GENERAL REVENUE SHARING

HEARINGS

BEFORE THE

SUBCOMMITTEE ON REVENUE SHARING

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-FOURTH CONGRESS

FIRST SESSION

APRIL 16 AND 17, AND MAY 21 AND 22, 1975

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GENERAL REVENUE SHARING

WEDNESDAY, APRIL 16, 1975

U.S. SENATE,
SUBCOMMITTEE ON REVENUE SHARING
OF THE COMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2221, Dirksen Senate Office Building, Senator William Hathaway, presiding.

Present: Senators Hathaway, Gravel, Haskell, Curtis, Packwood, and Brock.

Senator HATHAWAY. The Senate Subcommittee on Revenue Sharing will come to order.

As you know, the revenue sharing program was passed in the fall of 1972. It has remained a controversial program, though the arguments for and against seem to have subsided as the State and local governments learned first how to use their newly acquired Federal dollars and later to accept them as given.

It is this acceptance that is now an issue, however, for revenue sharing was not enacted as a permanent program. Instead, it was given a termination date of December 31, 1976, to insure that the issues which caused the controversies at its enactment would be examined in the light of experience. If States and local government are to continue to receive these funds after the termination date, it is time to begin the lengthy process of considering the renewal of the Federal revenue sharing program.

The purpose of these hearings will be to focus on a general review of the administration and operation of the revenue sharing program. According to the Finance Committee report, when the bill was enacted, the purpose of the program was to provide the States and localities with a specified portion of Federal individual income tax collection to be used by them in accordance with local needs and priorities and without the attachment of strings by the Federal Government.

In our hearings, we hope to develop information concerning the administration and monitoring of the program by the Office of Revenue Sharing and to review the way in which these funds have been utilized by the various recipient governments.

In addition, the subcommittee intends to examine the ramifications of this program on the structure and organization of units of local government. From these hearings, we hope to derive a sense of where the areas of controversy remain. We will then focus further attention on these particular areas in future hearings, from which we will be able to develop a clear picture of the issues of revenue sharing as a whole.

This will enable us to determine as a committee and as Members of the Senate whether or not and in what form revenue sharing is to be continued. Today and tomorrow, we will be seeking a background and an introduction to revenue sharing as it has operated in the years since its enactment.

[Committee on Finance press releases follow:]

PRESS RELEASE

FOR IMMEDIATE RELEASE
March 21, 1975

COMMITTEE ON FINANCE
UNITED STATES SENATE
2227 Dirksen Senate Office Bldg.

SUBCOMMITTEE ON REVENUE SHARING ANNOUNCES HEARING ON OPERATING EXPERIENCES UNDER THE STATE AND LOCAL FISCAL ASSISTANCE ACT of 1972

The Honorable William D. Hathaway (D., Maine), Chairman of the Subcommittee on Revenue Sharing, announced today that the Subcommittee would hold hearings on operating experiences under the Federal Revenue Sharing program.

The hearings will be held in April, 1975. The specific dates for these hearings will be set at a later time so as not to conflict with the schedule of business before the full Committee on Finance.

Senator Hathaway stated: "These hearings will attempt to focus on a general review of the administration and operation of the revenue sharing program. According to the Finance Committee report when the bill was enacted, the purpose of the program is to provide the States and localities with a specified portion of Federal individual income tax collections to be used by them in accordance with local needs and priorities and without the attachment of strings by the Federal Government. In our hearings we hope to develop information concerning the administration and monitoring of this program by the Office of Revenue Sharing and to review the way in which these funds have been utilized by the various recipient Governments. In addition, the Subcommittee intends to examine the ramifications of this program on the structure and organization of units of local Government."

Senator Hathaway added that a number of Government officials and private individuals who have been intimately involved with the revenue sharing program will be invited to appear before the Subcommittee as witnesses in order to obtain a full and well-balanced discussion of the issues involved in extending the revenue sharing program. In addition, interested State and local officials, as well as other persons interested in appearing before the Subcommittee to express their views on this subject, are invited to submit requests to testify.

Requests to Testify.--Persons desiring to testify during these hearings must make their request to testify to Michael Stern, Staff Director, Committee on Finance, 2227 Dirksen Senate Office Building, Washington, D. C. 20510, not later than April 7, 1975. Witnesses will be notified as soon as possible after this cutoff date as to when they are scheduled to appear. Once the witness has been advised of the date of his appearance, it will not be possible for this date to be changed. If for some reason the witness is unable to appear on the date scheduled, he may file a written statement for the record of the hearing in lieu of a personal appearance.

Consolidated Testimony.--Senator Hathaway also stated that the Subcommittee urges all witnesses who have a common position or 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. Senator Hathaway urged very strongly that all witnesses exert a maximum effort, taking into account the limited advanced notice, to consolidate and coordinate their statements.

Legislative Reorganization Act.--In this respect, he observed 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."

Senator Hathaway stated that in light of this statute and in view of the large number of witnesses who desire to appear before the Subcommittee in the limited time available for the hearing, all witnesses who are scheduled to testify must comply with the following rules:

(1) A copy of the statement must be filed by the close of business two days 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 50 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 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 Statements.--Persons not scheduled to present oral testimony 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 submitted to Michael Stern, Staff Director, Committee on Finance, Room 2227 Dirksen Senate Office Building.

PRESS RELEASE

FOR IMMEDIATE RELEASE
April 7, 1975

COMMITTEE ON FINANCE
UNITED STATES SENATE
2227 Dirksen Senate Off. Bldg.

SUBCOMMITTEE ON REVENUE SHARING SETS DATES FOR HEARINGS ON OPERATING EXPERIENCES UNDER THE STATE AND LOCAL FISCAL ASSISTANCE ACT OF 1972

The Honorable William D. Hathaway (D., Maine), Chairman of the Subcommittee on Revenue Sharing of the Senate Committee on Finance, announced today that on April 16 and 17, the Subcommittee will hold its previously announced hearings on operating experiences under the Federal revenue sharing program.

The hearings will begin at 10:00 a.m. on April 16, and 9:00 a.m. on April 17. They will be held in room 2221, Dirksen Senate Office Building.

On April 16, the Subcommittee will receive testimony from the Honorable Edward C. Schumlts, Under Secretary of the Treasury, Mr. Graham Watt, Director of the Office of Revenue Sharing and panels of witnesses appearing on behalf of the National Governors Conference, National League of Cities--U.S. Conference of Mayors, the National Association of Counties and the National Conference of State Legislators.

On the following day, the Comptroller General of the United States and representatives of the Advisory Commission on Intergovernmental Relations, and witnesses from the general public will appear.

Senator Hathaway stated that persons not scheduled to present oral testimony and others who desire to present their views to the Subcommittee are urged to prepare written statements for submission and inclusion in the printed record of the hearings. Five copies of these written statements should be submitted to Michael Stern, Staff Director, Committee on Finance, Room 2227, Dirksen Senate Office Building, no later than Friday, April 25, 1975.

P.R. #13

Senator HATHAWAY. Senator Packwood, do you have an opening statement that you would like to make?

Senator PACKWOOD. Yes; I do, Mr. Chairman.

The revenue sharing program in my experience in Oregon and some other States I have visited has proven to be the most effective Federal Government program in terms of cost that we administer. It costs 0.12 percent of the total amount of revenues for administration. It is left to the local government, with relatively few strings, the decision as to whether they want a day-care center or a police car, and I think those are decisions that can better be made at the local level than they will ever be made in Washington, D.C.

I think this program has taught us well that we should do everything possible to return as much power and money back to the State and county and local governments, knowing that we cannot administer this country well from Washington, D.C., and when we try we are going to make unilateral mistakes of a size and magnitude that we simply cannot afford.

I hope this program is extended. I hope it is expanded with substantially more money than exists now, and I hope that we conclude it by putting on no strings—and no additional strings to those that now exist.

Senator HATHAWAY. Senator Brock?

Senator BROCK. Mr. Chairman, I have a statement for the record, but if I might supplement that just briefly.

Senator HATHAWAY. Certainly.

Senator BROCK. I wanted to express my appreciation to you for the quality of witnesses we have in this series of hearings and particularly the presence of three very distinguished Tennesseans. The mayor of Knoxville is a remarkably able and competent mayor and has extensive experience in revenue sharing.

The county executive of Shelby County, our largest county, Jack Ramsay, will testify. He is one of the finest public servants in Tennessee.

We also have a Tennessean who is president-elect of the Association of State Legislatures, Tom Jensen, who will testify, and I wanted to express my pride that our State having originated revenue sharing, the introduction of the bill, by my senior colleague, Howard Baker, continues to be involved in the fight to make this program a permanent program.

I would like to just say at the outset that I hope we will focus during these hearings on the difficulties faced by local and State governments in any Federal support area when the programs are subject to change or modification or cancellation.

One of the chief ingredients of the bill that I have introduced with the cosponsorship of the Senator from Oregon, by the way which I appreciate, among others, is the feature of permanency. We do not have a termination date. We make revenue sharing a permanent part of the Federal program of support to the State and local governments.

Second. I hope we will concentrate on what inflation-recession does to local government and the need for accommodating that problem in any Federal legislation, particularly revenue sharing because as we have seen in the last year, the States and the communities primarily are dependent upon property and sales taxes for their revenue.

These are not flexible taxes that respond well to economic circumstances, so when inflation forces prices up, at the very same time, the recession reduces the inflow of sales taxes. You have a double problem besetting the community that makes it almost impossible to respond to, and I would hope that any revenue sharing legislation we enact would address that problem by some form of inflation or income indexing to be sure that our communities are not starved by action of their own Federal Government.

And finally, I hope we will focus on the need for, in effect, not just a tax rebate to communities and States, but for the form of a rebate which gives to the people of this country a maximum voice in the utilization of their own tax dollars.

I am concerned over the extent of frustration in this society of ours, the concern that people have for their Government, the frustration they sense in a nonresponsive Government, and I can think of no finer or better way to restore a sense of participation and involvement than to give people in this country some voice in how their Government is being run through devices like revenue sharing, and that means we must provide these resources with little if any control at all. The decisions must be made by citizens, communities, and States, not by us here if we are to insure a continued sense of participation and involvement on the part of the people of this country.

So I feel very strongly on the essential need for new legislations to make this program permanent, and I am grateful, Mr. Chairman, for your taking the leadership and according us an opportunity to consider this subject now, early, before the problem becomes too large.

Senator HATHAWAY. Thank you.

[The prepared statement of Senator Brock follows:]

STATEMENT OF SENATOR BROCK

MR. CHAIRMAN: I would like to commend you, sir; for initiating this series of hearings on Revenue Sharing so early in the year. As you know, this issue is rightly the top priority of many different organizations, on the national as well as the local level. Hopefully, these early hearings indicate early passage of a General Revenue Sharing Bill.

I would also like to commend you, Mr. Chairman, on the first class group of witnesses that you have assembled to testify. I am particularly pleased today to have three outstanding Tennesseans with proven records of public service here. The Honorable Kyle Testerman is Mayor of Knoxville, Tennessee. As Kyle will certainly testify, Knoxville has used Revenue Sharing funds for a wide variety of purposes. However, each purpose has had a common goal—providing better governmental services to the people. Mr. Jack Ramsey represents the largest county in Tennessee, Shelby County. As County Executive, Jack has also used Revenue Sharing funds and can provide this panel with first hand insight into the value of the Revenue Sharing program. The third Tennessee witness is Tom Jensen. Tom is here in a dual capacity. He is a member of the Tennessee Legislature and also President of the National Conference of State Legislatures.

These witnesses should help us focus our attention on the appropriate priority that should be assigned to Revenue Sharing. Obviously the Federal budget is going to have to be slashed. Some programs are, of financial necessity, going to be either reduced or eliminated. Therefore, it is critical that we in this Committee distinguish between high priority and low priority projects.

Revenue Sharing should, in my opinion, be the last Federal program cut, and the first Federal program expanded. It has proven to be the life blood of state, local, and county governments. As we all know, inflation and recession have put many local governments in a difficult economic situation. They face a rapidly increasing gap between sky-rocketing costs and simultaneously falling revenues. Revenue Sharing has filled that gap. The money problems of the local government—city, state, and county—will certainly continue. Revenue Sharing must be continued to keep these governments solvent.

To examine the problem in a different light, true Revenue Sharing may be thought of as a tax rebate for local governments. It returns to that government closest to the people the resources necessary to enact people programs. We at the Federal level can make government work better for our citizens by assuring a continued flow of dollars back to local governments through Revenue Sharing.

In conclusion, Revenue Sharing is a program that is field tested. The witnesses before us today ought to be able to give us the insight necessary to name Revenue Sharing as a priority. I strongly urge that the continuation and improvement of Revenue Sharing become the top priority of this Committee.

[From the Congressional Record, Jan. 15, 1975]

(By Senator Brock)

Mr. Brock. Mr. President, I am pleased to introduce a piece of legislation that should properly be the first order of business for the 94th Congress. I am particularly delighted to have so many distinguished cosponsors, and I hope that this bodes well for our effort to extend and expand revenue sharing which is so crucial to our Federal system.

Why should this be one of the first priorities of Congress? There are several reasons: First, the act must be extended by the end of 1976, or else this important piece of legislation will die. But, perhaps more important than for immediacy purposes is the fact that our State and local governments must know the status of this bill by the end of 1975 in order for them to prepare their budgets. Some States will be plannig their fiscal year 1977 budgets as early as this summer.

Second, with this Congress to face so many complex problems, such as inflation/recession legislation, health care, energy problems, and the like, we should try to swiftly pass such items as revenue sharing, that have been adequately pilot tested and proven effective.

Mr. President, the bill my colleagues and I have introduced is essentially a simple extension of the original legislation. We do not intend to make dramatic changes, such as with distribution formulas. However, there are three changes of significance that I would like to point out.

First, this extension bill will make revenue sharing permanent, as it should be under our federalist system of government. Second, revenue sharing will be made inflation proof, especially in this year of double-digit inflation, and third, the annoying and rather useless redtape of the program has been minimized.

Let me take a minute to elaborate on these changes.

Making the fund permanent: Most of the original advocates of the revenue sharing concept have envisioned this as a permanent fund. One early advocate, Dr. Walter W. Heller, former Chairman of the President's Council on Economic Advisers during the Kennedy-Johnson administration, envisioned a trust fund that would make funds available to States "as a matter of right, free from the uncertainties and hazards of the annual appropriations process." Senator Howard Baker, a prime mover in revenue sharing legislation in both the 91st and 92d Congresses, originally envisioned a permanent program. Although I, too, originally wanted a permanent fund, Congress in its wisdom properly placed a 5-year pilot testing period in the original bill. But that test is coming to a successful end, so any new act should now be made permanent.

The new Budget Act (Public Law 93-344), designed to give Congress more control over the total budget, recognized this need for permanent funding of revenue sharing. While the Budget Act places close scrutiny on most spending authority, it states that this "shall not apply to new authority which is an amendment to or extension of the State and Local Fiscal Act of 1972 * * *"—section 401(d)(2).

Making the fund inflation proof: The present annual funding increase for revenue sharing works out to approximately 2.5 percent a year, which, as we all know, does not adequately reflect our present inflation rate. Therefore, revenue sharing must be tied into an automatic escalator indicator that properly reflects our economy. Particularly since S. 11 will make revenue sharing permanent, we must find some easily determinable index so that the fund level can be adjusted automatically without Congress having to continually authorize new levels.

The Advisory Commission on Intergovernmental Relations—ACIR—a group made up of Members of Congress, Governors, mayors, State legislative leaders, elected county officials, and private citizens, has studied various funding methods. They have finally recommended that funding be put at a constant percentage of the Federal personal income tax base, the adjusted gross income—AGI, and we have taken their recommendation. Federal income tax collections are a true indicator of our citizens' capacity to pay for programs, and thus a proper base to use for a program whose purpose is to return responsibility to the appropriate local level.

Easing restrictions on local governments: Under the present act, local governments must restrict their expenditures for certain high priority items. There are two reasons for doing away with these restrictions. First, the whole purpose of revenue sharing is to return funds to local governments, in other words, to those who truly know local problems. This was to be done with a minimum of bureaucratic redtape. Imposing restrictions or even priorities is the antithesis of this concept. Why is it that we in Congress always feel we have the answers, when, in reality, there is no single programmatic solution for the thousands of different local communities, each with separate and distinct problems?

Although there may be philosophical differences on this point, as a practical matter, such limitations or restrictions simply become time-consuming redtape, due to the fungibility of funds. In short, the various governments put revenue sharing money into these priority items and put their own money, that would have gone into these programs, into other programs they deem necessary. Why not eliminate this redtape and redundancy?

These three changes will make an already very successful program even more successful.

Mr. President, there are, of course, reasons why people do not support revenue sharing. Some feel that revenue sharing divorces taxation from spending, that there are more pressing needs, that revenue sharing funds are not adequately used to eliminate discrimination, that they reduce Federal budgetary flexibility, and so on. Like most criticism, there are grains of truth in all these points. But when you fully investigate each argument, the benefits overwhelmingly outweigh any real or presumed liabilities in revenue sharing. In fact, I hope that some of my colleagues in the Senate who have objections will also air their views, so that debate can be adequately aired and a response made or improvements achieved.

Whatever the objections to revenue sharing, the advantages so outweigh the disadvantages that this program should be passed. It is a program that has been adequately pilot tested, it is a program that has broad bipartisan support, it is a program that returns power to the local governments, it is a program that allows local officials the funds to take care of problems that only they can see, and that could never be considered, if we had thousands of categorical grants. In short, Mr. President, it is a program that works.

Senator HATHAWAY. Senator Curtis?

Senator CURTIS. I have no statement, thank you.

Senator HATHAWAY. Our first panel of witnesses, this morning, are Mr. Graham Watt, Director of the Office of Revenue Sharing and a former city manager of Portland, Maine. He is a man I know well. The Honorable Edward Schmults cannot be here because of some oral surgery he had recently. Richard Albrecht, I understand, will summarize this statement—or read his statement—for the record, and the third gentleman——

Mr. WATT. * * * is my deputy in the Office of Revenue Sharing, Mr. John K. Parker.

Senator HATHAWAY. Welcome, John. Graham, why don't you proceed with your statement?

Mr. WATT. Mr. Chairman, if I may, I would like to ask the General Counsel for the Department of Treasury, Mr. Albrecht, to lead off.

Senator HATHAWAY. Fine.

STATEMENT OF HON. EDWARD C. SCHMULTS, UNDER SECRETARY OF THE TREASURY, PRESENTED BY RICHARD ALBRECHT, GENERAL COUNSEL, DEPARTMENT OF THE TREASURY

Mr. ALBRECHT. Thank you, Mr. Chairman. I appreciate the opportunity to attempt to fill in for Ed Schmults, and we will submit for the record his prepared statement,[1] and I will simply go over a few of the points that I think should be highlighted.

The administration has during the course of the past year been reviewing the revenue sharing program, and Mr. Schmults served as the chairman of the interagency task force, including Treasury and the Office of Management and Budget and the Domestic Council to look at the revenue sharing program and its performance.

This review has considered issues raised by other interested groups, by Members of Congress, and by various privately and governmentally sponsored evaluations of the general revenue sharing program, as well as by the staff of Treasury itself. The task force took a look at a large number of approaches offered to strengthen the program. Examinations of various aspects of the program have been pursued by the General Accounting Office, the Advisory Committee on Intergovernmental Relations, the National Science Foundation, the Brookings Institution, the National Revenue Sharing Clearinghouse, as well as a number of other private groups.

We have tried to take into account the findings of those studies which are currently available in putting together a proposal to renew revenue sharing. We realize that additional important information may yet appear and are fully willing to take that into account.

However, we have concluded that we should proceed to seek early renewal of the general revenue sharing program, first because we are convinced that the program has largely been successful in meeting its original objectives, and second, State and local governments, in order to make wise use of the funds provided through the program, must know about its future by the early fall of this year in order to make their decisions for spending.

The need for early knowledge about the continuance of the program and its terms is considerably greater than it is for categorical grants because of the flexibility provided to local governments under general revenue sharing.

General revenue sharing contributes to a more balanced system of Federal intergovernmental assistance than the categorical grant programs because it provides less distortion of recipient's budgets than other aid programs do. There are gaps that are filled and sometimes even created by other aid programs, and the availability of funds from the Federal Government with basically no strings attached provides flexibility to those local governments in using the money where it is most needed. This is especially true for small communities who frequently do not qualify for other programs or for some other reason are not able to participate in categorical programs, and of course there is less of an administrative burden for the Federal Government in administering the general revenue sharing program.

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[1] See p. 29.

Revenue sharing provides funds raised from a generally more efficient, more progressive, and more economically responsive Federal tax system to States and localities to perform the tasks that they do best. The current problems of the economy with inflation and recession are hitting the local governments as well as the Federal Government. We believe that continuance of general revenue sharing is justifiable, despite unprecedented Federal budget deficits. It is a critical program in the balance of a vital federalism.

The State and local officials who administer the funds are close to the problems and can make good use of the funds, and of course State and local budgets, usually with less flexible revenue systems, find themselves in a deficit situation resulting to a considerable extent from the current inflation and recession.

Cuts in these programs would harm vital services and injure the economy at the local level. We believe that the experience to date shows that the uses of shared revenues have helped to meet important needs. Considerable general revenue sharing funds have been utilized for new programs, and these are detailed in both the Office of Revenue Sharing use reports and in the studies by the GAO and Brookings.

The uses reported do not necessarily give the full picture of the impact on the local community of the use of general revenue sharing funds. Considerable use of funds has been made to benefit the poor and minorities and for social purposes in general, and often the use reports, indicating for example that revenue sharing funds have been used for transportation, do not reflect the full social impact because often that use for transportation will help to make available subsidization for transportation for the elderly and the like.

The States have reported using actually more than one-half of their share of revenue sharing funds for education. Capital expenditures financed with general revenue sharing funds have often supplied badly needed equipment, schools and hospitals, and of course the availability of general revenue sharing funds has freed up other funds to meet social and welfare purposes at the local government level.

The general revenue sharing formulas that distribute Federal funds among the various jurisdictions do reflect a consideration of their need. There is more going per capita to the poor States than to the richer States. The hard-pressed center cities received more per capita than the suburbs and surrounding areas, and generally the urban and densely populated localities, where the need is greater, have fared relatively better on a per capita basis.

We believe also that general revenue sharing has made an overall contribution to the democratic process at the State and local level. It has begun to focus attention once again on the strengths of State and local government. There has been an increase in public involvement in making local decisions for the use of revenue sharing funds. In some instances, the availability of revenue sharing has enlarged the role of elected officials who head general-purpose local governments, and there has been increased concern by various State, local, and national groups about the participation by local residents in the decision-making process.

In conclusion, Mr. Chairman, we believe that revenue sharing has done a reasonable job of meeting its original objectives of providing flexible aid and providing means for States and localities to do their job, strengthening the local political process, and revitalizing the

Federal system. The proposal for its renewal will seek to make general revenue sharing even more effective in the future.

Thank you, Mr. Chairman.

Senator HATHAWAY. Thank you very much.

Graham, if you want to proceed, we will question after the statements.

STATEMENT OF GRAHAM WATT, DIRECTOR, OFFICE OF REVENUE SHARING, ACCOMPANIED BY JOHN K. PARKER, DEPUTY DIRECTOR, OFFICE OF REVENUE SHARING

Mr. WATT. Thank you, Mr. Chairman and members of the committee. I have prepared an extensive report regarding the implementation of title I of the State and Local Fiscal Assistance Act, and I would request that that be made a part of the record as a part of my statement.

Senator HATHAWAY. Without objection, it will be made a part of the record.[1]

Mr. WATT. Thank you, sir. I will summarize my written testimony and then of course be pleased to respond to any questions that you may have with regard to any aspect of the revenue sharing program.

Although general revenue sharing has been in effect still less than 3 years, already it has provided substantial fiscal assistance to nearly 39,000 State governments, county governments, other local governments, Indian tribes, and Alaskan Native villages, and indirectly, but certainly no less importantly, it has provided needed services and facilities to millions of American citizens.

Our program has been very well received, both in the public sector and in the private sector. As I think you know, the National Governors Conference, the League of Cities, the Conference of Mayors, the International City Management Association, the National Conference of State Legislatures, the National Association of Counties, the Municipal Finance Officers Association, the National Association of State Budget Officers within the last year all have passed strongly worded resolutions urging the Congress to take early and favorable action on the extension or reenactment of general revenue sharing.

Interestingly enough, a number of private opinion surveys that have been made during the past year have shown that leaders of community groups and individual citizens also endorse the simple, nonbureaucratic, efficient approach to Federal fiscal assistance that general revenue sharing represents. The latest of these opinion surveys conducted last fall for the National Science Foundation, performed by the Opinion Research Corp. in Princeton, N.J., showed that a majority of community leaders and individual citizens favor the continuation of general revenue sharing; and respondents to this survey also indicated that as a result of this program local governments are able, they believe, to deal with their problems more effectively than ever before.

In the Treasury Department the Office of Revenue Sharing has sought to administer the program with fidelity to the intent of Congress and to the provisions of the act itself. We have avoided redtape. We have sought to eliminate confusion on the part of those who receive the funds. The shared revenues are distributed at regular quarterly intervals in predictable, known amounts as the law requires.

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[1] See appendix A, p. 373.

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In addition, we have made every effort to keep the cost of administration low, while maintaining a high quality of service to governments that receive the money and to the general public.

Our experience in administering title I of this act has shown us that the act was well and thoughtfully conceived and that it needs no major revisions. We do feel, however, that equity in the allocation of funds would be improved if the distribution formula's maximum allocation constraint for local governments were to be raised. To encourage recipient governments to increase the involvement of their local citizens in the decisions regarding the use of the revenue sharing funds, we think that it would be helpful if the law required each recipient to assure the Treasury Department that residents are provided an opportunity to become involved and to express their views.

We believe it also would be helpful for the Secretary of the Treasury to have complete discretion over the form and the content of the use reports which are required from the recipient governments and to be able in his discretion to authorize new ways to publicize those reports. Although the existing revenue sharing law contains a very strong antidiscrimination requirement, we believe that our enforcement powers need to be clarified by legislative action.

Since the first revenue sharing checks were mailed—that was in December of 1972—the Treasury Department's Office of Revenue Sharing has distributed $18.9 billion. The money is being used as Governors and mayors and county officials see the need to use it, as the Congress intended. Accordingly, we feel our program is fully responsive to State and local needs and their priorities.

As a new system, general revenue sharing has already demonstrated that it serves the American public with dependability and flexibility. It recognizes and encourages both the national unity and the local diversity that together have made us the strongest of nations for more than 200 years.

Mr. Chairman, that is the summary of my statement. I would be pleased to respond to your questions.

Senator HATHAWAY. Thank you very much.

Since you started your statement Senator Gravel and Senator Haskell have come in. Do you have any opening statements you would like to make?

Senator GRAVEL. No, thank you.

Senator HASKELL. No, thank you.

Senator HATHAWAY. I think we will proceed with the questioning under the 5-minute rule.

Could you gentlemen tell me when the administration intends to give us its proposal with respect to continued revenue sharing, and what you think it will contain?

Mr. ALBRECHT. We would hope that the administration's proposal would be ready in a very short time. It is always difficult to anticipate a precise date, Mr. Chairman, but we would hope that it would be within the next week or two.

Senator HATHAWAY. So we would get it before the first of the month. I understand you are pressing for some kind of enactment before the end of this year, which may be a little difficult, I would think, in view of the other pressing problems of tax reform and energy legislation.

Mr. ALBRECHT. We consider this to be an important program, and certainly it deserves the attention and the opportunity for full hearings. We think this is an appropriate time to begin that process, and hopefully it can be completed by the end of the year.

Senator HATHAWAY. Graham, you mentioned that various organizations supported the program. Most of them were recipients of the money, so I understand why they support the program. Are there any studies made by any independent organizations, indepth studies, of just how the program is working out?

Mr. WATT. Yes, sir. There are a great number of evaluations and monitoring projects being applied to the revenue sharing program. These include, of course, the study which has been carried on over 2 years by the Advisory Committee on Intergovernmental Relations, the Brookings' monitoring project, which continue for, I believe, 3 years. A volume reporting the first year's experience under that project was recently published by Brookings and is available.

The National Science Foundation is sponsoring an extensive amount of research and evaluation relating to revenue sharing in a variety of areas of particular interest. Of course there is a great deal of academic and independent research being performed as well.

Senator HATHAWAY. You say that is ongoing?

Mr. WATT. It is ongoing. Much of it is targeted for completion, or at least preliminary report, I believe by June or July of this year. Hopefully, by the time that the Congress is fully along in considering the administration's proposal, there will be a great deal of independent and highly objective research available.

In addition, of course, the Comptroller General and the General Accounting Office are carrying on an extensive series of studies which go beyond the normal audit function and address the performance and impact of the program. Some of those studies have been published and are available.

Senator HATHAWAY. Can you give us any idea now what the President's proposal will contain?

Mr. WATT. I can indicate to you, sir, what the task force that Mr. Albrecht referred to has recommended. Honestly, I do not know at this point what the President's final proposal will encompass. Generally, the task force proposed that the program be extended until 1982, for a period of 5¾ years. The reason for the three-fourth-year tag there is because of change in the Federal fiscal year and to make the funding of revenue sharing coincide with the Federal fiscal year. There would be an initial transition quarter and the program would be extended through 1982.

Senator HATHAWAY. At the same level of funding?

Mr. WATT. The recommendation was to continue the same level of funding which has built into it a $150-million-per-year increment. That would be continued under the task force's recommendation for each of the years to come, which would mean that for the 5¾-year period, the total funding, the total level of appropriation would be very close to $40 billion. That would compare with the $30.2 billion for 5 years in the present act.

Senator HATHAWAY. Did the task force consider the countercyclical recommendations contained in the bill I think sponsored by Senator Muskie and Senator Humphrey?

Mr. WATT. Those proposals were not available to us at the time the task force was considering its recommendations to the President. No, sir.

Senator HATHAWAY. I presume they would be incorporated, or at least referred to before we get the final recommendation of the President.

Mr. WATT. I would imagine that inevitably there would be some concurrent consideration of the recommendations. Yes, sir.

Senator HATHAWAY. Let me ask you one last question.

The AFL–CIO has stated that the general revenue sharing is simply an inadequate substitute for good Federal categorical programs. Would you like to comment on that?

Mr. WATT. Mr. Chairman, we see revenue sharing as a new and additional form of Federal financial assistance. I would refer to it as basic assistance to State and local governments. It really gives them, it seems to me, a service base, and a viability and a vitality which makes it possible for them to do a far better job in receiving and responding to a variety of national initiatives that are expressed in the categorical grant programs.

I think you should look, if you will, at revenue sharing as being a basic form of fiscal support for State and local governments. The categorical grants are ways in which States and local governments can be encouraged to carry out, to administer at the local level the initiatives that the Congress reflects in those categorical grant programs. I see them as quite different kinds of assistance and with very different purposes.

Senator HATHAWAY. All right.

I will pursue that with you later.

Senator Packwood?

Senator PACKWOOD. What kind of strings currently exist on the use of revenue sharing, either at the State or local level?

Mr. WATT. The basic strings are with regard to the use of the funds. At the State level a State government may use the funds for any purpose for which it would use its own funds, except to provide the State share of a required match to receive Federal categorical grant funds, for example. At the local level, the funds must be used as local funds would. But in addition, the Congress in the act established a number of so-called priority categories which include such things as public safety, environmental protection, transportation, health, libraries, recreation, financial administration, social services for the poor or aged or any legal capital outlay purpose.

Again, the local government may not use the funds to provide a local match. It must use the funds in accordance with the Davis-Bacon Act minimum wage requirements when revenue sharing constitutes 25 percent or more of the cost of the construction project, the cost of which is over $2,000. Of course, we have the very vital and very important civil rights and nondiscrimination provision in our act which attaches to all programs and all activities which receive or benefit from general revenue sharing.

Senator PACKWOOD. Can local governments use their money for education?

Mr. WATT. They may not use their money for current expenses of education; they may use their funds for capital outlay purposes which are related to education, such as building or modernizing and repairing a school, buying books, buying schoolbuses, and that sort of thing.

Senator PACKWOOD. None of this money, now, goes to school districts, per se, does it?

Mr. WATT. No; the direct recipients of revenue sharing are in every case a general purpose government, a State, county, municipality, township, tribe or a village.

Senator PACKWOOD. So, if you have a situation where you have a separate school district, separate from the normal general purpose city government or county government, there is no way they could use the money for education?

Mr. WATT. They would not be direct recipients. They could be secondary recipients if a State government, or a county or a local government chose to convey funds to them for carrying out certain purposes, in the interest of the general purpose government.

Senator PACKWOOD. Would there be any point in expanding the type of recipient government so you could use it for school districts and sanitary districts; or would you keep it where it is?

Mr. WATT. I believe, Senator, that my view is that there are already very, very extensive forms of Federal financial assistance available for the support of education, and that to include independent school districts as direct recipients would grossly dilute the availability of funds for general purpose governments. Furthermore, it is interesting to note that the support of public education is the leading use of revenue sharing funds by State governments. States have used more of their funds for the support of public education than for any other single purpose. The result is, it seems to me, that school systems are benefiting very, very considerably from the general revenue sharing program.

Senator PACKWOOD. You know the arguments, Graham, about civil rights violations. Can you elaborate on that?

Mr. WATT. I can say, Senator, that in the administration by the Office of Revenue Sharing and the Treasury Department of the civil rights requirement of the act, we have pursued a new and innovative approach which I suspect is, at this point, not well understood by many who have criticized what it is we seek to do. Of course, it is still to be proven because it is innovative. Revenue sharing is intended to be administered as a very lean program without a large bureaucracy and without the development of a great, extensive staff for any of its purposes.

Senator PACKWOOD. Would you tell the committee how many people you have altogether in the Office of Revenue Sharing?

Mr. WATT. We are presently authorized for a total of 85 professional and support staff, total authorized personnel; and we are running presently at 81 people actually on board.

Senator PACKWOOD. To administer the entire Federal revenue sharing program?

Mr. WATT. To administer the entire general revenue sharing program.

Senator HATHAWAY. I would first like to compliment you on that last statement, 81 people administering a program that will over a 3-year period spend $30 billion. If there were any other government agency with that record of efficiency, we would not have the problems we have in this country. I commend you. I think it is magnificent and I wish others would follow your example. There seems to be little tendency or inclination to do so.

I wanted to comment a little bit on the statement made earlier by the AFL–CIO that revenue sharing is an inadequate substitute for good categorical Federal programs. Given the total dearth of good Federal categorical grant programs, I would say they are a totally inadequate substitute for revenue sharing. But maybe we can debate that at some later date.

I do have a couple of problems with what I perceive as the general administration program, or at least what you have indicated may be forthcoming. The first is, I do not really see how you can present to the Congress another temporary program, Mr. Watt. I think the whole essence of revenue sharing is to provide to the community an assured resource base with which they can plan.

Now there has been criticism. The Senator from Maine and others have heard it extensively about the use of funds. Some people say there is not enough money going into poverty areas, and I think that may be true. That is why I am interested in your proposal to raise the maximum to 175 percent, because that would get more money into depressed or deprived areas and I think that is a very positive step. But there has also been criticism about the use of revenue sharing funds for capital expenditures rather than for new, creative, innovative programs. I think it is important to note that unless a community has an assured source of funding, it is terribly dangerous for local officials to invest and commit the resources of that community in an ongoing human program unless they know that it is going to continue to receive adequate financial support from that particular resource base, be it revenue sharing or some other resource base.

If it is true that we want to encourage the communities to be more creative, to be more people oriented, to be more humanitarian in their program design, then it seems to follow as night and day that we should assure them of the continuity of the resource itself by permanency.

Now we are going to have to reconsider this bill on a regular basis because we have got to appropriate the money. But I see no logic to not establishing the program as a permanent part of our Federal effort to restore to taxpayers a voice in the community, a right and an opportunity to meet the responsibilities.

I would like your comments, if you will.

Mr. WATT. The question of permanency or renewal for another time certainly was considered by the task force. The task force felt in developing its recommendation that the nearly 6 years of extended program, given the full life of the program then a period of almost 11 years, was long enough to offer the evidence of stability and certainty that you referred to and which is important. At the same time, it would provide a specific opportunity for the Executive and the Congress to review the progress under the program and to determine whether or not further substantive changes should be made.

The task force felt it was still early to come to definite conclusions with regard to any major changes in the act or in the nature of the program. For the most part, the changes that have been recommended are of a perfecting nature rather than being very, very substantive.

The funding arrangement really is a continuation of the current procedures, the current bill, with an adjustment for the new Federal fiscal year, but with the belief that it is responsive to the recipient government's interests and the need of the Executive and the Congress to have opportunity for substantive review.

Senator BROCK. My time has expired. I thank you very much.

Senator HATHAWAY. Senator Gravel.

Senator GRAVEL. Thank you, Mr. Chairman.

There are three facets that I would like to approach. One is the criticism that State and local governments have cut back on taxes or actually repealed taxes as they received these revenue sharing funds. What would be your comment in that regard?

Mr. WATT. The information which is available to us, Senator, does indicate that general revenue sharing has had a beneficial effect on local and State taxes. The data which we have collected from State and local governments indicated that considerably more than half of the States were able to reduce State taxes by virtue of the receipt of revenue sharing funds.

Senator GRAVEL. They were able to?

Mr. WATT. Yes, sir.

However, at the local level, although only a very, very small percentage of the governments were able to reduce taxes, a substantial number of the county and municipal governments were able, as a result of having revenue sharing, to stabilize their local taxes—largely property taxes, in some cases sales taxes—taxes which had, until the advent of general revenue sharing, been increasing at a skyrocketing rate. Much of the adjustment in taxes at the State level and the local level has been pinpointed or targeted in a variety of forms of tax relief, such as for the elderly, that I believe most people would have believed to be extremely well justified.

The fact is, of course, that tax relief and the problem of escalating local and State taxes, largely regressive-type taxes, was a matter of great concern to the Congress at the time the act was being considered.

Senator GRAVEL. Well, as one member of the Congress who voted for it at that time, it certainly was not my view to see them cut back on taxes. I can appreciate wanting to hold the line. But I was sort of disturbed when I saw in my State and in other places, and as you point out, half the States cut back on taxes as a result of revenue sharing. Is that what you said?

Mr. WATT. Yes.

Senator GRAVEL. I find that very disturbing. That means that we get the job of being the tax collectors and they are the heroes in handing out money and can cut back on taxes. I can see a lot of people getting reelected on that kind of spiel, particularly State governors. Maybe there is a correlation.

Mr. WATT. The information that is available to us—however, the Governors will be here later, I know, to speak for themselves—would indicate that this was only an interim tax relief measure and that many of the States will, once again, because of the impact of the economy and inflation, be considering tax increases in forthcoming sessions.

Senator GRAVEL. Have you done any computations to see what the impact of inflation has been with respect to the amount of money you have given? Maybe we are not advancing at all. Maybe we are just holding the line with the race against inflation.

Mr. WATT. I think that that probably would be the case. The present level of payments of revenue sharing funds, about $6.5 billion a year, if related to constant dollars, would indicate that in real value, in constant dollar value, the funds which are going now are about comparable in value to those in the first year of the program.

Senator GRAVEL. But that just shows what we are giving. What has inflation caused in the erosion and the capabilities of the money in State and local governments. Certainly that has to lead into quite a sizable chunk, so the money we have given in the replacement of this may not even measure that.

Do you have any computations on that score?

Mr. WATT. I do not, but I believe that perhaps the Conference of Mayors and the League of Cities will be prepared to report to you on some surveys they have been making of their members regarding the impact of inflation.

Senator GRAVEL. Do you know that they have been making those kinds of surveys?

Mr. WATT. I know they have been making the surveys. I do not know whether they have been completed to the point of being ready to report.

Senator GRAVEL. I would think that all you would have to do is take the amount of money spent by local government, apply the inflationary factor, and you would see what the shrinkage is.

Mr. WATT. I do have to make a distinction with regard to tax relief between State governments and local governments. I noted in response to your earlier question, Senator, that while more than half of the State governments had reported that they had been able to reduce State taxes as a result of revenue sharing, virtually none of the local governments have reduced taxes. They have been able to stabilize, to hold the line, to avoid further tax increases, or the enactment of new taxes. Very few local governments, however, have found themselves in a position, even with revenue sharing, of being able to cut taxes.

Senator HATHAWAY. Senator Haskell.

Senator HASKELL. Thank you, Mr. Chairman.

I can see that the panel of witnesses we have here today is going to be very much in favor of revenue sharing, because I think, here the Federal Government is spreading the joy, so to speak, to lift a phrase from Chairman Long. But—as I understand the purpose of revenue sharing, it is not to substitute Federal taxes for State taxes—what thought have you given to a formula that would be sure that the States are not cutting back on their taxes and just spending moneys from the Federal Government.

Have you given any thought to such a formula, or if you have not, would you do so?

Mr. WATT. There are several aspects of that question, Senator, I might touch on briefly.

First of all, there is a provision in the General Revenue Sharing Act which prohibits a State from reducing its level of assistance to county and local governments as a result of their having received revenue sharing. A State may not cut back its level of support for its own local governments.

Furthermore, as I indicated, it appears on the basis of the published reports and data that the forms of tax relief—that the tax relief that States were able to provide as a result of revenue sharing have really only bought them some time; that the fiscal future now being faced by State governors and legislators presages another round of new tax increases, tax rate increases.

Senator HASKELL. That may be due to the state of the economy at the present time. But I am very much disturbed with your answer to the question of the Senator from Alaska.

My understanding was revenue sharing was not to replace State taxes. I would hope that your department would give some consideration to a formula that would prevent in the future what has happened in the past.

I am also disturbed by another thing: presumably revenue sharing was not meant to take away from categorical grant programs; and I just wondered if you had given any thought to how we are going to prevent that. I remember right after I was elected in 1972, going in to see the mayor of Denver, he was in a state of shock because the mental health program of the Nixon administration was going to be cut back. I asked him why, and he said because he had revenue sharing. So, I wonder if you would give those two subject matters some thought. If I were a mayor, I would sure as the devil love revenue sharing, there is no question about that.

But, from what your testimony is, and from what I have heard from the mayor of Denver and from other sources, that really is not getting the job done.

I would appreciate it if your department would give some thought to a formula, perhaps a formula based upon some basic level, depending on the taxation, depending on the wealth of the community, so that what has happened will not happen again if we extend it; and also some formula that would prevent the cutting down on categorical aid programs.

Do you think you could do that and send a report in to the chairman of the committee?

Mr. WATT. Yes, sir.

Senator HASKELL. I would appreciate it.

Senator HATHAWAY. Thank you, Senator Haskell. I have a question I would like to follow up on.

Would it not be possible to have simply a maintenance of tax effort? At the present time, of course, there is a tax effort factor in the formula, but it is not, of course, a dollar-for-dollar cutback because it is only a fraction of the formula, whereas if we incorporated, along the lines of Senator Haskell's suggestion, some kind of a tax maintenance overall effort for the condition to get any funds at all, then of course we could solve the problem, or at least have it at certain minimums. I understand that certain States are probably making too great a tax effort for the per capita income in that particular State. But maybe we could just set a certain percentage as the floor below which no State or community could go and still get its revenue sharing money.

Mr. WATT. That is possible, Senator. I think it is important that I perhaps put this in better perspective. I used the percentage 60 percent of the States, and that is, as I look at the figures that I now have before me, we had 25 States that responded to the question that we put to them of whether general revenue sharing enabled them to either reduce taxes to prevent a new tax, or a new tax rate increase, or to maintain the current level of taxes.

Fifteen States, fifteen Governors, said that revenue sharing had made it possible for them to reduce taxes. That is 60 percent of the 25 respondents but it is still only 15 States that we are talking about.

Furthermore, tax stabilization by local and State governments was clearly considered as one of the beneficial effects or impacts of revenue sharing by the Congress in 1972, because the Congress was extremely aware of what was happening particularly to local taxes or State taxes on property and on sales. And of those had been rising, rates had been going up in many cases annually for years and at an increasing rate.

The impact of that was very heavy and very burdensome, particularly on segments of the population which were least able to bear those kinds of tax burdens, the poor and the aged. Much of the relief that has been granted has been targeted specifically to those areas rather than to broad general relief of State income taxes or State corporate taxes, for example.

And finally, I would hope that you would, when you have the opportunity, ask the mayors and the Governors how they view and why they view tax stabilizations to be important to them in terms of the economic health viability of their States and their communities, and I think, you will get some very, very meaningful responses from them to that question and I would much rather you hear it from them than through me.

Mr. ALBRECHT. Mr. Chairman, if I may, I think it is important to stress the fact that where there has been a reduction in the level of taxation, that it has been really in the nature of tax reform in moving to eliminating some of the inequities and some of the regressionary forms of State and local taxes. And in that sense it has achieved one of the objectives.

Senator HATHAWAY. That was the next question I was going to ask. Should we not make an even greater effort in the new formula to encourage local tax reform and get it away from the regressive taxes that are now being imposed by local governments into a more progressive tax?

Mr. ALBRECHT. Well, of course, one of the difficulties in using the general revenue sharing system to achieve that sort of fine tuning, I think, is likely to be a result that several years from now when Mr. Watt comes back he will have substantially more than 81 people on his payroll, because I think, the imposition of substantial additional or restrictive guidelines, not only will make the program more difficult to administer, it will take away some of that aspect of new federalism, the returning to the local governments, the control over their own destiny that the program set out to achieve.

Senator HATHAWAY. Well, is not part of the formula now based on the income tax effort that was made so it would not require any more personnel if we just said that that part will be greater than it is now?

Mr. WATT. The level of incentive could be increased. It is very modest at this point.

Senator HATHAWAY. That is what I had in mind.

One question that bothers me with respect to revenue sharing in general is that, although I agree that local government should participate much more than they have been participating in the past on various programs, it seems to me that revenue sharing is sort of an unsophisticated approach to that problem because there are some areas where the local government should be doing all of the administering. The Federal Government ought to be doing all of the financing; and there are some areas where it should be just the other way around, and there are some areas where it should be some percentage in between and revenue sharing really does not get at that particular program.

Welfare, for example, I think should be totally funded by the Federal Government and that the local government should have just about all of the administrative authority in that regard. And there are other programs where we have found from past experience that local interests can unjustifiably divert funds, such as we found a long time ago with respect to poverty programs.

The Federal Government ought to be in a position of administering the funds.

Mr. WATT. Which, I think, Senator, is why it is important that we seek to maintain an appropriate mix of general support to general revenue sharing and specific targeted support in the local administration of Federal categorical interest programs. This mix gives you the flexibility to utilize the appropriate mechanism, the mechanism which is appropriate to the purpose which is sought.

Senator HATHAWAY. Well, as has been pointed out by Senator Haskell, many of the categorical programs have been cut back as a result of revenue sharing.

Mr. WATT. Well, there are more proposals to cut back than there were actual cutbacks, although some of the programs have, of course, been reduced or converted.

In the community development legislation, for example, it represents LEA conversion of a long series of narrowly targeted categorical grants now to broad-based block grants.

Senator HATHAWAY. But it really is just shifting the burden of who is going to have the input on the categorical grant because even though you give a large chunk of money to the State or the municipality in the county, someone there then decides just what category that money is going to fit into. So instead of the Federal Government putting it into their category, someone at the county, the State, or the municipal level is doing it.

Mr. WATT. It increases local discretion and the ability at the local level to make plans and to carry them out.

It is also true that since the enactment of revenue sharing the Federal Government's total transfers to State and local governments had continued to increase each year. If I were still a local official, I think I would have to admit that money is still money, even though it may be packaged differently.

The fact is that the State and local governments in the aggregate are receiving still more funds today than they were 2 or 3 years ago.

Senator HATHAWAY. In the aggregate.

Mr. WATT. That is right. That is excluding General Revenue Sharing funds.

Senator HATHAWAY. Do you have a breakdown or could you furnish us with a breakdown of just what has been in that aggregate, just which programs were cut back and just which ones were increased since revenue sharing was adopted?

Mr. WATT. There is a table in the President's budget document that does show the level of Federal assistance to State and local governments by year, well, going back quite a number of years. And the figures which I have here in summary would indicate that in 1972, prior to the enactment of revenue sharing, Federal aid was at a level of about $36 billion. In 1974, excluding revenue sharing, it was at a level of about $40 billion. And in the 1976——

Senator HATHAWAY. Is there a breakdown of the $40 billion as to just which programs were increased and which ones were cut back?

Mr. WATT. I think it is broken down into broad categories in the budget table. I would be glad to search that out.

Senator HATHAWAY. Well, we have that if it is in the budget table.

Senator BROCK. What is it in the 1976 budget?

Mr. WATT. In the 1976 budget, again, excluding general revenue sharing, it is nearly $50 billion.

Senator BROCK. A 50-percent increase?

Mr. WATT. Almost.

Senator HATHAWAY. Graham, do you think we should continue Federal revenue sharing at a fixed dollar level, or should it be a percentage of the budget, or should we take in some countercyclical considerations?

Mr. WATT. Mr. Chairman, the task force considered——

Senator HATHAWAY. Or a mix of all three of them?

Mr. WATT [continuing]. The task force considered a variety of those options, and as you know, proposed the continuation of the present so-called stairstep method with a $150-million annual increment in the general revenue sharing appropriation. That represents, I think, consideration not only of the general revenue sharing program and its relationship to State and local finance, but also the tremendous problems which the administration and the Congress must deal with presently in terms of the 1976 budget and the years succeeding 1976. Very real hazards, I think, are involved in this time of great economic uncertainty in a program which is indexed to a factor which can fluctuate down as well as up, and the level of funding, the certainty of those funds, I believe, will be much better in this time of general economic unrest and uncertainty, knowing or having a specific dollar amount available, appropriated for each year for a limited period of time.

If the program were to be made permanent, it may be appropriate then to look at a different method of fixing the level of funding. But the committee felt, the task force felt, that for the next 6 years a continuation of the present method seemed to be the most appropriate, given consideration to all of the factors that had to be taken into account.

Senator HATHAWAY. And you think it should remain outside of the budget?

Mr. WATT. I believe that it is not unreasonable to request an appropriation for a period of 5 or 6 years and to not tie the availability of funds to the uncertainties and frequently the delays that are attendant or have been attendant to the annual appropriations process; yes, sir.

Senator HATHAWAY. Then do we not get into the same problems we get into with respect to trust funds, that, you know, our priorities change from year to year, and yet we are locked into certain amounts we have to spend, regardless of what our priority shift might be, and especially when this is a long-range program. Would it not be better to be inside the budget and have it be the subject of the scrutiny of the Budget Committee and the Appropriations Committee?

Mr. WATT. The task force has recommended that the new legislation provide for a formal review of the program 2 years prior to its expiration and the submission by the Secretary of the Treasury to the Congress of a report and recommendations. And the anticipation is that the Congress then would begin to consider the next steps with regard to revenue sharing, which means, in effect, then that about 3 years into the program we would be embarking on a review very much of the type that we are pursuing now. Five years, five and three-quarter years is not an extremely long time in the making of budget and fiscal plans by State and local governments, and it seems that the certainty of funding for up to that length of time is, I believe, quite appropriate from their perspective.

Senator HATHAWAY. We have the same problem. We have already committed x number of dollars away, and we need those dollars. There is nothing we can do about it. We have already committed them for 5 years.

Mr. WATT. I realize that.

Senator HATHAWAY. Even if we have a review in 2 years, you do not mean we could cut if off at that time, do you, or cut back?

Would that be the purpose of the review?

Mr. WATT. That would not necessarily be the purpose of the review. However, if it were the conclusion of the Congress at any time to terminate the program, of course, that is an option which is available.

Senator HATHAWAY. Well, I understand that. But would that be the primary purpose of the review, to see whether we should continue with it and to what extent?

Mr. WATT. No; the principal purpose of the review would be to assess the operation of the program and its impact over a longer period of time than we have had since the program was enacted late in 1972, and to develop for congressional consideration recommended changes or modifications in the program which that experience indicated to be desirable and hopefully to secure early congressional action with regard to the next extension of the program beyond 1982, so that, again, the certainty of the program and the funding could be assured to the recipients.

Senator HATHAWAY. Senator Packwood.

Senator PACKWOOD. Graham, an argument has been presented that we should change the formula for distribution within the State. Give less money to the State governments and more to local governments. What is your view?

Mr. WATT. That, again, was one of the options considered by the task force. The task force felt that, again, at this early stage in our experience, that there is not enough experience or data available to justify our making that recommendation to you.

I do not think that we felt that we could substantiate and support that change in the program at this time. The States, many of them, are using their revenue sharing funds in a way which is beneficial to local governments and to school districts within the State, and it seems to me at least that they are, in many cases, accommodating in their own administration of the revenue sharing program to the kinds of influences which, perhaps, the proposal which you have mentioned would seek to do by specific legislative mandate.

Senator PACKWOOD. I have no other questions, Mr. Chairman.

Senator HATHAWAY. Senator Brock.

Senator BROCK. Just a couple of points. I was fairly conclusive in my praise of the Federal revenue sharing program and the administration of the program.

Just to be in balance, I want to make sure that you understand I thoroughly disagree with the task force recommendations and I consider $150-million-a-year increase in the fact of a minimum of 7-percent inflation, it is raised as high as 12 to 14 percent, to be tantamount to a long term phaseout of revenue sharing. I do not think it is adequate at all.

If we are going to have revenue sharing, if it is a viable or valid or logical approach to pursue, it should be pursued on a rational basis that gives adequacy and permanency and a surety of funding to the recipients who would benefit therefrom.

I might point out that one of the greatnesses of the Congress of the United States is the diversity therein. The Senator from Colorado represents a beautiful and a very prosperous and a well endowed State. And I appreciate his willingness to oppose tax reduction in Colorado.

But I would point out that not all States have the same problem. In the South, for example, our income base is a good deal lower per capita than it is in, perhaps, Colorado and a lot of other States.

So we make a remarkable high tax effort in terms of our ability to pay taxes. And if the South is not an adequate illustration, perhaps a better one is the Northeast where we have not a new part of the country, not a well endowed part of the country in terms of material resources, but an enormously burdened part of the country.

We are going to have Mayor Gibson testify very shortly. He is a very able mayor in a city that is sorely beset by problems, as in many central cities and major urban areas. The moderate and upper income people have fled the community, leaving a lower income base, largely black, largely deprived, unable to sustain themselves and therefore requiring far greater services than in some other urban areas.

At the very time that you reduce your tax base with an outflow of population with income, you increase the need for resource to take care of and provide opportunity to those people who remain. And you get very quickly into a situation where in New Jersey there is literally only one fundamental device of taxation, the property tax. You have, as Mayor Gibson, I think will testify, a situation where if you own a $20,000 home you pay $1,900 a year in taxes. If you buy a house today at today's interest rates, you pay 9 percent interest rate on the house, you pay 9½ percent interest rate, in effect, in taxes. That is an 18½-percent interest rate and nobody can afford to do it.

And what happens, you kill the community. You dry up its opportunity to survive. And in that kind of a situation tax reform, tax reduction, is an absolutely viable, logical, and essential purpose for us to support, because if we do not, the jobs are going to dry up, the industries are going to dry up, that community is going to die, and a hundred or several hundred thousand people are going to be left without livelihood or opportunity at all.

So it is very difficult for me to perceive how we could say, in effect, "You have got to maintain our kind of tax standard effort." How can you exceed an effort which requires a $1,900 payment on a $20,000 house? A person who has a $20,000 house is not all that rich. And you are absolutely eating them up with the regressive tax.

One of the fundamental functions of revenue sharing was to apply a more equitable or more logical and a more efficient tax system to provide a resource base to the communities like Newark, like Memphis, like Chattanooga, like Birmingham, like Jackson, that have an inadequate resource base. No matter how high they tax their people, the higher they tax their people, the more they drive the people out, the more they reduce their tax base, the more they increase the requirement for services, the more they kill themselves, the greater the cancer becomes that is destroying urban America.

Now, I do not see any alternative to not just a continuation but to an expansion of this program, in order to allow the Federal system of government in this country to survive, if you believe in a Federal system, as I happen to believe.

Senator HATHAWAY. Senator Haskell.

Senator HASKELL. Mr. Watt, I would like to pursue Senator Brock's questions.

You have indicated that you would like to raise the maximum restraint on distributions to local government, and I also was going to mention Newark. Newark would appear to me to be, from what I read, a city that really does need help. Perhaps Westchester County, or maybe Morris County, N.J. does not need any help.

And so I guess my first question is to ask you to articulate perhaps in greater detail why you feel the maximum restraint should be raised and to what level, and then I have a followup question.

Mr. WATT. Our experience in the administration of the program, Senator, indicates that the maximum constraint inhibits the operation of allocation formula in a way which we do not believe the Congress had intended. And, of course, there was no experience to factor into the consideration when the Congress had to deal with the issue initially.

The constraint does have the effect of saying to a number of cities and counties that, although the formula indicates that you are entitled to this amount of revenue sharing funds by virtue of your tax effort and your level of income, because of the constraint, we are not going to give you that much money; we are going to give you something less. As we have seen the aplication, we have observed that many communities that I think most observers would feel were communities with very real, obvious needs, are receiving less in revenue sharing funds than they would if constraint were removed or lifted.

Many of these are older, central cities. Cities with high levels of dependency and poverty; cities with all of the now almost classic urban needs and urban ills with which they must deal. The task force had proposed that the constraint be increased—not removed, but increased—to a higher level; from 145 percent—the existing level—to 175 percent.

Retaining the constraint would, it appears, still protect against the influence of the very, very extreme cases. And many of these are represented—characterized as resort communities, or industrial enclaves, which would otherwise receive funds all out of proportion to their obvious needs.

Senator HASKELL. Have you ever considered the possibility—assuming revenue sharing is to be continued—that it only go to those governmental units that show a certain necessary tax effort?

Have you ever considered—did the task force, or you or the Under Secretary here, did you ever consider that possibility?

Mr. WATT. The first problem in dealing with that, Senator, would be to define need.

Senator HASKELL. Obviously.

Mr. WATT [continuing]. And then to seek available data which would measure however those needs are being defined. I think the Congress did seek to deal with this within the practical limitations of available data in 1972 by incorporating within the formula the measurement of per capita income of the community, and the, what is called, tax effort, which is a relationship of the level of local taxation to the income of the community. So that communities which—in effect and to oversimplify it—communities which are poor and impose upon themselves a greater local burden of taxation than other communities, would receive relatively more funds than the other communities.

Senator HASKELL. But apparently you have never considered just completely eliminating the nontaxing communities and giving revenue sharing to the truly needy.

Mr. WATT. The decision was made, I think, very early on in the original development of the revenue sharing program to propose that all communities should participate in the program, regardless of level of affluence or size.

Senator HASKELL. I gather you have never considered questioning that basic premise.

Mr. WATT. The task force did, yes, sir.

The task force has recommended that the original decisions, both of the administration and of the Congress, to include all communities in the program should be retained.

Senator HASKELL. Thank you.

Thank you, Mr. Chairman.

Senator HATHAWAY. Is that to get votes?

Mr. WATT. No.

The fact is, Mr. Chairman, that our observations would indicate that very small communities have very real needs and very real problems that revenue sharing has helped them to deal with. And the affluence of a community is no indication that, again, there are not some very real and pressing problems to be dealt with in that community, where some additional funds and the freedom to use those funds, relatively unfettered with redtape and strings, can be very productive.

Senator HASKELL. Can I interrupt?

Senator HATHAWAY. Yes; go ahead.

Senator HASKELL. May I just supplement that?

If a community is affluent—and to be sure, there are always problems—but why in the world should the community not raise the money?

Why should they expect money from the Federal Government—assuming it is an affluent community? Let's take Westchester County, N.Y.; let's take Morris County in New Jersey; let's take Arapahoe County in Colorado.

Why in the world should those people get money without raising it by taxes when they are able to?

Mr. WATT. They get money for several reasons.

One, because the decision was made to include them. Second, because they do pay the taxes from which the funds are derived. And keep in mind, too, that they get considerably less in revenue sharing funds than a less affluent community having other, similar characteristics.

Senator HASKELL. But they get some.

Mr. WATT. They do get some.

Senator HATHAWAY. I suppose one possible value to many communities through the country is that for the first time they have experience with dealing with the Federal Government, and that way, maybe it brings Federal and local government closer together.

Graham, and Mr. Albrecht, we have appreciated your testimony very much. I have additional questions I would like to submit in writing. I know the others on the panels today do too, as well as others that are absent. And I hope you will respond to them.

Mr. WATT. We certainly will, Senator, and of course, we will remain available for any further questions or testimony that you would desire of us.

Senator HATHAWAY. Fine; thank you very much.

Senator PACKWOOD. Specifically, Senator Curtis is going to submit some to you, and asks that you respond to him in writing.

Mr. WATT. I would be glad to.

Senator HATHAWAY. All right.

[The prepared statements of Messrs. Schmults and Watt with attachment follow. Hearing continues on p. 44.]

STATEMENT OF UNDER SECRETARY OF THE TREASURY EDWARD C. SCHMULTS

Mr. Chairman, I very much appreciate this opportunity to offer to you and the members of the Subcommittee some reflections based on the Administration's review of the first years of the General Revenue Sharing program. To determine whether, and in what form, the program should be extended past its present expiration in December 1976, the Treasury Department, Office of Management and Budget and the Domestic Council have since last summer all been actively involved in a joint effort to assess this relatively new and unique form of federal financial assistance. It has been my privilege to serve as chairman of the steering group directing this study. Our review has considered issues raised by interested groups, by members of Congress, by various privately and governmentally sponsored evaluations of General Revenue Sharing, and by our own staff. We have also taken a look at a large number of approaches offered to strengthen the program.

I note, Mr. Chairman, that the press release announcing these hearings indicates interest in how this program is being monitored. The Administration, of course, is also vitally concerned that we have sufficient information to know whether the American people are receiving benefits from General Revenue Sharing in proportion to its cost to them. This interest prompted the President to provide for the internal Administration review which I have just described. When one considers the full range of attention being focused on revenue sharing, it could be argued that this is the most closely examined program in the history of Federal assistance. At least four Congressional committees have held hearings on GRS since its enactment, and further hearings in the future are likely. Examinations of various aspects of the program have been or are being pursued by the General Accounting Office, the Advisory Commission on Intergovernmental

Relations, the National Science Foundation, the Brookings Institution, the National Revenue Sharing Clearinghouse, as well as a number of other private groups.

We in the Administration have tried to take account of the findings of those studies which are currently available in putting together our proposal to renew revenue sharing. We realize that additional important information may yet appear and are fully willing to take it into account. However, it has been our conclusion that we should proceed to seek early renewal of the General Revenue Sharing program. We are doing so, first, because we are convinced that the program has been largely successful in meeting its original objectives. Secondly, State and local governments, in order to make wise use of funds provided through the program, must know about its future by the early fall of this year. Decision-making on the 1977 fiscal year budgets of many States and localities begins early this fall when agencies submit their requests to their budget offices. If no action is taken on renewal of the program by then, States and localities could only rely on the GRS funding that is provided in the present law for the first half of fiscal year 1977.

This need of States, cities, towns, and counties to know about their future revenue sharing entitlements is greater than their need for advance information about categorical aids. Shared revenues usually become a part of the general fund of recipient governments, which is not normally the case with other aids. These funds support essential day-to-day services which would in many cases be eliminated or paid for with higher taxes, were revenue sharing terminated. Dependence on the program to provide vital services is especially great in the Nation's cities where General Revenue Sharing accounts for over a third of all Federal aid and where there is often the most financial pressure.

There is no intention to suggest here that there are only negative arguments, such as the dependency of recipients, to justify renewal of the program. I only make these points to explain our desire for action now. On the whole, the Administration is satisfied that the General Revenue Sharing program has been a major success in accomplishing what it sought to do. We are, of course, aware that there is criticism of the program for not solving serious problems of special concern to some. Our view is that General Revenue Sharing cannot be expected to fill too many roles. In fact, if it is excessively weighted down with various restrictions and incentives to target its impact toward specific problems and groups, the program will lose its ability to fulfill its basic mission.

Its basic objective is to provide a form of Federal financial assistance to State and local governments which can be used flexibly to meet needs which they themselves identify by means of their own choosing. It is obvious how extensive restrictions on the uses to which States and communities put shared funds would limit the ability of the program to play this role. There are hundreds of other categorical and bloc grants which can be used to deal with specific problems or to help specific groups of people. General Revenue Sharing is designed as part of an effort to provide a more balanced array of Federal aid to States and communities. The Administration does not feel that GRS competes with or replaces other aids. Rather, it serves different and equally important functions.

An example of one of those functions involves Revenue Sharing's interaction with those categorical grants which, along with providing assistance, create additional needs which they do not provide the means for meeting. For instance, a program might support the development of science courses in schools without providing the necessary textbooks. Shared revenues can be used to fill in such gaps in need. Further, the incentive of available Federal grant money and the matching requirements often associated with this money, has at times distorted State and local budgetary decision-making so that the real priority needs of their citizens are not being met.

The implementation of the revenue sharing concept of assistance has meant greatly increased Federal help for our cities and counties and for many small communities, as well. Many places with small population in the past have either not been eligible for, or aware of, Federal programs or have been unable to cope with the expensive and burdensome application requirements often associated with them. General Revenue Sharing provides aid free of much of this redtape. While categorical aids are clearly a necessary part of a balanced system of aid, they tend to be an expensive way to provide aid because of administrative burdens on both the Federal Government and the recipient. By the same token, the Congress and the Federal Executive have rightly been concerned about the often unnecessary costs and uncoordinated effects of grants which overlap and duplicate one another.

A balanced system of Federal intergovernmental aid has become essential to a vital Federal system of decentralized government, with its ability to respond to the diversity of our Nation and to protect our freedoms from the threat of overly centralized power. The enactment of General Revenue Sharing has meant an infusion of funds—drawn from the generally more efficient, equitable, and economically responsible Federal tax system—to those governments closest to the people. These funds have helped enable such jurisdictions to perform those public tasks demanded by Americans which they can do best.

