use of separate funds, often using receipts that are restricted to those purposes.

It must be recognized, therefore, that to develop estimates of overall financial operations and conditions, certain simplifications and consolidations were necessary. These were largely left to the respondents to perform, relying on a set of careful definitions to guide their judgments as to the most appropriate categorization and compilation (see Appendix II). Therefore, while the individual financial items should be generally comparable among cities in the survey, they may not be directly comparable to figures reported elsewhere regarding city finances, including the cities' own financial reports.

This survey was mailed to 539 cities with populations of 10,000 or more. Throughout, the data are reported on the basis of city size. To enhance comparability, New York City data are not included in the report.

Survey Sample And Responses By City Size

City Size	Surveyed	Responded
Small (10,000-49,999)	278	129
Medium (50,000-99,999)	107	68
Large (100,000-249,999)	97	60
Largest (250,000 and over)*	57	45
Total	539	302

* Excluding New York City.

A list of the respondents is found in Appendix I. All data have been compiled in accordance with the fiscal year of the reporting jurisdiction. Throughout, all references to years refer to fiscal years. Because the survey was mailed in the Fall, 1979, and some cities have fiscal years which end with the calendar year, 1979 "actual" data may, in some instances, represent estimates. In all cases, 1980 data represent budgeted and anticipated outlays. All per capita amounts in this report are based on 1975 population data.

GENERAL OPERATING REVENUES AND EXPENDITURES

The first set of survey questions related to a combined statement of each city's general government current operating receipts and current expenditures. Normally, most general government expenditures and receipts will be contained in the city's general fund. However, because of different accounting structures and service responsibilities, general government activities may be accounted for in a variety of other funds. Therefore, governments were asked to combine all city funds except enterprises (or special utility funds), intergovernmental service funds, and those trust funds for which the city acts only as a fiduciary. The questionnaire asked for a breakdown of current receipts by major types of taxes and other current revenues from own sources, and those State and Federal grants used for current operating purposes (as opposed to capital outlays). The desired result was for a complete picture of those revenues used to provide current city expenditures (as opposed to their capital outlays).

In addition to the current expenditures, cities were also asked in this part of the questionnaire to give their outlays for debt service. Although the repayment of principal in yearly debt service does not constitute a current operating expenditure, as a practical matter, such payments usually are made out of current revenues. Since these contractual commitments are not postponable, they constitute an ongoing drain on current revenues as do most current operating costs.

In each category of cities, the increase in revenues from 1978 to 1979 fell short of the increase in expenditures (see Table 1). The largest disparity occurred in the small cities which averaged a 4 percent increase in current revenues and a 9.5 percent increase in current expenditures in 1979 over 1978. The same trend of expenditure increases exceeding current revenue increases is projected for 1980. In each case, the projected increase in revenues for 1980 is less than the increase in revenues experienced in 1979. In both the smallest and largest cities, the increase in expenditures is expected to fall short of the 1979 increase, while, in the case of the medium and large cities, the increase in expenditures is expected to exceed the previous year's.

Operating Surpluses And Deficits

Table 2 classifies cities by those experiencing operating surpluses or deficits as defined by the survey. In each category of cities, the proportion of cities with an operating surplus declined between 1978

TABLE 1

CURRENT REVENUES AND CURRENT EXPENDITURES
PER CAPITA

City Size	1978 (Act.)	1979 (Act.)	1980a	% Change 1978-1979	% Change 1979-1980
Small					
a. Revenue	$270.11	$281.03	$292.07	4.0%	3.9%
b. Expenditures	$261.07	$285.86	$309.24	9.5%	8.2%
Medium					
a. Revenue	$284.17	$293.02	$300.79	3.1%	2.7%
b. Expenditures	$266.95	$282.15	$302.19	5.7%	7.1%
Large					
a. Revenue	$332.94	$352.32	$365.76	5.8%	3.8%
b. Expenditures	$335.29	$355.78	$381.31	6.1%	7.2%
Largest					
a. Revenue	$424.15	$444.32	$459.35	4.8%	3.4%
b. Expenditures	$409.71	$443.25	$466.51	8.2%	5.2%

1980a=budgeted or anticipated amounts for Fiscal Year 1980

TABLE 2

BUDGETED AND ACTUAL REVENUES, EXPENDITURES, SURPLUSES AND DEFICITS

	1978 Budgeted	1978 Actual	1979 Budgeted	1979 Actual	1980 Budgeted
Small Cities:					
a. Avg. Revenue per Capita	$252.90	$270.11	$268.92	$281.03	$292.07
b. Avg. Expenditure per Capita	$252.01	$261.07	$288.24	$285,86	$309.24
c. Percentage of Cities in Surplus	43.7%	69.7%	32.8%	54.6%	43.7%
d. Avg. Surplus(in thou.)	959	784	521	752	593
e. Surplus/Expenditures	13.8%	12.8%	6.8%	10.6%	8.3%
f. Percentage in Deficit	56.3%	30.3%	67.2%	45.4%	56.3%
g. Avg. Deficit(in thou.)	701	1,005	1,028	1,192	1,281
h. Deficit/Expenditure	10.6%	11.0%	13.2%	14.2%	13.8%
Medium Cities:					
a. Avg. Revenue per Capita	$268.33	$284.17	$280.88	$293.02	$300.79
b. Avg. Expenditure per Capita	$267.36	$266.95	$283.78	$282.15	$302.19
c. Percentage of Cities in Surplus	45.6%	64.7%	41.2%	55.9%	51.5%
d. Avg. Surplus(in thou.)	2,495	2,997	3,084	3,070	2,576
e. Surplus/Expenditures	12.5%	14.6%	14.4%	15.0%	12.7%
f. Percentage in Deficit	54.4%	35.3%	58.8%	44.1%	48.5%
g. Avg. Deficit(in thou.)	1,961	1,995	2,513	2,122	2,939
h. Deficit/Expenditure	10.6%	12.0%	12.8%	10.7%	12.6%
Large Cities:					
a. Avg. Revenue per Capita	$316.58	$332,94	$341.57	$352.32	$365.76
b. Avg. Expenditure per Capita	$335.44	$335.29	$357.16	$355.78	$381.31
c. Percentage of Cities in Surplus	30.5%	67.8%	30.5%	49.2%	32.2%
d. Avg. Surplus(in thou.)	2,634	2,769	2,675	2,810	2,737
e. Surplus/Expenditures	5.1%	6.2%	5.1%	6.2%	5.0%
f. Percentage in Deficit	69.5%	32.2%	69.5%	50.8%	67.8%
g. Avg. Deficit(in thou.)	5,200	6,917	4,518	3,731	4,718
h. Deficit/Expenditure	10.5%	11.3%	8.4%	6.2%	8.2%
Largest Cities (excluding New York City):					
a. Avg. Revenue per Capita	$402.83	$424.15	$427.10	$444.32	$459.35
b. Avg. Expenditure per Capita	$403.36	$409.71	$435.55	$443.25	$466.51
c. Percentage of Cities in Surplus	40.9%	68.2%	31.8%	52.3%	34.1%
d. Avg. Surplus(in thou.)	19,558	17,063	12,690	16,972	15,018
e. Surplus/Expenditures	5.7%	6.1%	3.4%	5.3%	4.3%
f. Percentage in Deficit	59.1%	31.8%	68.2%	47.7%	65.9%
g. Avg. Deficit(in thou.)	14,104	8,314	13,641	17,186	14,538
h. Deficit/Expenditure	7.5%	4.2%	6.1%	7.5%	5.6%

and 1979. This trend, too, is projected to continue into 1980. For those smallest and largest cities that realized operating surpluses in 1979 and that are projecting surpluses for 1980, the surplus as a percentage of total expenditures has declined from 1978 to 1979 and is expected to drop further in 1980.

The ratio of operating surplus to expenditures increased slightly between 1978-1979 for cities in the medium category and remained the same for those in the large category. But cities in both of these categories are projecting a reduction in this ratio in 1980. The number of cities with operating deficits increased in each size category from 1978 to 1979 and is expected to increase further in 1980. In both the small and the largest cities, the mean percentage of the deficit to total expenditures increased between 1978 and 1979, while, in the medium and large cities, the percentage was reduced. The reverse is true for 1980 projections -- the smallest and largest cities are projecting that the ratio of the operating deficit to total expenditures will decline somewhat from the 1979 level, while the medium cities are predicting an increase in this ratio.

In each size category, the proportion of cities experiencing operating surpluses exceeded by considerable margin the proportion of cities in deficit in 1978. In 1979, the margin narrowed significantly and, by 1980, in three out of the four categories -- small cities, large cities, and the largest cities -- a larger proportion of cities is projecting deficits than is projecting surpluses.

It should be noted that the above tendency toward deficits in 1980 may, in fact, be due in part to conservative budgeting practices. In each category of cities, for both 1978 and 1979, the percentage of cities projecting deficits was significantly larger than the percentage that actually had an operating deficit. However, a review of the original budget projections and the actual budget for 1978 and 1979 indicates that, in most categories, those cities which both projected and realized a current budget deficit had an actual average deficit that exceeded the projected amount (see Table 2). For those governments which had budgeted operating surpluses in 1978 and 1979, there is no clear trend. In some instances, the actual average surplus exceeded the projected amount and, in other instances, it fell short.

According to Table 3, conservative budget practices seem to be a common practice. Actual current expenditures were less than budgeted expenditures for cities in the medium and large categories in 1978. In 1979, this was true of small cities in addition to the medium and large cities. Actual current revenues, on the other hand, exceeded budgeted amounts for all

TABLE 3

ACTUAL EXPENDITURES* AND RECEIPTS
AS A RATIO OF
THOSF BUDGETED FOR GENERAL GOVERNMENT
CURRENT OPERATING PURPOSES

City Size	Actual/Budgeted Current Expenditures		Actual/Budgeted Current Revenues	
	1978	1979	1978	1979
Small	1.039	0.992	1.068	1.045
Medium	0.998	0.995	1.059	1.043
Large	0.992	0.998	1.052	1.031
Largest	1.017	1.021	1.053	1.040

* Fxcluding debt service.

categories of cities in both 1978 and 1979. The largest cities, on the other hand, tended to underestimate current expenditures, thus leaving less of a buffer between them and underestimated revenues. On the basis of this experience, it might be assumed that expenditures are budgeted high and revenues, low. However, this may not be the case in 1980. The unexpectedly high rate of inflation in our national economy may force expenditures close to or above budgeted amounts. Unlike many states, most cities do not have income and sales taxes and will not, therefore, be the recipients of unplanned revenues from these price-sensitive sources in the coming year. Therefore, notwithstanding prevalent conservative budget practices, the 1980 projections ought to be viewed in light of the national economic factors which will be influencing them.

Components Of Current Revenue

Probably the single most interesting change occurring in the components of current city revenues is the reduction in property tax receipts, both absolutely and as a proportion of total revenues (see Tables 4 and 5). While taxable property values generally increased between 1978 and 1979, property tax receipts decreased in all size categories. This has resulted in a decline in the proportion of property tax receipts to total

TABLE 6

COMPOSITION OF CURRENT GENERAL REVENUES
IN PER CAPITA AMOUNTS AND
ANNUAL PERCENT CHANGE

	1978 (Act.)	1979 (Act.)	1980a	% Change 1978-1979	% Change 1979-1980
Total Current Revenue: Small Cities	$270.11	$281.03	$292.07	4.0%	3.9%
1. Property Tax	$110.56	$107.74	$114.43	-2.5	6.2
2. Other Local Taxes	$ 57.31	$ 64.59	$ 69.16	12.7	7.1
3. User Charges	$ 13.60	$ 14.72	$ 14.98	8.2	1.6
4. Fees & Misc.	$ 33.56	$ 35.49	$ 34.00	5.8	-4.2
5. State Aid*	$ 37.72	$ 42.18	$ 43.67	11.9	3.5
6. Fed Aid*	$ 17.36	$ 16.24	$ 15.83	-6.4	-2.5
Total Current Revenue: Medium Cities	$284.17	$293.02	$300.79	3.1%	2.7%
1. Property Tax	$105.98	$100.53	$108.52	-5.2	7.9
2. Other Local Taxes	$ 56.50	$ 62.89	$ 66.79	11.3	6.2
3. User Charges	$ 17.28	$ 16.86	$ 18.72	-2.4	11.0
4. Fees & Misc.	$ 37.63	$ 43.57	$ 39.85	15.8	-8.5
5. State Aid	$ 37.11	$ 42.83	$ 44.14	15.4	3.1
6. Fed Aid	$ 29.67	$ 26.34	$ 22.79	-11.2	-13.5
Total Current Revenue: Large Cities	$332.94	$352.32	$365.76	5.8%	3.8%
1. Property Tax	$124.94	$121.96	$130.49	-2.4	7.0
2. Other Local Taxes	$ 68.16	$ 75.08	$ 78.80	10.1	5.0
3. User Charges	$ 15.93	$ 16.35	$ 18.20	2.6	11.3
4. Fees & Misc.	$ 41.47	$ 48.13	$ 48.10	16.1	-0.1
5. State Aid	$ 47.28	$ 56.30	$ 60.21	19.1	6.9
6. Fed Aid	$ 35.16	$ 34.50	$ 29.97	-1.8	-13.1
Total Current Revenue: Largest Cities	$424.15	$444.32	$459.35	4.8%	3.4%
1. Property Tax	$120.67	$109.89	$114.38	-8.9	4.1
2. Other Local Taxes	$104.39	$114.07	$123.71	9.3	8.5
3. User Charges	$ 20.36	$ 22.14	$ 25.12	8.7	13.5
4. Fees & Misc.	$ 50.24	$ 57.07	$ 63.67	13.6	11.6
5. State Aid	$ 59.83	$ 72.00	$ 68.16	20.3	-5.3
6. Fed Aid	$ 68.65	$ 69.15	$ 64.30	0.7	-7.0

* Includes only that aid used for operating purposes.

TABLE 5

COMPOSITION OF CURRENT GENERAL REVENUES

	Actual 1978 (% of Total)	Actual 1979 (% of Total)	1980a (% of Total)
Total Current Revenues & Receipts: Small Cities	100.0%	100.0%	100.0%
1. Property Tax	40.9	38.3	39.2
2. Other Local Taxes	21.2	23.0	23.7
3. User Charges	5.0	5.2	5.1
4. Fees & Misc.	12.4	12.6	11.6
5. State Aid*	14.0	15.0	15.0
6. Fed Aid*	6.4	5.8	5.4
Total Current Revenues & Receipts: Medium Cities	100.0	100.0	100.0
1. Property Tax	37.3	34.3	36.1
2. Other Local Taxes	19.9	21.5	22.2
3. User Charges	6.1	5.8	6.2
4. Fees & Misc.	13.2	14.9	13.2
5. State Aid	13.1	14.6	14.7
6. Fed Aid	10.4	9.0	7.6
Total Current Revenues & Receipts: Large Cities	100.0	100.0	100.0
1. Property Tax	37.5	34.6	35.7
2. Other Local Taxes	20.5	21.3	21.5
3. User Charges	4.8	4.6	5.0
4. Fees & Misc.	12.5	13.7	13.1
5. State Aid	14.2	16.0	16.5
6. Fed Aid	10.6	9.8	8.2
Total Current Revenues & Receipts: Largest Cities	100.0	100.0	100.0
1. Property Tax	28.5	24.7	24.9
2. Other Local Taxes	24.6	25.7	26.9
3. User Charges	4.8	5.0	5.5
4. Fees & Misc.	11.8	12.8	13.9
5. State Aid	14.1	16.2	14.8
6. Fed Aid	16.2	15.6	14.0

* Includes only that aid used for current general government operating purposes.

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revenues in all size categories, with the largest cities realizing the greatest reduction in property tax receipts as a proportion of total revenues -- from 28.5 percent in 1978 to 24.7 percent in 1979. For 1980, cities of all sizes are projecting slight increases in their property tax revenues over 1979. However, in no city category does the projected proportion of property tax receipts to total current revenues in 1980 equal that of 1978. These results tend to be skewed somewhat by the enormous decline in property tax revenues in California cities in 1979. However, even when the California cities are excluded, property tax revenues for all other cities increased by only 2 percent in 1979. (For a comparison of selected items for California and non-California cities, see Appendix III.)

Similarly, Federal aid used for operating purposes declined in all size categories except the largest cities from 1978 to 1979 and represented for all sizes an increasingly smaller proportion of total revenues. Here, again, additional reductions in Federal aid absolutely and in relation to total revenues are projected in all size categories for 1980. The reductions in property tax receipts and Federal aid relative to total revenues were compensated for by increases in other local taxes, fees and miscellaneous revenue, and State aid between 1978 and 1979. This trend has occurred in all size categories.

It is evident that the fiscal mix of city governments is undergoing a rapid change. While the reduction in Federal aid is beyond the control of local officials, apparently the tax and expenditure limitation movements have encouraged local governments to substitute for reliance on property taxes more reliance on other forms of revenues. Thus, the revenue burden is being redistributed from real property owners to the population-at-large and, in particular, to the users of certain facilities and services.

Traditionally, property tax receipts have tended to show less elasticity than sales or income taxes, and remained relatively constant despite changes in the economic cycles. Unlike property taxes, sales and income taxes and certain user fees tend to increase in upswings and decline in downswings. While the property tax remains the most significant local revenue source, the number of local governments that have adopted alternative revenue sources is substantial and destined to grow. Although for the most part only the largest cities have income taxes, a growing number of local governments have been utilizing sales taxes and it is evident that user charges and fees are becoming popular sources of funds. Because these revenue sources tend to be more cyclically sensitive, it is likely that, in coming years, cities will be increasingly prone to fiscal swings reflecting changing economic conditions.

Although questions relating to the final incidence of local taxes remain unresolved, it appears that a shift from property taxes to local sales and income taxes, and user charges and fees may adversely affect lower-income residents. Lower-income families and individuals tend to reside in rental apartments and property tax reductions may not be reflected in reduced rents. At the same time, many locally raised sales and income taxes are levied at a flat rate with no exemptions. Furthermore, city services, such as recreation, libraries, and education programs that in the past have been provided from general funds, will increasingly be placed on a user-pays-cost basis. Low-income residents who must now pay directly for these services or lose them will, therefore, be more adversely affected by the new taxes and charges than higher income individuals.

GENERAL GOVERNMENT BALANCE SHEET

Primary interest in the balance sheet data for the general operating funds relates to the quantity and quality of assets with respect to current liabilities (those due within one year) and the ongoing transaction needs of the city in carrying out its daily operations.

The cities were asked to supply balance sheet information pertaining to current assets and liabilities available to support general government operating activities. Accordingly, they were asked to exclude those funds held for trust accounts, debt service, capital projects, and bond funds, since these are typically restricted to capital purposes or the repayment of debt, and are not available for other general purposes. The assets reported, therefore, should serve as a reasonably good proxy for funds generally available for supporting the current operating activities of cities.

There are various possible measures of liquidity and two of the more important are the "current" ratio, which is the ratio of current assets to current liabilities and the "quick" ratio, which is the ratio of cash and investments to current liabilities. Generally, if a government is supporting its spending by increasing short-term liabilities (or by liquidating its assets) these ratios will be decreasing. The "quick" ratio is a useful measure of the liquidity of the assets themselves and how quickly they can be converted to cash. This may be important if the other assets (taxes collected and accounts receivable) prove to be illiquid. A third measure of liquidity is the ratio of net current assets (working capital) to total expenditures., Governments that have low ratios (few net assets to expenditures) may find themselves having cash-flow problems and forced to borrow in the case of short-falls in revenues or other receipts.

As may be seen in Table 6, the ratio of current assets to liabilities has not shown any particular trend during the period for all the city categories, except that there appears to be some decline in the current ratio anticipated for 1980. Also, there appears to be some deterioration of the ratio of cash and investments to liabilities in the small and medium cities, although the larger cities seem to improve or maintain their ratios. On average, however, the city balance sheets do not reflect any noticeable deterioration over the period in either of the ratios.

Perhaps more meaningful is the ratio of net current assets to current operating expenditures. This reflects the working capital available to meet the recurring financing needs of the cities. In this

TABLE 6

RATIOS OF CURRENT ASSETS TO CURRENT LIABILITIES AND CASH AND INVESTMENTS TO CURRENT LIABILITIES

	1978	1979	1980a
Small Cities			
1. Assets to Liabilities	3.46	3.33	3.38
2. Cash and Investments to Liabilities	2.40	2.36	2.24
Medium Cities			
1. Assets to Liabilities	3.72	3.49	3.29
2. Cash and Investments to Liabilities	2.79	2.64	2.49
Large Cities			
1. Assets to Liabilities	3.53	3.62	3.72
2. Cash and Investments to Liabilities	2.31	2.28	2.39
Largest Cities			
1. Assets to Liabilities	2.58	2.79	2.25
2. Cash and Investments to Liabilities	1.86	2.10	1.66

regard, the results shown in Table 7 indicate that the ratio of net assets to operating expenditures grew from 1978 to 1979 but are anticipated to decline in 1980. It should be noted that the working capital ratio of governments declines with city size. In other words, the largest cities tend to experience a lower coverage of expenditures by net assets than do smaller units. This should not be seem as a sign of weakness, but rather a demonstration of the economies of scale in liquid asset management by larger units.

TABLE 7

NET CURRENT ASSETS AT END OF YEAR
AS A PERCENTAGE OF CURRENT OPERATING EXPENDITURES

City Size	1978	1979	1980a
Small	28.7%	29.3%	27.4%
Medium	25.2	27.4	25.9
Large	20.5	22.3	22.3
Largest	10.8	11.9	10.1

CAPITAL OUTLAYS AND FINANCING

The survey contained questions designed to determine recent trends in city capital outlays and how they are being financed. As in the case of operating expenditures, the distinction was made between general government capital expenditures and those on behalf of city utility enterprise activities. This section discusses only those capital expenditures associated with activities of a general purpose nature.

Capital expenditures by cities showed growth from 1978, 1979, and 1980 anticipated, although the trends were by no means smooth. Perhaps the most notable feature of the capital outlay pattern shown in Table 8 is the large percentage increases planned for 1980 by the small and largest cities. Obviously, fulfillment of these plans will require the existence of sufficient funds, a point to be discussed below. Suffice it to say, cities are planning for a major increase in capital spending.

In gauging anticipated 1980 capital expenditures, it should be noted that cities on average have fallen far below their budgeted amounts. Referring to Table 9, it can be seen that actual capital expenditures in 1978 and 1979 averaged only about 70 to 80 percent of those

TABLE 8

GENERAL GOVERNMENT CAPITAL EXPENDITURES
PER CAPITA

City Size	1978	1979	1980a	Percent Change 1978-1979	Percent Change 1979-1980
Small	$34.08	$36.26	$ 49.95	6.38%	37.74%
Medium	45.36	52.74	56.69	16.26	7.50
Large	56.37	54.52	63.29	-[illegible] 27	16.08
Largest	59.75	66.32	103.29	11.00	55.73

TABLE 9

ACTUAL EXPENDITURES AND RECEIPTS AS A RATIO OF THOSE BUDGETED FOR GENERAL GOVERNMENT CAPITAL PURPOSES

City Size	Actual/Budget Capital Expenditures		Actual/Budget Capital Receipts	
	1978	1979	1978	1979
Small	0.727	0.740	0.853	0.790
Medium	0.800	0.834	0.896	0.919
Large	0.830	0.770	0.865	0.794
Largest	0.760	0.795	0.811	0.745

that were planned. Such "undershooting" of the budgeted amounts may stem from several factors, including delays in receipts of grant or borrowed funds, various construction delays, a conservative tendency to overestimate the rate of takedown of funds, and perhaps a conscious budget policy of using the capital expenditure accounts as a cushion for additional liquidity. In the latter regard, it is important to note that capital expenditures have typically been used as a buffer whereby shortfalls in revenues or unforeseen current expenditures can be financed by deferring capital outlays. Because deferrals of capital expenditures in recent years have so exacerbated the deterioration of the physical plant in some cities, capital expenditures may not be deferrable in the future.

Sources of Capital Expenditure Funds

In general, there are three major ways to finance capital expenditures: through current revenues, intergovernmental grants, and borrowing. Beyond this generalization, tracing the mechanics of financing long-term expenditures can become complex. Payments on major capital projects often extend over a long period of time. Their financing presents special opportunities for temporary or interim financing arrangements to take place before the final or definitive method of paying for them is employed.

On the other hand, many capital outlays for equipment and minor facilities are relatively small and recurring, and are typically financed out of current receipts or accumulated reserves. The variety of sources of funds creates special problems for determining how long-lived improvements are financed in any one time period.

Through the years, major capital outlays of city governments, usually involving substantial construction costs, have been financed by long-term borrowing. A traditional rule of thumb has been that 50 percent of the dollar volume is financed by the sale of bonds. Recently, however, intergovernmental grants -- especially those from the Federal Government -- have come to occupy a major role. This trend toward reliance on Federal grant support of city capital outlays was accelerated in the late 1970s with the enactment of the Public Works Employment Act of 1976 and 1977 which authorized $6 billion for the State and local sector, with approximately $1 billion in cash payments still to flow, much of it to cities.

Table 10 provides, by city size, the composition of financing sources of capital outlays for the cities surveyed for 1978, 1979, and 1980 anticipated. On

TABLE 10

GENERAL GOVERNMENT
CAPITAL OUTLAY FINANCING
PERCENTAGE COMPOSITION

	1978	1979	1980a
Small Cities			
1. Borrowing, Short-term	16.2%	11.0%	7.1%
2. Borrowing, Long-term	14.1	14.1	20.4
3. State Aid	4.8	5.0	7.5
4. Federal Aid	29.6	30.6	23.2
5. Current Revenue	28.6	31.4	30.2
6. Prior Reserves*	6.6	7.9	11.6
	100.0	100.0	100.0
Medium Cities			
1. Borrowing, Short-term	7.2%	9.2%	12.2%
2. Borrowing, Long-term	13.1	14.6	17.2
3. State Aid	6.3	5.5	5.4
4. Federal Aid	34.3	34.9	22.9
5. Current Revenue	21.1	20.7	26.2
6. Prior Reserves	17.8	15.2	16.3
	100.0	100.0	100.0
Large Cities			
1. Borrowing, Short-term	2.1%	4.7%	2.9%
2. Borrowing, Long-term	28.1	24.4	38.4
3. State Aid	5.3	4.7	6.7
4. Federal Aid	27.4	34.0	31.2
5. Current Revenue	12.7	14.4	12.2
6. Prior Reserves	24.4	17.7	8.6
	100.0	100.0	100.0
Largest Cities			
1. Borrowing, Short-term	4.8%	4.7%	1.7%
2. Borrowing, Long-term	27.0	29.6	26.1
3. State Aid	8.1	7.6	5.6
4. Federal Aid	34.5	29.9	44.8
5. Current Revenue	18.6	18.8	17.6
6. Prior Reserves	7.0	9.4	4.2
	100.0	100.0	100.0

* Reserves of current revenues accumulated in previous periods.

average, cities reported a higher receipt of funds for capital purposes than capital expenditures, which showed some accumulation of cash reserves to meet future outlays on projects in progress.

As may be seen, the data show that the sources of financing were fairly equally divided between borrowing, intergovernmental payments, and current revenues and reserves. During the period in question, the proportionate importance of sources remained fairly stable. They do not vary radically among the sizes of units, except that the smaller jurisdictions appear somewhat more dependent upon short-term borrowing, current revenues, and prior reserves, while the larger cities have greater dependence on long-term borrowing and State and Federal intergovernmental assistance. Review of the sources by percentage also show that, while all but the largest cities budgeted for some decline in the relative importance of Federal assistance in 1980, the largest cities anticipated a sizeable increase. Clearly, the general government capital outlays of the largest cities -- which are expected to rise dramatically in 1980 -- are most dependent on their actually receiving Federal aid.

Short-Term Borrowing

The questionnaire was designed to permit a distribution of short-term borrowing on the basis of how such interim financing would be permanently funded. Table 11 presents the percentage distributions of short-term borrowing among the sources of ultimate funding for capital projects. This, in turn, permits the allocation of total capital funds among the major types of sources: long-term borrowing, intergovernmental aid, and current revenues and reserves.

The results of these allocations for the average of the three fiscal years surveyed are presented in Table 12. As noted above, they show a very heavy reliance on the part of all cities on intergovernmental payments and current revenues and reserves of past revenues, with long-term borrowing of relatively greater significance for the large and largest units. Clearly, reductions in Federal aid and bond market difficulties coming at the same time can cause massive dislocations of capital spending plans, especially for the major cities, which depend on these sources for approximately 70 percent of their capital outlay funds. Recent and anticipated trends in city borrowing and indebtedness are discussed in more detail below.

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TABLE 11

METHOD OF FINANCING SHORT-TERM BORROWING FOR CAPITAL PURPOSES
PERCENTAGE COMPOSITION BY ULTIMATE FUNDING SOURCE

	Small Cities			Medium Cities			Large Cities			Largest Cities		
	1978	1979	1980a	1978	1979	1980a	1978	1979	1980a	1978	1979	1980a
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Current Revenues	22.4	33.8	53.4	53.9	39.4	22.2	31.8	12.1	7.6	43.4	43.5	40.0
Long-Term Debt	55.1	38.1	1.9	29.0	49.0	56.6	37.9	87.9	79.4	49.2	48.0	45.6
State Aid	-	-	-	1.2	0.63	-	-	-	-	5.62	6.7	9.68
Federal Aid	1.92	0.24	1.13	-	-	-	8.7	-	12.9	1.73	1.7	-
Not Reported	20.6	27.7	43.5	15.9	11.0	15.7	21.6	-	-	-	-	-

TABLE 12

PERCENTAGE COMPOSITION OF
ULTIMATE SOURCES OF CAPITAL FUNDS:
AVERAGE FOR 1978 THROUGH 1980 ANTICIPATED

	Percentage Composition
Small Cities:	
a. Long-term Borrowing	20.6%
b. Intergovernmental Aid	33.7
c. Current Revenues and Reserves	42.5
d. Unallocable	3.2
e. Total	100.0%
Medium Cities:	
a. Long-term Borrowing	19.5%
b. Intergovernmental Aid	36.6
c. Current Revenues and Reserves	42.5
d. Unallocable	1.4
e. Total	100.0%
Large Cities:	
a. Long-term Borrowing	32.6%
b. Intergovernmental Aid	36.5
c. Current Revenues and Reserves	30.5
d. Unallocable	0.4
e. Total	100.0%
Largest Cities:	
a. Long-term Borrowing	29.4%
b. Intergovernmental Aid	43.9
c. Current Revenues and Reserves	26.7
d. Unallocable	0.0
e. Total	100.0%

ENTERPRISE FUND FINANCES

The survey contained questions designed to determine recent trends in city enterprise fund activities. Enterprise activities, as defined in the survey, are those government functions that are generally self-supporting through user charges (as opposed to general government revenues) and that are operated by the city, and accounted for in separate enterprise or special utility funds. Common city enterprise functions are water and sewer (when funded by user charges), electric, gas, airports, and local transit. This section discusses enterprise revenue and expenditures for both operating and capital activities.

As seen in Tables 13 and 14, the per capita total revenues and expenditures for enterprise fund activities showed growth in all city size classifications over the period 1978 through 1980. The largest rates of increase were seen in the small and largest cities, while the medium and large cities experienced somewhat slower growth. In all but one instance, the rate of increase in both expenditures and revenues is expected to be higher between 1979-1980 than it was between 1978-1979. Moreover, expenditures are rising more rapidly than revenues.

