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LOCAL GOVERNMENT FISCAL ASSISTANCE AMENDMENTS  
OF 1983

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NOVEMBER 15, 1983.—Ordered to be printed

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Mr. BROOKS, from the committee of conference,  
submitted the following

CONFERENCE REPORT

[To accompany H.R. 2780]

The committee of conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H.R. 2780) to extend and amend the provisions of title 31, United States Code, relating to the general revenue sharing program, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the House recede from its disagreement to the amendment of the Senate and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

*SHORT TITLE*

*SECTION 1. This Act may be cited as the "Local Government Fiscal Assistance Amendments of 1983".*

*EXTENSION OF PROGRAM*

*SEC. 2. Section 6701(a)(1) of title 31, United States Code, is amended to read as follows:*

*"(1) 'entitlement period' means each one-year period beginning on October 1 of 1982, 1983, 1984, and 1985."*

*TERMINATION OF STATE SHARE*

*SEC. 3. Section 6703(b)(1) of title 31, United States Code, is amended by inserting after "each entitlement period" the following: "beginning before October 1, 1983,".*

## STATE VARIATIONS OF LOCAL GOVERNMENT ALLOCATIONS

SEC. 4. Subsection (a) of section 6711 of title 31, United States Code, is amended—

- (1) by adding “and” at the end of clause (1);
- (2) by striking out “; and” at the end of clause (2) and inserting in lieu thereof a period; and
- (3) by striking out clause (3).

## MODIFICATION OF INTRASTATE ALLOCATION FORMULA IN CERTAIN CASES

SEC. 5. Subsection (c) of section 6713 of title 31, United States Code, is amended—

- (1) by striking out “and” at the end of clause (1);
- (2) by striking out the period at the end of clause (2) and inserting in lieu thereof “; and”; and
- (3) by adding at the end thereof the following new clause:

“(3) for purposes of intrastate allocations under sections 6708, 6709, and 6712, consider any reduction in the amount of adjusted taxes of any unit of general local government if such reduction—

“(A) results from a specific economic dislocation which causes—

- “(i) the closing of places of employment,
- “(ii) declines in assessed values of, or receipt of taxes from, real property, or
- “(iii) declines in sales or income tax collections of such government, and

“(B) would reduce the allocation of the unit of local government for an entitlement period by an amount equal to or greater than 20 percent of such allocation for the preceding entitlement period.”.

## PUBLIC HEARINGS

SEC. 6. Section 6714 of title 31, United States Code, is amended—

- (1) by striking out paragraph (1) of subsection (a);
- (2) by redesignating paragraphs (2) and (3) of subsection (a) as paragraphs (1) and (2), respectively;
- (3) by striking out “subsection (a)(2)” in subsection (b)(1) and inserting in lieu thereof “subsection (a)(1)”;
- (4) by striking out clause (1) of subsection (c);
- (5) by striking out “subsection (a)(2)” in subsection (c)(2) and inserting in lieu thereof “subsection (a)(1)”;
- (6) by redesignating clauses (2) and (3) of subsection (c) as clauses (1) and (2), respectively.

## DISCRIMINATION PROCEEDINGS

SEC. 7. Section 6717 of title 31, United States Code, is amended—

- (1) by striking out “the Secretary submits a notice of noncompliance to the government” in subsection (b) and inserting in lieu thereof “the government receives a notice of noncompliance from the Secretary of the Treasury”; and

(2) by striking out "shall suspend payments to the government under this chapter unless by the 10th day after the decision" in the second sentence of subsection (c) and inserting in lieu thereof "shall notify the government of the decision and shall suspend payments to the government under this chapter unless, within 10 days after the government receives notice of the decision,".

#### AUDIT REQUIREMENTS

SEC. 8. (a) Section 6723(a)(1) of title 31, United States Code is amended—

(1) by striking out "expecting to receive" and "which receives";

(2) by striking out "at least once every 3 years" and inserting in lieu thereof "at least as often as is required by paragraph (2)"; and

(3) by striking out "auditing standards" and inserting in lieu thereof "government auditing standards issued by the Comptroller General of the United States".