I have already mentioned several times the role of shared revenues in meeting "needs". Most of the issues which have surfaced during the Administration's review of this program relate to the degree to which it fulfills various views of what the priority needs of today's America are. Basically, the response of GRS to serious needs can be evaluated in terms of three considerations (1) Federal as opposed to State and local needs, (2) the uses to which the funds are put, and (3) the pattern in which the funds are distributed among States and communities.

The point is sometimes made that in light of the huge current Federal deficits there are no Federal revenues to be shared. The Administration is, of course, fully aware of and concerned about the state of the national budget. We, however, do not view General Revenue Sharing as a nonessential program, justifiable only when there are Federal budgetary surpluses. In fact, the Administration definitely considers it a critical use of funds since a strong Federal system is clearly a national priority of the first order. Further, when elected State and local officials, who are close to public problems, allocate resources to solve these problems, we feel that there is normally a good return on the money spent.

State and local governments on the whole are currently, and will in the foreseeable future continue to be, faced with deficits. Many surpluses in State and local accounts which we heard so much about a couple of years ago were of a very temporary nature and have since disappeared. These governments have felt the negative impacts of inflation and higher energy costs on their expenditures. Further, the budgets of State governments have suffered from the effects of several longer-run developments in State-local finances. Were the revenue sharing program to be terminated or reduced, they would be forced to cut vital services, raise taxes to provide these services or both. Greater deficits, more borrowing, unemployment in the public and private sectors would also likely result. It is clear that these unhappy events would not contribute to national economic recovery, since State and local expenditures usually supply a major stimulus for the economy. To withdraw GRS would exacerbate the stagnation in these expenditures which has already taken place.

A second way in which one can reasonably assess the degree to which revenue sharing funds are meeting important needs is to look at the problem areas and population groups on which they are being spent.

State governments have reported to the Office of Revenue Sharing that during FY 1974, 82% of shared revenues allocated to them had been utilized for operations and maintenance purposes, while 18% had been expended for capital purposes. Local recipients classified 52% of their expenditures of revenue sharing funds as meeting operation or maintenance needs and 48% going for capital commitments.

As a group, States reported spending over half (52%) of GRS funds in educational uses in the form of assistance for primary and secondary education at the local level. Otherwise, States reported allocation of their GRS monies fairly evenly for public transportation services (8%), health (7%), multi-purpose general government (7%), and social services for poor and aged (6%).

Local governments stated in their use reports to the Office of Revenue Sharing that the largest portion of their entitlements (36%) were for public safety services. Public transportation service (19%), general government capital expenditures (11%), environmental protection services, health (7%), and recreation (7%) accounted for most of the remainder of the funds covered by the Entitlement Period 4 (FY 1974) use reports.

We are all aware of how difficult a task it is to really identify the functional uses to which revenue sharing money is put due to the fact that it usually mingles with the other resources of the jurisdiction. The Administration has considerable confidence in the ability of elected State and local officials to target money onto the real problems which they must face on a day-to-day basis. We are hesitant to slow achievement of this basic GRS role through the application of restrictive guidelines. As I suggested earlier there are other programs to meet specific nationally identified goals.

The Administration believes that revenue sharing is being successfully used by the great majority of State and local governments to meet needs of concern to all Americans. The General Accounting Office reports, findings by the Brookings Institution and Office of Revenue Sharing actual use reports all show a considerable amount of shared revenue being devoted to new spending. The program was intended to allow, along with other things, hard-pressed jurisdictions to maintain essential existing services, to reduce taxes, or to prevent tax increases. It has worked to do so. The Brookings study suggests that GRS funds are most likely to be used to substitute for other funds where fiscal pressure is greatest—at the local as opposed to the State level, among urban as opposed to rural States; and among older, larger, more densely populated jurisdictions, as opposed to those with contrasting characteristics. This illustrates that many States and communities are using GRS to maintain vital services which they might not otherwise be able to do.

We believe that revenue sharing has had a significant benefit for the poor and minorities, and has contributed in an important way to meeting social goals in general. Those funds reported to the Office of Revenue Sharing as spent on poor and the aged are not an accurate reflection of the total social impact of the program. For example, States report using over one-half of their shared funds for education—an expenditure which certainly must be considered of great social importance for all Americans. Funds reported as spent on health, transportation, public safety, environment, recreation, are often of assistance to the underprivileged. For instance, there are cases of GRS money being used under the public transportation category to subsidize transportation for the elderly or expenditures identified as for public safety being devoted to drug abuse programs.

Capital expenditures for hospitals, schools, low-cost housing or for equipment also are often of great benefit to those who are especially needy. Construction projects may be badly needed by citizens of States and communities, since they are often the first items set aside in times of fiscal crisis, and may be also delayed by legal debt limits placed on local governments.

To the degree that there is any hesitance on the part of revenue sharing recipients to spend funds derived from the program on social purpose, this results from a number of circumstances, some of which are: the legal placement of such responsibility at other levels of government: restriction against the use of shared funds for direct welfare payments to individuals by the terms of the State and Local Fiscal Assistance Act itself; confusion about the meaning of the Act's restriction against matching of Federal funds; and uncertainty about the continuation of the program, which steers recipients away from recurring social expenditures. Renewal of the program, along with continuing experience with it should lessen the frequency of the latter two concerns. Finally, it is important to note that regardless of any present hesitance to direct GRS monies into programs to aid the poor and minorities, there is little doubt that the presence of these funds releases other recipient funds for these uses.

It is true that revenue sharing entitlements have been widely used for tax reduction and stabilization, debt avoidance, and for public safety needs. If the Brookings finding are generally applicable, it does not seem that GRS, as once feared, has been widely used for increases in employee pay benefits thus far. It would also seem difficult to argue that public safety expenditures made from revenue sharing entitlements are not usually justifiable and of benefit to all citizens in most places.

State and local jurisdictions are justified in using GRS to reduce excessively high taxes, which are often highly regressive and harmful to the economic life of the community and Nation as a whole. They can, for instance, drive industry and middle class citizens from our center cities, thereby seriously eroding the tax base of the jurisdiction and placing an even greater burden of taxation on the remaining poorer population. Thus, in many cases, tax reduction can be tax reform.

Another important way in which General Revenue Sharing responds to serious needs is the manner in which it distributes funds among our States and communities. The existing formulas, designed in the Congress as a product of competing philosophical, geographic, and jurisdictional interests, are essentially equitable and appear to work reasonably well. The Brookings Institution, the Advisory Commission on Intergovernmental Relations, and the General Accounting Office found that generally greater per capita entitlements go to poorer, as compared to richer, States. For instance, Brookings calculated that for 1972, Mississippi received $39.90 per capita as compared to $28.05 for California. Our hard-pressed center cities, according to ACIR and Brookings, also fare better on a per capita basis than their wealthier suburbs and other surrounding areas. Brookings also reports that the current formulas further take into account the high costs of government in urban areas by directing higher than average (as compared to other county areas) per capita amounts of shared revenues into the most densely populated county areas and into the county areas with over one million population. Similarly incorporated areas receive much more per capita than unincorporated areas, and county areas containing the largest city in each State receive higher than the average per capita entitlements for local governments in their State outside of these principal counties. In fact, during 1972 counties falling within standard metropolitan statistical areas received over 70% of local shared revenue. The needs of black Americans are addressed by the formulas' allocation to county areas with the largest nonwhite population of much higher than average per capita entitlements.

The Administration feels that these descriptions about the distribution of funds among States and localities supports a conclusion that the basic allocation formulas are performing reasonably well in responding to need. This is especially true in light of the difficulty of designing a nationwide formula which meets the varying governmental and fiscal situations across the country, as well as the demands of conflicting interests.

Before concluding my testimony, Mr. Chairman, I would like to comment on the impact which General Revenue Sharing is having on the political process in States, cities, counties, and towns. The first Brookings Institution report found some increase in citizen involvement among a sizable fraction of the jurisdiction included in its sample. A similarly sizable fraction of local officials surveyed by GAO detected more public participation in the making of revenue sharing-related decisions than on other local issues.

It must be admitted that such data provides a less than complete or convincing picture of the impact of revenue sharing on the process of government. However, in a broader sense the State and Local Fiscal Assistance Act of 1972 has helped to revitalize democratic government in the States and communities. The hands of elected officials who are responsible to the voters and who are concerned with a variety of issues have been strengthened in comparison to appointive, single program oriented, often distant Federal, State, and local administrators. After all, it is these elected executives who have the most to say about use of shared funds. Increased public concern about the knowledge of the way decisions are made locally has often resulted from the responsibility of allocating shared revenues among various uses. National interest groups, newly concerned about State and local affairs due to GRS, have helped generate some of this State and local activity, as have the public discussions surrounding publication of various studies of revenue sharing, the original enactment of the bill, and its upcoming renewal. The Administration is hopeful that the extent and effectiveness of citizens involvement will increase with time as citizens and the groups who represent them better learn how, when and where to make their weight felt.

In conclusion, Mr. Chairman and members of the Subcommittee, President Ford and the Administration are generally satisfied with the way in which the General Revenue Sharing program has met its original objectives. It has provided flexible aid within a balanced system of Federal intergovernmental assistance, provided States and localities the means to meet the vital needs of their citizens, strengthened the political process at the governmental levels closest to the people and helped to revitalize our Federal form of government. There is, of course, room for improvement in any program as well as a need to continue to review its effectiveness. The President's proposal to renew General Revenue Sharing soon to be presented to the Congress will address both of these concerns.

Statement of Graham W. Watt, Director, Office of Revenue Sharing, U.S. Treasury Department

Mr. Chairman and members of the committee, it is a pleasure for me to report to this Committee, and through you to the American people, on how General Revenue Sharing is meeting the goals and objectives that were set for it in 1972.

Although our program has been in existence less than three years, General Revenue Sharing already has provided substantial fiscal assistance to nearly 39,000 states and localities in the United States. Indirectly, but no less importantly, it has provided important services and public facilities which are of benefit to all American citizens.

With suggestions from members of Congress and assistance from the Administration, the Treasury Department has administered General Revenue Sharing with fidelity to the intent of Congress, with dedication to achieving the purposes of the Act, and with understanding of the diverse needs and capabilities of the nearly 39,000 governments that receive the funds. Table I is a summary of the numbers and types of recipient governments.

FEDERAL FISCAL ASSISTANCE

When the State and Local Fiscal Assistance Act of 1972 (P.L. 92–512) established General Revenue Sharing, the staff of the Joint Committee on Internal Revenue Taxation reported that the Act "... intended to help assure the financial soundness of our State and local governments which is essential to our Federal system." (See *General Explanation of the State and Local Fiscal Assistance Act and the Federal-State Tax Collection Act of 1972*, February 12, 1973.) The Joint Committee report went on to say that ". . . the presence of large deficits in the Federal budget should (not) in itself preclude Federal aid to State and local governments in view of the vital need for such aid. To preclude such aid would imply that State and local fiscal assistance has a lower priority than all other present expenditures, a position the Congress does not accept."

Accordingly, at a time when Americans were staggering under the mounting burden of regressive state and local property sales, and other taxes, it was thought by Congress and the Administration that the more progressive Federal tax system should be used as a source of relief.

TABLE 1.—NUMBER OF GENERAL REVENUE SHARING RECIPIENTS

State name	State	Counties	Municipalities	Townships	Indian tribes and Alaskan Native villages	Totals
Alabama	1	67	399			469
Alaska	1		126		92	217
Arizona	1	14	66		18	99
Arkansas	1	75	458			534
California	1	57	411		54	523
Colorado	1	62	247		2	312
Connecticut	1		33	149		183
Delaware	1	3	54			58
District of Columbia	1					1
Florida	1	66	386		2	455
Georgia	1	158	510			669
Hawaii	1	3	1			5
Idaho	1	44	191		5	241
Illinois	1	102	1,266	1,435		2,804
Indiana	1	91	556	1,000		1,648
Iowa	1	99	942		1	1,043
Kansas	1	105	610	1,150	4	1,870
Kentucky	1	120	394			515
Louisiana	1	62	295		1	359
Maine	1	16	22	474	3	516
Maryland	1	23	150			174
Massachusetts	1	12	39	312		364
Michigan	1	83	533	1,246	5	1,868
Minnesota	1	87	851	1,786	12	2,737
Mississippi	1	82	277		1	361
Missouri	1	114	871	340		1,326
Montana	1	56	125		7	189
Nebraska	1	93	520	467	3	1,084
Nevada	1	16	17		17	51
New Hampshire	1	10	13	222		246
New Jersey	1	21	333	232		567
New Mexico	1	32	90		22	145
New York	1	57	619	930	6	1,613
North Carolina	1	100	458		1	560
North Dakota	1	53	347	1,360	5	1,766
Ohio	1	88	934	1,320		2,343
Oklahoma	1	77	531		25	634
Oregon	1	36	232		4	273
Pennsylvania	1	66	1,013	1,548	1	2,629
Rhode Island	1		8	31		40

TABLE 1.—NUMBER OF GENERAL REVENUE SHARING RECIPIENTS—Continued

State name	State	Counties	Munici-palities	Townships	Indian tribes and Alaskan Native villages	Totals
South Carolina	1	46	256			303
South Dakota	1	67	301	957	9	1,335
Tennessee	1	94	321			416
Texas	1	254	993		2	1,250
Utah	1	29	216		5	251
Vermont	1	14	55	237		307
Virginia	1	96	228		2	327
Washington	1	39	266	3	22	331
West Virginia	1	55	227			283
Wisconsin	1	72	574	1,260	10	1,925
Wyoming	1	23	86		2	112
National totals	51	3,039	15,451	16,467	343	38,351

Stating that ". . . it is essential that the amount of new aid should be set at a specific figure so that the cost of the program will be definite and ascertainable beforehand," (*op. cit.*) Congress appropriated $30.2 billion to be distributed to all units of general government in the United States over five years extending from January 1972 through December 1976. The money was to be allocated according to formulas set forth in the State and Local Fiscal Assistance Act of 1972 using data supplied principally by the U.S. Bureau of the Census.

Since the first checks were mailed, in December 1972, the Treasury Department's Office of Revenue Sharing has distributed $18.9 billion. To allocate and distribute the money, we have developed a simple procedure that follows the law's requirements for accurate data, regular quarterly issuance of checks, and reporting requirements for recipient jurisdictions.

The normal revenue sharing cycle is related to the Federal fiscal year. In February of each year, the Office of Revenue Sharing obtains, principally from the Bureau of the Census, the updated data that is to be used to calculate each government's share of the revenue sharing appropriation for the forthcoming year. We then review these data elements with each State and local government and, in cooperation with the Census Bureau, make any corrections needed to insure the data's accuracy. In April, we compute the amounts to be paid during the coming year and we notify each government of its expected amount: at the same time, we provide them with their Planned Use Report forms to complete, publish in a local newspaper and return to the Office of Revenue Sharing. At the end of June, each government is sent the form on which to report its expenditures and appropriations of revenue sharing funds during the fiscal year ending June 30th. After the Planned and Actual Use reports have been received, the Office of Revenue Sharing makes the first quarterly payment for the new fiscal year, in the first week of October.

The formula that allocates general revenue sharing among all general governments has been judged satisfactory by most recipients.

The amount to be distributed for each entitlement period first is allocated among the states according to the three factor Senate formula (population, tax effort and income), and then is again allocated among the states according to the five factor House formula (population, urbanized population, per capita income, state income tax collections, and tax effort). The higher of the two amounts is selected for each state. Since the sum is greater than the entitlement period total, each amount is scaled down proportionately. If the three factor formula is used for either Alaska or Hawaii, a cost of living adjustment is then applied.

After this interstate allocation, one-third of each state area amount is paid to the state government, and the remaining two-thirds is apportioned among units of local government within the state. The amount to be allocated to units of local government is then divided by the population of the state to establish the per capita entitlement for all governments within the state.

The local government amount is first allocated to county areas. If this calculation allocates to any county area an amount which, on a per capita basis, exceeds 145% of the statewide local per capita entitlement, the county area amount is reduced to the 145% level and the resulting surplus amount is shared proportionately by all the remaining unconstrained county areas within the state

Similarly, if any county area is allocated less than 20% of the statewide local per capita amount, its allocation is increased to the 20% level and the resulting deficit is taken proportionately from all the remaining unconstrained county areas within the state.

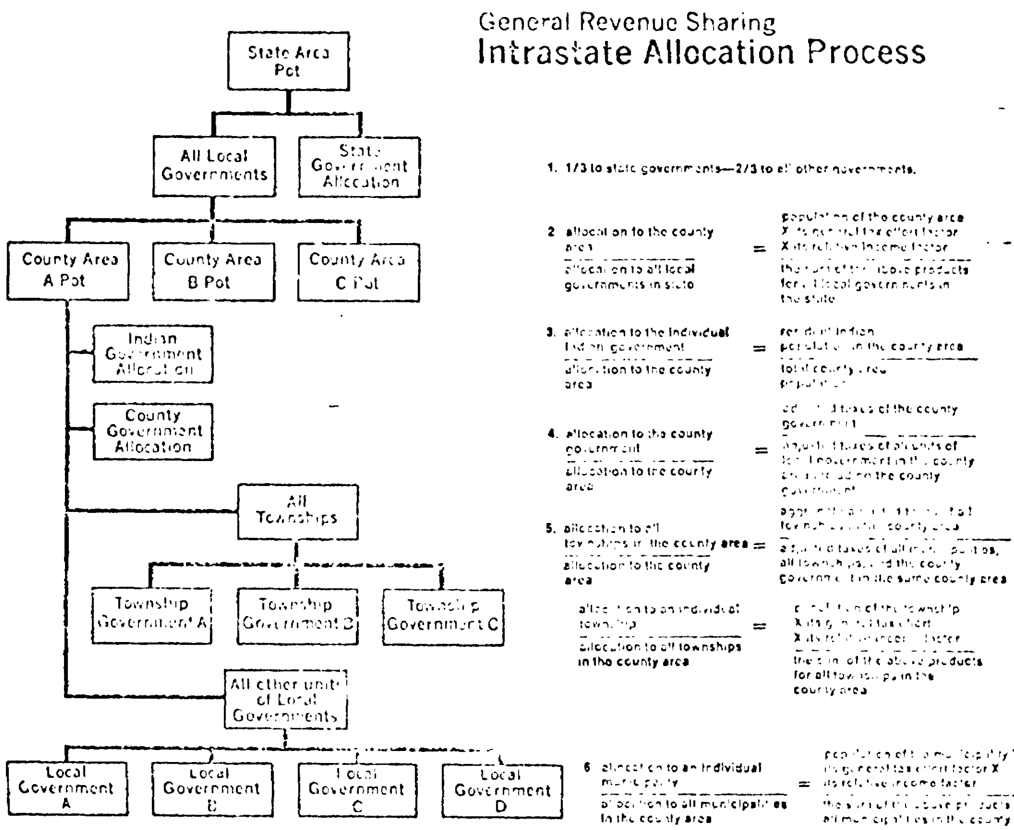
Each county area allocation is then divided into four parts: First, an amount for Indian tribal governments or Alaska native villages is determined according to the ratio of tribal or village population to the total population of the county area.

Then from the remainder, a township allocaton is determined on the basis of the ratio of all township adjusted taxes to the total of adjusted taxes in the county.

Next, a county government share is determined similarly, on the basis of county government adjusted taxes.

The remaining amount is for the other units of local government. The allocations for cities, towns, and townships are calculated using similar procedures and applying the 145% maximum and 20% minimum constraints.

This intrastate allocation process is illustrated in the following Figure I.



Although the allocation procedure has been found generally effective, equity would be improved if the maximum constraint were raised. This would permit more money to flow to some larger urban areas, where needs for services far outstrip the ability of local governments to meet the resulting costs.

The allocation and payment system outlined in our Act is objective and predictable. It replaces with published formulas and data and multi-year appropriations the personal discretion and fluctuating funding found in some federal assistance programs.

General Revenue Sharing relies upon locally established priorities responsive to individual communities' real needs instead of on Federal prescriptions developed for universal application. It encourages orderly state and local planning for officials know in advance, how much money they are to receive and when it will be paid to them. Its procedures are so easy to understand and follow that recipient governments do not need to employ additional, expensive staff to cope with Federally designed paperwork.

UNIVERSAL ELIGIBILITY

Another objective of General Revenue Sharing is to provide Federal fiscal assistance to *all* units of general government in the United States.

Most other Federal aid programs are targeted at one or another specific level of government or at independent agencies having limited areas of functional responsibility. Each of the hundreds of categorical aid programs addresses a particular need that may exist in only a few jurisdictions. It is difficult for many states and for local governments to identify sources of grants, to prepare and cope with the applications and to comply with the diversity of Federal regulations and procedures that apply to all of these programs. Too often, only the more affluent, sophisticated, larger states, counties and cities can compete successfully.

General Revenue Sharing, on the other hand, was conceived with the idea that since Americans in all communities have needs which require public service and since relatively few of these communities can participate in categorical aid programs for reasons I have just cited, then, some basic assistance should be provided to all.

General Revenue Sharing is the only program that provides Federally-collected revenues to all units of general government: large and small, urban and rural, and in all geographical areas. Nearly 39,000 states, counties, cities, towns, townships, Indian tribes and Alaskan native villages are the beneficiaries of shared revenues. Table 2 summarizes payments through April 7, 1975, by type of government.

TABLE 2.—AMOUNTS PAID RECIPIENTS FROM JAN. 1, 1972 THRU APR. 7, 1975

State name	State	Counties	Municipalities	Townships	Indian tribes and Alaskan Native villages	Totals
Alabama	$106,595,657	$79,811,942	$133,713,837			$320,121,436
Alaska	8,151,177		15,610,757		$502,614	24,264,548
Arizona	62,746,495	50,361,909	69,635,925		5,473,525	185,217,854
Arkansas	69,510,107	70,833,435	55,238,944			195,582,486
California	670,854,042	809,818,743	531,332,619		439,290	2,012,444,684
Colorado	65,926,982	46,565,115	85,251,972		125,967	197,870,036
Connecticut	79,662,535		85,046,335	$74,404,145		239,113,015
Delaware	21,513,093	20,746,117	14,328,555			56,587,765
District of Columbia	84,346,800					84,346,800
Florida	182,940,956	162,485,967	204,068,115		67,526	549,562,564
Georgia	131,235,067	151,975,678	110,326,599			393,537,344
Hawaii	27,769,366	13,785,221	41,753,506			83,308,093
Idaho	25,409,184	29,286,689	21,250,024		281,613	76,227,510
Illinois	321,490,473	145,128,416	375,071,021	84,200,590		925,890,500
Indiana	133,429,274	91,027,087	144,268,402	31,538,816		400,263,579
Iowa	83,919,482	103,446,064	74,369,178		39,024	266,773,748
Kansas	60,543,743	61,612,162	52,727,466	6,677,819	24,620	181,585,810
Kentucky	119,366,078	87,677,671	101,332,824			308,376,573
Louisiana	146,682,050	117,231,843	169,081,739		19,977	433,015,609
Maine	38,310,773	5,082,942	31,631,228	39,760,365	147,619	114,932,927
Maryland	124,631,230	145,159,546	104,154,181			373,944,957
Massachusetts	198,483,338	22,853,112	223,428,876	151,235,999		596,001,325
Michigan	266,937,865	155,459,927	329,785,203	48,891,318	87,632	801,162,145
Minnesota	124,450,206	132,688,249	100,936,211	15,347,576	722,432	374,144,674
Mississippi	107,730,187	129,712,527	72,631,500		139,963	310,214,177
Missouri	117,788,182	77,955,694	152,024,347	5,375,451		353,143,674
Montana	24,795,577	32,917,719	14,867,791		1,799,394	74,380,481
Nebraska	45,242,176	44,942,342	42,449,611	2,888,578	188,852	135,711,559
Nevada	13,808,081	17,260,681	10,133,099		214,000	41,415,861
New Hampshire	20,065,455	5,241,933	19,023,527	15,994,890		60,325,805
New Jersey	197,304,585	139,546,268	175,520,213	79,616,848		591,987,914
New Mexico	40,936,304	32,313,628	40,412,093		5,262,231	118,924,256
New York	701,017,982	300,426,090	952,937,060	148,175,049	376,761	2,102,932,942
North Carolina	161,145,301	173,513,583	149,191,324		351,242	484,201,450
North Dakota	25,086,436	25,784,127	16,806,213	6,565,389	1,030,470	75,272,635
Ohio	250,822,997	159,058,849	293,615,356	48,927,549		752,424,751
Oklahoma	70,365,929	51,984,173	87,464,599		1,258,880	211,073,581
Oregon	62,368,422	47,356,878	77,147,921		203,642	187,076,863
Pennsylvania	330,060,562	186,699,849	369,484,186	104,552,547	400	990,797,544
Rhode Island	28,324,916		40,294,723	16,346,341		84,965,980
South Carolina	88,306,116	90,005,513	80,005,022			258,316,651
South Dakota	27,940,838	32,593,747	17,320,150	4,024,127	1,920,825	83,799,687
Tennessee	118,634,753	103,267,973	136,445,761			358,348,437
Texas	298,229,926	220,569,873	374,361,656		61,583	893,223,038
Utah	37,112,350	36,921,263	36,672,985		572,734	111,279,33[illegible]
Vermont	17,661,991	434,430	12,186,527	22,765,017		53,047,96[illegible]
Virginia	124,558,263	92,153,679	157,419,760		5,649	374,137,351

TABLE 2.—AMOUNTS PAID RECIPIENTS FROM JAN.1, 1972 THRU APR. 7, 1975—Continued

State name	State	Counties	Municipalities	Townships	Indian tribes and Alaskan Native villages	Totals
Washington	90,873,182	81,461,633	99,535,101	3,401	773,299	272,646,616
West Virginia	81,122,395	48,335,893	56,008,362			185,466,650
Wisconsin	158,038,834	156,134,786	134,753,494	25,195,870	483,197	474,606,181
Wyoming	11,669,645	16,985,238	6,011,605		258,757	34,925,245
National totals	6,410,917,358	4,806,616,154	6,500,067,503	937,487,685	22,833,908	46,871,922,608

THE LOCUS OF DECISIONMAKING

When the State and Local Fiscal Assistance Act was enacted, it was understood that decisions about how shared revenues should be used were to be made by the recipient governments and not by the Treasury Department. Subject only to the specific restrictions that protect the rights of all persons and with the exception of operating and maintenance expenditures in a few areas of local government activity, the money distributed through General Revenue Sharing is to be spent as the responsible officials of recipient governments see the needs for which to spend it.

Priorities for uses of the money are set locally; and the citizens of each community will hold their own officials accountable for the decisions made.

It is axiomatic to say that a democratic system cannot survive for long when citizens do not control those who manage the public's business. Since public business is largely influenced by the purposes for which funds are available, voters tend to become disenfranchised when the locus of financial decisionmaking is removed from their control.

Over the past several decades, as more and more Federal aid programs were developed to meet more and different needs, power and authority have been accumulated in Washington at an ever-increasing rate. General Revenue Sharing was intended to help to reverse this trend.

Our program is succeeding in its objective of attracting public interest and involvement back into the mainstream of local government decision-making. In the past two years, members of my staff have participated in conferences and workshops in nearly every state—meetings that have been organized by public and private interest groups anxious to inform their communities about this new program and its new approach to local decision-making. In many communities, specially appointed advisory boards and committees are soliciting citizens' views on priorities for uses of revenue sharing dollars. Where citizen participation is encouraged vis-a-vis General Revenue Sharing, it also affects other aspects of state and local business.

CITIZEN PARTICIPATION

Revenue Sharing law requires that the two reports which recipients must file with the Office of Revenue Sharing each year be published locally in newspapers of general circulation. In adopting this provision, Congress provided citizens with basic information about their state and local governments' plans for and actual uses of shared revenues. Since plans may be changed before the funds are committed, citizens have the opportunity to express their opinions before the money is spent.

The Act also requires that shared revenues be spent in accordance with the laws and procedures that apply to the expenditure of each state and local government's own funds. Accordingly, if state or local law requires public hearings or other forms of public involvement in appropriating public funds, then the same procedures are required when general revenue sharing dollars are used. This provision of the law assures at least the same degree of public participation in priority-setting for uses of shared revenues as is the case for recipients' own-source revenues.

The publication requirement and the requirement that funds be spent by recipients in accordance with existing laws and procedures, when taken together, have helped to bring the revenue sharing program to the attention of the general public.

More needs to be done.

Whenever possible, we in the Office of Revenue Sharing have encouraged officials to involve their constituents in their decision-making regarding shared revenues, using procedures which are appropriate to the individual jurisdictions. We seek to encourage news reporters and columnists to take more interest in state and local budgeting and to report the impact our program has had on uses of public funds at all levels of government. We concur in the broadly felt need to stimulate more effective public interest in government.

USES OF FUNDS

The Act permits State governments to spend their shared revenues for any purpose that is a legally permissible use of the State's own funds. Local governments may spend their money for any capital purpose (capital, as defined by local law) or for current expenses in any one or more of eight priority categories: public safety, environmental protection, public transportation, health, recreation, libraries, social services for the poor or aged, and financial administration.

Recipient governments are required to report to the Office of Revenue Sharing for each entitlement period on their plans for use of the money they expect to receive, and at the end of each fiscal year on their actual expenditures of shared revenues.

The reports made to the Office of Revenue Sharing are intentionally concise and simple, in keeping with the desire of Congress that our program not be a generator of additional redtape, confusion and expensive paperwork for any level of government. We require that use information be reported in the same functional categories that Congress established as priorities when the State and Local Fiscal Assistance Act was passed in 1972.

Any analysis of the ultimate impact of general revenue sharing on services at the State and local levels of American government is beyond the scope of our mission. It should be noted, however, that intensive efforts to measure the impacts of revenue sharing dollars on recipients' budgets are underway by a number of research organizations. The National Science Foundation, the Brookings Institution and others have undertaken research that will provide useful information about the ultimate impact of general revenue sharing funds on the provision of services by States and local governments.

Our reports to the Congress indicate those categories of activity in which shared revenues have been spent initially. We cannot measure whether or to what extent funds within State and local budgets have been freed up to be used elsewhere. The substitution effect is difficult and costly to assess and is the objective of research by others.

An analysis of the reported uses of general revenue sharing during 1973–74 indicates that more money was spent to support public safety services than for any other function. These expenditures, mainly by local governments, accounts for 23¢ of every General Revenue Sharing dollar spent. The second highest use of general revenue sharing funds by all State and local governments was to fund educational services and facilities. The use represented 21¢ of every General Revenue Sharing dollar, and dominated State government spending. The third highest expenditure of General Revenue Sharing funds was to provide a variety of public transportation services at both the State and local levels. These services accounted for 15¢ of the average general revenue sharing dollar spent in FY 1974.

These three uses of general revenue sharing funds—public safety, education, and public transportation—accounted for almost 60% of all revenue sharing expenditures during 1973–74.

It is relevant to note that a recent public opinion survey sponsored by the School of Architecture of the University of California at Los Angeles found that respondent citizens' top priorities for uses of Federal dollars included education, public safety and public transportation.

Other uses of shared revenues by States and local governments, in order of magnitude of total amounts spent, have been: multipurpose and general government, health services, environmental protection, recreation and cultural programs, social services for the poor or aged, financial administration, libraries, housing and community development, and corrections, economic development and social development. By combining State and local government reported expenditures during the period July 1, 1973–June 30, 1974, we can obtain an overview of how the average general revenue sharing dollar was spent by these governments Table 3 summarizes these reported uses of funds.

TABLE 3.—REPORTED USE OF GENERAL REVENUE SHARING FUNDS BY STATES AND ALL LOCAL GOVERNMENTS 1973-74

	Cents		Cents
Public safety	23	Other uses	4
Education	21	Financial administration	2
Public transportation	15	Libraries	1
Multipurpose and general government	10	Housing/community development	1
Health	7	Corrections less than	1
Environmental protection	7	Economic development, less than	1
Recreation	5	Social development, less than	1
Social services for poor or aged	4		

Although these statutory categories are useful to summarize expenditures of general revenue sharing funds, they are inadequate to describe the broad range of services encompassed. For example, expenditures for environmental protection, such as improved sanitary waste disposal facilities may represent a major community health benefit. Some governments may report an expenditure for mini-bus services as a social service for the aged or poor, others may report it as a public transportation expenditure, and in a third jurisdiction it may be categorized as a health program. In reality, most local and State government services ultimately contribute to a better quality of life for all citizens and thus could be considered as social services.

Surveys and inquiries may strongly suggest that the original limitation to five years as authorization for this program constitutes a substantial inhibition on local decisions about the use of the funds. Many officials have limited their expenditures to capital purposes so as to avoid a future dependence upon funds which conceivably could be terminated after 1976.

This factor has undoubtedly skewed expenditure patterns in a way not anticipated by the Congress when it authorized the program for a limited life ending in 1976.

COMPLIANCE

Revenue sharing law prohibits the use of shared revenues in any activity in which there is discrimination based on race, color, national origin or sex; if shared revenues are used to pay 25 percent or more of the cost of a capital construction project, Davis-Bacon Act wage requirements must be met; general revenue sharing funds may not be used as local match to secure Federal grant money; for local governments, funds may be used for ordinary and necessary capital expenditures authorized by law or for operating and maintenance expenditures for public safety, environmental protection, public transportation, health, recreation, libraries, social services for the poor or aged, and financial administration.

To assure that the funds are used in compliance with these civil rights and other requirements of revenue sharing law, an innovative audit and compliance program has been developed which utilizes existing resources wherever possible. The Office of Revenue Sharing Compliance program includes these basic elements:

1. Cooperative State audit program

State audit agencies willing to do so will perform regular audits of the local governments within their States and of State agencies for revenue sharing purposes, using audit standards published by the Office of Revenue Sharing. All but eight states are now participants in this effort. We expect to achieve total coverage this year.

2. Cooperative private audit program

Many accounting firms have agreed to include revenue sharing audits as part of their regular contractual audits of States and local governments. The quality of these and State-directed audits will be assured by periodic Office of Revenue Sharing review.

3. Staff audits

Performed by Office of Revenue Sharing staff and by other federal auditors to adequately cover those governments not subject to audit under a cooperative program and to assure quality control.

4. Cooperation with other Federal agencies

Includes exchange of information and jointly-conducted investigations and problem-resolution. In October 1974, the Office of Revenue Sharing and the Equal Employment Opportunity Commission concluded an agreement providing for cooperation to assure nondiscrimination in public employment where revenue sharing funds are involved. Our agreement with the EEOC affords access to confidential employment data reported to EEOC by public employers. This information is used in our investigations and analyses of reports of discrimination in the use of shared revenues.

5. Complaint investigation

In addition to our own efforts to seek out evidence of noncompliance, the Office of Revenue Sharing staff continues to investigate reports and complaints of noncompliance with the civil rights and other provisions of our law, whenever these are brought to us by others.

Our procedure by which citizens may file complaints is intentionally simple, in order to encourage any person who believes that the law is not being observed to initiate a proper investigation. Any person may file a complaint by writing us a letter or card indicating the location and nature of the problem. The complainant is not required to identify himself, although most are willing to do so. Names of complainants are kept confidential to protect against possible local retribution.

Since the revenue sharing program began, we have been generally successful in our effort to investigate all complaints promptly as they are reported.

Where evidence of noncompliance with the provisions of the Act is found by the Office of Revenue Sharing, or brought to our attention through audit or by report, the Office of Revenue Sharing determines the facts, advises the affected government of its findings, and seeks prompt, voluntary action to correct. In cases involving local governments, the Governor of the state is advised and his assistance to achieve corrective action is sought. When these efforts are unavailing, the Office of Revenue Sharing proceeds with the administrative remedies provided in the State and Local Fiscal Assistance Act and regulations or we refer the case to the U.S. Department of Justice for appropriate action, depending on the circumstances of each case.

Where we find evidence of fraud, the attorney general of the appropriate state is requested to take necessary action. Should he fail or decline to act, the matter is then referred to the U.S. Justice Department for action.

As General Revenue Sharing has become better known and citizen interest increases, we have received more reports of noncompliance with revenue sharing law. Although we have a good record of prompt response to these, our very small audit and compliance staff must be expanded. We have asked the Congress to allow us for Fiscal Year 1976 the 21 added audit and compliance positions that were denied in Fiscal Year 1975.

Thus far, the Office of Revenue Sharing has handled 412 cases of which 172 have been resolved. A summary of our current compliance workload:

TABLE 4.—COMPLIANCE CASES HANDLED BY THE OFFICE OF REVENUE SHARING,[1] TO APR. 4, 1975

Nature of case	Resolved	Active	Special status	Total
Civil rights/discrimination	38	88	10	136
Financial/accounting	47	22	4	73
Legal/compliance with applicable provisions	36	59	0	95
Miscellaneous (publication, matching funds, etc.)	51	54	3	108
Total	172	223	17	412

[1] These figures do not include Davis-Bacon cases. Department of Labor regional offices make compliance status determinations with respect to minimum wages required to be paid.

Other allegations of misuse of revenue sharing funds brought to our attention have been investigated and found to lack jurisdiction or merit.

ENFORCEMENT OF CIVIL RIGHTS AND OTHER PROVISIONS OF REVENUE SHARING LAW

When a compliance problem cannot be resolved through negotiation or mediation, the law provides that the Secretary of the Treasury may ". . . refer the matter to the Attorney General with a recommendation that an appropriate civil action be instituted; . . . exercise the powers and functions provided by Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d); or . . . take such other action as may be provided by law."

Thus far, the Treasury Department has initiated formal legal action against two recipient governments: the City of Chicago and the State of Michigan. Both cases involve discrimination in the use of General Revenue Sharing funds. As to the City of Chicago case, funds have been deferred pursuant to Court order.

The City of Chicago did not receive revenue sharing checks for the second and third quarters of the 5th Entitlement Period (January and April 1975 payments). The amount withheld to date totals $38.4 million. The United States District Court in the District of Columbia has ordered that the funds be withheld, based on a finding that hiring and promotion practices in the Chicago Police Department are discriminatory. General Revenue Sharing funds have been used to pay operating expenses of Chicago's Police Department. The case of U.S. *et al* vs. City of Chicago *et al* went to trial in the U.S. District Court for the Northern District of Illinois on March 10, 1975 and is continuing at this time.

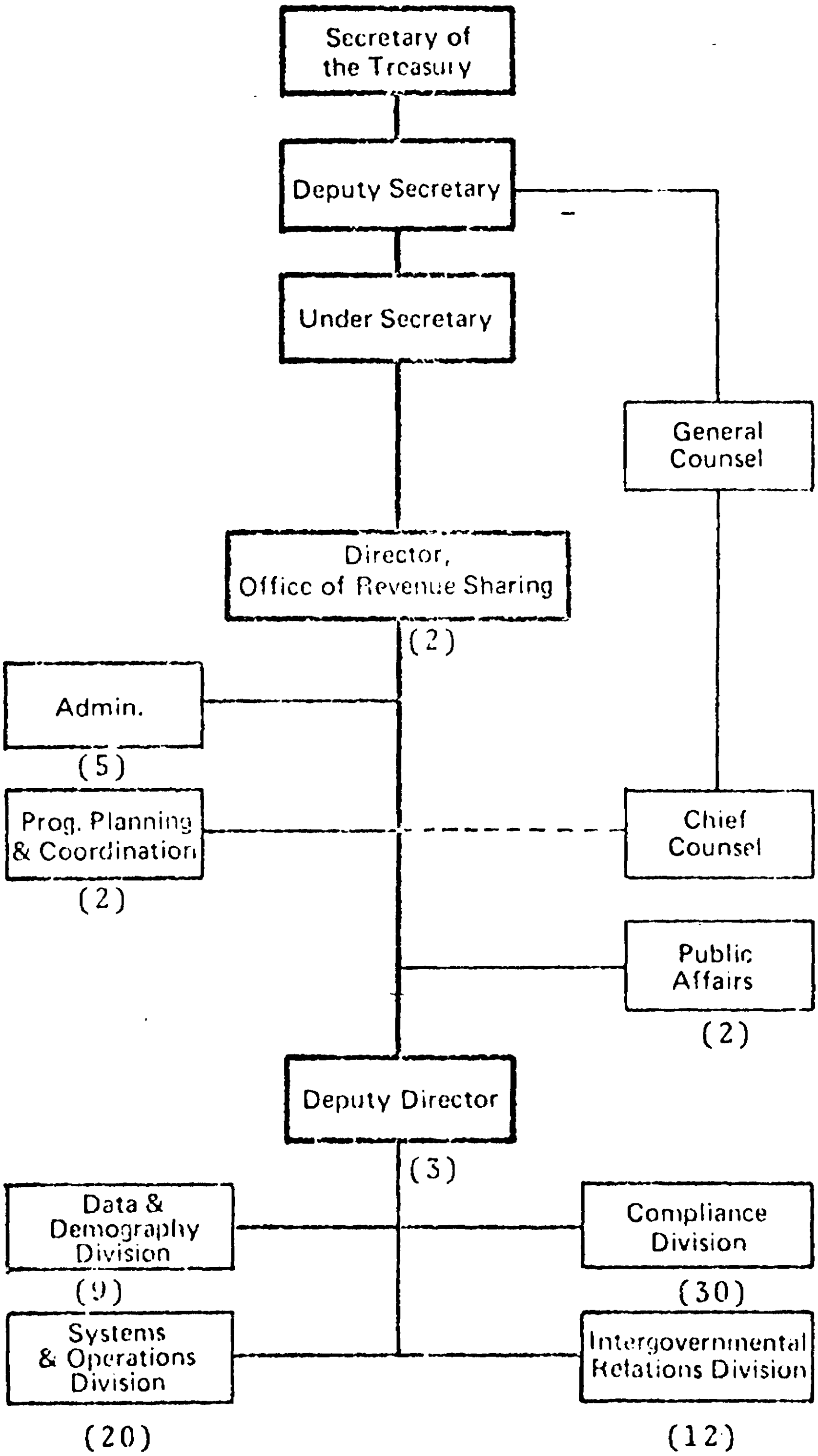
On February 19, 1975, the Office of Revenue Sharing requested the Department of Justice to initiate a civil action against the State of Michigan. Michigan has applied general revenue sharing funds to help fund the State Public School Employees' Retirement System. The Retirement System provides benefits to retired public school employees from Michigan school districts, including the segregated Ferndale, Michigan district. (Ferndale was ruled segregated in 1972. Appeal of the ruling was denied by the U.S. Supreme Court.)

The Justice Department is engaged in direct proceedings with the Ferndale School District to bring it into compliance with other Federal anti-discrimination laws. Accordingly, the Office of Revenue Sharing's action permits the Federal government to take a unified approach to resolving the problem.

ADMINISTRATION

The Treasury Department's administration of General Revenue Sharing is performed by a small and dedicated staff, all located in Washington, D.C. For Fiscal Year 1975, the Office of Revenue Sharing has been authorized a total of 85 positions. Our request for next year, including additions to our audit and compliance staff, would provide a total personnel complement of 116 positions.

GENERAL REVENUE SHARING ORGANIZATION
with presently-authorized positions in parentheses



The Fiscal Year 1975 appropriation to operate the Office is $2,133,000. Administration of the program including data services by the Census Bureau and Internal Revenue Service currently costs approximately 12/100ths of one percent of the funds being distributed.

SUMMARY

The legislative history of the State and Local Fiscal Assistance Act of 1972 shows clearly that the Congress intended to establish a new form of federal financial assistance to state and local governments. The Congress carefully distinguished general revenue sharing from all "grant" programs.

With general revenue sharing, states and local governments receive funds to which they are by law entitled—an important distinction from grants for which governments may apply.

Payment amounts are determined not by administrative discretion but by objective formulas which divide a national appropriation among the states and local governments according to published data which measures their relative population, tax effort, per capita income and similar factors.

General Revenue Sharing is bringing about better and more responsive government at all levels. As a program, it responds to the unique needs of states and local governments. As a new system, it offers opportunity to serve the American public with dependability, yet flexibility, in such a way as to recognize and encourage the combination of national unity and local diversity that has made ours the strongest of nations for nearly two hundred years.

Senator HATHAWAY. Next we have a panel of mayors from the U.S. Conference of Mayors, the National League of Cities; Mayor Kenneth Gibson of Newark, N.J.; Mayor John Orestis of Lewiston, Maine; and Mayor Kyle Testerman of Knoxville, Tenn. And Mayor Walter Washington was going to testify separately, but I understand he would like to join the panel; we are glad to have you join them.

I know that Bill Brock and I are going to be accused of provincialism in regard to two of the witnesses here, but I can assure the panel that it is not true in either case. I speak, particularly, for John Orestis, who I have known for many years, who has served very well and ably as the mayor of the city of Lewiston. And as we have had the benefit of his input previously when he testified before the Banking Committee, just about a year ago, in regard to mass transit, the testimony was well received at that time, and I know it will be here today.

Bill, would you like to say something?

Senator BROCK. Mr. Chairman, we, as I said earlier, have four distinguished mayors. I have heard all of them, I think, testify before, except Mr. Orestis.

Mayor Gibson testified before our Intergovernmental Relations Subcommittee earlier; it was very eloquent testimony. And, as I said, I particularly appreciate your inviting Mayor Testerman of Knoxville. I do not know of many cities in the United States that are more blessed with remarkably good leadership than Knoxville, and we have a first-rate administration in the leadership of Mayor Testerman. And I am just proud he is here, and I am grateful for all these gentlemen taking the time to join us and to afford us with their insights.

Senator HATHAWAY. All of your statements, gentlemen, will be made a part of the record, and we will have each one of you testify. You may summarize your statements as you wish, and then when all of you are through testifying, we will ask questions.

I guess we will go left to right.

Mayor Washington, welcome to the committee.

STATEMENT OF HON. WALTER E. WASHINGTON, MAYOR, DISTRICT OF COLUMBIA

Mayor WASHINGTON. Thank you, Mr. Chairman.

I thought since we were all members of the National League of Cities and the U.S. Conference of Mayors, and I had had a personal invitation, that it would be helpful if we were all together, because I think we are indeed together on this subject.

I have submitted my statement for the record, and in the interest of time, I will just go through a couple of the high points.

First, that in the District of Columbia, as in other local jurisdictions, demands for public services have been growing more rapidly than revenues. The State and Local Fiscal Assistance Act of 1972 established an important mechanism, in our view, for using the Federal Government's strong revenue-raising powers to give financial relief to local governments. We have indeed used the revenue sharing funds to provide a broad range of services to residents.

My statement will indicate the breadth of those provisions, but I will talk particularly to the flexibility with which we have been able to particularly treat some of the more difficult problems, such as subsidized day care service, and the work that we have done with the city's residential treatment facilities for mentally retarded and the Alcoholic Rehabilitation Center, and the D.C. Village, which provides care for the elderly. These funds have been used in a broad area of social services, and we are here today to support the continuation of general revenue sharing. We believe it is a viable mechanism.

I think that the resounding bottom line is, we like the flexibility. The problem we see is in the level of funding. We are hopeful that the committee will see fit to provide for multiyear appropriation, which we believe is expressly important for us in our financial planning. And I would urge you to continue this aspect of the program. And at the very least, an appropriation 1 year in advance would be made so that the State and local governments can actually take revenue sharing funds into account in their budget planning when they have to forecast in some cases—as we do—10 months in advance.

And I indicated that while I enthusiastically support the continuation of the program, I would suggest one or two changes. First, I would recommend deletion of section 104 of the State and Local Fiscal Assistance Act of 1972, which states that: "No State government or unit of local government may use, directly or indirectly, any part of the funds it receives under this subtitle as a contribution for the purpose of obtaining Federal funds which requires such government to make a contribution in order to receive Federal funds."

It seems to us that this restriction places an undue burden on the accounting function of State and local governments, and it restricts the expenditure of funds in high priority areas such as education, health, and social services, where Federal grants are usually received.

The allocation formula, we believe, should be reexamined to determine if funds are going to the jurisdictions where the needs are greatest. While the limit on the amount allotted to States does not

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affect the District so much, it does reduce the funds to other central cities. The formula itself should reflect the unique problems of the Nation's central cities.

An analysis done by the city of Washington of the initial revenue sharing allocation indicated that the District's percentage share of the total allocation equaled the percentage of the total Federal income tax revenues paid by the city residents. The amount of the appropriation should also be increased. Revenue sharing represents less than 3 percent, for instance, of the District's proposed fiscal year 1976 general fund budget. At the very least, annual increases should keep pace with inflationary costs.

I think, Mr. Chairman, that fairly well summarizes our position. And the one other thing that I might mention, before I conclude, that gives us some concern is one on population estimates. We feel that the data used to compute the District's estimated population probably resulted in an underestimate of the city's population. One reason for this underestimation is the undercounting of black residents that takes place during every census.

I raised this question in the last census and did receive some adjustment; we were not entirely satisfied with the total adjustment. We are also concerned over the general tax effort factor which represents the net amount collected from the State and local taxes, divided by the aggregate personal income attributed to the locality for the same period.

The first problem with the factor is that the State and local tax effort does not include special payments, such as—in our case—the Federal payment which compensates jurisdictions for the presence of tax-exempt property, institutions, and individuals. And I am sure Mayor Gibson will have a similar problem in that regard.

Mr. Chairman, I appreciate the opportunity to summarize my statement; I have tried very briefly to summarize our position and our view, and join with the mayors in our concerted effort to urge upon you the importance and significance of this piece of legislation. Thank you.

Senator HATHAWAY. Thank you very much, Mayor Washington.

STATEMENT OF HON. JOHN C. ORESTIS, MAYOR, LEWISTON, MAINE, ON BEHALF OF THE NATIONAL LEAGUE OF CITIES AND THE U.S. CONFERENCE OF MAYORS

Mayor ORESTIS. Thank you.

Mr. Chairman and members of the committee, before I summarize my statement I would also like to enter into the record, and the committee has copies, the statement of the National League of Cities on general revenue sharing. This is an institutional statement, and I will not summarize this.

Senator HATHAWAY. Without objection, it will be made a part of the record.

Mayor ORESTIS. I might point out, Senator Brock, that the National League of Cities has done the type of survey that Mr. Watt referred to. The results are part of the study in here, and will be updated.

Senator BROCK. Thank you.

Mayor ORESTIS. Mr. Chairman, and members of the committee, I think the purpose of the mayors here today is very briefly to touch upon some of our experiences with revenue sharing and some of the economic problems that we are having that revenue sharing has helped alleviate, and the reenactment and continuation of revenue sharing will continue to aid in the alleviation of.

Lewiston, as the chairman is aware, members of the committee, is a small city with a budget of only $14.6 million. In terms of the other gentlemen at this table, that is relatively small, but 8 percent of that budget was funded with general revenue sharing, and we have—because of our industrial nature and the general economic plight of the Nation, especially the Northeast—some real problems in city government.

Welfare is up 68 percent; food stamp usage up 44 percent; unemployment in our city has gone from 5.8 percent to 12.6 percent in a year; collection of taxes is down; and purchases—especially of petroleum products—have risen. For instance diesel fuel, 156 percent; number 6 fuel oil, 286 percent. And I could go on, but the impact of it is that as it costs more and more to run the Federal Government, it costs more to run local government. And as we are into this fourth year of revenue sharing, local government is starting to depend upon revenue sharing as a valuable partner in the funding of local government services.

The reenactment of revenue sharing would help do something that it has already started to do, and that is, stabilize the local tax rate. Nobody in our city, or in cities in my State, make the determination or have the hopes that we are going to be able to lower the local property tax rate because of revenue sharing in the future. The local property tax rate in my city is going up three mils this year, but without revenue sharing, it most likely would have risen another three mils. So that the stabilization of the local property tax rate has been an important part of revenue sharing's impact on local government.

Senator HATHAWAY. What is the mil rate now, John?

Mayor ORESTIS. The mil rate is going to be close to 38 this year.

Senator HATHAWAY. It has been 35?

Mayor ORESTIS. It was 34.5 last year, sir.

Senator HATHAWAY. Thank you.

Mayor ORESTIS. Our fear is that if there is not a reenactment of revenue sharing, if there is not a permanent commitment to revenue sharing, if there was not a substantial increase in the funding levels, that it is going to be a regressive move on all of our parts in terms of financing Government, because it places a burden on the most regressive of the taxes—the property tax.

It is difficult for you gentlemen, as United States Senators and your counterparts on the other side of the Hill, to vote for a tax increase, or to deal with a budget which creates the kind of deficits which you are dealing with this year. It is even more difficult for us to present to the people a regressive tax which increases year after year. It is even more difficult for us to indicate to the people that because we cannot do deficit finance of local government, because we cannot carry a deficit from year to year, that they are going to have to pay more, and more, and more. As has been pointed out in some of our central cities, the recapture of the house purchase price can occur in 10 years just in property taxes.

The use of general revenue sharing in Lewiston—and we have had an opportunity to spend about $4.5 million—has gone for such things as storm sewers, road maintenance, fire protection, upkeep, renovation of Government buildings, sidewalks, roads, bridges, local mass transit, subsidation, these kinds of things.

One of the criticisms of the program from the Congress and from some proponents of the program, we know has been that there has been not enough emphasis on the spending of general revenue sharing moneys in alleviation of social problems. We feel that the spending of the moneys in the areas that we have spent it has had a double-barrel effect. First, we spent the money in blighted neighborhoods and in areas of the city that have, in fact, alleviated social problems. And second, it has given us flexibility within our own city budget to such funds as model cities, our own tax money, for the alleviation of social problems and the funding of social programs.

The restriction on the general revenue sharing legislation that does not allow us to use it for Federal match has made the decisionmaking process such that many local governments have opted to use it for more operational things than social problems because they cannot use it to turn over and get a match. And they have, however, created flexibility so they can use their own moneys and model cities moneys, for instance, in my city, for match money to fund social programs.

Another complaint that we hear from some Members of Congress, and from some opponents of the program, is that there has been a lack of citizen participation in determination of the spending of these moneys. Citizen participation, as the chairman is well aware, in Lewiston, is an everyday thing. We have a very decentralized form of government with at least 75 people making every decision. So we feel that citizen participation, at least in our city, although it is unique, has been very high.

Generally, all of us are here to give you the same message. And the league and the Conference of Mayors are here to give you the same message. And the league and the Conference of Mayors are here to give you the same institutional message: that revenue sharing—the reenactment and continuation of it—will allow us the continued local flexibility of funding uses and the continued ability of local officials to meet local needs on our own priorities without strings attached and without creating problems to meet categorical grants or bending our problems to meet categorical grants.

We have determined, we believe, and we tell you that general revenue sharing is a vital partner in the funding schemes and patterns of local government. We need it; our dependence on it grows yearly. We need reenactment, we need a long-term commitment, we need more money, and, sure, we are all in favor of revenue sharing as recipients. We recognize we are not the most objective witnesses you will receive regarding the reenactment of revenue sharing; we know there are some areas that need reform, we know that you are having some citizen participation problems, that some people want to see a more need-oriented formula. We recognize all of those things, but what we say to you is, reenact it, give us a long-term commitment, help us in our local need planning, and we will work with the Congress to put these funds to good use.

Thank you, Mr. Chairman.

Senator HATHAWAY. Thank you very much, John.

STATEMENT OF HON. KENNETH A. GIBSON, MAYOR OF THE CITY OF NEWARK, N.J.

Mayor GIBSON. Thank you very much, Senators. My name is Kenneth Gibson. I am the mayor of the city of Newark, N.J. We are honored to appear to present this testimony.

We have all supported revenue sharing in the past and we are here to support its continuation for many years in the future. I believe that unlike any other program administered by the Federal Government, it offers each municipality the opportunity to utilize the funds it receives under the program, according to that municipality's own needs and priorities.

Mayor Orestis has stated that we do not have to start to adjust our priorities to fit the pot of money in categorical programs. In Newark, we have used the general revenue sharing funds to maintain the delivery of basic city services.

Public safety and sanitation, and education are the traditional responsibilities of any municipal government. In recent years, certainly in the last 20 or 30 years, city halls have expanded their responsibilities in order to provide additional services.

Most of us have introduced extensive health care programs in our cities to aid those who could not afford their own health care programs. We have instituted public assistance programs for those unable to work. We have instituted, with the help of the Federal Government, manpower programs to return the unskilled to meaningful places in our society. We have started to build, and manage, housing which the people could afford. We have introduced programs to aid the consumer, clean our air and rivers, promote economic growth, and create mass transit systems, to name a few of the relatively new programs.

To some degree, cities have absorbed the cost of these added services. I know in the city of Newark we have absorbed a great deal of the costs. However, more and more of the money for these important programs has come from State and Federal Government as Americans have come to recognize not only the need for these programs, but also the increasingly limited ability of cities to afford these programs on their own.

Yet the delivery of basic services still remains the major responsibility of city government. And, while categorical programs have provided outside funds—mostly Federal funds—to help meet the cost of additional services, the Federal Government has continued under the assumption that cities could continue to afford the cost of basic services simply because we were already paying for them.

If this were once true, it is no longer so. The cost of maintaining basic services has risen incredibly. The major portion of these costs is in personnel. More than three-quarters of Newark's operating budget pays the salaries of our policemen, firemen, teachers, and sanitationmen.

Federal programs have helped us train our teachers, helped us buy better equipment for our police force, and helped us plan to recycle our garbage—and these are very important things we vitally need—but the cost of paying these employees remains essentially our own.

And, with inflation, increased fringe benefits, and earlier retirement, the cost of personnel has multiplied many times over since the Second World War.

In fact, the cost of maintaining basic services has become so high that it is slowly strangling urban America. Most cities have only one means of raising the money that the city needs to maintain basic services, and that is the property tax. With no other alternative, city after city has faced the unpleasant prospect of cutting vital services or raising the property tax.

In Newark, we have had to do both. Property tax, as we all know, was development many, many years ago at a time when it was probably an equitable tax. I do not believe that that is any longer true. I do not think it is any longer a measure of a person's ability to pay, which I think is a fair yardstick to use on a tax.

As the Senator has pointed out, in the city of Newark, a $20,000 house now, Senator, pays almost $2,000 a year in property taxes. That is a $20,000 house, fair market value, 100 percent assessed valuation.

People cannot afford that kind of property tax. And, with that being a nonproductive vehicle for meeting the needs of the people in this present age, general revenue sharing then offers an alternative to those of us who have suffered most from the inequities of the property tax.

It enabled us to provide public services while, in fact, reducing an already overburdened property tax structure. This year we cannot even do it with general revenue sharing. In Newark, the property tax rate has gone up. The services have been cut. I have had to lay off hundreds of city employees, including policemen and firemen, because we just cannot anticipate the revenue to continue to carry the personnel costs.

Revenue sharing, then, enables us to continue somewhat the basic services. In this way, we hope to alleivate the pressures which are still slowly eating away at the economic foundations on which the city exists.

In this way, in using general revenue sharing in this way, we can make our cities more attractive to businessmen and developers and promote the kind of new growth that we must have.

General revenue sharing, in my opinion, must be reenacted. Without it, the burden on the local tax resources will increase as never before. Everything that we will have achieved from the first 5 years of revenue sharing support will be lost. And, whatever opportunities the future might have offered for rebuilding our cities, will become that much harder to achieve.

Now, as chairman of the Conference of Mayors' Advisory Board, I personally would like to take this opportunity to submit for the record the conference's policy position on general revenue sharing. Since the year 1967, we have supported the concept of general revenue sharing. At our last annual meeting in June of 1974, the U.S. Conference of Mayors adopted the following policy position—and I quote:

The U.S. Conference of Mayors establishes the re-enactment of the general revenue sharing program as one of its highest legislative priorities for the 94th Congress and urges the 94th Congress to re-enact the program at least one year prior to the termination of the current program to assure continuity and certainly for local budgetary planning.

Moreover, the Conference endorses the concept that the new revenue sharing program be funded commensurate with the growing needs of the cities and that

the new program continue to operate outside the appropriations process. The extension of general revenue sharing must fully take into account the degree to which inflation has eroded the dollar value of the program.

Senator HATHAWAY. Thank you very much, Mayor Gibson.

STATEMENT OF HON. KYLE TESTERMAN, MAYOR OF THE CITY OF KNOXVILLE, TENN.

Mayor TESTERMAN. Mr. Chairman, distinguished members of the committee, our own highly respected Senator and good friend, Senator Bill Brock, I can only join with and echo the previous remarks of my very distinguished colleagues appearing with me today, that we express our appreciation to this committee for giving us an opportunity to share our thoughts and comments.

I would like to explore with the members of this committee the positive impact the 1972 State and Local Fiscal Assistance Act has had on management within our city, and the improved delivery of governmental services which this program has provided to those whom I represent.

My limited remarks will be dedicated to sharing with you some observations that have made me a firm believer in both the philosophical and practical applications of the general revenue sharing law. I think, at the outset—which I certainly need not remind you—this revenue sharing law embodies those constitutional principles of Government "by the people" which we will soon celebrate during the Bicentennial of our Nation's birth.

The fundamental premise underlying the American federal system is a concept that government must remain close to the people it serves. Within this concept and system, it is the cities that are most directly in contact with the people and should, therefore, be the units of government most responsive to their needs.

But as indicated by my distinguished colleagues, I think paradoxically this crucial role implies that the cities have the resources and the capabiliites for meeting these needs.

Yet, as a participant in the "President's Conference on Inflation" approximately 7 months ago, we heard time and time again that America's cities are being squeezed in a financial vise as never before since the Great Depression.

One jaw of this vice is the rapidly increasing need to deliver services within our communities. The other jaw is the inability of many cities to raise the revenues required to maintain even their present degree of health.

And all of us know what some of our cities have gone through, the shock waves of increasing interest rates, the higher costs of governmental services, have been felt by all of us throughout all of the 39,000 local governmental entities.

And with this ominous cloud of inflation hanging over our heads, I think it becomes, once again, abundantly clear that revenue sharing must be extended during 1975, for practical as well as philosophical reasons.

Since October of 1972, the date of revenue sharing's birth, we all know that inflation has cut deeply into the "windfall"—and this term, in my personal opinion, is irresponsible—which many label the dollars designated to flow from this program.

For example, the $6 billion in revenue sharing funds set aside by Congress in 1972 for use in 1974, were in reality only worth approximately $5 billion, as adjusted by inflation. In Tennessee, the gap between those revenues necessary for operation of local government, and those revenues actually available, are just as staggering.

A conservative estimate finds a revenue gap of $425 million existed within Tennessee's 300 municipalities during the first half of this decade. I might add that this figure is not for Tennessee's four metropolitan areas alone, but is felt in less populated units of local government such as those with a population base between 3,000 to 10,000 residents, where an $18 million revenue gap exists.

This is not a pleasant tale to tell, but the fact remains that revenue sharing is not a "luxury" but, in fact, is a "necessity" if local governments in Tennessee and elsewhere are to serve the local taxpayer who, after all, is the Federal taxpayer as well.

And I think no longer can any of us be fooled into believing that somehow his Federal tax dollar is raised from sources other than his own pocket. The local and the Federal taxpayer is one and the same. As a result, revenue sharing must be reenacted in order to insure a fair return in local services for local tax dollars invested with the Federal Government.

I think the citizens of Knoxville, and communities throughout the Nation, will no longer tolerate situations as existed in 1970 when the Federal Government expended $23.9 billion in aid to States and local governments, while the citizens of cities and States throughout the Nation contributed $90.4 billion in income tax receipts to the Federal Government.

This percentage equals 26.4 percent of the income tax receipts spent for aid to cities and States in 1970. This percentage shrinks even further when total Federal receipts, including corporate income taxes, excise taxes, and other components of Federal fund resources are added. Now, I feel that this situation—and my colleagues do—is no longer tolerable.

I think, without question—as has been emphasized by the other mayors before me—the time has come to extend the general revenue sharing law as a method to reinforce those governmental institutions which are closest to the people.

Senators, the answer to this fiscal crisis is not more Federal categorical grants. The day-to-day demands being placed on all of us by our constituents can no longer be answered by sending our city officials to Washington to roam the halls of HEW, HUD, DOT, and other Departments in an effort to coax aid out of these agencies laden with redtape.

We no longer have the time to prepare reams and reams of paper to justify, qualify, and document receipts of over 500 possible grant-in-aid programs. And I think that basically, speaking for the citizens of Knoxville or any other community, they no longer need a far-removed Washington bureaucrat to decide what are the priorities of our communities, especially when the decisions of that official are not subject to evaluation at the ballot box. Nor do we appreciate the insensitivity of a Washington bureaucrat who queries "in what section of southern California is Knoxville."

As appreciative as we may be of these Federal grant-in-aid dollars, when finally received, we need money today to hire policemen, firemen, to carry out all of the services mentioned by my distinguished colleagues before me, to operate our various departments of city government as well as meeting new and costly Federal guidelines such as those placed upon local governments, such as EPA.

At this point, I would like to discontinue any further remarks and just briefly run through the impact—quickly—that we have had in Knoxville. But I would like to express the appreciation of all Knoxvillians to Senator Brock for his leadership in reversing the flow of decisionmaking power and financial resources from Washington to our local governments.

We applaud Senator Brock for his role in the development of the 1974 Housing and Community Development Act, and many other programs that he has fostered and worked with you distinguished Senators in.

In regard to the impact, I will briefly run through them as far as the specific programs, as the other mayors have done. We employed additional uniformed police officers, and purchased additional equipment to support them. We have relocated our main headquarters and repaired several outdated fire halls.

We have had extensive programs of horticultural maintenance, recreation, and beautification of city parks. We have provided programs of ordinary and necessary equipment acquisitions to maintain the drastic and necessary levels of services in the areas of street cleaning, refuge collection, building inspection, and disposal, to provide for and equip a total citywide program of safety to comply with OSHA guidelines.

Also, to provide for the expansion, repair and maintenance of certain segments of the sanitary sewerage system, and to fund certain equipment acquisitions to insure quality services in the future; to provide additional funding for the planning, design, maintenance and signalization of the traffic network of our transportation network on our capital funding, our municipal zoo, to provide operational and capital funding for 12 recreational centers in economically depressed areas of the city; and to provide for special programs and services in these centers specifically for the elderly and socially disadvantaged.

To fund the city's portion of the joint city/county library system; to provide monetary grants to 17 community agencies providing services for the poor and aged; to fund the meals-on-wheels feeding program and the dental services program for the poor and aged, and many other programs of this nature.

I think that that not only shows the responsible nature of our expenditures, but the responsive nature of our expenditures.

In conclusion, once again let me thank you all for allowing us to participate and share with you our thoughts and comments in relation to the impact that this very important piece of legislation has had on our own local community.