TABLE 13

ENTERPRISE FUND REVENUES1/
PER CAPITA

City Size	1978	1979	1980 a	Percent Change 1978-1979	1979-1980
Small	$115.67	$138.65	$163.30	19.87%	19.78%
Medium	116.49	123.23	137.85	5.79	11.86
Large	109.82	117.74	128.61	7.22	9.23
Largest	147.61	167.16	198.87	13.24	18.96

1/ Includes operating revenues, state and Federal aid, and other revenues.

TABLE 14

ENTERPRISE FUND TOTAL EXPENDITURES1/
PER CAPITA

City Size	1978	1979	1980a	Percent Change	
				1978-1979	1979-1980
Small	$105.45	$140.80	$184.25	33.52%	30.86%
Medium	110.77	128.48	149.75	15.98	16.55
Large	124.86	134.73	151.65	7.90	12.56
Largest	163.96	185.87	222.21	11.78	19.55

1/ Includes operating expenses, interest expense, and capital expenditures while excluding depreciation.

Focusing on total revenues and expenditures of enterprises can be misleading, however. Enterprises receive revenues from a variety of sources, including user charges, grants from States and the Federal Government, and other miscellaneous receipts. Furthermore, most capital spending by enterprises is financed by long-term borrowing. Because these government entities conduct activities on a self-supporting basis, particular attention is given to operating revenues derived from the performance of services in relationship to those recurring expenses needed to pay for day-to-day operations. Thus, the questionnaire was designed to derive a net operating revenue figure for the enterprise fund. Changes in net operating revenue give a good indication of how well charges for services are keeping pace with the current expenditures incurred in providing them.

Table 15 gives the average enterprise net revenues per capita for the cities in the survey. Except for the small increase between 1978 and 1979 in the largest cities, net operating revenues have shown a steady decline over the years. It should be noted that in 1980 the largest cities are anticipating a sharp drop in net revenues as operating expenditures are expected to increase at more than twice the rate of operating revenues.

TABLE 15

ENTERPRISE FUND NET OPERATING REVENUES
PER CAPITA

City Size	1978	1979	1980[a]
Small	$18.43	$13.36	$13.21
Medium	13.56	11.98	7.49
Large	12.89	11.26	.9.83
Largest	12.34	14.28	1.36

The decline in the overall current position of the enterprise fund can also be shown by the upward trend of the enterprise fund operating ratio (see Table 16). The operating ratio for the enterprise fund is increasing, because the operating expenditures are increasing at a faster rate than the operating revenues. The largest cities are expecting the ratio to increase to 0.99 in 1980, which means that they will be able to just cover operating expenses with operating revenues. If the increase in expenses is greater than expected in 1980, or if the trend continues into 1981, the largest city enterprise funds, on average, will be operating at a deficit. If this occurs, capital expenditures may have to be forgone in order to cover operating expenses and problems of gaining access to the bond market will be underscored.

City enterprises are typically heavy users of capital funds and make substantial capital outlays. As may be seen in Table 17, there has been generally substantial growth during the period 1978-1979, particularly on the part of small cities.

TABLE 16

ENTERPRISE FUND OPERATING RATIO

City Size	1978	1979	1980a
Small	0.81	0.87	0.88
Medium	0.85	0.88	0.93
Large	0.86	0.89	0.91
Largest	0.90	0.90	0.99

TABLE 17

ENTERPRISE FUND CAPITAL OUTLAYS
PER CAPITA

City Size	1978	1979	1980a	Percent Change 1978-1979	Percent Change 1979-1980
Small	$26.65	$46.67	$78.02	75.12%	67.17%
Medium	31.40	37.38	42.90	19.04	14.77
Large	48.61	47.10	51.93	-3.11	10.25
Largest	47.68	54.79	63.76	14.91	16.37

LONG-TERM BORROWING AND DEBT OUTSTANDING

Cities in the survey were asked to identify the amount of long-term debt outstanding by type of security and by whether it was for general government or city enterprise purposes. It should be noted that, although most general government long-term debt was tax-supported general obligations, some limited obligation "revenue bond" borrowing was done for general government purposes. Likewise, some general obligation debt was reported as sold for enterprise purposes.

The years 1978 and 1979 were active ones in the municipal bond market but not necessarily for all city government borrowers. Since the latter part of 1979 and thus far in 1980, the capital markets have been under severe pressure, with many borrowing plans being sidetracked. As Table 18 indicates, the average per capita borrowing by the cities in the sample fluctuated sharply from year to year and showed no sustained trend. Also, there was no great difference, on average, in per capita borrowing among the size categories. However, borrowing for enterprise purposes uniformily tended to exceed borrowing for general government purposes.

TABLE 18

LONG-TERM BORROWING PER CAPITA
FOR GENERAL GOVERNMENTAL AND ENTERPRISE PURPOSES

City Size	1978	1979	1980a
Small			
a. General Government	$21.48	$14.42	$27.88
b. Enterprise	58.92	15.45	50.56
c. Total	80.40	29.87	78.44
Medium			
a. General Government	$11.83	$17.40	$18.27
b. Enterprise	26.28	40.97	28.69
c. Total	38.11	58.37	46.96
Large			
a. General Government	$39.81	$16.47	$34.20
b. Enterprise	42.21	16.81	30.19
c. Total	82.02	33.28	64.39
Largest			
a. General Government	$28.28	$30.25	$25.23
b. Enterprise	32.87	52.04	39.11
c. Total	61.15	82.29	64.34

The relatively higher levels of enterprise borrowing is also reflected in the growth trends in debt outstanding as shown in Table 19. It should be noted that the outstanding debt issued for general government purposes is estimated to have actually decreased in some years for all but the largest cities, as cities were retiring more debt than they were creating through new borrowings. Enterprise debt, however, grew rapidly. This reflects a national trend at all levels of government to reduce reliance on tax-supported debt and to enlarge the use of limited obligations secured on nontax revenue sources. Table 19 shows a fairly large planned increase in long-term debt outstanding, particularly on the part of small cities. Although this is not out of line with the level of borrowings in 1978, the current, extremely high interest rates in the tax-exempt bond market will probably severely curb these borrowing plans.

TABLE 19

ANNUAL GROWTH IN GENERAL GOVERNMENT
AND ENTERPRISE DEBT

City Size	Percent Change		
	1978	1979	1980a
Small			
a. General Government Debt	0.1%	-0.1%	7.2%
b. Enterprise Debt	32.9	2.9	21.9
c. Total	15.0	1.0	15.1
Medium			
a. General Government Debt	-1.8%	*	0.4%
b. Enterprise Debt	9.4	16.4	8.6
c. Total	3.6	8.6	5.0
Large			
a. General Government Debt	-2.1%	-6.4%	-0.1%
b. Enterprise Debt	15.4	3.9	7.6
c. Total	3.9	-2.2	2.7
Largest			
a. General Government Debt	1.1%	3.4%	*
b. Enterprise Debt	9.4	8.1	7.8
c. Total	3.7	5.7	4.6

* Less than 0.05 percent change.

CHANGES IN WORKFORCE

In this question, cities were asked to report the average number of employees on their payroll in 1978, 1979, and 1980 anticipated broken down on the basis of full-time permanent, CETA, and part-time and seasonal employees.

Despite the fact that the years under study were years of national economic recovery, in each size category, total city workforces were only slightly increased, remained the same, or were reduced between 1978 and 1979 (see Table 20). The increase in the number of full-time, permanent employees between 1978 and 1979 for all city categories, averaged only 2 percent.

The projections for 1980 are for net reductions in full-time, permanent employees in the small and largest size categories and for small increases in the middle two categories. Thus, in order to promote sound fiscal health, it appears that cities are exercising considerable restraint in increasing the size of their workforces. This restraint and, in some cases, net reductions in the workforces should be weighed when considering the fiscal situation in these cities. Frequently, a positive balance sheet masks underlying

TABLE 20

CHANGES IN WORKFORCE

	1978 (Act.)	1979 (Act.)	1980a	% Change 1978-1979	% Change 1979-1980
Small Cities					
1. Full Time	267	274	274	2.7%	-0.1%
2. CETA	22	30	15	34.7	-49.5
3. Part Time-Seas.	79	81	81	1.4	1.0
4. Total	369	385	370	4.3	-3.7
Medium Cities					
1. Full Time	731	748	766	2.4%	2.5%
2. CETA	118	106	77	-10.0	-27.2
3. Part Time-Seas.	146	141	142	-3.4	0.9
4. Total	995	995	986	0.0	-0.9
Large Cities					
1. Full Time	1,838	1,859	1,902	1.1%	2.3%
2. CETA	365	306	253	-16.0	-17.3
3. Part Time-Seas.	342	349	345	1.8	-1.0
4. Total	2,545	2,514	2,501	-1.2	-0.5
Largest Cities					
1. Full Time	8,938	9,060	8,873	1.4%	-2.1%
2. CETA	1,042	940	701	-9.8	-25.4
3. Part Time-Seas.	849	896	867	5.5	-3.2
4. Total	10,829	10,895	10,441	0.6	-4.2

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erosion of the tax base, reduced service levels, and shrunken workforces.

Changes in Workforce By Unemployment Level

In 1979, with the exception of high unemployment cities, all other categories of cities experienced very slow growth or net declines in their total workforces (see Table 21). Similarly, the full-time, permanent workforces of the low and medium unemployment categories increased slightly or experienced slight net reductions between 1978 and 1979. The high unemployment categories -- with the exception of the large city-high unemployment category -- experienced much more rapid growth in their total workforces than either the low or medium unemployment-cities in each category. This phenomenom seems largely to be attributable to changes in the number of CETA workers. The large increase in the total workforce in the small city-high unemployment category results from the extremely large (117.6 percent) increase in their CETA workforces. Likewise, the increase in the CETA workforces in the medium size-high unemployment cities is also partly responsible for the increase in their total workforces.

Unlike the above situations, largest cities in the high unemployment category experienced a very slight (0.3 percent) average increase in their CETA

TABLE 21

CHANGES IN WORKFORCE BY CITY SIZE AND UNEMPLOYMENT LEVEL

	1978			1978-1979 % Change			1979-1980 % Change		
	Low Unemp.	Medium Unemp.	High Unemp.	Low Unemp.	Medium Unemp.	High Unemp.	Low Unemp.	Medium Unemp.	High Unemp.
Small Cities									
Full Time	212	325	315	3.4%	2.2%	2.3%	1.9%	-3.0%	1.6%
CETA	13	26	40	-22.1	12.9	117.6	-43.1	-27.6	-66.1
Part Time-Seasonal	70	97	74	4.1	-4.0	7.5	-0.1	3.2	-0.7
Total	295	449	429	2.4	1.5	13.9	-0.1	-3.3	-10.8
Medium Cities									
Full Time	617	852	827	1.5	-1.2	8.7	2.5	1.9	3.0
CETA	68	171	162	-11.3	-25.4	12.9	-37.2	-17.3	-28.9
Part Time-Seasonal	130	196	115	3.7	-5.3	-17.4	2.4	-2.6	5.3
Total	815	1,220	1,104	0.8	-5.2	6.6	-0.4	-0.9	-1.8
Large Cities									
Full Time	1,630	1,893	2,315	2.0	0.4	0.6	1.8	3.2	2.1
CETA	312	244	706	-15.3	-12.6	-18.7	-27.5	-11.7	-8.1
Part Time-Seasonal	281	397	422	0.9	2.3	2.6	-4.5	3.0	-0.8
Total	2,223	2,534	3,443	-0.6	-0.6	-3.1	-2.5	1.9	0.0
Largest Cities									
Full Time	5,958	10,274	12,546	-1.2	0.0	7.3	4.9	-0.7	-12.3
CETA	557	1,351	1,382	-18.7	-10.4	0.3	-18.6	-29.3	-21.4
Part Time-Seasonal	460	943	1,539	0.7	-7.5	30.7	7.1	-4.5	-7.5
Total	6.975	12,568	15,467	-2.4	-1.7	9.0	3.5	-3.8	-12.5

workforces. These cities experienced a significant average increase, however, in their full-time, permanent workforces. It seems likely that, as the CETA workers completed their temporary public employment tenure, the local governments continued to employ them at their own expense. At the same time, the CETA workforces in the large city-high unemployment category experienced a significant net reduction (-18.7 percent). These data indicate that notwithstanding a similar high rate of unemployment, small cities were increasing their CETA workforces rapidly while, in larger cities, the CETA workforces were remaining virtually constant or being reduced.

Almost all categories of cities are projecting net reductions or very slight increases in their total workforces in 1980. The smallest and largest cities in the high unemployment category are projecting the greatest reductions in their total workforces (-10.8 percent and -12.5 percent, respectively). Cities in all size categories, regardless of unemployment level, are projecting large reductions in their CETA workforces. Almost all categories of cities are planning only minor increases in their full-time, permanent workforces. The small cities with medium unemployment, and the largest cities with medium and high unemployment are anticipating net reductions in their full-time, permanent workforce. The greatest such reduction is anticipated by the largest cities with high unemployment (-12.3 percent).

POLICE, FIRE, AND SANITATION EXPENDITURES

In an effort to determine the status of primary services, cities were requested to report expenditures for police, fire, and sanitation. For each, they reported wages and salaries (excluding fringe benefits), other current expenditures (including fringe benefits and excluding wages and salaries), and capital outlays.

In all categories of cities, expenditures for police, fire, and sanitation generally increased by a greater rate than total expenditures between 1978 and 1979 (see Table 22). The two exceptions to this were sanitation expenditures in the medium and largest cities -- both of which increased by a smaller rate than total expenditures in those categories. The projections for 1980 indicate that all city categories are anticipating that total police, fire, and sanitation expenditures will each be increased at a greater rate than total expenditures are expected to be increased in 1980.

The small cities increased per capita expenditures for police, fire, and sanitation at a faster rate than any other size category in 1979. They also increased police, fire, and sanitation wages and salaries by more

TABLE 22

PER CAPITA POLICE, FIRE, AND SANITATION EXPENDITURES

	1978 (Act.)	1979 (Act.)	1980a	% Change 1978-1979	% Change 1979-1980
Small Cities					
Police					
a. Wages & Salaries	$31.94	$35.10	$38.85	9.9%	10.7%
b. Other Current	10.55	11.81	12.78	11.9	8.2
c. Capital	1.56	1.78	1.52	14.1	-14.6
d. Total	44.01	48.66	53.15	10.6	9.2
Fire					
a. Wages & Salaries	$32.97	$26.32	$29.40	9.8%	11.7%
b. Other Current	7.29	7.95	8.61	9.1	8.3
c. Capital	1.03	1.32	1.36	28.2	3.0
d. Total	32.33	35.55	39.37	10.0	10.7
Sanitation					
a. Wages & Salaries	$ 7.84	$ 8.48	$ 9.22	8.2%	8.7%
b. Other Current	9.48	10.46	11.69	10.3	11.8
c. Capital	1.64	2.24	2.46	36.6	9.8
d. Total	19.01	21.17	23.38	11.4	10.4
Medium Cities					
Police					
a. Wages & Salaries	$33.87	$36.60	$40.89	8.1%	11.7%
b. Other Current	9.41	10.27	12:00	9.1	16.8
c. Capital	1.64	1.23	1.28	-25.0	4.1
d. Total	44.92	48.10	54.19	7.1	12.7
Fire					
a. Wages & Salaries	$27.11	$28.72	$30.97	5.9%	7.8%
b. Other Current	5.95	6.53	7.56	9.7	15.8
c. Capital	0.87	0.93	0.90	6.9	-3.2
d. Total	33.94	36.18	39.43	6.6	9.0
Sanitation					
a. Wages & Salaries	$ 7.56	$ 7.93	$ 8.53	4.9%	7.6%
b. Other Current	6.62	6.63	7.89	0.1	19.0
c. Capital	3.22	2.91	2.73	-9.6	-6.2
d. Total	17.38	17.48	19.15	0.6	9.6

TABLE 22
(CONTINUED)

	1978 (Act.)	1979 (Act.)	1980a	% Change 1978-1979	% Change 1979-1980
Large Cities					
Police					
a. Wages & Salaries	$35.66	$38.64	$42.99	8.4%	11.3%
b. Other Current	10.99	12.19	13.91	10.9	14.1
c. Capital	0.84	1.15	1.53	36.9	33.0
d. Total	47.50	51.98	58.44	9.4	12.4
Fire					
a. Wages & Salaries	$28.89	$30.99	$33.62	7.3%	8.5%
b. Other Current	7.04	8.05	8.90	14.3	10.6
c. Capital	0.61	0.73	0.65	19.7	-11.0
d. Total	36.53	39.78	43.16	8.9	8.5
Sanitation					
a. Wages & Salaries	$ 9.68	$10.16	$10.80	5.0%	6.3%
b. Other Current	7.50	8.28	9.36	10.4	13.0
c. Capital	1.00	1.18	2.01	18.0	70.3
d. Total	18.18	19.62	22.17	7.9	13.0
Largest Cities					
Police					
a. Wages & Salaries	$61.33	$64.32	$68.50	4.9%	6.5%
b. Other Current	19.05	22.62	25.72	18.7	13.7
c. Capital	1.20	1.31	1.98	9.2	51.1
d. Total	81.58	88.25	96.21	8.2	9.0
Fire					
a. Wages & Salaries	$32.50	$34.09	$37.13	4.9%	8.9%
b. Other Current	9.10	11.14	12.49	22.4	12.1
c. Capital	1.02	0.86	0.82	-15.7	-4.7
d. Total	42.63	46.09	50.44	8.1	9.4
Sanitation					
a. Wages & Salaries	$13.03	$31.68	$14.58	5.0%	6.6%
b. Other Current	10.10	10.91	12.81	8.0	17.4
c. Capital	1.37	1.17	2.23	-14.6	90.6
d. Total	24.50	25.76	29.62	5.1	15.0

than any other size category in that year. The smallest wage bill increases occurred in the largest cities, which on average increased the per capita wages for police, fire, and sanitation by 4.9 percent for each function in 1979. These cities also significantly reduced their capital expenditures for both fire and sanitation services in that year. Insofar as the projections for 1980, little pattern emerges on the basis of city size, except that the smallest increases in wages will continue to be seen in the largest cities. However, such cities are also proposing the largest increase in capital expenditures for police and sanitation services. If such capital spending increases are not realized by the largest cities, then the total increases projected for such services will fall significantly below the total increases projected by the other size cities.

In light of the double-digit inflation being experienced nationally, some of these wage projections will probably be exceeded in upcoming negotiations of current contracts. For example, police, fire, and sanitation wages in the largest cities, as indicated above, increased by an average of only 4.9 percent between 1978 and 1979. It seems likely that, in the coming year, employees in these cities will attempt to compensate for the effect of inflation on their 1979 as well as their 1980 wages. As a result, budget projections, which have been sufficiently conservative in the past, may turn out to have underestimated certain costs, particularly wages, due to the rapid inflation afflicting the nation.

CITIES RESPONDING TO THE JOINT ECONOMIC COMMITTEE QUESTIONNAIRE
LISTED ALPHABETICALLY BY STATE WITHIN POPULATION SIZE GROUPS
POPULATION GROUP 10,000 THRU 49,999

ALABAMA
- ANNISTON

ARKANSAS
- WEST MEMPHIS

ARIZONA
- FLAGSTAFF

CALIFORNIA
- BEVERLY HILLS
- CORONA
- GLENDORA
- LA MESA
- LA MIRADA
- PACIFICA
- PIEDMONT
- PLACENTIA
- REDDING
- ROSEVILLE
- SANTA FE SPRINGS
- SANTA MARIA
- SEAL BEACH
- SOUTH SAN FRANCISCO
- UKIAH
- WOODLAND
- YUBA CITY

CULORADO
- COMMERCE CITY
- ENGLEWOOD
- LITTLETON
- NORTHGLENN

CONNECTICUT
- EAST HAVEN
- NAUGATUCK
- WINDSOR

FLORIDA
- BELLE GLADE
- FORT MYERS
- MIRAMAR
- PLANTATION
- SARASOTA
- SOUTH MIAMI

GEORGIA
- EAST POINT
- ROSWELL
- VALDOSTA

IDAHO
- MOSCOW

ILLINOIS
- DE KALB
- DIXON
- ELMWOOD PARK
- GRANITE CITY
- LAKE FOREST
- NORTH CHICAGO
- PALATINE
- PARK FOREST
- ROLLING MEADOWS
- SCHAUMBURG
- ST CHARLES
- STREAMWOOD
- WESTCHESTER
- WHEATON

KANSAS
- LENEXA
- PITTSBURG
- PRAIRIE VILLAGE

KENTUCKY
- COVINGTON
- NEWPORT
- RICHMOND

LOUISIANA
- MORGAN CITY

MASSACHUSETS
- CHELSEA
- FOXBOROUGH
- LEXINGTON
- MARLBOROUGH
- SALEM
- SOUTHBRIDGE

MARYLAND
- ROCKVILLE

MICHIGAN
- BATTLE CREEK
- ESCANABA
- GARDEN CITY
- GROSSE POINTE PARK
- INKSTER
- MADISON HEIGHTS
- MONROE
- MUSKEGON
- NORTON SHORES

MINNESOTA
- BROOKLYN PARK
- HASTINGS
- SHOREVIEW
- WORTHINGTON

MISSOURI
- CRESTWOOD
- ST PETERS

NORTH CAROLINA
- ALBEMARLE
- BURLINGTON
- WILSON

NORTH DAKOTA
- JAMESTOWN

NEBRASKA
- GRAND ISLAND

NEW JERSEY
- FAIRVIEW
- HACKENSACK
- LOWER
- MOUNT LAUREL
- NEW HANOVER
- OCEAN
- PHILLIPSBURG
- PLAINFIELD
- RED BANK

NEW MEXICO
- FARMINGTON

NEVADA
- NORTH LAS VEGAS

NEW YORK
- LACKAWANNA
- PORT CHESTER
- POUGHKEEPSIE

OHIO
- BEDFORD
- ROCKY RIVER

OKLAHOMA
- EDMOND

OREGON
- ALBANY
- CORVALLIS
- SPRINGFIELD

PENNSYLVANIA
- STATE COLLEGE

RHODE ISLAND
- COVENTRY
- NORTH KINGSTON

SOUTH CAROLINA
- ANDERSON

SOUTH DAKOTA
- BROOKINGS

TENNESSEE
- KINGSPORT

TEXAS
- EULESS
- FREEPORT
- LUFKIN
- TEMPLE
- WHITE SETTLEMENT

VIRGINIA
- VIENNA

WASHINGTON
- KIRKLAND
- OLYMPIA
- RENTON

WISCONSIN
- BELOIT
- EAU CLAIRE
- GLENDALE
- GREENDALE

CITIES RESPONDING TO THE JOINT ECONOMIC COMMITTEE QUESTIONNAIRE
LISTED ALPHABETICALLY BY STATE WITHIN POPULATION SIZE GROUPS
POPULATION GROUP 50,000 THRU 99,999

ALABAMA
- TUSCALOOSA

ARIZONA
- SCOTTSDALE
- TEMPE

CALIFORNIA
- ALAMEDA
- BELLFLOWER
- COMPTON
- CONCORD
- DALY CITY
- FOUNTAIN VALLEY
- HAWTHORNE
- NEWPORT BEACH
- OCEANSIDE
- ONTARIO
- OXNARD
- POMONA
- RICHMOND
- SALINAS
- SANTA ROSA
- WEST COVINA
- WESTMINSTER

COLORADO
- FORT COLLINS

CONNECTICUT
- BRISTOL
- EAST HARTFORD
- NEW BRITAIN

DELAWARE
- WILMINGTON

FLORIDA
- GAINESVILLE
- MIAMI BEACH
- PENSACOLA

IOWA
- DUBUQUE
- SIOUX CITY
- WATERLOO

ILLINOIS
- CHAMPAIGN
- SKOKIE

INDIANIA
- BLOOMINGTON

KANSAS
- OVERLAND PARK

LOUISIANA
- LAFAYETTE
- MONROE

MASSACHUSETS
- PITTSFIELD
- WEYMOUTH

MICHIGAN
- ROSEVILLE
- ROYAL OAK
- SAGINAW
- STERLING HEIGHTS
- TROY

MISSOURI
- COLUMBIA

MONTANA
- BILLINGS

NORTH CAROLINA
- HIGH POINT
- WILMINGTON

NORTH DAKOTA
- FARGO

NEW JERSEY
- CAMDEN
- EAST ORANGE
- HAMILTON
- TRENTON
- UNION CITY
- WOODBRIDGE

NEW YORK
- TROY

OHIO
- KETTERING
- PARMA
- SPRINGFIELD

OKLAHOMA
- ENID
- LAWTON

PENNSYLVANIA
- LOWER MERION

RHODE ISLAND
- PAWTUCKET

TEXAS
- ODESSA
- PORT ARTHUR
- SAN ANGELO
- WICHITA FALLS
- HASTINGS
- SHOREVIEW
- WORTHINGTON

VIRGINIA
- ROANOKE

WISCONSIN
- GREEN BAY
- OSHKOSH
- WEST ALLIS

WEST VIRGINIA
- CHARLESTON

CITIES RESPONDING TO THE JOINT ECONOMIC COMMITTEE QUESTIONNAIRE
LISTED ALPHABETICALLY BY STATE WITHIN POPULATION SIZE GROUPS
POPULATION GROUP 100,000 THRU 249,999

ALASKA
- ANCHORAGE

ALABAMA
- HUNTSVILLE
- MOBILE
- MONTGOMERY

ARKANSAS
- LITTLE ROCK

ARIZONA
- MESA

CALIFORNIA
- BERKELEY
- FRESNO
- GARDEN GROVE
- GLENDALE
- HUNTINGTON BEACH
- PASADENA
- SANTA ANA
- STOCKTON
- TORRANCE

COLORADO
- COLORADO SPRINGS
- LAKEWOOD
- PUEBLO

CONNECTICUT
- BRIDGEPORT
- HARTFORD
- STAMFORD

FLORIDA
- FORT LAUDERDALE
- HOLLYWOOD
- ST PETERSBURG

GEORGIA
- COLUMBUS
- MACON

IOWA
- CEDAR RAPIDS
- DES MOINES

IDAHO
- BOISE

ILLINOIS
- ROCKFORD

INDIANIA
- FORT WAYNE

KANSAS
- TOPEKA

LOUISIANA
- SHREVEPORT

MASSACHUSETS
- SPRINGFIELD
- WORCESTER

MICHIGAN
- WARREN

MISSOURI
- INDEPENDENCE
- SPRINGFIELD

MISSISSIPPI
- JACKSON

NORTH CAROLINA
- GREENSBORO
- RALEIGH
- WINSTON-SALEM

NEBRASKA
- LINCOLN

NEW JERSEY
- ELIZABETH

NEVADA
- LAS VEGAS

OHIO
- DAYTON

PENNSYLVANIA
- ALLENTOWN

SOUTH CAROLINA
- COLUMBIA

TENNESSEE
- KNOXVILLE

TEXAS
- AMARILLO
- BEAUMONT
- LUBBOCK
- WACO

VIRGINIA
- CHESAPEAKE
- HAMPTON
- NEWPORT NEWS
- PORTSMOUTH
- RICHMOND
- VIRGINIA BEACH

WASHINGTON
- SPOKANE

WISCONSIN
- MADISON

CITIES RESPONDING TO THE JOINT ECONOMIC COMMITTEE QUESTIONNAIRE
LISTED ALPHABETICALLY BY STATE WITHIN POPULATION SIZE GROUPS
POPULATION GROUP 250,000 & OVER

ALABAMA
- BIRMINGHAM

ARIZONA
- PHOENIX
- TUCSON

CALIFORNIA
- LONG BEACH
- LOS ANGELES
- OAKLAND
- SACRAMENTO
- SAN DIEGO
- SAN FRANCISCO

COLORADO
- DENVER

FLORIDA
- JACKSONVILLE
- TAMPA

GEORGIA
- ATLANTA

HAWAII
- HONOLULU

ILLINOIS
- CHICAGO

KANSAS
- WICHITA

LOUISIANA
- BATON ROUGE
- NEW ORLEANS

MASSACHUSETS
- BOSTON

MARYLAND
- BALTIMORE

MINNESOTA
- MINNEAPOLIS
- ST PAUL

MISSOURI
- KANSAS CITY
- ST LOUIS

NORTH CAROLINA
- CHARLOTTE

NEBRASKA
- OMAHA

NEW JERSEY
- NEWARK

NEW YORK
- BUFFALO
- NEW YORK
- ROCHESTER

OHIO
- CINCINNATI
- COLUMBUS

OKLAHOMA
- OKLAHOMA CITY
- TULSA

OREGON
- PORTLAND

PENNSYLVANIA
- PHILADELPHIA

TENNESSEE
- MEMPHIS
- NASHVILLE-DAVIDSON

TEXAS
- AUSTIN
- DALLAS
- FORT WORTH
- HOUSTON
- SAN ANTONIO

VIRGINIA
- NORFOLK

WISCONSIN
- MILWAUKEE

APPENDIX II

GLOSSARY

Accounts Payable - Liabilities on open account owed to private persons or businesses for goods and services received by a government unit (but not including amounts due other funds of the same government unit).

Capital Expenditures (outlays) - Direct expenditures for construction of buildings, roads and other improvements, and for purchases of equipment, land and existing structures. Includes amounts for additions, replacement and major alterations to fixed works and structures. However, expenditures for repairs of such works and structures are classified as current operating expenditures.

Current Assets - Those assets that are available or can be made readily available to meet the cost of operations or to pay current liabilities.

Debt Service - The amount of money necessary to pay the interest on the outstanding debt and the principal of maturing bonded debt (not payable from a Sinking Fund) or to provide a Sinking Fund for the redemption of bonds payable from this fund.

Enterprise Activities - As defined here, these are government functions that are generally self-supporting through user charges (as opposed to general government revenues) and that are operated by the city, and accounted for in enterprise or special utility funds. Common city enterprise functions are water and sewer (when funded by user charges), electric, gas, airports, and local transit.

Enterprise Fund - To account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

General Fund - The fund that is available for any legally authorized purpose and that is, therefore, used to account for all revenues and all activities not provided for in other funds. The General Fund is used to finance the ordinary operations of a governmental unit.

General Government Activities - Basic services that are primarily financed by general revenues, e.g., police and fire, health and hospitals, sewerage, sanitation, education, streets, parks and recreation, courts, and general administration.

General Obligation Debt - Debt for whose payment the full faith and credit of the issuing body are pledged. General obligation debts are considered to be those payable from taxes and other general revenues.

Internal Service Funds - To account for the financing of goods and services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units on a cost-reimbursement basis.

Limited Liability Debt - Debt, the principal of and interest on which are to be paid solely from a specific source (such as the service enterprise). Such debt does not represent an obligation against a city's general revenue.

Long-Term Debt - Debt payable more than 1 year after date of issue.

Operating Expenditures - Expenditures for compensation, supplies, materials, and contract services that are used in current operations. Not included in this is the expenditure for capital or fixed assets.

Operating Revenues - Revenues derived from the current operation of a government, i.e., property taxes, personal property taxes, user charges and all licenses and fees. In the case of enterprise activities, operating revenues would include revenue from the sale of goods and services.

Original Budget - The amount budgeted at the beginning of the fiscal year and prior to any amendments that have occurred during that year.

Permanent Employee - Those employees who are employed by the municipality on a continuous full-time basis, not those funded by CETA, nor those who are considered part-time or seasonal employees.

Sanitation - (Other than sewerage) - Street cleaning, and collection and disposal of garbage and other waste.