(b) Section 6723(a)(2) of such title is amended to read as follows:

"(2) Paragraph (1) of this subsection does not apply to a government for a fiscal year in which the government receives less than \$25,000 under this chapter. A government which receives at least \$25,000 but not more than \$100,000 under this chapter for a fiscal year shall have an audit made in accordance with paragraph (1) at least once every 3 years. A government which receives more than \$100,000 under this chapter for a fiscal year shall have an audit made in accordance with paragraph (1) for such fiscal year, except that, if the government operates on a biennial fiscal period, such audit may be made biennially but shall cover the financial statement or statements for, and compliance with the requirements of this chapter during, both years within such period."

(c) Section 6723(b)(1) of such title is amended—

(1) by striking out "at least once every 3 years" in clause (A) and inserting in lieu thereof "at least as often as would be required by subsection (a)(2)";

(2) by striking out "auditing standards" and inserting in lieu thereof "government auditing standards issued by the Comptroller General of the United States".

(d) Section 6723(c)(2) of such title is amended—

(1) by striking out "generally accepted auditing standards" the first place it appears and inserting in lieu thereof "generally accepted government auditing standards issued by the Comptroller General of the United States"; and

(2) by striking out "generally accepted auditing standards" the second place it appears and inserting in lieu thereof "such auditing standards".

(e) Section 6723(e) of such title is amended by adding at the end thereof the following: "Not later than 30 days following completion of the audit, the audit report shall be made available for public inspection by the State government or unit of local government."

## TECHNICAL AMENDMENTS

SEC. 9. (a)(1) Subsection (a) of section 6701 of title 31, United States Code, is amended by adding at the end thereof the following new clauses:

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

"(9) 'urbanized population' has the meaning given to such term by the Secretary of Commerce for general statistical purposes."

(2) Section 6701(c) of such title is amended by striking out the last sentence and inserting in lieu thereof the following: "Except as provided in regulations prescribed by the Secretary of the Treasury, the Secretary shall make all data computations based on the ratio of the estimated population of the part to the population of the entire unit of general local government."

(3) Section 6701(d) of such title is amended by inserting "annexation," after "constitutional change,"

(4) Section 6701(e)(2) of such title is amended by striking out "having one unit of general local government" and inserting in lieu thereof "and the sole unit of general local government in the area"

(b) Section 6704(a) of such title is amended—

(1) by inserting "under this chapter" before the semicolon at the end of clause (1);

(2) by striking out "received under" in clause (3) and inserting in lieu thereof "so received in accordance with"

(3) by striking out "consistent" in clause (5) and inserting in lieu thereof "in accordance";

(4) by striking out "section 6723(b)" in clause (7) and inserting in lieu thereof "section 6723(g)";

(5) by striking out "and" at the end of such clause (7);

(6) by striking out the period at the end of clause (8) and inserting in lieu thereof "; and"; and

(7) by inserting after such clause the following new clause:

"(9) the government will comply with the requirements of sections 6714 and 6723."

(c) Section 6707(c)(5) of such title is amended by striking out the last sentence.

(d) Clause (A) of section 6709(a)(2) of such title is amended to read as follows:

"(A) the adjusted taxes of the unit of general local government, divided by"

(e) Section 6713(a) of such title is amended by inserting "before the beginning of the entitlement period" immediately after "Secretary of Commerce"

(f) Section 6716 of such title is amended by striking out "when" in subsections (a) and (b) and inserting in lieu thereof "if".

(g) Section 6716(c)(1) of such title is amended by inserting before the period at the end the following: "with respect to which the allegation of discrimination is made"

(h) Section 6717 of such title is amended—

(1) by striking out "a part" in subsection (b)(3) and inserting in lieu thereof "any part";

(2) by striking out "except when" in subsection (c) and inserting in lieu thereof "unless";

(3) by striking out "When" in such subsection and inserting in lieu thereof "If"; and

(4) by inserting "of discrimination" after "The holding" in subsection (e).