Sentaor HATHAWAY. Thank you very much.

Gentlemen, let me ask all of you if you are satisfied with the intrastate allocation of the revenue sharing money. If not, what changes would you suggest?

Mayor WASHINGTON. I do not have a State, so I will let one of the others answer.

Senator HATHAWAY. I could ask you along that line whether or not you think the District of Columbia would be treated even differently than it is now. It is treated as a State under the act.

Mayor WASHINGTON. I think our treatme t is very much like a State.

Senator HATHAWAY. Do you think there are any special problems in the District that require a different kind of treatment?

Mayor WASHINGTON. I think in my statement I have outlined them, Mr. Chairman. I did not want to linger on it because I am unique in this situation. I do have a problem with respect to the allocation of Federal payment and its relationship to general revenue sharing which I think I dealt with.

Senator HATHAWAY. On the matching funds, you mean?

Mayor WASHINGTON. Yes; on the matching funds.

Senator HATHAWAY. John?

Mayor ORETIS. We have not had a great deal of difficulty with that, Senator.

Senator HATHAWAY. Some have suggested that the maximum allowance be raised, that the minimum be changed or removed altogether.

Mayor ORESTIS. I was in favor of removing minimums for our size of city, but in this particular case I have not addressed myself to that problem, Senator. I do not know if either of the other mayors have.

Mayor GIBSON. In New Jersey, we, because of our relationship with the State administration, have not had the problem. I can see that it could exist in other places, but we have not personally had the problem.

Mayor TESTERMAN. I would only recommend that I do believe that both the minimum and the maximum would need some serious review by this committee to see that certain inequities do not exist within certain localities, which I do understand are apparent now and have presented serious interstate types of problems in many areas. In ours, I must admit, it has not presented that serious a one to this point; but I do think in others it has.

Mayor ORESTIS. Senator, I might also suggest that our institutional committees are looking at all of the formula issues and would be happy to provide the results of our own deliberations to the committee.

Senator BROCK. If the Senator would yield?

Senator HATHAWAY. Certainly.

Senator BROCK. It is true that the League of Cities has requested an adjustment upward in the ceiling because the problem is where we have a formula, and then we do not let the formula work; where we have a particularly depressed or a poor area, we put that 145 percent ceiling on and, in effect, deny the application of the very formula we have written, I think.

Mayor Orestis?

Mayor ORESTIS. Yes; that is included in the League of Cities statement, which we have entered for the record.

Senator BROCK. Yes. You take that position in the paper you have submitted, I think.

Mayor ORESTIS. Yes.

Senator HATHAWAY. I just want to note for the record, that one problem on that score, according to the national journal report, if the formula is changed, 111 cities would lose money; only 42 would gain if we increased the ceiling, which may pose a problem. This is, not that we do not recognize that the larger cities probably do need more, to take care of the poor in particular.

Let me ask you, Mayor Gibson, is not the revenue sharing simply going to postpone the inevitable decision that has to be made in New Jersey to adopt some better, more progressive form of taxation? Forty-one States in the Union, for example, have an income tax, 28 of which I think is just patterned after the Federal income tax. New Jersey is one of the nine that does not have any income tax whatsoever. I guess that accounts for the fact that you have a very high property tax. That, of course, is not helping you at all in New Jersey. I presume that people are reluctant to buy property in areas where they have to pay such high taxes, especially with interest rates as high as they are.

Should we not adopt some more stimulus in the revenue sharing formula to induce States to adopt the income tax or progressive taxation?

Mayor GIBSON. Yes, sir. We have discussed this one at length, and we believe that ways should be used to stimulate States to do their adequate share as far as tax effort is concerned.

I would question whether or not the revenue sharing measure itself is a total tool for that. In New Jersey, by the way, we have been under a court mandate, the State has been under a court mandate to adjust this tax structure, basically because of the education issue. The court recently has given the State legislature, I believe another 6 months. So, therefore, by the end of June, because of the 6 months expires at the end of June, I would expect that whatever the tax measures would be, and I hope it would be a graduated income tax or some form of income tax, will be passed by the legislature, because the State supreme court has mandated that they act.

So I do not think that the general revenue sharing action, that we hope you will take soon, will have any effect on the fact that the State of New Jersey must come up with a broad based tax to deal with the funding for public education.

Senator HATHAWAY. I see. But is that confined to public education?

Mayor GIBSON. It is not confined. The court mandated it in the case that they have to come up with a measure. The measures that are being considered by the legislature include measures that will in addition to dealing with the public education problem, deal with the State's problem; because it is still, in my opinion, in the dark ages as far as its tax structure is concerned. So when they do it, they will do it to deal with the State's entire budget problem.

Senator HATHAWAY. All of you have testified against categorical aid program, in favor of general revenue sharing. Could we not solve your problem by making the guidelines and the rules pertaining to categorical aid programs a little more flexible?

Mayor TESTERMAN. Anything would help.

Senator HATHAWAY. In lieu of revenue sharing, I mean.

Mayor TESTERMAN. No; I do not believe that would be the answer to it. I think revenue sharing, as is pointed out here, has become a fiscal assistance, and can complement and expand beyond the categorical grant programs in many areas.

I do not feel that going back to the categorical grant program, even with flexibility to meet the basic needs that we have, in order to establish priorities and to meet the needs whatever our various needs might be in our own local communities.

Mayor WASHINGTON. I think, Mr. Chairman, I certainly believe that as well. The difficulty with going back, you are talking about going back to make something, that has proven unworkable in terms of its categorizing people and programs, more flexible, when we have a mechanism that in itself creates the kind of flexibility that permits us to deal with the whole substance of service.

For instance, I am looking at the categories in manpower. You have three categories, and a person comes in and he gets stuck in one category. He needs all three of them, really, to come out as a trained individual, a trained person that relates to a job structure. I do not know just what you could do to make that more flexible. But built into the revenue sharing provision is the flexibility which I think is significant. It permits you to go beyond the range of any category. I would certainly support that, instead of trying to go back to a category that has proven unworkable.

Mayor ORESTIS. The other problem is, Senator, that you have the whole question of Federal funding and bring money back to the local level; it is one that could be answered very easily, but it is a monumental question, and that is, how are we going to get rid of our biggest problem, the regressive property tax. How are we going to take Federal, State, and local governments, and reshuffle the taxing patterns of the three governments so they are all on a progressive basis, in which case maybe we would not even need the return of Federal dollars. Maybe the dollars would be going to the right place in the first place.

You mentioned before the problems about revenue sharing perhaps being kind of a holdback against States becoming progressive; in New Jersey, for instance, instituting an income tax. Maine has an income tax, and yet the State government, in a year of recession like this, the Governor writes his budget and finds places to cut costs. He does not cut costs. He passes them on to local government, so that we end up with not a more progressive return of State revenues, but in fact a step backward. So, until the whole tax structure is changed, we are going to need both categorical grants and general assistance from the Federal Government. There is no other way we can meet our local needs. The good thing about general revenue sharing is, it lets us meet certain local needs without being structured by catalog to domestic assistance, or a book of regulations or the Federal Register—things that really hamper us in the administration of programs for local problems.

Senator HATHAWAY. Is your need for money for police forces caused by the fact that the Legal Law Enforcement Assistance Act is not funded well enough, or because of the specific categories you have to spend the money in?

Mayor ORESTIS. A little bit of both. But I think specific categories in our particular instance is more constraining than the funding levels. We have been funded by LEAA for certain programs that I as an administrator did not feel that we needed the funds for. Yet we went after them, and these were administrations before mine, because they were there and because we would get certain kinds of equipment. In Lewiston, Maine, where we have not had anything more serious than a Fourth of July overflow in the city park in 10 years, there just really is not a great need for riot helmets and riot guns, and we have a garage full of them now.

So, you know, we need more cruisers to patrol our rural areas and that kind of thing. We can meet that kind of need better with general revenue sharing.

Senator HATHAWAY. Thank you.

Senator Packwood?

Senator PACKWOOD. Do any of you see anything wrong with using general revenue sharing money to reduce local tax burdens?

Mayor TESTERMAN. No. From a personal standpoint that is what I assume the Fiscal Assistance Act is supposed to do. In some circles, it is talked about like it is a sin. But I think it is very important in many areas that it be adjusted. As indicated, I think by Senator Brock and possibly by yourself earlier, Senator, was that in many areas the base of local taxation had gotten to the point of where it was drastically too high. There needs to be an adjustment downward to help in areas of the elderly and social areas.

Senator PACKWOOD. It seems to me in Newark, even if the court decision stands and you get a new base for school financing, you are still going to have an incredible property tax, even if education is taken off your shoulders. I do not understand—I do not blame you—I just do not understand how a city can operate with that kind of property tax.

Mayor GIBSON. Senator, we will still have a high property tax. The thing that I think is most important is that of the city's operating budget, very close to half of it that is raised from the property tax is now going into the funding of public schools. So let us use 40 percent as an example. If I had 40 percent of my problem relieved from my shoulders, even though we still have a high property tax——

Senator PACKWOOD. You would still have one of the highest property taxes in the United States.

Mayor GIBSON. I would take 40-percent relief.

Senator PACKWOOD. Let me pursue this question, the allocation of funds between State and local governments, or perhaps between big cities and small cities. In Mayor Washington's statement, when he says the formula itself should reflect the unique problems of the Nation's central cities, I sense, Mayor, you were talking about bigger cities as opposed to smaller cities. Is that a fair statement?

Mayor WASHINGTON. Bigger cities, yes; not necessarily opposed to smaller cities; but where the entire burden of services is impacted to the point where we are characterized as the urban crisis, I think, yes. But I do not want to leave the impression that I am not concerned about the smaller cities. It is just that the impact of services now, with that demand which is outstripping revenues by maybe five times, is creating the kind of problem that is going to put this Nation into a very, very difficult period when 80 percent of the population actually are in the urban core.

Senator PACKWOOD. Well, when you get down to the last bill, and we have x billions of dollars, that is going to be an argument made at the last, that we should reorder these spending priorities within the bill; less to the States, more to the cities and counties, or less to small cities and more to big cities. But there is only going to be so much pie. I am reluctant. I look at Lewiston's plight and its unemployment. My God

I would take a guess that unemployment is higher there than in Washington, D.C. I do know what it is running exactly here, but yours is very, very high, Mr. Mayor.

Let me come to the State levels.

Mayor WASHINGTON. As I said, I think you have to look at the total problem. What I see is what I see in the bigger cities. You have pockets, and certainly Lewiston has a peculiar problem. Gary has a problem. They closed down one plant. I have also said in my remarks that you have got to look where the need is. It may be more aggravated in a smaller city for a period of time or at a particular given time, like now, than it would be at another time. I think that the flexibility of this program permits you to do that.

Senator PACKWOOD. In a statement submitted by the league, and I guess Mayor Gibson, it would be yours, they have this statement: the State and local proportions of the allocation should be reviewed in light of State and local revenue and expenditure analysis.

What does that mean?

Mayor GIBSON. The league, as we pointed out, and the conference, has undertaken studies to take a look, which we hope we would be able to provide to you very soon. It means simply that we need to take a look at need and local effort. The local effort as far as the State of New Jersey is concerned, and the State of New Jersey is not good—we have said this repeatedly—we think it is going to improve in the very near future. We think that the allocation of funds, therefore, from the State to the various local municipal governments have to be looked at. We have to look at who provides certain of the other services. In New Jersey, for instance, in our area, the welfare load is carried by the county, primarily, Federal and State assistance. It is not provided by the city, and it varies from State to State. I think that has to be looked at. It is a very significant service at a very significant cost.

Local education is another issue. The cost of education in the city of Newark where we have 80,000 schoolchildren, is tremendous. That is paid for by the city of Newark's property taxpayers. I think you have to take a look at how that is provided in the various school districts around the Nation.

When you talk to the various mayors around the country as we do at our conferences, when I talk about the problem of education, some of the mayors do not even provide that. You know, it is provided by another taxing power, another unit. Therefore that kind of thing has to be looked at when we talk about assistance like general revenue sharing.

Senator PACKWOOD. I am not going to pursue this much further, if the mayors or counties are not interested.

Is it your position generally, as mayors or not, that the State and local proportion should stay as it is, or do you think if we only have so much to divide that the State should get less and the local government should get more?

Mayor GIBSON. Senator, I know we have ducked the question. I know I have ducked it. I did not even answer it when you first raised it.

Senator PACKWOOD. That is why I raised it.

Mayor GIBSON. Primarily because we, as mayors, understand that we have to get along with the Governor and the legislature—I have to, otherwise I am not going to survive—we have to have special urban aid packages passed in New Jersey in order for me to even survive. It is a question, as we all know, of whether or not we can get things passed.

I personally feel that I would like to see more of the money come to Newark because I have the problem and I think that the State government is a little bit more removed from the problem than I am. But at the same time I would not want to jeopardize the measure by saying give us all the money and cut the States off. You know, they have problems and they have to provide services.

Senator PACKWOOD. Let me follow this a bit more. You said you think the State is a little bit more removed from the problems than you are. You are talking about the everyday problems of providing service?

Mayor GIBSON. Yes, sir.

Senator PACKWOOD. All right.

You know the arguments—and here I am not talking so much about racial discrimination—the argument about rich/poor: that the States and local governments are simply cowed and controlled by those who are advantaged, that the poor do not share well in these programs, and that the rich control the local governments.

Do you want to respond to that?

Do you think that you can actually meet the needs of your citizens, or are you so controlled that it is simply impossible to give a proper priority to what ought to be proper spending?

Mayor WASHINGTON. Senator, I do not think I have quite the problems of some of the others. I think I might have answered that last year differently than I would this year, where we have just, after 104 years, had the right to elect our own local officials. I believe that within that context—and you see, we serve here in the city as both State, county and city and we discharge the responsibilities of all three of those jurisdictions—I believe that within the context of the home rule measure, with 3 months under our belt, we will be able to respond appropriately. Now we do have——

Senator PACKWOOD. You know, Mr. Mayor, I am intrigued. Some of the very people who argued hardest for home rule and to allow the District to solve its own problems and to delegate this power to the District government, are also saying in many cases that the local government is inept to handle its own problems and you cannot trust them.

Mayor WASHINGTON. This, of course, grows out of history. It does not necessarily relate to Washington, because we have not had it. I just discount that as anything other than a parochial argument.

I believe that the problems we have faced with the drainage of money coming from the local jurisdictions into both—I can say it, into the Federal and into the State because I do not have a State like Ken does—has created one form of the problem. The other is that along with that your population changes, your movement to the suburbs leaving the center core of the cities, which is what I was really referring to there, carrying a population profile that expands the need greatly for these services without the revenue base going along with it.

We have talked, the mayors have, about 15/5. It is closer now to 25/5, and the sheer economics of the situation have really caused the cities to come into this problem. I think that I would say as one mayor, now elected, that I challenge that statement. I challenge whether or not we have the kind of beautiful people who, with all of the know-how at some other level that can predict and that can really run a situation any better than what we are doing.

Senator PACKWOOD. You do not think it is a valid charge—and any one of you can answer this, this is a generalization—you are spending too much for police cars and not enough for day care, because that is a charge you are going to be hit with tomorrow with some of our witnesses and as we go on through these hearings.

Mayor TESTERMAN. I think it is totally invalid.

Senator PACKWOOD. Mayor Gibson?

Mayor GIBSON. In the city of Newark, I am being asked to spend more money for police cars for policemen and firemen and other personnel; at the same time we are being asked to spend more money for day care and other services. It is a question of how much money do you have and how you develop your priorities. I am laying off policemen in the city of Newark. Nobody likes that, including the people who want day care.

Senator PACKWOOD. The argument that the National Welfare Rights Organization, and maybe those who want a very, very strong Federal grant-in-aid program, are going to give us is that you do not understand the priorities, that your people really want day care more than they want policemen, that you are spending the money wrong.

Mayor GIBSON. I think it gets back to Mayor Orestis' basic question of citizen participation. In our city, we have a unit that operates and advises us. If anyone can tell me that they know more about what the people in Newark want than I do, then I think they are wrong. You know, because the people talk to me, I know what they want; I know what is needed. We do not always agree. We are elected by people. You and I and all of the elected officials are elected by people to make decisions. All of the people in the city of Newark, all 400,000 of them, will not agree. We cannot put each question up on a referendum as to whether or not there will be, you know, 10 more policemen or whether or not there will be some more money for day care. You cannot do that. You have to make the decisions; you have to make them every day. We cannot wait until election time to ask people what we are to do. I make the decisions in the city of Newark, and I think we as mayors make them. We are at least popular enough to be reelected when the time comes. We are going to be accused by the people of Newark and outside for having the wrong priorities. The same people who make those accusations are not in a position to make the decisions. If they were, they would be charged as we are, with making the wrong decisions at times.

Senator PACKWOOD. I agree with you 100 percent. I cannot think of any job tougher than being mayor of a town, when you are fair game for every pothole that appears in the street up and down. I am not sure you could get me to be a mayor under any circumstances of any town because of that.

I agree with you about priorities, and I am convinced that you do know your priorities better than the Assistant Secretary of HUD or HEW. You might have some idea of what you need. I will do everything I can to make sure there are no strings put on this, that the money is increased and that the discretion is yours.

I have no other questions.

Senator HATHAWAY. Senator Brock.

Senator BROCK. Bob Packwood just stole my speech. I might point out what you all know very well, because you have been there, that any critic in your city has a right to run against you, and they all do, and they are going to continue to. And, if they have got a better sense of priorities, and if they sell it to the people of that community, it is not going to be Mayor Gibson of Newark, it is going to be mayor-somebody-else, and then they are going to have to live with those problems.

I was very strong in my compliments of Kyle Testerman because I have worked with him, and I know the remarkable work he does in our State. But, gentlemen, I have enormous regard for all of you because, as Bob has said, I do not know of a tougher job in the whole world than being mayor of an urban community in this society today.

You are on the firing line every day, and if you do not properly address your priorities, somebody else will, because that is the way the system works. And, if we do not believe in the system, then we ought to be honest enough to admit it and say what are we going to do to change it.

As long as we express faith in the federal system, we have got to make it work. And, to make it work, we have got to give Newark and Knoxville and Washington and Lewiston, or any other community, the resource base with which to meet the needs of the people of those communities.

We do not have any choice, as far as I am concerned. I have just one question. I was fascinated with the comment that Mayor Orestis made about receiving some LEAA funds for programs which were, in his view, not entirely essential. You might have put it differently, but that is the essence of it.

Or, maybe we should say, I think, Mayor, that you would have said that they would not be at the top of your list of priorities for community needs.

I would like to ask all four of you this question. Can any of you honestly tell me that you have not sought and received Federal funds that were not particularly at the top of the priority list? Have you not all, on some occasion, gotten Federal funds which were required to be spent for a particular program or approach, or a piece of equipment, that was less essential than some other urgent need that you had in your community?

Mayor ORESTIS. I have already confessed.

Senator BROCK. You have confessed. Can we have a general statement?

Senator TESTERMAN. I will sign an affidavit to that effect.

Mayor GIBSON. Absolutely.

Senator BROCK. Gentlemen, does that not tell us something about categorical grants and what they do to this country, and what they are doing to the taxpayers of this country? This skewing out of line of our national priorities? The abuse? The waste of public funds which have to come from people in this country?

Good land. What do we need better to illustrate the desperate need for something like revenue sharing where there is no excuse, no right, no opportunity for someone outside of Newark, N.J., to tell the people of Newark what their needs are and what their priorities should be?

I cannot think of any better illustration, than your own statements, of the essential logic of revenue sharing, as opposed to the—what I consider to be, in many cases—the continuing fraud of some categorical grants programs that, at best, with maybe a national purpose in mind, it is nationally valid, but that valid purpose nationally might not have validity for certain communities, and yet the funds are going to be spent because they are there.

I think you have proven the case, and I thank you.

Senator HATHAWAY. Thank you, very much.

Now I agree with Senator Brock in that regard. The only problem that bothers me is whether or not the local governments are more subjected to lobbying efforts than we are. I would agree that certain Federal categorical programs are not appropriate for Lewiston, Maine, and maybe they are for Newark, N.J., isn't whether they are not funded because they are not valid or because some strong lobbying interest in that area prevents them from being funded, is the real problem.

I know that all of you are good, conscientious public servants and want to see programs funded that you think are needed, but we have an example right here. Why is there not an income tax in New Jersey? I presume it is because of a strong lobbying effort against any income tax effort there. And yet all of us agree there ought to be one. There ought to be an income tax in New Jersey.

The same thing could happen with respect, say, to a vocational guidance program in the educational system. That does not have much of a lobby locally. It does have a good lobby nationally. I think it is a valid program, and yet if we just gave the money to the local educational agencies, and said to spend it wherever you want to, many agencies would not spend it for guidance. Because the textbook people, or whoever, simply have a stronger lobby.

And, even though you individually might want to see the money spent for guidance, you would not be able to overcome that lobby with your board of aldermen, or whoever you work with, and that is the problem—the big problem I see with this general revenue sharing—that in some areas, because of local lobbying efforts, they are not getting the share of the funds they ought to get.

So that is why we have to retain the categorical programs.

Mayor TESTERMAN. Well, I could just reply from my standpoint that that is not at all the case in Knoxville. Now I cannot speak for these other gentlemen, but I think the processes that we go through, from the standpoint of citizen participation and community involvement make us more responsive than many times those of you are.

Senator HATHAWAY. But some of the beneficiaries or the intended beneficiaries, are not very good lobbyists. The poor, for example, are not very good lobbyists on behalf of themselves. They have become more so, because of the poverty program that was enacted in 1962, but prior to that time they were not very active. And I do not know if they are much more now.

Mayor TESTERMAN. When you live in a community and you are there 365 days a year, you have an appreciation for those. It is not a question of lobbying. It is a question of needs and priorities, and you are living there with them and they are part of you and it is a question of meeting those needs on these priority bases, so I do not think they need lobbying efforts. All it takes is a heart and concern for those that are less privileged than others in the community, which all of us recognize these needs and meet them, irrespective of the lobbying efforts.

Mayor WASHINGTON. Mr. Chairman, I just wanted to observe in a little example, and it is outside of the example I gave. It is not specifically before us, but I used the categorical grant in connection with training. You could not develop a worse lobby within categories, because it is an identifiable and everybody fights to keep their constitutents in one category whereas, a person might need the three categories to get him fully equipped to get a job. You could not move him out, because all of the lobby develops around maintaining that constituency in that category.

Senator HATHAWAY. Well, I understand it can work both ways, you overspend in one area because of excessive lobbying and underspend in others, because of lobbying against it.

Mayor WASHINGTON. You come out with a person one-third trained, when he needs two other categories, because all of the constituency that he builds and all of the lobbying is maintained to keep that category alive and viable. And that is wrong.

Senator HATHAWAY. I agree with you.

Well, gentlemen, I am sure there are lots of other questions we could ask, but we are kind of short of time. We have the Association of Counties and then, at 1:30, the National Governors Conference to testify before us.

I believe that some of the members here, and those that could not be present, would like to submit questions to you in writing, and if you would answer them we would appreciate it very much.

Thank you very much.

Mayor WASHINGTON. Thank you.

Mayor GIBSON. Thank you.

[The prepared statements of Mayors Washington, Orestis, Gibson, Testerman, and a statement of the National League of Cities follow:]

TESTIMONY OF MAYOR WALTER E. WASHINGTON, DISTRICT OF COLUMBIA GOVERNMENT

Mr. Chairman, members of the committee, thank you for the opportunity to appear here today. The continuation of the revenue sharing program is a matter of great concern to the District of Columbia as well as to the other state and local governments in the United States.

In the District of Columbia, as in many local jurisdictions, demands for public services have been growing more rapidly than revenues. The State and Local Fiscal Assistance Act of 1972 established an important mechanism for using the Federal government's strong revenue raising powers to give financial relief to local governments. Revenue sharing funds have assisted the District in maintaining current service levels as well as in funding new programs.

The District of Columbia Government is responsible for providing a broad range of services to its residents. Functions performed in other areas by county, state, and city governments or by special authorities are all the responsibility of the District Government. As a result, Revenue sharing has been used to fund a balanced program in the District. I would like to mention some of the major programs that revenue sharing has supplemented as part of the District's overall effort to provide necessary and high quality services to its residents. From this brief list you will see that the continuation of the revenue sharing program is a necessity for the District as well as for other financially pressed local governments.

Revenue sharing has made it possible for many children in the District of Columbia to receive subsidized day care service. It has also provided improved service in District public health institutions: D.C. General Hospital; Forest Haven, the city's residential treatment facility for mentally retarded persons; and the Alcoholic Rehabilitation Center. At D.C. Village, which provides care for the elderly, revenue sharing funds have provided additional staff to care for 100 additional patients, thus reducing the long waiting list at that facility.

In the social services area, revenue sharing has not only paid for additional day care services but has also provided funds to maintain and expand the District's general public assistance and supplemental security income for the aged, blind and disabled. In addition, revenue sharing funds were used to train welfare recipients who were not enrolled in the Federal WIN program.

In the past two fiscal years the District has spent $14,847,800 of revenue sharing money for education. That amount represents 24 percent of the total revenue sharing appropriation for those years. The funds were used to provide additional teachers for the junior high schools to reduce student-teacher ratios. Also funded was the Adult Education Demonstration Center, after the termination of a Federal grant.

The provision of special education programs is a costly but highly important public service. With revenue sharing funds the District has been able to expand its special education program to serve a greater number of District children who require special attention.

Revenue sharing has also helped in the continuing development of the District's public institutions of higher education.

Revenue sharing funds have used to fund public safety programs in the District. The District spent 31 percent of its total revenue sharing appropriation for Fiscal Years 1973 and 1974 on programs designed to make the District safe for its residents and visitors. Revenue sharing funds were used to support existing police and fire positions. The District also funded additional positions in the local court system and in its correctional institutions with revenue sharing monies.

As you can see from these examples, revenue sharing has been an important resource to the city.

The multi-year appropriation has been especially important to us in our financial planning. I would urge you to continue this aspect of the program. At the very least, an appropriation one year in advance should be made so that state and local governments can adequately take revenue sharing funds into account in their budget planning. This leadtime will be even more important when the Federal Government begins its fiscal year on October 1, while many state and local governments begin theirs on July 1. The District begins putting its budget together nine to ten months before the beginning of the fiscal year; if the revenue sharing appropriation is not made in advance, it will be impossible to include an accurate estimate of the amount available in our financial planning.

While I enthusiastically support the continuation of the current program, I would like to suggest some changes that I think would improve its usefulness.

I would recommend deletion of Section 104 of the State and Local Fiscal Assistance Act of 1972, which states: "No State government or unit of local government may use, directly or indirectly, any part of the funds it receives under this subtitle as a contribution for the purpose of obtaining Federal Funds which requires such government to make a contribution in order to receive Federal funds." This restriction places an undue burden on the accounting function of state and local governments, and it restricts the expenditure of funds in high priority areas such as education, health and social services, where Federal grants are usually received. It seems highly unlikely to me that removing this restriction would result in increased categorical grant expenditures—especially since Title III of the Revenue Sharing Act amended the Social Security Act Title IVA by placing a ceiling on Federal allocation to the states. While the District has used its revenue sharing to finance high priority expenditures, it has not been easy to allocate funds to these programs without precise and detailed analysis of agency funding. With hundreds of grants funded on different grant years and involving cash and "in-kind" matches, it is extremely difficult to assure compliance with the Section 104 of the Act.

The allocation formula should be re-examined to determine if funds are going to the jurisdictions where the needs are greatest. While the limit on the amount allotted to a jurisdiction within a state does not affect the District, it does reduce funds available to other central cities. The formula itself should reflect unique problems of the nation's central cities. An analysis done by the city of the initial revenue sharing allocation indicated that the District's percentage share of the total allocaton equaled the percentage of total Federal income tax revenues paid by city residents. I would expect that there would be a redistribution of funds to cities such as the District, rather than just a return of the taxes paid by its residents.

The amount of the appropriation should also be increased. Revenue sharing represents less than three percent of the District's proposed FY 1976 General Fund budget. At the very least, annual increases in the appropriation should keep pace with inflationary cost increases.

I would also like to suggest that the administration of the current allocation formula be examined to determine if the data being used accurately reflect the factors in the formula. The District has two primary concerns. The first is the population estimate. We feel that the data used to compute the District's estimated population have probably resulted in an underestimate of the city's population. One reason for this underestimation is the undercounting of Black residents that takes place during every Census. This factor has hurt most large cities including the District.

We are also concerned over the general tax effort factor, which represents the net amount collected from the state and local taxes, divided by the aggregate personal income attributed to the locality for the same period. The first problem with the factor is that the state and local tax effort does not include special payments, such as the Federal payment to the District, which compensate jurisdictions for the presence of tax exempt property, institutions, and individuals. Because it considers only the dollar amount of taxes collected and the income of residents, the factor overlooks substantial reductions from the tax base.

In closing, I would once again like to express my strong support for the continuation of the revenue sharing program. I would be pleased to answer any questions that you might have.

Revenue Sharing Program—Planned Use of Funds

Estimated receipts—$26,672,828.

Appropriation of all funds is requested in the city's FY 1975 Budget.

Education—$4,737,004.

Public Schools—$4,737,094.

$1,804,359 to expand the special education programs so that suitable educational opportunities will be provided for all District children.

$260,067 to support the process of decentralizing education, management, and decision making in the school system.

$283,278 to continue and improve the Adult Education Demonstration Center after the termination of Federal grants.

$157,272 to strengthen the Office of Planning, Research and Evaluation.

$499,763 to transfer Management Services positions from Federal Impact Aid funding to District appropriated funds.

$223,591 to continue the community aides program in the secondary schools after the termination of funding under the Emergency Employment Act.

$1,508,764 to provide maintenance services for school facilities.

Social services—$6,428,152.

Department of Human Resources—$6,428,152.

$3,444,204 to help finance expanded day care services in support of the city's welfare reform program.

$2,983,948 to provide for funding private agency programs now supported by Federal grants that are expected to expire in Fiscal Year 1975.

Environmental conservation—$1,309,636.

Department of Environmental Services—$1,309,636.

$291,132 to continue the meat inspection program and the War on Rats program after Federal grants for those purposes expire.

$840,393 to purchase equipment for the solid waste management program.

$178,111 to purchase supplies and materials for the solid waste management program.

Recreation and culture—$176,041.

Recreation Department—$176,041.

$102,262 to provide staff and maintenance services for the camp site at Scotland, Maryland.

$42,796 to provide staff and maintenance at the new Wheatley Playground.

$30,983 to provide staff and maintenance for the new Bald Eagle Recreation Center.

Libraries—$418,463.

Public Library—$418,763.

$119,683 to staff and maintain 6 portable library facilities (kiosks and porta-branches) designed to make library servies more accessible to the community.
$89,699 to staff the new Shaw Branch Library.
$34,045 to increase the purchasing power of the library book fund.
$41,374 to staff two storefront libraries.
$103,728 to staff and maintain the Special Services Division.
$21,566 to support the Public Schools' special education program.
$8,668 to provide clerical support for the Board of Trustees.
Transportation—$5,334,566.
Department of Highways and Traffic—$2,050,607.
$2,050,607 to support the street lighting program.
School Transit Subsidy—$3,283,959.
$3,283,959 to subsidize the transportation of District schoolchildren to and from school; the subsidy represents the difference between the 10 cent fare paid by the schoolchildren and the regular adult fare.
Public safety—$4,737,094.
Metropolitan Police Department—$3,014,687.
$3,014,687 to support crime detection and prevention activities of the Patrol Division; the amount provided approximates the amount needed to maintain 270 patrol officers.
Fire Department—$1,722,407.
$1,722,407 to support firefighting operations; the amount provided approximates the amount needed to maintain 5 firefighting companies.
Financial administration—$352,081.
Department of Finance and Revenue—$352,081.
$352,081 to fund new positions and data processing improvements to expedite the development of an annual assessment cycle for real property in the District of Columbia.
General government—$3,179,401.
District of Columbia Council—$347,509.
$68,112 to strengthen the legislative staff of the Council.
$17,236 to provide reporting and transcription services for Council hearings.
$3,858 to purchase required equipment.
$258,303 to finance space renovation to accommodate the enlarged Council under Home Rule.
Personnel Office—$133,534.
$90,082 to continue development of a manpower planning system previously supported by Federal grants.
$43,452 to strengthen the Office's manpower planning and research capabilities.
Employees' Disability Compensation—$2,045,627.
$2,045,627 to finance the program of medical care, compensation, and vocational rehabilitation for District Government employees injured on the job.
Board of Elections—$652,731.
652,731 to finance total operations of the Board during Fiscal Year 1975, when primary and general elections for a Mayor and City Council members will be held if the home role charter is approved.

Statement of John C. Orestis, Mayor of Lewiston, Maine, on Behalf of the National League of Cities and the U.S. Conference of Mayors on the General Revenue Sharing Program and Its Impact on Lewiston, Maine

Mr. Chairman, my name is John Orestis and I am Mayor of Lewiston, Maine, and a member of the Board of Directors of the National League of Cities. On behalf of the League and the United States Conference of Mayors, I would like to present to the committee an assessment of the General Revenue Sharing Program and its impact on Lewiston, Maine.

Lewiston is a middle-sized industrial city of 40,000 population. Our 1975 budget total $14.6 million, the largest in Lewiston's history. Over 8% of this budget was financed with general revenue sharing funds.

Financing Lewiston's budget will be difficult this year because of the present economic condition within our city. Between February of 1974 and March of 1975, the welfare case load has increased 68%. During that same period, the number of families receiving food stamps increased 44%. Over the past year, unemployment in the Lewiston-Auburn SMSA has increased from 5.8% to 12.6%. A key indicator of the local economic climate is the collection of the automobile excise tax.

For 1975, this revenue has a projected decrease of 12.2%. Our real estate and personal property tax collections are also off by some 2% from the previous year, and it is expected that the city will record some 225 tax mortgage liens on real estate in 1975, an increase of 15%.

The above indicators of local recession are coupled with inflationary pressures on the national economy. Basic operating necessities are getting more and more expensive. In the past year, large volume purchases of the city increased by the following amounts: Diesel fuel 156%, #6 fuel 286%, #4 fuel 200%, gasoline 89%, anti-freeze 280%, and paper products 70%.

These economic indicators point to a city budget badly squeezed by inflation and recession. By increasing the property tax 3 mills, by utilizing $1.2 million in general revenue sharing funds, and by aggressively pursuing grant-in-aid programs, the city of Lewiston was able to maintain its current level of municipal services in the 1975 budget. Given the reluctance to increase the local property tax more than 3 mills, it is likely that municipal services would have been cut in 1975 where it not for general revenue sharing.

If general revenue sharing is not reenacted by the 94th Congress, property taxes in Lewiston will increase a minimum of two mills and at the same time, essential city services will be cut back. The concentration of GRS programming in Lewiston has been on maintenance and major operational items rather than on new or expanded services. Without GRS funds, the financing of the city's basic maintenance programs will fall increasingly on the shoulders of low and moderate income people through the regressive local property tax. A preferred method of financing would be the general revenue sharing program supported by the progressive income tax.

During the past three years, the city of Lewiston has programmed over $4.5 million in revenue sharing funds. These funds have been used primarily to finance the maintenance of essential city services. Over 2.2 million dollars have been utilized to begin the rebuilding of two outdated storm drainage systems that threaten the health of thousands of Lewiston residents. Lewiston's road maintenance program has been funded by $450,000 of GRS money. Other maintenance oriented GRS projects include: The purchase of maintenance and operational equipment for the public works, police and fire departments at a cost of $520,000; the renovation of city hall $105,000; sidewalk, bridge and road reconstruction projects at a cost of $200,000; and operating subsidy payments to the local mass transit provider.

A common criticism of the general revenue sharing program is the extent to which citizens have been involved in the revenue sharing decisionmaking process. I would like to comment on that process in Lewiston.

In Lewiston, general revenue sharing programming is handled concurrently and in the same manner as the city budget process. The process is extremely open and provides numerous opportunities for citizen input.

In September, the boards and commissions which oversee each municipal department submit their budget recommendations to the city's five-member finance board. Preliminary budget recommendations at the board and commission level involve much citizen participation because of the decentralized nature of Lewiston government. Over 60 Lewiston citizens sit on the various city boards and commissions.

The finance board which receives budget recommendations from the boards and commissions is made up of 4 Lewiston citizens, together with the mayor, who serves as chairman. The finance board holds weekly public meetings with each municipal department throughout the fall and early winter to refine the city budget requests. At the end of this process, a public hearing is held and a budget recommendation is forwarded to the board of mayor and aldermen.

During January and February, the board of aldermen holds twice weekly open public meetings to review the budget. A public hearing is then held and the board of mayor and aldermen pass the yearly budget resolve. Additionally, all city projects over $25,000 must according to the city charter, be reviewed at a public hearing of the Lewiston planning board. By incorporating general revenue sharing programming into the city's budget process, accountability, openness, and maximum opportunity for citizen input is insured.

Another criticism of the general revenue sharing program is that not enough of the funds have been used to pay for social programs to aid the poor, the elderly and minorities. In Lewiston, this has not been the case. A lot of expenditures made in traditional areas are in fact providing a high degree of social service. Examples include a major storm drain project in a low-income area designed to eliminate a potentially serious health problem and the use of shared revenues to provide mass transit services to the poor and elderly.

Often overlooked is the fact that the use of general revenue sharing funds on traditional city services has to a large extent freed other city funds for social programs. Lewiston has been fortunate to have been named a model city by the Department of Housing and Urban Development. The existence of general revenue sharing has allowed Lewiston to maximize its programming of model cities funds for social programs. In the last four years, the city has expended some 3.3 million dollars of model cities funds on social, recreational, and health projects to directly benefit low-income people and the elderly. Many of these expenditures have been matched with other Federal and State grant-in-aid programs—a use not allowed under the revenue sharing program.

The city of Lewiston has found the revenue sharing program to be a necessary part of a balanced approach to intergovernmental assistance. The flow of funds has been dependable and the great degree of local discretion in fund use has allowed Lewiston to match financial assistance with the highest priority local needs—a match which has not always been possible with categorical grant-in-aid programs. The general revenue sharing program along with block grants and categorical grants is vital to the partnership approach to urban problems. The three approaches should not be judged independently of one another—but should be viewed as a whole.

The need for general revenue sharing has grown since its enactment. Inflation has caused local government expenditures to increase significantly while a national recession has caused local government revenue sources to grow at a slower rate. The dependable, long-term support of general revenue sharing is necessary for the continuance of effective local government in the United States.

I urge that the 94th Congress not only reenact general revenue sharing, but also make a long-range commitment to the program. A long-range commitment will promote a better fiscal planning and programming process and help insure that the Federal funds are used to their maximum advantage. Without this commitment, the effectiveness of local government in the United States is seriously threatened.

Thank you very much.

Testimony of Hon. Kenneth A. Gibson, Mayor of the City of Newark, N.J.

Mr. Chairman, Senators, my name is Kenneth Gibson. I am the mayor of the city of Newark, New Jersey.

I am honored by this opportunity to appear before your committee today. I speak as one who has long supported the concept of general revenue sharing. I first recognized the need for this kind of Federal assistance many years ago. When the present revenue sharing law was being debated in the Congress, I traveled to Washington on many occasions to testify for its passage. For these reasons, I am particularly pleased to be here today to discuss the success of general revenue sharing and urge the prompt and early re-enactment of this program.

General revenue sharing is unlike any other program administered by the Federal Government. It offers each municipality the opportunity to utilize the funds it receives under the program according to its own needs and priorities.

In Newark, we have used our general revenue sharing funds to maintain the delivery of basic city services.

Public safety, sanitation, and education are the traditional responsibilities of any municipal government. In recent decades city halls have expanded their responsibilities in order to provide additional services. We have introduced extensive health care programs to aid those who could not afford their own. We have instituted public assistance programs for those unable to work, and manpower programs to return the unskilled to meaningful places in our society. We've started to build and manage housing when the public market could no longer provide housing the people could afford. We've introduced programs to aid the consumer, clean our air and rivers, promote economic growth, and create mass transit systems, to name a few among many.

To some degree cities have absorbed the cost of these added services. However, more and more of the money for these important programs has come from State and Federal Governments as Americans have come to recognize not only the need for these programs but also the increasingly limited ability of cities to afford them on their own.

Yet the delivery of basic services still remains the major responsibility of city halls across America. And while categorical programs have provided outside funds to help meet the cost of additional services, the Federal Government has continued under the assumption that cities could continue to afford the cost of basic services simply because they were already paying for them.

If this were once true, it is no longer so. The cost of maintaining basic services has risen incredibly. The major portion of these costs is personnel. More than three quarters of Newark's operating budget pays the salaries of our policemen, firemen, teachers, and sanitationmen. Federal programs have helped us train our teachers, buy better equipment for our police force, and recycle our garbage—and these are very important things we vitally need—but the cost of paying these employees remains essentially our own. And with inflation, increased fringe benefits, and earlier retirement, the cost of personnel has multiplied many times over since the Second World War.

In fact, the cost of maintaining basic services has become so high that it is slowly strangling urban America. Most cities have only one means of raising the money they need to maintain basic services. This is the property tax. With no other alternative, city after city has faced the unpleasant prospect of cutting vital services or raising the property tax.

The problem has been complicated, too, by the radical reshaping of American life over the last three decades and the effect these changes have had on America's cities.

Mechanization has displaced a large portion of the Nation's rural population and made her cities into national centers for the unskilled and jobless. At the same time the automobile has enabled millions of middle class Americans to move from city to suburb while industry and commerce have followed the Nation's new super-highways to industrial parks and shopping centers far from city boundaries.

These changes have meant increased service demands on city government at the same time that the ratable base on which property taxes could be levied to pay for them has decreased severely. In Newark ratables have dropped by 20% during the last decade, and if inflation were calculated the loss would be even greater.

Thus, while other municipalities have looked to growing ratables to offset the increased cost of government, the Nation's urban centers have had to raise their property taxes higher and higher to meet the increased costs of inflation as well as provide additional services for urban residents from a shrinking ratable base.

And the problem perpetuates itself. The higher we are forced to raise taxes to provide basic services, the more businesses and homeowners are forced to leave. This means fewer jobs, greater demands on city services, and fewer ratables to provide them. If we were to cut down on the delivery of services, the result would be the same. More businesses and homeowners would be forced to leave. And either way, fewer new businesses and developers would be interested in coming in to assist us rebuild our cities.

Mr. Chairman, general revenue sharing is the only form of Federal assistance that enables urban areas to break this cycle. It is the only Federal program that permits us to maintain basic services without destroying the ratable base upon which the future social and economic prosperity of our cities depend.

We firmly believe in the future of our cities. We know that the role of urban centers in American life is changing. In the industrial age of the nineteenth and early twentieth centuries, America's cities were the centers of her manufacturing strength. In the post industrial age ahead they can be centers for the vast transportation and communication industries which are now only beginning to evolve as the source of this Nation's future greatness. America's cities are undergoing a transition from one role in American life to another. This is the cause of the urban crisis we face today.

What we are in the future, however, depends on our ability to meet the needs of the present as we plan for the years ahead. This means that we must be able to supply basic services, as well as additional services as their need becomes apparent, without raising our property taxes so high that we destroy our opportunity for the future.

Before revenue sharing began, Newark's property tax rate was $9.63 per $100 assessed valuation. Because we were able to use our revenue sharing dollars to meet the costs of basic service delivery, we were able to stabilize our property taxes and break an ever-rising property tax spiral that had already cost us hundreds of businesses and left us with thousands of abandoned houses. Because of revenue sharing and our own efforts to cut costs and increase efficiency, we have been able to reduce our property tax burden two years in a row.

Our property tax rate in 1974 dropped to $8.60 per $100. This was still too high. Unfortunately, because of the current state of the national economy, the downward trend in our property tax rate came to an abrupt halt this year. In fact, we recently approved a city budget which requires an increase in our property tax rate for 1975 from $8.60 to $9.98 per $100. This is clearly much too high. A family in Newark owning a $20,000 house must pay over $1900 in property taxes. Businesses must still channel a large portion of their earnings into taxes—money that could otherwise have gone for industrial expansion. And prospective developers still find the tax burden too high to make location in Newark as attractive as it could be.

The Federal Government has many programs that assist us in our efforts to provide vitally needed new services for city residents.

But we can no longer afford to continue supporting basic services entirely on our own, and you offer us no program that enables us to offset the destructive burden of paying for the services we already provide.

So when general revenue sharing offered us the opportunity of using Federal funds for our own priorities, many urban mayors had little choice but to use them in the one area ignored by other assistance programs. In this way we are planning for our future while meeting the needs of the present.

The property tax in America has its origins in medieval European feudalism. It may have served its purpose adequately in a simpler, less mobile age when every one lived where he worked.

But the property tax is not a productive vehicle for meeting the needs of people in our present age. General revenue sharing offers an alternative to those of us who have suffered most from its inequities. It enables us to provide public services while reducing an already overburdened property tax. In this way we can alleviate the pressures which are slowly eating away at the economic foundations on which we exist. In this way we can make our cities more attractive to businessmen and developers and promote the kind of new growth that we must have.

General revenue sharing must be re-enacted. Without it the burden on local tax resources will increase as never before. Everything that we will have achieved from five years of revenue sharing support will be lost and whatever opportunities the future might have offered for rebuilding our cities will become that much harder to reach.

As chairman of the United States Conference of Mayors Advisory Board, I would like to take this opportunity to submit for the record the conference's policy position on general revenue sharing. Since 1967, we have supported the concept of general revenue sharing. At our last annual meeting in June of 1974, the U. S. Conference of Mayors adopted the following policy position:

The U. S. Conference of Mayors establishes the re-enactment of the general revenue sharing program as one of its highest legislative priorities for the 94th Congress and urges the 94th Congress to re-enact the program at least one year prior to the termination of the current program to assure continuity and certainty for local budgetary planning.

Moreover, the conference endorses the concept that the new revenue sharing program be funded commensurate with the growing needs of the cities and that the new program continue to operate outside the appropriations process. The extension of general revenue sharing must fully take into account the degree to which inflation has eroded the dollar value of the program.

STATEMENT ON THE EXTENSION OF GENERAL REVENUE SHARING BY MAYOR KYLE C. TESTERMAN, CITY OF KNOXVILLE, TENN.

Mr. Chairman and distinguished members of this committee, I am Kyle C. Testerman, Mayor of Knoxville, Tennessee—a City located in the Southeastern portion of the United States with a Greater Metropolitan base of approximately 400,000 people. With pride, I add, that our City is located at the foothills of the Great Smoky Mountains—the most visited national park in the U.S.—with 8,000,000 tourists annually.

I appear before you today at the request of our highly respected Senator and my good friend, Senator Bill Brock. In addition, my thoughts are being expressed at the request of the National League of Cities/U.S. Conference of Mayors.

After a few brief introductory thoughts and comments, I would like to explore with the members of this Committee the positive impact which the 1972 State and Local Fiscal Assistance Act (Revenue Sharing) has had on the fiscal management of our City and the improved delivery of governmental services which this program has provided to those whom I represent.

The limited pages of my written testimony will be dedicated to sharing some observations which have made me a firm believer in both the philosophical and practical applications of the General Revenue Sharing Law.

At the outset, Revenue Sharing embodies those constitutional principles of government by the people which we will soon celebrate during the Bicentennial of our nation's birth. The fundamental premise underlying the American federal system is a concept that government must remain close to the people it serves. Within this system, it is the cities which are most directly in contact with the people and should, therefore, be the units of government most responsive to their needs. Paradoxically, this crucial role implies that the cities have the resources—and the capabilities--for meeting these needs.

Yet, as a participant in the President's Conference on Inflation approximately seven months ago, we heard time and time again that America's cities are being squeezed in a financial vise as never before since the great depression; one jaw of the vise is the rapidly increasing need to deliver services; the other jaw is the inability of many cities to raise the revenues required to mantain even their present degree of health. Please be assured that when New York City defaults on a bond issue as in recent months—the shock waves of increasing interest rates and the resulting higher cost of governmental services are felt in all of the 39,000 local governments throughout the nation.

With this ominous cloud of inflation hanging over the heads of local governmental officials, it becomes abundantly clear that Revenue Sharing must be extended during 1975 for practical as well as philosophical reasons. Since October, 1972, the date of Revenue Sharing's birth, inflation has cut deeply into the "windfall" which many labeled the dollars designated to flow from this program. For example, the $6 billion in Revenue Sharing funds set aside by Congress in 1972 for use in 1974 were, in reality, only worth approximately $5 billion when adjusted for inflation. In Tennessee, the gap between those revenues necessary for the operation of local government and those revenues actually available is just as staggering. A conservative estimate finds a revenue gap of $425,000,000 existed within Tennessee's 300 municipalities during the first half of this decade. I might add that this figure is not for Tennessee's four metropolitan areas alone, but is felt in less populated units of local government such as those with a population base between 3,000 to 10,000 residents where an $18,000,000 revenue gap exists.

This is not a pleasant tale to tell but the fact remains that Revenue Sharing is not a luxury, but, in fact, a necessity if local governments in Tennessee and elsewhere are to serve the local taxpayer, who, after all, is a federal taxpayer as well.

No longer can the local taxpayer be fooled into believing that somehow his federal tax dollar is raised from sources other than out of his own pocket. The local and the federal taxpayer is one and the same. As a result, Revenue Sharing must be re-enacted in order insure a fair return in local services for local tax dollars invested with the Federal Government. The citizens of Knoxville and other communities throughout the nation wil no longer tolerate situations as existed in 1970 when the Federal Government expended $23.9 billion in aid to states and local governments, while the citizens of cities and states throughout the nation contributed $90.4 billion in income tax receipts to the Federal Government. The inequity of this situation becomes manifest when one computes that only an amount equal to 26.4% of income tax receipts was spent for aid to cities and states in 1970. This percentage shrinks much further when total federal receipts, including corporate income taxes, excise taxes and other components of federal fund resources are added. This situation is no longer tolerable.

Without question, the time has come to extend the General Revenue Sharing Law as a method to reinforce those governmental institutions which are closest to the people. Senators, the answer to this fiscal crisis is not more federal categorical grants. The day-to-date demands being placed on Mayors by their constituents can no longer be answered by sending city officials to Washington to roam the halls of HEW, HUD, and DOT and other departments in an effort to coax aid out of these agencies laden with red tape. We no longer have the time to prepare reams and reams of paper to qualify, justify and document receipt of over 500 possible grant-in-aid programs, and, in particular, the citizens of Knoxville no longer need a far removed Washington bureaucrat to decide what are the priorities in their community, especially when the decisions of that official are not subject to evaluation at the ballot box, nor do we appreciate the insensitivity of a Washington bureaucrat who queries in what section of Southern California is Knoxville.

As appreciative as we may be of these federal grant-in-aid dollars, when finally received, we need money today to hire policement, firemen and trash collectors and money to operate our various departments of city government as well as meeting new and costly federal guidelines such as those placed upon local governments by the EPA.

At this point in time, I will discontinue my written testimony and begin to explore those questions related to the impact of Revenue Sharing on our local community.

However, before moving on, I would like to express the appreciation of all Knoxvillians to Senator Brock for his leadership in reversing the flow of decision-making power and financial resources from Washington to city governments. We applaud Senator Brock for his role in the development of the 1974 Housing and Community Development Act which allows local governmental officials greater flexibility in revitalizing our cities. His leadership in guiding Congress toward greater control over the federal budgetary process and, finally, his dedication to the extension and revision of the General Revenue Sharing Law are all worthy of the highest commendation.

Members of this Committee, Tennessee will continue to send to the Congress men such as Bill Brock who are in possession of a first-class intellect and a sensitivity to the needs of locally elected officials.

I turn now to a review of the impact which Revenue Sharing has had on one city located in the Southeastern United States, Knoxville, Tennessee.

HOW KNOXVILLE PLANS TO SPEND REVENUE SHARING IN 1975—SPECIFIC PROGRAMS [1]

The following are representative of specific programs that are included in the City of Knoxville's 1975 Revenue Sharing budget:

1. A program to employ 50 additional uniformed police officers and to purchase additional equipment to support them as well as maintain essential police services.
2. A program to relocate and build a new main fire headquarters and repair several dated fire halls.
3. To fund and equip an extensive program of horticultural maintenance and beautification for all City parks and recreational areas.
4. To provide for a program of ordinary and necessary equipment acquisition to maintain the current levels of service in the areas of street cleaning, refuse collection, building inspections and refuse disposal.
5. To provide for and equip a total City-wide program of safety to comply with OSHA guidelines.
6. To provide for the expansion, repair and maintenance of certain segments of the sanitary sewerage system and to fund certain equipment acquisitions to insure quality services in the future.
7. To provide additional funding for the planning, design, maintenance and signalization of the traffic network in priority areas of the City.
8. To provide operational and capital funding for the Municipal Zoo and camper park.
9. To provide operational funds for twelve creation centers in economically depressed areas of the City and to provide for special programs and services in these centers specifically for the elderly and socially disadvantaged.
10. To fund the City's portion of the joint City/County library system.
11. To provide monetary grants to seventeen community agencies providing services for the poor or aged.
12. To fund the "Meals on Wheels" feeding program and the "Dental Services" program for the poor and aged.
13. To provide funding for the continued acquisition and operation of the City's computer system as part of the total program of improving financial administration in the City.

[1] While these programs show Knoxville's Revenue Sharing priorities for 1975, they are also representative of the diversity and quality of past programs funded since the inception of General Revenue Sharing.

14. To provide for necessary equipment acquisition and building improvements for the city owned Auditorium/Civic Center.

15. To provide additional funding for the City's ongoing Center City Revitalization program as a means for stimulating economic growth and broadening the tax base.

17. To fund certain capital improvement programs for the Knoxville City School system.

Statement of the National League of Cities

The National League of Cities, on behalf of the 15,000 municipalities which it represents, wishes to commend the Senate Finance Committee for convening the first revenue sharing hearings before the 94th Congress. The future of the general revenue sharing program will be determined by this Congress. Your deliberations and decisions regarding this innovative approach to federal assistance will greatly influence the course of American Federalism for many years to come. We believe that this Committee has wisely chosen to initiate its revenue sharing deliberations early in the First Session of the 94th Congress. Only after a careful and comprehensive examination of the existing program can this Committee, and ultimately this Congress, make its decision. As recipients of revenue sharing funds, and as public officials responsible for their use, we are confident that a legislative record can be established that will ensure the continuation of the program.

On March 2, the Board of Directors of the National League of Cities adopted the following policy statement regarding general revenue sharing:

"The reenactment of the general revenue sharing program continues to be the highest priority of the nation's cities. However, in light of the current economic recession, immediate consideration should be given not only to extending the existing program, but to increasing the level of funding to compensate cities for double-digit inflation that has occurred during the past 12 months. The immediate infusion of additional revenue sharing funds into state and local budgets will act as a vital stimulus to the nation's beleaguered economy."

The current economic recession makes early action on the revenue sharing program imperative. As we have pointed out in testimony earlier this year before the Joint Economic Committee, local governments are being forced to take budgetary actions that are working at cross-purposes with the objectives of the federal government's economic recovery policies. For example:

While the federal government is providing tax relief through income tax reductions and rebates, local governments are being forced to raise taxes to meet increasing costs.

While the federal government is expanding federal programs to help low income individuals, fiscal circumstances require local governments to reduce essential public services most needed by such individuals.

While local governments are taking on employees under federally-financed public service jobs, they are laying off regular civil servants because of extreme pressure on local budgets.

We do not believe that the state-local portion of the public sector, which now comprises 43 percent of it, has been adequately considered and appropriately utilized in developing and implementing the national economic recovery program. If the recession continues to deepen, and if the anti-recessionary measures thus far enacted and contemplated by the Congress do not reverse the economic decline and the simultaneous inflationary pressure, then serious consideration should be given to providing additional economic stimulus through federal assistance to the state and local sector. We believe that the general revenue sharing program offers an excellent mechanism for more efficiently utilizing state and local governments in our drive to achieve economic stability.

Let us hope, however, that the economic indicators during the next few months will point in the direction of a sustained economic recovery—that we have reached the bottom of the decline and that our national economic policies can be refocused. Certainly, in the long run, a healthy and growing economy is the soundest approach to improving the quality of life in urban America.

However, even if the economy begins to improve, it will be many, many months before we again experience the prosperity that was ours 18 months ago. By all economic forecasts, the recovery will be extremely slow with unemployment remaining above 7 percent for the next two years. Only through careful economic planning can we ensure that the economic recovery will not suddenly be reversed. Such recovery planning at the national level must take into account the $30 billion revenue sharing program that is scheduled to terminate in 1976.

So often we have heard the argument that the 94th Congress does not need to consider revenue sharing until its 2nd Session—that the current program will provide assistance through the end of 1976 and that deliberations on re-enactment legislation can therefore be postponed for another 12 months. Not only do we vigorously challenge such a thesis from the standpoint of local budgeting and planning requirements, but we firmly believe that needless delays in extending the revenue sharing program will have serious implications for sustained economic recovery. By the scheduling of these hearings, the Senate Finance Committee has taken the first, and perhaps most important step, in recognizing the necessity for early action on the revenue sharing reenactment legislation. We urge this Committee to establish as its goal the completion of Senate action on the revenue sharing legislation by the end of 1975.

In order to focus upon the linkage between revenue sharing reenactment and the nation's economic recovery objectives, it is first necessary to examine the budgetary cycles and budgetary requirements of local government. Well over 50 percent of all municipal governments begin their fiscal year on July 1. These governments are currently completing their fiscal budgets for FY 1976. Beginning in September, local officials will begin to formulate their budgets for the next fiscal year. During the early fall months, they will receive from their various departments budgetary recommendations for the fiscal year beginning July 1, 1976 and ending June 30, 1977. By late November, these departmental requests must be weighed against anticipated revenues. If requests exceed revenues, the various departments will be instructed to make additional recommendations as to where cuts can occur. This process of reconciling expenditure demands with insufficient revenues will often last for several months. However, shortly after the beginning of the calendar year, a final decision must be made in order to present a balanced budget to the city council for its consideration.

The key factor in this process is a balanced budget. Unlike the federal government, local governments may not incur deficits. By state laws, local expenditures may not exceed revenues, and if in the budgetary planning process a revenue shortfall is predicted, then a reduction in municipal services or a recommended increase in municipal taxes must be recommended. There are no other options.

This fall, as local officials begin their budgetary planning for FY 1977, there will appear on the revenue side of their ledgers a significant gap in the general revenue sharing category. Revenue sharing funding will only be displayed for the first 6 months of the next fiscal year and beyond that point the budget officer will be forced to print in a zero—a zero that will get translated into a 50 percent reduction in revenue sharing financed programs and services, the vast majority of which will come from the municipalities' operating budget. This is particularly true in the larger cities where 95 percent of revenue sharing funds are now being used for the operation of basic and essential urban services.

If at this time next year a new revenue sharing program has not been enacted into law, we will see local government after local government being forced to adopt budgets for FY 1977 that will call for either significant reductions in essential services or substantial increases in the local property tax. We do not believe that such action on the part of local governments will be in the best interest of the nation's economic recovery objectives. For many urban residents, the prospects for an improved urban economy will be suddenly jolted as governmental services decline and their taxes increase.

The 94th Congress has moved vigorously to adopt emergency anti-recessionary programs. The record to date is impressive. We are optimistic that planning for the economic recovery will continue to move forward, and that particular attention will be paid to longer-range programs which can ensure a healthy economy for many years to come. State and local governments must be a part of the longer-range recovery program, and we believe that an early commitment by the 94th Congress to the continuation of general revenue sharing is a first and crucial step in this planning process.

It would be tragically ironic if this Congress, which in the process of reforming and modernizing its own budgetary procedures, should needlessly delay the consideration of the revenue sharing program which is so vital to the long-range planning and budgetary needs of local government.

In anticipation of Congressional action on revenue sharing, the National League of Cities at its annual convention in December adopted the following reenactment policy statement:

General Revenue Sharing responds to the imbalance in fiscal resources which favors the Federal government within our intergovernmental system. The passage of the State and Local Government Fiscal Assistance Act of 1972 made available for the first time a significant portion of the Federal income tax collections for relatively unrestricted state and local expenditures. The partnership of Federal, state, and local governments in the Federal system can best be nurtured by a coordinated approach to allocating responsibilities consistent with fiscal resources. General Revenue Sharing along with block grants and categorical grants is vital to the partnership approach to urban problems. These three approaches constitute an emerging program of federal fiscal assistance, whose components should not be judged independently of one another, but should be viewed as a whole.

The justifications for general revenue sharing have been magnified since its passage. Since local government expenditure needs continue to increase; since local government revenue sources are not adequately responsive to changing economic situations; and since local government resources from taxation are under strict regulation by state constitutions and laws, the dependable, long-term support of General Revenue Sharing is important to the continuance of effective local government in the United States.

Therefore, the reenactment of the general revenue sharing program must receive immediate and favorable action by the 94th Congress.

The following provisions should be considered in the renewed general revenue sharing program, but not to the delay of reenactment.

1. In order to counter the inflationary pressures on local governments, and in order to insure adequate growth in resources available to local governments, the general revenue sharing program should be funded at a constant percentage of the Federal personal income tax base. (Adjusted Gross Income).

2. In order to guarantee continuity and dependability of funding, the General Revenue Sharing Program should be authorized and committed on a continuing basis, unrestricted by the annual appropriations process.

3. In order to respond to the fiscal imbalance in our federal system, all state and general purpose local governments should be eligible participants in the General Revenue Sharing Program. The state-local proportions of the allocation should be reviewed in light of state-local revenue and expenditure analyses.

4. In order to guarantee the equitable distribution of General Revenue Sharing funds, a recipient government's population, tax effort and need, should remain the components of the distribution formula. In order to respond to changing urban problems, the actual consequences of the formula components and constraints should be reviewed.

5. In order to guarantee that the General Revenue Sharing formula accomplishes its intended objectives, the data must be periodically updated. However, stability of revenue sharing allocations is also essential to permit local governments to effectively plan and budget their General Revenue Sharing funds in concert with their total fiscal needs. Adjustments in the data components that affect the allocations should not occur without one year advance notification.

6. In order to more adequately reflect the real tax effort by units of local government, the definition of tax effort should be revised.

7. In order to guarantee maximum local government accountability in the General Revenue Sharing program: There should be no expenditure category restrictions placed on General Revenue Sharing funds; there should be required submission and publication of accountability reports that identify the impact of general revenue sharing on local revenues and expenditures, in response to evaluation criteria; there should be permitted alternatives to the existing requirement that General Revenue Sharing reports be published in local newspapers; there should be a requirement that public hearings be held on General Revenue Sharing funds in those states and localities where public hearings are not held on state and local budgets. However, this requirement must not impose any additional public participation requirements on those recipient governments that already hold public hearings on their budgets.

8. In order to guarantee the non-discriminatory expenditure of General Revenue Sharing funds, the enforcement of civil rights provisions of the act should be strengthened, the Federal government should consider the feasibility of placing responsibility for gaining meaningful compliance in a single agency, and state and local governments should maintain effective affirmative action programs.

As our statement indicates, the National League of Cities remains committed to a comprehensive approach to federal fiscal assistance to urban America. General revenue sharing, block grants, and categorical grant-in-aid programs are the essential parts of an overall intergovernmental fiscal system—they must not be viewed in conflict with one another. Although each represents a markedly different approach to federal assistance, they are integrally tied together at the local level. Working together, these forms of assistance can maximize the impact of federal resources at the local level on our urban problems.

In addition, our policy statement recognizes that the general revenue sharing program can be improved—that the League will be taking a very careful look at the myriad of research reports on revenue sharing, and will make recommendations for change where needed. In order to thoroughly evaluate the existing program and in order to make specific recommendations for the reenactment legislation, the National League of Cities has created a Revenue Sharing Task Force Co-Chaired by Mayor John Poelker of St. Louis and Mayor Moon Landrieu of New Orleans. Already, this Task Force has been active in formulating our initial policy statement, and as the tempo for reenactment quickens, it will be playing an increasingly important role for the League.

Almost daily, a new revenue sharing evaluation report rolls off the press. Members of Congress will have at their fingertips many valuable sources of information to aid them in their revenue sharing deliberations. It is important, however, for Congress to consider the reports within the objectives of the revenue sharing program. Unfortunately, the revenue sharing rhetoric has often out stripped the limited resources and policy objectives of the program. Let us put aside the notion that revenue sharing is going to usher in the second American Revolution and let us return to its fundamental principles. Senator Edmund Muskie, in a speech before the ACIR Conference on American Federalism, argued that the main liability of the revenue sharing program is its exaggerated rhetoric and overstated promises. Senator Muskie outlined three fundamental revenue sharing objectives against which the program should be judged. They are:

Its ability to relieve the fiscal pressures on state and local governments;

Its ability to reduce the regressive burden of state and local taxes by substituting revenues from progressive federal income taxes; and

Its ability to give people at the state and local levels the resources and the flexibility to develop solutions suited to their unique problems.

We believe that the record will clearly show that the revenue sharing objectives articulated by Senator Muskie are being met. In evaluating the program, the Congress must keep in focus these objectives, and must not attempt to place upon revenue sharing the burden of correcting all the weaknesses in the American federal system. The unique and distinctive objectives of revenue sharing, block grants, and categoricals must be recognized and each must be judged accordingly.

We are concerned, however, that a key factor is missing in the revenue sharing research agenda. We are unaware of any major study into the current fiscal conditions of state and local governments. With the rapid decline in the nation's economy, the ability of local governments to finance their increased responsibilities has deteriorated. In a recent survey of 67 cities, we uncovered the following conditions:

1. *Budget increases:* The cities in the survey were asked to indicate the percent increases in their current service budgets—that is, the increased costs of maintaining the same level of city services from one year to the next. The following results were obtained:

1973–1974—the average increase in current service budgets (56 cities) = 11.3 percent

1974–1975—the average projected increase in current service budgets (51 cities) = 13.68 percent

It should be noted that certain cities did include "new services" in their figures. However, in most cases the new services were of an extremely limited nature.