Short-Term Debt Outstanding - Interest-bearing debt payable within 1 year from date of issue, such as bond anticipation notes, revenue anticipation notes and tax anticipation notes and warrants. Includes obligations having no fixed maturity date if payable from a tax levied for collection in the year in their issuance.

Sinking Fund - A fund established for periodical contribution (and earnings thereon) to provide for the retirement of outstanding debt specified to be retired from such funds.

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APPENDIX III

COMPARISON OF SELECTED SURVEY ITEMS FOR CALIFORNIA AND NON-CALIFORNIA CITIES

In June, 1978, just before the start of fiscal year 1979 for California cities, the voters in that State approved Proposition 13, a constitutional amendment that rolled back and placed a limit on property taxes. Cities and other local jurisdictions moved quickly to summon up other revenue sources and to cut back expenditures, while the State of California adopted a massive program of assistance to help local governments replace their suddenly shrinking property tax receipts. While cities in other states, either under mandate or voluntarily, also held back on property taxes, no state matched the size and sweep of the California reduction in local property tax collections.

Table III-1 compares selected survey results for the 37 California cities versus the 242 in other states. As may be seen, total current revenue grew slightly in California between 1978 and 1979, while property taxes were cut sharply (about 50 percent) for cities of all sizes. A major lift was provided by large increases in state aid, ranging from 15 to 76 percent (for the largest cities in that state). Current expenditures

TABLE III-1

COMPARISON OF SELECTED SURVEY ITEMS
FOR CALIFORNIA AND NON-CALIFORNIA CITIES:
MEAN RATIOS OF GROWTH, 1978-1979 AND 1979-1980

	1978-1979		1979-1980a	
	Calif.	Other	Calif.	Other
Small				
a. Current Revenues	1.7%	4.5%	-0.2%	4.7%
b. Property Tax	-52.4	2.9	15.4	5.7
c. State Aid	24.0	-7.2	-6.69	5.0
d. Current Expenditure	4.3	10.3	10.8	7.9
e. Capital Outlays	-3.8	8.9	83.7	27.6
f. Total Employees	-3.4	5.5	-0.2	-4.1
Medium				
a. Current Revenue	1.1%	3.5%	-1.6%	3.6%
b. Property Tax	-49.4	1.1	18.6	7.2
c. State Aid	47.7	9.7	-5.1	5.0
d. Current Expenditure	1.2	7.2	10.2	6.8
e. Capital Outlays	-16.8	30.4	19.0	4.3
f. Total Employees	-8.9	1.9	-0.8	-1.0
Large				
a. Current Revenue	4.5%	6.0%	3.8%	3.8%
b. Property Tax	-50.6	1.7	-15.9	6.6
c. State Aid	53.9	16.1	-4.3	8.3
d. Current Expenditure	7.0	7.9	4.7	8.1
e. Capital Outlays	-10.7	-2.6	5.4	17.0
f. Total Employees	-3.2	-1.0	-3.7	-0.2
Largest				
a. Current Revenue	0.6%	5.7%	1.8%	3.7%
b. Property Tax	-52.4	2.2	20.5	2.1
c. State Aid	75.9	10.9	-30.2	1.3
d. Current Expenditure	-0.5	11.2	6.1	4.9
e. Capital Outlays	5.4	11.6	-2.6	61.2
f. Total Employees	-1.5	1.0	-5.8	-3.8

also reflected the budgetary pressure. Capital outlays were reduced in all California cities except the largest and total city employment (including full-time, part-time, and CETA workers) also declined.

Projected 1979 and 1980 changes reflect some rebound in California and nationwide anticipated in the property tax, although overall current revenue growth will remain slow. Except for the large city category (which has seen a continuing decline in property tax levies), California cities also anticipate faster growth in current expenditures than cities in other states. The same is true for capital outlays, except for the largest California cities which foresee a decline in 1980. Last, total city employment continues in a decline, a trend on which cities in the other states seem now to be embarked.

APPENDIX IV

AGGREGATE ESTIMATES BASED ON SURVEY RESULTS

The results of the city survey have been uniformly presented by city size, using per capita averages (based on 1975 population) to enhance comparability. It is possible, however, to use the results to generate overall per capita averages for all cities in the survey universe; that is, all cities (excluding New York) with populations in excess of 10,000 as of 1975.

Table IV-1 gives for certain key financial items the overall per capita results using the weighting factors described below. Again, the reader is cautioned that the reported results pertain to the cities in the survey universe and, therefore, reflect about 68 percent of all city behavior (because of the exclusion of New York City and those units of less than 10,000 population).

Overall per capita current revenues for general operating purposes rose at a very slow rate (4.3 percent) between 1978 and 1979 and is projected to grow even more slowly (3.9 percent) in 1980 according to the anticipated data supplied by the respondents. Current expenditures, on the other hand, are budgeted to grow

TABLE IV-1

CITY AVERAGES -- ALL CITIES IN SURVEY UNIVERSE --
SELECTED FINANCIAL ITEMS (DOLLARS PER CAPITA)

General Government	1978	1979	1980a	Percent Change 1978-1979	Percent Change 1979-1980a
Current Revenues	$348	$363	$377	4.3%	3.8%
Outlays:					
Current Expenditures	308	331	359	7.5	8.6
Debt Service	27	27	29	*	4.4
Capital Outlays	53	58	75 (60)	9.4	29.3 (3.5)
Total	388	417	463 (448)	7.5	11.0 (7.4)
Source of Capital Funds	62	65	81 (65)	4.8	24.6 (*)
Enterprise Funds					
Total Revenues	$151	$171	$196	13.9%	14.6%
Outlays:					
Current Expenditures	102	120	135	17.6	12.5
Capital Outlays	41	52	65	26.8	25.9
Total	143	172	200	20.3	16.3

* Less than 0.05 percent.

at a somewhat faster rate in 1980 than they did in 1979. As noted in the main report, a consequence of this will be growing operating deficits on the part of city governments.

General government capital outlays showed faster growth in 1979 and are budgeted for extremely rapid growth in 1980. However, as the text of the report indicates, capital budgets have been consistently overestimated. Allowing for realization of only 80 percent of the capital spending plans would reduce the projected actual amount to a point where only a 3.5 percent increase would be realized, as is shown parenthetically in the table. This result also would be more in keeping with the realities of current municipal bond market conditions and ongoing reductions in Federal aid.

Capital fund sources are anticipated to rise by 29 percent in 1980. But, as in the case of capital outlays, cities have typically overstated their sources of capital funds. Adjusting for only an 80 percent realization rate, the rate of growth projected for 1979-1980 drops to zero. This would indicate a growing erosion in the buffer between capital outlays and funds available to finance them.

Total general government per capita outlays are a composite of current operting, debt service, and capital expenditure outlays. As may be seen in Table IV-1, growth in total general outlays was estimated to be 7.5 percent for all cities on average between 1978 and 1979. As previously noted, the 11 percent increase in per capita spending projected for 1980 depends heavily on realizing capital spending increases. The parenthetical figure reflects an adjustment for the lower growth rate in the capital outlay component, with the result that total general expenditure growth drops to only 3.5 percent.

Table IV-1 also gives overall per capita average estimates for enterprise fund financial aggregates. In the most part, total revenues and expenditures have grown and are projected to continue growing at rates greater than those for the general government activities. Capital expenditures show especially strong growth, both in 1978-1979, and 1980 anticipated. Again, realization of these capital spending increases in 1980 will depend heavily on the ability of the enterprise utilities to sell debt issues, a situation very much in doubt in early 1980.

To derive the above overall averages for city data, the group averages by city size were weighted by the estimated contribution of each class to total economic activity of all cities. As a proxy for overall activity, the total of general revenues and utility revenues was used, as defined by the U. S. Bureau of the Census, Census of Governments. The total revenues for cities in each population group was calculated for 1977, the latest year for which such data are available, and the proportion of aggregate total revenues represented by those cities in each population class was computed. Table IV-2 gives the proportion of total revenues represented by city size classes in the survey.

The importance of individual financial items will vary among the city size classes. Nonetheless, the weighting factors represented by the above proportions, when applied to the respective strata averages, should give a reasonable estimate of average dollar-weighted experience for all cities in the sample universe. It should be noted that not including cities of under 10,000 in the population leads to only 10.3 percent of the total dollar value of total city revenue omitted from the sample.

TABLE IV-2

WEIGHTING FACTORS

City Size (000's of pop.)	1977 Total Revenues (millions)	Percentages	
		All Cities	Universe Sampled*
over 250	$21,721	30.45%	44.60%
100 to 249.9	7,798	10.93	16.01
50 to 99.9	6,482	9.09	13.31
10 to 49.9	12,699	17.80	26.08
Sample Subtotal	48,700	68.27	100.00
New York City	$15,262	21.39%	
Below 10,000	7,378	10.34	
Total	$71,340	100.00%	

* Excluding New York City.

Mr. PETERSEN. Thank you.

The study dealt with the period 1978, 1979, and 1980 fiscal years and the budgeted and anticipated expenditures and revenues by city governments. As is true with all surveys, there are a number of caveats that need to be borne in mind when analyzing the results. I am not going to bore you with the details here but will try and skim along the surface of the results which I think might be of greatest interest to you.

First of all, for all cities general operating expenditures have been rising faster than have been current revenues, but neither has been rising so fast as the rate of inflation, that is, the prices that State and local governments pay.

Between 1978 and 1979—and I am talking fiscal years of the cities now—revenues rose by an average of 4.3 percent and are projected to rise by only 3.5 percent between 1979 and 1980. Meanwhile, current expenditures rose by 7.9 percent between 1978 and 1979, and are projected to rise somewhat more slowly, by 6.6 percent, between 1979 and 1980.

During this interval prices have been rising at the rate of 8 to 10 percent. So, clearly, we have a real contraction in city government in this Nation today.

This trend of expenditures rising faster than revenues is not sustainable over any prolonged period of time. Many cities are in the process of spending down financial balances that they built up in 1977 and 1978. As a result, cities of all sizes are increasingly headed toward deficit positions in their current operating accounts. That is, they are spending more each period than they are taking in in terms of revenues.

The percentage of cities experiencing operating deficits increased between 1978 and 1979 and is anticipated to increase further in 1980. Cities on average in 1978 experienced operating surpluses of $10.72 per capita, which was equal to about 3.1 percent of their current revenue. So on average, there was a surplus among cities in fiscal year 1978.

By 1979, the operating margin had tightened to such an extent that cities, on average, were virtually breaking even. In other words, there was no surplus to speak of at all. According to the survey results—and here we are speaking of approximately 302 cities that replied—cities of all sizes throughout the country are contemplating operating deficits for fiscal year 1980, with an average deficit amounting to about $10.35 per capita, which is equal to about 2.7 percent of their anticipated current revenues.

Now, I might add, again trying to put these numbers into context, that the general revenue sharing receipts of cities average around $18 per capita in 1978.

It should be noted that the above figures are overall averages, and for many jurisdictions the shortfalls are anticipated to be much greater.

I see I have run out of time and haven't been able to get into the bond market, but if I may just take one more minute——

Senator BRADLEY. Certainly. Take another minute.

Mr. PETERSEN. We have had, as you know, extremely disruptive conditions in the municipal bond market, with interest rates showing a great deal of volatility. There was a dramatic rise of about 2 percentage points between January and early April of this year, and then a sudden dropping down of interest rates.

During that interval of time, we calculated that approximately $1.3 billion in State and local long-term borrowing was postponed. However, given the shortness of the disruption in the market, I doubt if it is going to have any prolonged effect on the capital spending plans of cities. I think what is going to have a bigger effect is the withdrawal of Federal assistance, which we now find is financing about one-third of all city government capital expenditures in this country.

Senator BRADLEY. Tell me, do you find that the municipal crunch is coming in any one area of the country more than other areas of the country? I noticed you said that it was throughout the country, but have you done more specific analysis?

Mr. PETERSEN. We have not done a specific analysis by region of the country, although the material is capable of supporting that kind of analysis. I think it is fair to say, and this is by general observation, that the conventional wisdom on the subject is probably accurate. Clearly, in the Northeast and in the Midwest parts of the country, we tend to see more pressure.

Of course, we also see pressure in California as a result of recent enactments out in that State, which, made financing local government more difficult. I think that in part, borrowing difficulty is due to economic circumstances; but now we find cities having to contend with the constitutional and statutory restrictions on their taxing ability, yet in many cases they still are working under mandated expenditures.

Third, we have a dramatic change in their actual receipts and, of course, in their expectations of Federal assistance. Particularly in the case of the cities, we find many of them are highly leveraged and have become quite dependent on the source of funds.

Senator BRADLEY. Did you say there were $4.5 billion worth of decisions that municipalities have made not to go to the bond market?

Mr. PETERSEN. Yes, it was $1.3 billion, Senator.

Senator BRADLEY. $1,3 billion.

Mr. PETERSEN. And those were publicly announced sales that were canceled during a 4-month interval.

Senator BRADLEY. Right. Now, that was when the interest rates went up to 20 percent. Of course, the tax exempt rate is much lower, but reflects that.

Mr. PETERSEN. Yes.

Senator BRADLEY. If 20-percent interest rates should happen again and we do not have the success that we have had this time in having them drop quickly, how long do you think municipal governments could go on withholding from issuing bonds on the market without there being a significant pinch on the local government—and therefore a legitimate and strong claim on the Federal budget?

Mr. PETERSEN. Well, there have been studies done about the impacts of the tight money periods in the past. We were able to collect some evidence regarding the period of time before these effects have finally really grabbed on capital spending. I will just hazard a guess of somewhere in the vicinity of 6 months to a year.

We had very tight markets, as you will recall, in late 1975 and 1976, and some impact on catital spending.

Senator BRADLEY. How would you define tight markets? This time last year, tight markets would have been 12 percent.

Mr. PETERSEN. I would say in this period of time tight markets are probably where we start running into double digits on the tax-exempt bond interest rate. For good quality municipal bonds at 20 years maturity, the bond buyer index hit about 9.5 percent this spring. Of course, that is an average, and you have got to remember that half the rates were above the average and half below.

For those jurisdictions that start running into 10- and 11-percent interest costs, in many cases they are slamming into interest rate ceilings. In other cases, they simply don't feel they can justify what would be the debt service required, the interest cost burden required to support an issue.

Senator BRADLEY. So you think that it takes 6 months to a year of those kinds of conditions before they would really feel a pinch at the local level.

Mr. PETERSEN. Yes, I believe that is true. Again, keeping this in perspective, I believe that many local jurisdictions do have interim means of financing. We did see an uptick in short-term borrowing, also at very high rates. In many cases the borrowing is being done in anticipation of the actual construction.

What I am thinking of here, Senator, is in terms of if they can't borrow today, how far down the line are we going to see some tapering off in construction, in actual expenditures. I would say 6 months is probably a reasonably good guess.

Senator BRADLEY. Fine.

Thank you very much, gentlemen, and you will submit your entire statement for the record as well as the report.

Mr. PETERSEN. We will, indeed.

Senator BRADLEY. Thank you for your help.

[The prepared statement of Messrs. Esser and Petersen follows:]

TESTIMONY OF THE MUNICIPAL FINANCE OFFICERS ASSOCIATION

Mr. Chairman and members of the subcommittee, I am Jeffrey L. Esser, Director of Liaison of the Municipal Finance Officers Association[1] (MFOA). We appreciate this opportunity to present the views of State and local government finance officers from throughout the United States on the General Revenue Sharing Program. The Municipal Officers Association has been a strong supporter of the General Revenue Sharing Program since we adopted our first resolution of support in 1969. Serving as the fiscal managers of State, county, and city governments, we know that the revenue sharing program serves as the centerpiece of our intergovernmental aid and cooperation system. As you know, general revenue sharing is more important to State and local governments than any other Federal grant-in-aid effort.

My intent in providing you with these introductory comments to the testimony is to indicate the strong support of the Municipal Finance Officers Association of the General Revenue Sharing Program. We do not want to duplicate the testimony that has already been presented to you by representatives of the organizations representing State and local government officials. The primary purpose of this appearance is so that the independent Government Finance Research Center of MFOA can provide this subcommittee with current information on the fiscal condition of cities and the state of the tax-exempt bond market. It is important for you to know that the Government Finance Research Center is a separate operating division of the MFOA

[1] The Municipal Finance Officers Associations represents 8,000 members who are State and local government finance officials, appointive or elective, and public finance specialists. MFOA is headquartered in Chicago, Illinois, and also maintains a Washington, D.C., office.

and that it develops, manages, and performs research of the highest professional and independent quality.

Last week, the Municipal Finance Officers Association held its annual conference. Our organization considered the proposal that the administration has forwarded to Congress concerning increasing the general revenue sharing audit mandate. The members of our organization adopted a position in opposition to increasing the Federal requirement. The statement (which is attached) indicates the following view on annual independent audits:

"While we strongly support an annual independent audit and continuing improvements in the implementation of annual governmental financial reporting based on generally accepted accounting principles (GAAP), we have concerns about the desirability of mandating these improvements through the Federal Revenue Sharing Act."

Mr. Chairman, it is my pleasure to introduce to you and this subcommittee Mr. John E. Petersen, who is the director of the Government Finance Research Center.

Municipal Finance Officers Association—Policy Statement

ACCOUNTING AND AUDITING REQUIREMENTS OF THE FEDERAL GENERAL REVENUE SHARING ACT

Since its inception, the Municipal Finance Officers Association of the United States and Canada (MFOA) has supported efforts to improve the concepts and principles dealing with governmental accounting and financial reporting. That support has been, and continues to be, evidenced by such activities as the development and financial support of the National Council on Governmental Accounting (NCGA) (and its predecessor bodies), the development of the Certificate of Conformance in Financial Reporting Program, publication of thousands of books and articles on governmental accounting and financial reporting, and the development of several seminar and training programs designed to assist accounting and financial reporting practitioners sharpen their skills. At the same time, MFOA has urged that state and local governments subject the financial statements contained in their comprehensive annual financial report to review by an independent auditor and has made an annual audit of such reports a requirement for the Certificate of Conformance.

While we strongly support an annual independent audit and continuing improvements in the implementation of annual governmental financial reporting based on generally accepted accounting principles (GAAP), we have concerns about the desirability of mandating these improvements through the Federal Revenue Sharing Act. In testimony before the Federal Congress, MFOA representatives pointed out the progress that has occurred in these areas over a lengthy period. We also pointed out potential problem areas that could develop from a federally mandated annual audit as part of a renewed Federal Revenue Sharing program.

However, we do recognize the necessity of continuing progress in implementing GAAP-based financial reporting and the extension of the annual audit to cover all such reports. Therefore, the MFOA will prepare guidelines and such other materials as are necessary to achieve the desired goal of GAAP-based financial reporting for all governmental entities and annual audits of all state and local government financial reports.

With the demonstrated progress that has been achieved in the implementation of GAAP-based financial reporting by governmental units and the continuing extension of annual audits of those reports, we oppose an expansion of the current General Revenue Sharing requirement which mandates the submission of one audit every three years.

Current Trends in City Financial Condition

(By John E. Petersen)

In the Fall of 1979, the Government Finance Research Center of the MFOA in conjunction with the Joint Economic Committee of the U.S. Congress conducted a survey of city financial conditions. Of the 539 cities surveyed, 302 provided usable responses. Generally, the study was designed to provide estimates for all city governments in the nation, classifying cities by population size.

As with most financial surveys, care must be taken in analyzing the results until the definitions and methodology are fully understood. These matters are explained fully in the underlying study.[1] Here, however, we can highlight some of the survey's

[1] The major results are contained in U.S. Congress, Joint Economic Committee, "Trends in the Fiscal Condition of Cities: 1978-80" Washington, D.C.: Government Printing Office (April, 1980).

results as they pertain to understanding the current trends in city financial condition.[3]

For all cities, operating expenditures have been rising faster than current revenues. Between 1978 and 1979, revenues rose on the average by 4.3 percent and are projected to rise by only 3.5 percent between 1979 and 1980. Meanwhile, current expenditures rose by 7.9 percent between 1978 and 1979 and are projected to rise somewhat more slowly, by 6.6 percent, between 1979 and 1980.

This trend of expenditures rising faster than revenues is not sustainable over any prolonged period of time: many cities are in the process of "spending down" financial balances built up in 1977 and 1978. As a result, cities are increasingly headed toward deficit positions in their current operating accounts. The percentage of cities experiencing operating deficits increased between 1978 and 1979, and is anticipated to increase further in 1980.

Table 1 provides an overview of the current operating results—current revenues minus current outlays—for cities categorized by population size. To improve comparability, the net surplus or deficit is shown in per capita terms and as a percentage of total current revenues. As may be seen, cities on average in 1978 experienced operating surpluses of $10.72 per capita, equal to 3.1 percent of their current revenues. Cities of all sizes had surplus except for those in the large bracket (100,000 to 250,000 population in 1977), which had a small current deficit of $2.35 per capita. By fiscal year 1979, the operating margin had tightened, small cities moved to a deficit position and the positive surplus for the medium-sized and the largest cities diminished. For all cities, on average, the operating surplus dropped to practically zero in 1979. According to the survey, cities of all sizes are contemplating operating deficits for fiscal year 1980, with the deficit moving to $10.35 per capita, equal to 2.7 percent of anticipated revenues. It should be noted that these are overall averages and for many jurisdictions the shortfalls are anticipated to be much greater.

TABLE 1.—OPERATING SURPLUSES AND DEFICITS FOR CITIES, PER CAPITA AND AS A PERCENTAGE OF CURRENT REVENUES

City size	1978	1979	1980 [1]
Small:			
Per capita	$9.04	—$4.83	—$17.17
Percent of revenues	3.3	—1.7	—5.9
Medium:			
Per capita	$17.22	$10.87	—$1.40
Percent of revenues	6.1	3.7	—.5
Large:			
Per capita	—$2.35	—$3.46	—$15.55
Percent of revenues	—.7	—1.0	—4.3
Largest:			
Per capita	$14.44	$1.07	—$7.16
Percent of revenues	3.4	.2	—1.6
Average:			
Per capita	$10.72	$.11	—$10.35
Percent of revenues	3.4	(2)	—2.8

[1] Estimated.
[2] Less than 0.05 percent.

The conclusion to be drawn from the above is that the fiscal condition for cities is rapidly tightening. Although most cities were able to accumulate operating surpluses in the late 1970's, the slow growth in current revenues can only be offset for so long by spending down balances.

[3] The financial data refer to the fiscal years of the cities. The results have been categorized by city size as follows:

Most data are presented in per capita amounts, using 1976 population figures for the cities. Where overall city averages are shown, they are weighted by the total dollar volume of revenues (general and enterprise) for all cities in that population category.

Size	Population (1975)
Small	10,000 to 49,999
Medium	50,000 to 99,999

Size	Population (1975)
Large	100,000 to 249,999
Largest (excludes New York City and the District of Columbia)	250,000 and over

Judging by past experience, it is unlikely that cities can allow themselves to drop very far into operating deficits. The survey results do show that, typically, cities have overestimated outlays and underestimated revenues and this conservative behavior probably accounts for much of the projected 1980 deficit. Nonetheless, the growing rigidity of revenues (especially in property taxes) and the rapid escalation in costs will require quick moves toward retrenchment and even more rapid curtailing of city expenditures. It is also worth pointing out that the fiscal pressures are not confined to the nation's largest cities. In fact, large cities and small cities both moved to operating deficits earlier than the largest units and see them as a larger percentage of revenues.

A major—perhaps revolutionary—change is occurring in the way in which cities raise revenues. The major varieties of current revenues and their trend between fiscal years 1978 and 1980 are shown in Table 2, again in per capita amounts and by city size.

TABLE 2.—COMPOSITION OF CURRENT GENERAL REVENUES IN PER CAPITA AMOUNTS AND ANNUAL PERCENT CHANGE

Total current revenue	1978 (actual)	1979 (actual)	1980 [1]	Percent change 1978–79	Percent change 1979–80
Small cities	$270.11	$281.03	$292.07	4.0	3.9
Property tax	110.56	107.74	114.43	—2.5	6.2
Other local taxes	57.31	64.59	69.16	12.7	7.1
User charges	13.60	14.72	14.98	8.2	1.6
Fees and miscellaneous	33.56	35.49	34.00	5.8	—4.2
State aid [2]	37.72	42.18	43.67	11.9	3.5
Federal aid [2]	17.36	16.24	15.83	—6.4	—2.5
Medium cities	284.17	293.02	300.79	3.1	2.7
Property tax	105.98	100.53	108.52	—5.2	7.9
Other local taxes	56.50	62.89	66.79	11.3	6.2
User charges	17.28	16.86	18.72	—2.4	11.0
Fees and miscellaneous	37.63	43.57	39.85	15.8	—8.5
State aid	37.11	42.83	44.14	15.4	3.1
Federal aid	29.67	26.34	22.79	—11.2	—13.5
Large cities	332.94	352.32	365.76	5.8	3.8
Property tax	124.94	121.96	130.49	—2.4	7.0
Other local taxes	68.16	75.08	78.80	10.1	5.0
User charges	15.93	16.35	18.20	2.6	11.3
Fees and miscellaneous	41.47	48.13	48.10	16.1	—0.1
State aid	47.28	56.30	60.21	19.1	6.9
Federal aid	35.16	34.50	29.97	—1.8	—13.1
Largest cities	424.15	444.32	459.35	4.8	3.4
Property tax	120.67	109.89	114.38	—8.9	4.1
Other local taxes	104.39	114.07	123.71	9.3	8.5
User charges	20.36	22.14	25.12	8.7	13.5
Fees and miscellaneous	50.24	57.07	63.67	13.6	11.6
State aid [2]	59.83	72.00	68.16	20.3	—5.3
Federal aid [2]	68.65	69.15	64.30	0.7	—7.0

[1] Estimated.
[2] Includes only that aid used for operating purposes.

In the wake of Proposition 13 in California and similar measures in other states, city property tax receipts declined in absolute terms between fiscal years 1978 and 1979. Although city property tax receipts are anticipated to rebound in 1980, the overall significance of that source to city budgets has greatly diminished in the past two years.

At the same time, the survey revealed that Federal funds used for city operating purposes are also declining, having declined both absolutely and as a proportion of current total revenues for all sizes of cities except the largest cities between 1978 and 1979. All cities forsee a decline in Federal aid continuing into 1980.

Reductions in property tax collections and Federal aid revenues are being partially offset by increases in local nonproperty taxes, as well as by new and increased user charges. State aid to cities—heavily influenced by the California bailout following Proposition 13—also surged by 15 percent in 1979. Cities, however, foresee little added growth from that source in 1980.

In terms of their balance sheets, cities evidently were successful in strengthening their overall asset position in 1978 and 1979 and generally have maintained good levels of liquidity. However, a sustained move toward operating deficits such as anticipated for 1980 would erode these positions and could subject cities to cash-flow problems.

City general government capital outlays, increased between 1978 and 1979, being which financed about one-third of all such expenditures (Table 3). Further increase is planned for 1980, as cities (especially the largest) attempt to catch up on deferred capital spending plans. However, these plans are contingent on increases in long-term borrowing and, for the largest cities, a dramatic upsurge in Federal grants for capital purposes. In view of the contemplated reductions in Federal aid, it seems most unlikely that increased grants will be forthcoming. Failure to borrow and to receive Federal capital grants will curtail the projected growth in such spending.

TABLE 3.—GENERAL GOVERNMENT CAPITAL OUTLAY FINANCING PERCENTAGE COMPOSITION

[In percent]

	1978	1979	1980[1]
Small cities:			
Borrowing, short-term	16.2	11.0	7.1
Borrowing, long-term	14.1	14.1	20.4
State aid	4.8	5.0	7.5
Federal aid	29.6	30.6	23.2
Current revenue	28.6	31.4	30.2
Prior reserves[2]	6.6	7.9	11.6
Total	100.0	100.0	100.0
Medium cities:			
Borrowing, short-term	7.2	9.2	12.2
Borrowing, long-term	13.1	14.6	17.2
State aid	6.3	5.5	5.4
Federal aid	34.3	34.9	22.9
Current revenue	21.1	20.7	26.2
Prior reserves	17.8	15.2	16.3
Total	100.0	100.0	100.0
Large cities:			
Borrowing, short-term	2.1	4.7	2.9
Borrowing, long-term	28.1	24.4	38.4
State aid	5.3	4.7	6.7
Federal aid	27.4	34.0	31.2
Current revenue	12.7	14.4	12.2
Prior reserves	24.4	17.7	8.6
Total	100.0	100 0	100.0
Largest cities:			
Borrowing, short-term	4.8	4.7	1.7
Borrowing, long-term	27.0	29.6	26.1
State aid	8.1	7.6	5.6
Federal aid	34.5	29.9	44.8
Current revenue	18.6	18.8	17.6
Prior reserves	7.0	9.4	4.2
Total	100.0	100.0	100.0

[1] Estimated.
[2] Reserves of current revenues accumulated in previous periods.

In contrast to general government activity (which is largely tax-supported), city enterprises (such as water, sewer, electric, and transportation utilities) grew sharply over the period for cities of all sizes. However, growth in expenditures by utilities has outstripped revenue growth. As a result, the operating revenues net of operating expenditures have dropped rapidly, especially in the case of the largest cities. Failure to reverse this negative trend in operating results could halt the capital spending plans of many city enterprises, especially in times of tight monetary conditions.

City long-terms borrowing has been eratic during the period of 1978 and 1979, a pattern anticipated to continue into 1980, especially in view of the volatility of interest rates. Most noticeable—and in keeping with the surge in enterprise capital spending—has been the growth in long-term debt incurred for enterprise activities. Because of low levels of borrowing for general government purposes, there has been practically no growth in such (usually tax-supported) debt outstanding.

As noted above, city capital outlays—whether for general government or enterprise activities—are dependent on access to the bond market. Early 1980 saw a dramatic tightening in the bond markets with high levels of bond postponements, as many jurisdictions either slammed into interest rate ceilings or simply felt that the interest rates had become too high. Between January 3 and April 3 of this year, municipal bond rates shot up from 7.32 percent to 9.44 percent as measured by the *Bond Buyer* 20-Bond Index. Then, in roughly a month, they dropped over 2 percentage points to 7.11 by May 8. A large volume of state and local bonds was postponed (aproximately $1.3 billion in public announced sales during the first four months of this year). In view of the thus far temporary nature of the disruption, it is unlikely that those postponements have affected capital spending greatly over the long haul. However, they do reveal that a return to high borrowing rates could sidetrack debt issuances and—as has occurred in the past—curtail city capital spending plans.

Some conclusions

In the coming years, one can expect a growing number of cities to experience fiscal stress. Most cities enhanced their solvency in recent years as a result of three factors: national economic recovery, increased direct Federal assistance, and a slowing down of expenditures. More recently, however, revenues have slowed dramatically and, although cities have accumulated reserves, they can cover imbalances by that means for only so long.

Generally, projected city budgets have tended to be conservative, with revenues intentionally underestimated and expenditures overstated. As a result, a greater number of cities tend to budget for operating deficits than actually realize them. However, the unexpectedly high rate of inflation this year may ultimately force expenditures to meet or exceed budgeted amounts. The ability of cities to increase taxes appears limited in view of recessionary conditions, statutory restrictions, and popular resistance.

Increased reliance on cyclically sensitive income and sales taxes and user charges, where such is possible, renders cities more vulnerable to fiscal stress in economic downswings. In addition, Federal aid to cities has already tapered off and seems destined to drop further. State aid helped to fill the gap in 1979 but continued growth from that quarter is problematic. Finally, expenditures that have been deferred will ultimately need to be made to maintain viable city operations.