(i) Section 6718(b) of such title is amended by striking out "about" and inserting in lieu thereof "based on".

#### STUDY OF FEDERAL/STATE/LOCAL FISCAL RELATIONSHIPS

SEC. 10. (a) The Secretary of the Treasury shall undertake a study of the following issues:

(1) The various factors used in the current allocation formulas under chapter 67 of title 31, United States Code, and possible alternatives to such formulas and factors (such as State gross domestic product, the representative tax system, and the inclusion of user fees in factors based on tax collections), including an analysis of the strengths and weaknesses of such formulas and factors.

(2) The long-term outlook for the fiscal condition and fiscal capacity of Federal, State, and local governments.

(3) The concept of returning revenue sources to State and local governments along with responsibility for programs and activities for which responsibility for programs and activities for which financial assistance is now provided by the Federal Government.

(4) The impacts of the cyclical nature of the economy and other factors, such as unemployment, on the expenditures, needs, and fiscal capacities of Federal, State, and local governments, and the responsiveness of the distribution of Federal financial assistance to the cyclical nature of the economy and such other factors.

(5) The responsiveness of the distribution of Federal assistance to the fiscal capacities of State and local governments, and the responsiveness of the distribution of Federal assistance to the need for services of State and local governments and to cost-of-living and cost-of-government differentials.

(6) The mathematical forms, data, and administration of Federal grant formulas, including the formulas examined under paragraph (1).

(7) The impact on State and local governments of—

(A) modification of the provisions of the Internal Revenue Code of 1954 with respect to—

(i) the deductibility of State and local government taxes, and

(ii) the tax exempt status of State and local securities used for purposes other than the financing of public facilities and cash management, and

(B) increases in allocations under chapter 67 of title 31, United States Code, made to compensate for the modifications described in clause (A).

(b) The Secretary of the Treasury, in consultation with the Secretary of Commerce, the Comptroller General of the United States, the Advisory Commission on Intergovernmental Relations, and recognized organizations of elected officials of State and local governments, including regional organizations of such officials and officials of States that may receive substantially reduced funding under alternative methods of allocating Federal grants-in-aid, shall develop a plan for the completion of the study required by subsection (a). Such plan may provide for the participation of such individuals and organizations in the conduct of the study.

(c) Upon completion of the study required by subsection (a), the Secretary shall solicit the views of the persons and organizations with whom he was required to consult by subsection (b) and shall append such views to a final report to the President and the Congress. Such report shall be submitted no later than June 30, 1985.

(d) There are authorized to be appropriated for each of the fiscal years 1984 and 1985 such sums as may be necessary to carry out this section, not to exceed for each such fiscal year an amount equal to 3 percent of the cost of administering chapter 67 of title 31, United States Code, for the preceding fiscal year.

#### ADJUSTING DEFINITION OF MASSACHUSETTS TAX EFFORT

SEC. 11. (a) For the purposes of allocating amounts under sections 6708 and 6709 of title 31, United States Code, among units of general local government within the Commonwealth of Massachusetts for the entitlement period beginning October 1, 1983, the adjusted taxes of those governments shall include property taxes levied for the Commonwealth's 1982 fiscal year and recognized as fiscal year 1982 receipts pursuant to Massachusetts General Laws, chapter 59, sections 21 and 23, and chapter 44, sections 35 through 46.

(b) No tax collections credited to any unit of general local government under subsection (a) for the Commonwealth's 1982 fiscal year shall be credited to that unit of general local government for any other fiscal year.

#### EFFECTIVE DATE

SEC. 12. (a) Except as provided in subsection (b), the amendments made by this Act shall apply to entitlement periods (as such term is defined in section 6701(a)(1) of title 31, United States Code) beginning on or after October 1, 1983.