2. *Salary Increases:* The cities were asked to report the percentage increase in their most recent wage settlements. Of the 67 cities reporting, the average increase equalled 10.19 percent with the lowest settlement at 2.5 percent and the highest at 25 percent. Forty cities were below the average and 27 above. It is significant to note on the chart that many of the cities were reporting wage settlements, exclusive of any fringe benefits. If the fringe benefits had been included by all the cities, the average would have been substantially above 10.19 percent.

3. *Fuel Purchasing Cost Increases 1973–1974:* Of the 55 cities providing data, the average increase in the cost of purchasing fuel was 90 percent. This ranged from a high of 307 percent to a low of 10 percent.

4. *Increases in Local Budgetary Expenditures for Fuel in 1973–1974:* While the actual cost of purchasing fuel skyrocketed, budgetary outlays for fuel expenditures showed a somewhat less dramatic increase. Of the 31 cities providing data, the average increase was 45.7 percent, with a low of 9 percent and a high of 117 percent.

5. *Postponements in Planned Capital Improvement Expenditures:* Of the 67 cities reporting, 36 indicated that the current economic crisis was forcing them to postpone or cancel planned capital improvements.

6. *Layoffs of City Employees:* Seven cities indicated that layoffs had already occurred. Fourteen reported that job freezes were in effect and 46 stated that they were not at this time contemplating a reduction in their payrolls.

7. *Revenue Shortfalls:* Forty-three of the 66 reporting cities anticipate that their revenues will fall short of original estimates because of the depressed economy.

Indications are that the fiscal conditions of local governments will continue to deteriorate throughout FY 1976. In order for the Congress to obtain a comprehensive and accurate picture of these conditions, we urge the Senate Finance Committee to initiate a study on current fiscal conditions of state and local governments. The National League of Cities is prepared to assist the Committee in any way possible.

We trust that these hearings will convince the Committee to move swiftly during 1975 on the reenactment of general revenue sharing. The National League of Cities, through its Revenue Sharing Task Force, will continue on work closely with the Congress on this vital issue.

Senator HATHAWAY. Our next panel of witnesses is the National Association of Counties. Mr. Louis V. Mills, County Executive of Orange County, N.Y.; and Mr. Jack W. Ramsey, chairman of the Shelby County Executive Committee, Shelby County, Tenn.

STATEMENT OF HON. LOUIS V. MILLS, COUNTY EXECUTIVE, ORANGE COUNTY, N.Y., ACCOMPANIED BY MS. ALICE ANN FRITSCHLER, LEGISLATIVE REPRESENTATIVE, NATIONAL ASSOCIATION OF COUNTIES

Mr. MILLS. Thank you, Mr. Chairman, We will only take a very few moments, because I know you want to adjourn for lunch.

Senator HATHAWAY. And who is accompanying you?

Mr. MILLS. Alice Ann Fritschler of the NACO staff. May I say you have our testimony, in addition to which I filed a recapitulation of the use of revenue sharing funds in our county, of more than $6 million.

I might point out that approximately 50 percent of it is in the human service/environmental service areas. In the case of Mr. Ramsey, I think it is even higher, in his county, which is Shelby County, Tenn.

Senator HATHAWAY. Is this a breakdown as to what you spent the money on, in addition to the percentages?

Mr. MILLS. Precisely.

Senator HATHAWAY. Because percentages could be deceiving. You could spend 50 percent of the money on education and it shows you build an all glass high school, or something, which we might consider not to be very useful.

Mr. MILLS. Ours is broken down very carefully and then we also categorized.

We believe that fiscal assistance—general revenue sharing—is a vital part of Federal financial aid, which should be composed of categorical grants, block grants and general revenue sharing. It is in the national interest to see that counties, cities and States continue to be able to provide an adequate level of services to our citizens.

Federal aid is decreasing as a percentage of State and local budgets—from 25.2 percent in 1973 to an estimated 22.2 percent in 1976—while county budgets are increasing and local taxes are rising.

In our case, Mr. Chairman, in the last 10 years my budget has gone from $11 million to $71 million, and we are at 98 percent of our tax limit. So the discussion that has gone on this morning about whether revenue sharing is being used to reduce taxes in New York State, as far as counties are concerned, just is not in the ballgame at all. We are just barely staying alive as it is.

While Congress cuts taxes to stimulate the economy, many counties are finding increased demands are causing severe strains on our resources. And I was very glad to hear Mayor Gibson of Newark point out something that Congress should realize. And that is, that counties provide human service benefits in the central city areas, as well as elsewhere.

In my own county, 50 percent of our welfare funds are spent in the City of Newburgh, N.Y. And this is very important. Today I was supposed to have been at a meeting with the other 15 county executives in New York State at the Biltmore Hotel to announce jointly with the others that we are running out of money this summer. And this is all of the New York State counties. In my case, we will be out of money by July and we will fall some $3 to $7 million in deficit in our welfare budget alone.

NACO survey of 31 counties in 22 States varying in size from over 7 million in Los Angeles County, Calif., to 7,900 in Shelby County, Mo., found that the majority of counties have raised or kept their local tax rate stable. The most frequently cited causes for budget increases were inflation and increased law enforcement and court costs. Shortfalls from revenue estimates are anticipated by three-quarters of those counties surveyed.

In my own county, uncollected taxes have become a serious problem. We have a job freeze. We have no new programs. As a matter of fact, this past week I notified various groups of three programs we could not proceed with—the establishment of a police coordinator's office, a youth bureau, and fire control agency.

The uses of revenue sharing are as varied as the needs and programs of local governments—health centers, day care, roads, solid waste, police protection. The funds are used to keep counties and other State and local governments working.

Counties call for Congress to reenact a permanent revenue sharing program as a designated portion of the Federal income tax base. We believe the present formula based on population, tax effort and poverty, distributes funds equitably with more funds going to less affluent areas. And we believe restrictions on the use of funds should be removed, because the entire county budgets are the most significant factor, not just the 3 percent—and in our case it is 2 percent—of revenue sharing funds.

We believe enactment of revenue sharing legislation by Congress was an act of trust, an act of faith in our pluralistic federal system. We believe Congress and the counties are in a partnership for the people and that we can continue to work together to improve our local governments and their delivery of services to the people.

Revenue sharing is an important element in our federal fiscal system. We urge you to continue that partnership. And I would simply conclude by saying that if we are seriously and adversely cut in the revenue sharing program, insofar as our county is concerned, we will virtually be out of business next year.

Thank you very much.

Senator HATHAWAY. Mr. Ramsey?

STATEMENT OF HON. JACK W. RAMSEY, CHAIRMAN, SHELBY COUNTY EXECUTIVE COMMITTEE, SHELBY COUNTY, TENN.

Mr. RAMSEY. Mr. Chairman, the first thing I want to do is thank you personally for continuing these hearings. I do have a plane I have to catch and I know you are hungry, like the rest of us. But anyhow, we appreciate it very much.

Senator HATHAWAY. You are welcome.

Mr. RAMSEY. I am here today to urge the extension of the State and Local Fiscal Assistance Act. My testimony is presented as extension of the remarks to those of my colleague.

The general revenue sharing story in Shelbyville County, Tenn. is mainly a survival story for the public hospitals serving our region. Sixty percent of Shelby County's revenue has been allocated for operating and maintenance costs to upgrade the level of health services, specifically for the poor and aging citizens of our county.

Twenty percent of these funds have been used for capital expenditures in education. The remaining 20 percent is divided among such capital expenditure categories as construction of roads and public utilities.

My good friend, Senator Brock, hit the nail on the head when he said the counties are up against a tougher problem than the cities, because we have practically no way of raising funds except with the general tax on property. That is about the only way we have—of course we do have a sales tax, but that is allocated to the jurisdictions where it is collected. And practically all of it is collected in the cities, so we get practically none of that.

Our normal annual increased yields this year from the local property tax are expected to be only about half because of the recession and people not being able to pay their taxes. Therefore, revenue sharing funds will be crucial to help us keep the same services we have been providing.

Senator HATHAWAY. But your county taxes will be collected later on.

Mr. RAMSEY. We are collecting them later on, yes, but usually we can figure on about a 6 percent normal increase per year on account of the building that has been going on in the county areas.

During the last year, building has stopped because of the tight money situation. So, instead of having about a 6 percent increase, we will have about 3 percent and that will not begin to take care of it.

Senator HATHAWAY. Oh. I see. It is just on the increase?

Mr. RAMSEY. Yes. So we hope this will enable us to "try" and I emphasize "try," because we are in the process of trying to balance our budget now, and we are hoping with this revenue sharing we will be able to hold the maximum increase to a very, very small portion.

During the last 2 years, thanks to revenue sharing, we have not increased our taxes at all. We could not cut them, but we have held them steady at $4. Your subcommittee should remain aware of the following advantages of this legislation:

Funding is derived from the most progressive and fairest tax system. It reduces the rate of increase in State and local tax systems, which we believe are a regressive tax system.

It releases time for congressional and administration leadership to resolve vital foreign and domestic policy questions. We also think that administration costs much less than that needed for categorical grants.

And I was very much impressed with some of the questions I think you asked, about the categorical grants. We think that revenue sharing is much more to the point because we can put it in the places where we know it is needed the most. And there have been times when there have been some categorical grants that we did not think were absolutely needed.

In conclusion, may I remind the subcommittee of a few principles which should be retained in legislation continuing the State and Local Fiscal Assistance Act?

One, the legislation should be continued for at least 5 years, and made permanent, if possible. It is wonderful if we can plan ahead. We have a 5-year capital improvement plan in Shelby County, and if we can count on something, it would help us out tremendously.

General revenue sharing should not have to be used as a substitute for other Federal programs. Also we believe that the legislation should increase the level of appropriations to compensate for inflation.

Letters that I have received from President Ford and from members of the Tennessee congressional delegation indicate their support for the extension of this legislation.

Therefore, I strongly urge you, gentlemen, to make revenue sharing a permanent program. By doing this, you may help us keep our taxes at a livable level.

While urging the continuation of the State and Local Fiscal Assistance Act, Shelby County wishes to express her deepest appreciation to the U.S. Congress. Bill Brock has gone out, but I wanted to especially thank him for having the foresight to urge early enactment of this vital legislation. Without it, I do not know how we would have been able to exist. We would have either had to go up on our rates an unbelievable amount, or we would have had to have cut vital, vital services. I think it would have been both.

Gentlemen, I appreciate being before you. It is an honor to be here.

Senator HATHAWAY. Do you think any change should be made in the formula?

Mr. RAMSEY. We are willing to go ahead just like it is. We have received, so far, $26,177,000. We have expended $18,444,000. We have $7 million that is appropriated, but not expended.

Our hospitals and health service costs are increasing 70 percent this year; law enforcement, 13 percent. So you can see how much it will help us.

Senator Brock, I just said that we appreciate how very much all of you have done here, and especially you. We know that you have been in the forefront of this fight, and speaking for over 700,000 people in Shelby County, we want to thank you.

Senator BROCK. You are very gracious. I thank you for your remarks. I have been a believer and a fighter for this for I guess 10 years now, when I first introduced a bill in 1965.

Mr. RAMSEY. I was up here when you made one of the first talks in ~~front of NACO, and~~ I remember the fight. It has been just about that length of time. Almost as long as I have been in office. And, without your help, Senator, we would have been in an awful tough spot.

Senator BROCK. If I may say, in kind, if the chairman would continue to give the privilege of interceding, we passed the legislation, Mr. Ramsey, but you have implemented it with ability and integrity and you have made it work.

So the thanks go to you, not to the Congress. We really appreciate it.

Mr. RAMSEY. Well, it is not me. As you know, we have an executive committee of commissioners of three, and we have a county court. Someone has asked, do we feel the local impact of a request?

Gentlemen, you do not know anything until you see some of these people come down to the county courthouse, down to our offices, and not plead but almost demand, and as a rule they get it. We just appropriated $1 million of our revenue sharing last week. Most of it is going for social services.

Mr. MILLS. Mr. Chairman, the NACO staff is studying the question you asked, and we will get back to you in that regard.

Senator HATHAWAY. On the formula change?

Mr. MILLS. Yes, sir.

Senator HATHAWAY. Thank you, sir. Let me ask you one more question. I think about 5 percent, on the average, is what revenue sharing amounts to—5 percent of the local budget?

Mr. MILLS. In our case it is about 2 percent.

Senator HATHAWAY. And half of that is capital expenditures would you say?

Mr. MILLS. Approximately half of our revenue sharing expenditures, to date, have been in capital.

Senator HATHAWAY. Have these capital expenditures been concluded? Or are these ongoing capital expenditures? In other words, are they for a firehouse that is going to take 10 years to pay off?

Mr. MILLS. Well, no firehouse in our case.

Senator HATHAWAY. Well I mean expenditures that are going to last for a period of years on the same project.

Mr. MILLS. Normally any capital program where we have used revenue sharing funds, we have tried to do it in a 1- or 2-year period.

Senator HATHAWAY. So it is really just a very low percentage, then? About 1 percent?

Mr. MILLS. Of all of our capital programs?

Senator HATHAWAY. No, you say you are getting 2 percent, and 1 percent of that has been spent for capital expenditures.

Mr. MILLS. Precisely.

Senator HATHAWAY. So that leaves you 1 percent left for operating expenditures, and that is what you are really planning on?

Mr. MILLS. That is right, And, again, I cannot emphasize enough the crisis for New York State counties, and probably others, but I know I can speak for New York State in the welfare situation, which is going way beyond our revenue sharing. Orange County is $5- to $7-

million short on welfare, and my total revenue sharing in 1 year, it might be $2 million.

Senator HATHAWAY. My point is that it is only 1 percent of your budget. Why is it such a dire necessity that we continue the program? And, two, if we are going to continue the program, why is everybody pressing that we get it passed this year, so you can do some long-range planning?

Mr. MILLS. I know that I feel sort of like a sinking man and anything you can hang onto that is going to provide you with funds is worth saving. I am at 98 percent of my taxing limit, which is too high in any event. And the Governor of New York is talking about reductions in aid to localities.

The President of the United States is making some of the same statements. And, welfare alone—for example, when the Congress took over, with very good intentions, aid to the blind, aid to the disabled, and aid to the elderly, it adversely affected us because they had more stringent requirements on their aid to disabled.

Those people who were left out of the Federal program went into home relief in New York State. It may be true elsewhere. So we are picking up a larger share now than we were before, that is more dollars of our own going into those areas now than did previously. And, on a real property tax base, we simply cannot survive.

Senator HATHAWAY. Senator Brock?

Senator BROCK. I think it might be worthy of note that an awful lot of counties and cities operate on the same fiscal year basis as the Federal Government. In other words, July to July, rather than January to January. I do not know about your own case?

Mr. MILLS. We are on a calendar year.

Mr. RAMSEY. We are July to July, and we are right now in the process of preparing our budget, and we are having a hard time but we are doing it with the anticipation of getting this revenue.

If we do not, there are going to be some hospital rooms closed down and a lot of law officers are going to have to be let go.

Senator BROCK. Well, the point I am making is if it is true that an awful lot operate on a July fiscal year, they start preparing those budgets a year in advance, so in July of this year they are preparing—they are beginning to develop, as we do at the Federal level, the budget for next year. That is the way you have got to do it. You have got to plan ahead.

If you do not know that you are going to have revenue sharing this year, you cannot legitimately crank it into your budget for next year. All of a sudden, if we do not do it next year, you are caught if you planned it. If we do do it and you did not plan for it, then you have got to reappraise your whole budget.

So it is essential, I think, that revenue sharing be extended this year, just for planning purposes if nothing else.

Mr. RAMSEY. I thoroughly agree with you.

Senator BROCK. I would like to make one other point, and that is with regard to the capital expenditures. I do not know about the particular circumstances in Orange County, N.Y., but I do know certainly in the Tennessee communities and counties that I have talked to about it, an awful lot of them told me that they invested—made capital investments because they were unwilling to start a permanent human program that they were going to have to fund. If revenue sharing was ever stopped, the burden would fall instantly and totally on the local taxpayer and they simply could not pick up that burden.

So, in order to protect against that, they made capital investments where they could spend the money for a new firehall at the end of this year, and next year we would have the firehall and we were not committed to build another one.

Mr. MILLS. That is precisely true, sir.

Mr. RAMSEY. That is what we did.

Senator BROCK. So what I am saying, and what I think you are saying, is if we made revenue sharing permanent, we could have a much more logical distribution of resources and allocation of resources to human purposes, which I think is the intent of the whole program.

Mr. RAMSEY. You are exactly right.

Senator BROCK. Would you not agree, Mr. Mills?

Mr. MILLS. Yes, sir, Senator, very definitely. And even where I have gone out on a limb as a county executive and asked for a human service program, my legislative body usually knocks me down for the very reason you stated.

Senator BROCK. Sure, they cannot count on this unless they know it is going to be around for awhile, and you cannot either.

Mr. MILLS. And I cannot assure them of it.

Mr. RAMSEY. We are working on a 5-year capital budget and, unless we know about it, it is awfully hard to plan properly.

Senator BROCK. Well, I hope, then, that you would tentatively endorse the concept I have in my bill to make this a permanent program.

Mr. RAMSEY. While you were out, I said that.

Senator BROCK. I read your statement, Mr. Ramsey, and I appreciate it and I thank you for your testimony very much.

Senator HATHAWAY. Thank you, very much, gentlemen. We appreciate your testimony.

Mr. MILLS. Thank you, Mr. Chairman.

[The prepared statements of Messrs. Mills and Ramsey follow:]

STATEMENT OF THE NATIONAL ASSOCIATION OF COUNTIES, PRESENTED BY LOUIS V. MILLS, COUNTY EXECUTIVE, ORANGE COUNTY, N.Y., AND JACK W. RAMSEY, CHAIRMAN, EXECUTIVE COMMITTEE, SHELBY COUNTY, TENN.

Mr. Chairman, we are here today representing the nation's county governments to give you the latest information about counties, their fiscal circumstances, and their use of revenue sharing funds. We are pleased to appear before the members as representatives of the pluralistic nature of our federal system. We represent counties which provide a variety of services from health and welfare, to police protection, garbage collection, and jails. We represent various views on the role of county government. but we are in complete agreement about the efficacy and value of revenue sharing. There is no Democratic or Republican way to collect garbage; there is a need which must be met. Revenue sharing is a bi-partisan program for domestic assistance, much like a bi-partisan program for foreign assistance we have had in this country. We are here to advocate reenactment of the State and Local Fiscal Assistance Act because we feel it is an essential ingredient in our federal fiscal system.

Those of us who are local elected officials believe in a strong, pluralistic balanced government system with opportunities for many people to participate in decision-making and priority setting. We are the elected officials who hear daily and directly from our constituents. We can't avoid, nor do we want to avoid, daily contact with those who elect us and expect us to deliver services. I'm sure you understand that counties, cities and states are responsible for keeping our basic system of government working. We, at the local level, are the direct deliverers of services to citizens. We need a share of federal revenues—or fiscal assistance—to keep the system working

The federal government has a responsibility to see that counties, cities and states can keep the system working—to see that the local delivery system is maintained. There is a national interest in the continued functioning of counties, cities and states.

There are, of course, various types of federal assistance: specific categorical grants for narrow purposes such as drug abuse education, defined to be in the national interest; broader block grants in areas such as manpower, which fund counties to provide comprehensive programs; and fiscal assistance or revenue sharing, to keep governments going, and to allow local officials to use funds in a variety of areas determined to be of the greatest need in a particular area. We agree that these three types of programs are needed to keep our domestic affairs in order. Even though federal assistance is rising in amount (although at a much slower rate in the past two years) it has decreased as a percentage of state and local budgets because we are raising more revenues locally.

The Joint Economic Committee recently reported that the real constant dollar value of federal grants in aid decreased 2.4 per cent from the beginning of 1973 to the beginning of 1974. In 1973, federal aid was 25.2 per cent of state and local expenditures, in 1974 it had dropped to 23.6 per cent and the 1976 budget estimates a continued drop to 22.2 per cent.

Many counties are at or near their taxing limit as imposed by the state governments, and would have to go to the state legislature for a change in state law to raise additional revenues. Perhaps some of the Congress has been following in The Washington Post the problems faced by the two adjacent Maryland counties to Washington in their struggles with state legislature and the governor. It is obviously against national economic policy to have counties increasing local property taxes while the federal government is cutting taxes to stimulate the economy. Our basic county dependence on the property tax will, during the coming year, increase county problems. Tax defaults in Orange County, New York, have increased dramatically in the last year. Our unpaid taxes this year have increased from $2 million to $3 million. The lag in reassessment and citizen resistance to it do not permit growth in these revenues. In Los Angeles County, Calif. revenues from gasoline taxes are down; in Forsyth County, North Carolina, sales tax revenues are down as unemployment continues to climb. In Mississippi, a state law gave property tax exemption for the elderly (certainly a worthy cause) but failed to provide counties which depend on property taxes with any compensating revenues. In California, the state reduced its share for mental health purposes, but continued to require provision of services by counties. Milwaukee County, Wisconsin and Fairfax County, Virginia, estimates they would raise property taxes almost 20 per cent without revenue sharing funds.

Without general fiscal assistance provided by general revenue sharing to keep our local governments operating, it will be more difficult to adequately respond to massive new federal programs such as public service jobs and public works. We need general support money to keep our governments operating. During the past year there has been a significant shift of revenue sharing funds from capital budgets into the operating budgets of many counties. Revenue sharing is keeping many of our governments from raising even more our regressive property taxes which most of us depend on. These funds also serve as a substitute where shortfalls in revenue estimates have occurred.

We think this is a particularly appropriate time to talk about reenactment of revenue sharing which we would urge you to think of as fiscal assistance, because our counties are facing very difficult fiscal problems now and will continue to need fiscal assistance for some time. While the Congress has the "luxury" of reducing the federal income tax and providing rebates to citizens, we are raising local taxes and increasing property tax assessments. We envy you this "luxury" of taxcutting.

A survey of 31 counties in 22 states of various sizes by the National Association of Counties shows:

Question 1.—Have you raised or lowered your tax rate within the last year? By what per cent?

Thirty-one counties responded to this question. There was a range between tax increase of 15 percent to a decrease of five percent. One-third of the counties responding, increased their tax rate; 14 counties' rate remained stable and the remaining counties (6) decreased their taxes. Generally those counties with populations above 500,000 increased their taxès. The counties with populations below 100,000 appeared more likely to keep taxes at a stable level. Those counties which lowered their tax rates were spread over the entire population range, with five of the six decreasing tax rate by one per cent or less and one county decreasing by five per cent due to a one year windfall.

Question 2.—What have been the largest categories of budget increases?

A large number of causes for budget increases were cited by the surveyed counties. The most often stated cause for these increases was attributed to inflation. Counties with populations over one million people often referred to mandated state and/or federal programs which raised their budget costs. The increased demand and delivery of services, particularly law enforcement and social services, were cited by nearly all the counties. Counties with populations below 500,000 were particularly concerned with the increased costs of energy. Five counties, of varying population, stressed the budget increases being caused by employees' merit and cost of living increases.

Question 3.—Have you had to cut your budget? How?

The need to cut budgets have been experienced most frequently by counties whose population is above 100,000. Eleven counties have utilized job freezes at one time or another during the past six months. Eight counties have frozen capital constructions of facilities or roads. Six counties have required across the board cuts in services by county departments and four counties have placed freezes on employee's salaries.

Question 4.—Do you anticipate short-falls from your revenue estimates?

Nearly all of those surveyed anticipated revenue short-falls of some type. These estimates were attributed to short-falls in nearly all county revenue sources, including gasoline sales rebates from the state, property taxes, housing permits deed recording fees, vehicle registration fees, and interest on interim fund investments.

Question 5.—What are the major uses of revenue sharing funds?

Funds have been used in all of the priority categories, public safety, environmental protection, public transportation, recreation, libraries, social services and financial administration, as well as for capital construction. Many of the counties surveyed have altered their use of general revenue sharing funds during the last year. These counties (generally with populations of 500,000 or more) are now using general revenue sharing as a buffer to meet normal operating expenses. Without general revenue sharing these counties estimate they would have been forced to reduce services or raise taxes.

COUNTIES SURVEYED APRIL 10, 1975

Population over 1 million: Los Angeles, Calif.; San Diego, Calif.; Alameda, Calif.; Santa Clara, Calif.; Nassau, N.Y.; and Milwaukee, Wisc.

Population 500,000-999,999: Maricopa, Ariz.; Shelby, Tenn.; Marion, Ind.; Monroe, N.Y.; Middlesex, N.J.; Fulton, Ga.; and Fairfax, Va.

Population 100,000–499,999: Davidson-Nashville, Tenn.; Orange, N.Y.; Erie, Pa.; Forsyth, N.C.; Orange, Fla.; New Castle, Del.; and Boulder, Col.

Population 50,000–99,999: Aroostook, Maine; Miami, Ohio; Mercer, W. Va.; Jefferson, Wisc.; Laramie, Wyo.; Boone, Mo.; and Henry, Ill.

Population under 50,000: Rutherford, N.C.; Bolivar, Miss.; Shelby, Mo.; and Bingham, Idaho.

We're not here to apologize for our use of revenue sharing funds, we're proud to tell you what the money has gone for. In Orange County we have received $5 million of shared revenues. We have used our funds for a mental health center, a sanitary landfill and public works headquarters building. We have also spent funds for retarded children, day care programs, and a hospital.

In a GAO survey of selected governments, counties spent 22.6 percent for health; 10.3 percent for social services and 41 percent for public safety. This year the Orange County budget is $71.5 million, which is a 17.8 percent increase over last year. The annual increase in our budget between 1970 and 1975 ranged between 7.5 percent and 17.8 percent. This year's larger increase was clearly due to inflation. The largest increase in our budget was for social services, including health, alcoholism, mental health and drug abuse programs. A significant increase was also made in manpower.

We believe that these expenditures reflect the needs of our county citizens. We believe that these are a reflection of the public interest. It is no accident that our state and local associations of elected officials (county officials, mayors, governors, legislators) are called public interest groups (known to some as the PIGs) because we believe, and you must agree, that as elected officials at all levels, we are able to determine the priorities which are in the public interest. Revenue sharing gives state and local elected officials the ability to determine local priorities. And believe me, we get plenty of public advice about what our priorities should be. We are, of course, open to citizen participation in our decision-making, but after all, we have governments to make decisions in the final instance. We're willing to defend our revenue sharing uses.

I'd like to point out the particular situation of counties in our intergovernmental system. The impact of the current inflation-recession situation affects all levels of government, but its impact at the county level is particularly acute. When the nation's economy erodes, revenues for all local governments diminish. Not all local governments, however, suffer the same demand for services. Counties, because they have the responsibility of providing human services—welfare, health and social services—are uniquely affected by a declining economy. This uniqueness translates into greater demands for county services at a time of substantial county revenue short-falls. County revenue sources are limited and restricted, and are failing to keep pace with inflation. County expenditures nearly doubled from 1967 to 1972 and county operating costs in 1974 increased in excess of 10 percent. A similar increase is projected this year.

We believe revenue sharing has proven itself as an effective means of providing fiscal assistance to states and localities on the basis of need, and we hope the Congress will move quickly to reenact this legislation so that we may make plans for the best use of the funds. Although the present act doesn't expire until December, 1976, we need to know whether we can count on funds beyond that date. We begin preparing our budgets for the next fiscal year in September and we need to know whether we can plan on continued revenue sharing funds. That is the way we can make better long-range decisions. We are delighted that this Subcommittee has moved so quickly to begin review of the program.

We urge the Congress to speedily reenact The State and Local Fiscal Assistance Act. We believe that general revenue sharing has met the test of time and should be made a permanent part of the federal fiscal system. We believe that a designated portion of the federal income tax base should be provided. Revenue sharing is being eroded by inflation and this designation of a portion of the income tax would help compensate for inflation. We continue to support distribution of funds on the basis of population, tax effort, and poverty or per capita income factors. The present formula distributes more funds to those states with lower per capita income and less to those with higher per capita income. More affluent areas receive far less per capita than poorer areas. Detroit receives $27.29 per capital, more than eight times as much as Grosse Pointe Farms at $3.83. The City of Los Angeles receives $12.56, or twice as much as any other city in California.

We urge you to give careful consideration to removing all program and project restrictions on the use of funds. We are perfectly capable of reporting the use of all our county funds. And, after all, revenue sharing presents only 3.4 percent of our local budgets, so in judging the rise of revenue sharing funds, the entire expenditures of counties should be evaluated. Monroe County, New York receives about $4.4 million annually in revenue sharing funds. Since 1972 the increase in social services has averaged more than $7.7 million per year. If critics consider only revenue sharing expenditures in that county, they see only a small allocation for social services. But if you look at all of the resources the county devotes to this area, you would be impressed by the allocation to social services. This is typical of many counties.

We also request additional support to the current efforts of many states and local governments to update their operations and incentives to improve the quality and effectivensss of their operations.

We will be happy to provide you with factual information about our uses of the funds. We wish each member of Congress would come to our counties and see what's been done in his state with the funds. Our Congressman spent a day in Orange County visiting our facilities and programs. He came away a stronger supporter than ever. (If I didn't have a supportive representative and if we lose revenue sharing funds, I would like to invite all those members who voted against it to come back for the county legislature's vote on increasing local taxes).

We believe enactment of revenue sharing legislation by Congress was an act of trust, an act of faith in our pluralistic federal system. We believe Congress and counties are in a partnership for the people and that we can continue to work together to improve our local governments and their delivery of services to the people. Revenue sharing is an important element in our federal fiscal system. We urge you to continue the partnership.

County of Orange,
Department of Finance,
Goshen, N.Y., April 8, 1975.

Federal revenue sharing recapitulation

To date we have received entitlements aggregating	$6, 232, 914. 00
We have earned interest thereon	612, 402. 14
Total funds available for allocation	6, 845, 316. 14
We have allocated the following funds:	
For human services:	
Mental health	501, 895. 52
Physically handicapped children	44, 990. 42
Day care program	45, 569. 00
Occupations, Inc	372, 475. 00
Association For Help, retarded children	435, 381. 00
Total (27.46 percent)	1, 400, 310. 94
For environmental services:	
Solid waste system	970, 500. 00
Drainage study	125, 000. 00
Total (21.49 percent)	1, 095, 500. 00
For construction and other (51.05 percent)	2, 602, 487. 97
Jailhouse rehabilitation; county garage addition; road construction; recreation—Parks; and tax map.	
Total funds allocated (100 percent)	5, 089, 298. 91

ORANGE COUNTY—FEDERAL REVENUE SHARING PROGRAM—STATUS AS AT APR. 8, 1975 (RAYMOND C. SCHWARZ COMMISSIONER OF FINANCE OF ORANGE COUNTY, N.Y.)

EXHIBIT A—RECEIPTS	1st and 2d entitlement periods	3d entitlement period	4th entitlement period	5th entitlement period	Totals to date
Entitlements received:					
Dec. 11, 1972	$868,511.00				
Jan. 8, 1973	837,623.00				
Apr. 9, 1973		$463,925.00			
July 9, 1973		463,925.00			
Oct. 9, 1973			$481,978.00		
Jan. 8, 1974			481,978.00		
Apr. 8, 1974			481,978.00		
July 8, 1974			481,978.00		
Oct. 7, 1974				$557,006.00	
Jan. 6, 1975				557,006.00	
Apr. 7, 1975				557,006.00	
Total entitlements received	1,706,134.00	927,850.00	1,927,912.00	1,671,018.00	$6,232,914.00
Interest earned:					
1973	102,836.25	44,699.98	7,660.84		155,197.07
1974	119,569.51	93,890.19	147,412.35		360,872.05
1975	6,227.78	17,721.22	36,449.41	35,934.61	96,333.02
Total interest	228,633.54	156,311.39	191,522.60	35,934.61	612,402.14
Total FRS available	1,934,767.54	1,084,161.39	2,119,434.60	1,706,952.61	6,845,316.14
EXHIBIT B—ALLOCATIONS					
Allocations:					
Court library [1]	14,877.70				
County jail—Capital repairs	100,000.00				
Mental health—Arden Hill Hospital [1]	103,488.52				
Tax map—Capital project	50,000.00				
Physical handicapped children program [1]	44,990.42				
Day care program—Update P.J. et al [1]	35,069.00				
Solid waste disposal system	210,000.00	760,500.00			
Mental health—Occupations, Inc.[1]	72,475.00				
Associated Help, retarded children [1]	112,381.00				
Road machinery fund—Equipment	119,720.00				
Day care program—Newburgh [1]	10,500.00				
Planning department—Railroad Study [1]	10,406.27				
Park capital improvements	16,000.00				
Highway garage addition—Capital	500,000.00				
Repair Sts. by community college	30,000.00				
Park capital improvements	24,000.00				
Mental health—NYS Hospital Chgs.[1]	124,839.00				
Real property tax service—Data Management	57,700.00				
Associated Help, retarded children [1]	60,000.00				
Drainage study	125,000.00				
County road—Partial	113,320.63	193,963.37			
Mental health—Contract agencies		129,698.02	706,869.98		
Road construction—Capital			1,325,000.00		
Data Processing remodeling			47,500.00		
Total allocated to date	1,934,767.54	1,084,161.39	2,079,369.98	0	5,098,298.91
Balance available for authorizations	0	0	40,064.62	1,706,952.61	1,747,017.23

[1] Completed—Actual expense.

STATEMENT BY JACK RAMSEY

Mr. Chairman, I am here today to urge the extension of the State and local fiscal assistance act.

My tesitmony is presented as extension remarks to those of my panel colleagues from NACO.

The general revenue sharing story in Shelby County, Tennessee is mainly a survival story for the public hospitals serving our region.

Sixty (60) percent of Shelby County's revenue sharing has been allocated for operating and maintenance costs to upgrade the level of health services, specifically for the poor and aging citizens of our county. Twenty (20) percent of these funds have been used for capital expenditures in education. The remaining twenty (20) percent is divided among such capital expenditure categories as construction of roads and public utilities.

Normal annual increased yields from the local property tax are expected to be reduced by nearly fifty (50) percent in fiscal 1976. Therefore, revenue sharing funds will be crucial to maintaining the level of priority public services. Hopefully, it will enable us to hold anticipated property tax increases to a minimum during fiscal '76. Even with an upswing in our depressed economic condition, Shelby County will be playing catch-up for several years in trying to meet our long-delayed public service needs.

Your subcommittee should remain aware of the following advantages of this legislation: funding is derived from the most progressive and fairest tax system; reduces the rate of increase in State and local regressive tax system; releases time for congressional and administration leadership to resolve vital foreign and domestic policy question; administration costs much less than that needed for categorical grants.

In conclusion, may I remind the subcommittee of a few principles which should be retained in legislation continuing the State and local fiscal assistance act:

The legislation should be continued for at least five years, and made permanent, if possible.

General revenue sharing should not have to be used as substitutes for other federal programs.

The legislation should increase the level of appropriations to compensate for inflation.

Letters I have received from President Ford and from members of Tennessee's Congressional delegation indicate this support for the extension of this legislation.

Therefore, I strongly urge you gentlemen to make revenue sharing a permanent program. By doing this, you may provide local Governments with the tool they need for survival.

While urging the continuation of the State and local Fiscal Assistance Act, Shelby County wishes to express her deepest appreciation to the United States Congress for having the foresight to enact this vital legislation in 1972.

Again, it has been a high honor and privilege to appear here today.

Thank you.

Support Statistics

BUDGETARY EMERGENCY EXAMPLES

Unexpected public strikes, gasoline price increases, cutbacks in sales tax revenue, federal grants, state grants, inflated material costs.

POPULATION

1970—722.011—Shelby County (excluding Memphis) 75,000.

PROPERTY TAX RATE

Fiscal 1974—$4.00.
Fiscal 1975—$4.00.

ACTUAL REVENUE SHARING FUNDS RECEIVED AND EXPENDED

	Amount
Received through April 8, 1975	$26,177,595.51
Expended through April 8, 1975	18,444,326.41
Appropriated by unexpended through April 8, 1975	7,733,259.10

FASTEST GROWING BUDGET INCREASES FOR ALL COUNTY EXPENDITURES

	Percent of increase
Hospitals	70
Law enforcement	13
Chairman's office	13
Commissioners/roads and bridges	4

Senator HATHAWAY. At this point, without objection, I would like to insert in the record for printing in the appropriate place, a document prepared by the committee staff entitled "Operation of the State and Local Fiscal Assistance Act of 1972."

[The material referred to follows:]

OPERATION OF THE STATE AND LOCAL FISCAL ASSISTANCE ACT OF 1972

PREPARED FOR THE USE OF THE COMMITTEE ON FINANCE

CONTENTS

TABLES

INTRODUCTION

Title I of the State and Local Fiscal Assistance Act of 1972 (Public Law 92-512) established the program of financial assistance to state and local governments commonly known as general revenue sharing. The Act created a Revenue Sharing Trust Fund and appropriated to it $30.2 billion in Federal funds to be paid to state and local governments over a five-year period, ending December 31, 1976. During the current fiscal year, $6.2 billion is being disbursed by the Department of Treasury to about 39,000 state and local governments in the 50 states and the District of Columbia.*

HOW THE FUNDS MY BE USED

Under the law, funds allocated to state governments may be used for virtually any legitimate purpose. However, to receive their full allocation, the States must generally maintain their assistance to their local governments at the levels existing in fiscal year 1972. Funds allocated to local governments may be used to pay operating and maintenance costs within the following "priority expenditure categories":

A. Public Safety (including for example, police, courts, corrections, crime prevention, fire protection, civil defense, inspection of buildings, plumbing, electrical facilities, gas lines, boilers, and elevators).

B. Environmental Protection (including for example, smoke regulations, inspection of water supply, sanitary engineering, pollution control, sewerage, street cleaning and waste collection, refuse disposal, or waste recycling).

C. Public Transportation (including for example, highways, bridges, streets, grade crossings snow and ice removal, transit systems).

D. Health.

E. Recreation.

F. Libraries.

G. Social Services for the Poor and Aged (including for example, food, clothing, shelter, day care, job training).

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* Note: See Appendix for additional detail on the level and distribution of funding.

H. Financial Administration (including for example, expenses for accounting, auditing, budgeting, investing, tax collection, fiscal affairs).

In addition, the law provides that any ordinary and necessary capital expenditure authorized by state and local law represents an appropriate use of general revenue sharing funds.

Although the law contains few limitations on the specific purposes to which funds may be applied, it does impose several general constraints on the manner in which the funds are expended:

(1) budgeting, appropriation and use of this money must meet requirements of state and local law regarding the use of a recipient's own general revenue;

(2) revenue sharing dollars may not be used directly or indirectly to obtain federal matching funds;

(3) recipients must observe nondiscrimination and labor standards provisions found in Sections 122 and 123 of the Act;

(4) revenue sharing money must be used, obligated or appropriated within 24 months of the end of the entitlement period for which it was paid out, unless an extension of time is granted by the Secretary of Treasury;

(5) shared revenues transferred to private agencies or other units of government are still subject to all of the restrictions of the Act;

(6) use of revenue sharing funds by units of local government to repay debts must conform to regulations.

An analysis of the reported actual uses of general revenue sharing during the 1973–74 period indicates that more money was spent to provide citizens with public safety services than for any other purpose. These expenditures, mainly by local units of government, amounted to 23¢ of every revenue sharing dollar spent. The second highest use nationally of general revenue sharing funds by all State and local governments was to provide educational services and facilities. These costs amounted to 21¢ of every revenue sharing dollar, and dominated State government spending. The third highest expenditure of revenue sharing funds was to provide a variety of public transportation services at both the State and local levels. These services used 15¢ of the average revenue sharing dollar spent during Entitlement Period 4.

These three uses of revenue sharing funds—public safety, education, and public transportation—accounted for almost 60% of all revenue sharing expenditures during the 1973–74 period.

Other uses of revenue sharing monies by State and local governments in decreasing order of magnitude were: multi-purpose and general government—10¢; health services—7¢; environmental protection—7¢; recreation and cultural programs—5¢; social services for the poor and aged—4¢; other uses, especially by States—4¢; financial administration—2¢; libraries—1¢; housing and community development—1¢; and correction, economic development and social development—each less than 1¢.

Reported use of general revenue sharing 1973–74

	Amount (in cents)
Public safety	23
Education	21
Public transportation	15
Multi-purpose general government	10
Health	7
Environmental protection	7
Recreation	5
Social services for poor or aged	4
Other uses	4
Financial administration	2
Libraries	1
Housing/community development	1
Corrections	[1] 1
Economic development	[1] 1
Social development	[1] 1

[1] Less than.

Source: Department of Treasury.

USE OF REVENUE SHARING FUNDS REPORTED BY STATES AND LOCAL GOVERNMENTS, JAN. 1, 1972-JUNE 30, 1974

[Dollar amounts in millions]

Rank	Category of use	All governments	Percent	States	Percent	Local governments	Percent
1	Public safety	$2,190	23	$45	1	$2,145	36
2	Education	2,068	22	2,000	57	68	1
3	Transportation	1,405	15	267	8	1,138	19
4	General government/multipurpose	841	9	208	6	633	11
5	Environmental protection	674	7	56	2	618	10
6	Health	645	7	231	7	414	7
7	Recreation and cultural services	425	4	40	1	385	6
8	Other	355	4	316	9	39	1
9	Social services for the poor or aged	354	4	229	7	125	2
10	Financial administration	188	2	24	1	164	3
11	Housing and commercial development	104	1	37	1	67	1
12	Libraries	101	1	6		95	2
13	Economic development	51	1	13		38	1
14	Corrections	43		43	1		
15	Social development	22				22	
		9,466	100	3,515	[1] 100	5,951	100

[1] Does not total due to rounding.

COMPARISON OF PLANNED USES OF SHARED REVENUES

ENTITLEMENT PERIOD 4 (JULY 1, 1973-JUNE 30, 1974) AND 5 (JULY 1, 1974-JUNE 30, 1975) ALL RECIPIENT GOVERNMENTS

[In percent]

Categories of expenditure	PUR 4	PUR 5	Change in PUR 5
Public safety	19	23	+4
Environmental protection	7	7	
Public transportation	14	12	−2
Health	9	6	−3
Recreation	6	5	−1
Libraries	1	2	+1
Social services/aged or poor	2	2	
Financial administration	2	2	
Multipurpose/general government	10	12	+2
Education	21	20	−1
Social development	0	0	
Housing/community development	1	1	
Economic development	0	1	+1
Other	5	5	

A comparison of Planned Used Report data for Entitlement Periods 4 and 5 (equivalent to Federal fiscal years 1974 and 1975) indicates that the proportion of general revenue sharing funds needed to operate and maintain programs is increasing. The percentage of shared revenues earmarked for capital expenditures is decreasing.

COMPARISON OF PLANS TO USE SHARED REVENUES FOR CAPITAL VERSUS OPERATING AND MAINTENANCE EXPENDITURES, ALL RECIPIENT GOVERNMENTS (AS A PERCENT OF TOTAL FUNDS ALLOCATED)

	Entitlement period 4 (July 1, 1973 to June 30, 1974)	Entitlement period 5 (July 1, 1974 to June 30 1975)
Capital expenditures	41	37
Operating and maintenance expenditures	59	63

ANTICIPATED EFFECTS ON TAX RATES PLANNED USE REPORTS—ENTITLEMENT PERIODS 4 AND 5 (JULY 1, 1973–JUNE 30, 1974, AND JULY 1, 1974–JUNE 30, 1975)

	Period 4	Period 5	Change in period 5
Reduction of major tax	4	4	0
Prevent increase of major tax	28	36	+8
Prevent enacting major tax	12	15	+3
Reduce amount of tax increase	8	11	+3
No effect on tax levels	26	35	+9
Too soon to predict	29		−29

Note: Some governments indicated that shared revenues would affect their tax rates in more than one of the categories listed above.

TABLE 1.—REPORTED USE OF GENERAL REVENUE SHARING FUNDS, ALL UNITS OF GOVERNMENT[1] (N=34,538) ENTITLEMENT PERIOD 4 (JULY 1, 1973–JUNE 30, 1974)

[In millions of dollars]

Category	Total amount expended	Percent of total funds expended	Operating and maintenance capital: Rank	Amount expended	Percent of category expended	Amount expended	Percent of category expended
Public safety	$1,534.9	23	1	$1,193.4	78	$341.5	22
Environmental protection	486.5	7	5	231.6	48	254.9	52
Public transportation	987.8	15	3	465.4	47	522.4	53
Health	477.1	7	6	293.7	62	183.4	38
Recreation	307.5	5	7	85.7	28	221.8	72
Libraries	[2] 82.3	1	11	46.0	56	36.2	44
Social services for the poor or aged	261.9	4	8	237.7	91	24.2	9
Financial administration	136.4	2	10	107.9	79	28.4	21
Multipurpose/general government	638.8	10	4	158.4	25	480.4	75
Education	1,381.3	21	2	1,149.4	83	231.9	17
Social development	12.8	(3)	15			12.8	100
Housing/community development	75.3	1	12	27.8	37	47.5	63
Economic development	37.3	(3)	14	4.9	13	32.4	87
Other	253.2	4	9	235.8	93	17.4	7
Corrections	[2] 43.2	(3)	13	26.0	60	17.3	40
Total	[2] 6,716.4	[2] 100		4,263.8	63	[2] 2,452.6	37

[1] Total reports received by Sept. 24, 1974.
[2] Does not total due to rounding.
[3] Less than 1 percent.

TABLE 2.—REPORTED USE OF GENERAL REVENUE SHARING FUNDS, ALL STATE GOVERNMENTS AND DISTRICT OF COLUMBIA[1] (N=51) ENTITLEMENT PERIOD 4 (JULY 1, 1973–JUNE 30, 1974)

[In millions of dollars]

Category	Total amount expended	Percent of total funds expended	Operating and maintenance: Amount expended	Percent of category expended	Capital: Amount expended	Percent of category expended
Public safety	$24.9	1	$22.8	91	$2.1	9
Environmental protection	49.1	2	21.0	43	28.1	57
Public transportation	211.4	8	153.8	73	57.6	27
Health	198.2	8	125.0	63	73.2	37
Recreation	36.1	1	7.9	22	28.1	78
Libraries	6.3	(3)	.6	10	5.7	90
Social services for the poor or aged	167.8	7	162.1	97	5.7	3
Financial administration	24.4	1	24.4	100		
Multipurpose/general Government	183.5	7	158.4	86	25.1	14
Education	1,336.0	52	1,149.4	86	186.6	14
Housing/community development	[2] 33.0	1	27.8	84	5.3	16
Economic development	8.7	(3)	4.9	56	3.8	44
Other	238.6	10	235.8	99	2.8	11
Corrections	[2] 43.2	2	26.0	60	17.3	40
Total	[2] 2,561.1	100	[2] 2,119.8	82	[2] 441.3	18

[1] Total reports received by Sept. 24, 1974.
[2] Does not total due rounding
[3] Less than 1 percent.

TABLE 3.—REPORTED USE OF GENERAL REVENUE SHARING FUNDS, ALL LOCAL GOVERNMENTS REPORTING [1] (N=34,487) ENTITLEMENT PERIOD 4 (JULY 1, 1973–June 30, 1974)

[In millions of dollars]

Category	Operating and maintenance: Total amount expended	Operating and maintenance: Percent of total funds expended	Operating and maintenance: Amount expended	Operating and maintenance: Percent of total category expended	Capital: Amount expended	Capital: Percent of total category expended
Public safety [2]	$1,510.1	36	$1,170.7	78	$339.4	22
Environmental protection [2]	437.4	11	210.6	48	226.8	52
Public transportation [2]	776.4	19	311.6	40	464.8	60
Health [2]	278.9	7	168.7	60	110.2	40
Recreation [2]	271.4	7	77.8	29	193.6	71
Libraries [2]	76.0	2	45.5	61	30.5	39
Social services for the poor or aged [2]	94.1	2	75.6	80	18.5	20
Financial administration [2]	112.0	3	83.5	75	28.4	25
Multipurpose/general government [3]	455.3	11	NA		455.3	100
Education [3]	45.3	1	NA		45.3	100
Social development [3]	12.8		NA		12.8	100
Housing/community development [3]	42.3	1	NA		42.3	100
Economic development [3]	28.6	1	NA		28.6	100
Other [3]	14.6		NA		14.6	100
Total	[4] 4,155.3	100	2,144.0	52	[4] 2,011.3	48

[1] Total reports received by Sept. 24, 1974.
[2] Priority expenditure categories for local governments.
[3] Descriptive categories for capital expenditures established by ORS for reporting purposes.
[4] Columns do not add to totals due to rounding.

Note: NA, Not a category for local government expenditures.

CURRENT ANALYSES OF REVENUE SHARING

Revenue sharing has been a subject for study by various groups within the private sector. Following are brief summaries of several major studies evaluating the program:

General Revenue Sharing: An ACIR Re-evaluation (Advisory Commission on Intergovernmental Relations).—This study argues that the underlying reasons for revenue sharing retain validity: fiscal imbalance within the federal system and the need to decentralize decision-making. A failure to re-enact revenue sharing would disrupt state and local finances. Revenue sharing with state governments should be continued. The Federal government remains the most equitable and effective tax raiser because it is not hobbled by the fear of tax competition. There is insufficient data to support the contention that revenue sharing shortchanges the poor. A method must be found to reconcile the goal of increased control over the Federal budget with the need for certainty in planning state and local budgets. One approach would be to establish a permanent trust fund and to fix revenue sharing funds as a percentage of Federal income tax revenues. The present distribution formula should be retained. The Office of Special Revenue Sharing is not the appropriate agency to enforce the civil rights provision of the law; these functions should be left to other agencies.

Views of the General Public and Community Leaders on General Revenue Sharing (Public Opinion Research Corp. and the National Science Foundation).—A sampling of public opinion produced the following results: one person in five in the general public and five leaders in six of "community leaders" qualified as "informed" on revenue sharing. In all groups studied—informed and uninformed, general public and community leaders—more persons favored continuing revenue sharing than favored permitting it to expire. In general, persons interviewed believed that the program was fulfilling the objectives commonly set forth for revenue sharing (restoring financial balance to the Federal system, decentralization of decision-making, etc.).

Economic Aspects of Revenue Sharing in Municipalities (the University of Michigan).—The authors of this study surveyed a sampling of municipalities to determine how revenue sharing funds had been spent and the economic consequences. A significant number of the community leaders interviewed expressed the opinion that the increased revenue sharing funding had coincided with a decline in Federal categorical aid. Most financing officials interviewed expressed the view that revenue sharing funds had been expended on some innovative projects. In general, those persons interviewed expressed the opinion that the constraints on the expenditures of revenue sharing funds were moderate and not a problem. An overwhelming majority believed that the program should be re-enacted on an ever larger scale. Most officials also favored allowing revenue sharing funds to be used as a local contribution in a Federal matching program.

General Revenue Sharing in American Cities: First Impressions (National Clearinghouse on Revenue Shr ring).—The authors of this study conducted an 18-month survey of revenue sharing in 60 localities. The authors found that the expenditure of revenue sharing funds was being conducted with a minimal of Federal oversight by either the Congress or the Executive Branch and that reliable data on the program was scant. The authors conclude that the citizen oversight contemplated by the law is ineffective for monitoring the program. The authors found that many citizens in the communities surveyed are unaware of how the program is affecting their locality. The authors also found that the provisions of the law relating to nondiscrimination are ineffective and inadequate. The authors conclude that preliminary data shows that the expenditures are not responsive to the needs of the most disadvantaged citizens. The task of assessing the extent of this trend is made difficult by the extreme fungibility of Federal dollars. In addition, local leaders frequently expressed the view that the increase in revenue sharing funds had more than been offset by the decline in Federal catagorical aid.

Monitoring Revenue Sharing (The Brookings Institution). This study is the first of three projected studies on the operation of general revenue sharing to be completed during the five-year life of the program. The study is based upon data gathered by Brookings field observers in selected jurisdictions throughout the country, and focuses on three aspects of the program: the consequences of the formula by which funds are allocated among states and local governments, the effects of the program on the fiscal policies of recipient governments and the political impact of the program on the decision-making processes of state and local governments. A comprehensive analysis of the program, the study raises a number of policy issues for consideration as the program approaches its expiration in December, 1976:

Distributional Effects:—The study cites as particularly important "the question of whether the large cities and poor states should receive relatively more generous treatment than they do under the current formula" which channels relatively more funds to inner cities than other areas on a per capita basis. The study also suggests for reconsideration the question of whether the smallest units of general-purpose local government should be eliminated from the program. In addition, the study proposes a number of technical changes in the distribution formula to simplify administration of the program.

Fiscal Effects:—The study suggests that a primary question of fiscal policy is whether steps are needed to assure a higher level of new spending than preliminary data indicates has occurred over the revenue sharing program.

Political Effects:—The primary issue regarding the political effects of revenue sharing, the authors of the Brookings' study suggest, is whether revenue sharing is "churning up the decision-making processes of recipient state and local governments and providing access to policy-making process for more groups." Other questions about the political effects of revenue sharing relate to the effects on the organizational structure of state and local governments—for example, whether it encourages the rise (or demise) of smaller political jurisdictions.

Revenue Sharing and Local Government: A Premature Review of Literature (State University of New York/Buffalo).—This report undertook to examine current literature on the effects of the revenue sharing program on the nation's communities. The study reached a conclusion that "no literature worthy of the name has yet evolved." The investigation was conducted under a contract with the National Science Foundation.

HOW THE FUNDS ARE ALLOCATED

The law contains two different formulas to determine the allocation for state areas (i.e., allocations both to the state and to localities within its borders). The actual payment going to each state area is computed on whichever of the two formulas yields the higher payment.* The Office of Revenue Sharing distributes the annual amount authorized by Congress for each Entitlement Period in the following manner:

1. The annual amount is allocated among the states according to the three-factor Senate formula (population, tax effort and income);

2. The annual amount is also allocated among the states according to the five-factor House formula (population, urbanized population, per capita income, state income tax collections, and tax effort);

3. The higher of the two amounts is selected for each state. Since the sum is greater than the annual amount authorized, each allocation is scaled down proportionately so that the total allocation equals the annual amount.

4. If either Alaska or Hawaii uses the three-factor formula, its allocation is increased by the same percentage adjustment as applied to the base pay allowances of Federal government employees residing in those states (15% in Hawaii and 25% in Alaska).

The next step is to allocate within each state, according to the following process:

1. One-third of the state's allocation is paid to the state government, and the remaining two-thirds is apportioned to units of local government within the state.

2. The amount to be allocated to units of local government is divided by the population of the state to establish the per capita entitlement for all governments within the state.

3. The local government amount is distributed to county areas (these are geographic areas, not governments) based upon the ratio that each county area bears to all county areas within the state according to the formula: population X tax effort X relative income.

4. If this calculation allocates to any county area an amount which on a per capita basis, exceeds 145% of the per capita entitlement calculated in Step 2., its payment is reduced to the 145% levels and the resulting surplus is shared proportionately by all the remaining unconstrained county areas within the state.

5. Similarly, if any county area is allocated less than 20%, on a per capita basis, of the amount calculated in Step 2., its allocation is increased to the 20% level and the remaining deficit is taken proportionately from all the remaining unconstrained county areas within the state.

6. Each county area allocated is then divided into four parts:

a. An amount for Indian tribal governments or Alaskan native villages is then determined on the ratio of tribal/village population to the total population of the county area.

b. From the remainder, a township allocation is determined on the basis of the ratio of all township adjusted taxes to the total adjusted taxes in the county.

c. A county government share is determined similarly, on the basis of county government adjusted taxes.

d. The remaining proportion is for the other units of local government.

7. Townships and other local governments are then allocated funds on the basis of the formula: population X tax effort X relative income. If a unit of government receives more than 145% on a per capita basis, it is adjusted to the 145% level. If a unit receives less than 20%, its allocation is increased to the lower of either the 20% level, or 50% of its adjusted taxes and transfers. Then, if any unit receives more than 50% of its adjusted taxes and transfers, its allocation is reduced to that level and the excess is given to the county government.

8. If the county government has been allocated more than 50% of its adjusted taxes and transfers, its allocation is reduced to that level, and the excess is returned to the state government.

9. If any allocation is less than $200, or any unit of local government waives its entitlement, those funds are allocated to the next higher level of government.

10. Finally, if the amounts allocated by the above procedure do not total 100% of the funds available for distribution, the appropriate adjustment is made to the entitlement figure in Step. 3. This process (Step 3 through 8) is repeated until the amounts allocated total 100% of the funds available.

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*However, the allocation to each state area on the basis of the particular formula which produces the higher amount is scaled up or down proportionately to make the total allocation for the year equal to the total amount appropriated for that year. In 1972, the first year of the program, this involves scaling down the higher of the two formulas by 8.4% to keep the total distribution within the bounds of the $5.3 billion appropriated for that year (see table 3 and accompanying text).

APPENDIX

SCHEDULE OF PAYMENTS: JAN. 1, 1972–DEC. 31, 1976

	Dates	Amount appropriated (billions)
Entitlement period:		
Period 1	Jan. 1, 1972 to June 30, 1972	$2.650
Period 2	July 1, 1972 to Dec. 31, 1972	2.650
Period 3	Jan. 1, 1973 to June 30, 1973	2.9875
Period 4	July 1, 1973 to June 30, 1974	6.050
Period 5	July 1, 1974 to June 30, 1975	6.200
Period 6	July 1, 1975 to June 30, 1976	6.350
Period 7	July 1, 1976 to Dec. 31, 1976	3.325

CUMULATIVE DISBURSEMENTS OF GENERAL SHARING FUNDS AS OF JAN. 6, 1975

State name	State	Counties	Municipalities	Townships	Indian tribes and Alaskan native villages	Totals
Alabama	$98,031,250	$73,042,295	$123,354,002			$294,427,547
Alaska	7,467,593	5,705,900	8,564,156		$461,450	22,199,099
Arizona	57,498,507	46,217,176	63,706,070		5,054,882	172,476,635
Arkansas	64,092,503	65,012,375	50,348,184			179,453,062
California	616,886,301	745,622,434	487,565,778		403,010	1,850,477,523
Colorado	60,472,503	42,715,978	78,167,008		116,489	181,471,978
Connecticut	73,021,478		78,012,319	$68,146,608		219,180,405
Delaware	19,879,525	18,895,404	13,153,503			51,928,432
District of Columbia	77,678,593					77,678,593
Florida	166,965,710	148,131,335	186,675,953		61,454	501,834,452
Georgia	120,298,892	139,200,117	101,066,060			360,565,069
Hawaii	25,543,953	12,633,627	38,454,275			76,631,855
Idaho	23,433,764	27,021,042	19,588,477		258,764	70,302,047
Illinois	295,539,122	134,687,858	359,381,078	77,366,251		866,974,309
Indiana	122,796,072	84,204,744	132,781,467	28,524,713		368,306,996
Iowa	81,763,140	95,103,370	68,345,610		35,971	245,248,091
Kansas	55,821,093	56,745,726	48,668,523	6,183,211	22,699	167,441,252
Kentucky	110,701,413	80,380,428	92,822,948			283,904,789
Louisiana	135,019,381	107,555,940	155,627,774		18,514	398,221,609
Maine	35,156,423	4,652,262	28,980,207	36,548,822	139,976	105,477,690
Maryland	114,605,518	133,339,234	95,965,309			343,910,061
Massachusetts	182,245,167	20,943,170	205,025,647	138,712,424		546,926,408
Michigan	245,150,087	142,649,271	302,884,502	45,150,958	80,032	735,914,850
Minnesota	114,208,820	121,716,072	92,814,805	14,117,713	668,609	343,526,019
Mississippi	99,333,536	119,470,087	66,975,715		130,507	285,909,845
Missouri	107,986,009	71,647,040	139,151,315	4,966,463		323,750,827
Montana	22,690,223	30,093,050	13,636,518		1,642,832	68,062,623
Nebraska	41,781,580	41,455,262	39,244,788	2,658,130	174,415	125,314,175
Nevada	12,687,188	15,855,488	9,314,646		196,538	38,053,860
New Hampshire	18,392,718	4,771,379	17,428,996	14,667,833		55,260,926
New Jersey	181,169,014	129,803,539	160,977,091	71,584,615		543,534,259
New Mexico	37,651,964	29,616,859	37,173,483		4,790,597	109,232,903
New York	643,494,495	275,600,457	874,936,969	135,942,411	347,922	1,930,328,254
North Carolina	148,069,952	159,621,485	137,011,118		325,806	445,028,361
North Dakota	23,338,880	23,943,056	15,664,537	6,121,898	926,404	69,994,775
Ohio	230,284,312	146,533,214	269,047,129	44,852,464		690,717,119
Oklahoma	64,553,808	48,062,345	79,845,372		1,152,619	193,614,144
Oregon	57,213,003	43,309,765	70,881,278		179,213	171,583,259
Pennsylvania	302,833,488	171,610,911	339,040,101	95,666,707	400	909,151,607
Rhode Island	26,057,130		37,062,733	15,034,044		78,153,907
South Carolina	81,197,990	82,272,021	73,459,802			236,929,813
South Dakota	25,804,561	30,133,162	15,936,206	3,731,771	1,677,674	77,283,374
Tennessee	108,642,061	94,798,322	124,976,603			328,416,986
Texas	273,736,732	201,322,681	344,627,257		56,566	819,743,236
Utah	34,092,853	33,951,088	33,658,949		523,520	102,226,410
Vermont	16,212,006	396,117	11,186,736	20,903,393		48,698,252
Virginia	114,391,368	84,662,483	144,608,951		5,132	343,667,934
Washington	83,643,570	75,014,111	91,592,691	3,401	669,042	250,922,815
West Virginia	74,684,580	44,167,467	51,176,848			170,028,895
Wisconsin	145,107,066	142,717,552	124,292,833	23,299,882	432,925	435,850,258
Wyoming	10,780,308	15,701,770	5,543,145		258,757	32,283,980
National total	5,890,107,203	4,422,712,469	6,160,405,465	854,183,712	20,812,719	17,348,221,568

TYPES OF GOVERNMENTS BY STATE

State name	Counties	Municipalites	Townships	Indian tribes and Alaskan Native villages	Total
Alabama	67	409			477
Alaska	9	130		89	229
Arizona	14	67		18	100
Arkansas	75	462			538
California	57	412		57	527
Colorado	62	260		2	325
Connecticut		34	149		184
Delaware	3	54			58
District of Columbia		1			1
Florida	66	389		2	458
Georgia	158	529			688
Hawaii	3	1			5
Idaho	44	199		5	249
Illinois	102	1,270	1,436		2,809
Indiana	91	563	1,008		1,663
Iowa	99	954		1	1,055
Kansas	105	627	1,500	4	2,237
Kentucky	119	403			523
Louisiana	62	298		1	362
Maine	16	22	474	3	516
Maryland	23	151			175
Massachusetts	12	39	312		364
Michigan	83	533	1,247	5	1,869
Minnesota	87	855	1,800	13	2,756
Mississippi	82	281		1	365
Missouri	114	908	344		1,367
Montana	56	126		7	190
Nebraska	93	535	486	3	1,118
Nevada	16	17		17	51
New Hampshire	10	13	222		246
New Jersey	21	335	232		589
New Mexico	32	92		22	147
New York	57	619	930	8	1,615
North Carolina	100	466		1	568
North Dakota	53	359	1,368	5	1,786
Ohio	88	935	1,320		2,344
Oklahoma	77	562		25	665
Oregon	36	238		4	279
Pennsylvania	66	1,013	1,550	1	2,631
Rhode Island		8	31		40
South Carolina	46	263			310
South Dakota	67	310	1,031	9	1,418
Tennessee	94	323			418
Texas	254	1,048		2	1,305
Utah	29	216		5	251
Vermont	14	60	237		312
Virginia	95	232		2	330
Washington	39	266	39	22	367
West Virginia	55	227			283
Wisconsin	72	575	1,270	10	1,928
Wyoming	23	89		2	115
National total (51)	3,046	18,778	16,986	346	39,209

Senator HATHAWAY. The hearings will stand in recess until 1:30.

[Whereupon, at 1:05 p.m., the subcommittee recessed to reconvene at 1:30 p.m., the same day.]

AFTERNOON SESSION

Senator HATHAWAY. The subcommittee will come to order. The hearings on revenue sharing will resume. We have with us today Representative Tom Jensen, minority leader of the Tennessee House of Representatives, who is the chairman of the Intergovernmental Relations Committee and president-elect of the National Conference of State Legislatures. The Governor of the State of Washington, the Honorable Daniel J. Evans, was supposed to testify along with you, but he has been detained. So why do we not proceed with your testimony, Tom?

Senator BROCK. Mr. Chairman, before he begins——

Senator HATHAWAY. Yes; Senator Brock?

Senator BROCK. If I may welcome another Tennessean, it is Tennessee day in the Finance Committee, and I appreciate that. Tom Jensen is a very old and close personal friend that I had the privilege to work with on a continuing basis in the State. He has been one of the more outstanding leaders nationally among State legislators, and I think he, as president-elect of the National Conference of State Legislatures, offers us an opportunity to get a very good perception of the problem now, between the State and the community's share; and I think that is why I am particularly interested in hearing his testimony, because we have had questions already this morning about whether or not the formula should be adjusted, and in what fashion. And I personally would like to express my appreciation to a very outstanding Tennessean for his testimony and presence here today.

Senator HATHAWAY. Tom, why do you not proceed? Your entire statement will be made a part of the record.

STATEMENT OF HON. TOM JENSEN, PRESIDENT-ELECT, NATIONAL CONFERENCE OF STATE LEGISLATURES

Mr. JENSEN. Yes. I would like to submit my statement in writing, but I would like to make some remarks, with regard to it.

Senator HATHAWAY. Certainly.

Mr. JENSEN. And then make some additional remarks with regard to Tennessee. Mr. Chairman, I am very pleased to be with you representing 7,600 State legislators from each of the 50 States. We worked for some 3 years very actively at getting all of the legislative organizations in this Nation consolidated together in one national organization known as the National Conference of State Legislatures, and I am serving presently as president-elect of that organization, and also the chairman of its Intergovernmental Relations Committee that deals with the matter of revenue sharing and other State and Federal issues.

The fact that I was scheduled here today to testify along with Governor Evans also heralds a new relationship that is rapidly developing between the legislative organization and the National Governors Conference. That is, we are working together very frequently on issues that concern both organizations; and obviously we have the same constituency, just as your combined constituencies are the same as our combined constituencies. And so, I believe that this testimony today heralds also a new opportunity to demonstrate how legislators and Governors are working together to resolve the problems in our several States.