City public employment has turned a corner. For all cities, the average of the change in their total workforces between 1978–1979 was under one percent. The increase in their full-time, permanent workforces averaged only 2 percent, but this reflected placing CETA employees on the regular payroll. For 1980, all cities foresee reductions in their total workforces, including full-time, part-time and CETA workers.

In addition, because in past years capital expenditures have frequently been foregone to adjust for revenue shortfalls, the deterioration of the capital plant in many cities has reached a critical stage. Capital expenditures, therefore, may be deferred in the future, only at the risk of physical collapse.

While the fiscal outlook for cities is stern, there are some favorable prospects on the horizon. It is clear that cities have already begun to retrench. They will not be caught by surprise. City workforces are getting leaner. Cities are attempting to hold the line on expenditures and already rely more on user-pays-cost revenues. In addition, Federal aid dependency has already begun to decline and cities consequently have begun the process of adjusting to less assistance from that source.

Senator BRADLEY. The next witness is the Honorable Benjamin Cole, the Mayor of Mayaguez, Puerto Rico.

Welcome to the subcommittee, Mayor. I hope you can, as with most of the witnesses, abbreviate your comments.

STATEMENT OF BENJAMIN COLE, MAYOR OF MAYAGUEZ, PUERTO RICO

Mr. COLE. Mr. Chairman and members of the committee, first of all I want to request that you please include the complete statement that I submitted for the record.

Senator BRADLEY. Without objection, it will be included.

Mr. COLE. Thank you, sir.

The Puerto Rico Mayors Association, which I am honored to preside, is a nonpolitical organization, and our goals are to strive for the general welfare of the municipalities. Let me say here that I don't see why Commissioner Corrada made a statement saying that he had the mayor of Bayamon with him. He could have brought the 78 mayors of Puerto Rico because we are all for the same purpose. We are behind this legislation and we support it.

There is little difference between him and myself. Everybody knows that he is for statehood in Puerto Rico; I am for the Commonwealth of Puerto Rico. But this is not a matter for discussion in this committee; therefore, I don't see why he brought this to the committee.

The Commonwealth of Puerto Rico receives equal treatment in the majority of the Federal programs in which it participates. However, in several mayor programs, including revenue sharing, it is completely excluded. We find no valid justification for excluding or treating differently the American citizens in Puerto Rico under these programs.

The discriminatory treatment becomes purely arbitrary, especially when you consider that the U.S. Government has agreed to provide SSI benefits to the residents of the Marianas, and that aliens who reside in the U.S. mainland are also eligible for benefits from the same programs that U.S. citizens of Puerto Rico are denied.

Furthermore, it is an elementary principle of public finance that no citizen has a right to any specific return for his tax dollars, and correlatively, a citizen who pays no taxes cannot be excluded from the benefits of a State or Federal legislation simply because he does not contribute directly to the public treasury.

We have not seen the Congress of the United States establishing quotas or placing limits on the participation of Puerto Ricans residing in the island when the time has come to go to war and defend the United States from its enemies. By itself, the Puerto Rican contribution to the United States defense effort merits the inclusion of Puerto Rico under all present and future Federal programs.

The other reason, and, in fact, the main reason for appearing before you today is that we disagree with Congressman Baltasar Corrada as to the manner in which revenue sharing should be extended to and implemented in the Commonwealth of Puerto Rico.

Mr. Corrada is requesting that the program be authorized in the same manner the antirecession fiscal assistance program was extended, which would award the funds allocated to the Island to the Commonwealth government. We favor the allocation formula presently in the law and used in the mainland, which permits the local governments to receive the funds directly without the intervention of the State government.

In the case of Puerto Rico, the anti-recession program was administered by the State government, and the municipalities were specifically instructed on the use the moneys. Congressman Corrada acknowledges, in a letter to Senator Bradley, that our municipalities have the same problems that the general revenue sharing program seeks to redress. But if Mr. Corrada's petition were to be enacted into law, then the local governments of Puerto Rico would be deprived of the much-needed funds which we will use to implement our own—local—priorities.

Mr. Chairman, thank you for accepting this statement on behalf of the Puerto Rico Mayor's Association. We support the inclusion of Puerto Rico in the Revenue Sharing Act, but we recommend that it be taken into consideration the way it is implemented in Puerto Rico.

Senator BRADLEY. Thank you very much, Mayor Cole. Your statement is in the record and we are considering this matter. I think your contribution to our discussion is significant.

I think that your viewpoint is different than your colleague from Puerto Rico, but in the debate about what will happen, your viewpoint will be given equal weight with his in consideration of some way to resolve this question.

Please give my regards to the citizens of Mayaguez.

Mr. COLE. I will. Thank you.

Senator BRADLEY. Thank you.

[The prepared statement of Mr. Cole follows:]

SUMMARY OF THE PRINCIPAL POINTS INCLUDED IN THE STATEMENT BY THE HONORABLE BENJAMIN COLE, PRESIDENT OF THE PUERTO RICO MAYORS ASSOCIATION

* The Puerto Rico Mayors Association is an organization composed of local governments from the Commonwealth of Puerto Rico (from hereon referred to as the Commonwealth.)

* The Commonwealth receives equal treatment in the majority of the federal programs, but it is completely excluded from the Revenue Sharing Program; there is no valid justification for excluding the American citizens of the Commonwealth. The legal and constitutional validity of the present treatment is questionable.

* The Puerto Rican contribution to the United States defense efforts during World Wars I and III, the Korean and Vietnam conflicts, merits, by itself, the inclusion of the Commonwealth under all present and future federal programs. For example, in Korea alone Puerto Rico had one casualty for every 600 inhabitants, as compared to one for every 1,125 inhabitants in the continental United States.

* The local governments of the Commonwealth disagree with Congressman Baltasar Corrada as to the manner in which Revenue Sharing should be extended to and implemented in the Commonwealth of Puerto Rico.

* Congressman Corrada is requesting a one percent (1%) set-aside for the Commonwealth and the territories utilizing population as the distributing factor, and that such allocation of funds be awarded to the state governments. We oppose this request.

* The local governments of the Commonwealth favor the allocation formula presently in the law, which permits local governments to receive the funds directly. We favor equal treatment under the program and concur with Mr. Corrada in favoring the use of population as the distributing factor if the other factors required under the present set-up are not available or are deemed unreliable by the U.S. government.

* The "municipio" is one of the political subdivisions of the Commonwealth. It is an autonomous political body with the governmental powers to govern itself in order to fulfill the needs of the local constituencies. The mayor, as chief executive, is responsible for the implementation of all programs considered of benefit to the population.

* The financial resources of the local governments of the Commonwealth are quite limited, to the extent that we depend on federal funds to fulfill all our needs.

* Puerto Rico has never received revenue sharing dollars; thus, permitting the funds to be allocated directly to the local governments would have no impact whatsoever on the state budget of the Commonwealth. Further, it cannot miss what it never had.

* There are NO guarantees that the Puerto Rican government will share revenue sharing dollars with our local governments in any manner. Congress must provide said guarantee by not delegating its legislative powers to the Governor of the Commonwealth and mandating that the revenue sharing dollars be allocated directly to our local governments as is the case in the 50 states of the country.

STATEMENT BY THE HON. BENJAMIN COLE, PRESIDENT OF THE PUERTO RICO MAYORS ASSOCIATION AND MAYOR OF MAYAGUEZ, PUERTO RICO, BEFORE THE SUBCOMMITTEE ON REVENUE SHARING, INTERGOVERNMENTAL REVENUE IMPACT AND ECONOMIC PROBLEMS OF THE U.S. SENATE

MAY 21, 1980

Mr. Chairman and Members of the Committee. Thank you very much for affording us the opportunity to discuss with you the proposed inclusion of the Commonwealth of Puerto Rico under the Revenue Sharing Program reauthorization.

Today I am accompanied by Mr. Jose A. Ortiz-Daliot, our counsel in Washington, D.C.

The Puerto Rico Mayors Association, which I am honored to preside, is composed of 38 local chief executives from the Commonwealth. Our organization is non-political and our goals are to strive for the general welfare of our "municipios" (municipalities). We are certain that those chief executives who do not belong to the Association share our concerns and desire to be included in revenue sharing and receive the much needed funds directly into their local chests.

The Commonwealth of Puerto Rico receives equal treatment (state-like treatment) in the majority of the federal programs in which it participates[1]. However, in several major programs it is either completely excluded or receiving other than equal treatment.

1. Economic Study of Puerto Rico, Department of Commerce, December 1979, Vol. I, page 175.

SUMMARY OF DIFFERENTIAL TREATMENT ACCORDED TO PUERTO RICO IN MAJOR FEDERAL ASSISTANCE PROGRAMS[2/]

PROGRAM	PUERTO RICO	STATES AND DISTRICT OF COLUMBIA
1) General Revenue Sharing	Excluded	100% Federal
2) Supplemental Security Income (SSI)--Title XVI of SSA	Excluded	100% Federal
3) Prouty--Title II of SSA	Excluded	100% Federal
4) AFDC--(Title IV of SSA) and Adult Categorical Programs (OA, AB, APTD)	Ceiling: $24 million * Match: 50%	No Ceiling 50-83%
5) Social Services	Ceiling: $15 million ** Match: 75%	$2.5 billion 75%
6) Medicaid--Title XIX of SSA	Ceiling: $30 million Match: 50%	No Ceiling 50-83%
7) Educationally Deprived Children--Title I of ESEA	Ceiling of 75% of formula allocation	100% Federal
8) Anti-Recessional Financial Assistance (ARFA)	"Set aside" of 1%*** of National appropriation	100% Federal to be distributed according to state unemployment rate above 6%

2. Id., at page 185.

* Adult categorical programs replaced by SSI.

** Funds available to Puerto Rico if unused by the States.

*** 1% of national appropriation distributed among Puerto Rico, Guam, the Virgin Island, and American Samoa according to each's share of the total population.

We find no valid justification for excluding or treating differently the American citizens of Puerto Rico under these programs. As you can see from the chart presented before, five of the programs are authorized by the Social Security Act and administered by the Department of Health and Welfare.

These exclusions and limitations on Puerto Rican participation in social programs are particularly onerous because they affect basic human needs. Furthermore, United States citizens in Puerto Rico are denied equal benefits solely on the basis of place of residence. If these same individuals were to move to the mainland, they could receive full benefits, while other citizens would lose said benefit if they relocated from the mainland to Puerto Rico[3].

Regarding the exclusions and differential treatment, the U.S. Department of Commerce had this to say in its Economic Study of Puerto Rico:

> " There is no apparent consistent rationale underlying the mixture of exclusions, ceilings, and differential matching rates that are currently applied by Congress to Puerto Rico in its Federal program participation. Rather than the strict consideration of the criterion of need, a variety of political and economic arguments have been used by Congress to determine levels of Federal assistance to, and to justify individual acts of differential treatment for, Puerto Rico.

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3. Id., page 76.

Traditionally, these Congressional arguments have been that (emphasis added):

1. The residents of Puerto Rico do not contribute to the Federal Treasury by virtue of Puerto Rico's exemption from the U.S. Internal Revenue Laws 4/.

2. The cost of extending equal treatment to Puerto Rico under all Federal grant programs would be extremely high, and Puerto Rico could receive a disproportionately large share of the total Federal funds available for poverty programs; and

3. The large influx of Federal funds into Puerto Rico under state-like treatment would have a disruptive impact on the Puerto Rican economy." 5/

Of these arguments, we feel that the exemption from federal taxation is the one most commonly used.

" The results of this blatant discriminatory treatment are twofold: First, Congressional policy in these areas deprives the residents of Puerto Rico from receiving much-needed benefits to face the harsh economic realities of the island. It is a well-known fact that 'the financial problems facing the territories and possessions are more severe that the financial problems that are facing the States...' 6/. Discriminatory treatment to these areas becomes then 'irrational, conceptually unsound, and purely arbitrary,' 7/ especially when you consider that the Federal government has agreed to provide SSI

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4. This argument is not completely true, since the following individuals residing in Puerto Rico pay federal income tax: U.S. mainland residents temporarily living in Puerto Rico, employees of U.S. government agencies (mostly Puerto Ricans), members of the U.S. Armed Forces, and bona fide residents of Puerto Rico of all categories who have income from sources outside of Puerto Rico. Furthermore, Puerto Rico makes a significant, if indirect, contribution of federal income taxes. The Commonwealth, we understand, is the second domestic purchaser of U.S. goods and rates 10th in the world as a market for U.S. products. Therefore, the federal income taxes paid by all those employees laboring at those U.S. industries marketing their products in Puerto Rico are the direct responsibility of the Puerto Ricans living in the Island.
5. Supra, note 1, at page 176.
6. Luis R. Davila, "The Blood Tax: The Puerto Rican Contribution to the U.S. War Effort," Revista del Colegio de Abogados de Puerto Rico, Vol. 40, Nov. 1979, No. 4, page 603.
7. Richard B. Cappalli, "Excerpt from Discussion Paper on Testing the Constitutionality of Discrimination Against Puerto Rico in Federal Aid Programs," (San Juan, Puerto Rico, Office of the Governor, September 5, 1975), unpublished memo, page 3. (See article cited in note 3.)

> benefits to the residents of the Commonwealth of the Marianas, and the fact that aliens who reside in the U.S. mainland are also elegible to benefit from the same social programs that the United States citizens of Puerto Rico are denied. Secondly, it deprives the citizens of the Island from participating in national wealth redistribution programs through which the wealth of the Nation is equitably shared. The basic nature of the aforementioned programs and the Congressional policy for differential treatment towards Puerto Rico have been viewed as two inherently contradictory policies." (emphasis added)

> " The programs are consciously redistributional; aiming at redistributing income from those who have resources to those who do not. Puerto Ricans do not pay Federal taxes because of the Congressional judgment that the Island, as a whole, is too poor to be able to contribute. Therefore, rather than being a justification for lower Federal benefit levels in Puerto Rico, the fact of no Federal taxes is an argument in favor of the full application of Federal aid." 8/

The legal and constitutional validity of the present Congressional differential treatment has been assessed by the now Secretary of the Department of Health and Welfare, Patricia Roberts Harris, in the following terms:

> " Where, as in the case of Puerto Rico, the persons whose rights are to be determined are United States citizens, there seems to be little legal justification for applying a different practical standard based upon the fact that the individual resides in Puerto Rico 9/.
>
> ...
>
> " Whatever becomes the ultimate contour of United States-Puerto Rican citizenship, it is essential that nothing in the interest of the development of a particular political form be permitted to delay or limit the uniformity of treatment and rights which are coming to be a part of United States citizenship 10/."

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8. Id.
9. Patricia Roberts Harris, "Developmental Problems in the Concept of Citizenship with Particular Attention to the United States-Puerto Rico Citizenship," 15 Howard Law Journal 47 (1968), page 53.
10. Id., at 57.

Additionally, a different treatment for the residents of Puerto Rico clearly violates the parameters set by President Carter's human rights policy and his present commitment to his fellow citizens in the island:

> " Too long have some sectors of Washington approached Puerto Rico on a dividing 'we-you' basis, forgetting that Puerto Rico is an island where over three million American citizens live.... The Constitution of the United States does not distinguish between second class citizens. We do not have in our country first and second class citizens. We are all Americans without distinction of color, creed, sex, religion, and as the 1976 Democratic Platform so ably stated at last, without distinction of language." 11/

Furthermore, it is an elementary principle of public finance that no citizen has a right to any specific return for his tax dollars and, correlatively, a citizen who pays no taxes cannot be excluded from the benefits of state or federal legislation simply because he does not contribute (directly) to the public treasury.

We may add that to take the fact of non-payment of taxes into consideration for the purpose of validating the exclusion is antiethical to the moral and constitutional principles upon which our relation is based and repugnant to the idea of equality of all its citizens. American citizens residents of Puerto Rico may be called into the Armed Forces and have given many lives in the defense of the nation.12/

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11. Message from President Elect Jimmy Carter to Governor Carlos Romero-Barcelo, delivered on January 2, 1977. The San Juan Star, January 3, 1977, page 1.
12. Santiago Rosario v. Califano, Civil No. 77-303, Opinion rendered October 1, 1979. U.S. District Court for the District of Puerto Rico.

We have not seen the Congress of the United States establishing quotas or placing limits in the participation of Puerto Ricans residing in the Island when time has come to go to war and defend the United States from its enemies.

We have served proudly in the United States armed forces. Our contribution dates back to 1899 when the Congress authorized the military government ruling Puerto Rico to organize a body of native troops. This resulted in the formation of the Puerto Rico Battalion of Volunteer Infantry with four one-hundred men companies assigned to the cities of San Juan, Ponce and Mayaguez.[13/]

In 1916 at the beginning of World War I, the legislature of Puerto Rico requested the Congress to extend the Selective Service Act to Puerto Rico, which was made extensive to the Island in 1917[14/]. As a result, 17,855 Puerto Ricans volunteered into the U.S. Armed Forces, and many more were drafted[15/].

During World War II, 65,034 Puerto Ricans served, of which 23,198 were volunteers. But our major defense contribution was yet to come.

The Korean conflict lasted from June 1950 to July 1953 and during that period more than 61,000 Puerto Ricans served

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13. Supra note 10 at 618.
14. Id.
15. Id.

in the United States Armed Forces[16]. Puerto Rico's manpower contribution in raw numbers surpassed the individual contribution made by twenty States, the District of Columbia, and any other territory in the Union[17].

Moreover, out of 3,049 Puerto Rican casualties, 731 soldiers were killed in action and 2,318 were seriously wounded[18]. What is more, in terms of per capita contribution, Puerto Rico ranked second only to Hawaii in men wounded and third in the nation in the categories of battle deaths and total casualties

In Korea, Puerto Rico had one casualty for every 600 inhabitants as compared to one casualty for every 1,125 inhabitants in the continental United States. Likewise, one out of every 42 American casualties was a Puerto Rican[19].

In Vietnam we suffered 270 battle deaths, placing us 39th in that category among the states and other territories and possessions[20].

By itself, the Puerto Rican contribution to the U.S. defense effort merits the inclusion of Puerto Rico under all present and future federal programs. We feel that the

16. Id., page 623.
17. Id.
18. Id.
19. Id.
20. Id., page 626.

arguments used for excluding Puerto Rico lose their persuasiveness.

On the contrary, the U.S. policy of recruiting and drafting military personnel in the Island has been based on the premise that Puerto Ricans, as loyal American citizens, have the same duties and responsibilities as their counterparts in the mainland. Our defense efforts have been carried out loyally, willingly, and with great pride and dignity.

For all the above we feel that Puerto Rico must be included under the Revenue Sharing Program.

The other reason for appearing before you today is that we disagree with Congressman Baltasar Corrada as to the manner in which Revenue Sharing should be extended to and implemented in the Commonwealth of Puerto Rico.

Mr. Corrada is requesting that the program be authorized in the same manner the Anti-Recession Assistance was extended, which would award the funds allocated to the Island to the state government. We favor the allocation formula presently in the law and used in the mainland, which permits the local governments to receive the funds without the intervention of the state governments.

We feel we must dispel any doubts in relation to our nature as an autonomous political body, our ability to govern ourselves, our governmental powers, and our responsibilities in serving and fulfilling the needs and priorities of our local constituencies. In the past we have encountered some federal public officials who believe that our municipalities are powerless creatures completely under the sole control and discretion of the Commonwealth (central) government. They are wrong.

The "municipio" is one of the political subdivisions in the Commonwealth of Puerto Rico, the other being the state (central or Commonwealth) government. The basic acts or powers which the municipality enjoys as an autonomous body are the following:

--Elect those who govern it. This includes the members of the Municipal Assembly (local legislative body);

--The power to organize its internal operations, including the designation of necessary personnel to carry out its functions and duties;

--The power to impose local taxes over those articles that it determines are compatible with the fiscal regime of the state;

--The capacity to elaborate and administer its own budget and to freely and effectively conduct its financial operations;

--The right to take over the responsibility for providing the public services of a local character and to agree on the implementation of those programs which it considers most important to the welfare of the municipality and its population;

--The guarantee that its acts can only be questioned judicially, and the right to sue and be sued.

Although the municipalities in the Commonwealth of Puerto Rico have lost some of their powers, which has given rise to a debate on whether this is a healthy exercise of public administration, there are some very important services and duties which, although they are not of the exclusive jurisdiction and responsibility of the municipal government, their administration and operation is shared by the two political subdivisions, the state and the municipalities. These services and duties are: Hospitals, recreation, social welfare, public works[21/], traffic, marketplaces, and slaughterhouses. The construction of these facilities is the sole responsibility of the municipal government, in most cases[22/].

The municipal governments have a reduced expression regarding public order[23/], education, sewers, and urban planning. However, in most instances, the original construction of facilities for the above services is

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21. Public works grants under the Public Works Act of 1976 were funneled directly to the municipalities. Said grants were used to build numerous public works facilities such as schools, roads, health centers, recreation centers, etc., without the intervention of the central government.

conducted by the municipalities[24] Besides, medical services are almost always exclusively financed by the local governments.

At the same time, the municipalities have complete jurisdiction over the collection and disposition of solid waste, all street lighting, and the care and administration of cemeteries, as well as the regulation

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22. Title 21, Laws of Puerto Rico Annotated, §1107, reads as follows:
" The municipalities shall have full legislative and administrative powers in all matters of a municipal nature which redound to the benefit to the people and for their development and progress, and are authorized to develop general welfare programs and to create the necessary organizations for such purpose.
...
" In the exercise of these powers they shall further have ample power to, among other things, acquire, construct, improve, and reconstruct public works of all types and of any nature and they shall also have full legislative and administrative powers in all matters of general benefit for the municipalities, including, but without limitation, the power to acquire, construct, improve and reconstruct public works of all types, including, but without limitation, facilities for schools, charities, sanitation, recreation and hospitalization, public buildings, jails, cemeteries, markets, slaughterhouses, highways, roads, streets, sewers, bridges, wharves, quays, sidewalks, recreation parks and parking areas, water supply, lighting, as well as the power to acquire the lands and equipment necessary or convenient therefor."
23. Nonetheless, several municipal governments have their own police force.
24. Community Block grants from HUD are awarded directly to the municipalities and are also used to construct facilities such as the ones mentioned.

of public activities, including folkloric celebrations, the use and disposition of municipal properties, civil defense, and the provision of basic services to the community, such as recreational activities.

To summarize, the municipality is one of the political subdivisions in the Commonwealth of Puerto Rico. The mayor as chief executive is responsible for the implementation of all programs considered of benefit to the population. Equally important is the fact that the mayor is politically responsible for the success or failure of those programs, even more than the elected officials at higher levels of government.

Because of the importance and the impact of the figure of the mayor, he is the officer called upon to consider and handle all problems affecting his community. The mayor's office is the recipient of petitions for assistance from both rural and urban area residents to solve the basic problems afflicting the municipality's constituency. While these requests and duties become unlimited, the financial resources for implementing the solutions are limited. The only source of income or revenues is the property tax[25] and

25. Property taxes are imposed on all persons based upon an assessed valuation of taxable real and personal property. The property tax is imposed on the basis of two rates: one fixed by the Commonwealth legislature (state government) and the other by the municipal assembly in each one of Puerto Rico's municipalities. The rate of (cont. page 14)

the payment of local permits[26]. The remaining revenues must be obtained through Federal programs of assistance which enable the local governments to implement those programs considered fundamental for the welfare of the community. This last resource is seriously threatened by the state government and is allocated to only fulfill the state government's priorities. In the case of Puerto Rico, the Anti-Recession Fiscal Assistance Program was administered by the state government, and the municipalities were speficically instructed on the use of the monies. The local priority was not taken into consideration, nor were any options left open to the municipality.

(Cont. of note 25)...the municipality's tax depends on the amount of the municipal debt and the extent to which it uses its authority to finance certain general expenses from the proceeds of the tax. There is no limit on the rate of tax imposed for debt service purposes; however, for general expenses the municipal tax rate cannot exceed 2%.

The Department of the Treasury of Puerto Rico collects all proceeds from both the Commonwealth and the municipal property taxes, but returns to each municipality that part collected under the latter's respective rate.

26. The laws of Puerto Rico permit municipalities to imposé directly on business within their jurisdiction a licence tax. The tax, based upon the volume of business of such enterprises , is, in effect, a tax on gross receipts. The rates vary up to a maximum of 1% for financing businesses and a 0.3% for all others.

NOTE: Sources for contents of notes 25 and 26 were: What You Should Know About Taxes in Puerto Rico, Department of the Treasury of the Commonwealth of Puerto Rico, and Tax and Trade Guide, prepared by Arthur Andersen and Company, a CPA firm.

Even in the case of the Local Public Works Act, the municipalities of the Commonwealth received lower amounts in relation to the states' share, in comparison with the other local governments in the U.S. mainland. This represents the most serious threat at present, one which could jeopardize the very existence of local governments and bring forth the creation of a super government which has no knowledge of the local needs and which cannot allocate the necessary time and human resources to help the residents of the localities. For this reason, the municipality needs to exist so that it may continue to help alleviate the needs, provide the services, and serve as the leader and spokesperson of the small communities on the Commonwealth of Puerto Rico.

Revenue sharing was enacted as a form of aid to the hard-pressed units of state and local governments to be spent on almost any type of service or project[27/]. The municipalities of Puerto Rico are presently very hard pressed for operational funds. Their fiscal situation, topped by President Carter's budget cuts, has had a definite impact on our municipalities[28/]. Two concrete

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27. Making Civil Rights Sense Out of Revenue Sharing, U.S. Commission on Civil Rights, February 1975.

28. Congressman Corrada's office has estimated that funds to Puerto Rico will be reduced in the neighborhood of $100 million. Other estimates put that figure around $200 million. Nonetheless, the Commonwealth's Federal Affairs Office has informed us that it is preparing a more precise impact statement on the effect of the budget cuts on Puerto Rico.

examples are the public service employment jobs of CETA[29] and the community block grants program[30].

In regard to Revenue Sharing, President Carter has recommended the elimination of the state governments' share. Allowing the government of Puerto Rico to receive the funds would be contrary to the President's desire and also contrary to the concept of the program.

Puerto Rico has never received revenue sharing dollars, so cutting the state's share has no impact on Puerto Rico's state budget. It cannot miss what it never had before.

Congressman Corrada ackowledges in his letter to the Hon. Bill Bradley of February 25, 1980, that our municipalities have the same problems that the General Revenue Sharing program seeks to redress.

We go one step further. Our municipalities' problems are compounded by the fact that while in the U.S. the monies go directly to local governments, in Puerto Rico they are received by the Commonwealth government and distributed according to the Governor's priorities while ours go ignored. We are referring to the counter-cyclical assistance in which Puerto Rico was the recipient of $12.5

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29. The Puerto Rico Federal Affairs Administration estimates that 38,000 public service jobs will be affected if the Senate CETA proposal is approved.
30. The Puerto Rico Federal Affairs Administration has no precise estimates, but acknowledges there will be a reduction on funds flowing to the island.

million during the period between September 1977 and March 1978[31]. Not one cent of said amount went to fulfill local government priorities.

If Mr. Corrada's petition were to be enacted into law, then the local governments of Puerto Rico would be deprived of the much-needed funds which could enable them to implement their local priorities, since the control and manner in which the monies will be allocated and expended would be under the absolute control of the Governor of Puerto Rico. The chief executives of the "municipios" of the Commonwealth cannot support this position.

The beneficiary of Congressman Corrada's petition for inclusion in the revenue sharing program will be the Governor of Puerto Rico, who could use the revenue sharing funds to solely fulfill the priorities of his administration.

There are no guarantees that the Puerto Rican government will share the revenue sharing dollars allocated to the Governor of Puerto Rico in any manner. This manner of distribution, as requested by our representative, is not supported by the Congressional intent behind the Revenue Sharing Program. Congress must provide our local chief executives with the guarantee that they, too, will be able to deliver the basic and essential government services as they deem appropriate.

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31. Report on Alternative Methods of Allocating Federal Intergovernmental Assistance, U.S. Department of the Treasury, Office of Revenue Sharing, March 1978.

Furthermore, the association we represent favors equal treatment for Puerto Rico under the Revenue Sharing program as well as under the Anti-Recession program, not just the one percent (1%) set-aside that Mr. Corrada is requesting. The reasons we outlined above more than justify this position.

We understand that statistical problems were the obstacle for not advocating the includion of Puerto Rico and the territories in the regular allocation process[32].

We feel that while this argument may be valid, it should not be taken as the scapegoat for not extending Revenue Sharing to Puerto Rico's municipalities. An alternative formula considering population only was designed in the case of the Anti-Recessional Financial Assistance (ARFA) program. The important issue here is whether Congress wants to include Puerto Rico or not under the Revenue Sharing program. If the answer is in the negative then there is no need to go any further; but if the willingness and desire to extend these benefits exist, then Congress can and will design an appropriate formula. A formula where our municipalities will not be short changed.

We must also stress the fact that we are not discussing here a jurisdiction that lacks the pertinent statistical data[33]. We have data on population, tax effort, and

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32. Supra, note 1.
33. Supra, note 1 at page 123 said: "It can be noted that for those areas wherein U.S. agencies have been contracted for technical assistance, there is a data collection process underway which rates in comparability to that of efforts underway stateside (e.g., Puerto Rico)."

per capita income[34]. It appears to us that the problem is one of reconciliation between our standards and the federal ones. This could be the opportunity for said reconciliation or, if it is not viable at this moment, the alternative formula route can be followed.

We urge the Committee members to extend Revenue Sharing to our municipalities which, as Mr. Corrada has stated, are in great need.

To conclude, we want to extend our thanks once again to the members of this Congress for granting us the opportunity to state the position of the local governments in the Commonwealth of Puerto Rico.

Furthermore, we urge the members of the Committee to help us motivate Congressman Corrada to work closely with us in developing a viable formula for our local governments. In the past our approaches to him have been ignored.

Thank you very much.

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34. The Commonwealth Federal Affairs Administration in Washington, D.C. informed us a few weeks ago that per capita income data was presently being calculated for all the municipalities. The Bureau of Economic Analysis of the U.S. Department of Commerce designed methodology for this purpose.

Our next witness is John McCart, executive director of AFL–CIO Public Employee Department.

STATEMENT OF JOHN A. McCART, EXECUTIVE DIRECTOR, AFL–CIO PUBLIC EMPLOYEE DEPARTMENT

Mr. McCART. Mr. Chairman, we have supplied the subcommittee with copies of our formal statement. I would like to proceed to briefly summarize the principal points.

The statement projects a series of principles with respect to the pending bills. Of them, we find that S. 2574 is the preferable measure as far as meeting current needs, with the exception of the exclusion of State governments from eligibility for revenue sharing funds.

The twin evils, inflation and recession, State and local governments are facing today has resulted in severe curtailments of educational, recreational and cultural services. Now we are seeing the threat of significant reduction in essential services such as fire, police and prison personnel.

This, together with the actions that have been taken by some State legislatures and through referenda by the citizens of various communities to limit spending means that the State, county and city governments are still experiencing very, very serious problems and will in the immediate future.

We set forth a series of principles, some of which are contained in the bill to which I have referred, and one or two of which are not. What I would like to emphasize is simply two points. We believe that this legislation should carry some basic minimum protections for State and local government workers, such as the application of the national minimum wage law, and a requirement for those States that have not already enacted legislation on the subject to meet minimum standards recognizing the rights of workers to organize and to bargain collectively.