(b) The amendments made by section 8 shall apply with respect to any fiscal year (or period) of any State government or unit of general local government beginning on or after October 1, 1983.

And the Senate agree to the same.

JACK BROOKS,  
TED WEISS,  
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SANDER LEVIN,  
BUDDY MACKAY,  
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*Managers on the Part of the Senate.*





## JOINT EXPLANATORY STATEMENT OF THE COMMITTEE OF CONFERENCE

The managers on the part of the House and the Senate at the conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill H.R. 2780, to extend and amend the provisions of title 31, United States Code, relating to the general revenue sharing program, submit the following joint statement to the House and the Senate in explanation of the effect of the action agreed upon by the managers and recommended in the accompanying conference report:

The Senate amendment struck out all of the House bill after the enacting clause and inserted a substitute text.

The House recedes from its disagreement to the amendment of the Senate with an amendment which is a complete substitute for the Senate amendment, and the Senate agrees to the same. The differences among the House bill, the Senate amendment and the substitute agreed to in conference are noted below, except for clerical corrections, conforming changes made necessary by agreements reached by the conferees, and minor drafting and clarifying changes.

### SECTION 1—SHORT TITLE

#### *House bill*

The House bill is entitled the "State and Local Fiscal Assistance Amendments of 1983."

#### *Senate amendment*

The Senate amendment is entitled the "Local Government Fiscal Assistance Amendments of 1983."

#### *Conference substitute*

The conference substitute is the same as the Senate amendment.

### SECTION 2—EXTENSION OF PROGRAM

The House bill, the Senate amendment, and the conference substitute extend the program for three years, October 1, 1983, through September 30, 1986.

### FUNDING LEVEL

#### *House bill*

The House bill increases the entitlement for local governments by \$450 million to \$5.02 billion per year.

*Senate amendment*

The Senate amendment retains the current funding level of \$4.57 billion per year.

*Conference substitute*

The conference substitute is the same as the Senate amendment.

## SECTION 3—TERMINATION OF STATE SHARE

*House bill*

The House bill terminates the authorization for payments to State governments.

*Senate amendment*

The Senate amendment retains the current authorization for payments to State governments of \$2.3 billion per year, subject to the appropriations process and the provisions requiring a dollar-for-dollar tradeoff of categorical grant funds for revenue sharing funds.

*Conference substitute*

The conference substitute is the same as the House bill.

## SECTION 4—STATE VARIATIONS OF LOCAL GOVERNMENT ALLOCATIONS

*House bill*

Under current law, each State government may, subject to certain constraints, develop its own formula for allocating revenue sharing funds to local governments within the State. The House bill extends this option through fiscal year 1986.

*Senate amendment*

The Senate amendment extends this option permanently.

*Conference substitute*

The conference substitute is the same as the Senate amendment.

## SECTION 5—MODIFICATION OF INTRASTATE ALLOCATION FORMULA IN CERTAIN CASES

*House bill*

No provision.

*Senate amendment*

The Senate amendment revises the intrastate allocation formula to disregard a reduction in a local government's adjusted taxes if: A) the reduction is caused by a "specific economic dislocation", and B) the reduction would mean a decrease of 20 percent or more in the government's allocation.

*Conference substitute*

The conference substitute adopts the Senate provision.

## SECTION 6—PUBLIC HEARINGS

*House bill*

Under current law, each recipient is required to hold two public hearings concerning the use of its revenue sharing allocation—one on the “possible uses” of such funds, and one the “proposed use” of the funds. The “possible uses” hearing may be waived if the cost would be “unreasonably burdensome” in comparison to the recipient’s allocation.

The House bill retains the current requirements, but the committee report calls on the Treasury Department to inform recipients of the waiver provision.

*Senate amendment*

The Senate amendment eliminates the requirement for a public hearing on the “possible uses” of revenue sharing funds.