We are also working together in another organization that both Governor Evans and I serve on, called the New Coalition, which is a group of three Governors and three State legislators and three mayors and three county officials; and through that organization, we have sought to determine whether or not we have a broad base of agreement and understanding regarding the point that Senator Brock made a few moments ago about whether or not we want more of the funds in a given program like revenue sharing, or whether or not more of the funds ought to go to the cities. And the New Coalition, representing all four of these groups, has taken the same position with the Office of Management and Budget, when the proposal came over, that the President made regarding the continuation of revenue sharing; we took the position that we support continuation of revenue sharing with the same kind of breakdown between the levels of government that is in existence in the present legislation.

We, of course, are very anxious to get additional dollars, if we can, and we believe that Senator Brock's bill covers more of the points that State governments are interested in than any of the other proposals that we have seen. We would be amenable to the continuation of the stair-step arrangement that the President has recommended for increasing the program annually in increments. But most of all, the thing that concerns us in the State legislatures, and the Governors I believe as well, is the fact that we in the States have budgets that are generally adopted in the first 3 calendar months in any given year. A majority of the States work on that basis. Also, we cannot adopt a budget that is not balanced in most of our States. Most of the States either have a constitutional requirement, or there is at least an implied constitutional requirement, that budgets are to be balanced. An additional factor is that we cannot assume that revenues will be present if laws do not exist to make those revenues present or available to us.

So, we cannot simply predict, in putting together a budget for an ensuing fiscal year, that we are going to have revenues based on an assumption that Congress might act or might not act in the continuation of a program, or in the addition of a new program. And one of the things that we have requested on many occasions is to get as much lead time as we can in the development of Federal-State programs.

Now, revenue sharing, when it first came into existence, of course, came into existence retroactively, and we were given moneys at a time that we did not have those moneys budgeted. And in most of our States, we had to set those moneys aside and simply hold them until the next budgetary period came around to budget those dollars. I cannot believe that that is the most efficient and economic use of our moneys. The moneys that are provided to the States are the taxpayers' money, viewing it as a Federal taxpayer. So, we started the program in that fashion. We are very fearful that that same circumstance could happen to us next year, because the States will be needing to budget for a fiscal year beginning next July 1, in most of our States, in February and March of next year. And if the revenue-sharing extension does not pass the Congress this year, we will then be cutting our budget back to the extent of revenue-sharing dollars, or finding substitute revenues by raising taxes of some other kind within our States on a temporary basis. And there is no way that there can be any kind of efficient management of State government if we have to go through those kinds of gyrations just to smooth out the hump that is made by not knowing at least a year in advance when programs are going to change. So, we feel very strongly that the decision ought to be made this year regarding revenue sharing.

And one other point I would like to make—it is not in my testimony—with regards to Tennessee. The question likely will be raised, or could be raised, regarding what States do with revenue-sharing dollars; and in Tennessee, we started the revenue-sharing program, putting most of the dollars in our State in nonrecurring capital expenditures. We have gradually moved from that position, so that the upcoming fiscal year budget, the one we are not considering, puts almost all of the dollars that we will receive from revenue sharing for the fiscal year beginning July 1 in recurring expenses, program expenses, of the State.

I would also point to the fact that during the period that we have had Federal revenue sharing available to the State government in Tennessee, in amounts in the area of $37 million to $40 million per year, the State has expanded its programs or its revenues made available to local governments in Tennessee in a number of areas, and specifically just two programs amount to some 50 percent of the total revenue-sharing dollars we receive. That is, that we have undertaken in Tennessee to underwrite the total cost of welfare and medicaid programs that previously required a small local, city, and county contribution, and this has cost the State $7.7 million to relieve local governments of that expense.

We have also instituted a per capita street and road program in Tennessee, in addition to the State road program that we have, amounting to $12.7 million per year; which, totalling those two items together, amounts to about $20 million, or half of revenue-sharing dollars that Tennessee has received.

So, you have to conclude, in following what has happened in Tennessee, that indeed, local taxpayers in Tennessee have been relieved of increased burdens on property taxes that could not go higher in most of our cities and counties, were it not for the fact that the State was able to pass on more dollars to the local governments in Tennessee as a result of having revenue sharing available. And I believe that this is what it is all about; and I think that we can demonstrate in our own State, and in many other States as examples, that revenue-sharing dollars have indeed worked in the fashion that many other programs should have been working long since. Thank you, Mr. Chairman.

Senator HATHAWAY. Thank you very much.

You stated that you think the present provision of one-third/two-thirds is fine.

Mr. JENSEN. We feel that it is satisfactory.

Senator HATHAWAY. What are your comments on the prohibition on the use of revenue-sharing funds for matching funds for Federal programs?

Mr. JENSEN. We see no reason for a prohibition of the use of revenue-sharing funds to match any other categorical grants. We think that is as reasonable and rational use of revenue-sharing funds as any other.

Senator HATHAWAY. Revenue-sharing funds have been used for education. Has this increased the total amount of funds used in the State for education?

Mr. JENSEN. Well, our State has very dramatically—looking at our own State—has very dramatically increased our expenditures in the field of education. Frankly, I look upon revenue sharing as another source of revenue. I do not think there is anything magical about it, or anything special that it should be—nor is it designed to be, in my judgment—some kind of a special fund that is set aside somewhere for something other than making government serve the citizens that it is to serve better. And when we have more dollars available, from whatever source, in a way in which we in Tennessee or other legislators in other States, or other Governors in other States, can determine from their own constituencies what the priorities are, what the needs are, in that State; and can use those dollars in that way, rather than having dollars made available that have with them an attached responsibility of expenditure in a very narrowly defined categorical grant. I believe that we have better education in Tennessee, and that we fulfill all of the social needs in our State better.

Senator HATHAWAY. So the overall expenditures for education have been increased?

Mr. JENSEN. Very substantially.

Senator HATHAWAY. Not substituted?

Mr. JENSEN. We have, for instance, instituted a statewide kindergarten program in Tennessee, but we did not have a statewide kindergarten until we started. We only had pilot projects that were funded by State government in Tennessee before 1961. So parallel to the period of time that revenue sharing has become available to us, we have launched and instituted a fully funded statewide kindergarten program in our State that cost us on the order of $30 million.

Senator HATHAWAY. Thank you. Senator Packwood?

Senator PACKWOOD. I have no questions, Mr. Chairman.

Senator HATHAWAY. Senator Brock?

Senator BROCK. Roughly, the essence of your response, if I understood it correctly, is that you do not see any need for any prohibition on revenue sharing, education or other, do you?

Mr. JENSEN. That is right. I think revenue sharing should be considered a source of revenue that is as free from strings as it can possibly be written; and that there is no need for any strings attached to it other than those with regard to equal employment opportunity and those kinds of questions.

Senator BROCK. You have no problem, or would not argue with, the antidiscrimination section?

Mr. JENSEN. Absolutely none whatever.

Senator BROCK. That is not a categorical approach. That is an approach to protect people from being abused.

Mr. JENSEN. That is right. I feel very strongly that that is not a categorical approach at all. That is the law, and it ought to be included.

Senator BROCK. Well, if I could digress just a little bit further on a different area; in my own approach, we make revenue sharing permanent. Is that supported by the National Conference of State Legislatures, or have you taken a position on that?

Mr. JENSEN. We have not officially taken a position on that question. We have taken a position on it on a little different basis. Our position in the beginning, before revenue sharing was ever first adopted, we took the position that it ought to be long term and permanent, that it ought to be a permanent program.

Senator BROCK. In essence, you have already established the position.

Mr. JENSEN. Now that we have it, we certainly would like to have it continued as a permanent program. But we have not, as an official decision, renewed that. But I can assure you it will be renewed.

Senator BROCK. I know you have to testify before Intergovermental Relations, so I will just finish with one last question; and that relates to the funding. You said earlier that you supported the stairstep approach of an incremental increase each year. I think I heard you correctly on that.

Mr. JENSEN. I said we would support either; that we would like to have the most dollars that we can get, and we prefer your bill.

Senator BROCK. OK, I am sorry. That is what I was reaching for. The administration apparently will propose a $150 million increase, or maybe something in that range, as they have in the past. My bill ties it to income tax receipts, and goes up as our——

Mr. JENSEN. Senator Brock, we find your bill the most in keeping—and I meant to make that statement earlier, if I did not—the most completely compatible with the positions that the National Conference of State Legislatures has taken concerning revenue sharing. It is more in keeping than any other proposal I know of with the point of view taken by the New Coalition, of which I am a member. And I simply stated that we would be amenable, in order to continue revenue sharing, to continue it on some other basis than the approach that you have chosen. But we prefer your bill over those other proposals that we have seen.

Senator BROCK. Very good. Thank you so much.

Senator PACKWOOD. You realize, under Senator Brock's bill, that your percentage goes down, does it not, as the income tax falls, or the receipts fall?

Senator BROCK. I do not recall a year in which income tax receipts have fallen very much. It usually goes the other way, but that is true.

Mr. JENSEN. Yes. I believe we could take our chances on that, Senator Packwood.

Senator HATHAWAY. Tom, thank you very much. We appreciate your testimony.

Mr. JENSEN. Thank you. We appreciate the opportunity.

[The prepared statement of Mr. Jensen follows:]

STATEMENT OF HON. TOM JENSEN, MINORITY LEADER, TENNESSEE HOUSE OF REPRESENTATIVES, ON BEHALF OF NATIONAL CONFERENCE OF STATE LEGISLATURES

Mr. Chairman and distinguished members of this subcommittee, my name is Tom Jensen. I am testifying on behalf of the National Conference of State Legislatures, in which I serve as president-elect and chairman of the intergovernmental relations committee. The National Conference of State Legislatures is the official organization of all 50 state legislatures. We maintain a close working relationship with the National Governor's Conference.

I have come from Tennessee today to express the support of state legislators for the early renewal of the general revenue sharing program by Congress. General revenue sharing is the top priority of our national organization. State legislators first endorsed the revenue sharing a decade ago, in 1965. After three years of experience with the program, this diverse assemblage of 7600 elected officials continues to lend the program whole-hearted support.

The importance of the program cannot be underestimated. If the State of Tennessee were deprived of the $40 million annually, we would be forced to raise taxes or cut governmental services. I believe you would agree that such a result would be counter to the recently enacted Federal policy of cutting taxes and expanding services to aid the economy.

We urge this subcommittee and the Congress to give swift attention to revenue sharing renewal. State and local governments will begin to prepare budgets for fiscal year 1977 later this year so that we legislators can appropriate the necessary funds or raise the necessary revenues next spring. We cannot budget on the assumption that revenue sharing may be renewed in late 1976. We cannot budget a deficit! Thus we may be compelled to cut services or raise taxes next year without action on revenue sharing.

Allow me to stress that support for revenue sharing among state legislators is absolutely bipartisan. Speaker John Martin in Maine wished to be with me here today, but found the demands of presiding at the legislative session would not permit him to come to Washington. Steny Hoyer, president of the Maryland Senate, is chairman of the task force which has jurisidiction over revenue sharing but could not attend today's hearings due to a death in his family.

Mr. Chairman, several proposals have been made for amending the revenue sharing program. Our organization has not had an opportunity to study all these amendments carefully. A special subcommittee chaired by speaker Norbert Blume of Kentucky is studying the various proposals and will report to the conference this summer.

The one bill introduced in the Senate which comes closest to our position on this issue is Senate Bill No. 11, sponsored by my distinguished senior U.S. Senator William Brock.

His bill would maintain the revenue sharing program as it currently exists plus making three important changes which we can support:

First, S. 11 would create a permanent revenue sharing fund which would not required periodic renewal. We are prepared to defend the successes of revenue sharing and claim that the five-year experiment was a success. A permanent trust fund would permit greater long-range planning by State and local governments to the benefit of our mutual constituents.

Second, S. 11 would build into the revenue sharing trust fund an automatic escalator tied to the growth of our economy. This would protect the program from inflationary erosion, while placing no greater burden on the Federal budget.

Third, S. 11 would lift restrictions on local governmental use of revenue sharing funds. Many States have revenue sharing programs which place no strings on local governments. The restrictions on the use of the funds which were legislated by Congress tend at best to be meaningless and a cause for more paperwork, and at the worst to be counterproductive to the goals which they seek to effectuate.

Mr. Chairman, in these brief remarks I cannot begin to discuss with this committee the many issues surrounding the debate on renewing revenue sharing. I believe it is important to reflect Mr. Chairman, as this Nation prepares to celebrate its bicentennial, that we are a Nation based on the principle of shared powers and responsibilities between the Federal Government and the States. The general revenue sharing program embodies the very essence of this principle. Our organization pledges itself to work closely with this subcommittee and the Congress in the renewal of this essential program.

Thank you.

Senator HATHAWAY. Our next witness is Hon. Daniel J. Evans, the Governor of the State of Washington.

Governor, welcome to the committee. Your entire statement will be made a part of the record and you may proceed.

Do you have a written statement, Governor?

Governor EVANS. No, I do not have a written statement with me, Mr. Chairman, but I would have a few remarks and most of all be prepared to respond to your questions.

Senator HATHAWAY. Fine.

STATEMENT OF HON. DANIEL J. EVANS, GOVERNOR, STATE OF WASHINGTON, FORMER CHAIRMAN, NATIONAL GOVERNORS' CONFERENCE

Governor EVANS. Mr. Chairman, Senator Packwood, revenue sharing for State and local governments, I believe, not only in terms of its amounts, has been of real help, but in terms, to a much higher degree, in concept has represented the first turnaway from an increasing number of categorical grants, restrictions, structures in State and local governments, which I believe from 10 years of experience as Governor of my State has cost the taxpayers money, has kept us from providing services to the degree we otherwise could. And I share the remarks made by a number of my colleagues over the past year or so that if the Federal Government wants to find ways to do its job with somewhat less spending on the domestic side, that I certainly, as one Governor, would be willing to accept something less in terms of Federal support and guarantee that with 90 percent of the money we are now getting we could do a better job, provide more service to the people we need to serve than we are doing today if only we could have the strictures and constraints and the rules and the regulations and, frankly, the insanity of 1,500 categorical programs removed.

I know very well that we could do both, the double task of saving money and providing better service.

We live in a big and a diverse Nation where the needs of Washington State are not the needs of Washington, D.C., and the needs of Florida are not the needs of Maine. We each have our own approaches toward what may even be national goals, and I think it is a perfectly proper thing for the National Government to establish some national goals, perhaps even in certain areas establish some performance standards, but for heaven's sake, do not tell us precisely how we must take each step toward those national goals we attempt to reach. We all start from different positions. We all have different ways in which to most effectively get to these national goals. And I just most earnestly request that there be a growing rather than a reducing sense of trust between various levels of government. We all share something rather equally and that is probably a lack of trust or respect from citizens as to government at all levels. And perhaps one of the best ways to regain that is to have some sense of trust as between levels of government so that we can work together to achieve the goals I think we are all seeking.

Now to speak directly about revenue sharing itself. I guess I am a purist when it comes to revenue sharing. I believe that as soon as you require or request reports on how the money was spent, that is not revenue sharing. As soon as you put strictures in it as to a share of the money or all of it being used in some areas, even though they may be broad areas, that is not revenue sharing. In fact, although we call it revenue sharing, particularly in terms of how it now applies to local governments, it is not in my view revenue sharing it its pure form because we do put some restrictions as to the areas in which revenue sharing moneys can be spent.

And I firmly believe that revenue sharing, in its continuation, ought to be just that, a sharing of revenue collected at one level of government to another with no restrictions, with no reporting, with the responsibility and the accountability of that spending being at whatever level you are sharing with. And certainly, citizens are deeply concerned over the spending of money at city and county levels. They are concerned over it at the State levels and they are concerned over it at the national levels. But I think that is where the accountability ought to rest is with the citizens of the particular jurisdiction that is engaged in the spending.

I might add that I am a little puzzled at the difficulty of buying that concept within the Congress of the United States. Of all of the legislative bodies in the country the only one at this time which seems to have some difficulty with the concept of revenue sharing as being a new idea is the Congress.

Senator PACKWOOD. Dan, let me ask you, from the standpoint of accounting, it is not meant to be a burden on you but somebody has to account for it, it is information to us as to how the money is going out. It would be a very unusual situation where we just pass it out and we do not know how it is spent.

Governor EVANS. Senator, I do not think so. We have traditionally done just that with our local governments. Every State in the Nation, I am not aware of one State that does not share revenues collected at the State level with governments at the local level without accounting, without reports of any kind. We share hundreds of millions of dollars with local governments in our State. We collect at the State level, for instance, a motor vehicle excise tax. It is, in essence, a personal property tax on the value of an automobile. We share virtually all of that with the cities and counties of the State. But we ask for no reports, we ask for no accounting, we have trust and faith enough in those governments that they will spend that money in a rational way.

Senator PACKWOOD. Would you eliminate also the proviso that it cannot be spent in the manner that is racially or religiously discriminatory?

Governor EVANS. I think that is unnecessary to add to a revenue sharing measure. We already have all sorts of acts, both at the Federal level and in virtually every State in the Nation that prohibit that anyhow and I frankly think that that is an addition which is unnecessary in revenue sharing any more than it ought to be attached to any other piece of specific legislation when we have general legislation that, in essence, prohibits that. So why add it to revenue sharing. I think it is an unnecessary appendage to what ought to be a very simple concept.

Senator HATHAWAY. Well, I am not sure that we do have general legislation that would cover that. We have specific provisions in various categorical aid programs such as the education programs. The money cannot be used in any way to discriminate. And if you are right, I suppose we do not need it.

But I guess we thought we did need it in the Revenue Sharing Act because we had no general law covering it.

Governor EVANS. Well, I would suggest that if that is true, then we probably ought to seek a general law rather than having to attach that kind of a thing, and I believe that probably most, if not all, Members of Congress—and certainly I would suggest the same is true of Governors—would believe that in all of our public spending that ought to be a guideline. But rather than having to attach it to all of these specific pieces of legislation that cover our spending programs, should that not be a general law and then unnecessary to add to all of these other elements?

Senator HATHAWAY. Yes. Does not your thesis, though, depend upon what citizen input you get into local government spending? You know, perhaps in the State of Washington the citizen input at every level of government in such that you are reasonably assured that you are going to have good accountabiilty. But I know that there are various States and municipalities throughout this country where they do not have that kind of input.

Consequently, they have much less accountability than we would like to see in the law.

Governor EVANS. Well, I believe very strongly in our representative system of government and I believe the citizens input in a representative system of government is through those who represent them, whether they are city councilmen, State legislators, or Members of Congress. I do not know precisely how much public involvement there is in the spending programs of the Federal Government or through Congress. But I suspect only a fraction of the citizens ever have an opportunity to participate directly in that. They may be represented by interest groups, but I suspect they are best represented ultimately by the Members of Congress itself.

Senator HATHAWAY. Well, we have a General Accounting Office, though, to make sure that the money we appropriate is spent for the purposes that we appropriate it.

Governor EVANS. I think that ought to be an essential element of any legislative body. Far too seldom at any level whether we are talking about State levels, even the national level, certainly the local level, do the members of a legislative body really look backward to see what the effect was of what they have passed. They are so busy looking forward to see what is coming next that there is not time, really, to do that job effectively.

I believe very strongly, in fact I have been trying to encourage my own legislature, to expand their capacity for oversight in spite of the fact I know it could very well be embarrassing at times or at least uncomfortable for our own executive agencies. But that is an important function of a legislative body.

But when we speak of revenue sharing, I think in terms, again, of the concept, once the Congress has decided to share revenues collected at the national level with localities and with the States, then the responsibiilty for oversight becomes not one of the General Accounting Office but one of the State legislatures or the city councils through their oversight function, whatever it is. And ultimately, in terms of the citizens themselves, in their connection with or their contact with members of the city council, State legislature, or even when it comes time for the next election, the change of those who represent them if they do not do the job right.

I just think that revenue sharing, again, as a concept, once you share that revenue, it really loses identity. And we at our State level for simple accounting purposes, because we are sort of required to report, we have said all of our revenue-sharing money is being assigned to the State support of common school education, and I suppose that finds its way into the many reports, both public and private, which have been made in the last year or two on revenue sharing. That is where the State of Washington is putting its money.

That is really not true. Revenue sharing has given us an additional capacity at the State level for providing service, and while we account for it by saying it goes into basic support of common school education, I think it could be said with equal truth that any specific thing we are doing to a degree is enhanced by the fact of revenue-sharing money. And if we wanted to take the trouble and the time to report, we could just as honestly have said revenue-sharing money was spent for special programs for education of the retarded, some innovative or new programs which we have embarked upon for aid to the aged. We could have taken sort of that top level of the most politically sexy programs and have reported to the Federal Government that that is indeed where revenue-sharing money went, and that probably would have been just as honest as where we said it went.

The money is—you know, a dollar is a dollar. And when that money comes to the State and is joined with our sales tax dollars and our other State-raised revenue, it all becomes part of a single pot.

Senator HATHAWAY. Well, would you object to a requirement of the revenue-sharing law that provided for guidelines on local citizen participation. I mean if it exists, then it will not be needed. In those cases where it does not exist, it will be helpful.

Governor EVANS. Well, I really believe pretty strongly that the revenue-sharing laws is the wrong place to do that. In fact, I believe the Congress telling a local or even a State government that they must do that sort of thing is wrong any more than I think Congress would like it very much if the National Governors' Conference or someone else came and suggested that an inadequate job of citizen participation was being done federally and there ought to be some requirements placed on Congress to seek out special citizen participation before spending patterns could be established at the national level.

I guess in that respect I am a traditionalist in terms of believing pretty strongly in a representative system of government. A democracy or a town-meeting concept works well in a small community or in a series of small communities. I think we do a pretty good job in our own State and in our various local communities in seeking out and trying to encourage citizen input. But ultimately, the accountability for decisions has to come through elected representation and the participation of citizens can best come in our representative system in being darn sure the people they elect have some responsibility for wise decisionmaking.

So in direct answer, yes, I would object. I think that is unnecessary and certainly goes a long way toward putting a Federal arm into the most fundamental ways in which local and State governments are managed.

Senator HATHAWAY. Yes, but I would not object if we had the same guidelines for the Federal Government. As a practical fact we do not need them because there is a press gallery there at all times watching everything we do there at the hearings and everything else. They know what we propose to spend money on. The public is made aware of it almost instantaneously and we get the results of the public clamor almost as instantaneously. But I know that there are metropolitan areas large and small where the public is not made aware of what the proposed spending plans for its local government are as well as they are at the Federal level, and it seems to me that it would be a good requirement to require some kind of publication or whatnot so at least you would get public comment on where the money is to be spent before it is spent.

Governor EVANS. Well, first, I think it is true in very few areas any more today—it may be in some areas but I think very, very few. Certainly it is not true—you know, we have the local and the State equivalent of the press gallery that you have here following and watching all of the activities which are carried on at State and local levels in our States down to and including the weekly newspaper reporter or the local radio station guy who is watching what happens in a town or a very small rural county. In fact, sometimes I suspect that people know a heck of a lot more about what is going on in those small and rural towns and counties than they do in larger cities or even than they do about what goes on at the Federal level.

Senator HATHAWAY. I think the very small ones and the very large ones are watched very carefully. It is the ones in between I am concerned about, especially in these areas where they have a city manager type government where the alderman more or less rubberstamps what the city manager wants.

Their hearings or whatnot that they have on the budget may not be very attractive to the press and not covered adequately. And a lot of money is spent and the people do not have any knowledge of it until after the money has been spent.

Governor EVANS. But I say in that case shame on the press and shame on the local citizens, rather than a requirement from the Federal Government that something be done. If you have to push and haul people into doing it through a specific requirement, I do not think you are going to get very much good out of it anyhow. It has got to be something that people are willing to do and what to do and feel it is necessary to do to really get any value out of it. And I think it is really a fairly drastic requirement, not in itself, and certainly it is not going to have much effect, if any, in what we do, but it is in terms of one level of government now saying to another level "Here is how you shall carry out your affairs." And I do not think that is very wise.

Senator HATHAWAY. Well, it has been done in the past, though, with, I think, some beneficial results. The Elementary and Secondary Education Act, for example, came out of the failure of local government to provide funds in certain areas—remedial reading, for example, and other areas of education. And the Federal Government had to step in and provide the money for those specific purposes.

The poverty program initiated in 1962, as you know, was spawned out of the need for the Federal Government to step in and fill a gap which local governments, by and large, had not filled because the poor do not have much of a lobby with local government.

And to some extent, although it is less now than it was then, that is still true in certain areas.

Governor EVANS. Well, I really think it is a pretty small problem comparatively. I am not so sure as compared with the massive organizations who have strong lobbying efforts at the national level that the poor are all that much better represented at national as opposed to State and local levels. We each have our different responsibilities and we each have the pressures which come upon us.

But I think, you know, we all see some changes in responsibility and changes in direction, changes in priority of spending, depending on the times in which we live and the needs as we see them. Sure, there are some, I am confident, some what you might call horror stories in the purported use of revenue-sharing funds by some local governments. I am confident that I could more than equal the number of horror stories in terms of the bad end results and the absolutely incredible waste of some of our Federal categorical programs when you see what actually happens right down on the firing line.

Even taking Elementary and Secondary Education Act. I have seen in our schools, when, by the time you get down to a local grade school, then it is quite different than what started out as a good program with some really good concepts can get distorted pretty badly.

I think this oversight function is an important one for the responsibilities we have at each level. In terms of revenue sharing, I think that oversight ought to come at whatever level has responsibility for ultimately spending the money.

Senator PACKWOOD. Dan, when was the last time that the State of Washington had the income tax on the ballot?

Governor EVANS. 1973.

Senator PACKWOOD. When before that?

Governor EVANS. 1970.

Senator PACKWOOD. And before that?

Governor EVANS. Oh, it was a long time before that.

Senator PACKWOOD. The argument was raised earlier when New Jersey Mayor Gibson was here, and they do not have any income tax, that the income tax normally gets defeated because of special interests and perhaps it might be fair to skew the revenue sharing in some way slightly adversely to those local governments or States that do not have income taxes.

In your experience in Washington with the income tax, is it not that the people do not want it? It is not a problem with the special lobby group. It is just that you put in on the ballot and down it goes.

Governor EVANS. If it is a special lobby group, it is a pretty good one because the last time it was on the ballot it was defeated 80 percent to 20 percent. So that is a pretty healthy lobby group. And it was defeated almost uniformly as between the east side and the west side of the State between city and rural areas. There did not seem to be any pattern of support anywhere for the particular act.

Senator PACKWOOD. So it would be basically unfair to penalize a State in terms of its revenue-sharing quota if it did not have an income tax.

Governor EVANS. Sure, I think so. I have been an advocate of an income tax for my own State. I have tried for 10 years now with a monumental lack of success to get it because I think that it would represent part of a balanced tax structure. I think that we probably, you know, as neighbors have tax structures as far distant from each other as any two States in the Nation. And I have suggested many times to Tom McCall that he ought to institute a sales tax when we instituted an income tax and we would all be better off. But he has had about the same success over his years as Governor with the sales tax as I have had with an income tax.

So people are—I think when it comes to new tax systems there are no liberals; there are just various forms of conservatives, because people do not like to open up a new tax source if they think that it might ultimately lead to more taxes. And I think that is a general fear.

Senator PACKWOOD. All right. Let me ask you a last question as far as I have.

There has been some argument raised that we should change the proportion of the allocation, give less to States and more to local governments—not any more strings, just a change in the proportion.

What is your view?

Governor EVANS. I think that would be unwise. In the first place it would shatter the coalition which has been a strong one and a united one from the very beginning between States, cities, and counties who have worked together, who have found a way, not only through revenue sharing, to come together. But that helped to give birth to the new coalition and the growing interrelationships between these levels of government now through our national organization, which I think is beginning to have some effect and I would hate to see that damaged or destroyed, and I think that could have the effect.

Now a year or two ago there was the cry that, well, State governments were rolling in money. But if that was ever true, it certainly is no longer true. That was not taking into account, really, the drastic effects of the massive inflation which has occurred since and which has turned virtually every State from a surplus into a deficit position.

We will end the biennium on June 30 of this year with close to $100 million surplus. But the budget we are now seeking for the next biennium will require a tax increase, in my view. Inflation has eaten up whatever surplus there was. And there is a growing recognition on the part of States particularly that they must step in and adequaely fund the public pension programs, not only at the State levels but for local governmental units, and that has an enormous contingent liability, which I think is going to be a very tough requirement for State governments for many years to come. Certainly it will be in our own State.

And one other factor. I believe there is an important reason for States to at least retain the position they now hold, the smaller share, really, but an important share of revenue sharing, and that is that even though I do not agree with it, there are some restrictions at the present time on local governmental spending. You cannot spend revenue-sharing money for common school education. There is a growing push in all States for a higher share of common school education to be borne at the State level as opposed to the local level. And that is going to put additional pressures for spending and for financial responsibility on the State level as opposed to the local level. And I think it makes it essential that the States have some additional capacity to respond in terms of common school education with the help of revenue-sharing funds. And that is where we have found it most helpful in what we have been trying to do for the aid to local education.

Senator PACKWOOD. A quick aside unrelated to revenue sharing: What is the status in the legislature of the bill to make the Presidential primary date the same day as Oregon's?

Governor EVANS. Well, it is in process, let us put it that way.

Senator PACKWOOD. Am I right? Have Idaho and Nevada adopted that common date?

Governor EVANS. Idaho has. Yes; Idaho has for sure. Nevada has, I believe.

The bill that is in front of Washington would. There is no question about the date. There is some question about what kind of a Presidential primary we ought to have.

Senator PACKWOOD. I understand Washington has a particular interest.

Governor EVANS. We have a particular interest and there is some small disagreement between the Governor and the junior Senator as to precisely how that should be carried out.

Senator PACKWOOD. I have no other questions, Mr. Chairman.

Senator HATHAWAY. Let me just pursue this business of providing an incentive in the revenue-sharing formula, a greater incentive now for the States to adopt the more progressive system of taxation. And I gather that your argument is, well, on a referendum in the State of Washington they have rejected the income tax a couple of times. But if we took that tack, there would be a lot of Federal legislation that would never have passed, because I am sure if we took a referendum in the various States with respect to civil rights, occupational health and safety, and workman's compensation, which is coming up in the near future, that we would also get the same answer and none of those acts would be on the books if we all had to agree they were worthwhile pieces of Federal legislation. And it seems to me that the income tax, or a more progressive tax—it does not necessarily have to be an income tax—falls within that same category of Federal legislation.

We have taken leadership in the past in order to bring about greater equity throughout the entire country. And the taxation is a problem we should focus on, as well as occupational health and safety and the rest.

Governor EVANS. Well, first I would have to if not totally agree with all of the other examples that you have named that those have proved to be progressive and necessary Federal pieces of legislation, at least in the ways in which they are implemented. I am not a strong advocate of the Occupational Safety and Health Act because we believe, in the State of Washington, we had a better act to begin with, and we have been plagued with an awful lot of extra requirements which I think are unnecessary and a different concept and a different approach.

Where ours is one of encouragement and attempting to work, the thrust now from the Federal level is one of penalty and condemnation for not having a safe place and frankly I think the reward system is always better than the penalty system, and to that respect I am not so sure that in all States that has been as beneficial an act as some might suggest.

Senator HATHAWAY. There are about 33 States, I think, that had practically no laws at all at the time or had very weak ones or were not enforcing the ones that were on the books. Even though Washington, Wisconsin, and I think Maine, laws were pretty good in that regard, many States were not.

Governor EVANS. Which brings me precisely to a point I would like to make in that as well as a number of other Federal acts. Too often we get the Federal acts imposed uniformly where several or many States already have adequately performed in the area. There are very, very few Federal acts that apply directly to State and local governments that are totally new or unique. Almost always the initiation for those efforts has taken place in one or several States or local communities, and then it becomes a question, should this be spread nationally.

We are talking now of pretty fundamental governmental concepts.

I think that those that are doing a good job ought to be left with a minimum of additional Federal reporting restrictions and involvement to continue to do their job, and too often we end up with an imposed mediocrity, rather than giving full opportunity for individual States to make as much progress as they might in terms of excellence, and I hope in whatever major national programs we engage in that that is constantly kept in mind by Members of Congress, that it is important to set some national standards and some national goals, but for heaven's sake, leave the flexibility to those who do a good job, or those who want to do a better job to do that easily. Sometimes it is difficult for us with the added restrictions and the uniformity which is imposed on us.

To briefly speak to the question of taxation; again I am not so sure if we were to duplicate the Federal tax system, heavily dependent on the income tax at State levels and at local levels. I think we would have an unbalanced tax system for the Nation. I believe there is some importance, you know, to traditions, sometimes that we have had over the years, and the present position we are now in has not come about by accident. It has been through a long history of evolvement in each of our communities in each of our States.

I do not think we ought to readily disrupt or mandate change. The Federal Government deals quite heavily in the income tax side of things, and I think people for the most part feel that they are taxed pretty heavily on income, maybe not totally equitably. Maybe some changes and reform ought to come in the income tax itself, but there is an awful lot of money that is taken from the individual taxpayer from the income tax, and I think there is some benefit to balance that tax load with taxes on what people spend through sales and excise taxes and taxes on what they own through property taxes.

Senator HATHAWAY. Are those not regressive?

Governor EVANS. Pardon?

Senator HATHAWAY. Are those not regressive? Certainly the sales tax is a regressive tax.

Governor EVANS. If you take it by itself, it is regressive, more or less regressive, depending on how widely it is spread. In some States sales tax is very broad. It covers virtually everything. In other States, food is excluded, for instance, which makes it a considerably more balanced tax than if food is included.

I have made a proposal to this session of our legislature, having failed to get an income tax twice; I made a proposal that we raise the sales tax by 1 percent, but at the same time remove it entirely from the sale of food. Now, that would not change the total amount of money we receive from our sales tax very much at all, It would almost totally balance, but it would have changed quite radically who it came from, so within any major tax you can tilt it one way or another.

The same is true of a property tax. I think virtually every State now has senior citizen exemptions or low-income exemptions on property taxation. We have, and I know many other States have sort of greenbelt exceptions or protections in property taxation. All of these things tend to tilt the property tax, in essence, to make it for the most part less regressive, but when you get down to the—I think some of us at all levels, we tend to forget the taxpayer who is putting out all of the money.

Now, you deal in the Federal tax system. We deal in the State tax system. Our colleagues at the local level deal in their tax system, but the taxpayer—boy, it is a dollar to him out of his income, whether it goes to the Federal Government for income tax, local government for property tax, or to us for sales tax, so I think what you have to do is look at the taxpayer and is the total taxload he is paying responsible. I think you could unduly tilt or distort a tax structure if all we ever took from the taxpayer was graduated net income tax, just as I think it would be terribly unfair to take nothing but a property tax or a sales tax.

But I think you have got to look at the taxpayer himself, add up all of the taxes that fall on his shoulders, and then say, is the total taxload basically pretty responsible? If it is unusually nonresponsive, I think there is generally a reaction from people, and that reaction is felt maybe at the local level, maybe at the State level, sometimes even at the national level. When those reactions are felt, usually there is change, and that change heps tilt the tax structure one way or another to make it more responsive to people's feelings.

Senator HATHAWAY. Yes, but is not the income tax, the Federal income tax and the one that I think 28 States have adopted, The progressive income tax, the most equitable? Because they are going to pay all these taxes out of their income, once they have to use their money to pay them. So I would think they would be more agreeable to paying their tobacco and sales and alcohol and property and a myriad of other head taxes, in effect, out of a progressive tax, based upon what their income was, rather than the way it is now, which comes out of their income but is not based on it.

Governor EVANS. I think most people would object to doing that. I for instance do not smoke, and I think it is just delightful to have a heavy tax on cigarettes.

Senator HATHAWAY. Listen, do not be imposing the burden of Government on us smokers. [General laughter.]

Governor EVANS. Well, it really comes down to the fact that the only equitable tax is a tax on someone else, and I do think that there is some value in certain portions of our tax system being levied on users as opposed to the general taxpayer.

Certainly, we have built a tradition—I am not sure it is totally wise, but it is a tradition—of most of our highway transportation network being constructed through sort of a self-generating tax on the user, on gasoline, rather than on the general taxpayer. I think in many respects these kinds of taxes make some sense in the total tax picture, and I guess really what I am saying is ultimately you have to try for balance, and in each State and in each locality there is some ability to reach that balance for the people who live in that particular area.

We start out with a fairly uniform Federal income tax. We add to that the amounts that we levy at the State level, and the people at that State level, I think, ought to be the ones to make those decisions as to that additional amount and how it affects them on top of what they pay federally, and even at the local level, people there ought to be able to make the decision as to how they tax themselves to support local services.

Maybe they do not want to do it through an income tax. Maybe they do not want to do it through a property tax.

Senator HATHAWAY. If it is an affluent community, they probably do not. They would probably rather have it in a sales tax. Do we not have some obligation to protect the poor people in that regard?

Governor EVANS. Sure, and I think that happens through—it certainly happens through the Federal income tax. It certainly happens in terms of a greater sharing of revenue. It comes back to revenue sharing. If the revenue-sharing money that goes back to those communities is raised through the Federal income tax, then to that extent that helps to balance that whole taxload.

But I think at least there is an equal awareness on the part of those at State levels and at local levels of the problems and the needs of the poor to the same degree I believe there is at the national level, and we all have to deal with those problems from a different vantage point and with different abilities to respond to them, but our legislature, for instance over the years, has responded a number of times in terms of our own tax structure. For better or for worse, we are stuck with it until the people themselves are willing to change it constitutionally.

But within the constitutional limits, we have changed it a number of times, each time attempting to respond to the perceived needs of the poor or those least able to pay the particular burden we are talking about.

Senator HATHAWAY. Let me ask you one last question. I have kept you here quite a long time.

As a staunch supporter of local government, are you not afraid in revenue sharing of an overdependency on the Federal Government?

Governor EVANS. Sure, if revenue sharing is a sometime thing. I believe it ought to be as regular and as traditional, if you will, or as much a part of the relationship between the Federal and the State and local government as our local communities have come to view the sharing of revenues from the State to the local communities and you know when we do our budget for a biennium, the State budget, we start out with two things that no one even dreams of changing or even looking at. When we open that pot of money, the first thing we take off is our responsibility to pay debt service on bond issues and the necessary principal to live up to our contracts.

And the second thing right along with it and in fact in the same category in terms of our budget are transfer payments to local governments from revenue sources at the State level, which are then shared with those local governments, and they are not even part of the whole appropriations process in terms of how we spend out money or whether we do or whether we do not spend that money.

That money is there. It is put out as part of a separate concept. We do not even look at it as a potential for State spending, and in that respect I do not think our local governments feel that they are really going to get shortchanged or that they cannot depend on that money for their responsibilities the next year, the year after, or even in their long-term spending patterns.

Frankly, I think we would be far better off in terms of the actual use of revenue-sharing moneys if there were certainty as to its continuance by State and local governments. I know many governments have been reluctant to initiate long-term spending programs or to support on a continuing basis any programs through revenue sharing because they were not certain it was to continue, and that has led for instance in some communities to what might be considered an excessive use of that money for capital outlay or one-time spending programs.

I personally viewed it just the opposite. I have counseled my colleagues, and in our own case have deliberately spent it and used it for ongoing, continuing programs, figuring that was the best way to insure that there would be some assurance that it would continue, but I think that is a problem.

The difficulty of not knowing whether it is going to be a continuing, dependable, ongoing program has affected some of the spending decisions of local governments.

Senator HATHAWAY. What I really meant by my question was that you are portraying that the State ought to be autonomous and should be able to spend the money in whatever way it wants. There should be no oversight over it whatsoever, and yet you are going to be dependent upon the Federal revenues. You want to be quite independent with respect to the spending and whatnot, and yet you are going to be quite dependent with respect to getting the money to spend the way you want to. Is that not destroying your autonomy to a certain extent?

And the second question is, well, if you want to spend it the way you want, then raise it the way you want.

Governor EVANS. Well, I would only suggest that we are experts at that. Unlike Congress, we are required to have balanced budgets, and I think the relative longevity of those who serve as Governors compared to those who serve in the Senate or the House is pretty clear indication that balancing budgets year after year is a quick shortcut to political oblivion. At a little over 10 years now, I am the senior Governor in the country along with Cal Rampton of Utah. It did not take long to get to that seniority status, and it has come about because States and local communities have been forced to balance budgets every year and to raise enough money to equal their spending patterns.

We have not had the privileges of deficit spending.

Senator HATHAWAY. Well, you know that the Federal deficit spending is much different than the State and local revenue. You do not have the Federal Reserve, and they are in effect printing money, and if we had not incurred the debts that we have incurred over the years, our economy would not have progressed as well as it has.

To be sure we have probably increased our deficit more than we should have in the recent past.

Governor EVANS. I am not suggesting it is bad at all. I am just suggesting that you know, should you always be the one to raise the money, if you want to have the privilege of spending it. Basically, I think that is exactly what local and State governments have had to do and have done over the years, but revenue sharing is a concept which has only been a recent one and only been difficult to sort of assimilate and get accustomed to as between the Federal Government and State and local government.

It has been a traditional and long, long-standing concept as between the States and local communities. Now, I would prefer frankly if the States had uniform tax structures and if we all had the ability, for instance, through rather similar income taxes to have some kind of a tax offset. I think it would be better never to send it to the Federal Government in the first place, but to have the ability to, in essence, write off a part of your income tax and instead ship it to the State level.

That sort of concept has been advocated by a number of people in Congress in past years, but I think where it fails is just in the fact that we have 50 different tax structures, and I do not think any of us have been able to figure out how to equitably accomplish that task, given the different tax structures, we have had, but I would prefer that. I would prefer that, and I am sure local governments would prefer it, that they had the total capacity and ability to raise all the money at the local level.

However, there is something to be said for the efficiency of raising money at a higher level. I am confident we can and we do raise money through the gasoline tax at the State level and do it much more efficiently than if each community had to levy and raise its own gasoline tax for its own purposes, but we share more than half of the State gasoline tax that we raise with our cities and counties, with again, no requirement for accountability, no requirement for reporting, only the constitutional requirement in our State that that money be spent for highway purposes, but we can just raise it a lot more efficiently, and there is no question on the part of cities and counties that they are going to get a traditional share which they have been getting, of that particular tax.

Senator HATHAWAY. Well, Governor, I have kept you a long time. I really appreciate your testimony. Thank you very much.

Governor EVANS. I appreciate, Mr. Chairman, the opportunity.

Senator HATHAWAY. The subcommittee will recess until tomorrow morning at 9 a.m.

[Whereupon, at 2:35 p.m., the subcommittee was adjourned, to reconvene Thursday, April 17, 1975, at 9 a.m.]

GENERAL REVENUE SHARING

THURSDAY, APRIL 17, 1975

U.S. SENATE,
SUBCOMMITTEE ON REVENUE SHARING
OF THE COMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9 a.m., in room 2221, Dirksen Senate Office Building, Senator William Hathaway, presiding.

Present: Senators Long, Hathaway, Fannin, Packwood, and Brock.

Senator HATHAWAY. The subcommittee will come to order.

I expect a few other members to show up, but I know the Comptroller General has another appointment, and we had better proceed with his testimony. I am sure the other members will show up in time for questioning.

It is a privilege to have you with us Mr. Staats, and you may proceed with your statement.

Without objection, your entire statement will be made a part of the record.

STATEMENT OF ELMER B. STAATS, COMPTROLLER GENERAL OF THE UNITED STATES, ACCOMPANIED BY ALBERT M. HAIR, ARTHUR R. GOLDBECK, AND BILL W. THURMAN

Mr. STAATS. Mr. Chairman, with your permission I will ask Mr. Hair, on my left here, to read my statement for me. I have a bad cold, and I will save my voice for the questions.

Senator HATHAWAY. All right.

Mr. HAIR. Mr. Chairman, we are pleased to appear before the subcommittee this morning to discuss our reviews and studies of the general revenue-sharing program.

The General Accounting Office is responsible for reviewing the activities of the Department of the Treasury and of State and local governments that receive revenue sharing funds. Our goal has been to identify and examine the more important issues surrounding the program. We have tried to schedule our work so that all results of our efforts will be available to the Congress this year, as it considers renewal of revenue sharing.

I will attempt to highlight the results of our completed reviews, and describe the efforts we have under way. Staff members responsible for the day-to-day direction of our revenue sharing efforts are with me, so we should be able to respond to any questions the subcommittee might have.

We have issued two reports to the Congress on the operation of revenue sharing at the State and local government level. Our first report, issued in August 1973, covered 50 State governments and the District of Columbia. The second, issued in April 1974* covered 250 selected local governments.

During our visits to the States and localities, we reviewed programs and activities which were designated as being financed with revenue-sharing funds, and we inquired into such questions as the effect of revenue sharing on State-local taxes, levels of services, citizen participation in the budgetary process, and intergovernmental cooperation.

We found that State governments were earmarking over one-half of their revenue-sharing funds for education purposes. Among the local governments we visited, public safety—primarily police and fire protection—was the area in which the funds were most frequently earmarked for use. Among both the States and the localities we found a tendency to designate the funds for capital projects because of concern about the permanency of the program.

Many State and local officials were reluctant to increase their current operating programs with revenue-sharing funds because of the danger of having to curtail these programs if funds were discontinued.

We concluded that revenue-sharing funds had a widespread initial effect on the taxes of State and local governments. For example, in about three-fourths of the 250 local governments, officials credited revenue sharing with reducing taxes, halting a planned or pending tax increase, or slowing the rate of tax increases. We also found indications that revenue sharing had brought about increased citizen participation in local budgetary processes and that, in a very few instances, the funds were a factor in increasing intergovernmental projects.

The basic problem that we, as well as others, have encountered in attempting to assess the results of revenue sharing is the question of how to identify what has actually happened as a result of the program. A recipient government can designate how it plans to spend its revenue-sharing funds, and through its accounting records, can document that a specified amount of revenue sharing received was expended as designated. However, such budget and accounting designations may not in any way reflect the actual impact of the funds on the government.

A State government can use the funds for any purpose, and local governments can use the funds for essentially all of their activities. This creates a situation where funds are easily displaced or substituted.

For example, in its accounting records a city might designate its revenue-sharing funds as having been used to pay the salaries of sanitation workers. However, the net effect from this designation could well be that the city was able to use its own funds, which otherwise would have been used to pay the salaries, for some other purpose such as the acquisition of road maintenance equipment, or anything else you might care to apply. Thus, there are a variety of fiscal consequences which can result from the application of revenue-sharing funds which are not necessarily reflected by the designated uses of the funds.

The funds might actually permit a recipient government to do such things as increase its spending levels in programs other than those in which revenue-sharing funds were designated for use, reduce taxes, avoid raising taxes, avoid increasing debt, or increase its surplus.

*These reports were made a part of the official files of the Committee.

Budget decisions typically are based on the total amount of resources available to a government. This makes it exceedingly difficult, if not impossible, to isolate objectively what programs or activities are being funded as a result of revenue sharing.

We attempted to obtain indications of what was actually happening by interviewing State and local officials and asking for their assessments. While most officials have been willing to express a judgment as to what they have been able to accomplish with revenue sharing, we found general agreement among them—particularly those from governments with large and complex budgets—that it is simply not possible to identify precisely the net effects of the program. To make such an identification would require knowledge of what budget priorities and spending patterns would have been in the absence of revenue sharing.

This feature, which in our judgment is inherent in any program of general fiscal assistance, raises questions about the present legislation which we believe the Congress should consider during its deliberations about renewal of the program.

The act places several restrictions on the uses of the funds. For example, local governments must spend their funds within one or more of nine priority expenditure categories; a recipient must not discriminate because of race, color, sex, or national origin in employment or provision of services financed in whole or in part with revenue sharing; laborers and mechanics employed by contractors and subcontractors to work on a construction project where 25 percent or more of the project costs are paid with revenue sharing must not be paid less than prevailing wage rates as determined by the Secretary of Labor under the Davis-Bacon Act; and, if the wages of employees of a recipient government are paid with revenue sharing, they may not be lower than the prevailing rates of pay for other employees in a similar occupational category if 25 percent or more of the wages of all employees in that occupational category are paid with revenue sharing.

In our April 1974 report to the Congress, we observed that when revenue-sharing funds are spent for activities that would have been financed from the recipient's own resources, considerable latitude exists for the use of the recipient's funds that are so freed. Export for a restriction, in certain situations on the use of revenue sharing to meet the matching requirements under other Federal programs, the act does not restrict the use of recipient funds freed by revenue sharing.

Therefore, compliance with many of the restrictions in the act can be largely a budget and accounting exercise with little real effect. For example, one county government we visited used some of its revenue sharing funds to pay for expenses of the sheriff's department and the county jail, which are within the priority expenditure category of "Public safety." County officials informed us that the net effect of this designation was to free the county's own funds which were then used to pay salaries in the clerk's and recorder's office. This was done because county officials did not think that expenses of the clerk's and recorder's office were within one of the priority expenditure categories specified by the act, and they were probably correct.

The Davis-Bacon and prevailing wage requirements can be avoided by similar methods or by making sure that the 25-percent threshold is not reached where these conditions apply.

In summary, a variety of restrictions can be imposed and enforced on the designated uses of revenue sharing. However, unless the same requirements are imposed on a recipient's other resources, the actual effectiveness of the restrictions is doubtful. Assuming that revenue sharing is continued, the Congress should consider the need for retention of some of the restrictions.

In our opinion, the priority expenditure requirements applicable to local governments are illusory and might just as well be eliminated from the act. On the other hand, we believe that one of the more important conditions which should be attached to a general fiscal assistance program is a strong and broad-based requirement to assure protection of civil rights.

Recognizing the ease with which requirements on the direct uses of revenue sharing funds can be avoided, it would seem appropriate for the Congress to require that a government receiving revenue sharing could not discriminate in any of its programs or activities, regardless of the source of funding, and that revenue-sharing funds could be withheld pending acceptable actions to correct discriminatory practices.

Another question of utmost importance is how to bring a sufficient degree of accountability into the program. The act now requires State and local governments to publish in a newspaper of general circulation its plan for, and actual uses of, revenue sharing. This requirement was intended to assist the citizens of recipient governments to hold officials of their governments accountable for the use of the funds.

We recently completed an evaluation of this reporting system. The review was conducted in 21 State and local governments located throughout the country. We concluded, as have others, that because of the difficulties in isolating what is actually being accomplished with revenue sharing, the use reports do not provide meaningful information and, in fact, can be misleading to the citizenry.

We are currently considering various alternatives for changing the reporting system. Our report to the Congress on this subject is scheduled for completion within the next 2 or 3 months.

Because revenue sharing reaches all State and general purpose local governments, various individuals have suggested that it be used as a lever to encourage improved intergovernmental cooperation and, perhaps, local government modernization. Although the present legislation contains no conditions specifically designed to accomplish such objectives, several bills which led to the act sought to modernize and revitalize Government structures and procedures.

In an effort to obtain a sampling of current, informed thinking about the prospects for using revenue sharing to achieve a measure of local government modernization and about the status of governance in metropolitan America, we commissioned five papers on the subject by authorities in the field.

The papers were then circulated to a group of interested Federal, State, and local officials and others, and a 3-day conference was held during November 1974, at which time the papers and related matters were considered. A document which includes the five papers which we commissioned, and a report on the conference proceedings is available as of this morning to the subcommittee. I hope it will be of assistance to you on this particular question.*

*These were made a part of the official files of the Committee.

As could be expected in considering such an issue, a wide variety of viewpoints were expressed in the papers and by conference participants. There was disagreement on a definition of local government modernization, but there was agreement that Federal efforts to compel structural modernization are unlikely to succeed.

Although difficulties and dangers accompany any Federal effort to induce modernization, participants felt that the persistent and growing problems of metropolitan government argued for such an attempt. Participants objected, however, to using revenue sharing as the sole—or even primary—vehicle to encourage such modernization.

They also stressed that any Federal undertaking should be marked by flexibility; modesty of objectives; full awareness that efforts to achieve structural change are questionable; and recognition that revenue sharing would remain but one component of a system of Federal grants, inducements, and strategies.

Another review we have underway is somewhat related to the modernization issue. Several observers have expressed concern in the last several years about the distribution of revenue-sharing funds to so-called marginal units of general purpose government—particularly townships in the Midwestern States and New England counties.

These governments are often characterized as having very limited functions and as tending to be obsolete, duplicative, and nearly defunct. Concern has been expressed that by distributing revenue sharing to such units, the Federal Government may be unjustifiably propping them up, if you will.

We are studying present, as well as past, roles and responsibilities of Midwestern townships and New England counties, and are attempting to gather data which might indicate the long-range effects that revenue sharing may have on such units. The evidence suggests that the minimum grant provisions of the current act do disproportionally reward many townships and municipalities. Our report on this study will be ready by August 1975.

We are conducting two reviews in response to requests from congressional committees.

The first is from the chairman of the Senate Subcommittee on Intergovernmental Relations, Committee on Government Operations, requesting us to conduct indepth case studies of revenue sharing in 26 local governments. In each of the jurisdictions selected, we are gathering data on the specific programs and activities which the jurisdiction itself designated as being funded with revenue sharing; the relationship of revenue sharing to the total budget of the jurisdiction; the impact of revenue sharing on local tax rates; the jurisdiction's record in complying with the civil rights requirements and other provisions of the act; public participation in the jurisdiction's budgetary process, and the impact of revenue sharing on that process; and the extent of cutbacks in other Federal aid and whether revenue sharing is being used to maintain programs previously funded by other Federal assistance.

Our report on the results of the case studies is expected about July 1975.

Second, in December 1974, the chairman, House Committee on the Judiciary, requested us to review the manner in which the Office of Revenue Sharing has discharged the civil rights enforcement responsibilities assigned to it under the Revenue Sharing Act. We will report the results of our review to the Committee's Subcommittee on Civil Rights and Constitutional Rights.

In addition to these efforts, we are also reviewing several other aspects of the program on our own initiative. These reviews include:

An examination of the statistical data—particularly the tax data—used to determine the amount of funds allocated to Government units. There is concern that the tax data presently used may not adequately reflect fiscal effort.

An assessment of the audit coverage the Office of Revenue Sharing is obtaining from State and local audit agencies, as well as independent public accountants, under its compliance audit program. This evaluation is being conducted in four States—California, Georgia, Minnesota, and New York.

A review of the uses and impact of revenue sharing on selected Indian tribes and Alaskan Native villages.

Mr. Chairman, that concludes Mr. Staats' statement on GAO's revenue sharing efforts.

Senator HATHAWAY. Thank you very much.

On some of your reports you have indicated when they will be available to us, but what about this last study that you are making—or review?

Can you tell us when that will be ready for us to look at?

Mr. HAIR. The last four that we talked about?

Senator HATHAWAY. The last page you are saying, "Also reviewing several other aspects."

Mr. HAIR. We do have some target dates; they will all be ready, we think, during the time of consideration. Mr. Goldbeck has the specific dates.

Mr. GOLDBECK. The first one, statistical data, we expect to issue by August of this year. The second one on the audit coverage of the Office of Revenue Sharing, is about the same time—in August. And the third one, in July of this year—the one on the Indians.

Senator HATHAWAY. Fine.

Mr. Staats, what indications do you find that revenue sharing has brought about increased citizen participation in local budgetary processes, and intergovernmental cooperation with respect to projects?

Mr. STAATS. In general, Mr. Chairman, we believe that this may turn out to be one of the more useful results that will flow from revenue sharing. We think it has a ways to go yet, but this will be one of the things, in particular, that we are going to be looking at in the 26 case studies that Senator Muskie has asked us to make.

Would you like to comment in more detail on examples?

Mr. HAIR. We do have some examples, and they will be reported. But typical of the kinds of things that happened is the rather remarkable upsurge of interest in local government stemming out of the fact that here is so-called free money from the Federal Government available. Apparently in some considerable number of instances, this unique feature of the budgetary process at local government level simply brought out more people to find out where the money was going.

There were a number instances of this. There were also a large number of instances in which jurisdictions reported no change at all—no increase in public attention or interest in the budgetary process.

So I am saying we have seen some evidence of it. I do not want to indicate that this is, by any means, a universal occurrence.

Senator HATHAWAY. I am glad you made that point.

The Governor of Washington, yesterday, made the point that he wanted absolutely no strings attached, no supervision on the money, no accountability to the Federal Government whatsoever. He thought the local governments should take care of that, and I wondered whether or not there was that much local participation or review. And you indicate—well, could you give us a guess on percentage of citizen participation in the communities throughout the country?

Mr. HAIR. I think the best thing I could say, based on our work, is that there has been some increase. But to try to quantify it for 38,000 jurisdictions——

Senator HATHAWAY. Yes; I realize that would be difficult.

Mr. HAIR. There has been some increase.

Senator HATHAWAY. Would you say there still is a substantial number where there is no increased awareness by the citizens of how their money is being spent?

Mr. HAIR. Yes, sir.

I think there would be a substantial number in which we feel there would be no change, but also a substantial number the other way.

Senator HATHAWAY. Thank you.

Mr. STAATS. Mr. Chairman, when and if the legislation is extended, this might be a very fruitful area to consider even more explicit requirements.

For example, one of the problems that we have run into that the publicity given to the plans for revenue sharing is not very well distributed in some situations. In large metropolitan areas you have foreign language problems, for example. Chicago and New York are two examples, and the act only specifies it has to be in one newspaper and if it does not happen to be in the newspaper that, say, a minority group has available to it, it really is not achieving the objective that we think the act had in mind.

But the other point I think we would make is that—and this is the main thrust of our findings to date—is that it is just impossible to determine what the net effect is of the portion of revenues of the locality represented by revenue sharing because money is fungible; it goes into the budget just like any other revenue. And if there is to be any accountability at all for revenue sharing on how that money is used, it seems to us that the Federal Government ought to have at least a minimum assurance as to how that money is budgeted and how it is accounted for at the local level. All of it, not just the revenue sharing piece of it, because you really cannot pull that piece out and identify it.

Senator HATHAWAY. So you would recommend that additional restriction or provision in the law for accountability, that it include all of the Federal funding.

Mr. STAATS. We do not see how you are going to avoid it unless we are going to give up and say, there is no accountability at all. In which case you might just as well make it a percentage of a tax base, or a percentage of total Federal funds, and forget about it. I do not recommend that.

Senator HATHAWAY. So you are saying, in effect, that the category is no good.

Mr. STAATS. That is right.

Senator HATHAWAY. That it was useless to put them in because they can cover the money; it does not make that much difference.

Mr. STAATS. That is right.

Senator HATHAWAY. That is a good point.

Senator Packwood?

Senator PACKWOOD. I do not understand how, or what kind of accounting procedure you are talking about to hold them accountable. I can understand your problem about fungibility, but if we are going to give them money, take off the standards as to where they have to spend it, what kind of accounting procedure could you get that would show you anything.

Mr. STAATS. We think there could be requirements developed with respect to what kind of a public reporting system that they have, maintenance of adequate accounting systems, and adequate auditing systems. And, as I say, you cannot just identify and say you are going to apply that only to revenue sharing, but you can provide standards.

For example, we have developed, in the General Accounting Office, suggested standards for auditing of all governmental programs, including State and local governments.

Senator PACKWOOD. If you had complete auditing, how would it show you the situation that you use as an example in your testimony whereby they take part of the money that they would otherwise use for one purpose, shift it to another purpose, and use revenue sharing for the first purpose?

You can account for it, you can put it down in books, you can audit it, you can see what they have done, but how will it reveal the process—the thinking behind it that came to that conclusion to do it that way?

Mr. STAATS. Well, I think our point is exactly that you cannot have accountability just for the revenue-sharing portion of the money, but you can provide—if they are going to accept revenue sharing funds—you can provide minimum requirements with respect to the overall budget process for the locality, the accounting systems, public reporting and auditing.

Senator PACKWOOD. I still do not understand what that shows. I do not get an answer to my question. You have a complete budget accounting, you have a complete audit. All that does is tell you what they have done with the money, does it not?

Mr. STAATS. All of their money.

Senator PACKWOOD. All of their money, I understand that. But that does not tell you what went into their thinking as to why they shifted money from one category to another. All it does is reveal that they did it. It probably would not even reveal the shift, as a matter of fact. I mean, the conscious decision to make the shift. It would just show that in 1 year they spent more money for clerks and county officials than they spent the year before, before they had revenue sharing.

Mr. GOLDBECK. I think what we are trying to say here is that in the budgeting process at the State and local levels, it does not really matter where they are getting the moneys from as far as the citizen is concerned. What he is really interested in, and what he should really know is, what is the total program of that city and how have they identified the priorities in the budget process. How much money are they giving the various possible areas of expenditure?

So I think what we are saying here is a citizen really ought to look at the entire budget of the Government, regardless of where those revenues are coming from. And that is what is important to him, rather than looking at the revenue sharing.

Mr. STAATS. That means he has to have the information that we provide in the Federal budget. How much money did you spend, by function, for last year? How much are you spending this year, and how much do you plan to spend next year?

Senator PACKWOOD. Do most local governments not do this at the moment?

Mr. STAATS. It is very, very spotty.

Mr. HAIR. The larger jurisdictions have obviously very sophisticated systems.

Senator PACKWOOD. Excuse me. I cannot hear you.

Mr. HAIR. They have very sophisticated systems.

Senator PACKWOOD. Who does?

Mr. HAIR. The larger jurisdictions. Many of the smaller governments, of course, obviously do not. But even in very large communities we find that sometimes there is no requirement, for instance, for a public hearing on a budget.

This is not an unusual situation. Or, if a public hearing is required, it is announced in such a way, or advertised in such a way, as to not really encourage——

Senator PACKWOOD. Let me forget the public hearing for a moment. I think that is valid.

Do most local governments today not have a budgeting procedure? They do not know what they spent last year? They do not know what they are going to spend next year, or have some reasonable idea?

Mr. HAIR. No sir. I think they do have.

Senator PACKWOOD. It is really the public hearing, the public information that you are getting at, not so much the accounting procedures.

Mr. HAIR. Mr. Staats has made the statement, on numerous occasions, that accountability for this program is largely with the public at the local level.

What we are suggesting in these comments and in this line of discussion is that it would be worth the consideration of Congress to consider opening up where it needs to be—and in many cities it is already completely open—but opening up the total budget process.

Senator PACKWOOD. I just want to get the difference between the two.

You are not, therefore, saying that the accounting procedures are necessarily bad. What you are saying is, whether they are open is subject to question, but by and large they do account for where their money comes from and where and when and what programs.

Mr. HAIR. Except to the extent that we are questioning the advertising to the public that money is to be spent in a specific category.

Senator PACKWOOD. We are talking about two different things.

I want to know, if somebody goes and looks at it, can they find it?

Do they actually account for it, or are the books a mess, or is it impossible to tell how money was spent?

Mr. HAIR. Generally speaking, we have had no difficulty in finding through the accounting records where the money was designated and where it was earmarked for expenditure, and records to indicate that it was spent in the fashion that they advertised.

Senator PACKWOOD. OK.

Mr. STAATS. I guess the point we would underscore is that as far as accountability is concerned, the citizen has to look at the total budget for the State or local government involved.

Now I think the present law has done a good deal to require disclosure, but this is still very spotty throughout the country.

In the city of Pittsburgh, for example, up until a few years ago, they did not even print their budget. There was no document available to anybody except to the council, and that was in typewritten form.

So we believe it is kind of a snare and delusion to put in priority categories and give the citizen the impression that his revenue-sharing money is going to add to those high priority programs, when, in fact, there is no evidence to support that it does.

Senator HATHAWAY. In other words, they might have spent revenue sharing money—$1,000—for education, but subtracted $1,000 from what they usually spent for education, and the citizens would think there was $1,000 increase unless he saw the rest of the budget and realized there was a decrease or they broke even.

Senator PACKWOOD. And the upshot of it is if they—presume they spent $3 million, and they get $1 million from revenue sharing, then we want the citizens of that community to be able to say, all right, we have $4 million, where should that be spent, and make their decisions. At least, have access to the decisionmaking process as to how should $4 million total be spent.

All right, I have no other questions.

Senator HATHAWAY. Mr. Staats, in your job as Comptroller you have examined many Federal programs.

How would you say that revenue sharing stacked up against the other Federal programs like the numerous categorical aid programs?

Mr. STAATS. In the terms of adequacy of administration?

Senator HATHAWAY. Adequacy of administration and fulfilling the purpose for which it was designed.

Mr. STAATS. Well, I guess I would answer that this way.

The people who argue for revenue sharing argue almost for a principle of noncontrol—non-Federal control of money, and the principle is, let the local people decide the priorities for the use of that additional money.

The other side, which I tend to share, argue that if these are national funds raised by the Federal Government, they ought to go for a national purpose or a Federal objective. To be sure it may be an objective which is shared by the Federal Government, State government and local government, but that means that some kind of a categorical grant—or, if you prefer to use the term that the executive branch uses of "Special Revenue Sharing."

Special revenue sharing is really nothing more than a broad categorical grant, and I think we would argue that the chances of that money serving its purpose are better through a broad categorical grant approach, and then you can identify the money, you can make some judgment as to whether or not it is accomplishing that objective.

And we think many of the arguments for general revenue sharing can be met by adjusting the procedures by which the broad categorical grants are provided.

For example, there is nothing that says how much sharing there has to be on broad categorical grants. It can be 90 percent Federal and 10 percent local, or it can be 50–50, it can be any other combination. And we do have examples of this type all through the budget.

Another thing that can be done is to advance the date by which funds are made available, so that the locality can make their plans for 2 or 3 years in advance, knowing how much money is to be made available from the Federal Government. And this is a real problem for State and local governments, but that can be accomplished within the framework of existing grant systems so that you do not have to have a long-term commitment for general revenue sharing to solve that problem.

In fact, the proportion of the total Federal assistance represented by revenue sharing, as you know, is very small to the total. And the same arguments that apply here could be made for most of the $55 billion of Federal assistance in the budget. So that there are many other things that can be done, as we see it, to move toward this objective; but we should not delude ourselves into the feeling that the Federal Government, at least, can hold accountable State and local governments for that portion of Federal assistance which is represented by revenue sharing. You just cannot do it.