The U.S. Supreme Court several years ago struck down the application of the Fair Labor Standards Act to State and city workers on the theory of the commerce clause. However, the majority opinion indicated the possibility that if Congress were to utilize the spending power for this purpose, that the Supreme Court might take a different view.

So we are suggesting to the subcommittee that it use this revenue spending method to provide minimum standards of protection for those who are employed by State and local governments.

That concludes my formal statement, Mr. Chairman.

Senator BRADLEY. Thank you very much, Mr. McCart. I appreciate your testimony.

Mr. McCART. Thank you so much.

[The prepared statement of Mr. McCart follows:]

STATEMENT OF JOHN A. McCART, EXECUTIVE DIRECTOR, AFL–CIO PUBLIC EMPLOYEE DEPARTMENT

The AFL–CIO Public Employee Department (PED) appreciates the opportunity to comment on behalf of our thirty-five (35) national unions, on reauthorization of the general revenue sharing (GRS) program. We urge reauthorization of the general revenue sharing (GSR) program for five more years.

The two million public employees we represent work at every level of American government and, as citizens and taxpayers, are concerned with strengthening the ability of state and local governments to supply effective services to their citizens.

One million members of PED unions, who work at the state and local levels, are even more immediately concerned.

We have studied S. 2414, which would extend the authority for four years; S. 2678, reducing specific categorical grants by the amounts otherwise applicable to a state government; and have noted the similar purpose described in S. 2681. The bill most clearly meeting the current need, except for impairing state grants, is S. 2574.

Generally speaking, the federal income tax is more progressive and equitable than state and local government systems. The problems of states, counties and cities in meeting their financial obligations and providing services expected of modern communities are, in the aggregate, a national problem. Accordingly, reauthorization at the present $6.85 billion annual level is desirable and appropriate.

National policy changes to relieve the onerous expenditures by state and local governments, including welfare reform, are not imminent. Accordingly, GRS is essential to help meet the ravages of inflation, which all levels of government face.

The high rate of unemployment in most metropolitan areas contributes to our 7 percent national unemployment rate, but jobs generated by the estimated $8.8 billion in GRS in 1980 aided substantially to combat the fiscal crisis confronting many communities.

Throughout the country, community after community has found it necessary to curtail services to the public. Educational, cultural and recreational facilities have been reduced.

Now, the arrival of the recession, with its prospects of a reduced tax base, threatens the security functions residents have a right to expect. Fire, police and prison departments are affected. Hundreds of workers in those operations are facing loss of their jobs.

Our major concerns with respect to revenue sharing are these.

The language and enforcement of the statute should ensure that the GRS funds are supplements to state and local government tax revenues, not an alternative system of categorical grant programs.

We urge an allocation formula, which targets funds to jurisdictions extending a high level of public services to a large number of economically disadvantaged citizens in their populations.

It should be clear without any doubt that Congress intends to include education as an activity for local GRS funds.

As a matter of national policy, the program should reward those states, which raise their own revenues through progressive tax structures.

Civil rights enforcement should be mandated under the general revenue sharing program, including a procedure for updating inadequate data reflecting a systematic pattern of discrimination.

Of particular importance to government employees would be a statement of policy on positive provisions in the bill. The act should become a framework for assuring minimum, basic standards for state and local government employees. The federal government has established certain fundamental requirements in law, such as the Fair Labor Standards Act and the National Labor Relations Act, setting forth minimums and rules for private sector employment.

Employees of state and local public employers were accorded coverage under the Fair Labor Standards Act in 1974, based on the "commerce clause" in the U.S. constitution. However, a five-to-four U.S. Supreme Court decision, in *National League of Cities* v. *Usery,* held that the "commerce clause" does apply and that the Tenth Amendment reserves such powers to the states. Nevertheless, the majority opinion suggested that Congress might be authorized to extend coverage to public employees under other sections of the constitution, such as the "spending power."

Consideration of the revenue sharing bills affords Congress the opportunity to take two needed actions. First, it can reaffirm its intent in the 1974 Fair Labor Standards Act amendments in the manner suggested above by the Court. Second, standards can be specified in the legislation for states opting to participate in GRS, which have not already done so, to provide statutory protection for the right for state and local government workers to organize and bargain collectively.

The denial of such protection to public service workers is inconsistent with national policies. It is inconsistent with the 1978 Civil Service Reform Act. That law delineates the right of federal employees to join unions and negotiate agreements. It is inconsistent with similar rights enjoyed by employees of the U.S. Postal Service, and local transit authorities operating under the Urban Mass Transit Act.

Such legislative policy would coincide with the philosophy contained in the National Labor Relations Act, based on continuous congressional expressions since 1935.

The Department can think of few congressional actions which would produce a greater measure of justice or satisfy a more pressing need. PED asks that the Subcommittee give it the most serious attention.

Senator BRADLEY. Our next witnesses are William Taylor, director of the Center for National Policy Review, and Woodrow Ginsburg and Janet Sklar.

With such a distinguished panel, I am sorry that we have so few minutes and so few Senators. Your full statements will be placed in the record, and I hope that you will be brief in summarizing since we are 5 minutes late right now.

STATEMENT OF WILLIAM TAYLOR, DIRECTOR OF THE CENTER FOR NATIONAL POLICY REVIEW, SPEAKING ON BEHALF OF THE REVENUE SHARING REFORM PROJECT, ACCOMPANIED BY WOODROW GINSBURG, DIRECTOR OF RESEARCH AND PUBLIC POLICY, CENTER FOR COMMUNITY CHANGE; AND JANET DAMTOFT, URBAN POLICY DEPARTMENT DIRECTOR, LEAGUE OF WOMEN VOTERS EDUCATION FUND

Mr. TAYLOR. I am speaking for a group of organizations that did intensive investigation of the revenue sharing program back in 1975 and 1976, and made the recommendations which resulted in some important changes in the law, both in civil rights and in citizen participation.

Our major continuing concern about the program is equity, whether the formula for distributing funds to State and local governments is responsive to need. Now, the Congress did make an effort in 1972 to take need into account, but our contention is that the formula had major defects and did not respond adequately to communities with the largest number of poor people and the greatest needs for service and the least access to revenue.

Equity, we think, is even more crucial a matter at a time when the program is not growing and when there are efforts to make substantial cuts. We have a couple of points on equity that we would just like to outline for you today.

The first is that we agree with Members of the Senate that the needs of the country will not be served by eliminating the State share or by making other types of across-the-board cuts. Eliminating the State share would hurt not just a few States that are running surpluses but those that are making a major effort to respond to the needs of hard-pressed communities.

We also don't think that cutting the State share would contribute to a healthy fiscal partnership in our Federal system. We agree with Dick Nathan that the States are responsible for establishing a rational, efficient system of local governance; and if they were to be bypassed completely while GRS continued to provide direct assistance to some 39,000 local units of government, the chances of impelling States to assume more responsibility for modernizing and making local governance more efficient would be greatly reduced.

So we think that instead of eliminating the State share, what we propose is a revision in the formula for allocating GRS funds among the States. The new formula would be designed to reward States for distributing their own revenues in an equitable and responsive way.

I won't go into a description of how that formula would work, but we do think it would accomplish some of the objectives that were raised by questions here this morning.

As to the formula for distributing funds to localities, we think that considerations of equity and need would be well-served if the Congress adopted the five changes that have been recommended by the Carter administration, and we emphasize those that go to tax effort as well as the maximums and the minimums.

Indeed, we would go further and establish a threshold of need which would eliminate some of the communities that, while they have needs, are well able to meet them out of their own resources. It is interesting to us that there are some wealthy communities in the country that are getting relatively equal amounts right now to the Buffalos and Atlantas and Memphises and Columbuses and Oaklands of the country, and that shouldn't really continue.

I would like to make one last point if time will permit, and that is about the civil rights provisions of the revenue sharing program. We were pleased, of course, that the amendments that we advocated and that were adopted in 1976 have resulted in some progress. But there is a huge backlog of uninvestigated complaints at ORS, and the agency isn't even monitoring adequately the settlement agreements that it has reached.

We think that Congress ought to insist on better performance by the agency and ought to provide it with the resources that will enable it to hire the staff to do the job. At a time when we have increasing unemployment, when there are major complaints about services that are provided, including services that are provided by police departments, and that has been a lot of what the controversy has been about, it would be very shortsighted for Congress not to make this additional expenditure to deal with problems that we should have dealt with a long time ago.

We appreciate your indulgence and will be glad to answer any questions.

Senator BRADLEY. I have no questions.

Would any of your panelists like to make a statement in two sentences?

Mr. GINSBURG. I would just thank you for your interest in this. I particularly would like to emphasize one point about the consideration of the allocation formula is still a major issue. I am delighted to see you and some of your colleagues on the committee recognizing that the opportunity to do this, though the time is short, comes only once every 4 years.

We strongly endorse every effort to look at that formula and see if we cannot introduce some greater degree of equity in it.

Ms. DAMTOFT. I will just say that the League of Women Voters will be submitting a separate statement of its support for full funding of general revenue sharing and associating ourselves with the equity formula changes.

Senator BRADLEY. Thank you very much for your testimony.

[The prepared statement of Mr. Taylor follows:]

CONSOLIDATED TESTIMONY OF

CENTER FOR COMMUNITY CHANGE

CENTER FOR NATIONAL POLICY REVIEW

LEAGUE OF WOMEN VOTERS OF THE UNITED STATES

NATIONAL URBAN COALITION

PRESENTED BY

WILLIAM TAYLOR, DIRECTOR

CENTER FOR NATIONAL POLICY REVIEW

BEFORE THE

SUBCOMMITTEE ON REVENUE SHARING

OF THE

SENATE FINANCE COMMITTEE

MAY 21, 1980

Summary of Principal Points

This is the consolidated testimony of four groups, the Center for Community Change, the Center for National Policy Review, the League of Women Voters of the United States and the National Urban Coalition. Our principal concern is to ensure that the General Revenue Sharing program be designed so that funds are distributed in a fair and equitable manner. To this end, we favor:

--targeting of funds to areas of greatest need

--the five formula adjustments proposed in the Administration's bill

--consideration of a threshold of need as a standard for eligibility

--retention of the state share

--elimination of energy related severance taxes in the computation of the tax effort factor

--use of the state share as a reward or incentive for states to aid their own localities adequately and equitably (a documentation of this concept is included in our testimony).

These four groups are committed to the retention and implementation of the compliance provisions of the General Revenue Sharing program. The Office of Revenue Sharing should be provided with adequate resources to enforce the citizen participation, civil rights and auditing requirements and to provide information about them to public officials and citizens. We support the recommendation that an audit be required every two years.

Mr. Chairman and members of the subcommittee:

My name is William Taylor and I am the director of the Center for National Policy Review. I will be presenting consolidated testimony with the Center for Community Change, the League of Women Voters of the United States and the National Urban Coalition. With me today are Woodrow Ginsburg of the Center for Community Change, Janet Damtoft of the League of Women Voters and Morton Sklar of the Center for National Policy Review. A separate statement in support of General Revenue Sharing reauthorization will be submitted for the record by the League of Women Voters. The Center for National Policy Review will also submit a statement documenting the case for improved civil rights enforcement.

These four groups conducted an extensive national monitoring project on the General Revenue Sharing program from 1973 to 1976 in preparation for the reauthorization of the program in 1976. Our principal concern was to determine whether GRS funds were being distributed in a fair and equitable manner. This consideration remains our primary goal today.

As a result of our studies, we recommended a change in the allocation formula to make the program more responsive to the needs of disadvantaged communities. Our recommendations for a change in the distribution formula did not become part of the 1976 renewal. However, the inequities in the distribution of funds still exist and our concern is heightened by current economic conditions and the threat of severe cuts in the Federal programs designed to aid our neediest citizens and their communities. We favor the concept of targeting the funds distributed through General Revenue Sharing to the areas of greatest need. In developing the original formula, Congress clearly intended to distribute the funds in proportion to need, using the inverse of per capita income as a primary factor in the allocation formula and as an indication of fiscal capacity. Moreover, 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 when resources are scarce, it becomes even more essential that they be used where the need is greatest. Just as we support targeting in the distribution of funds, we would hope that if cuts must be made in the program, they be targeted in such a way as to avoid putting the burden on those least able to bear it. We have been considering several different options for making the GRS program more equitable and better targeted to need.

The legislation proposed by the Administration addresses several self-evident inequities, recommending five changes or adjustments in the distribution formula for localities. We are also concerned that the GRS program should not reward inefficient, small, limited function units of government (those that Assistant Secretary of the Treasury Altman has called "toy governments") or wealthy tax enclaves nor serve as an incentive for their formation or continuance. Although information on the full impact of these changes has not been made available, they appear to be a move in the right direction. We would support them as a minimum. Two relate to minimum and maximum allotments. In the present program, no jurisdiction (except county governments) receives less than 20 percent of the average per capita allotment for its state. Similarly, no jurisdiction receives more than 145 percent of the average. The floor gives marginally eligible communities a greater amount than their needs would merit, while the ceiling reduces the amount that the most needy communities can receive. We would support any proposal to ease or remove these arbitrary restrictions. Another Administration recommendation would change the maximum proportion of revenue sharing funds to other general revenues that a community receives from 50 percent to 25 percent. This would also reduce the distribution of scarce resources to marginally eligible, limited function governments, and merits support. Two recommendations address themselves to the tax effort factor, adjusting the level so that tax enclaves or small extremely wealthy communities would not benefit unduly. All of these changes serve to redistribute funds within a state in a more equitable manner, better targeted to need.

In addition to endorsing the changes recommended by the Administration, our groups also urge that, without altering the basic formula for allocating revenue sharing funds among local jurisdictions, all localities be required to meet a basic threshold of need before receiving an allocation. Havens of privilege such as Beverly Hills, California and Scarsdale, New York have per capita incomes that are more than three times the national average. Other places, including Greenwich, Connecticut; Winnetka, Illinois; Grosse Point, Michigan and Shaker Heights, Ohio have per capita incomes more than twice the national average. All of these jurisdictions, of course, have needs for municipal services, but all can meet those needs out of their own revenues. What possible justification can there be for a formula which allocates $14.83 for every citizen of the wealthy suburb of Greenwich while distributing like amounts ($16-$17) to the citizens of Atlanta, Georgia; Buffalo, New York; Memphis, Tennessee; Columbus, Ohio and Oakland, California? While the

Administration's proposal would modestly reduce the inequities, we submit that it does not go far enough.

Certainly, establishing a threshold of need which will eliminate very wealthy jurisdictions would be preferable to efforts to save money by eliminating the state share or by imposing an across-the-board percentage cut. The latter approach would be a classic application of Anatole France's law which, "in its majesty, forbids the rich and poor alike to sleep under bridges and beg alms in the street."

Although it is true that the Administration and the House Budget Committee have recommended reducing the GRS program by cutting out the states, we are aware that Senate conferees have been working to keep at least part of the state share, as recommended by the Senate Budget Committee. We commend their efforts. The financial conditions among states vary widely. Some states have resources that exceed their needs. Other states are under severe fiscal stress. We have attached a chart showing a ranking of the states according to a "stress index" developed by ACIR. States also vary widely in the degree to which they aid their localities. Such factors should be considered in determining cuts as well as allocations. The states have an important role to play in the Federal system and are fundamentally responsible for the fate of their localities. If they are cut out of such an important program as General Revenue Sharing, this responsibility is impaired.

Whatever the fate of the states' GRS allocation in this session, the whole issue of state/federal partnership will continue to be an important factor in the development of a national urban policy. Therefore, we want to share with this subcommittee a discussion of our findings on how the state share of a revenue sharing program might be made more equitable.

A first step in adjusting allocations to states would address a basic inequity in the present formula, one which will become progressively more acute as energy prices increase. As you know, one of the factors in the GRS allocation formula is tax effort. Indeed, Paul Dommel of the Brookings Institution has determined that it is more influential than per capita income. It serves as an indicator of the effort that the state (or community) makes in raising its own revenues to meet its needs, and of the tax burden on the citizens within the jurisdiction. However, energy related severance taxes are a "windfall" and are paid by energy consumers everywhere. They therefore serve to distort the tax effort factor and to direct more funds to those areas with the most resources. Since GRS funds are allocated to the states first, using a formula that includes tax effort, and then allocated to localities within states, the distortion will persist even if the state share is eliminated. We support the exclusion of energy related severance taxes from the tax effort factor.

A more wide-ranging approach would be to establish a threshold of need for states to be eligible for funds. We have not been able to develop this idea, but would advocate its consideration. Possible measures of need include the ACIR "stress index," the percentage of the population below the poverty level, per capita income or value of tax base.

In addition to these proposals, we have a major suggestion to make to the committee to introduce more equity into the allocation of revenue sharing funds. Any formula for allocating funds among the states should create an incentive to states to target their own revenues to those communities that have the greatest needs. States that make the strongest effort to adjust such major service needs as public education and to compensate for fiscal disparities among local districts ought to be rewarded. Those that, in absolute or relative terms, do little to meet the basic needs of hard pressed local jurisdictions should be penalized. It makes little sense, particularly in an era of economic stringency, for the Federal government to distribute funds to states in total disregard of how the states are addressing basic public needs. If an incentive system can be devised which is effective in inducing states to do a better job of targeting, it may ultimately reduce the fiscal burden the Federal government now faces in meeting local needs that states now fail to address.

In order to advance our purpose of introducing greater equity into the allocation of GRS funds and because we are concerned about the role of the states in the program, the four organizations which I represent contracted with Astrid Merget of George Washington University to investigate the possibility of using the state share as a vehicle for change.

Dr. Merget's challenge was to translate into a formula the concept of distributing the state share of revenue sharing funds in such a way as to increase or reward equity. The result combines a measure of equalization of expenditures for local education within a state with a measure of absolute state dollar contributions per pupil.

The first measure used indicates the extent to which disparities are reduced among the school districts within a state. The second, the absolute value of per pupil expenditures from the state, indicates the magnitude of education as a public need, the relative cost differences and the priority accorded to education by the various states. Together, they can be used to estimate each state's effort to distribute adequate amounts of aid for education in an equitable way. The attached table shows a rank order of the states according to this combined measure.

State effort for education was used to represent all state aid to localities for the following reasons:

1. Education ranks as the single largest expenditure category for all local governments. It competes for the same tax base as do functions financed by general purpose governments.

2. Most states make efforts to aid financially distressed school districts to some extent. This trend has been growing because of court decisions requiring the mitigation of disparities.

3. Education has substantial effects on the distribution of income. It can enhance the income-earning potential of individuals and ultimately its benefits extend even beyond the community.

4. More than in any other functional area, there is an established, nationally consistent and reliable data base available.

Incentives and disincentives for state aid to localities in need can be incorporated into the state share of revenue sharing. The rank order of states would be divided into quintiles. Either all or a portion of the state share would be distributed according to the quintile in which a state fell. Thus, states ranking high on the scale would receive a reward for effective fiscal partnership with their localities. The middle quintile would receive the amount alloted under the present formula. Those states which are below average in their response to education needs would receive a reduced amount. These states would then have an added incentive to reduce disparities and to allocate adequate resources to education.

This approach serves both as a reward and an incentive system and, most important, recognizes the states' vital responsibility to their localities as a national policy objective.

An important part of the study conducted by these four groups before reauthorization in 1976 focused on the implementation of the GRS program at the local level. Our studies led to recommendations for strengthening the provisions mandating citizen participation, civil rights and public accountability. We were influential in securing the adoption of these important provisions as part of the 1976 renewal legislation. We are committed to ensuring that these provisions are not only retained in the Act, but that they be adequately implemented and enforced.

We have been engaged in a limited survey of our respective affiliates to determine the impact of the 1976 Amendments. Each group is preparing a background paper on its findings and these can be made available to the committee. Our renewed study has reinforced our belief that these regulations serve an essential role in providing accessibility and accountability. We do not recommend any legislative changes at this time.

Some weaknesses persist, however. For example, although there has been some improvement in the enforcement of the civil rights provisions, there is an enormous backlog of cases still unclosed (883) and 91 of those are still pending since before 1977. There are indications that the Office of Revenue Sharing is extremely reluctant to apply the sanction of terminating funds. Although Office of Revenue Sharing investigators find noncompliance to exist in 75% of the cases they investigate, there have been hearings held in only four cases and sanctions applied in only five out of the 1,069 complaints filed since 1976. The average time for investigations and the issuing of a finding letter has been at least 10½ months, although the law specifies 90 days. While the number of cases has increased each year, the actual level of civil rights staff has been decreasing in the past two years and the number of investigators is about one-quarter less than a year ago. There are no requests for additional staff in the upcoming budget for the Office of Revenue Sharing.

—The provision for an audit has been credited with bringing about significant improvements in the accounting procedures of both localities and states. However, at this time, only 25% of the required audits have been received and monitored, and the deadline is September 30, 1980. One reason for this is that communities were only required to submit an audit for one year out of the three program years, and most chose the last year.

Our research verifies that the citizen participation provision is essential to assure that the public has access to the decision making process. In many communities, however, compliance has been minimal and the attitude of public officials has discouraged meaningful implementation of this provision.

We recommend that the Office of Revenue Sharing be given adequate staff to enforce these provisions. We also support the Administration recommendation that at least two audits be required for a five year renewal period.

Our foremost concern remains the equitable distribution of funds under the General Revenue Sharing program. In this time of inflation and austerity, distressed communities become the victims of both economic conditions and the weapons used to mitigate them. Local government is labor intensive and dependent on the property tax. Its expenditures, therefore, are expanding at a greater rate than its revenues. Many communities in need report that they have been using their GRS funds to perform essential services; and inflation has increased their dependence on this source of revenue. The credit crunch and high interest rates hit those cities hardest which must replace or rehabilitate deteriorating capital plants. If decay is not halted and private development not encouraged, the tax base is further eroded and unemployment worsens. At the same time, budget cuts applied to "controllable" domestic expenditures will affect the state and local sector disproportionately. It is unlikely that these cuts will be targeted or equitably distributed to protect fiscally distressed communities. It is essential, therefore, that well-targeted fiscal assistance be continued, with adjustments made to remove existing inequities.

TABLE I

Ranking of states according to ACIR "stress index," using selected fiscal and economic indicators (public welfare burden, direct family tax burden, economic growth, economic well-being)

1.	Massachusetts	147.5	41.	Tennessee	91.7
2.	New York	140.2	42.	New Mexico	89.2
3.	Wisconsin	133.7	43.	West Virginia	89.0
4.	Rhode Island	132.9	44.	Washington	88.3
5.	Pennsylvania	132.2	45.	Louisiana	86.4
6.	Vermont	120.2	46.	North Dakota	85.8
7.	New Jersey	119.2	47.	Nevada	83.4
8.	California	118.8	48.	Florida	81.9
9.	Maryland	117.9	49.	Texas	81.6
10.	Michigan	117.6	50.	Alaska	70.7
11.	Maine	117.1	51.	Wyoming	68.5
12.	Hawaii	116.4			
13.	Minnesota	114.3			
14.	Kentucky	113.9			
15.	Connecticut	112.6			
16.	Delaware	110.3			
17.	D.C.	109.8			
18.	New Hampshire	109.8			
19.	Illinois	108.5			
20.	Iowa	107.7			
21.	Nebraska	106.7			
22.	Missouri	106.6			
23.	Ohio	104.5			
24.	Oregon	103.3			
25.	Georgia	101.6			
26.	Inidana	100.9			
27.	Mississippi	100.6			
28.	Arizona	99.9			
29.	North Carolina	99.8			
30.	South Carolina	99.6			
31.	Idaho	99.2			
32.	Alabama	98.6			
33.	Utah	98.5			
34.	Colorado	98.2			
35.	Arkansas	97.2			
36.	Knasas	97.0			
37.	Virginia	96.8			
38.	Montana	96.5			
39.	South Dakota	94.6			
40.	Iklahoma	91.8			

TABLE II

Ranking of States by Equalization[a] and State Per Pupil Expenditure[b] for Local Education

Rank	State[c]	Z Value
1	Alaska	+17.0974
2	Delaware	+ 7.3710
3	Minnesota	+ 4.5974
4	Hawaii	+ 4.2272
5	Washington	+ 3.1585
6	New York	+ 2.5173
7	D.C.	+ 2.3397
8	Pennsylvania	+ 1.9626
9	Michigan	+ 1.6772
10	Massachusetts	+ 1.4795
11	New Mexico	+ 1.1457
12	Arizona	+ 0.8534
13	Kentucky	+ 0.8376
14	Florida	+ 0.5088
15	Oklahoma	+ 0.3862
16	New Jersey	+ 0.2847
17	Colorado	+ 0.0996
18	Tennessee	- 0.0422
19	California	- 0.1035
20	Illinois	- 0.1289
21	Ohio	- 0.1569
22	Indiana	- 0.2119
23	North Carolina	- 0.2538
24	West Virginia	- 0.2690
25	North Dakota	- 0.4511
26	Texas	- 0.4891
27	Maryland	- 0.5470
28	Alabama	- 0.6871
29	South Carolina	- 0.6948
30	Virginia	- 0.7041
31	Louisiana	- 0.7398
32	Missouri	- 0.9775
33	Georgia	- 1.0663
34	Utah	- 1.0793
35	Arkansas	- 1.2327
36	Wisconsin	- 1.3538
37	Kansas	- 1.5444
38	Wyoming	- 1.6122
39	Maine	- 1.7265
40	Mississippi	- 1.7926
41	Iowa	- 2.3242
42	Idaho	- 2.3266
43	Rhode Island	- 2.5156
44	Vermont	- 2.5203
45	Connecticut	- 2.7715
46	Oregon	- 3.0362
47	Neveda	- 3.4018
48	Nebraska	- 3.6858
49	South Dakota	- 4.2291
50	New Hampshire	- 6.3196

a. Based on equalization of disparities across school districts in per pupil expenditures from all sources.
b. Based on absolute dollar value of state own source revenue per pupil expended for local education
c. Excludes Montana

At this time I would like to submit for the record a statement by Senator Lloyd Bentsen, who is also a member of this subcommittee and is not here today.

[The statement of Senator Bentsen follows:]

STATEMENT OF SENATOR LLOYD BENTSEN

I am pleased to be here today for the Subcommittee's hearing on the administration's long-awaited revenue sharing reauthorization proposal, as contained in S. 2574. I am very interested in the testimony of Secretary Miller, as well as that of the other witnesses. The Subcommittee and the rest of the Congress must move expeditously if a new authorization is to be in place before the current one expires on September 30 of this year.

It is particularly gratifying to me to see the Administration proposing elimination of the state portion of revenue sharing—a change I recommended in January, 1979, when I introduced S. 263 for the same purpose. I believed then, and I believe now, that it makes no sense at all to have the federal government expand its deficit financing at current interest rates in order to send $2.3 billion a year to state governments which are experiencing budget surpluses. To continue this is merely "debt sharing", not revenue sharing.

At the same time, I am pleased that the Administration has chosen to continue funding the local portion of revenue sharing, which provides much-needed resources to our cities and localities. These funds are essential for the well-being of these jurisdictions, which do not have the same revenue-raising powers as the states.

Recent efforts to balance the federal budget have focused considerable attention on the revenue sharing program. The thrust of these efforts has been to reduce the program's funding, chiefly by eliminating the state portion altogether. This approach was attempted last year for the fiscal year 1980 budget by both the Budget and Appropriations Committees, and again recently by the House and Senate Budget Committees, which recommended elimination of the state portion in their respective versions of the First Concurrent Resolution on the fiscal year 1981 budget. As we saw recently, the Senate in floor debate restored a portion of the state share of revenue sharing in response to an amendment co-sponsored by the distinguished Senator from New Jersey, our Subcommittee Chairman. The ultimate outcome of this debate should be decided in the next few days, as the Budget Conference report out their agreements.

I support efforts to eliminate the state portion of revenue sharing, and believe such a move is one of the keys to balancing the budget for fiscal year 1981. The Joint Economic Committee, which I chair, recommended in its 1979 Report that such action be taken, and recommended in its 1980 Report that federal spending be held to fixed percentage of the Gross National Product. Measures such as these are the top priorities in our economic game plan.

In general, I oppose continuation of the state portion for three major reasons:

1. the relative financial conditions of the federal government vs. the majority of state governments;
2. a philosophical position that the government which spends the revenue ought to raise that revenue. I believe we are weakening federalism when we separate the pleasure of spending from the pain of taxing; and
3. the fact that the program has not replaced other grant programs to the states, as originally intended, but has supplemented them. Shortly after I introduced S. 263, I asked three Governors at a Joint Economic Committee hearing which categorical grants could be cut in order to retain state revenue sharing. Although they promised to provide me with a list, I have never received it.

Beyond this, the state portion has not been used to "help the states help themselves" by enhancing their revenue-raising capabilities; it has often been used to offset what otherwise would have been reduced state spending levels, or to reduce state taxes. For example, data from the Spring, 1980, issue of "Intergovernmental Perspectives," a publication of the Advisory Commission on Intergovernmental Relations (ACIR), shows that in 1979 26 states reduces either the rate or the base of their personal income tax, while 17 states reduced either the rate or the base of their general sales tax. Additionally, 27 states enacted some sort of tax relief for homeowners. The April 19, 1980, issue of The National Journal noted that for 1980, 45 states anticipate budget surpluses—32 of them in excess of the sum they will receive from revenue sharing. Although I favor tax reductions whenever possible, states should not be able to make them with borrowed federal money.

While the elimination of the state portion of revenue sharing will undoubtedly cause some temporary disruptions in state finances in Texas and elsewhere, they can be overcome. We must all expect some sacrifices if together we are to turn the economy around, and I am hopeful that concerned, forward-looking officials will join in supporting fiscal responsibility and controlled federal spending. I am confident that this era of fiscal limitations can, and in fact must, also be an era of innovation and creativity.

Senator BRADLEY. The hearing will stand in recess subject to the call of the Chair.

[Whereupon, at 12:45 p.m., the hearing was concluded.]

[By direction of the chairman the following communications were made a part of the hearing record:]

STATEMENT OF SENATOR HOWARD BAKER

HEARINGS OF THE SUB-COMMITTEE ON GENERAL REVENUE SHARING

It is my pleasure today to support Senator Dole's authorizing legislation for the states' participation in the General Revenue Sharing program. As the Chair knows, I have been a constant supporter of revenue sharing since its inception, and share his concern that the program not be needlessly eliminated in the name of fiscal integrity. The two are not mutually exclusive; in fact, they are quite compatible.

The budget debate on revenue sharing raised two apparently contradictory goals: a balanced budget and a sharing of federal revenues. We would do well to remember that revenue sharing was never intended to be a division of a federal surplus. It was a conscious decision to take advantage of the efficient federal tax collection system and capitalize on the decision-making capabilities of state and local governments far more attuned to their particular needs and circumstances.

Implicit in our common desire to share federal revenues is the necessity of preserving a vital and creative dual system of government. A vigorous federalism requires that each level of government has the capability to address its own problems.

Over the past few years there has been an unchecked flow of wealth and power to a federal bureaucracy only vaguely accountable to the American people. In my view so many of our current problems result from our continuing failure to stem this tide of federal encroachment and put the right power in the hands of the right people at the right level of government.

Revenue sharing is the only federal program enacted in the last forty years which seeks to reverse the trend toward centralization. It has encouraged restraints in taxation at the state and local levels. It has increased needed services at those levels and reduced the authority of the federal bureaucracy at the same time.

During the budget debates, revenue sharing was described as a luxury that the national government can no longer afford and one that the states no longer need. It was also noted, with some derision, that the states were unable to agree on reductions in categorical grants to compensate for increases in revenue sharing.