*Conference substitute*

The Conference substitute eliminates the requirement for a separate “possible uses” hearing. This revision is not, however, intended to diminish public participation in the process of deciding how a recipient’s revenue sharing funds are to be used. It is expected, therefore, that when a recipient holds its hearing on the “proposed use” of its revenue sharing allocation, interested persons will be given an opportunity to suggest alternative uses of such funds.

## SECTION 7—DISCRIMINATION PROCEEDINGS

*House bill*

The House bill retains the current provisions for handling discrimination proceedings under the general revenue sharing program.

*Senate amendment*

The Senate amendment revises the method of computing the time periods within which a recipient must respond to a “notice of noncompliance” with the nondiscrimination provisions of the program. The time periods would run from the date such a notice is received by a local government, rather than from the date the notice is issued by the Secretary of the Treasury, as is currently the case.

*Conference substitute*

The Conference substitute adopts the Senate provision.

## SECTION 8—AUDIT REQUIREMENTS

*House bill*

Under current law, governments receiving \$25,000 or more per year in revenue sharing funds are required to obtain and audit once every three years. This provision has been construed to mean that the audit need only cover one of the three years. The audits must be conducted in accordance with generally accepted auditing standards.

The House bill requires governments receiving \$25,000 or more per year in revenue sharing to obtain annual audits. Governments operating on a biennial fiscal period, however, may obtain an audit every two years as long as the financial statements for both years are covered. Audits must be conducted in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

The House bill deletes the provision of current law permitting State and local governments to waive the audit requirements under certain conditions, and establishes a requirement that audit reports be submitted to the Secretary of the Treasury and be available for public inspection.

The House bill also deletes the provision of current law that permits the Secretary of the Treasury to waive the requirement that audits meet generally accepted auditing standards and be independent if the audits are conducted by a State audit agency and such agency demonstrates substantial progress toward meeting such standards of becoming independent.

Finally, the House bill deletes the provision of current law that permits a government receiving less than \$25,000 per year in revenue sharing to use an audit required by State or local law to comply with the revenue sharing audit requirements.

*Senate amendment*

The Senate amendment retains the current audit requirements.

*Conference substitute*

The Conference substitute requires governments receiving \$100,000 or more per year in revenue sharing to obtain annual audits, or biennial audits covering both years for governments operating on a two-year fiscal period. Governments receiving between \$25,000 and \$100,000 are subject to the current requirement for an audit once every three years. Such audits need only cover one year. Audits must be conducted in accordance with generally accepted government auditing standards issued by the Comptroller General and be available for public inspection.

The Conference substitute retains the current waiver authority for the Secretary of the Treasury and recipient governments, but deletes the option for governments receiving less than \$25,000 per year to use an audit required by State or local law to meet the revenue sharing audit requirement.

## SECTION 9—TECHNICAL AMENDMENTS

Both the House bill and the Senate amendment contain various technical and clarifying changes to Chapter 67, title 31, U.S. Code. The Conference substitute incorporates all of these changes.

## SECTION 10—STUDY OF FEDERAL/STATE/LOCAL FISCAL RELATIONSHIPS

*House bill*

The House bill requires the Secretary of the Treasury, in consultation with the Secretary of Commerce, the Comptroller General of the United States, and the Advisory Commission on Intergovernmental Relations (ACIR), to evaluate: (1) the representative tax system for use in the general revenue sharing allocation formulas; (2) alternatives to personal income as a measure of the fiscal capacity of State and local governments in the revenue sharing formulas; and (3) Federal aid formulas in general. The bill does not include a specific authorization of funds.

*Senate amendment*

The Senate amendment requires the Secretary of the Treasury, the Secretary of Commerce, the Comptroller General, and the Chairman of the ACIR to conduct a series of studies on the areas covered by the House bill, as well as the following additional issues: (1) the overall revenue sharing program; (2) the concept of returning Federal revenue sources to State and local governments along with the responsibility for programs currently financed by Federal grants-in-aid; (3) the fiscal condition and capacity of all levels of government; (4) the relationship between changes in the economy and the distribution of Federal financial assistance; (5) alternative measures of fiscal capacity; and (6) Federal grant allocation formulas.