Senator HATHAWAY. Would you advocate dropping revenue sharing altogether and in lieu thereof broaden the categorical programs or remove some of these restrictions from those programs?

Mr. STAATS. I think we come out at about that place; yes, sir.

Senator HATHAWAY. Thank you. Assuming we do continue with revenue sharing, some mayors testified yesterday that they would remove the restriction on using revenue-sharing money for matching grants for other Federal progams. Would you advocate that?

Mr. STAATS. I think we feel about that just like we would feel about any other restriction. We have no way today of knowing that that money is not being used for that purpose.

Senator HATHAWAY. Well, assuming we knew it was being used for that purpose, would you support that concept?

Mr. STAATS. I think we would—Mr. Hair might have a different view on this than I do. He has been much closer to it, but I think we would want to continue the restriction, if revenue sharing is continued.

Mr. HAIR. The act as it is written now holding the matching provision to fiscal year 1972 net revenues, becomes less and less meaningful with each passing year, of course, because the "safe-harbor" provision becomes much easier to meet. If the Congress wants the antimatch rule in there, it is going to have to be updated in some way. To continue to let it ride with 1972, it loses all meaning I think within a very few years.

Senator HATHAWAY. I realize that, but I am not sure whether it might not be a good idea to drop it altogether because we are telling a city or State, who wanted to concentrate its efforts on a specific Federal program, where they had to match 50 percent, and in effect they could be getting 100 percent Federal funding for that program That might fulfill a dire need in that community, which otherwise would be difficult to meet, and for that reason I would not see any reason why we should not drop it.

Mr. HAIR. I think we would observe that due to the fungibility of funds and due to the safe harbor provisions in the act, the chances are the community can do what it wants anyway, and we would just as soon not see them put through loops to accomplish it.

Mr. STAATS. I think the principle is a sound one. It had some meaning the first year and possibly some meaning the second year, but as Mr. Hair indicates, as the time goes along we do not know whether it has had any effect or not.

Senator PACKWOOD. Let me ask one more question, Mr. Staats. You said that this is Federal money and that you want to insure the achievement of Federal goals. You would either perhaps abandon this or go to a large block grant concept so you would be sure the goals would be carried out.

Mr. STAATS. Yes, that is what I said.

Senator PACKWOOD. Now, if the Federal purpose is a conscious decision to delegate to local governments the decision on determining priorities with Federal money, then relatively unrestricted revenue sharing is the way to go.

Mr. STAATS. Take off all the restrictions, and make it a formula.

Senator PACKWOOD. I have no further questions.

Senator HATHAWAY. I wanted to ask you some questions with regard to policy matters that you testified about. You mentioned that the broadening of the civil rights requirements was desirable, and yet you seem to play down the Davis-Bacon requirements. Why is that?

Mr. HAIR. I do not know that we intentionally played it down. The General Accounting Office has for some years had some considerable difficulties with the Davis-Bacon provisions due to a number of factors. One of them is the area, location in which the factor is established. Where, for instance, it could be established in New Orleans, and it applies to all of the State of Louisiana, and there are portions of Louisiana where the operations of that act seem to us to be not altogether in the way that Congress might have intended.

But in any event, for that and other reasons, we have not been strong supporters of the Davis-Bacon provision for, I guess, that sort of——

Senator HATHAWAY. Well, assume that we correct the errors—and I know there are some in Davis-Bacon. Most of them are administrative and not just the fault of the Secretary because I think he is understaffed. It is very difficult to make the determinations at the local level that are supposed to be made to make the program work the way we intended it. As soon as we clear those up. Would you mean that this Federal money should come under that act just the same as any other Federal money?

Mr. STAATS. Well, you can do a lot, as you suggested, by way of improving the operation of the Davis-Bacon Act, but there is, getting back to Senator Packwood's question of a moment ago, a basic inconsistency with the idea of giving State and local government complete freedom to use money and then to start tacking on restrictions, and that is the principle here that has to be looked at.

We would argue, I suppose, that if we had categorical grants that these restrictions in principle should be applied, but we have kind of a mixture in revenue sharing legislation today. The law argues for complete freedom, and yet it sets down these various restrictions.

Senator HATHAWAY. In other words, would you use the same argument you are using with respect to the civil rights money, that it should apply to all of the local money, to Davis-Bacon as well, or would you say since it is only a small fraction of the total budget, they could drop Davis-Bacon requirements?

Senator HATHAWAY. So it would apply in the same way you would like to apply the civil rights requirements, all the way across the board.

What about other policy considerations like tax reform? Do you think there are legitimate uses, of the revenue-sharing money to say to the States and to the communities, as we do in part, that they get their share only if they have a more progressive tax system? We had the mayor of Newark here yesterday telling us that there was no income tax in New Jersey, and therefore property tax is about 10 percent of the value of the property. We could use this of course as a vehicle to bring about tax reform in many of the States and communities throughout the country.

Mr. STAATS. I do not know how you could make such a provision really effective, and it seems to me it represents such a small proportion of the total revenues, it would be awfully hard to argue that you had to completely restructure the tax system for a city like New York, for example, or even smaller communities, just because they are getting revenue-sharing money.

Senator HATHAWAY. Well, 41 of the States already have a State income tax. Twenty-eight of them, I believe, are patterned after the Federal income tax, and others are somewhat similar to that, so it is only about nine States that we would be zeroing in on by saying they could not receive, say, a portion of their funds unless they had an income tax.

Mr. STAATS. Our statement here suggests continuation of the civil rights provisions, but I think we would argue that if you are going to have civil rights provisions, it ought to be applied to all of the funds spent by the State governments or by the local government. Otherwise, it really cannot be made effective.

Senator HATHAWAY. That is right because they can juggle it, but you would not say the same thing about Davis-Bacon, or would you?

Mr. STAATS. Well, we look at Davis-Bacon in a somewhat different way, I suppose. We have felt that Davis-Bacon, at least as it has been operated, was inflationary, and it has tended——

Senator HATHAWAY. Well, assuming it was administered properly.

Mr. STAATS. It is just a matter of judgment, I suppose.

Senator HATHAWAY. It is like the tail wagging the dog. If 5 percent of the money is to be used, they have to pay the prevailing wage rate. Ninety-five percent of the money that might be going for the same purpose—they can pay any wage rate they want. It would be difficult I suppose to determine which is which.

Mr. STAATS. Well, if it could be improved enough, Mr. Chairman, I suppose we would accept that.

Mr. STAATS. I am just expressing, I guess, a personal opinion here, but it seems to me the same argument for a requirement for tax reform could be made with respect to categorical grants.

Senator HATHAWAY. True, that is true, except that here you have a lot of so-called free money, so the chance of them reforming are better. If they think they are going to get this money with no strings attached, than if you say, you are just going to be deprived of your sewer money or your school money.

Mr. HAIR. In the document that we circulated to you this morning that was released on the conference, that particular point was brought up, and one suggestion that was made that you may see in that document was that perhaps the income tax incentive could be added to the Senate formula, assuming that the act continues to have two formulas. We now have a five-factor and a three-factor formula, the Senate being the three. Maybe the Senate formula could be increased to four, so that there was an income tax incentive on either side of the calendar there.

The problem that we could observe is that some of the State income taxes which are in effect at the present time are not actually very progressive taxes, and some definition of what you intended to accomplish by that provision would probably be necessary, or you would have some results perhaps different than you might think.

Senator HATHAWAY. Mr. Staats, I know you have to leave at a quarter of, so I will not ask you any more questions. Senator Packwood?

Senator PACKWOOD. I have no further questions.

Senator HATHAWAY. There are some members who are not here who undoubtedly would like to submit questions in writing and maybe Senator Packwood and I would like to do the same. I would appreciate it if you would reply to these.

Thank you very much, sir, for coming this morning.

Mr. STAATS. Thank you very much. Mr. Chairman. Thank you for letting us come over early for this hearing. We appreciate it very much.

Senator HATHAWAY. You are welcome.

Our next panel of witnesses is the Advisory Commission on Intergovernmental Relations, Mr. Robert Merriam, Chairman. He is accompanied by Mr. Wayne Anderson, the Executive Director, and Mr. John Shannon, the Assistant Director.

Gentlemen, welcome to the committee. Your complete statement will be made a part of the record, and you may proceed to summarize it if you will.

STATEMENT OF ROBERT E. MERRIAM, CHAIRMAN, ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS, ACCOMPANIED BY WAYNE F. ANDERSON, EXECUTIVE DIRECTOR; WILL S. MYERS, DIRECTOR OF REVENUE-SHARING MONITORING; AND F. JOHN SHANNON, ASSISTANT DIRECTOR

Mr. MERRIAM. Thank you very much, Mr. Chairman.

Mr. Shannon is not with us yet, but Mr. Will Myers of the ACIR staff is here. He has been in charge of our revenue-sharing monitoring activity.

Mr. Chairman and gentlemen of the committee, I would like to very briefly summarize the remarks that we have submitted to you. First of all, I want to indicate that I am summarizing the views and findings of the Advisory Commission on Intergovernmental Relations, a 26-member congressionally established commission that represents all 3 levels of Government and includes among its members 3 of your colleagues, currently Senators Muskie, Hollings, and Roth.

We are a permanent, bipartisan forum for the continued consideration of intergovernmental relations, and therefore the subject of revenue sharing has been one of great interest to us for a number of years.

Over the years we have been engaged in the continuing reevaluation of the whole question of the allocation of the governmental functions, including such major subjects as the assignment of the welfare function, which we recommended should be funded at the Federal level and the assignment of the school financing function, which we believe should be primarily a State responsibility. In this regard we have, as a commission, for some time felt that the Federal aid system should include not only the traditional categorical aids and functional block grants, but an additional program which our Commission, in 1967, initially referred to as general support payments, now known as revenue sharing.

In 1972 when President Nixon signed the State and Local Fiscal Assistance Act, he specifically directed our Commission to conduct a continuing study of the impact of, and to make recommendations concerning, general revenue sharing. In response to that Presidential request, the Commission has since 1972 been involved in four major activities of monitoring and analysis.

First, we held a series of hearings across the country at which not only elected and appointed officials but also public interest and citizen groups participated and expressed their views.

Second, we conducted two public opinion polls designed to give us at least an overview of public opinion concerning revenue sharing. We found between 1973 and 1974 there was an increase from 56 to 65 percent in support by the general public for the program.

Third, we assisted the House Subcommittee on Intergovernmental Relations in conducting a poll of congressional views on the subject of revenue sharing. You will find the results of this poll summarized in my formal remarks.

Finally, the Commission and its staff conducted a rather extensive analysis of the whole program, which served as the basis for Commission recommendations in September of last year. These are summarized in our report, "General Revenue Sharing: An ACIR Evaluation," copies of which I believe you have or which can be made available, Mr. Chairman.*

One of the major findings of the Advisory Commission was that the current revenue-sharing formula does help in equalizing the fiscal capacities of rich and poor States. This was no accident, of course, for the distributional formulas reflect congressional recognition that governmental units vary in terms of need and fiscal capacity and that low fiscal capacity governments shall be allocated relatively more than those with high fiscal capacity.

*The document was made a part of the official files of the Committee.

For example, under the present distribution formula, Connecticut which in 1973 had the highest per capita income in the country, received a per capita revenue-sharing allocation of $4.15 per $1,000 of personal income for the fourth entitlement period, while Mississippi, which has the lowest per capita income, received $12.70, or almost exactly three times as much.

We made four specific recommendations in our report, Mr. Chairman. These recommendations represent the views of a majority of our members—any dissents are footnoted in the report. First of all, that the Congress give early and we hope, favorable consideration to the extension of the general revenue-sharing program with State and local governments along the general lines of the present program.

Second, we recommend that the program be changed to provide permanent trust fund financing and funding at a constant percentage of the Federal personal income tax base.

Third, we recommend that the present distribution formula be retained in light of the fact that it does provide a very significant degree of intergovernmental fiscal equalization, even though as I will mention in a moment, there are some obvious inequities which do arise.

Finally, the Commission recommends that the Office of Revenue Sharing conclude arrangements with appropriate existing Federal, State, and local government agencies to carry out the civil rights responsibilities under the Revenue Sharing Act.

I would like to turn for one moment to the first recommendation, that Congress give early and favorable consideration to the extension of the program and comment, if I may, with reference to questions which have arisen in terms of the current period of economic concern and the unprecedented Federal deficits that are being anticipated.

Three points I think should be recognized in that consideration. First, that the economic situation quite obviously is severe at the State and local governmental levels, where in many cases problems resulting from inflation and rising unemployment have reached crisis proportions; second, that the Federal Government has a superior revenue-raising instrument in the progressive income tax, which certainly is the most responsive and I believe the most equitable tax in use, as well as other fiscal and monetary tools that it alone possesses; and third, that if revenue sharing is to remain true to its original concept and is to serve its purpose of underpinning State and local budgets, it must be stable and a continuing program, not a cyclical one.

Some have argued, we know, that the program should be countercyclical, and that State and local revenue entitlements should increase in times such as these. However, that is not the view of the Advisory Commission.

Finally, Mr. Chairman, I would like to turn to some of the specific issues on which you have indicated you would like comment, particularly the effect of revenue-sharing funds on local governments, secondly, the utilization of the funds, and third, the question of the Office of Revenue Sharing administration and monitoring activities.

First, on the effect on local governments, there are in reality two opposite effects. One is that the current formula tends to prop up certain duplicative, obsolete, and in some cases almost defunct units of government. This occurs, in large part, because of the requirement that every unit of local, general government, regardless of fiscal activity or population size, is eligible to receive revenue-sharing funds unless it is entitled to less than $200 on an annual basis.

The term general purpose government as defined by the Bureau of the Census and therefore as used in these allocations is so broad that many limited governments, such as many Midwest townships and some, principally New England, counties receive revenue sharing allocations.

The second provision in the law raises the allocation to every township and municipality, no matter how inactive to 20 percent of the statewide average local per capita entitlement, but not to exceed 50 percent of the recipient government's total taxes plus intergovernmental transfers.

These provisions, very frankly, tend to benefit local governments that exert little tax effort, either because they have few services to perform or because they in some cases possess abundant fiscal capacity, in terms of the high per capita income of the residents. There is a chart attached to my formal statement, which I think summarizes this point adequately.

The other effect on local governments is at the opposite end of the scale. Our staff studies indicate that central cities are hurt by the restriction that no more than 145 percent of the average local per capita entitlement shall go to one county area or municipal or township government.

Detroit, by way of example, would have received about $4.8 million, or 10 percent more than it did, if it had not bumped up against the 145 percent payment ceiling. Removal of that ceiling would have substantially increased revenues to such cities as Baltimore—somewhere in the neighborhood of 25 percent, our studies indicated. Boston would have received something in the neighborhood of 41 percent more than it got, and St. Louis would have received a 68 percent increase over its current allocation. So in terms of effect, you have propped up certain of the small units of government and restricted amounts going to certain big central cities.

The second area in which your subcommittee expressed specific interest was the utilization of funds by the recipient governments. Very frankly, Mr. Chairman, I think we have to say to you that tracking the uses to which revenue-sharing money was put with any kind of accuracy is something of an exercise in futility. The fact that the planned and actual use reports record only how revenue-sharing dollars are spent and do not trace so-called released dollars that otherwise would have been spent for the same purpose is clearly part of this problem. By exercising a minimum of care, the recipient governments can arrange the use of revenue-sharing funds to conform certainly to the letter, if not the spirit of the existing requirements.

For example, a recipient government can allocate revenue-sharing funds for expenditure in the public safety area with the effect of freeing an equal amount of local funds for use in the nonpriority areas or to provide tax relief.

The staff and the Commission wrestled with this problem of attempting to report and analyze the use of revenue-sharing dollars and frankly our own research failed to disclose an approach that would capture all of the desired information or at least the information desired by some and still be reasonably practical and inexpensive.

Second, with reference to utilization of funds: One of the questions we heard in our various public hearings across the country and you have heard and will hear, I am sure, is the charge that the poor are being shortchanged in the utilization of revenue-sharing funds. The Commission was again unable to provide a concrete answer to this charge because of the so-called fungibility of revenue-sharing dollars, but in our report we do point out that providing money specifically for the poor was not the intent of the program. In fact, precisely for this reason, in our Commission's view, Congress elected a general program as opposed to one attempting to target specific funds into a special aid program for poor households.

In short, it was and is our opinion that revenue sharing was not designed to be anything but general aid to State and local governments, on the assumption that these jurisdictions would then be responsive to their diverse and most urgent needs.

Third, even though it is impossible to trace these dollar uses, we can report to you that most large urban governments definitely did receive more money than smaller suburban units, in spite of the 145 percent limitation on large cities that I mentioned earlier. We found that more financial aid is going to the Nation's major central cities than to rich suburban communities, and there is a chart attached to my remarks which illustrates that point.

In fact, our figures show that when the per capita revenue sharing amounts to cities in the same county are compared, the central city gets on the average three to seven times as much as its affluent suburban neighbor.

However, there are two considerations that should be kept in mind in that regard. The first is that the range of responsibilities borne by the central cities is clearly much greater than that carried by many, particularly the affluent suburbs, and, therefore, the dollar differences suggest an equalization impact that perhaps is more apparent than real.

Second, some central cities may have suffered a heavier financial setback than their suburbs because of cutbacks in certain of the Federal categorical aid programs that occurred around the time general revenue sharing began.

The final question which you asked us to comment on was the administration and monitoring of revenue sharing by the Office of Revenue Sharing. I mentioned earlier our Commission recommendation regarding civil rights enforcement, suggesting that the Office of Revenue Sharing work with and through other existing law enforcement agencies to assure the maximum compliance effort. Such cooperation would, in our opinion, alienate the need for building an additional bureaucracy in the Office of Revenue Sharing.

The Commission firmly supported aggressive enforcement in this area, but we were opposed and would recommend against a proliferation or the creation of another major enforcement staff.

Although we took position that the present planned and actual use requirements are essentially cosmetic in character—and I have already commented on this—the Commission made no specific recommendations for either strengthening or eliminating reporting requirements. We were very frankly torn between the knowledge that greater reporting requirements would indeed create an undue burden in our opinion on the State and local governments, and on the other hand, the political reality that any less reporting probably would not be acceptable to the Congress. Some of our State and local members quite candidly would prefer to have no reporting requirement.

In hearing testimony at this time and certainly later in the process, I am certain you will hear the views of those disappointed in the revenue-sharing program who want to change it or abolish it. These groups may contend that the funds are not going to those who need it, or that it reinforces the status quo, or that it does too little to aid the needy central cities. Yet we suggest that individual aspects of the program should not be faulted for not conforming to all of the nuances of a very complex State and local fiscal system.

For example, the present program does not go as far as some would like in equalizing fiscal capacity between rich and poor States, nor does it completely compensate, as I have already indicated, for the great fiscal disparities between our major central cities and their affluent suburban neighbors, but taking the distribution of revenue-sharing funds as a whole and bearing in mind the diverse interests that had to be reconciled in creating this program, our Commission concluded that its fiscal equalization results were indeed impressive.

Clearly, the renewal of the revenue-sharing program would reflect the pragmatic character of federalism where accommodation to various interests must be made to insure that the continuing quest to improve the program does not undermine the support for an already essentially good one, and with that, Mr. Chairman, I conclude my formal remarks, and I will be glad to answer any question.

Senator HATHAWAY. Thank you very much for your statement.

It seemed that you said something in your statement that you advocate continuation of the same formula but you had some reservations about it. I did not hear what the reservations were. Are you advocating that the 145-percent restrictions be taken off?

Mr. MERRIAM. Let me separate myself, Mr. Chairman, if I may. The Commission, as a formal commission, took the position, and I, as its chairman, am reporting this to you.

Senator HATHAWAY. Is this a full-time commission, by the way? Are you a full-time commission, or is this a per diem commission?

Mr. MERRIAM. There are 26 members of the Commission—three Senators, 3 Members of the House of Representatives, 3 Federal department heads, 4 Governors, 4 mayors, 3 county executives, 3 State legislators, and 3 of us who are euphemistically called private citizens. That means we work for a living, to answer your question.

I am not suggesting that the others do not either, but our moneys do not come from the taxpayers.

Senator HATHAWAY. Do you get paid?

Mr. MERRIAM. I get $50 a day for the days I work for the Commission. We have a full-time staff of 36 persons. Mr. Anderson is the Executive Director. I would like to say this, however. The Commission, since its inception in 1959, has very strongly insisted upon being a commission-run commission. By that I mean, when a staff report is made, recommendations are made outlining the various alternatives and, in fact, staff argues with itself to the point where I kid them that we might have to have a resident psychiatrist on hand. The Commission then chooses among these alternatives in its own debates. We meet four times a year, usually for 2 days running, and this is a long prelude to getting to your question.

On this particular issue, the staff report which is summarized in this document, points out some of the weaknesses in this present formula—in particular the 20-percent floor and 145-percent ceiling. The Commission, after studying the report, concluded that it, as a commission, would recommend continuing the present formula because it had served as an equalizer, even though not a total one.

My personal view—I am now putting my other hat on here—is that if the Congress is going to take another look at the formula, it certainly ought to consider the question of the floor and ceiling, since the floor tends to prop up some units of government which are less than general purpose, and the ceiling tends to limit somewhat, at least, the amounts going to the major central cities. These are my opinions so I am separating my personal views from those that the Commission adopted.

Senator HATHAWAY. But, there is not an awful lot of money involved in propping up the smaller communities, is there?

Mr. MERRIAM. In terms of total dollars, it is probably, Mr. Chairman, a very small amount. Our Commission, I might say in this regard, recommended to the Congress when revenue-sharing legislation was first under consideration that there be a population cutoff. As I recall, it was 50,000.

Senator BROCK. You just lost two votes and, maybe, all three.

Mr. MERRIAM. You can see why our Commission recommended the formula remain unchanged. Mr. Anderson wanted to just supplement that.

Mr. ANDERSON. Mr. Chairman, while Mr. Merriam has said that the floor and ceiling certainly merit reappraisal, we ought to be very forthright about the difficulties. The 20-percent floor, if reduced or eliminated, affects about 9,500 units of government, a quarter of the total, so that the alliance in support of revenue sharing—whenever we are talking about that—is much affected by that type of change, even though, as you indicate, there is not very much money involved.

At the other extreme, where maybe there is even more sentiment for moving the ceiling up in order to benefit the very hard-pressed central cities and some other kinds of governments, such as some very poor counties, you have this kind of effect. To benefit Philadelphia, you vacuum money out of the whole State of Pennsylvania, including Pittsburgh; and to benefit St. Louis, you vacuum it out of all of Missouri, including Kansas City.

Our Commission strives for the ideal, but we are also concerned with practical application of our recommendations. The Commission members made a pragmatic political judgment in saying that the present formula works reasonably well and, therefore, can be supported.

Senator HATHAWAY. How about this recommendation of yours that the amount of money should be a fixed percentage of the Federal tax base? In times of recession when the smaller towns and communities need more money, they are going to be getting less, are they not then for taking in less money to the Federal Government?

Mr. MERRIAM. Well, perhaps there would be some very slight change there, but if you look at the overall pattern, the Federal tax base has been increasing overall at a faster rate than the gross national product and, therefore, while you might find a slight downslide, overall, it seemed to us to be a reasonable basis on which to formulate the program.

Senator HATHAWAY. It seems to me it would be better to put it on the basis of percentage of our expenditures, rather than our receipts.

Senator BROCK. That would be almost unholy.

Mr. ANDERSON. The base, Mr. Chairman, was selected specifically because it is the most stable thing to tie it to. The base varies less than income tax revenue and also varies less than Federal expenditures, unless you had an aberational situation.

Mr. MERRIAM. And, obviously, it does deal with the problem of inflation, which, perhaps, may still be one we wrestle with.

Senator HATHAWAY. I will come back and question later.

Senator Packwood.

Senator PACKWOOD. This is an excellent statement. It is the best we have had in the 2 days of hearings so far, and I want to congratulate you.

Mr. MERRIAM. Thank you.

Senator PACKWOOD. You mention some polls in here, and I am curious. Can you get them for me? One is the poll of the Congressmen.

Mr. MERRIAM. Yes; there is a committee document, Senator Packwood, which we will file with you. This is a House document, issued in April 1974. It contains replies by Members of Congress to a questionnaire on general revenue sharing. Another one we have is entitled: "Changing Public Attitudes on Governments and Taxes." *

Senator PACKWOOD. That is the one you made reference to first in your statement?

Mr. MERRIAM. Yes.

Senator PACKWOOD. Yesterday, somebody—I do not know if it is in this poll or not, but, if not, do you have access to it—made reference to a public opinion poll on how people thought revenue sharing ought to be spent, for what types of functions. Is that in that, or is that a different poll?

Mr. MERRIAM. I know we did not get into it. I do not know which poll that is.

Senator PACKWOOD. Do any of you have knowledge of it?

Mr. MERRIAM. This is Mr. Shannon, by the way, who is Assistant Director of the Commission.

Mr. SHANNON. That is a completely different poll, that was completely separate from ours. Was that not one that was financed under the National Science Foundation?

I assume if you were to lower the floor to 10 percent, it would not conceivably produce enough money to take care of going to 175 percent of the maximum. Is that correct? Does anyone know?

Mr. ANDERSON. Mr. Myers says it would not.

~~Mr. MYERS~~. It would not.

Senator BROCK. Could I just ask——

Senator PACKWOOD. Go ahead.

Senator BROCK. Is it not true that particularly with the minimum and maximum flow, as it would affect different States, the maximum flows affect probably about eight or nine States basically. You mentioned Pennsylvania, Missouri, and those are the two most affected

*This document was made a part of the official files of the Committee.

States, I gather. Maryland would be enormously affected. It is where you have got a central city so dominant that it does, as you say, vacuum up.

The problem with the 20-percent minimum, I think, for Senator Packwood's benefit is that it affects mostly the mid-Western group that you mentioned. You mentioned four States, Wisconsin, Illinois, and some others, so maybe the offset would not be in the right State, and I think that is a problem that I see with it.

Mr. MERRIAM. You are absolutely right, Senator Brock. Anytime you start tinkering with it you are going to create some new inequities, and that is why the commission did finally conclude that, perhaps, it was a reasonable, politically viable formula.

Mr. ANDERSON. Mr. Chairman, we do have a table in our report—it is table 2—that gives you precise numbers of counties, municipalities, townships that would be affected, or that are now affected by the floor and the ceiling.

Senator BROCK. What page is that?

Mr. ANDERSON. It is on pages 6 and 7. It shows you which would have their entitlements altered if you changed the floor or ceiling. It does not give you the dollar amounts.

[The table referred to follows:]

Table 2

Number of Local Governments Subject to the Limits* on Local Revenue Sharing Allocations, by State and Type of Local Government

		County Areas**			Municipalities			Townships				Total
State	County Governments	Total	Subject to 20 percent rule	Subject to 145 percent rule	Total	Subject to 20 percent rule	Subject to 145 percent rule	Total	Subject to 20 percent rule	Subject to 145 percent rule	Tribes	GRS Recipients**
Alabama	67	67	-	3	406	33	77	–	–	–	–	473
Alaska	8	29	5	8	119	63	41	–	–	–	18	145
Arizona	14	14	1	2	65	9	3	–	–	–	8	87
Arkansas	75	75	–	7	460	99	9	–	–	–	–	535
California	57	58	–	13	409	56	10	–	–	–	21	487
Colorado	62	63	–	22	258	43	6	–	–	–	2	322
Connecticut	–	8	–	–	34	4	6	149	–	6	–	183
Delaware	3	3	–	1	54	7	15	–	–	–	–	57
Dist. of Columbia	–	1	–	–	1	–	–	–	–	–	–	1
Florida	66	67	–	9	384	38	62	–	–	–	2	452
Georgia	158	159	1	22	526	141	31	–	–	–	–	684
Hawaii	3	4	–	1	1	–	–	–	–	–	–	4
Idaho	44	44	–	12	198	28	4	–	–	–	5	247
Illinois	102	102	·	5	1,270	253	13	1,436	391	24	–	2,808
Indiana	91	92	–	2	562	164	5	1,008	960	1	–	1,661
Iowa	99	99	–	6	953	166	5	–	–	–	1	1,053
Kansas	106	105	–	44	627	27	4	1,498	647	14	2	2,232
Kentucky	120	120	–	13	397	58	54	–	–	–	–	517
Louisiana	62	64	–	11	295	54	24	–	–	–	1	358
Maine	16	16	–	–	22	–	1	474	1	85	2	514
Maryland	23	24	–	4	151	41	4	–	–	–	–	174
Massachusetts	12	14	–	3	39	–	2	312	-	19	–	363
Michigan	83	83	–	16	531	51	40	1,247	912	15	5	1,866
Minnesota	87	87	–	20	854	186	17	1,800	899	5	7	2,748
Mississippi	82	82	–	12	277	35	12	–	–	–	1	360
Missouri	114	115	1	8	906	223	26	343	54	6	–	1,363
Montana	56	56	1	22	126	10	–	–	–	–	6	188
Nebraska	93	93	–	28	534	155	11	479	197	1	3	1,109
Nevada	16	17	–	4	17	–	–	–	–	–	11	44
New Hampshire	10	10	–	–	13	–	1	222	14	28	–	245
New Jersey	21	21	–	4	335	14	21	232	5	14	–	588
New Mexico	32	32	1	4	91	14	2	–	–	–	8	131
New York	57	62	–	1	619	167	6	930	272	20	7	1,613
North Carolina	100	100	–	17	456	36	107	–	–	–	1	557
North Dakota	53	53	–	13	359	63	6	1,368	80	22	5	1,785
Ohio	88	88	–	–	935	89	23	1,320	876	8	–	2,343
Oklahoma	77	77	–	2	561	202	34	–	–	–	15	653
Oregon	36	36	–	7	235	33	23	–	–	–	4	275
Pennsylvania	66	67	–	2	1,013	98	15	1,550	246	10	1	2,630
Rhode Island	–	5	–	–	8	–	2	31	–	3	–	39
South Carolina	46	46	–	7	262	41	77	–	–	–	–	308
South Dakota	67	67	–	25	309	50	4	1,031	365	7	9	1,416
Tennessee	94	95	–	7	320	64	34	–	–	–	–	414
Texas	254	254	–	77	1,022	211	23	–	–	–	2	1,278
Utah	29	29	–	2	215	42	7	-	–	–	4	248
Vermont	14	14	–	–	60	11	2	237	2	58	–	311
Virginia	95	100	–	32	232	15	26	–	–	–	1	328
Washington	39	39	–	6	266	20	17	39	5	–	16	360
West Virginia	55	55	–	4	227	11	37	–	–	–	–	282
Wisconsin	72	72	–	9	572	148	10	1,270	815	7	9	1,923
Wyoming	23	23	–	6	87	21	2	–	–	–	1	111
U.S. Total	3,046	3,106	10	529	18,673	3,294	959	16,976	6,740	355	178	38,873

*The revenue sharing act provides that no county area, municipal government, or township government will receive less than 20 percent nor more than 145 percent of the average per capita local amount given to the state as a whole.

**County areas serve as intermediate points in the allocation process and are not recipients of revenue sharing funds

Source: ACIR staff compilation based on ORS printout of Entitlement Period Four data

Mr. MERRIAM. I might say in this regard, Mr. Chairman, that the staff at ACIR is available to you and your staff at anytime we can be of help. That is our purpose in life.

Senator HATHAWAY. Thank you.

Senator PACKWOOD. I want to make sure I understand this table on pages 6 and 7. It means that Tennessee and Oregon have seven cities subject to the 145-percent rule, is that right?

Mr. MYERS. Right.

Senator PACKWOOD. So, this is not just a big city problem in terms of millions of people?

Mr. MYERS. No, there are resort and industrial enclave-type cities that are also affected by this.

Senator PACKWOOD. I have no other questions.

Senator HATHAWAY. Senator Brock.

Senator BROCK. To pursue the point that Senator Packwood is making, this table has just succeeded in confusing me. It is a little bit complicated, and it did not answer my question. It looks to me as though the offset is not as serious as I thought, and I would like a little more specific response as to where—if you can provide it for us, and I do not know if you have it now—where exactly and in what dollars the funds would be offset within a State so dramatically as to—you mentioned Missouri and Pennsylvania, what other States would be disadvantaged by raising the 145 percent?

Mr. ANDERSON. Mr. Chairman, to clarify the question, any State that now has any units of government that benefit by the 20-percent floor, or that are cut back by the 145-percent ceiling, would have some interstate redistribution if you changed those. So, the question would have to be in terms of changing the floor in a certain way, or the ceiling in a certain way, and then computer calculations could be run, by the Office of Revenue Sharing, where they have the basic data to determine who is going to lose.

Senator BROCK. Well, as you know, the bills that I have introduced and Senator Packwood has cosponsored is, in essence, a complete response to your testimony. We have incorporated virtually every recommendation you made.

The testimony at the beginning indicates that possibly we ought to consider a couple of modifications. One would be in this formula area, either raising the 145 percent. The administration apparently is going to suggest 175 percent. Whether that is too much or how many communities would be hurt, as opposed to the few that would benefit, I do not have those figures, but I would like to have them and, maybe, some gradation, 145, 155, 165, 175 percent. You know, moving up, so that we could get some sort of a relative measure of change.

Second, on the bottom side, I am not as concerned with the 20-percent minimum as I am with the $200 minimum which triggers the 20 percent, and I think in that instance you may have some communities that really—you know, I do not just see how you can say $200 is going to make a heck of a lot of difference to any town. If they are that small, they do not have any local government costs, by and large. You know they are all public service people, serving without any salary at all, and most of the communities in this group are not seriously disadvantaged that I know anything about. I wonder if we should not consider raising that to, say, a $1,000 minimum.

What effect would that have? Instead of changing the 20 percent, do you see what I am reaching for?

Mr. MERRIAM. Yes. Well, we could provide you on both counts with, perhaps, some factual answers. I might say if you will take a look at page 29, Senator Brock, table 8 there does highlight the five areas where there would be the major changes due to the 145-percent ceiling.

I am sure the Office of Revenue Sharing would be glad to give you some figures on what various shifts in either formula take. They can examine a lot of combinations.

Senator BROCK. Well, obviously, the most critical and the essential statistics I would like is what would happen to Tennessee.

Mr. MERRIAM. I understand that.

Senator BROCK. On that rests the future. Let me ask you just one other question. The Senator from Maine was talking about this fixed percentage of income, and, again, that is incorporated in my bill in terms of Federal receipts. I see two alternatives to that that I would like you to think about. One that he mentioned, and that is tying it to a fixed percentage of expenditures. That bothers me a little bit, because it has a built-in inflationary bias, not just an offset, but a bias that I think is dangerous, given the nature of the Congress or the present indications thereof.

Alternatively, I wonder if we could not consider tying in, as the bill does, or my bill does, the percentage to Federal receipts, and then putting in the bill a floor under it and saying that if the receipts fell off because of recession that you could not retrench because that would give the community an assurance that the level of funding, while it might not go up, would not fall off. If we had, let us say, either a statement that you could not go below the receipts of the previous fiscal year or maybe a moving average of the last 2 or 3 years so that the dislocation would be minimal.

I think what Senator Hathaway is reaching for is valid.

Senator HATHAWAY. Or a countercyclical type of formula based on the unemployment rate.

Senator BROCK. I am interested in countercyclical formulas, but I am reluctant to attach it to this bill. I think we ought to consider that in terms of the economic inflation, recessions, per se, and not in terms of revenue sharing, but I do think we owe the commnuities in this country some assurance that for whatever reason should receipts fall even if it is not a recession, but, let us say, a major tax cut, that the Congress enacted, does not disadvantage them to the point that they are severely handicapped in their program opportunities. I think it would make some sense to put in a guarantee that it shall not go either below the last year, or maybe a moving average of the last 3 years.

Mr. MERRIAM. Mr. Shannon tells me, Senator Brock, that in the Canadian revenue sharing program, they did precisely that. It is tied to receipts but does have a floor under it. Of course, the other side of it, the problem with trying it to expenditures is I assume you would have to have the reverse of that if you did.

Senator HATHAWAY. A ceiling?

Mr. MERRIAM. I do not think that you would want revenue sharing fluctuating with defense expenditures, for example.

Mr. ANDERSON. Mr. Chairman, I think, maybe, if one goes to the original criteria of what would be the best here, it would be something like this. A relatively stable, reliable sort of payment with minor drops being all right, but not major; something tied to growth, to keep up with prices and wages, and then, preferably, something that is totally unrelated to congressional action on expenditures or on taxes, so that everytime you raised expenditures in some way, let us say with a health insurance program for $60 billion, you do not have to have the collateral argument about what you are doing to revenue sharing, or if you cut the Federal income tax, you do not have to have this in the equation. Therefore, by going directly to the base, you get exactly this: Stable; a chance of small cuts, but not large cuts; built-in growth; and an arrangement that is unrelated to your other expenditure and tax decisions.

So, proceeding through revenues or expenditures seems to be an indirect, more complicated way to reach the same objectives.

Senator HATHAWAY. Did you, in your study, have available to you the countercyclical proposals? I know they have just been made recently.

Mr. MERRIAM. Yes; we did.

John, did you want to comment on that?

Mr. SHANNON. Our staff is examining the countercyclical proposal. It was submitted by Senators Muskie and Humphrey last week, and we are developing a statement of the pros and cons on that issue.

Senator HATHAWAY. When will that be available to us?

Mr. SHANNON. Well, probably in a couple of weeks' time.

Senator HATHAWAY. Do you have any opinions on it now?

Mr. SHANNON. We see considerable merit in the theory, and we also see some considerable practical problems posed by it. It is not a clear picture.

Senator HATHAWAY. What sort of practical problems do you see?

Mr. SHANNON. One of the practical problems is to give first priority to strengthening the private sector, and, of course, Congress is moving on that front by extending unemployment compensation benefits and by cutting taxes. One of the arguments for at least delaying countercyclical aid to State and local governments, would be that Congress should first try and beef up the private sector and if that does not work then move on to aid the State and local sector. But first emphasis should be placed on getting the private economy back on the tracks. That would be one of the major arguments against countercyclical aid at this time.

And, of course, the other is the size of the deficit. It would call for the additional expenditure of about $5 billion over and above what we have right now. On the other hand, there are some very persuasive arguments in favor of this proposal, so the staff is looking at both sides of the equation. It is not an all black or white situation.

Senator HATHAWAY. In other words, you think there ought to be a timelag built in, to see whether or not Federal unemployment programs are enough to beef it up so that you would not be giving money prematurely.

Mr. SHANNON. Senator, the critical issue may be precisely the timing issue.

Senator HATHAWAY. Were you here when Mr. Staats was testifying?

Mr. MERRIAM. I heard the last part of it, Senator.

Senator HATHAWAY. He indicated that the restrictions we have put on here, on the revenue sharing money, would not have a particular effect because of the fact that the local governments could juggle; and if they indicate that they spent, you know, $10,000 for health under the revenue sharing money, they might have subtracted $12,000 from what they normally spend for health. So what difference does it make?

Are you in agreement with that? Do you think we ought to drop all of the restrictions, or do you think we should make the restrictions tighter and apply across the board to all of the local money?

Mr. MERRIAM. Well, again I must give you first the Commission's formal view, which was in essence, leave it as it is.

In the Commission's discussion which preceded that conclusion, however, I think it was clear that certainly from the standpoint of most of the State and local officials, and I must say from mine as a private citizen, the restrictions are in effect meaningless. In the matter of the intent of the regulation was the sharing of general revenue with no restriction on use, therefore implied in the act was confidence that the State and local governments would spend the money effectively and properly. I would certainly share that view. If there were any changes at all in that, I am sure that our Commission would hope, and I personally would hope, that they would be toward loosening up, rather than attempting to use the funds for a whole series of other purposes. There are several very basic national purposes which are spelled out in the act—among them enforcement of antidiscrimination. This, of course, is accepted.

Senator HATHAWAY. Yes, if we do that, and it may be a very good idea, what about accountability? They also testified there are still a substantial number of communities throughout the country where there is no real citizen input or knowledge of what was being spent.

Mr. MERRIAM. Well, Senator, I puzzled for many years as to how one legislates accountability and citizen participation. As you gentlemen know better than anyone else, this is a very tough thing. I do think there has been, as a result of some of the requirements, some added citizen input; but how can you have citizen input on 5 percent of the budget? It has to be on the whole thing if it is to be effective.

Senator HATHAWAY. Why could we not make that a requirement, that the entire budget be published, and in the various foreign languages. As was indicated by Mr. Staats, many of the people who do not read English were not able to get any input because they did not understand it when it was published.

Mr. MERRIAM. Most State and local governments do have requirements with reference to budgets.

As a former member of the Chicago City Council, I can say we held open hearings on the budget every year, as does every other community in the State of Illinois. In my 8 years on the council, our problem was to get anyone to come and testify at the public hearing, not the question of whether or not to hold a public hearing.

Senator HATHAWAY. I realize we cannot mandate people to go. We do not want to get into another busing situation. But at least if most of them are doing it anyway, it would not hurt to require them to publish the entire local budget along with revenue sharing expenditures.

Mr. MERRIAM. The only thing I would say, Senator, is I personally hate to see Congress getting into too much of the procedures of State and local governments, particularly when so many of them have formal requirements now with reference to publication and hearing on their budgets.

Senator HATHAWAY. We have been doing that for years, now.

Mr. MERRIAM. I know that; but that does not mean one has to encourage it.

Mr. ANDERSON. Mr. Chairman, our Commission after laboring with this same subject, passed as a separate action, unrelated to revenue sharing, a recommendation to the State legislatures that they, if they have not already done so, require a public hearing by each local subdivision. We suggested three requirements: first, the hearing with adequate public notice; second, that there be a narrative statement of the highlights of the budget; and third, details of the budget be available for public inspection at convenient locations.

The Commission's position therefore would be, I believe, let us see if the remaining few States do not fall in line, because revenue sharing has certainly highlighted the need for citizen participation in the total budget.

If, however, there came a time when the Congress felt that it had to act in this field, I believe we would still argue that it should not be tied to revenue sharing. Revenue sharing is $6 billion out of over $50 billion in Federal assistance; maybe such legislation would belong more in an intergovernmental cooperation act or some other act that made it a qualification for Federal assistance in general.

Senator BROCK. Would you yield?

Senator HATHAWAY. Certainly.

Senator BROCK. Does it bother you at all in making a recommendation to States like that, that people who come to public hearings are people with vested interests?

Mr. ANDERSON. Mr. Chairman, as a city manager for the last 12 years, it always bothered me a great deal. I think the most perplexing problem of all is how to get representation for the silent majority, as it is called, or those who have a general community interest as against the 95 percent who testify in support of particular programs.

Senator BROCK. I think 95 percent is an understatement. But let us accept the 95 percent, and say that 95 percent of the people who come to these things are people who have something to directly benefit or lose in the process; and that does not include the 99 percent of the American people who are paying the taxes and receiving, or not receiving as the case may be, the services thereof. They have very little, if any, voice in these proceedings. What bothers me about a legislated mandate for hearing is that it almost places greater emphasis on the representation of special interests as opposed to the general or the public interest. I wonder why we so often forget that we still have a process called elections in this country in which people have to face all of the nonspecial interests in order to reacquire a charter to act in the public interest; and if they do not act in the public interest, they are subject to the will of the people at that time. That is the only full forum for all of us to exercise some voice and for us to start mandating more selective kind of forums is, I think, rather dangerous.

Mr. MERRIAM. I think you are absolutely correct, Senator Brock.

Senator HATHAWAY. I would suggest that you would have the same problem with respect to elections. Special interests oftentimes are the only ones to go to the polls. So you still have the problem. At least, if we can make it available, I suppose we just have to, in various ways, educate the public to realize it is their responsibility to go to the hearings if they have an interest in them.

Senator BROCK. At least in an election you are not limited in your participation either by the size of the room or the gavel of the chairman, which you are in any hearing.

Senator HATHAWAY. In your polling, did you ask various people of their opinion on categorical grants as well as revenue sharing?

Mr. MERRIAM. No, we did not specifically get into that, Senator.

Senator HATHAWAY. Mr. Staats, as you know, just testified that he would rather see a broadening of the categorical grant programs with a lot of the restrictions removed, rather than a continuation of revenue sharing.

Would you agree with that?

Mr. MERRIAM. No, we would not.

Mr. Anderson reminds me that in our congressional poll——

Senator HATHAWAY. Did you consider that?

Mr. MERRIAM. In our congressional poll, we did go into the question of categorical grants. But basically our view is that there should be a mix of Federal aids. There is a purpose for categorical grant programs, quite clearly, in targeting specific national needs to specific activities. The problem was, very frankly, however, that these grants proliferated at such enormous rate in the mid-1960's that our Commission by 1967 thought we were at a near breakdown point in terms of the amount of State and local time that was being absorbed in grantsmanship, in reporting, and so forth.

There was a very interesting article in that regard in today's Wall Street Journal which I read on my way here by Alan Otten on this whole question of the effectiveness of the categorical grant program. I commend it to you. He is commenting on a study by Battelle Memorial Institute which examined some 30 programs, both public and private, that were stimulative. As you might guess, it has somewhat inconclusive results. But certainly there is a need for categorical programs.

However, there is an equal and continuing need, in our opinion, for the revenue sharing concept. This was one of the reasons why we made the recommendation that the program, if indeed it is extended, be made permanent and tied to some formula which could, in effect, predict with some reasonable degree of accuracy its probable effect from year to year; because we did find, Mr. Chairman—and I did not mention this in my prepared remarks—that certainly the smaller communities at least were tending to spend the money for capital improvements rather than operating funds. In large part this was true because they were concerned that if they built the money into an operating program and Congress did not extend the thing, they suddenly were going to be faced with a very severe dropoff in some operational entity.

Senator HATHAWAY. Do you think if we make it permanent they will put more of the money into operating?

Mr. MERRIAM. This would certainly be our opinion, yes, sir.

Senator HATHAWAY. I have no further questions.
Senator Packwood?
Senator PACKWOOD. I am just curious—what do you do in real life for an occupation?
Mr. MERRIAM. I am the executive vice president of a company called Urban Investment & Development Co.
Senator, I appreciate the chance to give the commercial. We invest and develop.
Senator PACKWOOD. In local service clubs you get fined for that.
Thank you very much for an excellent presentation, all of you.
Senator HATHAWAY. Senator Brock?
Senator BROCK. I have no questions.
Senator HATHAWAY. Thank you all very much.
Mr. MERRIAM. Thank you.
[The prepared statement of Mr. Merriam follows:]

STATEMENT OF ROBERT E. MERRIAM, CHAIRMAN, ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

It is indeed a pleasure to appear before you today presenting the views and findings of the Advisory Commission on Intergovernmental Relations on general revenue sharing. As a Congressionally-established commission that represents the three levels of government and serves as a permanent bipartisan forum for continued consideration of intergovernmental relationships, we have considered revenue sharing to be of primary importance and have undertaken a number of activities concerning it.

The Commission, in fact, was one of the earliest supporters of the concept of revenue sharing and in 1967 adopted a report recommending a three-part federal aid system that would use categorical aids, functional block grants, and an additional program we then called general purpose grants (now more commonly known as general revenue sharing). One of the first bills introduced in the Senate on general revenue sharing, the Intergovernmental Revenue Act of 1969, incorporated a number of the Commission's early recommendations and by 1970 we had published the case for revenue sharing in a small report entitled *Revenue Sharing—An Idea Whose Time Has Come.* Our more recent work on revenue sharing has been in response to a mandate by President Nixon who, when he signed the State and Local Fiscal Assistance Act in October of 1972, directed the Commission to study the impact of, and make recommendations on, general revenue sharing.

In carrying out this directive, the Commission has dealt in four major areas of monitoring and analysis.

First, we held four hearings across the country on general revenue sharing and its impact on the federal system. In addition to state and local elected and appointed officials, Commission members heard testimony from citizen groups and public interest representatives to get their views on the effects of revenue sharing. Two hearings were held in Washington, one in Chicago, and one in San Francisco.

The Commission also prepared and published two public opinion surveys on revenue sharing. We found that support for general revenue sharing increased from 56 percent of the total U.S. public in 1973 to 65 percent in 1974. In the 1973 survey, 18 percent opposed revenue sharing as a form of federal aid; in 1974 only 13 percent opposed it. These results, in our opinion, indicate a significant improvement in the acceptance of the program from one year to the next.

And third, in April 1974 the Commission staff helped conduct a survey of Congressional attitudes of specific revenue sharing concerns. At the request of the House Subcommittee on Intergovernmental Relations, the staff developed a questionnaire and analyzed the results of attitudes of members of the House of Representatives on selected aspects of general revenue sharing. Among the findings were:

That the majority of respondents approved the use of revenue sharing to reduce state and local taxes:

That a plurality of those polled favored loosening restrictions on local governments;

That a plurality of those polled opposed tightening the limitations on state use of the money;

That a majority of the Congressmen polled considered the federal government presently relying too heavily on categorical grants;

That a majority considered it relying too little on broader purpose block grants.

And fourth, on the basis of information derived from its monitoring activities and staff research efforts, the Commission devoted its September 1974 meeting to discussion of a number of important general revenue sharing issues. It adopted four recommendations dealing with the future of revenue sharing and published those and an accompanying staff study the following month. A copy of that report is included with this testimony.

One of the most significant findings of the Commission was that the current revenue sharing formulas do help in equalizing the fiscal capacities of rich and poor states. This is no accident, of course, for the distributional formulas reflect Congressional recognition that governmental units vary in terms of need and fiscal capacity and that low fiscal capacity governments (those with low per capita personal income) should be allocated relatively more than those with high fiscal capacity (high per capita personal income).

ACIR found that, on the average, for each $1,000 increase in per capita personal income, the per capita state area allocation would decrease by $3.40. For example, under the present distribution formula, Connecticut, with the highest per capita income in the country in 1973 ($5,889) received a per capita revenue sharing allocation of $4.15 per $1,000 of personal income for the fourth entitlement period, while Mississippi, with the lowest per capita income in the country ($3,448) received $12.70 per $1,000 of personal income.

And now to the specific recommendations:

First, the Commission recommends that the Congress give early and favorable consideration to the extension of the revenue sharing program with state and local governments along the general lines of the present program.

Even in this current period of economic concern and unprecedented federal deficits, three specific points concerning the purpose of and need for revenue sharing should be recognized;

That the economic situation is also severe at the state and local governmental level where in many cases the problems resulting from inflation and rising unemployment have reached crisis proportions;

That the federal government has the superior revenue raising instrument in the income tax—the most responsive and equitable tax in use—as well as other fiscal and monetary tools that it alone possesses (related to this, of course, is the fact that the federal government does have the primary responsibility for management of the economy);

That if revenue sharing is to remain true to its original concept and is to serve its purpose of underpinning state and local budgets, it must be a stable and continuing program, not cyclical. Some have argued that the program should be counter-cyclical and that state and local entitlements should increase in times such as these. This, however, is not ACIR's view.

The second Commission recommendation suggests the program be changed to provide permanent trust fund financing and funding at a constant percentage of the federal personal income tax base (adjusted gross income).

The permanent trust funding financing would provide the necessary certainty of funds and amounts needed for adequate state and local planning and the use of the adjusted gross income provides a clear link between the income tax and revenue sharing without subjecting the trust fund appropriation to fluctuations. Indeed, use of such a percentage of the federal personal income tax base is much closer to the true concept of revenue sharing than the five year stair-step, fixed entitlements now in the law.

In addition the Commission recommends that the present distribution formula be retained in light of the fact that it does provide a very significant degree of intergovernmental fiscal equalization.

I will deal with this point in more detail in a moment. For although Commission findings revealed some fiscal aberrations resulting from the 20 percent floor and the 145 percent ceiling on local revenue sharing allocations, it took the view that these factors were not of sufficient magnitude to warrant departing from the existing allocation process.

And finally, the Commission recommends that the Office of Revenue Sharing conclude arrangements with appropriate existing federal, state and local gov-

ernment agencies, to carry out the civil rights responsibilities under the revenue sharing act.

I would like to turn now to the specific issues in which you have indicated concern: the effect of the funds on local government, the utilization of funds and the Office of Revenue Sharing's administration and monitoring activities.

EFFECT ON LOCAL GOVERNMENTS

The Commission's study revealed two primary effects of the funds on local government. One was that it tends to prop up certain duplicative, obsolete and/or defunct units of government. This occurs, of course, in part due to the fact that every unit of local general government, regardless of fiscal activity or population size, is an eligible recipient unless it is entitled to less than $200 on an annual basis. The term "general purpose government," as defined by the Bureau of the Census, is so broad that limited governments such as many Midwest townships and some, principally New England, counties, receive revenue sharing allocations. A second provision in the law raises the allocation to every township and municipality, no matter how inactive, to an amount equal to the lesser of either 20 percent of the statewide average local per capita entitlement or 50 percent of the recipient government's total taxes plus intergovernmental transfers.

These provisions tend to benefit local governments that exert little tax effort, either because they have few services to perform or because they possess abundant fiscal capacity indicated by relatively high per capita income of their residents.

The attached chart clearly identifies some of the problems. In the Midwest, for instance, township governments, except in North Dakota, obtain a significantly larger share of revenue sharing funds than they would if their allocations depended solely on their relative share of adjusted taxes. Due to the 20 percent rule, Illinois, Indiana, Missouri, and Wisconsin townships on the average get twice the revenue sharing entitlement share that their portion of adjusted taxes would indicate. Because the formulas distribute a fixed state allotment, too often the municipal government suffers from the generosity to the townships.

It can be argued however that the 20 percent rule is the product of sound, political judgment. It has the distinct merit of spreading a modest portion of revenue sharing funds around thereby generating wider political support for the program. Moreover, it can be argued, revenue sharing should not be expected to be the vehicle for restructuring local government—it has one central objective, to redress fiscal imbalance within our Federal system. In addition, there is no assurance that cutting off Federal aid funds will do the job of restructuring local government, a responsibility that lies ultimately with state government.

There is an additional problem on the opposite side of the formula—the restriction that no more than 145 percent of the average local per capita entitlement shall go to one county area or municipal or township government hurts many large cities. Detroit, for instance, would have received about $4.8 million or 10 percent more than it did if it had not bumped against the 145 percent payment ceiling. Removal of the 145 percent limitation would substantially increase revenue sharing to cities such as Baltimore which would receive a 25 percent increase, Boston which would get 41 percent more and St. Louis which would receive a 68 percent increase over its current allocation.

However, removing or substantially raising the 145 percent ceiling would result in major shifts in allocations. The gains of certain big cities would cause reductions in revenue sharing payments to most other local governments in the state. For example, removing the 145 percent limitation would shift so much of the entitlement in Pennsylvania and Missouri that even major cities such as Pittsburgh and Kansas City would have their entitlement drawn down by Philadelphia and St. Louis. In order to give Baltimore a 25 percent larger revenue sharing payment, all other local governments in Maryland, except those protected by the 20 percent floor, would have to take a cut of 16 percent.

Because of these drastic shifts that would be caused by any substantial change in the ceiling and floor, and because the Commission concluded that the present formula devised by Congress does result in substantial equalization, the Commission decided to recommend retention of the present formula.

UTILIZATION OF FUNDS

The second area in which your subcommittee expressed specific interest was the utilization of funds by the recipient governments.

I'm sure you have heard many times about the difficulties, indeed futility, involved in determining how and to what extent particular expenditures and taxes are affected by revenue sharing payments. The problems in tracking uses accurately are in large measure due to "fungibility" and the fact that the planned and actual use reports only report how revenue sharing dollars are spent and do not trace "released" dollars that would otherwise have been spent for the same purpose. By exercising a minimum of care, recipient government can arrange their use of revenue sharing funds to conform to the letter, if not the spirit, of all existing requirements. For example, a recipient government can allocate revenue sharing funds for expenditure in the public safety area with the effect of freeing an equal amount of local funds for use in the non-priority areas or to provide tax relief.

Our Commission endorsed the search for better reporting methods, but our own research failed to disclose an approach that would capture all needed information and still be reasonably practical and inexpensive.

One of the questions we heard from public witnesses in our hearings across the country was—are the poor being shortchanged in utilization of revenue sharing? The Commission was unable to provide a concrete answer because of the fungibility of revenue sharing dollars. The Commission pointed out that providing money specifically to the poor was not the intention of the program. Precisely for this reason—the inability to target federal revenue sharing funds into a specific area—Congress would choose almost any type of other aid program over revenue sharing if it had intended to target aid to poor households. In short, revenue sharing was never designed to be anything but general aid to state and local governments on the assumption that these jurisdictions would then be responsive to their diverse and most urgent needs.

While fungibility makes it virtually impossible to say how revenue sharing dollars are being spent, we know definitely that some governments receive relatively more money than others. We found that far more financial aid is going to the nation's major central cities than to rich suburban communities as you will note on the attached chart. In fact, our figures show that when the per capita revenue sharing amounts to cities in the same county are compared, the central city gets 3 to 7 times as much as its affluent suburban neighbor. There are two considerations to keep in mind, however. First, that the range of responsibilities borne by the central cities might be so much greater than that carried by many affluent suburbs that the dollar differences suggest an equalization impact that is far more apparent than real. And second, that some central cities may have suffered a heavier financial setback than their suburbs because of the cutbacks in certain federal categorical aid programs that occurred at the time general revenue sharing began.

OFFICE OF REVENUE SHARING

Finally, you were interested in the administration and monitoring of revenue sharing by the Office of Revenue Sharing.

The Commission recommendation, regarding civil rights enforcement, mentioned earlier, suggests the Office of Revenue Sharing work with and through other existing law enforcement agencies to assure the maximum compliance effort without building an unnecessary bureaucracy in the Office of Revenue Sharing. The Commission firmly supports aggressive enforcement in this area but is opposed to the proliferation of already numerous enforcement staffs.

Although the Commission took the position that the present planned and actual use reports are essentially cosmetic in character, it made no specific recommendations for either strengthening or eliminating reporting requirements. It was torn between the knowledge that greater reporting requirements would create an undue burden on state and local governments and the fact that any less reporting would deprive Congress of even minimal information on the use of the funds.

In hearing testimony at this time and certainly later in the process, you will hear the views of those disappointed in the program who want to change it or abolish it. These groups may contend that funds are not going to those groups who need it or that it reinforces the status quo or that it does too little to aid the needy central cities.

Yet we suggest that individual aspects of the program should not be faulted for not conforming to all the nuances of our highly complex state and local fiscal systems. For example, the present program does not go as far as some would like in equalizing fiscal capacity between rich and poor states. Nor does the present program completely compensate for the great fiscal disparities between the nation's major cities and their affluent suburban neigbors. But, taking the distribution of revenue sharing funds as a whole and bearing in mind the diverse interests that had to be reconciled in creating this program, its fiscal equalization results are impressive. We believe the Congress deserves praise for devising the present formula.

A long time student of our federal system, James Maxwell, has observed, ". . . federalism is, in any case, essentially pragmatic: It is conceived and born in compromise which often fails short of the golden mean; it accepts less than the best to achieve viability; it can be changed only slowly." [1]

Clearly the renewal of the revenue sharing program reflects this pragmatic character of federalism where accommodation to various interests must be made to insure that the continuing quest to improve the program does not undermine the support for an already essentially good one.

TABLE 6.—RELATIVE FISCAL ACTIVITY IN 1972 AND REVENUE SHARING ENTITLEMENT FOR 1974: BY STATE AND TYPE OF LOCAL GOVERNMENT

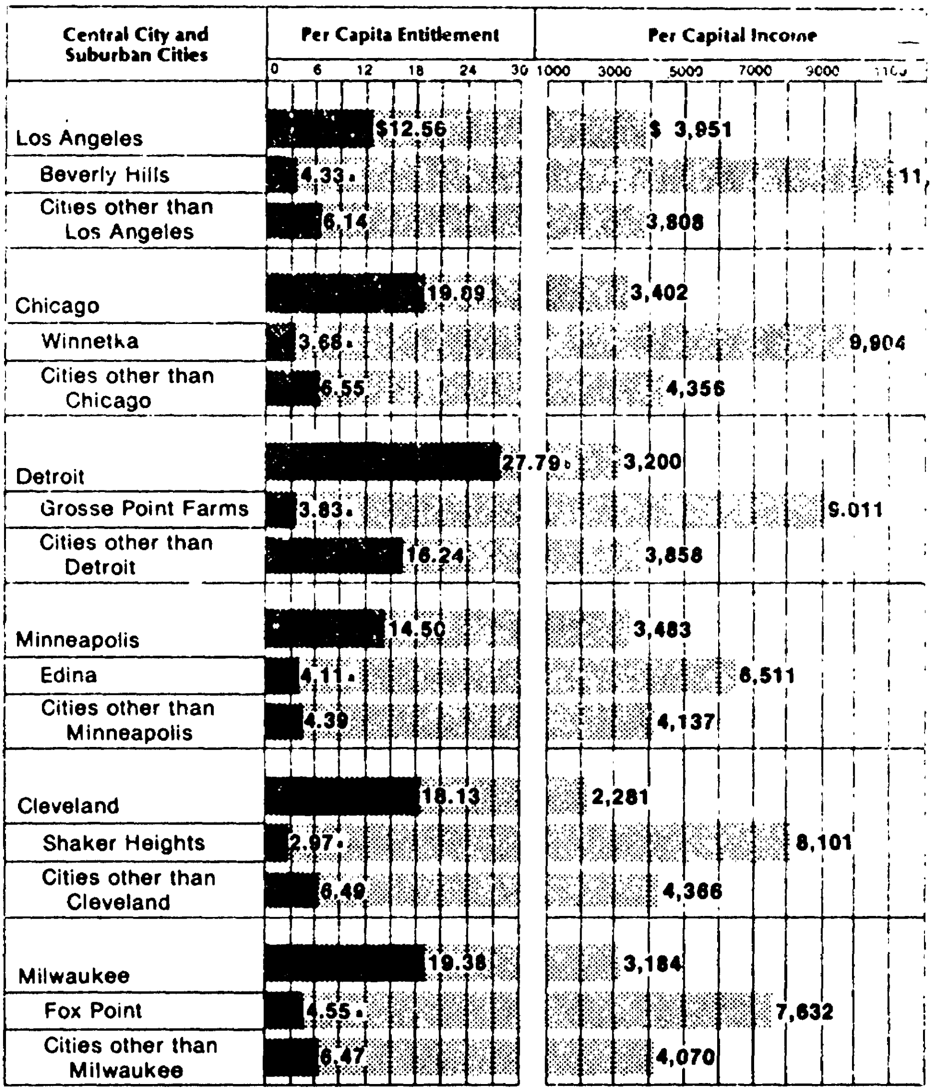
State	County government ratios		Municipal government ratios		Township government ratios	
	Adjusted taxes to total local adjusted taxes	Entitlement to total local entitlement	Adjusted taxes to total local adjusted taxes	Entitlement to total local entitlement	Adjusted taxes to total local adjusted taxes	Entitlement to total local entitlement
Alabama	0.358	0.385	0.642	0.615		
Alaska	.382	.418	.618	.582		
Arizona	.399	.421	.601	.579		
Arkansas	.498	.355	.502	.645		
California	.588	.612	.412	.388		
Colorado	.290	.352	.710	.648		
Connecticut			.560	.526	0.440	0.474
Delaware	.416	.603	.584	.397		
District of Columbia						
Florida	.433	.448	.567	.552		
Georgia	.562	.572	.437	.428		
Hawaii [1]	.196	.252	.804	.748		
Idaho	.560	.581	.440	.419		
Illinois	.232	.232	.702	.634	.066	.134
Indiana	.343	.350	.603	.524	.054	.126
Iowa	.557	.582	.443	.418		
Kansas	.503	.501	.457	.442	.040	.057
Kentucky	.380	.471	.620	.529		
Louisiana	.356	.414	.644	.586		
Maine	.063	.071	.433	.413	.504	.516
Maryland	.614	.584	.386	.416		
Massachusetts	.052	.055	.564	.558	.384	.38
Michigan	.264	.290	.684	.624	.052	.086
Minnesota	.507	.530	.460	.411	.033	.059
Mississippi	.583	.635	.417	.375		
Missouri	.282	.327	.708	.652	.010	.021
Montana	.678	.683	.322	.317		
Nebraska	.455	.497	.524	.472	.021	.031
Nevada	.627	.633	.373	.367		
New Hampshire	.127	.131	.489	.485	.384	.384
New Jersey	.329	.340	.462	.447	.209	.213
New Mexico	.417	.443	.583	.557		
New York	.348	.207	.505	.688	.147	.105
North Carolina	.475	.539	.525	.461		
North Dakota	.504	.239	.363	.629	.129	.132
Ohio	.327	.327	.624	.577	.049	.096
Oklahoma	.325	.362	.675	.638		
Oregon	.390	.389	.610	.611		
Pennsylvania	.225	.279	.638	.562	.137	.159
Rhode Island			.709	.707	.291	.293
South Carolina	.456	.530	.544	.470		
South Dakota	.579	.595	.362	.332	.059	.073
Tennessee	.362	.427	.638	.573		
Texas	.316	.358	.684	.642		
Utah	.515	.506	.485	.494		
Vermont	.009	.011	.362	.352	.629	.637
Virginia	.335	.366	.665	.634		
Washington	.431	.453	.569	.547		
West Virginia	.412	.458	.588	.542		
Wisconsin	.518	.513	.448	.414	.034	.073
Wyoming	.737	.728	.263	.272		

[1] Hawaii's unique local government structure does not permit inference on the basis of city versus county entitlements.

Source: ACIR staff computations from ORS data.

[1] James Maxwell and Charles E. McLure, Jr., "Comment and Reply: Revenue Sharing," Public Policy, Vol. XX (Winter, 1972) No. 1, p. 158.

Figure 1
Per Capita Revenue Sharing Entitlements in Selected Central Cities and Their Suburbs



ᵃ Larger than formula would have provided in the absence of the requirement that no local government receive less than 20% of the statewide average per capital local entitlement

ᵇ Smaller than formula would have provided in the absence of the requirement that no local government receive more than 145% of the statewide average per capita local entitlement

Senator HATHAWAY. Our next witness is Mr. Richard P. Nathan of the Brookings Institution.

Mr. Nathan, welcome to the subcommittee.

Your entire statement will be made a part of the record. You may summarize it if you will.