Revenue sharing should not be viewed as a luxury but as a commitment to a true, working partnership among the various levels and branches of government. We who serve in Washington must act as guardians of this system and welcome the decentralization of power that characterizes it. I believe that the states are equally as competent if not more competent than the federal government in maximizing the efficient use of federal revenues.

The inability of the governors to agree on specific reductions in federal categorical grants reflects our failure, not theirs. They are being responsive to the particular needs of their states. Federal programs have been designed on the erroneous assumption that every program is equally desired by each state. The variety of priorities reflects the differences among the several states. This variety is the strength of American federalism and should be treasured, not castigated.

S. 2681 capitalizes on the existence of differences in the categorical grant preferences of the states. It permits each state to make reductions in specified categorical grants and transfer such funds to its revenue sharing account established and maintained by the Treasury Department. No state is permitted to transfer funds in excess of its General Revenue Sharing entitlement under current law.

This legislation can not violate the ceilings established by the Budget resolution nor will it seriously undermine the integrity of any one program. The differences which prevented agreement among the governors during the budget debates provide a reasonable certainty that reductions will be spread across the entire spectrum of categorical grant programs.

S.2681 guarantees that savings will be achieved because additional revenue sharing funds are not credited to a state's account in the absence of identified reductions. If the states choose not to reduce categorical grants, this legislation will have no impact. But, for those states that would prefer to opt for reductions, this legislation will provide flexibility to target fiscal resources as the individual circumstances of the states may warrant.

I am convinced that this mechanism is consistent with a responsible fiscal policy and the principles of federalism. It is consistent with the federal budget process and will allow the states to plan for future expenditures with a measure of flexibility and certainty.

I know that the members of the Finance Committee recognize the importance of preserving General Revenue Sharing and the participation of both state and local governments, and will do their utmost to preserve this vital program.

Thank you.

HERNAN PADILLA, M.D.
MAYOR
CITY OF SAN JUAN

May 21, 1980

Honorable William W. Bradley
4104 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Bradley:

I am writing to you in support of the reauthorization of the General Revenue Sharing Program and, more specifically, the inclusion of Puerto Rico and the other U.S. territories in this desperately needed program.

You have already received the excellent testimony of Resident Commissioner Baltasar Corrada before your subcommittee stating the case for our inclusion in the revenue sharing program. I do not wish to repeat in detail all those arguments that Mr. Corrada made so well in his testimony, but rather to detail to you some points which relate specifically to San Juan, a city of 500,000 persons , one of six cities in excess of 100,000.

San Juan must be classified as a distressed city with a profile much like many mainland cities of the northeast and elsewhere, but with one major exception. It has a high incidence of poverty, crime, low per capita income, high unemployment, a low tax base, poor housing stock with a high incidence of overcrowding. The one major exception from the "classic model" of a distressed city is that we have an expanding population, not a diminishing one. But the bulk of this population is poor -- persons arriving from the countryside where conditions are oftentimes even worse, and many Puerto Ricans returning from the mainland.

In order to cope with the needs of our city, San Juan must rely upon large amounts of Federal funds, as do so many other distressed jurisdictions of our nation. We have been treated quite fairly in most federal programs. We are a recipient of approximately $22 million per year in HUD Community Development Block Grant funds. We have been an entitlement city under the CETA program. The programs of EDA, CSA, LEAA, HEW and Interior have been extremely helpful to us.

At the same time, Puerto Ricans pay extremely high state and local taxes. With a per capita income of $2,414 in 1976, far below that of any state, Puerto Ricans pay the highest state income tax rate in the nation, and only 15 states surpass Puerto Rico in per capita state government tax

Honorable William W. Bradley
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collections and excise taxes (the State collects property taxes on behalf of municipalities). So it cannot be said that Puerto Rico is relying on the Federal government for support while not carrying its own freight.

But in spite of the heavy tax burden on our citizens, businesses and industries, we do unfortunately rely on federal funds to provide many of our necessary public services and to overcome our housing and economic development deficiencies. Cuts in federal domestic programs will seriously affect our ability to provide minimal services.

A case in point is the drastic cuts planned and already sustained in the CETA program. The City of San Juan received over $24 million in CETA Public Service Employment (PSE) funds in 1979. Our 1980 CETA allocation, due to cutbacks in the national program, was only $9 million. Contrary to the belief of many that CETA has been wasteful, in San Juan we have utilized these funds for essential services. These funds have supported 232 positions in the sanitation department, 100 police officer slots, 152 positions in the city hospital and health department, and numerous other important positions.

As Mayor of San Juan and as a member of the Board of Trustees of the U.S. Conference of Mayors, I am well aware of the need to fight inflation, which has seriously threatened the basic foundations of our economy. One of the tools chosen by the President to control inflation is the limitation of federal spending and the balancing of the federal budget. As our share of this effort, cities look forward to losing countercyclical funding, the urban parks program, LEAA programs, HEW programs and cuts in many other programs which they are very dependent upon.

Fortunately for many mainland cities which depend upon these programs, revenue sharing funds have also been available to help fund needed services. In recognition of this, the Administration has designed a $500 million "phase-down" program to protect distressed local areas from a loss of state support due to the proposed elimination of the state share of general revenue sharing.

Unfortunately for Puerto Rican cities, these revenue sharing funds have never been available. There will be no general revenue sharing funds to ease the burden of cuts in other categorical programs; no phase-down program to let us down gently. The drastic cuts in CETA and other essential federal programs to the cities will have a profoundly negative impact on the economy of San Juan and its ability to provide essential community services. Our only recourse will be to seriously curtail many public services and to use the limited local revenues available.

I am very much aware of the argument often used against our participation in the revenue sharing program: that because Puerto Rico does not pay federal income taxes, it should not share in its distribution. As a concession to this argument, we have limited our request to 1% rather than full treatment as a state. But I wish to point out that although we do not pay federal income taxes, that does not mean that we do not contribute to the well being of the U.S. economy. Quite to the contrary, the income tax benefit accrues more to the corporate taxpayer than to the individual, most of whom in Puerto Rico have low incomes. A majority of these corporate

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taxpayers are U.S. firms who have opened operations in Puerto Rico. Also related to Puerto Rico's contribution to the U.S. economy is the market which Puerto Rico represents to mainland exporters. In 1976 Puerto Rico imported $3.4 billion in goods and materials from the U.S. mainland, exceeding by $572 million the cost of Puerto Rican exports to the mainland.

Another point which is pertinent to the argument against Puerto Rican inclusion in the program concerns the real nature and purpose of GRS. The program is really a fiscal assistance program designed to benefit those localities most in need of assistance. In fact, it is the stated objective of the Administration to change the present GRS formula for distribution in a way which will reduce the fiscal disparities within each state and responds to the needs of fiscally stressed local governments. It is useful to look at two cities of comparable size to San Juan, which are both normally classified as "distressed." The City of Atlanta, with a population of 426,000 receives approximately $7.2 million per annum in revenue sharing funds and is due an increase to $9.8 million should Administration proposals be adopted. Buffalo, New York, population 400,000, receives $6 million per annum currently, with an increase to $9.8 million proposed. San Juan, a larger city with more severe distress factors (including an extremely low per capita income figure used in the revenue sharing formula) receives nothing.

I therefore urge your support for the inclusion of Puerto Rico and the other U.S. Territories in the general revenue sharing program as a one percent set-aside. I think a strong case is made for our inclusion, not just because the City of San Juan and other local jurisdictions throughout Puerto Rico and the Territories need the funds, but also because it makes good economic sense to have a consistent policy of federal aid to Puerto Rico, rather than to give with one hand and withhold with the other.

One further point needs to be mentioned. While I know that foreign relations is not the perview of your committee, I am sure that it is a concern to you as a Senator. The future of Puerto Rico is important not only to the people of Puerto Rico and the rest of the United States, but also of special interest and concern to our neighbors in the Caribbean and Latin America. A Puerto Rico which can successfully meet the challenge of developing a strong economy and providing for the welfare of its citizens is the best way I can think of to counter the threats of undemocratic systems. The Cuban model is a bankrupt one. What better way to prove the superiority of our own model than the successful future development of Puerto Rico in achieving a standard of living comparable to that which we are proud of on the mainland.

Thank you very much for taking my views into consideration.

Sincerely yours,

Herman Padilla

Herman Padilla
Mayor

cc: Members of Subcommittee on Revenue
Sharing, Intergovernmental Revenue
Impact and Economic Problems
✓Mr. William Morris

STATEMENT

on

REAUTHORIZATION OF GENERAL REVENUE SHARING

before the

SUBCOMMITTEE ON REVENUE SHARING, INTERGOVERNMENTAL

REVENUE IMPACT AND ECONOMIC PROBLEMS

of the

SENATE COMMITTEE ON FINANCE

for the

CHAMBER OF COMMERCE OF THE UNITED STATES

by

William D. Kelleher*

May 30, 1980

This statement is presented by the Chamber of Commerce of the United States on behalf of its 97,000 members consisting of business firms, trade associations and state and local chambers of commerce. The U.S. Chamber welcomes this opportunity to express its views on the various proposals before the subcommittee to reauthorize the State and Local Fiscal Assistance Act of 1972, commonly known as general revenue sharing (GRS).

We are pleased to offer support and suggestions for improving the intergovernmental grant system through programs like revenue sharing. Although we support general revenue sharing specifically, our overall policy supports a general reduction in federal spending, statutory spending limitations, tax reductions and long range tax policy directed to keeping spending and receipts balanced over the course of the business cycle as the best hope for combatting inflation.

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*Associate Director for Construction, Housing and Community Development, Chamber of Commerce of the United States

RATIONALE FOR SUPPORT OF GENERAL REVENUE SHARING

In general, the Chamber's support of general revenue sharing is based on the following:

- The general revenue sharing program has the minimum of bureaucracy involved in distributing funds to nearly 39,000 state and local governments. Less than 1 percent of the funds appropriated for this program are lost to administrative costs.

- Revenue sharing is cost-effective. Funds can be used for the most urgent local needs, and projects financed by the program are costing less to complete than are projects funded with categorical grants.

- An important requirement in the GRS program is that each recipient of more than $25,000 per year must complete an audit of all local funds, based upon standards developed by the American Institute of Certified Public Accountants, at least once every three years. The audit must include all state and local funds, not just revenue sharing money. In view of the fiscal crisis in many of the nation's cities, this requirement does much to improve the auditing procedures of local governments and provides for greater accountability of local governments to their citizens.

- Most of all, the GRS program is doing exactly what it was intended to do. It is flexible, and allows local officials the ability to decide locally what their specific community needs are and how best to address those needs.

The Chamber has had a long-standing interest in this important domestic program. The Chamber was the first business organization to support the concept of general revenue sharing early in the 1970's. After study, the Chamber's Board of Directors decided that general revenue sharing was a preferable alternative to federal grant-in-aid programs that resulted in increased federal direction and control over wide areas of state and local government activity.

Prior to the Congressional debate on reauthorization of the program in 1975, the Chamber surveyed local chambers and found overwhelming support for the program. We reported those results to the Congress.

A similar survey was completed in August, 1979, and we will refer to the findings of that survey later in this testimony. In addition, the Chamber's Community and Urban Affairs Committee, whose members include representatives of major business firms concerned with community affairs, also reviewed the current revenue sharing program for the latest year.

RESEARCH STUDIES

In order to make appropriate recommendations regarding revenue sharing, our committee examined several research studies about the impact of the program and reviewed federal grant programs in general.

The major studies the committee used in its review of revenue sharing were:

- Monitoring Revenue Sharing: The Brookings Institution (an updated interim analysis dated November, 1978)

- The Fiscal Impact of General Revenue Sharing on Local Governments, Adams and Crippen, Ohio State University (in conjunction with Brookings), November, 1978

Each of the studies had specific limitations, but did provide useful information showing general trends.

Several observations from these studies and other materials are worth noting. The Chamber's committee found that GRS was channeled into four main areas: Public Safety, Transportation, Environmental Protection, and Recreation. Fiscal impact changed over the life of the GRS program, reflecting varying fiscal conditions of the recipient governments.

Relative to other programs, GRS has grown slowly over the period 1975-78 -- a total of 11.3 percent. Using estimates for 1979 and 1980, the total growth for the five-year period 1975-80 is 11.9 percent. This amounts to an estimated increase of only .6 percent for 1979 and 1980. In contrast, from 1975 to 1978, other forms of federal grants grew at an average rate of 18.4 percent.

When compared with other federal grant programs, GRS, while one of the most effective programs, represents a very small percentage of the total intergovernmental aid package. In 1979, general revenue sharing was $6.8 billion of a total grant program of $82.8 billion. This is approximately 8.2 percent. It is clear that the revenue sharing program has not succumbed to the uncontrolled growth pattern that characterizes most categorical grant programs.

U.S. CHAMBER RECOMMENDATIONS ON THE FISCAL 1981 BUDGET

Although the U.S. Chamber supports continuation of general revenue sharing, inflation is our major problem. Dr. Richard Lesher, President of the Chamber, testified before the House Committee on the Budget that Congress and the Administration should:

- Reject all controls on wages, prices, and credit.
- Cut federal spending in fiscal 1981 to 21 percent of gross national product (GNP)
- Enact a spending limitation to move spending from 21 percent of GNP in fiscal 1981 to 20 percent in subsequent years, as H.R. 5371 would do.
- Cut federal taxes by $25 billion in 1980 to reduce the tax bias against capital formation by enacting the capital cost recovery system proposed in H.R. 4646, cuts in corporate rates, and proposals to reduce the tax bias against individual savers and investors.
- Limit taxes over the longer run to a share of GNP consistent with the lower spending limit we propose. Taxes and spending should be balanced over the course of the business cycle at the lowest expenditure level which will provide essential public services and meet the requirements of national security.
- Place an immediate freeze on federal hiring retroactive to March 1, 1980, followed by a reduction in force through attrition throughout the calendar year. Similar limitations and reductions of the ranks of temporary and consultant classifications are also necessary.
- Freeze regulatory agency budgets as a sign that Congress is serious about reducing regulatory impediments to increasing productivity and growth.

- Freeze the issuance of new regulations except those deemed absolutely necessary under the law.
- Move toward a budget balanced over the course of the business cycle. A balanced budget should not be achieved in fiscal 1981 by arbitrarily allowing unlegislated increases in taxes to create the illusion that the government's fiscal house is in order.

In addition, the Congressional Budget Office has made an extensive report to the Congress on how the budget may be cut. Please see Attachment A for our comments on that report.

GRS AND CONSOLIDATION OR ELIMINATION OF FEDERAL GRANTS

While government spending must be decreased, similar priority must be given to ending the proliferation of categorical grant programs. The National Governor's Association, the Advisory Commission on Intergovernmental Relations (ACIR) and other organizations concerned with state and local government have repeatedly called for consolidation of the more effective categorical grant programs. In 1977, ACIR released a report, "The Intergovernmental Grant System: An Assessment and Proposed Policies," that identified 172 programs as candidates for consolidation. As an example of waste and overlap, the ACIR report cited seven different highway safety grants, each for some particular activity, such as bridge replacement or incentives for seatbelts; a half dozen grants for forest-related programs; 23 for pollution control and abatement; 36 for social services; and 78 for elementary, secondary and vocational education.

The National Governor's Association, in response to a request from the President and the Director of the Office of Management and Bugdget, released a report in September, 1979 that listed recommendations on specific areas of intergovernmental assistance in each state where greater program flexibility and/or consolidation would produce savings. Among the recommendations: consolidation of CETA with other job training programs; inclusion of human service categorical grants under the Title XX quasi-block grant program; and elimination of the state office of economic opportunity program, Title XX training, and summer youth recreation program of the Community Services Administration. Several Governors recommended that the Teacher Corps and Teacher Centers -- for which $134 million was appropriated in 1979 -- could be eliminated entirely without an adverse impact on our educational system.

These recommendations represent responsible actions in light of today's economic conditions, which have changed dramatically since revenue sharing was extended in 1975. Our nation is beset by double digit inflation and voters are saying clearly that they have had enough of inflation-generated higher taxes, of deficit spending, of too much government regulation and of government paternalism -- all of which characterize the majority of federal grants-in-aid programs.

There also are proposals before the Subcommittee to allow each state the option of receiving either GRS funds or support from a number of categorical grant programs administered by specific federal agencies or departments. The Chamber thinks these proposals could be a step in the right direction. They allow those closest to the impact of both categorical grants and GRS to decide which is more effective in solving a state or local problem. They also recognize the need for diversity in formulating programs to address conditions unique to each state.

This approach to assisting state and local government helps to highlight those categorical grant programs that do not serve a real state or local need or have outlived their usefulness and can be eliminated without causing the loss of a significant service to the public. Making states choose between categorical programs or GRS encourages priority setting and allows a state to eliminate an unnecessary program or forego participating in a new one without denying its citizens a fair return on their federal tax dollars. We should not penalize those states that solve or avoid certain problems by forcing them to either lose revenue or apply for specific categorical grants they do not need and may not want.

GRS AND FEDERAL CONTROL

General revenue sharing is one federal program that is relatively free of costly, cumbersome and restrictive regulations -- "strings."

The program has worked well, because it is controlled by state and local laws that represent the attitudes and decisions of the local citizenry.

It is important that revenue sharing be continued, without any additional federal controls. Congress must not turn this effective and widely supported program into a quasi grant-in-aid program to satisfy special interest groups who would use revenue sharing as a vehicle to attain their self-centered objectives.

The AFL-CIO has testified that the new Revenue Sharing Act should include the basic minimum wage and overtime provisions of the Fair Labor Standards Act. The AFL-CIO has also testified that, as a prerequisite for revenue sharing funds, states and localities should be required to adopt labor-management standards equivalent to those set forth in the National Labor Relations Act.

The Chamber is strongly opposed to these recommendations, as well as continuation of compliance with the Davis-Bacon Act wage standards in the new revenue sharing program. Prevailing wages should be set by the market place not by an agency in Washington, thousands of miles away from citizens who are most affected by its decisions. Elimination of Davis-Bacon requirements will not only save money, it will also permit the states and local governments to make more effective use of the dollars allocated to them.

Moreover, we stress again the fact that revenue sharing has a very low administrative costs of under 1 percent, compared to categorical grant-in-aid programs where administrative costs are estimated to average 14 percent. It is obvious that there is better utilization of the taxpayers' dollar in the general revenue sharing program than in grant-in-aid assistance.

There has been considerable debate on whether or not the states should continue to receive any revenue sharing funds. Testimony from state and local public official organizations indicate that a substantial amount of the state share of revenue sharing funds is returned to local governments. Prior research reports by the Brookings Institution revealed that in fiscal 1975 over 26 percent of state GRS funds were transferred to local governments.

The National Governor's Association reports that, according to U.S. Treasury Department figures, over 40 percent of all state revenue sharing payments are passed directly through to local units of government. Based upon these reports, elimination of the state share of revenue sharing would have a significant adverse effect on local governments.

The U.S. Chamber recommends that states not be removed from the program. Instead, we recommend that any reductions be proportionately shared by state and local governments. This will continue to reinforce the sound working relationships between the states and local governments as they expend these funds for citizens who will be most helped by both better local and state services. The health and future of our social and political institutions will not be served if the role of the states in general revenue sharing is weakened or eliminated.

U.S. CHAMBER SURVEY RESULTS

Let me turn to the final part of our testimony -- the results of the U.S. Chamber's survey of local chambers of commerce that I referred to earlier.

The survey was sent to 659 local chambers of commerce. It was intended to measure their local experience and secure their legislative recommendations vis-a-vis reauthorization of revenue sharing. Their responses do not have the status of mandating Chamber policy. They are indicative of current attitudes and are presented for the information of members of the Committee as they examine the important issues related to this bill.

I have appended the tabulations as Attachment B to this testimony for the committee's review. There were 245 responses, or a return rate of 37 percent, broken down as follows: 190 responses, or 77.5 percent of the total, reported on city units of government; 55 responses, or 22.5 percent, reported on county units of government. Based on the 245 responses to the survey, the GRS program is strongly supported by local chambers of commerce throughout the nation.

A significant number of local chambers (45 percent) that support GRS are located in the "sunbelt" and represent communities in the 25,000 to 259,000 population range. Based on 234 responses on what action these chambers plan to take on the question of revenue sharing reauthorization, 170 or 73 percent stated they plan to support reauthorization.

The GRS program is rated highly as having a positive impact on the communities that are represented by these local chambers of commerce. Of the 245 responses, 208 or 85 percent of the total rated the GRS program as being beneficial; 189 or 77 percent indicated that the GRS program was being used to its fullest potential in meeting community needs.

While there is strong support from local chambers to continue the GRS program, we asked these chambers to identify major problems that prevented the program from being even more effective in their communities. Three key issues were identified as having a negative impact on the GRS program. They are: the imposition of Davis-Bacon Act requirements, uncertainty as to the continuation of the program and fear of increased Federal government control over the use of GRS funds.

The results of the survey indicate that if GRS funds were not available, public safety, recreation and multi-purpose general government programs would be the most likely to be cut back or eliminated. Based on 197 responses, 163 or 83 percent indicated that GRS funds total between 1 percent and 15 percent of their community government's total budget; 34 or 17 percent of the total respondents stated that the percentage of GRS funds in their community government's total budget was between 16 percent and 26 percent.

The local chambers of commerce that participated in this survey oppose "targeting" GRS funds to distressed areas or communities of greatest need. If there were alternatives, they would prefer more federal aid in the form of revenue sharing as opposed to categorical or block grants.

SUMMARY

The U.S. Chamber supports reauthorization of general revenue sharing. If any cuts are made in funding levels, they should be shared proportionately between state and local governments.

The Chamber opposes provisions in the reauthorization revenue sharing program that would require state and local governments to include the basic minimum wage and overtime provisions of the Fair Labor Standards Act or to adopt labor-management standards equivalent to those set forth in the National Labor Relations Act, as a prerequisite for revenue sharing funds. The U.S. Chamber also opposes continuation of compliance with the inflationary Davis-Bacon Act wage standards provisions in the new revenue sharing program.

GRS should remain unfettered by excessive Federal regulation and control that cripples the effectiveness of other Federal aid programs. Except for the requirements insuring compliance with the applicable civil rights laws and protections against fraud and abuse, the decisions on the use of funds from a reauthorized GRS program should be made at the local level.

CBO RECOMMENDATIONS ON REDUCTIONS IN FEDERAL SPENDING

An urgent problem that substantially weakens GRS and our economy in general in inflation. Cutting back on unneeded government programs would reduce federal spending -- the leading cause of inflation.

We urge the Congress to reexamine the federal aid system that is expected to exceed $96 billion in fiscal 1981 and to reduce federal spending on unneeded, duplicative or excessive social and economic programs that do little to meet the real needs of citizens.

Revenue sharing is widely supported at the local level because it has been an effective program, and that is why the Chamber supports reauthorization. Support for revenue sharing is not inconsistent with our call for cutting back on federal spending. The growth and shape of the current federal budget is largely the consequence of congressional decisions related to other federal assistance programs.

The Committee is aware of the Congressional Budget Office (CBO) report on how the federal budget could be reduced. The report, which was released in February, 1980, was written in response to a request by members of the House Budget Committee for possible strategies that could lead to a reduction in the size of the federal budget. The Chamber has reviewed this report and specifically supports the following CBO strategies to reduce the federal budget:

*<u>Administrative Improvements in Public Assistance Programs</u> - By establishing a nationwide monthly income reporting system, along with a one-month retrospective accounting system, the cost of public assistance programs would be reduced by <u>$1.8 billion</u> over a five year period beginning in 1981.

*<u>Change in Trigger For Unemployment Insurance Extended Benefits</u> - A cumulative five-year savings of <u>$2 billion</u> beginning in 1981 would result if the national insured unemployment rate of 4.5 percent for extended benefits was eliminated.

*<u>Modifications in Federal Compensation Practices</u> -

a. Federal Workmen's Compensation: Based on General Accounting Office (GAO) reports, this program is abused, both in the determination of initial eligibility and in the continuation of benefits. GAO recommends that the employing agency be allowed to appeal workmen's compensation awards and to require physical examinations by physicians chosen by the agency. In addition, a three-day waiting period should be reinstated before any compensation is paid.

b. Civil Service Disability - Federal employees are eligible for civil service disability retirement if unable to perform one or more significant functions of their present job, whereas to qualify for Social Security disability the applicant must be unable to hold any gainful employment. Hence, the probability for civil service disability is greater than it would be if private sector standards were adopted.

c. Civil Service Retirement - Federal retirees benefit from cost-of-living increases that occur prior to actual retirement. Under current law, employees may calculate their annuities as if they had retired prior to the previous cost-of-living adjustment. Also, the first cost-of-living increase after retirement is not prorated to reflect the number of months in retirement status.

Cumulative Five-Year Savings Beginning in 1981 -	
Workmen's Compensation	$ .153 billion
Civil Service Disability	$ .827 billion
Civil Service Retirement	$1.3 billion

*Termination of Certain Social Security Benefits -

a. Phase Out Students Benefits - Payments to unmarried dependents between 18 and 21 who are full-time students (dependent benefits otherwise stop at age 18) should be terminated. A cumulative five-year savings of $6.4 billion would result.

b. Eliminate Minimum Benefit - This benefit is usually paid to retirees who have spent most of their working careers in noncovered employment, typically government. Most have earned pensions under other programs and those actually in need could be protected by Supplemental Security Income and other welfare programs. By eliminating this benefit, a cumulative five-year savings of $790 million would be achieved.

*Adjustment of Social Security Cost-of-Living Increases: 85 Percent of CPI Instead 100 Percent - Every July, Social Security benefits payments are adjusted upward by amounts equivalent to the percentage rise in the CPI during the preceding year. If the law were changed so that the July 1, 1980, increase and all subsequent annual increases were limited to 85 percent of the inflation rate instead of 100 percent, the outlay savings would be nearly $14 billion a year by 1985 for a cumulative five-year savings of $39.6 billion. The Chamber supports this proposal on the basis that no group should be exempted from the impact of inflation. Moreover, these savings could permit partial reduction in payroll tax increases scheduled for January 1981.

*Once-a-Year Cost-of-Living Adjustments for Federal Retirees - Currently, monthly benefits for federal civilian and military retirees are adjusted twice a year to reflect current changes in the CPI. If adjustments were made once a year, as is the practice for Social Security benefits, savings would exceed $5.2 billion over a five-year period.

*Capping of Pay Raises for Federal White-Collar Employees - Salary increases levels for federal white-collar employees should rise to about 10.3 percent in 1981 and on an average of 8.6 percent annually in the next four years. If increases were capped at 7.5 percent, the savings would be in excess of $3.4 billion over the next five years.

*Reduction of Funding for CETA Public Service Employment Title VI - By reducing the number of public service employment jobs to 150,000, during each of the next five fiscal years, the total outlay savings in Title VI would equal approximately $3.2 billion.

*Relaxation of Davis-Bacon Wage Requirements - The February 1980 CBO report states that at least $759 million would be saved over a five-year period if Davis-Bacon wage requirements were relaxed. The Davis-Bacon Act should be repealed entirely rather than relaxed. Davis-Bacon has a significant negative impact on the revenue sharing program. Davis-Bacon wage rates must be paid to all laborers employed on construction projects funded by 25 percent or more of revenue sharing monies. The impact of this has been to inflate the cost of such construction projects, giving local governments less construction to the dollar. General Accounting Office has issued nine reports since 1962, all critical of the Davis-Bacon Act's economic impact and the administration of the law by the Department of Labor. All of GAO's studies have clearly shown that the Act adds from three percent to 15 percent to the cost of construction.

These cost-saving proposals by the Congressional Budget Office warrant the most serious consideration by this and other congressional committees. These proposals supported by the U.S. Chamber would reduce the federal budget by $64.3 billion over the next five years. This would more than offset the cost of reauthorization of revenue sharing over a similar period at current or reduced spending levels.

Sectional Responses NE 23 NC 22 NW 32 SE 35 SW 49 W 29 — 190

ATTACHMENT B

Cities Only

SURVEY ON GENERAL REVENUE SHARING
CHAMBER OF COMMERCE OF THE UNITED STATES

Name ______________________

Organization ______________________

Name of Community and State ______________________

Unit of Government: a.200 City b.___ Township c.___ County

1. On a scale of one to ten, how would you rate the impact that the General Revenue Sharing (GRS) program has had in your community? (Circle one number and one word.)

2	0	2	0	3	7	17	46	36	84
1	2	3	4	5	6	7	8	9	10

Harmful 4 — Neutral 18 — Beneficial 166

2. On a scale of one to ten, to what extent has the GRS program been used to its fullest potential in your community? (Circle one number and one word.)

1	1	1	1	6	14	16	41	37	69
1	2	3	4	5	6	7	8	9	10

Least 4 — Average 36 — Fullest 147

3. Can you identify a major problem or obstacle in the GRS program that keeps the program from being used to its fullest potential in your community? state the problem and use additional sheets if necessary.) SEE REPORT

4. If GRS funds were not available as a supplement to your community government's present budget, what programs related to the following would most likely have to be cut back or eliminated as a result? (Check all that apply.)

a. 114 Public safety
b. 55 Environmental protection
c. 54 Public transportation
d. 38 Health
e. 42 Economic development
f. 97 Multi-purpose general government
g. 119 Recreation
h. 70 Libraries
i. 58 Social services aged/poor
j. 18 Financial administration
k. 46 Housing/community development

5. What is the percentage of GRS funds in your community government's total budget? over %

6. How has the majority of GRS funds been used in your community since 1975? (Check three that apply.)

a. 112 As a source of income to supplement the local budget
b. 129 For capital expenditures
c. 60 For salaries and/or employment of municipal employees
d. 77 To maintain current tax levels
e. 21 To reduce personal and/or property taxes
f. 69 For operating expenditures
g. 1 For surplus accumulation
h. 13 Other (please state)

7. If the GRS program is continued, should the program be designed to place greater emphasis on targeting funds to:

a. 10 Distressed areas
b. 24 Communities of greatest need
c. 154 Prefer no targeting of funds
d. 2 No opinion

8. Has the GRS program helped to improve your community government's effectiveness in any of the following areas? (Check all that apply.)

   a. 73 Financial planning

   b. 178 Meeting community needs

   c. 33 Responsiveness to public opinion

   d. 7 Government leadership

   e. 8 Not aware of any effect

9. If the form (but not the total amount) of Federal aid to your community were changed in the future, which one of the following alternatives would your organization prefer?

   a. 15 More of the total in block grants

   b. 6 More of the total in categorical grants

   c. 151 More of the total in revenue sharing

   d. 32 Keep the mix about as it is

10. What action does your organization currently plan to take on legislation extending the GRS program beyond its September 30, 1980, expiration date?

   a. 140 We plan to support extension of the program

   b. 5 We plan to oppose extension of the program

   c. 62 We do not plan to take any action

11. What is your community's present population?

   a. 16 under 10,000

   b. 41 10,000-24,999

   c. 86 25,000-99,999

   d. 36 100,000-249,999

   e. 11 250,000,000-999,999

   f. 5 1 million or more

12. Comments: (Your additional comments are invited. Please use additional paper if necessary.)

Question 3 --GRS Percentage of Total Budget

1-5	60
6-10	51
11-15	13
16-20	25
21-25	1
26 +	3

Please complete and return the questionnaire by July 30, 1979, to:

WENDELL C. BLACK
Associate Director
Community and Regional Development Group
Chamber of Commerce of the United States
1615 H Street, N.W.
Washington, D.C. 20062

(CITIES ONLY)

Counties Only

Sectional Responses NE 5
NC 12
NW 6
SE 13
SW 14
W 5
55

SURVEY ON GENERAL REVENUE SHARING
CHAMBER OF COMMERCE OF THE UNITED STATES

Name ______________________________

Organization ______________________________

Name of Community and State ____________________

Unit of Government: a.____City b.____Township c. 55 County

1. On a scale of one to ten, how would you rate the impact that the General Revenue Sharing (GRS) program has had in your community? (Circle one number and one word.)