The amendment specifically provides for extensive participation by organizations representing State and local governments in the design of the studies. The amendment authorizes such funds as are necessary for fiscal years 1984–1986, but the annual authorization is limited to five percent of the cost of administering the general revenue sharing program.

*Conference substitute*

The Conference substitute requires the Secretary of the Treasury to undertake a study on the following issues: (1) The factors used in current allocation formulas for revenue sharing and possible alternatives to such formulas and factors; (2) the long-term outlooks for the fiscal condition and fiscal capacity of Federal, State, and local governments; (3) the concept of returning revenue sources to State and local governments, along with the responsibility for programs and activities currently funded by Federal financial assistance; (4) the impacts of the cyclical nature of the economy and other factors on Federal, State, and local governments' expenditures, needs, and fiscal capacities, and the responsiveness of the distribution of Federal financial assistance to the cyclical nature of the economy and

such other factors; (5) the responsiveness of the distribution of Federal assistance to State and local governments' fiscal capacities, and to such governments' need for services, and to cost-of-living and cost-of-government differentials; (5) the mathematical forms, data, and administration of Federal grant formulas, including current and possible alternative revenue sharing formulas, and (7) the impact of modifying the Internal Revenue Code with respect to the deductibility of State and local taxes, and tax exempt status of certain State and local securities, along with increases in revenue sharing allocations which would be made to compensate for modifications in the above tax provisions.

The Conference substitute requires the Secretary of the Treasury, in consultation with the Secretary of Commerce, the Comptroller General, the Advisory Commission on Intergovernmental Relations, and recognized organizations of elected officials of State and local governments, including regional organizations of such officials and officials of States that may receive substantially reduced funding under alternative allocation methods to develop a plan for completion of the study described above. This plan may provide for the participation of the individuals and organizations listed above in the conduct of the study. The conferees intend that responsibility for conduct of the portion of the study dealing with a proposed "representative tax system" shall remain with the Secretary of the Treasury and shall not be delegated to the Advisory Commission of Intergovernmental Relations.

The Conference substitute requires the Secretary, upon completion of the study, to solicit the views of the individuals and organizations with whom he was required to consult above, and to append such views to a final report to be submitted to the President and Congress no later than June 30, 1985.

The Conference substitute authorizes the appropriation in Fiscal Year 1984 and Fiscal Year 1985 of such sums as may be necessary to carry out the study provision, not to exceed for each fiscal year an amount equal to three percent of the cost of administering the revenue sharing program for the previous fiscal year.

#### SECTION 11—ADJUSTING DEFINITION OF MASSACHUSETTS TAX EFFORT

##### *House bill*

The House bill allows local governments in the Commonwealth of Massachusetts to include in their fiscal year 1982 "tax effort", property taxes levied in fiscal year 1982 but not actually collected until the following year. This provision does not affect the amount of revenue sharing funds that will be allocated to Massachusetts or to any other State.

##### *Senate amendment*

The Senate amendment contains a similar provision. In the Senate version, however, the adjustment in "tax effort" is contingent upon local governments in Massachusetts adopting "generally accepted accounting principles" by fiscal year 1985.

*Conference substitute*

The Conference substitute is the same as the House bill. The Conference Committee has, however, received written assurance from the Massachusetts Department of Revenue that local governments within the Commonwealth are in the process of converting to generally accepted accounting principles.

## SECTION 12—EFFECTIVE DATE

*House bill*

The House bill contains a specific effective date provision to accommodate the changes it makes in audit requirements.

*Senate amendment*

The Senate amendment is effective upon its enactment.

*Conference substitute*

The Conference substitute is the same as the House bill.

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