STATEMENT OF RICHARD P. NATHAN, SENIOR FELLOW, THE BROOKINGS INSTITUTION

Mr. NATHAN. Thank you very much, Mr. Chairman. It is a pleasure to be here.

The Brookings Institution, under a grant from the Ford Foundation, is engaged in a 5-year study to the general revenue sharing program. Our work is focused on three areas, the fiscal, political and the distributional effects of revenue sharing. In my testimony I will discuss some of our findings in each of those three areas.

The first report on this research, Mr. Chairman, was published in January of this year. Since publishing this report, we have obtained new data which we think should be of interest to this committee and have presented it today in our testimony.

The first area I am going to talk about is the area of the fiscal effects—that is, how funds are used under the revenue sharing program. Our findings, Mr. Chairman, are based on field research for 65 governments—8 State governments, 29 city governments, 21 counties, 6 townships, and one Indian tribe. We have the State of Maine and the city of Bangor in our sample, and we also have four local governments in Oregon in our sample. Our initial report presented data on the uses of shared revenue by these 65 units from the beginning of the revenue sharing program through June 30, 1973. The second report, which we are now working on, will be published some time next year. It will present data for fiscal year 1974; this is the Federal fiscal year, from July 1, 1973 through June 30, 1974. It is this data I am going to summarize for the committee briefly.

Most important of all, and I would say this is the highlight of what we have found, the new data show that in fiscal year 1974 there was a significant decline in the use of shared revenue for new spending by local governments in the Brookings sample. The reason most commonly given for this decline is that rising prices and shrinking revenues have required the greater use of shared revenue for what we have classified as substitution purposes—balancing the budget, holding down taxes, meeting increased personnel and other costs.

In the first 6 months of revenue sharing, Mr. Chairman, we found that local units in the same devoted 57.5 percent of their shared revenue to new spending. In fiscal 1974, the comparable figure is 45.1 percent. We have a table in the testimony which presents these figures.[1] The most important finding we made last year in this area is that the bigger, more hard pressed urban governments tend to use more shared revenue for what we call substitution purposes; that is, to make ends meet and avoid having to raise taxes. Whereas, smaller, more suburban and less densely populated governments used more of their shared revenue for new purposes. That pattern continues in our new data. Now how should one interpret these new data?

Mr. Chairman, I would make a comment here that while many of the witnesses, the two preceding ones particularly, have stressed to you the difficulty of interpreting how revenue sharing funds are used, I do feel that there is a tendency, while this is a difficult question, to overstate the problems involved.

For those who support revenue sharing as a means of relieving fiscal pressures on local governments, especially pressures on local property taxes, our new data, Mr. Chairman, could be said to reflect positive results. For persons who are most concerned about meeting social needs and innovation, the data are harder to interpret. Tax relief to hard-pressed central cities, which improves their economic climate, does

[1] See page 165.

have social benefits, as Mayor Gibson of Newark stressed to your committee yesterday. So does the retention of social programs which might otherwise have been cut in the current recession. A government may officially designate its revenue sharing funds for public safety, police, and fire; but the real effect as ascertained by field researchers in our sample, for example, may well be that what revenue sharing permitted that jurisdiction to do is keep programs that are at the margin going during hard times; and often programs at the margin, Mr. Chairman, are social programs.

So the social effects of revenue sharing can be very difficult to interpret. I would also note that many capital uses of revenue sharing funds, which is far and away the largest new use of these moneys, are for social kinds of capital facilities.

One other important point needs to be made about these fiscal-effect data. People should not be misled into thinking that only revenue sharing funds have substitution effects. All forms of Federal aid to States and localities, no matter how ingenious the conditions placed upon their use, can in some cases be used to offset other spending. Research data in this field are sparse, but there is clear evidence that the same kinds of substitution effects occur to a substantial degree under categorical forms of Federal aid.

The second area of our study, Mr. Chairman, concerns the political effects of revenue sharing, that is, its decentralization purpose. We are trying to gage the program's potential for the decentralization of governmental powers, that is to strengthen State and local governments and American federalism. Many supporters of revenue sharing, as you know, regarded this as the most important objective of the program. The focus of our research to get a handle on this difficult question has been on the budget process. Does revenue sharing cause more competition in, and prominence of, State and local budget decisions? Does revenue sharing enhance the role of general Government officials as opposed to functional area specialists in State and local government?

For the 65 jurisdictions in the sample, we determined first whether decisions about the use of revenue-sharing funds were made separately from the regular and ongoing budget process or whether these decisions were made as part of the regular and ongoing budget process. We are also interested in the extent to which recipient units use special procedures or in some way give special treatment in their budget process to revenue-sharing funds, even if these funds are treated in the regular ongoing budget process.

Taken as a whole, the results for the two research periods, as far as budgetary processes are concerned, are quite similar, although the data are not fully comparable. In the first 6 months, that is the first period of our field research, 38 units in the sample gave separate or special treatment to revenue-sharing funds. In fiscal 1974, that is the second period for our data, 37 units were found to have given separate or special treatment to these funds. It should also be noted that in a number of the cases where shared revenue was simply merged into the regular budget processes of the governments that received these moneys, that is, where there were no special procedures, there nevertheless were efforts made by many interest groups to obtain additional funds out of, or because of the advent of, revenue sharing. This, too, has the effect of encouraging competition for local funds, which, by our reckoning, is one effective way to get a handle on the decentralization effects of revenue sharing.

In summarizing the political effects of revenue sharing, there are indications that it has resulted in greater interest in and prominence of State and local decisionmaking processes. The evidence is mixed, however, as would be expected in a political system as diverse and complex as American federalism. More analysis needs to be done before final conclusions can be reached. However, I would stress that it is important in this area to avoid hasty judgments.

Already some observers of the revenue sharing scene who are particularly concerned about its political effects have urged that requirements be added to revenue sharing for various kinds of public hearings and other citizen participation processes.

Mr. Chairman, I would sound a warning in this area. American local government is extensive and complex; budgetary processes vary accordingly; and revenue sharing funds are highly fungible or flexible. To tell local governments how to make decisions about the use of these funds may lure us into a whole range of Federal controls over local governmental processes, the implications of which have not been clearly thought out. The "Siren Song" of Federal controls to achieve citizen participation may in the final analysis bring about a fundamental change in the whole idea of revenue sharing. In this connection, Mr. Chairman, I felt that the testimony by the Comptroller General, where he suggested that as part of revenue sharing we have Federal requirements as to how local governments should conduct their budget processes, is an area that we should go into only with great caution. If a basic aim of revenue sharing is to strengthen and give more prominence to local governments, we will get into problems if we try to tell these local governments, not what to spend money for, but how to make their decisions.

The third area addressed in our study concerns the distributional effects of revenue sharing, and gets us into many of the areas which have been raised as questions this morning. We would be happy to provide you with data which we have developed on how the revenue-sharing formula works; what types of units are especially advantaged or disadvantaged; and what would happen if you changed the formula in certain ways, as suggested by your questions.

Generally speaking, we found that the formula in the 1972 act tends to favor very small local units, low income rural areas, and central cities. Central cities receive about twice as much per capita as their outlying suburban communities.

Considering the lack of the necessary fiscal data in 1972, and the general difficulty of writing a formula for American federalism with 39,000 governments being aided, the administration and the Congress, we believe, deserve credit for producing a reasonably smooth working operational formula.

However, looking back with the advantage of hindsight and now having more data for analysis, there are several areas—and I am going to discuss three—where we think the Congress should take a hard look at the formula. In effect, what we are doing, Mr. Chairman, is questioning "the-don't-rock-the-formula" philosophy which has been expressed by some of the witnesses before your committee.

First of all, in our view, the arbitrary 2 to 1, local-to-State preference contained in the law is too rigid. Again sounding the theme of the diversity of American federalism, many State governments have a larger role in State-local finances and thus are penalized by this feature of the law. In our view, the ratio between the State and local shares should vary by State, thus taking this diversity into account. If the Congress chooses, it is entirely possible to keep the overall national 2 to 1—two local and one State—ratio, but have the portions going to individual State governments vary according to their relative roles in State-local finances. This can be done, as I say, by simply giving extra weight to the local component. In reality it is more complex than this to actually perform, and we have a footnote in our statement which is the best summary we have presented to date as to how this adjustment could be made.

Second, Mr. Chairman, the floor and ceiling provisions in the law produce results that we think should be looked at closely next time around. I refer to the 20-percent floor and the 145-percent ceiling. The result is that effects occur at both ends of the spectrum which may not have been intended when the law was drafted. Many small units which have limited functions are especially aided as a result of the 20-percent floor, including more than 5,000 townships in the Midwest. In Indiana, to give an example, townships receive 71 cents for each dollar of non-school taxes, whereas cities only receive 18 cents. So what the 20-percent floor does is discriminate in favor of what you might call "do-little" or limited-function governments. If you took the 20-percent floor out, these governments would still be aided.

On the other hand, there are several very poor central cities, notably Philadelphia, St. Louis, and Baltimore, which suffer appreciable losses because of the 145-percent ceiling. We think the administration is on the right track in proposing to raise the ceiling.

Our conclusion is that both the floor, the 20-percent floor, and the 145-percent ceiling should be removed, although I should say, Mr. Chairman, and I indicated this in the testimony, we realize that as policy analysts, we may not be able to take into account some of the considerations before this committee.

A chapter in our report devotes attention to one other formula issue, the problem of gaging fiscal capacity as it pertains to the law's intent of favoring areas with relatively low capacity and high fiscal effort. The act uses personal income as a capacity measure, yet income taxation is by no means the major source of State-local tax revenue. Nearly all local governments rely mainly on property taxes; personal income is a very poor proxy for the property tax base of smaller local governments, as typified by the overwhelming majority of the local jurisdictions that receive shared revenues.

Our report suggests consideration of alternative measures of local fiscal capacity, generally along the lines of those now widely used by States in distributing local school aid. We currently are doing a study under a grant from the National Science Foundation to test this and other alternatives. We recognize, and I would stress this, that because of the limitations of property valuation data now available, these kinds of changes would probably have to be made on a phased or initially selective basis, rather than applied nationwide from the outset. However, published research of the Advisory Commission on Intergovernmental Relations would seem to indicate that better measures of fiscal capacity for State areas could be quite readily developed and considered in 1975 and 1976 as you evaluate revenue-sharing legislation in this committee.

Our report also recommends that the provision of the law limiting local government entitlement to 50 percent of the Government's tax revenue and intergovernmental receipts be altered to refer only to tax revenue, and that a new approach be devised for granting funds to Indian tribes.

Mr. Chairman, finally we are pleased to have had the opportunity to be here. My colleague, Mr. Allen Manvil, is away today, out of the country, and regrets he could not be with me. We both would like to offer any assistance we can in terms of providing you with data that is contained in our book which has, I think, many useful tables on issues that I know the committee is interested in.

Finally, Mr. Chairman, I would like to put my full statement in the record, which includes a list of the 23 field researchers that are working on the Brookings study of general revenue sharing and of the 65 governments in our sample.

Senator HATHAWAY. Without objection, that will be put in the record.

Thank you very much, Mr. Nathan, for your excellent statement.

I am interested in this changing the 2-to-1 ratio. If, as you say, the funds are so fungible, does the formula ratio make very much difference except for political considerations? If for example you gave all the money to the States, wouldn't the same portion of it filter down anyway? I suppose it would depend upon the political situation of each individual State how much of that the local governments were able to get, and it would be impossible, I suppose, to come up with a formula that accounted for the varied political situations in each and every State.

You have some States where the mayors of the large cities are at war with the Governors, and consequently those cities would not get much, and other States where they get along fairly harmoniously, the local governments would probably get a large share. Is not leaving the formula just the way it is probably the best solution that we could come up with, with the reservation that you made about increasing the 145-percent?

Mr. NATHAN. Mr. Chairman, I basically agree with your statement. I would point out that when Walter Heller and Joseph Pechman and others first worked on revenue-sharing legislation, they envisioned that all of the money distributed would go to the States, which of course is in line with our traditional notion of American federalism. However, that was determined not to be politically feasible.

Our proposal would not change the overall 2-to-1 split. It would just say that certain State governments would get a larger share of the total amount going to those States, but in the Nation as a whole, the States would still get one-third and the local governments two-thirds. The difference is the one-third amount that goes to State governments would vary according to the importance of the State role. We point out in the footnote I referred to earlier that in Hawaii the State role is very large, and there it makes sense to increase the share that the State gets, whereas at the other end of the spectrum, New Jersey has a much smaller State role. According to our alternative proposal, New Jersey would receive 21 percent and Hawaii 55 percent.

Senator HATHAWAY. Or on the other hand, you could just leave it up to the State governments to change their role. If Hawaii felt that local governments were now getting more money because of revenue sharing, they could just cut back on what the State role is with respect to supporting local governments.

Mr. NATHAN. Well, revenue sharing may be large enough in Hawaii to have such effects, and perhaps also in other States. We are going to see what happens. We will report to you.

Senator HATHAWAY. Well, pursuing this question of fungibility seems to be one of the problems of the entire act. You indicate that a lot of categorical programs are fungible also; are you advocating that we take all strings off categorical revenue sharing as well, unless we can find some way to juggle the amounts? It does not make that much difference, although I should footnote that by saying that in many of the acts, such as the Elementary and Secondary Education Act, there is a requirement that the State and local efforts be maintained in order to get the Federal funds.

Mr. NATHAN. The Elementary and Secondary Education Act is a good illustration. The NAACP several years ago did a study in which they found that despite the maintenance of effort requirement, many State governments used title I money to replace money that otherwise would have been provided by the States as part of its foundation aid to local school districts. This is a complex area, and the reason I made the point is, there has been a tendency to look at data about revenue sharing, particularly the kinds of fiscal effects data that has been generated by our study, and criticize these high substitution effects.

The point I wanted to put in the record, and I am glad that you asked me a question about it, is that revenue sharing is not the only program that has these kinds of substitution effects. Many categorical grants involve the same opportunities for State and local budget officials, among the most innovative and sagacious of men, to develop their budgets in a way that puts Federal grants at the bottom in their budget, if they so choose.

So we need to take that into account, and we must not overstate this point in relation to revenue sharing. That was the reason for my introducing it in interpreting our data.

Senator HATHAWAY. Well, in view of the fact that local governments can juggle their accounts that way and use the money simply for substitution, should we just abandon all hope of channeling these funds into the areas that we think they ought to go into, and just give the State and local governments x amount of money and let them spend it the way they want on categorical and revenue sharing as well? I am sure I would get a lot of agreement in that regard.

Senator BROCK. I am 100 percent with you.

Mr. NATHAN. I myself personally have always been a strong believer in the need to reinforce local government and local decisionmaking in our Federal system, so the implication of your statement and Senator Brock's quick agreement with it touches on a principle that I agree with personally.

However, I would point out that there are differential substitution effects, and this is really where the policy analyst needs to be of more assistance to decisionmakers. In some programs the substitution effect may be lower than it is in others.

For instance, I have recently done a paper for the National Commission on Manpower Policy about what happens to public service employment money, to what extent does public service employment money create new jobs, and to what extent do local governments use it to pay for jobs which they would have had anyway. I think that you can show that certain kinds of public service employment programs, and certain levels of public service employment funding, will have more of a job creation effect than other kinds of programs. So we need to look at differentials in terms of the stimulative effect of different kinds of Federal grants. But we must recognize that when the Congress enacts a categorical grant, and it is for a specific purpose, that does not mean that all of the money that the Congress appropriates for that purpose, or that a State appropriates in aid to local governments, will be used for new spending for that activity.

Just like revenue sharing, these sagacious State and local budget officials will be able to put some of these moneys at the bottom. So the point that needs to be highlighted for purposes of analyzing revenue sharing is that we need to look very hard at this question. I do not think the public finance community has done enough for you in the way of providing good data and good analysis, but we do understand the question and we do need to try to help decisionmakers compare how different programs affect the composition of spending in terms of how much new spending they stimulate versus substitution effects.

Substitution effects can be good. Mayor Gibson would say that the substitution effects of revenue sharing are highly desirable, and so would a lot of other people who are very concerned and rightly so about the pressure on local property taxes in this current period. So our research really is designed to amplify and try to give intellectual content to these very hard policy questions.

Senator HATHAWAY. So we really have to go over each of these categorical programs one at a time to determine just whether it should be made general or whether it is going to be carried on the way it has been carried on and whether the substitution effect is a good effect or a bad effect.

Mr. NATHAN. I certainly think that that kind of vigilance by the Congress is needed. Generally speaking, I think we can say that new programs have more new spending effects than old programs. As programs get established, they have a lower stimulation effect. One of the ideas now current in intergovernmental fiscal affairs is that as programs age, we should move toward special revenue sharing, giving more discretion to local and State units in these areas for precisely this kind of reason.

I also think that project grants are the most stimulative, that a grant with a high matching ratio—if you require 50 percent matching, for example—that would be more stimulative.

We need to recognize in addition that over the years as grants become less stimulative and functions more established, people who are particularly concerned about giving a significant measure of discretion to State and local governments may feel that these grants can be changed into more general kinds of grant instruments, such as block grants, special revenue sharing, or ultimately perhaps also general revenue sharing.

Senator HATHAWAY. Once the bill is locked in, and it builds up a lobby of its own, it is going to be perpetuated anyway without the necessary Federal strings attached to it.

Mr. NATHAN. I think that is true.

Senator HATHAWAY. Our problem is determined, I suppose, by how long a time that takes. Many people criticize us for not performing our so-called oversight function, but I would like to remind those people that we have the same 24-hour-day that they have. It is extremely difficult to oversee all of the programs in the detail that we ought to be overseeing them. Many of them have shortcomings right on the drawing board, where we create categorical programs. If we examined them more carefully, we would realize they are almost impossible to administer, to give us the information that we need for the necessary oversight that we should be carrying out.

Mr. NATHAN. I think that is very important. We feel that our monitoring research does represent the kind of data that the academic community needs to provide to a greater degree. In a way, you are handicapped because you cannot really ask a Government agency how well their program is working. "It is great," Senator. But the academic community—they are just like a lot of other people—they just want to look at fancy new questions. This kind of monitoring research may be somewhat pedestrian, but I think it is very important. I think that the kind of questions you are asking about the effects of these grants can be understood better, so that we can evolve better strategies to change grants as we see what is happening to them.

I would underline that differences in philosophy are going to influence how people will want to use these data. Some people who are much less concerned than I personally am about the vitality of the American local government will not be as interested in looking for opportunities to decentralize, but instead will want to be thinking about new ways, as the Comptroller General suggested this morning, to put Federal ideas or anyway ideas of experts in the Central Government, in effect throughout the Nation.

I have personal qualms about that. But our research is designed so as not to reflect my personal views, but to present useful data around the central policy issues in order to help to have them understood as people like yourselves are increasingly getting into this area.

Senator HATHAWAY. Thank you.

Senator Packwood?

Senator PACKWOOD. I have no questions, but it is a good statement.

Senator HATHAWAY. Senator Brock?

Senator BROCK. Mr. Nathan, you were involved in the conception of this program or the creation of it from the outset, and I wonder if you would comment on the Staats criticism from the point of view of the basic purpose of revenue sharing.

He criticized the fungibility of our money, which is obvious. He commented that it was more difficult to control, to audit, to account for, to trace in its ultimate use, and he suggested that in effect that we do away with revenue sharing and go to block grants, so that we could have a control over the end product.

It seems to me, at least in the 10 years I have been working for revenue sharing, believing in it and fighting for it, that we stated at the outset—at least I did—that fungibility was an essentially valid purpose, that in fact it was the lack of fungibility which hampered the effectiveness of Federal dollars as they were used with categorical grants. They forced the community to improperly prioritize its obligation of funds because there were dollars available on a matching basis in a particular area that forced them to match in that area when perhaps they had a higher priority somewhere else, that in fact revenue sharing was designed to provide a resource base to every government which was not hampered by restrictions or limitations, but which in fact were given to the community as a return of their resource from where it came, so they could determine their own priorities, enhance the quality of local debate, and participation, and meet their prime needs, without having to be held accountable to this Government for meeting what we might decide was a national priority, but which might not be properly appropriate for that particular community.

Mr. NATHAN. Senator, I would start by agreeing. I have been watching revenue sharing and working on these issues for a long time. We tried hard in our research to present uniform data around the central policy issues on a basis so that everyone who wants to can use this material and make their own judgments about the revenue sharing program.

My personal view when the program was initiated was that it was an important and desirable change in American domestic government to strengthen local government and to give more scope for State and local initiative. I agree with the point you have made about the fungibility of these resources. I certainly think that that is a proper comment on the statement offered earlier today by the Comptroller General.

And I would add a point that runs like this: What revenue sharing is really designed to do is to bring about institutional change. We do not know a lot about institutional change. We can measure budgets, and we can measure taxes, but we are just beginning to think about how you measure institutional change. My own view is that institutional change is hard to bring about. It is a question of, is the bottle half full, or is the bottle half empty?

If you look at what revenue sharing has meant—some of my colleagues on the panel that are going to speak to you next may challenge me on my conclusion—you will find many good results. One needs to look at the cases around the country where revenue sharing has caused people to go to city hall, to go to county councils and say, what do you do for us, because now you have got this money that the Federal Government is providing to you on a broader basis? Have they held hearings, has there been publicity in the paper or has a special committee been set up, or have special social service programs been initiated?

Many things have happened in this area. It has not happened everywhere, but it has happened in a lot of places. This kind of institutional change is difficult to bring about and takes time. It involves attitudes, behavior, and basic political relationships.

If you feel that these are important value questions—namely, the extent to which individual citizens can influence and take an interest in governmental process, I think that in the final analysis, these kinds of questions and what revenue sharing is all about.

If you then ask me, well, for $30 billion, are we getting a lot of institutional change, I would say, compared to what? And compared to our ability to change this mammoth governmental system of ours, I think revenue sharing is showing signs of being a quite important new departure.

I would add in this connection that there has been a great deal of debate about civil rights enforcement under revenue sharing. I think civil rights enforcement under revenue sharing should be stronger. For those who have criticized revenue sharing from the point of view that it does not do enough to aid the needy, and particularly minority groups, I would say that in fact it is somewhat ironic that quite the contrary has happened. That is, revenue sharing has become quite a strong instrument to the civil rights groups to go in and to have a hard look at local government activities that previously they were not able to focus on as well, either through legal actions or in the media. So I do not feel that revenue sharing is a minus for civil rights. In fact, I think it is in an ironic way really quite a plus. This is the kind of important institutional change that I mentioned earlier.

Senator BROCK. Thank you very much.

Senator HATHAWAY. Thank you very much.

Senator Packwood?

Senator PACKWOOD. Later on, Charls Walker is going to testify, and he addresses himself to the civil rights enforcement problem. He said he is not sure it is a function of the Treasury Department to enforce civil rights, and even states it so strongly that if this committee and Congress feels there should be a stronger enforcement action, the administration of the entire program ought to be moved out of Treasury to some place else; he does not say where.

Is there any reason why those two functions could not be separated, and the Treasury could continue to dole out the money, and you could still have an effective enforcement of civil rights procedure enforced by some other arm of government?

Mr. NATHAN. I certainly think that is possible, and to a significant extent is being done. It is my understanding that groups that have been following this issue have called upon Treasury to rely upon the Justice Department in a greater way in matters in this area. I think that there needs to be more enforcement staff in this area so that there can be compliance-checking that is not just tied to complaints, and so that the government can respond more quickly.

In all of our 65 jurisdictions in the field, there was not a single case of civil rights complaint. There have been quite a few—there have been some important test cases—but we did not find a complaint on this issue. While it has been stressed in much of the national publicity about revenue sharing, I think other things are perhaps more prominent on the local scene in terms of what is happening to this program.

I would add, Mr. Chairman, if I could, that we have tables in our book that show how many governments would be affected by removing the 145-percent ceiling, and the number of units affected by the 20-percent floor. If the staff would like, we would be happy to give you those tables for inclusion in the testimony.

One of the tables, for example, shows the number of units affected by each of the limits that you are asking questions about.

Senator PACKWOOD. Does your book name them?

Mr. NATHAN. It names the bigger ones, yes, sir. I can tell you now the governments that lose more than 15 percent and the governments that gain more than 15 percent by eliminating all the floor and ceiling provisions. That is at table 6–5, page 175. The major effect in terms of larger governments, namely major cities, is in New Jersey, Virginia, Maryland, Pennsylvania, and Missouri. Frankly the other States would not be very much affected.

Senator PACKWOOD. Let me ask you this, because I did not think there were many in Oregon affected either, but in this ACIR chart under Oregon for counties, it has 7 subject to the 145-percent rule, and it has 23 municipalities.

Mr. NATHAN. In our table, which is table 6–3, on page 154, we show that there are 1,238 local governments affected by the 145-percent ceiling, and that is 3.2 percent of all local government.

Senator PACKWOOD. You are not far off on totals. Their totals come about to, rounded off, to about 1,500 that are affected—let me take it back—about 1,900, if you count townships, that are affected by the 145 percent rule.

Mr. NATHAN. There is a significant discrepancy there, Senator. I do not know why. We have had access and good cooperation from the Treasury Department. We have run their tapes against all of these formula issues that you have been asking about. The number we come out with is 1,238,822 cities, 416 townships.

Senator BROCK. But that is only the 145-percent.

Senator PACKWOOD. Yes.

Senator BROCK. They are talking total, are they not?

Senator PACKWOOD. No, I am just adding up the totals on the 145-percent rule.

Mr. NATHAN. But you see line 5 of the table shows the 20 percent, and the 20 percent are 7,218 local governments, 4,596 of them are townships, mostly in the Midwest.

Senator PACKWOOD. Well, you see the totals they have——

Mr. NATHAN. We can show you for specific cases. They may have been using a different base year. We are using 1972 allocations and taking 1970–71 Census of Governments data. We are going to update this, but I think this is a pretty good reflection of the total numbers of governments affected. There are problems, just as Chairman Merriam of the ACIR said, in some States of vacuuming money out of other governments. Like Philadelphia, they would get 54.3 percent more and that would take money away even from Pittsburgh. It does not take much away from Pittsburgh and Philadelphia, according to the formulas, is worse off than Pittsburgh. So you pay your money and you take your choice.

Senator PACKWOOD. We cannot go to the 175 percent maximum, though, without substantially more money in this fund unless we are going to take it away from some of the fairly good size cities that get it now.

Mr. NATHAN. Well, there are good size cities that lose, there really are not too many. If you look at page 175, at the bottom of the page there are no cities that are really large cities that lose more than 15 percent, not even Pittsburgh. Wilkes-Barre loses 18.5 percent because of Philadelphia. I think you are right, Senator, that you have to phase that change. You have to take into account the increased money in the program so that governments, while they may not get as much as they otherwise would have, are not getting a cut. And that is what the Treasury proposal is seeking to do. I think they could go further but I think they are on the right track. I think Treasury in this case has come up with a good approach.

Senator HATHAWAY. Mr. Nathan, thank you very much. I am sure there are some other questions that we would have and we will submit to you in writing. We are running behind in time.

Thank you.

[The prepared statement of Mr. Nathan with attachments follows:]

STATEMENT BY RICHARD P. NATHAN,[1] SENIOR FELLOW, THE BROOKINGS INSTITUTION

The Brookings Institution, under a grant from the Ford Foundation, is engaged in a 5-year monitoring study of the general revenue sharing program. Our work is focused on three areas—the fiscal, political, and distributional effects of revenue sharing. The first report on this research, *Monitoring Revenue Sharing* (Brookings, 1975) was published January 26, 1975.

Since publishing this report, we have obtained new data which should be of interest to the Committee. In the area of fiscal effects, our findings are based on field research for 65 governments—8 state governments, 29 municipalities, 21 counties, 6 townships and one Indian tribe. Our initial report presented data on the uses of shared revenue by these 65 units from the beginning of the program through June 30, 1973. The second report, now in preparation, will present data for fiscal year 1974, the twelve months from July 1, 1973 through June 30, 1974.

Most important of all, the new data show that in fiscal year 1974 there was a significant decline in the use of shared revenue for new spending by local governments in the sample; the reason most commonly given for this decline is that rising prices and shrinking revenues have required the greater use of shared revenue for what we have classified as substitution purposes—balancing the budget, holding down taxes, and meeting increased personnel and other costs. In the first six months of revenue sharing, local units in the sample devoted 57.5 percent of their shared revenue (on an unweighted mean basis) to new spending. In fiscal 1974, the comparable figure is 45.1 percent. For localities, the biggest change concerns capital spending, which dropped by 11.5 percentage points.

[Comparison, 1st 6 months of 1973 and fiscal year 1974, mean percentages of shared revenue allocated by Brookings sample local jurisdictions, by type of net fiscal effect]

Net fiscal effects	Mean percentages: 1973 (1st 6 months)	Mean percentages: 1974 (fiscal year)	Percentage point change
New spending	57.5	45.1	−12.4
New capital	46.0	34.5	−11.5
Expanded operations	10.8	9.8	−1.0
Increased pay and benefits	.8	.8	0
Substitutions	42.5	53.3	+10.8
Restoration of Federal aid	.3	1.1	+.8
Tax reduction	3.5	5.0	+1.5
Tax stabilization	13.8	18.3	+4.5
Program maintenance	12.6	15.5	+2.9
Avoidance of borrowing	9.5	7.7	−1.8
Increased fund balances	2.7	3.5	+.8
Other	.1	0	−.1
Unallocated substitutions	0	2.2	+2.2
Unallocated	0	1.6	+1.6

Note: Attachment 2 contains definitions of the fiscal effect categories.

Source: Fiscal year 1973 data: "Monitoring Revenue Sharing," table 8-1, p. 193. Fiscal year 1974 data: Unpublished field research data, Brookings revenue sharing project (preliminary).

[1] My colleague in the Brookings revenue sharing study, Allen D. Manvel, joins me in this statement and regrets he is necessarily absent today. The views expressed in this testimony do not represent the position of the trustees, officers, or other staff members of the Institution.

How should one interpret these data? For those who support revenue sharing as a means of relieving fiscal pressures on local governments (especially on their property taxes) these data reflect positive results. For persons most concerned about meeting social needs and innovation, the data are harder to interpret. Tax relief to hard-pressed central cities, which improves their economic climate, does have social benefits. So does the retention of social programs which might otherwise have been cut in the current recession. Innovative uses are occurring in some cases; the question here is whether the amount of such change is a lot or a little, and this depends upon one's judgment about how hard it is to bring about innovation in the activities of state and local governments.

One other important point needs to be made about these fiscal-effect data. Don't be misled into thinking that only revenue sharing funds have substitution effects. All forms of federal aid to states and localities, no matter how ingenious the conditions placed upon their use, can in some cases be used to offset other spending. Research data in this field are sparse, but there is clear evidence that the same kinds of substitution effects occur to a substantial degree under categorical forms of federal aid. More recognition needs to be given to this point. What it suggests is the need to give great attention to *how funds are distributed* (do needy communities, growing communities, big cities, rural poor communities, needy persons get the benefits?) in addition to the more traditional concern about what these funds are used for.

The second area of our study concerns the political effects of revenue sharing. We are trying to gauge the program's potential for the decentralization of governmental powers. Many supporters regarded this as the most important objective of revenue sharing. Our focus has been on the budget process: Does revenue sharing cause more competition in—and prominence of—state and local budget decisions? Does it enhance the role of generalist officials as opposed to functional specialists?

For the 65 jurisdictions in the sample, we determined first whether decisions about the use of shared revenue were made outside of, or as part of, the regular budget process. In the initial period for the field research, 20 units in the sample budgeted shared revenue outside of their regular budget process; in 13 of these cases they adopted special supplemental appropriation bills because of the "bunching" effect of revenue sharing in early 1973. In the new data for fiscal 1974, this group dropped from 20 to 9 units, the main reason being that governments that had adopted supplemental appropriation bills in the early period did not do so once the program payment schedule for revenue sharing flattened out in April 1973.

Where decisions were made within the regular budgetary processes, we are interested in the extent to which recipient units used *special budget procedures* to consider revenue sharing or in other ways treated these funds on a separate or special basis. Although the law requires that separate accounting be maintained for revenue sharing funds, the act gives recipient governments wide latitude in how decisions are made about the uses of these funds.

Taken as a whole, the results for the two research periods, as far as budgetary processes are concerned, are quite similar, although the data are not fully comparable. In the first six months, 38 units in the sample gave separate or special treatment to revenue sharing funds. In fiscal 1974, 37 units were found to have given separate or special treatment to these funds. It should also be noted that in a number of the cases where shared revenue was fully merged into the budgetary process (i.e. no special treatment or procedures were used), there nevertheless were efforts made by various external interest groups to obtain additional funds out of—or because of the advent of—revenue sharing. This, too, has the effect of encouraging competition for local funds.

In sum, there are indications that revenue sharing is resulting in greater interest in, and prominence of, state and local decisionmaking processes. The evidence is mixed, however, as would be expected in a political system as diverse as American federalism. More analysis needs to be done before anything approaching final conclusions can be reached in this area. Care should be taken to avoid hasty judgments.

Already, some observers of the revenue sharing scene who are especially concerned about its political effects have urged that requirements be added to the revenue sharing act for various kinds of public hearings and other citizen participation processes. I would sound a warning in this area. American local government is extensive and complex, budgetary processes vary accordingly, and revenue sharing funds are highly flexible. To tell local governments how to make decisions about the use of these funds may lure us into a whole range of federal controls over local government processes, the implications of which have not been clearly thought out. The "Siren Song" of federal controls to achieve citizen participation may in the final analysis bring about a fundamental change in the whole idea of revenue sharing.

The third area addressed in our study concerns the distributional effects of revenue sharing. How does the formula work? What types of units are especially advantaged or disadvantaged?

Generally speaking, the formula contained in the 1972 act tends to favor very small local units, low-income rural areas, and central cities. Considering the lack of the necessary data in 1972 and the general difficulty of writing a formula to aid so many very different units, the Administration and the Congress deserve credit for producing a reasonably smooth-working operational formula. However, looking back with the advantage of new data and more time for analysis, there are several areas where we conclude that the Congress should consider changes in the formula. We question the "don't-rock-the-formula" strategy that has been embraced by many of the groups supporting revenue sharing. The changes we urge be considered are summarized in Chapter 6 of our report; I will briefly list them and will be happy to make further information available.

1. In our view, the arbitrary 2:1 local-to-state preference contained in the law is too rigid. Again sounding the theme of the diversity of American federalism, many state governments have a large role in state-local finances and thus are unduly penalized by this feature of the law. In our view, the ratio between the state and local shares should vary by state, thus taking this diversity into account. If the Congress chooses, it is entirely possible to keep the 2:1 ratio overall, but have the portions going to individual state governments vary according to their relative role in state-local finances. This can be done simply by giving extra weight to the local component of whatever financial measure is used to make the split.[1]

2. The floor and ceiling provisions in the law produce results which we also think should be looked at closely next time around. The law stipulates that no city or township can receive less than 20 percent or more than 145 percent of the statewide average per capita payment of shared revenue. The result is that effects occur at both ends of the spectrum which may not have been intended. Many small units which have limited functions—especially more than 5,000 townships in the midwest—are arbitrarily propped up by the 20 percent floor feature. On the other hand, there are several very poor central cities (notably St. Louis and Baltimore) which suffer appreciable losses because of the 145 percent ceiling. We think the Administration is on the right track in proposing to raise the 145 percent ceiling. Our conclusion is that *both* the 20 percent per capita floor and 145 percent per capita ceiling provisions should be removed, although we fully realize that policy analysts may have a different viewpoint than political decisionmakers on issues of this nature.

3. Chapter 6 of our report devotes attention to the problem of gauging fiscal capacity as it pertains to the law's intent of favoring areas with relatively low capacity and high fiscal effort. The act uses personal income as a capacity measure, yet income taxation is by no means the major source of state-local tax revenue. As is well known, nearly all local governments rely mainly on property taxation; personal income is a very poor proxy for the property tax base of smaller local governments, as typified by the overwhelming majority of the local jurisdictions that receive shared revenue. Our report suggests consideration of alternative measures of local fiscal capacity, generally along the lines of those now widely used by states in distributing local school aid. We recognize, however, that because of the limitations of property valuation data now available, any such change in the revenue sharing law would probably have to be on a phased or initially selective basis, rather than applied nationwide from the

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[1] Assume, for example, that the split is based on state-local proportions of total tax revenue, which in fiscal 1972–73 involved an average nationwide ratio (excluding Washington, D.C.) of 56.4 percent-to-43.6 percent. Then if, across the board, state tax revenue was given a weight of one and local tax revenue a weight of 2.6, two-thirds of the 50-state total of shared revenue would still go to local governments, and one third to states. However, the state government portion would range from 21 percent in New Jersey (where local governments collect a major part of state-local taxes) to 55 percent in Hawaii, where the state has a predominant taxing role. A similar weighting system could be used, retaining the two-thirds local share nationwide, with a variable split based on some measure other than tax collections, such as own-source revenue or direct expenditure. In general, the revised distribution would be more favorable than the present one to local governments in highly urban states.

outset. On the other hand, published research of the Advisory Commission on Intergovernmental Relations would seem to indicate that better measures of fiscal capacity for state areas could be quite readily developed, for use in place of per capita income in the interstate allocation of shared revenue.

Our report also recommends that the provision of the law limiting each local government entitlement to 50 percent of the government's tax revenue, and intergovernmental receipts should be altered to refer only to tax revenue, and that a new approach should be devised for granting funds to Indian tribes.

Mr. Chairman, we are pleased to have had this opportunity to present testimony and would be happy to submit any other materials which might be useful. I request that a list of the field research sites and field researchers for the Brookings study of general revenue sharing be included in the record of these hearings.

ATTACHMENT 1

APRIL 17, 1975.

FIELD RESEARCH ASSOCIATES FOR GOVERNMENTAL UNITS SURVEYED

Arizona: Maricopa County, Phoenix, Scottsdale, Tempe. David E. Shirley, Professor of public administration, University of Arizona (deceased), and Willard Price, Assistant professor of public administration, University of Arizona.

Arkansas: Little Rock, North Little Rock, Pulaski County, Saline County. George E. Campbell, Attorney, Little Rock; former executive secretary, Arkansas Constitution Revision Study Commission.

California: Carson, Los Angeles, Los Angeles County. Ruth A. Ross, Assistant professor of political science, Henri Salvatori Center, Claremont Men's College.

California: State of California. Leslie D. Howe, Vice president, California Retailers; former state and local financial officer.

Colorado: State of Colorado, Longmont. R. D. Sloan, Jr., Associate professor of political science and director, Bureau of Governmental Research and Service, University of Colorado.

Florida: Jacksonville-Duval, Orange County, Orlando, Seminole County. John DeGrove, Director, Joint Center for Environmental and Urban Problems, Florida Atlantic-Florida International University. Aileen Lotz, Staff consultant, Joint Center for Environmental and Urban Problems.

Illinois: State of Illinois. Leroy S. Wehrle, Professor of economics, Sangamon State University; former director, Illinois Institute for Social Policy. Assisted By Robert Schoeplein, Associate professor of economics, University of Illinois. John N. Lattimer, Executive director, State of Illinois Commission on Intergovernmental Cooperation.

Louisiana: State of Louisiana, Baton Rouge. Edward J. Steimel, Executive director, Public Affairs Research Council of Louisiana, Inc. Arthur Thiel, Research director, Public Affairs Research Council of Louisiana, Inc.

Maine: State of Maine, Bangor. Kenneth T. Palmer, Associate professor of political science, University of Maine.

Maryland: Baltimore, Baltimore County, Carroll County, Harford County. Clifton Vincent, Assistant professor of political science, Morgan State College.

Massachusetts: Commonwealth of Massachusetts, Holden Town, Worcester. James A. Maxwell, Professor emeritus of economics, Clark University.

Missouri: St. Louis. Robert Christman, City hall reporter, St. Louis Post-Dispatch.

New Jersey: Essex County, Livingston Township, Newark, West Orange. Robert Curvin, Associate professor of political science, Brooklyn College.

New York: State of New York. Charles Holcomb, New York manager, Gannett Newspapers, Albany.

New York: New York City, Center for New York City Affairs, New School for Social Research.

New York: Greece Town, Irondequoit Town, Monroe County, Rochester. Sarah F. Liebschutz, Associate professor of political science, State University of New York at Brockport.

North Carolina: State of North Carolina, Orange County. Deil Wright, Professor of political science, University of North Carolina.

Ohio: Butler County, Cincinnati, Hamilton, Hamilton County. Frederick D. Stocker, Professor of business research, Center for Business and Economic Research, Ohio State University.

Oregon: Cottage Grove, Engene, Lane County, Springfield. Herman Kehrli, Director emeritus, Bureau of Governmental Research and Service, University of Oregon.

South Carolina: Camden, Fairfield County, Kershaw County, Winnsboro. C. Blease Graham, Assistant professor of government and research associate, Bureau of Governmental Research, University of South Carolina.

South Dakota: Minnehaha County, Rosebud Indian Tribe, Sioux Falls, Tripp County, Turner County. W. O. Farber, Chairman, Department of Government, and director, Governmental Research Bureau, University of South Dakota.

Wisconsin: Beaver Dam, Dodge County, Lowell Town, Mayville, Theresa Town. Clara Penniman, Director, Center for the Study of Public Policy and Administration, University of Wisconsin.

ATTACHMENT 2

APRIL 17, 1975.

NET FISCAL EFFECT CATEGORIES

1. *New capital expenditures*—Spending for capital projects or the purchase of equipment that, without shared revenue, would either not have occurred at all or would have occurred at least one year later.

2. *Expanded operations*—Operating expenditures initiated or expanded with revenue sharing funds (excluding pay-level and benefit increases classified under #3 below).

3. *Increased pay and benefits*—The use of revenue sharing funds for pay and fringe benefit increases which would otherwise not have been authorized, either at all or at the levels approved.

4. *Restoration of federal aid*—The use of revenue sharing funds to offset actual or anticipated reductions in federal grants-in-aid.

5. *Tax reduction*—The use of revenue sharing to finance ongoing programs where the net result was to free up the jurisdiction's own resources and thereby permit a reduction in tax rates.

6. *Tax stabilization*—The use of revenue sharing funds to finance ongoing programs where the result was to avoid an increase in tax rates which would otherwise have been approved.

7. *Program maintenance* (Budget Balancing)—The allocation of revenue sharing funds to ongoing programs where the alternative course of action, without revenue sharing, would have been to cut existing programs.

8. *Avoidance of borrowing*—Substitution of shared revenue funds for borrowing that would otherwise have been undertaken.

9. *Increased fund balances*—Allocation of revenue sharing funds to ongoing programs where the net effect was to increase fund balances.

CHANGE IN SHARED-REVENUE ALLOCATION FOR 1972 FOR MAJOR CITIES GAINING OR LOSING 15 PERCENT OR MORE BY ELIMINATION OF STATUTORY CEILINGS AND FLOORS

City	Population (thousands)	Percent gain or loss
Gainers:		
Laredo, Tex	69	91.5
Wilmington, Del	80	86.7
St. Louis, Mo	622	74.5
Richmond, Va	249	63.8
Hartford, Conn	158	58.7
Philadelphia, Pa	1,950	54.3
Portsmouth, Va	111	43.3
New Haven, Conn	138	36.7
Brownsville, Tex	53	34.2
Baltimore, Md	906	31.8
Charleston, W. Va	72	30.2
Charleston, S.C	67	29.3
East St. Louis, Ill	70	25.7
Greenville, S.C	61	24.8
Boston, Mass	641	22.1
Jersey City, N.J	260	19.2
Bayonne, N.J	73	19.2
Union City, N.J	57	19.2
Detroit, Mich	1,514	17.4
Evansville, Ind	139	15.4

CHANGE IN SHARED-REVENUE ALLOCATION FOR 1972 FOR MAJOR CITIES GAINING OR LOSING 15 PERCENT OR MORE BY ELIMINATION OF STATUTORY CEILINGS AND FLOORS—Continued

City	Population (thousands)	Percent gain or loss
Losers:		
Overland Park, Kans	78	52.4
Bellflower, Calif	52	36.7
Lakewood, Calif	83	24.4
Norwalk, Calif	90	22.3
Allentown, Pa	110	21.4
Virginia Beach, Va	172	18.9
Alexandria, Va	111	18.9
Erie, Pa	129	18.5
Scranton, Pa	103	18.5
Reading, Pa	88	18.5
Harrisburg, Pa	68	18.5
Altoona, Pa	63	18.5
Wilkes-Barre, Pa	59	18.5
Lancaster, Pa	58	18.5
Springfield, Mo	120	18.4
St. Joseph, Mo	73	18.4
Florissant, Mo	66	18.4
Columbia, Mo	59	18.4
York, Pa	50	18.4
Chester, Pa	56	18.2
Kansas City, Mo	507	18.1
Lakewood, Colo	93	17.7
Independence, Mo	112	17.1
Columbia, S.C	114	15.9
Bethlehem, Pa	73	15.1

Source: Calculated from Treasury Department data.

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 [1]			
	All types	Counties	Municipalities	Townships	All types	Counties	Municipalities	Townships
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	(2)	822	416	3.2	(2)	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	.8
(b) Receiving less than 20 percent per capita minimum	1,571	2	376	1,193	4.1	0	2.0	7.1
5. Affected by 20 percent per capita minimum	7,218	(3)	2,622	4,596	18.8	(2)	14.2	27.2
6. Jurisdictions receiving no shared revenue	1,100	0	435	665	2.9	0	2.4	3.9
7. Affected by having no taxes or intergovernmental receipts	539	0	212	327	1.4	0	1.1	1.9
8. Excluded for other reasons	561	0	223	338	1.5	0	1.2	2.0

[1] Because of rounding, detail may not add to totals.
[2] The 20 percent minimum and 145 percent maximum provisions do not apply directly to county governments.
[3] Less than 0.05 percent.

Source: Calculated from Treasury Department data.

Senator HATHAWAY. Next we have a revenue sharing panel, Mr. William M. Taylor, Center for National Policy Review; Mr. Woodrow Ginsburg, Center for Community Change; Ms. Sarah Austin, National Urban Coalition; and Ms. Linda Avena, League of Women Voters Education Fund.

All of your statements will be made a part of the record and I would appreciate it if you could summarize your statements orally for us.
Mr. Taylor, would you like to start off?

STATEMENT OF WILLIAM L. TAYLOR, DIRECTOR, CENTER FOR NATIONAL POLICY REVIEW, SCHOOL OF LAW, CATHOLIC UNIVERSITY

Mr. TAYLOR. Thank you, Mr. Chairman. We will do that. Let me introduce the group. On my right is Ms. Linda Avena, who will be addressing herself to a number of problems that have occurred with respect to revenue sharing in the State of Texas. On my immediate left is Woodrow Ginsburg of the Center for Community Change, who will be talking mainly about the citizen participation aspects of revenue sharing. And next to Mr. Ginsburg is Sarah Austin of the National Urban Coalition, who will be talking principally about revenue sharing and the issues of social priorities, and I will address myself to the civil rights issues, principally. We all appreciate the opportunity to testify. I might say at the outset that we are all engaged cooperatively in what we regard as a rather unique research and monitoring project with respect to revenue sharing.

In the past 2 years we have been looking at the operation of the revenue sharing program in some 50 or so jurisdictions around the country, States, medium-size cities, larger cities, and a number of counties, principally in the rural areas of the South. The monitoring has been done by citizen groups themselves affiliated with three of the groups here and they have been doing it pursuant to a monitoring instrument that was prepared very carefully with the help of the Joint Center for Urban Studies at Harvard and MIT. We have published one report on the subject which I believe you have and we have other reports to come.*

Now turning to the civil rights issues, the concerns that civil rights groups have had are that revenue sharing with the changes it makes in the way intergovernmental authority and resources are distributed would result in a weakening of the Federal protections against racial discrimination. These concerns have been reinforced by 2½ years experience under the law. This has occurred despite the fact that Congress included in the State and Local Fiscal Assistance Act specific civil rights provisions—provisions that recognize the vindication of the rights of equal treatment under the law could not be left simply to private lawsuits and that the agency administering the program in the Department of Treasury had the responsibility to ferret out and to redress discrimination.

We have concluded from our own studies and from the investigations of others that there is pervasive discrimination in programs and activities assisted by the revenue sharing funds and that the Office of Revenue Sharing, the agency chiefly responsible for securing compliance with the law, has failed to take effective steps to prevent or remedy discrimination.

I would like to mention briefly two types of discrimination that have arisen commonly under the law. One is discrimination in the employ-

*The document was made a part of the official files of the Committee.

ment practices of State and local governments. The second is discrimination in local services that are provided with Federal assistance.

With respect to employment discrimination we have found in the jurisdictions we have surveyed and where other information has been made available, very wide gaps often exist between the percentage of minorities and women in the work force and the percentage in particular departments. Police and fire departments are two examples, but gaps exist in other departments as well, and often disparities with respect to the city government or local government as a whole. These disparities occur, not only in the professional and technical occupations but very often in blue-collar positions and secretarial positions and less-skilled positions.

The disparities often reflect various practices that do not conform to the requirements of Federal law. For example, the use of unvalidated tests for hiring and promotion; the failure to use affirmative techniques of recruiting people; and sometimes quite blatant instances of discrimination. The persistence of discrimination, we believe, has a very severe impact on minorities because State and local employment has been and is likely to continue to be the most rapidly expanding field of job opportunities.

So if minorities do not gain access, they are indeed very severely affected.

With respect to equal services, in 1972 the Federal Court of Appeals for the Fifth Circuit, in a case called *Hawkins* v. *Shaw*, established clearly that a remedy must be provided under the 14th amendment where services such as street lighting or street paving are clearly inferior in black neighborhoods or black areas to those that are provided in white areas.

There have been similar instances of blatant discrimination that have arisen in programs that are funded with revenue sharing assistance. For example, one is Ouachita Parish, La., where revenue sharing funds were used for municipal services. And in that jurisdiction there is discrimination affecting roads, sewage disposal, drainage ditches, and fire protection.

In Ouachita, minor rainstorms flood homes in the black community because of the lack of drainage facilities, while white homes are protected by well-maintained ditches and levees. There are only four fire pumps, two of which do not work, which serve 3,000 blacks living on more than 1,000 acres; all fire stations are located in white areas. Every dirt road in Ouachita Parish is in a black neighborhood; whites live on paved and well-maintained roads. Raw sewage flows beside the homes and makeshift playgrounds in black neighborhoods; it is carefully controlled in white areas. Yet more than a year after a complaint was filed on behalf of black residents with the Office of Revenue Sharing by the Lawyers' Committee for Civil Rights, these dreadful conditions remain unredressed.

Now in the cities where we conducted our surveys there also were major concerns about equity of services. People in poorer areas, ghetto areas, said they did not feel they were receiving equal services. Often, however, these problems were not as blatant or easy to document as they are in places like Shaw or Ouachita. So what is really required is very careful investigation and the development of objective standards for measuring governmental services. And much to our regret, the

Office of Revenue Sharing has not even begun to develop such standards and its inactivity in this area we feel is really defeating a basic national objective which was expressed in the Housing Act of 1949, a suitable living environment for every American citizen.

We turn now in more detail but just for a few minutes to the question of ORS enforcement of civil rights. It is a task of great magnitude when you are dealing with 38,000 jurisdictions, but we do not think that that provides any excuse for the lethargy and inaction that we believe has marked the performance of the agency. There are several major problems that I discuss in my testimony. For one thing, the agency has not created any kind of climate for encouraging voluntary compliance under the law. The director of the agency has talked repeatedly of a program that is free of strings, and civil rights, which is a clear string in the law, tends to be mentioned only as an afterthought, if it is mentioned at all.

Second, the office has not created good compliance machinery or demonstrated that it is willing to impose sanctions if this becomes necessary. These were the key elements in attaining progress in, for example, desegregating schools in the South throughout the sixties. One important enforcement technique is to defer new payments of funds where an agency has found probable cause to believe that there is noncompliance. But ORS has refused to consider this technique as a remedy on grounds that its program is different and it has persisted in this refusal even after having been told by the Federal district court that it had the legal authority to defer funds subject to adoption of appropriate regulations. Indeed, ORS has deferred revenue-sharing funds only once, and then only when it was specifically ordered to do so by a Federal court because judicial findings have been made that the city of Chicago had practiced discrimination in its police department which received large sums of revenue-sharing funds.

And so, belatedly, ORS has come forward with proposed regulations governing the deferral of funds, but these regulations do not provide for the deferral of funds on the basis of an agency finding of noncompliance. And indeed, they actually cut back on the legally adjudicated duty to defer where findings of discrimination have been made by a court of competent jurisdiction.

We frankly find this rather shocking in its disregard of legal requirements. The agency has also failed to initiate its own investigations. It relies completely on complaints. It has allowed complaints to lag for many months and, as the Civil Rights Commission has pointed out in a recent report, the agency has often settled for less than full compliance with the law.

Third, the agency really could have eased the burden on itself by working out arrangements with other Federal agencies and State agencies for assistance. There is a good deal of expertise in the Department of Transportation and HEW and other agencies for investigating discrimination within particular areas where revenue-sharing funds have been used. And indeed, as a result of our urging this, ORS put this in its regulations but it has not used its authority. It has one agreement with the Equal Employment Opportunity Commission and is not using the expertise of other agencies to conduct these investigations.

The other aspect is there has been a great deal of talk from ORS about how they want to get States and localities involved in enforcing the law in the sensitive area of human rights concerns, but there has not been any guidance to State and local agencies in how they could assist in enforcing the law.

We found, for example, in our monitoring project that only 52 percent of local human rights agencies had any accurate idea of how revenue-sharing money was being used in their communities and only one or two had been given any review responsibility for the use of revenue-sharing funds. Another survey that was conducted found that 78 percent of local officials who were interviewed said that they had received no communication from the Federal Government or their State on local civil rights requirements and responsibilities.

And so in our view, Mr. Chairman, it is not an exaggeration to say that under revenue-sharing civil rights enforcement has become a disaster area, reinforcing our worst apprehensions that this new form of allocating resources and authority would become a vehicle for dissolving hard-won Federal protections against discrimination. Mr. Nathan, who always gets my adrenal glands stimulated, said there is a lot more concern about revenue sharing, about discrimination out in the field. Well, it is a little bit, I think, like saying that a fellow who has a headache when somebody hits him with a hammer on the toe, will forget his headache and respond, he will protest and there will be more concern. Certainly there is concern but there have not been effective remedies.

Now I do not think that there is inevitable conflict between measures to expand the resources of States and local governments so that their energies will be used in meeting pressing domestic problems and steps to assure that basic national policy, such as equal protection under the laws, are fully enforced. I do not think any of the groups are in love with the redtape requirements that frequently occur in categorical programs. But there is a distinction between redtape and unnecessary regulation and basic national policy, and that distinction really has not been made.

So if these objectives are to be reconciled, it is clear to us that fundamental reform of State and Local Fiscal Assistance Act is required and we think the time to act is in 1975 and 1976 when the Congress and all of us can profit by the mistakes that have been revealed in the experience under the law and before this program gets set in concrete through a simple extension which is being urged by some people.

Therefore, we welcome these hearings and we hope to continue to provide information to you.

Thank you.

Senator HATHAWAY. Thank you. Mr. Ginsburg?

STATEMENT OF WOODROW GINSBURG, CENTER FOR COMMUNITY CHANGE

Mr. GINSBURG. I am Woodrow Ginsburg, research director at the Center for Community Change, which is one of the organizations that has been doing the fieldwork on the national project on GRS. Our major concern has been with the citizen participation aspect of the general revenue-sharing legislation. We work with some 30 groups around the country who are trying to improve the economic and social conditions of minorities in large urban and rural areas.

We have heard a lot about the difficulty of mandating citizen participation, and I appreciate the comments of many city and county officials who say their big problem is getting citizen interest. They hold many hearings and people just do not come.

What we are pleading for is a series of reforms in the act which we think would encourage such citizen participation. We think it is crucial to have clearly defined, well publicized hearings on the entire budget, not only on the general revenue sharing expenditures. In all too many places we do not find either much publicity given to such hearings, nor do we find much opportunity for citizens to make proposals that really carry much weight. This results from the fact that the time of the budget cycle at which those public hearings are usually called is long after department heads have submitted their proposals, and those have been carefully reviewed and reconciled with the overall budget revenue and expenditures, by the major or chief county official. A final budget is then presented at a public hearing. Then it is much too late in the hearing process for citizens to have much of an impact. Even when citizens want to participate, we find the kind of data made available to them is completely inadequate.

We are very disturbed with the kinds of reports which the Office of Revenue Sharing has been using in order to provide information on what is happening to general revenue-sharing funds. Both the actual use report and the planned use report lack sufficient information to give people any kind of a real insight into what is happening to the general revenue-sharing funds, where they live. There is no indication of whether the funds are supporting new programs, whether they are maintaining past levels of service, whether they are expanding programs. Perhaps more important than any other gaps, and this relates very closely to the comments of Mr. Taylor—what is the impact of that spending in those communities.

We hear a great deal about people at the local level being more closely linked to, and attuned to, the problems of their jurisdictions. But how can they make rational decisions about the adequacy, or the soundness of general revenue-sharing expenditures, when they do not have basic information on who are the beneficiaries of this spending? Where in the community are the funds for new facilities being placed? Which ethnic, racial, and socioeconomic groups are being served by those expenditures?

Now we have heard a lot, when we have raised these questions with public officials, either that we are seeking far too much or that such information is just not available. Yet our contention is that the Office of Management and Budget was absolutely on target when several years ago it proposed a series of reports which every recipient of Federal programs should prepare. And the essence of those reports was to help determine the availability and utilization of Federal domestic assistance programs by selected racial and ethnic population groups.

It seems to us that, without information on how a program effects the various geographic areas and who the actual beneficiaries are, it is most difficult indeed for citizens to make any sensible assessment of revenue sharing.

And I add, Senator, it is impossible for Congress to make a sound evaluation of what has been the impact of these funds.

What is strange to us, in terms of how the Office of Revenue Sharing is operating, is that on the one hand they issue an excellent pamphlet, which we are pleased we had some hand in doing, a citizens guide called "Getting Involved—Your Guide to General Revenue Sharing," [1] and in that bulletin they list a series of items that citizens should check. One of those items is the following:

> If your government is improving streets, alleys, road, recreation and health facilities or libraries with GRS money in some areas, will all neighborhood areas be receiving comparable service because of these expenditures?

But on the other hand there is nothing in any report which the Office of Revenue Sharing requires which would provide the slightest inkling of an answer to that question.

The other part of revenue sharing which everybody has referred to and which makes it extremely difficult for citizen groups to learn anything about it is the fungibility or substitutability effect. I will not go into detail, but we have repeated evidence that what is reported on the planned use or actual use report is a simple perfunctory, pro forma entry by the Government official to comply with the filing of the report. When we ask: "Where has the general revenue-sharing money gone?" We are told: "Well, it is all throughout our budget. It has been combined with other expenditures. What we say on the planned use and actual use reports is just our way of complying with the filing requirements." Such reports, and filing procedures, we contend, need sharp revision.

On the bottom of page 7 and the top of page 8 of my full statement, I quote directly from the Los Angeles budget message. As the mayor points out, the city had previously allocated its general revenue-sharing funds to the fire and police department. This year general revenue-sharing funds are not going to those departments because of several lawsuits about LEAA funds and the police department.

So therefore, the city has changed to GRS designation. But that does not mean that the police and the fire departments will get 1 cent less. They will get exactly the same number of dollars that they would have otherwise received from general revenue-sharing funds.

This is a complete obfuscation or deception of what is really happening at the local level with the revenue-sharing dollar, and is a very major concern to us.

I have included at the ending of my testimony a series of steps we think would really improve the ability of citizens to learn about what is happening on general revenue-sharing expenditures in their community.

First, we think there should be some reforms, either by legislation or by regulation, which would encourage some formal mechanism, like a public advisory committee with some staff, so citizens could get a much better insight and a much fuller reporting of what happens to the general revenue-sharing money. Second, we would recommend,

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[1] The document was made a part of the official files of the committee.

similar to the national unit under manpower legislation, establish a broadly representative national commission which could assist Congress and the public to monitor general revenue-sharing expenditures.

We also recommend that the reports of the office of revenue-sharing be significantly improved, both in terms of completeness of information and identification of programs which are new, expanded, or simply maintaining past services. And we would also strongly endorse the efforts that the Office of Management and Budget began, but which have unfortunately not been carried through on requiring detailed information on the impact of general revenue-sharing money.

With those provisions in the act and regulations we think citizens would have the opportunities and mechanisms, by which they could participate more fully in effecting local decisions on general revenue-sharing.

Senator HATHAWAY. Thank you.

Ms. Austin?

STATEMENT OF SARAH AUSTIN, VICE PRESIDENT, NATIONAL URBAN COALITION

Ms. AUSTIN. Mr. Chairman, I am Sarah Austin, vice president of the National Urban Coalition, and I welcome this opportunity to address this issue, which is of intense concern to those whom I represent. I speak here today not only as a representative of the coalition, but as a representative of 70 percent of our population, who live in cities.

To date, revenue sharing has not proven to be a powerful remedy for the ills of cities. It also has not even been a satisfactory substitute for the categorical programs it replaced. But, given the dire fiscal situation most cities face, the national urban coalition well understands why the mayors in our ranks prefer even an inadequate return of current revenue-sharing dollars as at least a partial counterbalance to the overburden of social and public service costs which cities disproportionately bear. Unable by law, in most cases, to project unbalanced operating budgets heavily dependent on property taxes, seeing much of the income produced within their borders disappearing, untaxed, to the suburbs and to the State and Federal government, cities in the seventies are in no position to reject what was first misleadingly advertised as additional revenues.

As you know, we operate as part of a national consortium, to monitor general revenue-sharing. There was broad concensus on the following findings: Despite the rhetoric employed, there was very little real opportunity for local citizens to know about, much less participate in, the planning and actual allocation of the funds—and I think that Woody Ginsburg has just referred to some of the reasons why. Human service needs were generally not priorities for the use of funds. Many of the funds went for capital improvements, public safety, and salaries for policemen and firemen. Civil rights enforcement was generally most inadequate. The formula for dispensing funds further disadvantaged cities with large minority and poverty populations with extremely critical needs. Accountability was sadly lacking in a Federal program which did not fill the gap left by the programs general revenue-sharing replaced.

The National Urban Coalition and its locals, and the other citizens who became involved in the project, all agreed that the spending priorities were often wrong. It has been argued, with some truth, that local governments were reluctant to use the funds for new programs. They saw these funds as one-time funds, and they were afraid to raise the hopes of citizens in terms of any kind of renewal.

The general pattern, as our monitors found, was to use general revenue sharing to lower taxes, or to avoid raising them further; to hire or to give pay raises to law enforcement officials, or to finance various public works projects. Of course, it would be futile to attempt to set some arbitrary rank order for prioritizing human needs, one against the other. Our concern is that the States and localities be able to, and above all be encouraged to use some of these revenue sharing funds for such needs. That to date this has been no easy matter is suggested by the experience of one city which decided to use some of it's funds for hiring young men to work with teenagers in housing projects as a way of reducing juvenile delinquency in that area, and providing some youngsters who might benefit from the experience with increased day-to-day contact with positive male models. The same city also decided to use some of its general revenue-sharing funds for programs of assistance to senior citizens. Under existing laws, such programs had to be approved at both the county and the State levels. Authorities at both levels originally ruled that the programs represented improper uses of general revenue sharing funds. That seems to be just the opposite of what we thought the intent of the legislation was when it was enacted.

The elimination of the present requirement that funds must be used by local governments within eight priority expense categories is one of the few modifications of general revenue sharing proposed by the administration. Based on the evidence that we have gathered, we would be inclined to support strengthening, rather than eliminating, this requirement, as has been suggested.

At present, the formula for disbursing general revenue sharing funds supposedly gives almost equal weight to population, tax-generating ability, and need—with some tendency to lean more heavily in the direction of tax-generating capacity. The 145-percent ceiling to date has penalized certain municipalities in an amount close to $7 million. To cite a few examples; because of the 145-percent ceiling, Wilmington, Del., will receive only 65 percent of the funds to which it is entitled. In Detroit, the 145-percent allocation limit means that the city will lose $34 million in general revenue sharing funds over its 5-year participation.

Cities which have sizable minority populations are further penalized by the now widely admitted census undercount. The Census Bureau has admitted that it undercounted blacks by 7.7 percent in the 1970 Census, a rate four times greater than the undercount for whites. In cities with a substantial black population, the resulting census undercount means that the general revenue sharing allocation is diminished. In California, the Census Bureau has admitted that it has missed 643,000 Spanish-Americans in its 1970 census count, which represents a 27-percent undercount.

Any attempt to revise either the law or administrative guidelines should take into account the fact that tens of thousands of minority residents were not counted, and that therefore, allotments based on such data will continue to shortchange jurisdictions with significant minority populations.

The General Revenue Sharing Act is not simply a transition from categorical programs to the new federalism. For many of our major American cities, and for some of the smaller ones too, both the statistics and the experiences of our citizen monitors indicate a Federal withdrawal from the urban areas and the needs of their people, and I would like to reiterate that.

Senator PACKWOOD [presiding]. Linda Avena?

STATEMENT OF LINDA AVENA, PROJECT COORDINATOR, TEXAS LEAGUE OF WOMEN VOTERS

Ms. AVENA. I was the project coordinator for the Texas portion of the National Revenue Sharing Plan. What I will be giving you will be case studies. Most of the others have been speaking in a general way of what happened with revenue sharing.

The Texas League of Women Voters was given the responsibility for monitoring the allocation and expenditure of revenue sharing funds by the State government of Texas through August 1975. To analyze Texas' use of funds, researchers gathered background data on Texas' budgetary process, demographic characteristics and employment patterns of the State government. During the year-long study, we interviewed more than 60 State officials and citizen leaders. In February, we released a report on our findings entitled Federal Revenue Sharing: The Texas Portion. Excerpts from this report are included in the written statement provided to the committee.

I would now like to summarize our findings, giving particular attention to observations on citizen involvement in the allocation process, and Texas' failure to comply with civil rights provisions of the State and Local Fiscal Assistance Act.