1	1	0	2	1	1	7	10	10	22
1	2	3	4	5	6	7	8	9	10

Harmful 4 — Neutral 9 — Beneficial 42

2. On a scale of one to ten, to what extent has the GRS program been used to its fullest potential in your community? (Circle one number and one word.)

1	1	0	1	1	2	7	8	14	20
1	2	3	4	5	6	7	8	9	10

Least 3 — Average 10 — Fullest 42

3. Can you identify a major problem or obstacle in the GRS program that keeps the program from being used to its fullest potential in your community? (Please state the problem and use additional sheets if necessary.)

4. If GRS funds were not available as a supplement to your community government's present budget, what programs related to the following would most likely have to be cut back or eliminated as a result? (Check all that apply.)

a. 23 Public safety
b. 15 Environmental protection
c. 10 Public transportation
d. 18 Health
e. 10 Economic development
f. 25 Multi-purpose general government
g. 18 Recreation
h. 16 Libraries
i. 18 Social services aged/poor
j. 7 Financial administration
k. 5 Housing/community development

5. What is the percentage of GRS funds in your community government's total budget? over%

6. How has the majority of GRS funds been used in your community since 1975? (Check three that apply.)

a. 36 As a source of income to supplement the local budget
b. 35 For capital expenditures
c. 14 For salaries and/or employment of municipal employees
d. 22 To maintain current tax levels
e. 6 To reduce personal and/or property taxes
f. 22 For operating expenditures
g. 1 For surplus accumulation
h. 3 Other (please state)

7. If the GRS program is continued, should the program be designed to place greater emphasis on targeting funds to:

a. 1 Distressed areas
b. 6 Communities of greatest need
c. 43 Prefer no targeting of funds
d. 2 No opinion

8. Has the GRS program helped to improve your community government's effectiveness in any of the following areas? (Check all that apply.)

a. 24 Financial planning

b. 39 Meeting community needs

c. 27 Responsiveness to public opinion

d. 12 Government leadership

e. 5 Not aware of any effect

9. If the form (but not the total amount) of Federal aid to your community were changed in the future, which one of the following alternatives would your organization prefer?

a. 2 More of the total in block grants

b. 2 More of the total in categorical grants

c. 41 More of the total in revenue sharing

d. 6 Keep the mix about as it is

10. What action does your organization currently plan to take on legislation extending the GRS program beyond its September 30, 1980, expiration date?

a. 30 We plan to support extension of the program

b. 3 We plan to oppose extension of the program

c. 14 We do not plan to take any action

11. What is your community's present population?

a. 1 under 10,000
b. 1 10,000-24,999
c. 21 25,000-99,999
d. 11 100,000-249,999
e. 10 250,000,000-999,999
f. 1 1 million or more

12. Comments: (Your additional comments are invited. Please use additional paper if necessary.)

Please complete and return the questionnaire by July 30, 1979, to:

WENDELL C. BLACK
Associate Director
Community and Regional Development Group
Chamber of Commerce of the United States
1615 H Street, N.W.
Washington, D.C. 20062

GRS Percentage of Budget

1-5 ------19
6-10 ------16
11-15 ------4
16-20 ------2
21-25 ------1
26 + ------2

(COUNTIES ONLY)

STATEMENT OF THE AMERICAN FEDERATION OF STATE, COUNTY AND MUNICIPAL EMPLOYEES

Mr. Chairman, I am Jerry Wurf, President of the one million member American Federation of State, County and Municipal Employees (AFSCME), a union made up of men and women who work for local and state government in virtually every state in this country.

Our union embraced the original concept of General Revenue Sharing as a device for returning federal dollars to local and state governments when it was first proposed by the Administration of President Richard Nixon in 1972. At that point we were probably the only union—certainly the only large union—to support revenue sharing. I am proud to say that this year we are joined by the AFL-CIO and virtually all elements of the American labor movement in our support for reauthorization and full funding of General Revenue Sharing.

Many of my colleagues in the labor movement, and some of our friends in the Congress, previously viewed revenue sharing as a threat to the important system of categorical grant-in-aid programs that were constructed by the Congress during the Eisenhower, Kennedy and Johnson Administrations. We argued, however, that the two approaches should not be mutually exclusive—that General Revenue Sharing represented a progressive and dependable source of funds for the provision of public services by the states and cities, while the grant programs were quite specific and targetable.

In other words, the notion behind revenue sharing was to provide a permanent and stable source of revenues for those governments best equipped to provide the broad range of services that our citizens need. It was a way to help strengthen local and state government without intruding upon the decision-making process at that level.

Since its inception in 1972, General Revenue Sharing has been a vital ingredient to the fiscal health of the 50 states and the nearly 40,000 local governmental units in this nation. It probably has done more than any other federal aid program to insure state and local government control—not control from Washington—over spending decisions. It has helped to guarantee a basic level of services such as health care and sanitary control, law enforcement and public protection, public education and child care, transportation, emergency assistance and the host of other responsibilities which fall upon our states, our counties and our cities.

The general-purpose nature of General Revenue Sharing funds has kept decision-making decentralized—leaving it to elected officials and administrators at the local level to set their own priorities and to assemble the proper mix of programs and services that people in their localities demand. The intent was to strengthen government closest to the people.

Given all that, I'm hard-pressed to understand why the present Administration and the Congressional Budget Committees—with their repeated concern for reducing the federal presence and eliminating waste and inefficiency—would target the state share of revenue sharing as part of a so-called anti-inflation package of federal-spending cuts.

In fact, the general thrust of the domestic budget cuts proposed by the Carter Administration and by the Budget Committees is to slash general funding programs such as revenue sharing, countercyclical aid, CETA and other human service programs. These are broad assistance programs which give local and state government officials maximum flexibility in meeting citizen needs.

I don't think any responsible observer believes that the quantity of services offered by most local or state governments are unreasonable. And in all the years that I've represented public employees, I've never heard anyone anywhere say that the quality of public services was excessive.

But if the Congress concurs with the budget cut proposals advanced by the Carter Administration, we will be undoing a decade of effort by the Congress and Presidents from both parties to make federal support for local and state government efforts more productive and more efficient.

I suppose it's heretical to say so, given the current mood in the Congress and the Administration, but this sudden rush to balance the budget in the name of fighting inflation is really just so much bunk.

The budget proposals pending in Congress are calling for cuts in aid to the states and cities, cuts in youth employment, CETA and urban development grants, cuts in Medicaid funding and food stamps. These spending reductions will have no significant impact on our inflation problem. The Congressional Budget Office has estimated that if all these cuts go through, they'll *reduce the inflation rate by about one-tenth of 1 percent by the end of 1981.* These spending cuts alone, according to the Congressional Budget Office, would cost 400,000 working Americans their jobs in 1981. The President's credit controls and other economic plans for the next year and a half will cost an additional *one million one hundred thousand Americans their jobs*. As a consequence of current budget cuts and other policies over eight million Americans will be out of work by the end of 1981.

It is clear that the proposed budget cuts in combination with other economic policies will give the President the recession he feels he needs to fight inflation. It is equally clear, however, that when the recession comes it will eliminate any hope of balancing the federal budget.

Apart from the reduced federal revenues that will result from a general economic slowdown, adding one and one-half million Americans to the army of the unemployed will add roughly $30 billion to the federal deficit—$22 billion in revenue lost and $8 billion in payments for unemployment insurance, food stamps and other programs that provide subsistence for those who will lose their jobs.

There's no question that inflation is a critical problem that must be dealt with effectively. But budget-balancing at the expense of working people, poor people, sick people and old people is no way to fight inflation. And tinkering with an effective program like General Revenue Sharing promises to do substantial harm to the quality of life in much of America, without promising any relief from the ravages of inflation.

According to a survey of 100 cities conducted by the U.S. Conference of Mayors, 49 cities in 24 states would face serious revenue losses if the state share of the Revenue Sharing program were eliminated. Our cities and our states, in general, cannot suffer huge federal aid losses and continue to finance current levels of public services.

Cities and states that are in a position to do so will, of course, raise their local taxes to try to offset their losses in federal funds. In most instances this will mean higher property taxes, the most common means of raising local revenues. Thus, the flow of relatively progressive federal taxes back to local governments will be supplanted by the general regressive tax on homes and real property. *This means more inequity heaped upon low and moderate income taxpayers.*

But in many places that won't be possible. In many states and cities, the cuts will simply translate into sweeping reductions in the quality of health care provides, in fewer police in the community, in fewer people monitoring water quality, sewage treatment and building and fire codes. It will mean an even lower quality of public institutional care in state after state. God knows, it's a national scandal now how few resources are being allocated to care for the sick, the aging and the helpless among us.

It is popular to deal with General Revenue Sharing allocations for the states separately from local government assistance. The conventional wisdom, after all, is that while many American cities are legitimately in need of federal funds, the states have surpluses.

It is a fact, unfortunately, that some governors like to play games with their budgets—understating revenue forecasts in order to look "prudent" at the end of the fiscal year. This kind of game-playing by Governor Brown in California involved building up a huge state surplus at a time when taxpayers were feeling real pain. That helped create the climate for the passage of the Jarvis-Gann Proposition 13 referendum in California.

But California is not America. Federal Government figures show, in fact, that very few states are carrying surpluses. In fact the state and local sector as a whole is in deficit, and is expected to remain in deficit throughout 1981. The states most in need are the states least able to impose new taxes to support public services.

In New York State, the state's share of General Revenue Sharing for fiscal year 1981 would amount to about $248 million. That is more than one-third of the total increase in state spending proposed by Governor Carey in a state budget that calls for drastic cutbacks in existing programs and the reduction of the state work force by more than 9,000 workers. Such a cut in a state like New York will surely result in reduced public services and layoffs that will only translate into federal payments for unemployment insurance and other support programs.

In Massachusetts, the state's share of General Revenue Sharing accounts for one-fourth of the total new state monies for 1981.

The $110 million that is allocated for Pennsylvania each year amounts to 16 percent of the total increase in state spending budgeted there in fiscal year 1981.

The governors of New Jersey and Connecticut have proposed tax increases to balance their budgets. But Connecticut assumes a continuation of state revenue sharing in their fiscal year 1981 budget. And without state GRS New Jersey will certainly have fiscal difficulties.

I deeply regret the House Budget Committee's decision—evidently with Administration compliance—to eliminate the $1.7 billion needed in the fiscal year 1981 budget and the $2.4 million thereafter to fund the state share. If that decision is not overturned, I foresee a fiscal disaster for many of our states.

It would also be a disaster for many local governments. A substantial portion of the revenue sharing money which goes to state governments is channelled on to the counties and cities. According to the National Governors' Association, about $922 million, or 40.1 percent, of the state share of GRS allocations in fiscal year 1980 was passed through to local governments. This is most common in, but not limited to, those states that have hard-pressed, older urban areas.

New York Governor Carey has said that if General Revenue Sharing payments to the state are cut off, then the State of New York should cut its own "revenue-sharing" program to urban areas. That could cost New York City alone over $37 million.

In Oregon all of the state GRS money is allocated to support schools ($25 million). Limitations on state expenditures and local property taxes will inhibit the ability of governments in Oregon to make up the lost revenue.

Wisconsin gave its entire $50 million in state GRS funds to school programs, the biggest share to the troubled school system in Milwaukee. The State faces a deficit for fiscal year 1981. If GRS state funds are cut out, the school will lose their funds.

In Chairman Bradley's home state of New Jersey the state has no budget surplus. They've earmarked their $75 million in state GRS for the state's share of social security costs for state government employees. The state, which is facing difficult economic times, will be hard-pressed to find the funds to meet this expense and continue its generous contributions of state aid to its localities.

These cuts would work a hardship on local and state governments in the best of economic times. But now that the Administration seems likely, at last, to get its long-sought recession, the states and cities will face considerably greater costs for unemployment compensation, social services and welfare aid.

The recession will bring with it higher unemployment, a fall-off in local income and sales tax revenues. At the same time, governments will face higher costs for everything they buy because of inflation. I can't think of a worse time to revoke the commitment made by the Federal Government to provide a steady and stable flow of federal dollars to assist state and local governments in meeting their obligations.

The Administration has proposed $500 million as a substitute for the state share of General Revenue Sharing. It is no substitute at all. It's only in the arithmetic of the "new thrift" that $500 million equals $2.3 billion. It should be noted in addition that the $500 million would have to substitute for all cuts in aid to state and local governments included in the budget proposals now before Congress. The real cut in aid to state and local governments included in the President's and the Budget Committee's plans is closer to $7 billion.

The Administration has proposed to allocate the $500 million, first among states according to the state's share of aid to localities, and then among localities on the basis of the general revenue sharing formula. If the monies are allocated on the basis of the Administration's revenue sharing formula, the money will be spread far too thinly to make up for the massive cuts in hard-pressed urban areas which are scheduled to occur in the President's and the Congress' current budget plan for 1981. This issue may be moot, however, as the Budget Committees have recently decided not to fund this program.

As I mentioned earlier, General Revenue Sharing represents a progressive form of local government taxation not available in many states. In some respects it has served as a lever to encourage the reform of regressive state and local tax structures.

In our testimony supporting the original General Revenue Sharing program in 1972, we proposed establishing a formula to reward states with a better-than-average reliance on progressive income taxes, and a less-than-average reliance on regressive sales and property taxes. While there have been improvements in some areas, state and local tax systems remain, on the whole, extremely regressive. We support further attempts to prod states and localities into promoting progressive taxation methods.

With regard to the allocation formula used under General Revenue Sharing, we favor raising the ceiling on the maximum allowable revenue sharing payment from 145 percent of the average statewide per capita allocation to 175 percent. Cities such as Baltimore, Philadelphia and Detroit, currently in desperate need of more state and federal aid, would see their revenue sharing payments increase with enactment of this provision.

Finally, we wholeheartedly endorse a countercyclical aid program within the scope of General Revenue Sharing to increase aid to states and localities most affected by economic slowdowns. Since the financial strain of a slowed economy varies from state to state and locality to locality, a countercyclical program could effectively target funds to the most distressed jurisdictions. A countercyclical title within the General Revenue Sharing Act, more importantly, would make permanent the Federal Government's commitment to aid financially troubled states and localities.

We than you for this opportunity to express our views to the Committee about this vital piece of legislation. Our intimate involvement with the workings of states and localities, and the link between the program and the livelihood of many of our members make our commitment to the passage of a comprehensive and equitable General Revenue Sharing program a steadfast one.

THE CITY OF WEST LIBERTY

PHONE 743-4305 • 743-3330
WEST LIBERTY, KENTUCKY 41472

MRS. SCOTTYEE B. FRANKLIN
MAYOR

SHARI H. TRUSTY
CITY CLERK

June 9, 1980

Mr. Michael Stern, Staff Director
Senate Finance Committee
2227 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Stern:

As it has come to my attention that the Revenue Sharing monies that we receive, is to be cut anywhere from 50%-62%, I would like to take this opportunity to explain to you how The City of West Liberty, Kentucky, and others like it, use this money.

During the 2½ years that I have been mayor, we have used this money primarily for police salaries. We have also purchased needed equipment, such as a truck for City use. Over this period of time, our Revenue Sharing money has been cut with each new entitlement.

With 55% of our population (around 3,000) on fixed incomes, a raise in taxes would be disastrous. Therefore, without the Revenue Sharing funds, the services the City provides would have to be stopped. We have 52 streets that we maintain, and that is 52 streets the police department must patrol. At this time we have four patrolmen and the chief of police. As you can see, a cut-back would have a tragic effect on our town. The influx of people from out of state due to lack of jobs, has caused our police department more patroling and more overtime.

I am very concerned about this matter, as the survival of small rural cities such as ours, is absolutely dependent on Revenue Sharing money. Any help you can give us, or any - advice on what I can do, will be greatly appreciated.

Thank you.

Sincerely,

Mrs. Scottyee B. Franklin

Mrs. Scottyee B. Franklin, Mayor
City of West Liberty

SBF/dhw

PHONE 743-4388 • 743-3330

WEST LIBERTY, KENTUCKY 41472

MRS. SCOTTYEE B. FRANKLIN
MAYOR

SHARI H. TRUSTY
CITY CLERK

June 4, 1980

The Honorable Jimmy Carter
President of the United States
White House, Pennsylvania Avenue
Washington, D.C. 20515

Mr. President:

I would like to bring to your attention the importance of Revenue Sharing monies to rural communities such as West Liberty. It is absolutely vital if we are to continue to provide services to our citizens.

We are a small community with a population of around 3,000 people, and very little money to operate on. In 1974 our city took in $25,026.32. Six years later in 1980, we expect to collect only $35,175.00. This is just not enough to cover the cost of the services we provide.

Among these services is our street department. We do our best to maintain 52 streets within the city, and sometimes our best just isn't good enough. We do not have sufficient funds to do all the paving and up-keep that our streets are in need of.

We are a class seven city in fire protection. We have about twenty men who work on a volunteer basis, and do an excellent job. We have two fire trucks at present, but if something should happen to one or both of them, we have no means with which to replace them.

We have a city owned and operated water plant. It is a very good system operating at only one fifth its capacity, due to the fact that we cannot afford to pipe water to needy people outside city limits.

We have a trained police force, consisting of five men, paid out of Revenue Sharing money. With a city of this size, this is minimal police protection. Our city is small but growing, and we now have an influx of people from out of state. We have no jobs for these people, with only one factory in the city, and a little farming and mining in the county. We cannot risk cutting our police force, but without Revenue Sharing Funds, we simply cannot pay them.

As you can see, we desperately need all the help we can get, and I strongly feel that if any chnages are to be made in this program, it should be to further help small rural communities, rather than take away what we now receive. Anything you can do to help us, would be grealty appreciated.

Also, I would very much like the opportunity to speak before the Senate Subcommittee Hearings. I feel I have an obligation to my city and others like it to do all I can to fight for this program. It is absolutely necessary to the survival of these small communities. Please give this your most serious consideration, and if there is anything you can advise me to do, I am anxious to hear from you.

Thank you.

Sincerely,

Mrs. Scottyee B. Franklin

Mrs. Scottyee B. Franklin, Mayor
City of West Liberty

SBF/dhw

Letters also sent to:

Carl Perkins
Larry Hopkins
L. H. Fountain, N.C.
Walter Huddleston
Bill Bradley, N.J.
Wendell Ford
Edward Kennedy
Carroll Hubbard, Jr.

STATEMENT BEFORE THE SUBCOMMITTEE ON

REVENUE SHARING

OF THE SENATE FINANCE COMMITTEE

OF THE EXTENSION OF THE REVENUE SHARING ACT OF 1972

BY FLORENCE R. RUBIN, URBAN POLICY CHAIR
LEAGUE OF WOMEN VOTERS OF THE UNITED STATES

JUNE 26, 1980

The League of Women Voters is a multi-faceted citizen's education and political action organization with 1400 Leagues in all 50 states, Puerto Rico, the Virgin Islands, and the District of Columbia. This statement underscores the League's support of the reauthorization of General Revenue Sharing at the present annual level of funding--$6.85 billion. We also urge specific formula adjustments that would better target General Revenue Sharing funds to areas of greatest need, with particular emphasis on the nation's distressed cities. We support multi-year renewal to ensure the necessary predictability for orderly financial planning. We also want to call your attention to our participation in 1975 and 1976 in a major coalition effort in favor of mandated citizen participation, civil rights enforcement and auditing requirements, which were enacted as amendments to the General Revenue Sharing Act. We believe these provisions have had a beneficial influence on the program, and want to underscore our support for their continuation.

In June 1979 the LWVUS completed a study of urban problems conducted by local League affiliates in each of the 50 states. League members in suburban, rural and urban communities all across the country are concerned about the well-being of the nation's cities and believe that special federal attention should be directed to cities experiencing fiscal distress--largely as a result of national or regional economic trends beyond their control. This distress is shared by the many jobless, low income and minority residents concentrated within their borders. Despite promising signs of revival in some parts of some cities, the fact remains that many cities are still suffering severe financial hardship. Their service needs are high; their tax revenues are inadequate despite a generally high tax effort; and they are forced to rely heavily on federal and state aid.

In looking at how the federal government can best address these problems the League has endorsed unrestricted financial assistance as one effective strategy. The addition of General Revenue Sharing (GRS) to local budgets since 1972 has been a vital factor in keeping cities solvent and in maintaining services needed for a decent quality of life. Our members were impressed by such comments as that of the mayor of Newark, "The federal government has many programs that assist us in our efforts to provide the vitally needed new social services for our residents. However except for General Revenue Sharing, you offer us no program that enables us to offset the destructive burden of paying for the services we already provide."

During the last several months our research and education affiliate, the League of Women Voters Education Fund, has participated in a joint project with the Center for Community Change, the Center for National Policy Review and the National Urban Coalition to examine the options for achieving greater equity in the distribution of General Revenue Sharing funds. Details are set forth in the joint testimony given on May 21.

The following list highlights the suggestions the League of Women Voters would support to improve the General Revenue Sharing program:

- Targeted formula: The five formula changes that have been suggested by the Administration in allocating the local shares are a move in the right direction. While the present formula does direct money to central cities, the five changes would improve the targeting: lowering the floor from 20 percent to 10 percent and raising the ceiling from 145 percent to 175 percent of the statewide per capita average, limiting a locality's payment to no more than 25 percent of its budget and using factors to scale down funding for high income jurisdictions and for tax enclaves. The League supports their intent--although we have not had an opportunity to see their full distributive effects.

- Eligibility standards: We urge you to go a step further by establishing a threshold of need for eligibility of both localities and states to participate in GRS. We are mindful of the political unpalatability of eliminating jurisdictions from the program, but we find it difficult to countenance the distribution of tight federal funds to jurisdictions or states that don't need help while others are struggling to stay solvent or to maintain minimum levels of service. In particular, the effect of severance taxes that are providing bonanzas for some states should be taken into account in allocating funds to states.

o Incentives to states: Allocation of at least a portion of the states' share among states according to a formula that takes into account 1) the degree of equalization exhibited by each state in its local assistance programs and 2) a measure of need. The accompanying summary developed by the Revenue Sharing Reform Project (RSRP) suggests ways of developing such a formula. The result would be to reward states that are distributing aid in an equalizing way and to favor poorer states.

We also urge you to consider whether the counties should continue to serve as the distributors of GRS to the jurisdictions within their borders or whether direct distribution to the general purpose governments would serve equity better. There is evidence that elimination of the county middleman would have a favorable effect on central cities.

A word about the states' role in General Revenue Sharing: The LWVUS supports the thesis that states have an important, albeit often poorly filled role in assisting their distressed cities. We would be sorry to see the states' share lost for that reason. Our major concern however is the loss of $2.3 billion from the program. While it is true that some states have large surpluses and will not suffer noticeably if the state share is dropped, others will. We would hope that if not all of the state share can be saved, at least part will remain for distribution to states with the greatest need or for reallocation to distressed cities.

And, last but certainly not least, the League continues to support the 1976 GRS amendments that we helped to pass. Each of these amendments--mandated citizen participation, civil rights enforcement and auditing and accounting requirements--has a vital role in ensuring accountability to the federal government and to the residents of each jurisdiction receiving funds.

With the approach of the renewal debate, we canvassed League leaders across the country for their perceptions on how the 1976 amendments are working. Using these results and the League's long experience with citizen participation in government programs, the League of Women Voters Education Fund has prepared an analysis on the impact of the amendment mandating citizen participation. I will summarize some of the major points from this paper, which we are submitting to the committee with this statement.

By the one easily quantifiable measure--citizen attendance at hearings--the impact of the citizen participation requirements appears to be disappointing, a closer look however shows that the requirement has already had limited success. Even more significantly, experience under the mandate suggests ways to develop a more effective citizen-government partnership for determining local priorities for spending GRS funds through the local budget.

Using increased citizen <u>access</u> to decisionmaking as an initial yardstick, League observers find that the GRS requirements have been successful; virtually all local governments are complying at least minimally. The success of the next steps--citizen response and impact--is mixed due to a number of readily identifiable factors:

--GRS does not fit the best conditions for citizen participation since it involves year-round involvement in local budget process;

--citizens are not convinced that they can have a real impact on decision-making since their involvement is often sought at the end of the priority setting process rather than at the beginning; and

--officials often openly discourage or fail to solicit effectively citizen interest and input.

To overcome these obstacles, League members call for a greater effort on the part of local officials to involve citizens year round in the budget process. Many public officials are not clear on the benefits of citizen participation and do not know how to promote it effectively. League observers reported that where local officials were committed to citizen participation and encouraged it, citizens did have an impact on setting budget priorities.

The state of the art of citizen participation can be advanced on two fronts:

--Research and demonstrations in citizen participation techniques. The League has identified some methods to bring citizens into the decision-making process early and effectively--budget advisory committees, neighborhood task forces, systematic surveys of citizen priorities, and revival of regular town meetings. But clearly much more research and experimentation is needed.

--Training for public officials, both in the value of citizen participation and technical assistance in proven techniques.

We submit that this is an agenda that the Office of Revenue Sharing should adopt. For its part the League of Women Voters will continue to foster greater participation among citizens to help make this model legislation live up to its potential.

In the matter of civil rights enforcement we urge that the Office of Revenue Sharing be given the resources to administer its responsibilities in a more expeditious manner. While enforcement of civil rights has improved there is still a problem of delay. Local governments have improved accounting and auditing practices to a certain degree in response to the mandated audit provision in 1976, and biennial audits appear to be a reasonable requirement for the next round of revenue sharing.

In conclusion, let me express the League's concern that the perceived need to balance the federal budget by cutting expenditures will have disproportionately severe impacts on the poor of this country--particularly on the poor in urban areas. 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 nations'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 her people, we support multi-year continuation of General Revenue Sharing at the same $6.85 billion annual level. We further urge to target the funds to areas of greatest need.

SUMMARY OF A PROPOSAL TO ALLOCATE THE STATE SHARE OF GENERAL REVENUE SHARING TO PROVIDE AN INCENTIVE FOR STATES TO ADEQUATELY AND EQUITABLY AID THEIR LOCALITIES

DEVELOPED BY

DR. ASTRID MERGET, GEORGE WASHINGTON UNIVERSITY

FOR THE

REVENUE SHARING REFORM PROJECT

CENTER FOR COMMUNITY CHANGE

CENTER FOR NATIONAL POLICY REVIEW

LEAGUE OF WOMEN VOTERS OF THE UNITED STATES

NATIONAL URBAN COALITION

In the current debate over the state share of revenue sharing, two issues are repeatedly raised: The states have an historical, constitutional and moral responsibility for their localities, and the fiscal relationships between the states and localities vary widely across the nation.

Concerned that the state share of revenue sharing funds be distributed in such a way as to increase or reward equity, the four organizations comprising the Revenue Sharing Reform Project contracted with Astrid Merget of George Washington University to translate this concept into a formula. The result combines a measure of equalization of expenditures for local education within a state with a measure of absolute state dollar contributions per pupil.

The first measure used indicates the extent to which disparities are reduced among the school districts within a state. The second, the absolute value of per pupil expenditures from the state, indicates the magnitude of education as a public need, the relative cost differences and the priority accorded to education by the various states. Together, they can be used to estimate each state's effort to distribute adequate amounts of aid for education in an equitable way. The attached table shows a rank order of the states according to this combined measure.

State effort for education was used to represent all state aid to localities for the following reasons:

1. Education ranks as the single largest expenditure category for all local governments. It competes for the same tax base as do functions financed by general purpose governments.

2. Most states make efforts to aid financially distressed school districts to some extent. This trend has been growing because of court decisions

requiring the mitigation of disparities.

3. Education has substantial effects on the distribution of income. It can enhance the income-earning potential of individuals and ultimately its benefits extend even beyond the community.

4. More than in any other functional area, there is an established, nationally consistent and reliable data base available.

Incentives and disincentives for state aid to localities in need can be incorporated into the state share of revenue sharing. The rank order of states would be divided into quintiles. Either all or a portion of the state share would be distributed according to the quintile in which a state fell. Thus, states ranking high on the scale would receive a reward for effective fiscal partnership with their localities. The middle quintile would receive the amount alloted under the present formula. Those states which are below average in their response to education needs would receive a reduced amount. These states would then have an added incentive to reduce disparities and to allocate adequate resources to education.

This approach serves both as a reward and an incentive system and, most important, recognizes the states' vital responsibility to their localities as a national policy objective.

Ranking of States by Equalization[a] and State Per Pupil Expenditure[b] for Local Education

Rank	State[c]	Z Value
1	Alaska	+17.0974
2	Delaware	+ 7.3710
3	Minnesota	+ 4.5974
4	Hawaii	+ 4.2272
5	Washington	+ 3.1585
6	New York	+ 2.5173
7	D.C.	+ 2.3397
8	Pennsylvania	+ 1.9626
9	Michigan	+ 1.6772
10	Massachusetts	+ 1.4795
11	New Mexico	+ 1.1457
12	Arizona	+ 0.8534
13	Kentucky	+ 0.8376
14	Florida	+ 0.5088
15	Oklahoma	+ 0.3862
16	New Jersey	+ 0.2847
17	Colorado	+ 0.0996
18	Tennessee	- 0.0422
19	California	- 0.1035
20	Illinois	- 0.1289
21	Ohio	- 0.1569
22	Indiana-	- 0.2119
23	North Carolina	- 0.2538
24	West Virginia	- 0.2690
25	North Dakota	- 0.4511
26	Texas	- 0.4891
27	Maryland	- 0.5470
28	Alabama	- 0.6871
29	South Carolina	- 0.6948
30	Virginia	- 0.7041
31	Louisiana	- 0.7398
32	Missouri	- 0.9775
33	Georgia	- 1.0663
34	Utah	- 1.0793
35	Arkansas	- 1.2327
36	Wisconsin	- 1.3538
37	Kansas	- 1.5444
38	Wyoming	- 1.6122
39	Maine	- 1.7265
40	Mississippi	- 1.7926
41	Iowa	- 2.3242
42	Idaho	- 2.3266
43	Rhode Island	- 2.5156
44	Vermont	- 2.5203
45	Connecticut	- 2.7715
46	Oregon	- 3.0362
47	Neveda	- 3.4018
48	Nebraska	- 3.6858
49	South Dakota	- 4.2291
50	New Hampshire	- 6.3196

a. Based on equalization of disparities across school districts in per pupil expenditures from all sources.
b. Based on absolute dollar value of state own source revenue per pupil expended for local education
c. Excludes Montana

CITIZEN PARTICIPATION AND GENERAL REVENUE SHARING

1976 - 1980

Prepared By

League of Women Voters Education Fund
1730 M Street, N.W.
Washington, D.C. 20036

For The

Revenue Sharing Reform Project

> I maintain that the most powerful, and perhaps the only, means which we still possess of interesting men in the welfare of their country, is to make them partakers in the government.
>
> Alexis de Tocqueville

INTRODUCTION

The last ten years have seen a dramatic rise in the number of federal programs requiring some form of citizen participation. According to the 1979 study by the Advisory Commission on Intergovernmental Relations, 155 federal grant programs—or almost one-third of the total—now include mandated citizen participation. Nearly 80 percent of these requirements have been adopted since 1970. Even given the two hundred-year American tradition of expanding citizen involvement in government, this trend signals a quantum change in the way the federal government does business and in the way it expects state and local governments to conduct their business. It is crucial for both citizens and government officials that these programs live up to their potential.

By far the broadest of the new citizen participation mandates is contained in the 1976 amendments to the State and Local Fiscal Assistance Act—the General Revenue Sharing (GRS) program. The original 1972 GRS law contained bare-bones requirements that recipient state and local governments publish reports of their planned and actual use of GRS funds. By 1976, when reauthorization of GRS was before Congress, a growing number of citizens and organizations had come to believe that a major, conceptual change in citizen participation opportunities was a logical and necessary adjunct to the new concept of revenue sharing itself.

The no-strings-attached federal money flowing to state and local governments under GRS replaced an array of categorical grant programs that in most cases had built-in constituencies of interested citizens. Even though the 1972 law directed recipient local governments to spend the GRS funds for eight broad functions, the direct government-citizen ties of the categorical grant concept were considerably weakened. Proposals to drop all such restrictions on use in the reauthorized program (proposals generated at least partially by widespread acknowledgement of the fungibility of GRS dollars) reinforced the conviction of many citizens that the new law should contain safeguards to assure that the use of GRS funds would be determined by citizens and officials in partnership. Just as revenue sharing can be viewed as an effort to dilute the power of "big government," the expansion of citizen participation has been viewed as part of the effort to "find a better way to manage big government." The findings of an extensive GRS monitoring project conducted by the League of Women Voters Education Fund, Center for Community Change, National Urban Coalition and Center for National Policy Review before the 1976 renewal reinforced these views and played a major role in developing proposals that were incorporated into the legislation.

Congressional legislators agreed that a citizen voice was essential in local decisions on GRS spending, and the 1976 renewal legislation considerably expanded the minimum steps that recipient local jurisdictions were required to take to open up the process to citizens' access and input.

In brief, governments accepting GRS funds must hold a public hearing on the proposed use of the funds and a second hearing on the complete budget in which GRS funds are included. The time and place of the hearings must be accessible to citizens, and notice of the hearings must be advertised in general-circulation newspapers serving the jurisdiction. Copies of the proposed and enacted budgets and a report on the actual use of the GRS funds must be available for public review. Governments must make special efforts to notify bilingual and foreign language media of GRS hearings and to provide senior citizens with opportunities to participate. The clear intent is to bring an expanded cast of characters into the bargaining over "locally determined priorities" for the use of GRS money and to link GRS decision making to broader decisions about the overall budget.

In the second session of the 96th Congress, the General Revenue Sharing program is once again up for reauthorization. The League of Women Voters (LWV), therefore, undertook to survey local and state League leaders across the country for their perceptions on how the citizen participation requirements of the GRS program are working. The survey was not designed to be a rigorous, scientific study. Rather, it was intended to solicit League leaders' judgments as to the effects of the GRS requirements on citizen access to government decision making, on the accountability of local government to its constituents and on the impact of citizen participation on the way local governments spend their GRS dollars. Comments on citizen participation in federal programs were also received as part of local and state Leagues' annual reports to the League's national office.

One of the guiding principles of the League of Women Voters is that, "democratic government depends on the informed and active participation of its citizens and requires that governmental bodies protect the citizen's right to know by giving adequate notice of proposed action, holding open meetings and making public records accessible." League members are solidly in favor of the GRS citizen participation requirements and of all programs that mandate citizen participation in state and local government implementation of federally funded programs. They view effective government as an ongoing, working partnership between citizens and officials, one in which the citizen's role goes far beyond traditional parameters of voting and legislative lobbying.

A citizen perspective on citizen participation is crucial, especially since a number of studies, most notably that of the Advisory Commission on Intergovernmental Relations, have reported on government officials' perspectives. League members' observations offer a good base to begin the evaluation of citizen participation from the public perspective. League members' familiarity with and active participation in their communities, as well as their high level of political sophistication and careful objectivity make them expert reporters on the interfaces between citizens and government. However, further research is needed to determine if League perceptions and judgments reflect the views of other segments of the public.

The debate on the goals of citizen participation has two sides, each with its strong protagonists. One side argues that involving citizens in the decision making process is a worthwhile end in itself. The other side maintains that the value of citizen participation lies in its ability to influence public policy. This paper responds to both points of view, by focusing on League assessments of three aspects of citizen participation in general revenue sharing:

1. Citizen access to the GRS processes
2. Citizen response to participation opportunities

3. Citizen impact on the allocation decisions.

League perceptions in these three areas are clearly drawn. Using increased access as a yardstick, League reporters find that GRS requirements have been successful: virtually all local governments we surveyed were in compliance with mandates. The success of the other aspects—citizen response and impact—is mixed, due to factors which are discussed in the sections of the paper below.

ACCESS AND ACCOUNTABILITY

Have the GRS citizen participation requirements enhanced the public's "right to know"? Have they increased citizens' access to the GRS process at the local level? In short, are local governments complying with the mandates of the law?

The answer from Leagues is a nearly unanimous yes. LWV leaders in local jurisdictions of all sizes in all parts of the country report that their government officials are complying, at least with the minimum requirements for public notices and hearings on general revenue sharing. (Results are summarized in the chart on the next page.) They identify this as a major success of the GRS amendments because the increased accessibility of the administrative decision making process to the advice and assistance of citizens is a definite step forward in the accountability and responsiveness—and therefore, the effectiveness—of local government. Similar findings have been reported by Richard Cole, associate professor at George Washington University, whose survey of cities over fifty thousand shows a jump in the number of cities holding hearings from 50-60 percent between 1973 and 1976 to 83 percent in 1977 and 97 percent in 1978.

A number of sample comments from Leagues follow:

—Perry County, Indiana: "Mandates for citizen participation are opening up

SURVEY OF SELECTED LEAGUES OF WOMEN VOTERS
ON EFFECTS OF GENERAL REVENUE SHARING
CITIZEN PARTICIPATION REQUIREMENTS

Percent Answering "Yes"

Survey Questions	City Size (in Thousands)						
	0 - 25	25 - 50	50 - 100	100 - 250	250 - 500	500 & Over	Total
CITIZEN PARTICIPATION							
<u>First Hearing</u>							
10 Day Notice Given?	98	100	100	95	100	100	99
Wide Media Coverage?	59	61	72	73	64	50	62
<u>Second Hearing</u>							
10 Day Notice Given?	98	100	100	98	100	100	99
Budget Summary Included in Notice?	84	87	94	93	100	92	89
Public Comments Invited?	83	85	94	86	92	92	85
Convenient Place, Time & Date?	95	88	97	84	89	92	92
Senior Citizen Participation Urged?	58	73	69	78	55	82	66
City Budget Documents Available?	78	82	94	76	80	100	84
Attendance (% Answering "Poor")	75	90	79	55	83	80	78
DID THE 1976 AMENDMENTS HAVE AN IMPACT ON:							
Public Awareness of Use of GRS Funds?	50	53	46	41	33	40	42
Citizen Participation in the Budget Process?	27	21	33	23	30	22	28
How GRS Funds are Allocated?	20	37	39	20	50	40	36
Accessability of City Jobs, Programs, Services, Facilities for the Handicapped, Women, Minorities?	29	27	35	40	66	30	33
Fiscal Accountability of Public Officials?	36	45	48	27	37	12	38

our local governments' processes, and that's good and much needed. Our public officials are becoming aware that they should be seeking public input."

--Delta County, Colorado: "There also seems to be more awareness at the local level of government, particularly in the town councils, that the public needs to be involved."

--Kalamazoo, Michigan: "The important thing is that citizens are given a chance to speak up."

--Tacoma-Pierce County, Washington: "Mandatory citizen participation has a general, positive effect, especially since less of it would take place if it were optional. . . . A big plus is the ever-expanding education of the citizenry as a result of direct involvement in government functions."

--Indianola-Warren County, Iowa: "In that citizens are encouraged to attend these meetings, that their opinions are solicited and ostensibly listened to, the effect is good. Any process that gets more people involved and paying attention to governmental procedures--that encourages them to watch the developments and decisions that come from these meetings--has some good effects."

--Columbus, Ohio: "We have found that citizen participation requirements have provided us with access to some agencies and programs that we might not have had otherwise. The presence of 'others' in this capacity seems to serve a useful purpose in itself."

As noted, a recurring theme in these and other comments from League observers is that the most effective government--that is, government that is most satisfactory to the public and its elected or appointed representatives--is a result of an open, ongoing partnership between citizens and officials. League members consider increased citizen access to decision making as the first crucial step toward an effective, mutually beneficial government-citizen partnership. And they judge citizen participation mechanisms according to what degree they enhance this working partnership. As one League commentator from Moscow, Idaho put it, "Mandatory citizen participation promotes more public awareness, which in turn puts more pressure on the elected officials to implement these programs in the best interest of all."

CITIZEN RESPONSE

With the "chance to speak up" guaranteed, are citizens taking advantage of the new avenues of participation and assuming an expanded role in the GRS decision making process? League accounts show that they are, but not to the extent that proponents of the amendments had hoped. Many of the League leaders surveyed reported low and often disappointing citizen turnouts at the mandated GRS public hearings--findings that parallel those of a number of other studies. Perhaps LWV members realize better than most observers, however, the combination of reasons contributing to the generally modest citizen response to GRS participation possibilities.

Institutional Factors Working Against Citizen Response

A common thread running through League members' comments is a recognition of the inherent factors in the GRS program working against effective citizen involvement in and impact on the spending of their communities' GRS funds. Leagues' experience over the years has shown that the most effective citizen participation is "quick and clean"; that is, it involves a clear, short-term charge with quite specific targets and goals (for example: Should a new waste treatment plant be built, and if so, where should it be located?). The best-case scenario also includes clear, easily understood tools, with a minimum of technical expertise or specialized knowledge required. It is readily apparent that the nature of the General Revenue Sharing program means that it does not fit these ideal conditions for effective citizen participation.

The impact of revenue sharing funds on local and state budgets is extremely difficult, if not impossible, to track. Recipient governments must notify the public as to the way they propose to use—and then actually use--these funds, but because GRS money is frequently used to "free up" other money in the local budget, the actual impact of GRS is not always traceable. This fungibility of dollars means that to understand and effectively participate in the allocation of general revenue sharing dollars, citizens must, to a great extent, understand and get involved in the entire year-round local budget process, which most citizens perceive as complex, dull and difficult to affect.

Many citizens are put off by the necessity of having to learn the intricacies and politics of municipal budgeting in order to have an impact on how GRS money is spent and how it relates to the budget as a whole. As the president of the Hamilton-Fairfield Area, Ohio LWV put it: "Apparently, the public seems intimidated by the concept of a budget--be it a general operating budget or a GRS proposed budget. We need better citizen education for this task." League leaders also agreed with other observers that the public views the budget process as particularly resistant to influence by citizens. Budgets seem to be made up almost entirely of "givens."

Moreover, the mandated opportunities for citizen input in the budget process--according to both citizens and officials--come too late in the process to maximize citizen influence on decisions. Citizens' frequent perception that "the decisions have already been made" by the time public hearings are held is supported by the ACIR's conclusion that, "The major difficulty with public hearings is that they often come late in the development of a plan or program. Citizen participation then may have the after-the-fact effect of voicing objections rather than shaping programs." And specifically relating to the budget process, ACIR found that it "really is not key to the process of local or state decision making. Rather it is an end product in which the budget often merely represents previous commitments to long-standing programs, and responses to citizens' and other views expressed throughout the year."

The additional obstacle--the apathy and sometimes hostility to citizen participation on the part of public officials--is discussed below on page 14.

Building Citizen Response

LWV commentators do report some encouraging evidence regarding citizen response to the GRS mandates, but they also offer an important observation. A number of Leagues report that even without the education called for by the Hamilton-Fairfield, Ohio League leader cited above, and with generally minimal encouragement, citizen participation is increasing to a modest degree. Other Leagues, while noticing some incremental improvements in citizen turn-out, point out that getting the public involved in budgeting will certainly take more time and initiative:

--Philadelphia, Pennsylvania: "Citizens do not respond in great numbers to scheduled hearings. It is new to them, but it is hoped that they will respond more fully in the future."

--Perry County, Indiana: "As regards the response of the public, these mandates are just beginning to make an impact."

--Santa Maria Valley, California: "We do see an increasing citizen awareness and hopefully participation will increase."

--Lebanon County, Pennsylvania: "Open meetings on revenue sharing have met with response locally and have given input into county commissioners' plans for the money."

--Beaufort County, South Carolina: "Sometimes small pressure groups attend a meeting, push for their own limited interests and succeed. Other times, even though notices of public hearings have been published, no one attends. . . . There are times, however, when there is good discussion by members of the public, and without the mandate for citizen participation, their valuable input might have been lost. When Beaufort County Council held a public hearing on the budget, some 500 people attended."

In its report on "Citizen Participation in the American Federal System," the Advisory Commission on Intergovernmental Relations found that the impressions of government officials generally agree with the mixed reports from Leagues. According to ACIR's data: " . . . 34% of city and 41% of county respondents stated that citizen participation had increased in their budget process during the last few years. Twenty percent of the city and 29% of the county officials said that the increases have been moderate or substantial. When asked if the increased participation was because of revenue sharing, 44% of the city and 49% of the county officials answered in the affirmative."

While League members are careful not to "oversell" the evidence on citizen turnout, their comments should not be construed as implying that this level of citizen response is high enough or that nothing can be done to increase it. In their reports, LWV leaders identify a number of elements that are crucial to increasing this modest citizen response. They say that greater success depends on using the GRS citizen participation requirements as a jumping-off point toward a closer citizen-government partnership rather than as a formula to be complied with by rote. This task of building confidence that citizen participation can work for both citizens and officials will be discussed later in this report, after a look at citizens' impact thus far.

IMPACT OF CITIZEN PARTICIPATION ON THE USE OF GRS FUNDS

Access, accountability and citizen turnout are the important building blocks of an ongoing public-private partnership. Many believe this is a sufficient end in itself, but many others agree with Julius Wilson (quoted in Citizen Participation in Public Administration by William H. Stewart, Jr.) that citizen participation is "useful to the extent that it produces change in public policy." When measuring citizen participation in GRS in terms of impact, tangible results can be found only if there is a discernible change in public policy--in this case, in the way general revenue sharing funds are used. One of the goals of the 1976 amendments was to insure a local citizen voice in the setting of priorities for the use of GRS money, and Leagues do have some success stories of this kind to relate:

--Flint Area, Michigan: "A very small number of individuals have been watching where revenue sharing and CDBG funds have been placed for some time and begun to speak at every opportunity about the need to balance municipal improvements with neighborhood investments . . . and at long last, the city council has begun to direct the development of a housing policy and an over-all urban policy . . . perhaps we want too much too soon."

--Hamilton-Fairfield Area, Ohio: "We have hammered away at our county commissioners for greater human services use of federal revenue sharing funds. . . . our impact has increased this last year."

--Black Hawk-Bremer Counties, Iowa: "Our League did a study of citizen input for revenue sharing funds about two years ago. . . . We came out of that study believing that citizen input was vital and could make a very great difference in the way federal programs were implemented at the local level."

--Glen Ellyn, Illinois: "The increased requirements for public notice and involvement, as well as the tighter reporting structure, have brought more people into the budgeting process and made officials feel that the uses made of public funds are being more closely scrutinized. As a result, GRS funds are more likely to supplement rather than supplant local funds, an outcome more in keeping with the original intent of the legislation."

—Burlington, Iowa: "We feel citizen participation now mandated for many government programs has had great effect on governmental bodies. The best example locally had to do with general revenue sharing on both the municipal and county levels. . . . It was not until separate public hearings were mandated that representatives of local groups began to realize that money for worthwhile projects was available and that if enough pressure was exerted upon elected officials, revenue sharing funds would be granted for people-programs rather than all of these funds going for 'fancy equipment' for elected officials."

—Minneapolis, Minnesota: "The citizen participation requirements were used as a positive reinforcer in citizen efforts to create a fair, clear system for citizen participation and to get technical and financial assistance from city government to meet citizen participation responsibilities. Citizens have also used the requirements as a lever to force more public discussion and citizen participation when they felt decisions were being made without adequate hearings."

—Hays, Kansas: "The required public hearings on expenditure of revenue sharing funds aided in salvaging funding for city human resources. This year the city manager had simply cut out human resources funding for agencies that in the past had been provided by the city. The two meetings required by law for GRS planning involving the public provided an opportunity to 'get out the troops' . . . with the result that the city government restored most of the human resources funds."

Scattered comments from Leagues, then, confirm the conclusions of several other studies that citizen participation can have an impact on GRS and the budget process. ACIR reports, for example, that "43% of city and 44% of county officials said that citizen participation measurably affected the setting of priorities within their government's general budget."

THE IMPACT OF OFFICIALS' ATTITUDES ON CITIZEN PARTICIPATION

As noted above, League members view the present period as a time of confidence-building--among both citizens and officials--that citizen participation can be efficacious and can result in better programs and policies. Even at its best, this citizen-government cooperation is a delicate partnership--one that depends to a very great extent on attitudes and perceptions if it is to grow and succeed. To put it simply, both sides of the partnership must believe it can work--and must see evidence that the other partner believes it as well--before citizen participation can be effective. And although some officials express disappointment at low citizen turnout for hearings and view this as evidence of citizens' lack of interest in building a dialogue, Leagues more often see it as evidence that many citizen participation programs leave too much to citizen initiative. It is clear that the greater responsibility for evolving an effective partnership lies with government officials, because of their greater expertise on the issues and their role as decision makers.

Because citizens most often start with a perception that government processes are closed to their input and influence, time and effort must be taken to alter that attitude. The commitment to effective citizen participation on the part of the government partners must be apparent and genuine (and not just minimal compliance with a federal "must") before citizens will find it worthwhile to participate in hearings and other mechanisms designed to solicit their views. It should be noted that the Office of Revenue Sharing (ORS) concluded in 1978 that the level of citizen participation in GRS "was high in jurisdictions where public officials were receptive to participation and where the overall level of citizen interest in government was high."

Nothing is more damaging to citizens' willingness to invest time and effort in participation mechanisms than a perception that their role is pro forma, that they are there as "window-dressing," that the decisions have already been made. Citizens who get this message from their direct or indirect encounters with government will quickly cease making the effort to participate. The perception that "trying to work through the system is futile" is the most serious impediment to an active and involved citizenry. And the fact is that some officials, while fulfilling the basic citizen participation requirements for GRS, nevertheless convey this "don't bother" message to citizens.

The comments from League members on this point are particularly telling:

—St. Lawrence County, New York, succinctly outlines the components of a successful citizen participation partnership: It "depends partly on the kind and extent of citizen participation provided for; partly on the 'good faith' of the agency involved and the extent of its commitment to effective, substantive citizen input; partly on the citizens who participate."

—Central Lane County, Oregon: "The effectiveness of citizens is very dependent upon the personalities involved and if the agency is just fulfilling the letter of the law or really wants to hear from citizens."

When this crucial "good faith" and "commitment" are lacking, the citizen participation process is demoralized and ineffective:

—Cache County, Utah: "There is no serious commitment to this concept by local government. As a result, the letter of the law is followed by publishing notices of public hearings, but no real effort is put forth to inform the public."

—South Solano County, California: "Many officials in our area do not feel that need for citizen participation; therefore, their minds are made up no matter what suggestions are made by citizens."

--Lexington, Kentucky: "There seems to be a general attitude held by professionals that citizens cannot really grasp an issue or solve a problem, along with a reluctance to 'share the power.'"

--Beloit, Wisconsin: "Hearings don't work for us. [In reference to a public hearing on the budget], our city manager told us the money was already spoken for. When I asked what would be done with our 'input,' he said it would be buried."

--Wisconsin Rapids, Wisconsin: "Local results of citizen participation are less than perfect. For example, at our county revenue sharing budget hearing, it seemed that although the meeting had been called for citizen input, there was no viable way to change that budget. The budget meeting was no more than a rubber stamp gathering."

--Columbia Area, South Carolina: "Meetings are poorly announced--usually in the classified section of the paper. The letter of the law is fulfilled but the spirit is not. A quote from the head of our local planning commission--'Well, if nobody shows up at hearings . . . we just do what we have planned anyway'--seems indicative of the attitude toward citizen participation."

--Watauga County, North Carolina: "Most required citizen participation efforts in this rural town and county are of a pro forma nature. Public hearings are the best example, perhaps. By the time the public is invited to participate in a process--revenue sharing budgets, for example--the decisions have been made and struck in marble! The problem is, of course, to get people interested in the process early enough to make their voices heard before decisions are finalized."

--Brown County, Indiana: "Advertisements are in the legal section and not noticeable. . . . County commissioners have already made up their minds on the spending of funds before the hearing . . ."

--Ventura County, California: "Citizen participation is not taken seriously by elected officials. (According to [one official], citizen participation is voting for him every two years!) Because of this, the public is usually not informed in enough time to be effective, nor do average citizens have access to resources (money, time, expertise) that business, industry and other lobbies have to make their voices heard. Citizen input is not used as wisely as it could be. Education is needed."

Obviously, the stifling effect of negative or indifferent official attitudes on the development of meaningful citizen participation is considerable. Mere compliance with the minimum federal requirements, while it does increase citizen access to government process, is often not enough to effectively encourage citizen turnout and is no indication at all of officials' attitudes and openness toward real citizen impact on decision making.

Leagues' comments identify two different explanations for officials' lack of effective outreach to citizen participants: hostility or ignorance. Citizens often view officials' failure to undertake this responsibility as the result of a negative attitude toward meaningful citizen involvement in the decision making process--reluctance to share the power or unwillingness to cope with a process that is likely to be "inefficient" and that is unlikely--at least at first--to meet traditional monetary measures of cost-effectiveness. Such attitudes show a serious lack of understanding of the American democratic system; and as long as they hold sway, effective citizen participation is unlikely, if not impossible. Participatory democracy is certainly not the simplest or most efficient way to conduct government, but it is the best way--as de Tocqueville noted--to interest citizens in the welfare of their country.

A number of League reports suggest another reason behind many officials' failure to effectively bring the public into the decision making processes of government. According to LWV community observers, officials frequently fail to encourage and use citizen input effectively <u>because they don't know how</u>:

--Mt. Pleasant Area, Michigan: "Our experience has been that local government bodies tend to not know how to use or assess the input given by citizens into the budget process. Plans may be made down to the finest detail and to alter these plans presents a disruption."

--Flint, Michigan: "We feel there is a need for citizens to try and develop skills in public participation, but we also believe that program staff have to learn how and when to solicit, as well as to develop techniques for utilizing, citizen input.

--Medina, Ohio: "All government officials who are required to participate [in citizen participation processes] by virtue of their position do not necessarily have the interest, time or expertise to be knowledgeable in so many fields of specialization and so can be poor or ineffective representatives."

--Delta County, Colorado (with a note of optimism): "Although we have a way to go before local government is adept at using and soliciting public participation, we feel that things are moving in the right direction."

In addition to specific comments like these, it is likely that the many League references to notices of public hearings being "buried" in classified or legal sections of the newspaper or other letter-of-the-law types of behavior may also be indications of a lack of imagination on the part of officials rather than, necessarily, outright attempts to discourage citizen participation. Many local and state officials simply do not know how to initiate and operate an effective government-citizen partnership; they fall back, then, on the literal federal requirements due to a lack of experience and expertise in techniques for improving community relations.

BRIDGING THE GAP

It is clear that in many cases, extra effort is necessary for the evolution of effective government-citizen partnerships. It is the spirit of the citizen participation mandates--rather than just the letter of the law--that is the critical factor for success. It must also be apparent that, in most instances, citizen-volunteers are not equipped to supply this extra outreach.

However, a few exceptions, in which local Leagues took on this task, are worth noting here:

--The Columbus, Indiana League invited a representative from the Office of Revenue Sharing to town for a series of three public meetings for officials and citizens on public participation in general revenue sharing. League members there are confident that the meetings have heightened local officials' awareness of citizen participation.

--In South San Mateo County, California, the League is actively supporting formation of a citizens' budget review committee "to advise the Board of Supervisors on community priorities for spending county funds and to educate the community concerning county resources and the extent to which the county has discretion in using them."

--The LWV of Berea, Kentucky is in the midst of a multi-year effort to improve and encourage citizen participation in the GRS process. Their first step was the research and writing of a publication that clearly and simply explains to the citizen how to make an impact on the allocation of GRS funds. The League, with the endorsement and encouragement of the ORS, received GRS funds from their local government to finance the production and distribution of the handbook. An ORS official is reportedly interested in possible national application of the Berea League's project. Meanwhile, the LWV is planning workshops, in cooperation with city officials, based on its handbook.

Many communities, however, are not lucky enough to have an organization of citizens, with enough people-power, time, expertise and other resources to take on this role of bridge-builder between public and government. Most citizens, perhaps adopting a once-burned-twice-shy attitude, clearly consider this the responsibility of government officials.

However, many officials may not have fully recognized that citizen participation programs have added a significant dimension to their roles as policy makers. Indeed, it is unrealistic to expect officials to alter their long-held conceptions about the respective roles of citizens and professionals, as well as established priorities of efficiency and cost-effectiveness in government, with no impetus except the issuance of federal citizen participation regulations. Reports from League observers identify the obvious need: training. Assuming that either citizens or officials have all the training and experience necessary to enable them to develop jointly an effective participatory system is naive. League members clearly feel that government officials charged with citizen participation responsibilities often need consciousness-raising as to the potential and importance of citizen participation as well as technical training in how to design and refine a process that will encourage and utilize citizen input. The state of the art is not yet far enough advanced so that all the answers are at hand, but there is enough experience and expertise available to provide officials with some basic theory and guidelines.

A fruitful direction for further study of effective citizen participation is indicated by Philip B. Coulter and William H. Stewart, Jr. in their paper, "The Status of Citizen Participation in Formulating Public Policy," in the conference report Public Action and Social Change. Citing the relative newness of the phenomenon and the lack of sufficient studies to determine how and why it works, Coulter and Stewart say that, "The best that can be done at this time is to identify the conditions and practices in American states and localities that seem to occasion the appearance of greater success of citizen participation." Their hypothesis of these "exemplary" characteristics includes:

—official recognition both of the citizen participation program and of the worth of citizen participation;

—training for officials in working with citizen participants;

—training and technical assistance for citizens;

—fully developed mechanisms for participation that are "geared to citizen and problem needs rather than unreflective application of the rudimentary mechanisms required by law"; and

—an effort to encourage high levels of citizen participation instead of just the legally required minimum.

The closeness with which the "exemplary" characteristics parallel the observations of League commentators strongly suggests the value of further research in these areas. For now, however, the potential of citizen participation should not be muted or denied by a lack of basic how-to training and consciousness-raising for those government professionals most directly involved in its success or failure. Ideally, officials should be encouraged to look upon the development of effective citizen participation processes as a creative challenge—a way to increase citizens' satisfaction with government. Citizens need training as well, to help them understand the mechanisms of the budget process and give them realistic expectations of their potential impact on decision making.

In the meantime, comments from League observers and officials point out one obvious direction for improving both the satisfaction and the impact of citizen participation in the budget process: bring citizens into the process earlier. This could be accomplished by changing the GRS citizen participation regulations, or it can be encouraged on an ad hoc basis by the ORS.

Probably the most valuable effort government professionals could make is to work to get citizens involved in the year-round processes that shape the budget. The critical elements are conveying to citizens a genuine interest in their input and ambitiously reaching out for it.

CONCLUSIONS

League members commend the increased citizen access to government that the citizen participation requirements for general revenue sharing and other federal programs have guaranteed. They confirm that officials <u>are</u> complying with the GRS mandates—even though often at minimal levels. Despite low citizen turnout in many cases, LWV observers also report that under the right conditions, citizen participation can and does have a direct impact on local budget processes—in terms of both general accountability and specific decisions on spending GRS funds.

When citizen response fails to materialize or when citizen involvement appears to be ineffective, League leaders most often cite a perception that citizen participation has not really been incorporated into government decision making, despite compliance with the letter of the law. The major variable for success, then, is the attitude of the responsible government officials. Unfortunately, League members conclude that many officials apparently want to keep citizens on the outside or don't know how to bring them in successfully. The fact that the federal regulations only require citizen participation at the end of the decision making process undoubtedly contributes to this problem, since many officials comply only with the letter of the law.

It is clear that in these first years of this mere decade-old, formalized citizen-government partnership, the most important task is to reshape attitudes and to develop processes that will enable citizen participation to reach its potential. The key word is potential. Citizen participation is an integral part of the American system of government of, by and for the people, and it must be evaluated in that light. Analyses that approach citizen participation from a monetary "cost/benefit" perspective are bound to be negatively skewed, because the benefits of this renewed partnership--to citizens, professionals and our democratic system--are impossible to quantify and have yet to be fully realized. The goal of future analysis evaluation should be to determine how we can realize those benefits.

Therefore, more research into how best to develop effective citizen participation programs is urgently needed. To citizens, "effective" citizen participation means that they are better able to give decision makers their perspective and input and that decision makers know better how to encourage citizen input and incorporate it into their decision making. It also means that both sides of the partnership believe the time and energy put into the process are essential to good government. As David Mathews has said, " . . . a revival of participatory mechanisms is essential in domestic/social matters because what 'works' is so dependent on a public investment in meeting an issue and a sense of community about it."

It is time to systematically explore and evaluate such possible "participatory mechanisms." To move this agenda forward will require the efforts of several sectors. Congress, for its part, has adopted the legislative framework under which citizen participation should be able to flourish. No weakening or change in the citizen participation amendment is indicated, but more enthusiastic implementation is. The Office of Revenue Sharing, given even modest resources, should initiate an aggressive, positive program to foster citizen participation. Until now, ORS has limited its efforts to directions on how local officials can meet the minimum requirements for scheduling hearings and providing budget information and hearing notices. New initiatives should help local officials understand the values of participatory democracy to their own local governments and should provide training in the use of practical, effective techniques that involve citizens at each crucial stage of the budget process. Regional workshops for local officials, reinforced by written information, are suggested as first steps.

In addition, training citizens should be part of ORS' responsibility. Demonstration projects in citizen participation techniques--both proven and innovative--should be sponsored in different regions both to advance the state of the art and to provide outreach to local officials and citizens. Some ideas, already identified by the LWV, that should be considered:

--budget advisory committees--selected to facilitate discussion among various segments of the public and government, with paid staff and other funding

--neighborhood task forces

--budget workshops for citizens

--technical assistance for citizen groups

--technical and institutional information written in understandable language (while citizens need to learn some of the fiscal vocabulary and basic facts, they also need encouragement that they do not need to be technical experts to evaluate policy options)

—use of nonprint as well as print media (especially cable TV) to inform the public on allocation of GRS funds and establishment of local priorities

—continuous citizen monitoring of the budget process and use of GRS funds.

Citizen-initiated, multipurpose organizations are natural partners in helping to carry out such demonstration projects. They are not wedded to a single issue to the exclusion of the overall community needs; they are able to take a longer range view of community and human needs than most public officials can afford; as independent members of the private nonprofit sector, they are less likely to be co-opted than mandated citizen committees.

The continued role of the academic community is needed to analyze and evaluate the effectiveness of citizen participation mechanisms.

With the necessary resources, commitment and imagination, the ORS could set in motion an agenda to advance this unique experiment toward greater democratization of public affairs in America.

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