It is the conclusion of the Texas League that revenue sharing was not used to the best advantage of the State. Revenue sharing allocations had little impact in meeting the needs of minorities or of the poor, who constitute one-fifth of the State's population. The funds were distributed in a fragmented manner without the benefit of a well defined, comprehensive plan incorporating careful analysis of the State's greatest areas of need.

In lieu of developing such a comprehensive plan, State officials distributed the moneys with the following four considerations as guides: one, avoiding a tax increase; two, avoiding the allocation of moneys to any program already receiving Federal funds; three, putting the money into nonrecurring capital expenditures; and four, using the money as widely as possible.

Employment of these four criteria led to a plan for use that avoided most social programs, or programs that would be of substantial direct benefit to low-income people or minorities. Federally funded agencies, such as the Department of Public Welfare, responsible for a number of human needs programs, were left off the revenue sharing gift list, while other agencies not noted for their impact on social problems, such as the Texas Cosmetology Commission and the Texas Amusement Machine Commission, received revenue sharing allocations.

Revenue sharing did not significantly alter the pattern of State budgetary allocations in Texas, but it did have a major fiscal impact. While the State's revenue sharing allocation of slightly more than $316.1 million amounted to only 3 percent of its total $9.7 billion budget for the 1974–75 biennium, the amount clearly enabled the State to avoid a fiscal crisis that would have forded budget makers to choose between program cutbacks and an anticipated tax increase. As a result of the revenue-sharing windfall, taxes were not increased for the first time in 25 years, and Texas lawmakers did not have to seek additional revenue by increasing the sales tax or instituting a State income tax or corporate profit tax.

Revenue-sharing moneys, together with unexpected tax revenues generated by inflation and the energy crisis, have given Texas an unprecedented budgetary surplus. In January, at the beginning of the present legislative session, the State comptroller estimated Texas would have a $999 million surplus at the close of fiscal year 1975. However, emergency appropriations during the current legislative session have considerably diminished this predicted surplus.

Although a State tax increase was prevented, the local tax burden actually rose. Local governments received little direct benefit from the State's revenue share. For the present, Texas continues to be overly dependent on the inequitably administered local property tax system.

Citizen input into the revenue-sharing allocation process at the State level in Texas was virtually nonexistent. Lack of citizen participation can be attributed to several factors; traditional citizen apathy to the State budgetary process, lack of formal mechanisms to obtain citizen input on revenue sharing, and limited press coverage of the process.

Our interviews indicated that most public interest groups were unaware of how revenue sharing funds had been distributed by the State, and that they had made almost no attempt to lobby for specific uses of the funds.

It must be granted that geographical distance and the complexities of State government limit direct participation at the State level. In Texas, as in other large States, there is a greater dependence on elected officials to execute the will of the people where budgetary matters are concerned.

However, we found little evidence that legislators exercised their prerogatives to debate the allocation of revenue sharing moneys. Members made no effort to separate the moneys for special consideration, or to reevaluate the priorities determined by the staff of the Legislative Budget Board and Governor's Budget Office. There was no hearing specifically devoted to reading testimony on the allocation of revenue sharing moneys during the 1973 legislative session, nor could our researchers find evidence of any citizen testimony directly related to the use of these funds.

Press coverage given the State's revenue sharing allocation was limited and State officials did little to encourage it. Officials interviewed admitted making no special attempt to contact minority and bilingual media, in spite of regulations of the State and Local Fiscal Assistance Act mandating that they do so.

Programs funded by revenue sharing are expressely prohibited from discriminatory hiring practices and provision of services. Our research indicated that Texas officials paid little or no attention to these provisions. Examination of employment records of the revenue sharing funded agencies and of the State as a whole caused us to conclude that Texas is in clear violation of the laws governing its receipt of revenue sharing moneys. We have filed a complaint against the State with the Attorney General of the United States.

At this time, I would like to give you a little history of that complaint, and share some of our pertinent statistical findings. Using 1973 data compiled by the Governor's Office of Equal Employment Opportunity, we were able to draw an aggregated statistical profile of employment patterns for all Texas agencies, except educational institutions. The data showed that blacks, who make up approximately 12.7 percent of the total State population, held only 7.7 percent of the 70,976 jobs covered by the State study. Spanish-surnamed individuals, who represent 18.4 percent of the population, held only 11.1 percent of the jobs. Perhaps even more alarming was a consideration of the salary levels of minorities and women. For example, 71.2 percent of the State's black employees were in the bottom two salary levels, earning less than $6,000, while 50 percent of the Spanish-surnamed employees and 57.4 percent of the female employees earned less than $6,000.

With the help of the Trinity University Department of Computer Sciences, we conducted a separate study of employment patterns within agencies which received revenue sharing allocations. There were 27,447 employees among the 42 revenue sharing funded agencies we analyzed. Of these, 79.9 percent—or effectively 80 percent—of the blacks, 68.2 percent of the Spanish-surnamed, and 66 percent of the women earned less than $6,000. Of those in the two highest salary levels—those earning $16,000 or more—only 5.1 percent were Spanish-surnamed, 0.8 percent were black, and 12 percent were female.

Our analysis of these official employment records reveal that ethnic minorities and women are under-represented in Texas State government employment. Further, ethnic minorities and women who do become employees of the State are under utilized and under paid. State officials allocating Texas' revenue share paid little or no attention to the employment records of funded agencies, with the result that most agencies funded with revenue sharing moneys exhibit employment discrimination records similar to or worse than the State as a whole. There was no evidence that the Office of Revenue Sharing or the Equal Employment Opportunity Commission had acted to remedy these violations of the law, despite the fact that records documenting discriminatory practices have been on file with the Federal Government since at least the fall of 1973.

On February 1, 1975, the Texas League of Women Voters filed a complaint with the U.S. Attorney General, charging that the State of Texas is out of compliance with section 122(a) of the State and Local Fiscal Assistance Act of 1972, and requesting that the Department of Justice initiate a lawsuit against the State of Texas to remedy existing violations of the law.

In closing, I would like to give you a few suggested policy and procedural changes that we believe will lead to a more equitable distribution of revenue-sharing moneys. First, improvement of the data base for revenue sharing allocations. Ms. Austin has already touched on this. The undercount is of tremendous importance for States like Texas who have large minority populations. I will not reiterate what she has said, except to add that there is another way in which the undercount hurts States like Texas. It is probable that many of the uncounted minority members are also low-income persons. Since per capita income is another component of the formula, the monetary loss to States like Texas, and in particular to certain localities within the State, is compounded by these inaccuracies.

Second, we recommend a reconsideration of Federal prohibitions against using revenue-sharing money as matching funds for other Federal programs. State officials scrupulously avoided awarding revenue-sharing moneys to agencies receiving other Federal grants. In fact, we wish they had paid that close attention to examining the hiring practices of the agencies that were receiving Federal funds. Many federally funded programs which deal directly with human needs were, therefore, bypassed, because of the nonmatching provisions.

Third, we suggest that Federal officials work with State officials to identify broad objectives and priorities for the use of funds by State and local governments. This would avoid some duplication and cross-purposes among State and local governments. Fourth, we would call for a citizen participation structure to be brought into revenue sharing. Decentralized public hearings, held early in the decisionmaking cycle, should become an integral part of the process. Governments should be required to give notice of these hearings at least 2 weeks in advance, including press releases to local media. Ongoing citizen advisory committees with broadly representative membership should be established. The Office of Revenue Sharing should mount an aggressive public education campaign to help the average citizen understand the program and become aware of the ways in which he can participate in the allocation process. The ORS has published several worthwhile documents explaining revenue sharing, but distribution has been limited due to the cost of the documents. Mr. Ginsburg mentioned one of those documents, and it is supposed to provide the basic citizen guide, but it costs 75 cents per copy. If a civil rights organization or another group is attempting to distribute a pamphlet of that kind, it becomes very costly to do so. We believe a free publication for general distribution would be useful.

ORS should institute stricter compliance procedures. Texas officials failed to comply with nondiscrimination regulations and other provisions of the Revenue Sharing Act; yet, to our knowledge, the State has never been censured for these infractions.

Finally, we suggest the modification of the planned and actual use reports to require more specific reporting. This would facilitate accountability to citizens in the use of funds, and the monitoring of compliance by the Office of Revenue Sharing.

Senator HATHAWAY [presiding]. Thank you all very much. You have made a valuable contribution in pointing up some of the shortcomings in the act.

Mr. Taylor, would you advocate that the enforcement of the civil rights provision be transferred to the Department of Justice?

Mr. TAYLOR. No, I would not, Mr. Chairman, advocate that at this time. The Justice Department has a role to play, an important role to play, in enforcing civil rights guarantees. But the role that it plays is principally in initiating litigation. Title VI of the Civil Rights

Act of 1964 has in some instances been a very important tool in enforcing guarantees precisely because it does not rely on a lawsuit-by-lawsuit approach. It places the obligation on the agency to make sure that its funds are spent in a nondiscriminatory way. It provides fund termination as a sanction. So I think we have got to keep responsibility on the agencies that dispense the funds to carry out that responsibility.

Now, having said that, I think that while we have not formulated recommendations at this point—one of the things that might be considered is some new agency or some agency that would assume an interagency responsibility for carrying out civil rights requirements in particular areas. For example, the Federal Government is really going into the business these days much more of funding local services such as transportation services through the Urban Mass Transportation Act, and highway services, various kinds of community development, through New Housing and Community Development Act, and the whole range of services that are funded under revenue sharing. Perhaps it would make some sense to establish an agency which would be responsible for developing objective standards of measuring equity of services, and seeing that they are carried out. I do not think that would completely relieve the pressures on each individual agency to carry out its own responsibilities, because one of the things you find is, when you establish an independent agency that is somewhat removed from the funding leverage, and you take responsibility off each individual agency, you do not get very good enforcement.

So, that is a rather lengthy answer to your question. But I think whatever we do, we have to preserve the basic responsibility of agencies to see that their funds are not used in a discriminatory way. We have got to find ways of improving their accountability and their enforcement.

Senator HATHAWAY. Am I right in assuming you would go along with the recommendation made by Mr. Staats that the civil rights provision must be broadened to cover all local spending?

Mr. TAYLOR. Yes, I think so, because of the fungibility problem, and because of the specific case that Mr. Ginsburg mentioned. It is indeed possible for an agency to insulate right now discriminatory acts saying it is using the money for another purpose, and I think that loophole needs to be closed. But none of that is going to be very useful unless we get some better mechanisms for enforcement. So I agree with Mr. Staats, but I also want to keep the focus on getting some agency accountability here, because there is none at this time.

Senator HATHAWAY. With revenue sharing we do have a foot in the door in antidiscriminatory practices which we never had before. It has that benefit.

Mr. TAYLOR. Well, to the extent the Federal Government is funding functions that it did not fund before, that is true, and certainly that provides—if we can look down the road, past our present problems, that may turn out to be an advantage somewhere. So I would concede that. But I would want to mention something else that troubles me very much, that I cited, that is in my testimony but which I have not yet mentioned this morning; that is that I am concerned that revenue sharing not become a device for, to put it quite strongly, reinforcing urban apartheid, which I think is what we have today.

Now, a few weeks ago, members of the administration told Mr. Holsendolph of the New York Times that the urban crisis was all over. But the facts and figures that were cited in that same story, official Government statistics, show that the racial disparities and the economic disparities between central city and the suburbs are growing. They are not being ameliorated.

Now, what worries me about revenue sharing is that it provides funds often to rather affluent, predominantly while suburbs to meet their own needs—and they do have some needs—but it does not require any form of cooperation on the part of these suburbs in meeting some of the basic economic and social problems of the entire metropolitan area.

Not much has happened under other programs, I will concede to you, but there was the beginning of an effort to say we have got to work cooperatively on these matters, and we have got, for example, to think about fair share housing programs which would give people access to communities outside of the ghetto areas where they now live. All of those requirements, or all of those embryonic devices for stimulating cooperation are not there under revenue sharing, and they are really a disincentive to meeting the problems that we still have in our cities today. That does worry me very much.

I think if we are really talking about equal protection of the laws, then we have to be concerned about the disincentive to cooperation that exists. As Ms. Austin said, cities will take the money if there is nothing else; but that does not begin to meet the whole range of needs that they have. It does not provide access to jobs for people who live in the central city; it does not provide access to services. So in that sense, revenue sharing as it now stands, is very much of a negative factor in promoting equal opportunity even though it may reach new services.

Senator HATHAWAY. Senator Packwood?

Senator PACKWOOD. I think a pretty persuasive case has been made about existing racial discrimination, and I will work with you to try to amend this legislation in some way to eliminate it. I suppose you cannot eliminate it, but certainly to enforce equal treatment under the laws.

I want to turn to slightly a different subject, and that is the poor and nonpoor category, apart from race; because I sense, especially with Ms. Austin's statement, I sense in here that local governments are not spending their money for the right things; whether or not they are discriminating, they are not spending it for the right things. Is that a fair statement to draw from your statement?

Ms. AUSTIN. I think so, based on our experience.

Senator PACKWOOD. What do you think are the right things?

Ms. AUSTIN. Well, first of all, I think there has to be much more attention given to the human services for people who cannot afford to buy these services.

Senator PACKWOOD. Tell me what you mean by human services?

Ms. AUSTIN. For example, some of the basic common human needs, when you look at housing, health, some new and innovative programs in terms of education. I would think that certainly at a time of recession you would have to be concerned with employment.

Senator PACKWOOD. Are local governments unaware of these needs?

Ms. AUSTIN. Well, I guess it depends on the politics of the situation, Mr. Senator. I think that there is no mechanism for the citizens. What you need is a coalition of interests which would help determine local priorities. I think that this is something that is new to local governments. I think there is no established mechanism whereby they can get this broad-based opinion which can influence or help them to prioritize the programs or decisions in the best interest of the community.

I think if you have no established mechanism, I think this is what Mr. Ginsburg was trying to say in terms of his experience regarding citizen participation, there is no way to open up that decisionmaking process. The decisions are usually made before people have an opportunity or the plans have been made by agency heads and others.

Senator PACKWOOD. But you think without this kind of opening process—and I am not prepared to concede it does not exist.

Ms. AUSTIN. I think if we are talking about degrees, I am sure it exists better and more appropriately in some situations versus others. But over all, I think there is a real likelihood in this area that it does not happen.

Senator PACKWOOD. Do you think that either the local officials do not know what the local needs are, or if they do, that they refuse to acknowledge them?

Ms. AUSTIN. That is right, and there is no handle whereby this can take place.

Senator PACKWOOD. There is no what?

Ms. AUSTIN. No mechanism, no established mechanism in which this can take place.

Senator PACKWOOD. Elections are not enough?

Ms. AUSTIN. Obviously not, the answer to that is no.

Mr. GINSBURG. I would just like to add, if I might, Senator, this notion; that the concept of elections is certainly a valid one, where citizens, have an opportunity to express their viewpoints. But in so many of the communities where the urban coalition, where the league, where we operate, those minorities and the poor are a distinctly smaller segment of the population than the larger majority. And politicians all too frequently, for whatever reasons, often neglect providing the services in an equitable, fair-sharing, manner to all groups in the community. So, while people can vote, and vote their opposition to those who are in office, they often do not have nearly enough strength to replace them with candidates and officials who would serve the entire community.

I think we are really in a bind here when we are saying that if we do not like the way the priorities in the community are being set, we can vote the people out; because all too frequently those who need the services most are in no position to express a majority vote.

Senator PACKWOOD. Let me read you a question and answer yesterday. I will read it. All four of the mayors said the same thing. This happens to be Mayor Gibson's answer, but each of them answered about the same. I asked this question:

> The argument that the National Welfare Rights Organization and maybe those who want a very, very strong, Federal grant-in-aid program are going to give is that you do not understand the priorities; that your people really want day care more than they want policemen; that you are spending the money wrong.

Mayor Gibson:

I think it gets back to Mayor Orestis' basic question of citizen participation. In our city, we have a unit that operates and advises us. If anyone can tell me that they know more about what the people of Newark want than I do, I think they are wrong.

Is he wrong?

Ms. AUSTIN. I would not venture to say whether Mr. Mayor knows more about his city than somebody else. I would not say that. All I can say is that I can not reiterate, I think, strongly enough the fact that the people—that there is a great education process through all of us, and this has been one of the benefits of this project that we are participating in, and that is that people had very little notion, many of the citizens, about how decisions are made in terms of a budget; not just general revenue sharing, but in terms of a total budget.

Senator PACKWOOD. Sometimes education means that we are going to educate them until they agree with you or me and then they are educated.

Ms. AUSTIN. No. I have faith that if people have access to information, they will make good judgments.

Senator PACKWOOD. All right. Let me quote yesterday from Graham Watt's statement as to where the money is spent. This accounts for State and local. One biggest priority, if you count both the spending, was for public safety services; second was education; third was public transportation services. Then in the poll, the public opinion poll of community leaders asking where revenue sharing money should be spent, top priorities were for public safety, education and public transportation.

Now it seems to me the money is being spent where the citizens seem to want it spent.

Mr. TAYLOR. Senator Packwood, if I could make an observation or two on that. I do not think any of us would want to dispute, for example, the specific statement made by Mayor Gibson. But central city mayors are just in a terrible dilemma with respect to the use of these funds. On the one hand, a place like Newark has an overwhelming property tax burden——

Senator PACKWOOD. It is incredible.

Mr. TAYLOR [continuing]. That it has to meet, and on the other hand, it has all kinds of social needs. I think we ought not to focus attention away from the State and the way funds and services are being distributed at that level. There is really no handle at all. It is not a dispute about whether a mayor may know his own needs.

Then there is another point that is of some importance, and that is I do get concerned about what happens when the agency, the level of government that is responsible for spending the funds, is not responsible for raising them. I do think you get a tendency—you mentioned law enforcement, for example; now that certainly is a subject that is very much of concern to people. If you look at the early planned use reports, what this program amounts to if you take it at face value—which I might say I do not—is that it is a $7 billion program over the life of the revenue sharing for public safety and law enforcement; $7 billion on top of the funds that are provided under LEAA.

Now, I am not sure that when you use that money and you are not responsible for raising it, you are necessarily using it in the most productive ways to further public safety and law enforcement.

Senator PACKWOOD. You lost me there. I might agree or disagree with you, I am not sure, on who ought to raise the money, and should the person that raises it spend it; but why, if you are a local official, and the Federal Government gives it to you to spend, are you more likely to spend it wrong if you have not raised it than if you did?

Mr. TAYLOR. Well, in part because you may just take a little bit looser attitude toward that money.

It is not coming immediately out of the tax dollars of the citizens in that community. It seems in part like something of a bonus.

Senator PACKWOOD. Well now, wait a minute. If it came directly out of the taxpayers of that community, they would be more inclined to spend it the way they want it?

Mr. TAYLOR. Yes. I am suggesting you would be more careful; you might be more careful about the whole process of accountability than when it seems to be Federal dollars coming as a bonus. You know, I think it is no news that in addition to spending money in a most productive way, officials are concerned about how best they can present the best face to the populace.

Senator PACKWOOD. Now, as it comes from the Federal Government, they say the way they are spending it principally is public safety, education, public transportation. This is the way they are used to spending the money. They would spend it more responsibly if they taxed and raised it themselves?

Mr. TAYLOR. I think there is a question, because it would come back to what you have said, where many people in Congress, when this law was passed, said the way we would get accountability is through active citizen participation. Citizen participation would be the effective monitoring instrument for this program. I think as Mr. Ginsburg has said and as others have said, we do not see that happening right now.

Senator PACKWOOD. Would you be satisfied, because I am not sure you will, if you have the effective citizenry participation, have referendums, put it on the ballot if you want; but if 60 percent of them say we want improved transportation and public safety, another 20 percent want more parks, and only 4 percent want more day care, so you spend 4 percent of the money for day care, I do not sense you would be satisfied with their conclusion.

Mr. TAYLOR. Well, your sense of the situation is correct in this respect. Yes, we want more effective citizen participation. Second, we feel there are basic economic and social needs in this country which are matters of national policy.

Senator PACKWOOD. As determined by who?

Mr. TAYLOR. As determined by the Congress assembled, representing all of the citizens of the United States. So we are concerned——

Senator PACKWOOD. And we know these needs better than local government does?

Mr. TAYLOR. I would suggest that to a great extent—I do not know why this is so—but to a great extent over the past 30 or 40 years the Congress and the administration have been more sensitive to the needs of citizens who are not always well represented or fully represented because they are minorities within a local governmental process. I do not know if that is inevitable, but that is a fact.

Senator PACKWOOD. I do not want to argue with you about minorities because I think you are right. I see discrimination racially all up and down the line. I see it at the Federal level right on down.

But are you really trying to say to me that as a United States Senator, in terms of a public housing project, I know better than my mayor of Portland whether it ought to be a high rise, low rise, where it ought to be, what the income level ought to be for people to be eligible?

Mr. TAYLOR. No. That gets into—some of the detail that has been built into categorical programs, I would agree with you Senator, ought not to be determined here. Sometimes that detail, I should say, can be very important because we have seen that when you assemble and say this is the area in which all low-income people can live, and we build Pruitt-Igo homes or the Robert Taylor homes in Chicago and you say we lock in minorities and the poor into this community, that defeats the purposes of the program. So that they may be something worse.

Senator PACKWOOD. That was basically done under very, very narrow grant programs dictated by the Federal level.

Mr. TAYLOR. That is correct. It has only been gradually that it has been corrected.

Senator PACKWOOD. We made a mistake on the Federal level.

Mr. TAYLOR. I guess what I am saying is I am not certain, given the degree of prejudice we have had to overcome in this country and that we have not yet overcome, given the fact that we have neglected the needs of the poor, that we would have done any better if we had just simply left this to a matter of local determination, because during all of this period a great many people were disenfranchised. They could not participate in their local community and they are not yet fully enfranchised in the sense of really feeling that they are able to participate in their governments today. I was on a program——

Ms. AUSTIN. It is not just the poor and the minorities who feel this way. I think it is also the working class. We talk about all of the people of the cities, Mr. Senator, and our concerns come not just from poor people and minorities but working class people and others who want to have something to say about how these funds are spent.

Senator PACKWOOD. I understand this. But if all these polls we have been given are right, the working class pretty much is satisfied to spend the money on public transportation and education and environment. That seems to be their priorities.

Ms. AUSTIN. Not if you live in cities. I do not want to debate you about public transportation, but often the public transportation that has been devised has not been for people in urban areas. It is for people who live outside of the city and work in the city to take them some place else.

Senator PACKWOOD. It seems to me we are coming down to this rock and a hard place. We like local government decisions so long as we agree with them. If we do not agree with them we want a Federal Government grant that would narrowly define what we think they ought to achieve.

Ms. Austin. I guess what we are really saying is it is really either/or; I think one of the things we suffer from in this country is a great deal of fragmentation. What we are really trying to do is get a better understanding in working together of all of these pieces. I do not think it can be a situation of either/or. I think if we take the public housing situation as an example, it is clear that no one has the answer to that and that is clearly a national issue, and it is clearly an issue where all levels of government in the private sector will need to work together. I think it is not an either/or situation.

I certainly, and I think I say this in my testimony, we understand and appreciate the need for local communities to make their decisions. But we also understand the need that this cannot just be a numbers game, and it just cannot be an either/or. I think there has to be some meeting of the minds around, even within some of the broad spending categories.

Mr. Ginsburg. But even on these opinion polls, while people may say, they favor expenditures even for such things as public safety, but there certainly is not an equitable distribution of police and fire facilities throughout a community. So, if you are getting that answer, you are missing, I think, one aspect of the question.

Senator Packwood. I agree.

Mr. Taylor. Let me just take the dilemma one small step further, because I think it is an interesting dilemma. Let me just assume, I do not know if this is a fact, that a great number of citizens in this country would like to see money used for improving highways so that they could use their automobiles to get to work and to get around the city more easily than they have in the past.

Now, here we are faced with an energy crisis that we perceive as a national crisis. I have listened carefully to Mr. Nathan. He says this is a way of sorting out the various governmental functions, saying what should be doing at the national level, what should be done at the State and local levels, and energy, he says, is a national problem. But, if it is a national problem, can we really afford to say if citizens really want moneys used in an unrestrained way, in ways that would be very wasteful of energy, that that is what we ought to do.

I do not know; that is a difficult problem.

Senator Packwood. Well, in the last election Oregon had on the ballot a measure to allow us to use part of our State highway trust fund for mass transportation. I supported the issue; it was defeated by about 4 to 1. Do the citizens have the right to make that decision? It is their money, it is their problem. Do they have a right to make that decision?

Mr. Taylor. One of the themes we have tried to stress throughout this is that one of the things they need is to be in possession of all of the facts and all of the information at the time they express their views to make the decision, and that is not being promoted.

Senator Packwood. How do you know that? If you put a measure on the ballot to allow the use of highway trust funds for mass transit and they do not come to the same conclusion I do, by an overwhelming majority they do not come to the same conclusion I do, I am not going to be so presumptuous as to say they do not understand the question.

Mr. Ginsburg. They may understand the question, Senator, but, obviously, the automobile is part of the American way of life and we have geared our transportation activities to the use of that automobile. For example, in nearby Virginia, where I live, it was not until a year and a half ago that we got a bus within 10 blocks of our home. Well, a lot of people in suburban America are caught without a decent kind of mass transit system, and with all the complications we have had with the way we have allocated our funds to mass transit, a lot of people would see a really reliable, efficient low-cost public transit system many years away.

So, even in Oregon, with all its pressures for ecology, and environment control, there could still be this heavy reliance on autos for such a long time, and these things take time to change. That is all.

Senator PACKWOOD. I give you that, but at the same time they would not allow the use of these funds for mass transit, we take 1 percent of our highway trust funds and use it for bicycle paths. I think it is great we are spending $2 million to $3 million a year for bicycle paths—we have paths going all over the State—it is a good expenditure of money. The citizens approve of that, but it is kind of hard to be second guessing them all of the time and saying that I will go with them when they agree with me because they have had enough education.

Ms. AUSTIN. What about when they do not agree with each other, like the situation where the mayor wanted to use the money for some human services, and he had to deal with the State and the counties. So, I do not think it is just a——

Senator BROCK. Well, I think as you noted in your own statement, that mayor ultimately had to come to Washington, the Office of Revenue Sharing, and the Office of Revenue Sharing backed the mayor and said, wait a minute, you can use that money for human services.

Ms. AUSTIN. I just give that as an example, as it is an either-or situation.

Senator PACKWOOD. I do not have any other questions.

Senator BROCK. I really am fascinated with this conversation. I would like to pursue it just for a second. I do not think there is any member of this committee that disagrees with your quest for nondiscrimination. It is fundamental, whether it is local dollars, whether it is Federal dollars, whether it is State dollars. There should be no discrimination.

You get into a much more difficult problem, Ms. Austin, when you raise the issue, saying you want to represent or speak for people who work, not just minorities, not just poor, but the people in the majority really.

Ms. AUSTIN. People who live in cities.

Senator BROCK. People who live in cities. I do not argue that at all. What bothers me when we continue to talk about some device which we could enact here to amend the Revenue Sharing Act to require participation in some form, is I am afraid we may be going the same route we did with Pruitt-Igo, in which the finest, best minds of this country said, that is the most modern, first-rate project we can come up with. Everybody said: "Oh, this is a beautiful thing," and the only people that were opposed to it did not have anything to say at all, I guess. They were not very well heard, if they were serious opponents, and within 10 years you demolish it.

I just have to believe that maybe if you listen to the community a little bit more and a little bit less to the experts up here, you might approach that thing from a slightly different perspective. I raise this point for you, too. No matter how much we agree with what you seek and how hard we try to write language that will accommodate your purposes, ultimately this country is based not on a meeting process, but an election process, and for all the disparagement of elections as a proper vehicle and an adequate vehicle to individuals who may be a minority in a given circumstance, the fact remains that if a minority in a community—it may be suburban, affluent minority, but it may be the vocal minority—in a particular instance if it is successful in setting up its lobby so that it can come in with all of the charts and the fancy boards and visual aids and everything to convince the mayor to do what is not popular in the allocation of revenue sharing, that mayor, if he responds for too long a period of time to a minority that is not reflective of the true desire of the community, he may not be mayor very long. And the opposite of that is, that is their ultimate redress.

I agree with you on education. I think there is a great difference between us substituting an educated elite, Washington viewpoint for what somebody referred to as an uneducated citizen viewpoint at the local level. I am not sure it is going to work that way.

Mr. TAYLOR. That is not really, Senator, the dichotomy that I was trying to express. I think I would not want to slip into a suggestion that while we all agree that the democratic processes and the means of citizens expressing their views through the electoral process at the local level is fundamental in our society, I would not want to suggest that that means that the untrammeled will of the majority to the exclusion of various kinds of minority interests should always prevail. I know you were not saying that.

Senator BROCK. I am not, at all.

Mr. TAYLOR. But I think you get to a question of definition of the interests of those who are least protected in our society and how best to protect them.

Now, let us take Pruitt-Igo. I think, while you are correct in saying that there are a lot of people who said that Pruitt-Igo was the way to go, they were doing it in a specific set of facts and circumstances, and that is the general popular view that nobody wants the poor in their community. So how best do you operate here in trying to carry out a program when there is that kind of opposition that has been expressed over the years?

Just a couple of years ago, a similar conflict occurred in Forest Hills in New York—and I think that is a good example—of why we are in so much trouble in our cities right now because we have never been able to face up to the question of how do we provide shelter and jobs and services for the poor. So we have been just shunting them from one place to the other.

Yes, if it is antidemocratic to say I would not leave that question to a general vote, I would say that. That is a part of what we have to——

Senator BROCK. We all know there are times when we are not going to agree with the majority. There are times when you have got to cast a vote based upon what is fundamental and right as we understand the implicit ethic of this society. It may not be popular. I am in the same box with Bob Packwood. I voted to allow our communities on our highway bill to allow the use of those funds for mass transit instead of just concrete. I think we are getting ready to pave the whole world in this country. It scares me to death.

But, you are on a continuum here that stretches all the way from total response to total nonresponse. And somewhere in this continuum you have got to find a meeting ground for us here, for the mayors, for people in the community, all of us. It is not black or white. It is not either-or. It is somewhere in between. But, is that not what revenue sharing is all about?

I mean we have got categorical grants. We continue to expand our Federal programs to direct specific rifleshot programs, but do we not also have a responsibility to give our local government, with antidiscrimination provisions which I will try to help you with, to give them the opportunity to give to that citizen a greater voice. Is that not one of the central purposes of it? If it is not working, OK, maybe we can improve it, but would you suggest we eliminate that opportunity by going away from revenue sharing entirely and going straight back to the categorical approach?

Mr. GINSBURG. Why can you not strengthen that opportunity? I know you cannot mandate that budgets be prepared in an understandable way. You cannot mandate that the budget cycle must start 6 months before the public hearing, but it seems to us you can call upon the agency charged with enforcing this act to at least require each recipient to prepare some additional information so that citizens can make an intelligent assessment how these funds are spent.

Why can we not have impact statements to get to the question of a democratic distribution based on an equitable basis so all segments of the population are served?

I am really not asking for things that do not exist in other legislation. For example, the regulations on public service jobs state very specifically that each significant portion of the population must get its equitable share of the public service jobs—a ratio based on how much of its constituents are unemployed compared to all unemployed. So, there are some techniques. We can ask, how much of the money is going for a new service, what section of the community will be served by this new service.

These do not seem to us to be unreasonable and overburdening requests. We do know it will take work, but if the democratic process, which we all seem to support so vigorously, is to work effectively, let us try to develop some better tools and mechanisms so all citizens can, indeed, participate more effectively.

That is what, at least on the information aspect and the reporting aspects, we advocate. There are communities like Seattle—which have effective systems for involving citizens and disseminating information about GRS. Our critical comments do not mean each and every jurisdiction is deficient. What we are saying is too many are deficient and we would like to take some of the better examples of citizen participation and extend them.

Senator BROCK. I do not really disagree with that, but what really bothers me is of the 39,000 jurisdictions, a great majority of them are very small. And, when you have got a community of a few hundred people, they are probably related to the mayor and they can find out by telephone call exactly what is going to happen to the revenue-sharing funds.

I think what you are reaching for is what we all are reaching for, how to get citizen participation in the larger communities, because that is where we have the problem, and that is where there is inadequate participation, excessive discrimination, inequities.

All of the problems are focused in those communities which are so large that the individual gets lost in the mass. And, that is where we might want to direct our attention.

If we try to do this for 39,000 jurisdictions, Mr. Ginsburg, we would absolutely destroy any opportunity for this program to work, because they would put more money into the report than they would get from the revenue-sharing fund.

I think you can understand that?

Mr. GINSBURG. And I would expect the regulations to reflect those problems of size and competence and capability.

Senator BROCK. Right. Let me point out one other thing. This relates to something Ms. Avena said with regard to some of the others. when we tried to write in restrictions, we wrote in one restriction which I did not support but that Congress wrote in, a restriction saying you cannot use this money as part of the local share of a Federal program.

I think you pointed out in your statement, if I remember correctly, that those are the social programs. Those are the human programs. So, in effect, we are not allowing revenue-sharing programs to go to the very people we had hoped to help, by refusing to let this carry into a piece of the local share.

And I think that this is when your standards do tend to be self-defeating, on occasion.

Ms. AVENA. I think that one is. It has been changed, somewhat in special revenue sharing, as I understand it.

Senator BROCK. But we have not really got special revenue sharing. We have been trying, but we have failed, so far, to really have special revenue sharing. If we can get that, then we may have something on which we are in real full agreement, and on which we could really see some productive work going on.

I would hope that your testimony would be strong and vigorous on that matter, as well.

Mr. TAYLOR. I would come back to one point along the lines that you say. I think there is a difference between what revenue sharing is and what it could be.

Senator BROCK. Oh, yes.

Mr. TAYLOR. And it is a little difficult to get a handle on it because the rationale for it has shifted so greatly over the years. I am sure you remember when the rationale for it was that we had this great Federal fiscal dividend and the States and localities were all in trouble. That sounds a little peculiar when we are talking about a $50 or $60 billion Federal deficit.

But we talk about citizen participation; if we continue in this society providing no incentive to governmental reform, and just say that citizens can isolate themselves by economics and by race, you do come down ultimately, to a question in the central cities that Ms. Austin knows so well.

They say, participate in what? When all the resources are gone? The services, the jobs and everything else? And I think we are going to have to face this if we are really thinking about revitalizing our federal system, and we are going to have to face up to that problem which is a problem that people have only recently become aware of.

I do not think we can have a revitalized federal system if local control means local control over jurisdictions that are just economically and racially isolated and homogeneous.

Senator BROCK. I would agree with that. Thank you.

Senator HATHAWAY. Well I want to thank the panel very much. I want to say that I am basically in agreement with all of the proposals that you have made. I disagree somewhat with what has been said by my colleagues, that the Federal Government is substituting its judgment for the judgment of local people. These are still Federal funds. We are not just getting back to each individual State a pro rata share of what they have paid into the Federal Government. We are shifting funds around. It is no different in that respect than other Federal programs, and we are in effect substituting our judgment if we do establish priorities—which we do by setting up these categories—for the judgment of the local government. And I think that since it is "our" money, we are certainly entitled to do that. Thank you very much.

[The prepared statement of Messrs. Taylor and Ginsburg and Misses Avena and Austin follow. Hearing continues on p. 212.]

TESTIMONY OF WILLIAM L. TAYLOR, DIRECTOR, CENTER FOR NATIONAL POLICY REVIEW, SCHOOL OF LAW, CATHOLIC UNIVERSITY

Mr Chairman and members of the committee: My name is William L. Taylor, and I am Director of the Center for National Policy Review, a legal research and advocacy group affiliated with the Catholic University Law School. The Center is one of four organizations which jointly sponsor the National Revenue Sharing Project—an intensive effort to monitor the operation of general revenue sharing in communities throughout the nation and to gauge the impact of the law on minorities and poor people. Among the Center's responsibilities in the Project are continuing oversight of the Federal Government's administration of revenue sharing, statistical analysis of the allocation formula, operation of an information and education program through the National Clearinghouse on Revenue Sharing, and overall analysis of the field data collected by our colleagues in the Project.

We appreciate the timeliness of these hearings and the opportunity to present testimony.

As you know, civil rights organizations have been concerned for several years that the guarantee of equal protection of the laws will not be maintained under general revenue sharing or under other measures that have as their stated purpose, an increase in "local control" over social welfare programs. Whatever one may think about "local control" as a theory, black people and other minorities have special reasons to know that in practice they are the victims under any program that is locally controlled without effective federal safeguards. This concern does not mean that civil rights groups are in love with the detailed administrative regulations and plain old red tape that have marred some aspects of categorical programs. We have concern, as you do, about the speedy and efficient delivery of services to citizens.

But there is a basic distinction to be made between the myriad strings that have been attached to some federal programs and requirements of civil rights. The right to be treated fairly and without discrimination based on race, sex or other invidious considerations in programs made possible by government funds is not simply an administrative requirement or string. It is a fundamental ground rule having to do with the integrity of the processes of government. Indeed, I believe that national guarantees of civil rights fall into the same category as "one-man, one-vote"—they are rules imposed from above on states and local governments, not for the purpose of making them weak or dependent but to assist them in becoming strong enough to be vital parts of a functional federal system.

Certainly Congress in enacting the State and Local Fiscal Assistance Act of 1972 recognized that assuring equal treatment under law was a fundamental responsibility that must remain in the hands of the Federal government even when the mechanisms for allocating federal assistance were being altered substantially. The requirement of nondiscrimination, as you know, was mandated in Section 122 of the Act and specific responsibilities to enforce the law and to correct violations were given to the Department of the Treasury and the Department of Justice.

The enactment of Section 122 also constituted implicit recognition by Congress that, contrary to the views held by some people, the duties of the federal government are not satisfied simply by defining the right to equal treatment and providing a means for private redress in the federal courts. Where the denial of rights has been pervasive, as it has in almost every governmental function affecting black citizens and members of other minority groups, private lawsuits can make only a small dent in remedying the problem. What is required, and what is contemplated by Title VI of the Civil Rights Act of 1964, Section 122 and other provisions of law, is full use of the powers of federal agencies to ferret out and redress discrimination in every program and activity assisted by federal funds.

But any reassurance that civil rights groups may have derived from the inclusion of specific antidiscrimination provisions in the revenue sharing law has been dissolved by actual experience with the way the law has been administered. Two and one-half years have elapsed since enactment of the law, a sufficient period to make judgments about the manner in which it is being administered by the Department of Treasury and its Office of Revenue Sharing. It has become clear to us from our own investigations and from studies conducted by others (1) that there is pervasive discrimination in programs and activities assisted by revenue sharing funds and (2) that the Office of Revenue Sharing, the agency chiefly responsible for securing compliance with the law, has failed to take effective steps to prevent or remedy discrimination.

THE PREVALENCE OF DISCRIMINATION

I would like to touch briefly on two areas where problems of discrimination commonly arise under the revenue sharing law—discrimination in the employment practices of state and local governments and discrimination in local services provided with federal assistance.

It has been clear for many years that racial discrimination in state and local employment is a violation of the equal protection clause of the 14th Amendment. But it was not until 1972 that Congress provided a remedy for such discrimination by amending Title VII of the Civil Rights Act of 1964 and by including Section 122 in the State and Local Fiscal Assistance Act. In light of this, we were not surprised to discover that in the great bulk of 33 jurisdictions examined by our project—mainly medium and large cities—there were wide gaps in the per cent of minorities and women in the work force and the per cent employed in particular departments and agencies of government and often in the city as a whole. In one large southern city with a 50 per cent minority population, the fire department which received revenue sharing funds had fewer than 3 per cent minorities. In a border city, with a 24 per cent minority population, the health department which received revenue sharing funds employed only 7% minorities. And there were several cities with departments which employed few minorities or women not only in professional or managerial positions, but even in blue collar and secretarial positions where minorities were employed elsewhere in the city. There is evidence also, as Ms. Avena will testify from her experience in Texas, that similar disparities exist in employment in state agencies.

These disparities are a reflection of various state and local practices that fail to conform to the requirements of federal civil rights law—the use of tests for hiring and promotion that exclude minorities and that are not job related, the failure to adopt affirmative techniques for recruiting minorities and women, and the persistence of instances of overt discrimination. Even if we assume that most states and local governments are willing to cooperate in bringing their employment practices into compliance with the law, a major effort by the federal government is clearly required. And, with state and local government employment constituting the most rapidly expanding field of job opportunity in our national economy over recent years, it is also clear that such an effort by the federal government is crucial to the goal of minorities to overcome the barriers posed by past discrimination and to become full and productive participants in American society.

Similarly, the requirement that governmental services and facilities be furnished equally and without discrimination on the basis of race or other invidious considerations is an area where legal remedies have emerged only recently. It was not until 1972 that a federal court of appeals, in the case of *Hawkins* v. *Town of Shaw*, held that under the 14th Amendment a remedy must be provided when services such as street lighting or paving are clearly inferior in black neighborhoods to those provided in white neighborhoods. Instances of blatant discrimination similar to those involved in *Shaw* have arisen under the revenue sharing law.

For example in Ouachita Parish, Louisiana where revenue sharing funds are used for municipal services there is racial discrimination affecting roads, sewage disposal, drainage ditches and fire protection. In Ouachita Parish, minor rainstorms flood homes in the black community because of the lack of drainage facilities, while white homes are protected by well-maintained ditches and levees. Only four fire pumps, two of which do not work, serve 3,000 blacks living on more than 1,000 acres; all fire stations are located in white areas. Every dirt road in the Parish is in a black neighborhood; whites live on paved and well-maintained roads. Raw sewage flows beside the homes and makeshift playgrounds in black neighborhoods; it is carefully controlled in white areas. Yet more than a year after a complaint on behalf of black residents was filed with the Office of Revenue Sharing by the Lawyers' Committee for Civil Rights, these dreadful conditions remain unredressed.

In the medium sized and larger cities of the South and North where our monitoring project was conducted, discrimination in services was not as blatant as in Shaw or Ouachita, but people in minority and ghetto neighborhoods expressed strong feelings that they were not receiving equal services. In these situations, adequate implementatian of the civil rights provisions of the revenue sharing law demands careful investigation to determine whether discrimination exists and the development of objective standards of measuring governmental services.

Yet few investigations have taken place and, as far as I know, the Office of Revenue Sharing has not even begun an effort to develop objective standards by which the equity of services subsidized by revenue sharing can be gauged. Thus as matters now stand, increasing federal resources are being applied through revenue sharing and other federal laws to assist local governmental services, while the inaction of the ORS permits these sums to be used in ways which violate the Constitution and laws and thwarts the national goal of providing "a suitable living environment" for every American citizen.

THE PERVASIVE DEFAULT OF ORS

One may sympathize with the problems facing an agency charged by law with preventing discrimination in some 38,000 state and local governments not only in the activities I have described but in other areas as well, such as in the employment practices of private contractors utilizing revenue sharing funds for construction projects. But the fact that the task is one of great magnitude provides no excuse for the inaction and lethargy that has marked the ORS' performance in carrying out the duties placed upon the agency by Congress.

In the first place, the opportunity to create a climate encouraging voluntary compliance with the law has been lost by the public utterances of the Director of the Office. Repeatedly over the course of the past two and one-half years he has described revenue sharing as a program "free of strings," different in its administration in almost every respect from programs of categorical aid. Where civil rights requirements have been mentioned at all, they have appeared almost as an afterthought, with no suggestion that the performance of state and local government in affording equal opportunity would be carefully scrutinized. With these signals emanating from the top, it is little wonder that few state and local governments have been impelled to examine their past practices and to take corrective action where needed.

Secondly, the Office of Revenue Sharing has studiously ignored the teaching of experience under earlier civil rights laws that the key to success in performing a major enforcement task is to establish good compliance machinery and to demonstrate a willingness to impose sanctions on those who violate the law. During the 1960s the Department of Health, Education, and Welfare was able to bring about successful integration of public schools in many districts in the South by making clear that it would withhold funds from districts that did not submit acceptable plans. Once HEW had employed this remedy in a number of cases, other districts began to come into compliance without awaiting the imposition of a sanction. Particularly important in this process was the decision of HEW to defer new funding to a district upon a finding of probable noncompliance even in advance of completion of all the steps of the complex administrative process leading to fund termination.

But ORS refused to consider the use of deferral as a remedy on grounds that its program was "different" and it has persisted in this refusal even after having been told by a federal district court that it had legal authority to defer funds subject to the adoption of appropriate regulations. Indeed, ORS has deferred revenue sharing funds only once and then only when specifically ordered to do so by a federal court because judicial findings had been made that the City of Chicago had practiced racial discrimination in its police department which received large sums of revenue sharing money. Now, belatedly, ORS has come forward with proposed regulations governing the deferral of funds. But these regulations do *not* provide for deferral on the basis of agency findings of probable noncompliance, and indeed, the regulations actually seek to cut back on the legally adjudicated *duty* to defer where findings of discrimination have been made by a court of competent jurisdiction.

Beyond this shocking repudiation of its own authority to employ sanctions to deal with violations of the law, the agency has until now refused to initiate its own compliance reviews or investigations, a technique now generally regarded as indispensable to uncovering patterns or practices of discrimination. Instead, ORS has relied almost entirely on the receipt of complaints and, lacking administrative controls that would assure expeditious handling, some matters like Ouachita Parish have pended for a year or more without redress. Indeed, as the U.S. Civil Rights Commission reported recently, even the few successes that ORS has claimed through settlements are suspect because in several instances the agency has settled for less than full compliance with the law.

Thirdly, while excusing inadequate performance on grounds that its staff is very small and simultaneously arguing that a large staff would not comport with the philosophy of revenue sharing, ORS has failed to take steps which would enlist the energies of other appropriate agencies, federal and state, in remedying discrimination. For example, in 1973, ORS seemingly acceded to the suggestion of civil rights groups that it could alleviate its burden of investigation through arrangements with other agencies, such as HEW, DOT and HUD, to monitor compliance in their areas of special expertise, by providing in its regulations for such cooperation agreements. But as the Civil Rights Commission has reported, ORS has concluded only one general agreement, with EEOC, and has not arranged for any other agency to monitor compliance.

If ORS has been lethargic in its dealings with other federal agencies, it has been almost totally derelict in establishing useful relations with state and local human rights agencies. The State and Local Fiscal Assistance Act is one of the few laws that provides a role for governors in resolving complaints of civil rights violations, and ORS has stated that it wants to enlist the help of states and localities in securing civil rights compliance.

Yet we found in our monitoring project that only 52 per cent of local human rights officials had any accurate idea of how revenue sharing money was being used in their communities and only one or two had been given any review responsibility for the use of general revenue sharing funds. In another survey, it was found that 78 per cent of the local officials interviewed stated they had received no communication from the Federal government or their state on civil rights requirements. Apart from the fact that civil rights compliance is an element in state audits of revenue sharing, there has been almost no effort to provide guidance to state and local agencies or to establish standards for their participation in compliance efforts.

OTHER ISSUES AFFECTING MINORITIES AND THE POOR

Even if the Office of Revenue Sharing took far more seriously than it does its responsibility to enforce civil rights laws, serious problems of equal treatment under law would remain. Two weeks ago, spokesmen for the Ford Administration told a New York Times reporter that in their view, the urban crisis was over and that measures that might arguably have been required in the 60s were no longer needed. But in the same story, government statistics revealed the growing economic disparity between family income in the central cities and in the suburbs of our nation's large metropolitan areas. And while some minority families have gained sufficient mobility to find suitable housing outside ghetto areas, the racial as well as economic disparities between central cities and suburbs continue to grow. Revenue sharing, I submit, reinforces this continuing and growing urban apartheid by providing "no strings" funding that permits relatively affluent white suburbs to meet their public service needs without contributing anything to the solution of major social and economic problems that afflict the metropolitan area as a whole.

Prior to the advent of revenue sharing, a number of efforts still in the embryonic stage were being made under categorical programs to induce some degree of cooperation among local jurisdictions in metropolitan areas, e.g., by promoting the concept of "fair share" housing throughout the area, which would also give minorities and lower income people better access to jobs and public services outside ghetto areas. It does not require much empirical study to conclude that once funding is available that provides neither requirements for incentives to metropolitan cooperation, these fledgling efforts to induce some sense of responsibility will wither and die. That, I believe, is what is happening and what will continue to happen if revenue sharing is continued and expanded in its present form.

CONCLUSION

In short, Mr. Chairman, it is not an exaggeration to say that under revenue sharing civil rights enforcement has become a disaster area, reinforcing our worst apprehensions that this new form of allocating resources and authority would become a vehicle for dissolving hard won federal protections against discrimination. Yet I do not think that conflict is inevitable between measures to expand the resources of states and local governments so that their energies will be more fully utilized in meeting pressing domestic problems and steps to assure that basic national policies, such as equal protection under the law, are fully enforced.

If these objectives are to be reconciled, however, it is clear to us that fundamental reform of the State and Local Fiscal Assistance Act is required. The time to act, we believe, is in 1975 and 1976 when the mistakes revealed by experience under the law can be rectified and before the program becomes set in concrete through a simple extension for several years.

That is why we are pleased that your Subcommittee has decided to hold these oversight hearings early enough to permit a full airing of the issues that have emerged from implementation of the general revenue sharing program. If you feel that we can be of assistance in providing information or judgments on these issues, particularly those concerning basic problems of equity and need, we hope that you will continue to call on us in the months to come.

STATEMENT OF WOODROW GINSBURG FOR THE CENTER FOR COMMUNITY CHANGE

The Center for Community Change, as one of the four organizations engaged in the National Project on General Revenue Sharing, has focused on citizen participation in government decisions on the spending of general revenue sharing funds. By providing resources in the form of incentive grants to local community groups, offering direct technical assistance and periodic training, we have strengthened the capability of a number of local groups to gain a better understanding of how general revenue sharing is being implemented in their cities and counties.

In 16 communities across the nation local groups associated with the Center have carried out an intensive interviewing and monitoring effort. A list of those communities is attached.

Working closely with other social action groups, university faculty and students, in each jurisdiction the local groups interviewed approximately 30 elected and appointed government officials and community leaders, collected budget information for the current and selected past years and gathered various economic, social and demographic data pertinent to the jurisdiction. The extensive and detailed reports from each of the 16 jurisdictions is being combined with similar information covering the sites surveyed by The League of Women Voters Education Fund and the National Urban Coalition and will appear in a final report issued by the Project within the next several months.

Meanwhile the first analysis of these voluminous reports has been presented in the document issued by the Project entitled "General Revenue Sharing in American Cities: First Impressions" (December 1974), a copy of which has been furnished to this Committee.

This testimony will concentrate on the question of how citizen participation has been affected by the general revenue sharing legislation, calling primarily upon experiences in the 16 communities where CCC affiliates monitored general revenue sharing.

It is important to note that the "First Impressions" report, which covers 26 cities and seven counties on the issue of citizen involvement, concluded that the adoption of general revenue sharing had not resulted in a significant broadening of citizen participation in decisions of local government.

To the extent that our local groups were able to have an important impact on decisionmaking and fund allocation of GRS monies, that success grew out of an active and sustained pressure exerted by a broad-based citizens' coalition which our own local group was often instrumental in establishing. As these citizen coalitions tried to influence policies and decisions of their local legislative bodies, they encountered a series of barriers which impeded their efforts. Chief among them were the following:

1. Lack of adequate information regarding the planned and actual uses of GRS funds;
2. Failure of most communities to provide supporting information on GRS spending, particularly concerning the impact of such spending on significant groups within the community;
3. Insufficient publicity to Office of Revenue Sharing required reports;
4. Difficulties in tracking general revenue sharing spending because of the substitutability of general revenue sharing for locally raised revenues;
5. Public hearings which are scheduled for too short a time and too late for citizens to have significant influence;
6. No mechanisms for citizen participation in budget processes.

The Office of Revenue Sharing in all its publications regarding the Planned Use Reports indicates that such reports are perhaps a key document to foster citizen involvement. Yet it is important to note that these Planned Use Reports provide the concerned citizen with only the most meager amount of information. At the outset the Office of Revenue Sharing required each jurisdiction to identify whether the funds listed for each of the priority categories for the purpose of operating and maintenance were to be used for existing or for new and expanded services. That requirement seemed sound and logical because it would provide citizens the crucial fact of whether general revenue sharing funds were being used simply to maintain past levels of service or were being allocated for new and expanded services.

That important differentiation has been eliminated in subsequent Planned Use Reports and only a single figure is now required for each of the priority categories to which general revenue sharing funds are assigned.

The ORS also sharply reduced the information which formerly all local jurisdictions had to report regarding their capital expenditures. Formerly, jurisdictions had to apportion their capital expenditure outlays among equipment, construction, land acquisition and debt retirement. Now only a single figure encompasses these various expenditure purposes. Even the original information on Planned Use Reports still left major gaps in the amount of data which well-informed citizenry would need.

With the contracted reporting requirements, the task for intelligent citizen involvement is even greater.

While the regulations call for each jurisdiction to provide supporting data for all GRS spending to be made available upon request, we have found that access was difficult, particularly in the smaller communities where our survey was conducted. Even in several large communities the form of the information offered to our monitors was so voluminous that digging out the specifics on general revenue sharing spending was not feasible. But in none of the 16 communities did the jurisdiction, whether a city or a county, give a full explanation of its GRS allocations in terms of their effect on various geographic regions and the significant segments of the population.

The Center for Community Change, as well as many other civic oriented action groups, is appropriately concerned that GRS be equitably distributed among the various economic, ethnic and racial groups in the community.

While we recognize that gathering and reporting such information involves additional work on the part of local officials, we think without such impact data sound appraisal of general revenue sharing cannot be made.

For several years the Office of Management and Budget has been experimenting with a reporting form which bears directly on this issue. OMB, in its Bulletin 72-3 (issued September 1972), stated that the purpose of the Bulletin was "To help determine the availability and utilization of federal domestic assistance programs by selected racial and ethnic population groups." The Bulletin, designed to be prepared by all recipients of federal funds, called for "A description of the delivery mechanism through which a program reaches local geographic areas and individual beneficiaries, an analysis of program impact on racial and ethnic groups . . ."

Information was also sought for such items as the persons eligible for the funded program, the number who apply for benefits, the number of actual beneficiaries, and finally the number of persons adversely affected by the implementation of the program.

The importance of this type of impact information was also noted by the Office of Revenue Sharing itself. Its excellent pamphlet "Getting Involved—Your Guide to General Revenue Sharing" lists a series of items citizens should check. Included is the following:

If your government is improving streets, alleys, road, recreation and health facilities or libraries with GRS money in some areas; will all neighborhood areas be receiving comparable service because of these expenditures?

Yet, as already noted, in none of the CCC sites were citizens either furnished such information, nor could they obtain it when they sought it. Those jurisdictions which do supply such information—and they are few, for example, San Francisco has done it—are the rare exception.

I also would note that besides the content of the Actual and Planned Use Reports being grossly inadequate, the publicity given to these reports is virtually worthless. All too frequently a reduced copy of the reports was published in the local newspaper, but often in the classified ads, legal notices, or other similarly obscure section of the newspaper.

On every citizen group's list of troublesome issues in dealing with general revenue sharing is the tracking of funds in the jurisdiction's budget. While the law sets forth eight clearly defined "priority expenditure" categories, typically we found officials follow a purely perfunctory identification of GRS money, assigning the bulk of the funds to public safety. This practice has been adopted because of the so-called "fungibility" or substitutability of general revenue sharing funds . . . the opportunity to use the federal funds for a priority expenditure category and thereby free an equivalent dollar amount of locally raised revenues. That equivalent sum can now be expended for whatever local service the elected officials determine, regardless of the priority expenditure categories provided under the Act.

The Office of the Mayor of Los Angeles, for example, indicated to our monitors that it was difficult to identify where GRS funds had been expended because such funds had been spread throughout the budget. Nevertheless, in past years the city's Actual Use Report showed the bulk of the funds going to the Fire and Police Departments.

Perhaps the best way to illustrate the process of shifting of funds is to quote directly from the 1974–75 Budget Message of the Mayor of Los Angeles:

"In previous budgets we have distributed the General Revenue Sharing funds among a number of departments, including the Fire and Police Departments. Because of the lawsuits pending against the Fire Department relative to recruitment procedures and because of the questions which arise on supplanting funds for LEAA grant funded projects in the Police Department, both of which might place the City in some jeopardy of losing the General Revenue Sharing or LEAA funds which we have allocated to these departments I have chosen to shift the allocation of General Revenue Sharing funds. These funds will be allocated to other departments. This will provide no hardship whatever to the Fire and Police Departments inasmuch as they will receive exactly the same number of dollars from the General Fund that they would otherwise receive from General Revenue Sharing funds".

Unless local officials identify well the uses of general revenue sharing funds, citizens are at a loss to understand how such funds were spent in their community.

Let me turn to the question of public hearings on the spending of general revenue sharing funds. In none of the 16 CCC sites did the local jurisdiction hold a separate hearing exclusively devoted to the spending of GRS funds. Instead, where public hearings were held, the GRS outlays were intermingled with other budget items.

To begin with, it is essential that when the budget is presented at a public hearing it is not so far advanced towards its completion that citizens' contributions can have little value.

As our Cleveland monitors learned early, it is crucial to be timely when making proposals for the spending of general revenue sharing funds. In Cleveland, and we found this to be true at all the sites where CCC monitors operated, a public hearing was held only after the budget had been carefully developed and in virtually final form. Months before the official public hearings on the budget, department heads had submitted their keep requests to the chief fiscal officers. These various requests had been carefully reviewed by the chief financial staffs of the jurisdictions along with the mayor, and adjustments and revisions had been incorporated.

At the hearing, while community groups were invited to comment, in fact there was almost no opportunity to introduce an alternate set of priorities or a shift in funds to other programs.

The argument advanced by the legislative council was that general revenue sharing money and other revenues had all been allocated only after careful consideration and deliberation. To amend any spending proposal after this had been done would throw the entire budget off and require endless adjustments. In effect the officials were saying that the proposed budget presented at the public hearing was really not subject to modification.

I would note for the record that the pressure developed by the Cleveland coalition did lead to an extension of the scheduled few days of public hearings to a full two week of such hearings. Also, despite the original position of the elected officials, a number of changes were made in the budget.

The type of deficiencies in the reporting systems, the accessibility of information, and the adequacy of the data on general revenue sharing point to the need for a number of reforms. Without such reforms much of the high flown rhetoric about the opportunity general revenue sharing offers for stronger citizen participation will not become a reality.

Clearly, the reports required of all jurisdictions should contain far more data about the planned and actual expenditures than they now do. Such reports should explicitly indicate which areas and groups within the community would benefit from the expenditure of GRS. Moreover the reports should identify clearly which programs represent a continuation of past levels of services, and which represent an expansion of those service programs, and finally which represent new programs or services.

While it is obviously difficult to mandate active citizen participation, the legislation and/or the regulations should foster involvement of citizens in the entire budgetary process long before the final budget document is presented at a public hearing. Along with that suggestion, and considering the complexities of analyzing a jurisdiction's budget, it seems to us sound to establish citizen advisory committees to help plan and evaluate GRS spending.

These committees should be mandated under the new GRS legislation and apply to all jurisdictions with 2,500 people or more.

In addition, the legislation should require at least one special public hearing in all jurisdictions receiving general revenue sharing funds.

At the national level, a national commission which would include a cross-section of elected officials, special interest and community-based orgainzations as well as spokesmen for other significant constituencies, should be established. Such a commission could assist Congress and the public in securing the periodic evaluation of the administration of general revenue sharing. Included in that evaluation would be the status of citizen participation under the law, along with recommendations to expand and improve it.

These recommendations for citizen committees and public hearings reinforce the concept that elected officials have a responsibility to embark on a serious effort to inform and educate their constituents as part of their obligation which goes with the receipt of general revenue sharing funds.

ADDENDUM

CCC MONITORING SITES FOR GENERAL REVENUE SHARING

Buffalo, New York
Erie County, New York
Cleveland, Ohio
Los Angeles, California
Los Angeles County, California
Phoenix, Arizona
Navaho Indian Reservation, Arizona
San Antonio, Texas
Brownsville, Texas
Harlingen, Texas
Hidalgo County, Texas
Cameron County, Texas
Greenville, Mississippi
Canton, Mississippi
Clarksdale, Mississippi
Russell County, Alabama

Statement by Sarah Short Austin, Vice President, National Urban Coalition

Mr. Chairman: My name is Sarah Austin, vice president of the National Urban Coalition. I welcome this opportunity to address an urban issue that is of intense concern and relevance to those whom I represent. I speak here today, not only as a representative of the coalition, but as a representative of 70 percent of our population—the people living in urban areas who rely on your help to devise effective and equitable solutions to the problems they face.

To date, revenue sharing has not proven to be a powerful remedy for the ills of cities, it also has not become even a satisfactory substitute for the categorical programs it replaced. But, given the dire fiscal situation most cities face, the National Urban Coalition well understands why the mayors in our ranks prefer even an inadequate return of current revenue-sharing dollars as at least a partial counterbalance to the overburden of social and public service costs which cities disproportionately bear. Unable by law in most cases to project unbalanced operating budgets, heavily dependent on property taxes, seeing much of the income produced within their borders disappearing, untaxed, to the suburbs and to the State and the Federal Government—cities in the seventies are in no position to reject what was first misleadingly advertised as "additional" revenues.

M. Carl Holman, president of the National Urban Coalition testified before House Subcommittee on Intergovernmental Relations in June 1974. At that time, he stated that although the GRS concept promised badly needed assistance to the fiscally depressed cities, the deficiencies of the program had "made the phrase 'returning the power to the people' a mockery for the poor, minorities and the working class residents of our cities."

As part of the joint project, the National Urban Coalition joined with its local affiliates in monitoring general revenue sharing in ten cities—Detroit, Racine, Oakland, Pasadena, Wilmington, Pittsfield, Bridgeport, Baltimore, St. Paul, Minneapolis. Our local coalitions, in turn, involved hundreds of professionals and laymen in the effort to try to determine what benefits were actually going to whom.

There was broad concensus on the following findings:

(1) Despite the rhetoric employed, there was very little real opportunity for local citizens to know about—much less participate in—the planning and actual allocation of the funds;

(2) Human service needs were generally not priority for use of the funds;

(3) Civil rights enforcement was generally most inadequate:

(4) The formula for dispensing funds further disadvantaged cities with large minority and poverty populations and extremely critical needs;

(5) Accountability was sadly lacking in a Federal program which could not and did not fill the gap left by the programs revenue sharing replaced.

NUC, its locals and the other citizens who became involved in the project all agreed that the spending priorities were very often wrong. It has been argued, with some truth, that local governments were reluctant to use the funds for new programs. Such programs would inevitably build a following and accustom citizens to having certain human needs provided for. It was feared that, should the money be cut off suddenly, the local political leaders would then have to deal with the frustration which would follow. It was also doubtlessly true that the language of the legislation and regulations encouraged certain priorities over others. In cities which had pretty much reached the tolerable level of local taxation, it was also natural enough that local political leaders would find ways of using these funds either for reducing taxes or keeping taxes at the same level.

The general pattern as our monitors found, was to use GRS funds to lower taxes, or to avoid raising them further, to hire or give pay raises to law enforcement officials, or to finance various public works projects. In Pittsfield, Massachusetts—where the coalition project team educated citizens to the existence and potential of GRS and made recommendations to the city government—the mayor agreed to see to it that no less than 10 percent of the funds would go directly for services.

It would be futile, of course, to attempt to set some arbitrary rank order for prioritizing human needs, one against the other. Our concern is that States and localities be able to, be encouraged to use some of their revenue sharing funds for such needs. That to date this has been no easy matter is suggested by the experience of one city which decided to use some of its funds for hiring men to work with teen-age youngsters in housing projects as a way of reducing juvenile delinquency and providing some youngsters who might benefit from the experience with increased day to day contact with positive male models. The same city also decided to use some of its GRS funds for programs of assistance to senior citizens. Under existing laws, such programs had to be approved at both the county and the State levels. Authorities at both levels originally ruled that the programs represented improper uses of revenue sharing funds. So much for the principle that "those closest to the people know best." City officials finally had to appeal to GRS officials in Washington who informed the State and county leaders that it was indeed all right to use those dollars to help juveniles and senior citizens.

Congressman Rangel (D-N.Y.) had made suggestions as to how GRS can be used for programs to help low and middle income people such as: remedial education, maternal health centers, child development programs, community safety and related projects.

It might be useful to cite some of the examples of what our monitors found:

Pasadena: In Pasadena, GRS funds, particularly after the first year, have for the most part been put into the general operating budget. About one-half of first year funds went for public safety (police) with the remainder distributed among the other seven operating and maintenance categories of spending. From the total GRS funds received by the city of Pasadena, $2,240,258 only $45,858—4.1 percent—was allocated for social services.

Bridgeport: GRS funds went into the general budget and no plans were made for their use. This use of funds made property tax reduction possible. Of $8,362,931 in GRS funds, Bridgeport allocated $188,703 (4.2 percent) for human needs.

Detroit: Detroit has received approximately $90 million in revenue sharing per year. Yet this is a small portion of the total city revenues and has been useful only in holding the line against inflation. In addition, a report prepared for the city by New Detroit, Inc., reveals that Detroit is being badly hurt by cutbacks in Federal categorical funds. GRS receipts are not sufficient to cover the cuts—and are not being used for that purpose anyway.

Minneapolis: According to actual use reports, Minneapolis has spent its GRS funds for a number of programs and categories, primarily operating and maintenance. Social services received over $1 million of the first $5 million allocation, but the city's social services department which supposedly received these funds was unfamiliar with the mechanics of GRS. Apparently the funds were put into the general budget and used to supplement normal revenues and offset inflation. The city policy seemed to favor combining GRS funds with overall city revenue.

The elimination of the present requirement that funds must be used by local governments within eight "priority expense categories" is one of the few modifications of GRS proposed by the administration. Based on the evidence that we have gathered, we would be inclined to support strengthening rather than eliminating this requirement.

At present, the formula for dispensing revenue sharing funds supposedly gives almost equal weight to population, tax-generating ability and need—with some tendency to lean more heavily in the direction of tax-generating capacity. Several months ago when the then Deputy Director of the Office of Management and Budget met with the board of the National Urban Coalition, he agreed that it made sense to give greater weight to need—and thus to reduce the number of cases in which small jurisdictions with few pressing needs got money, grab-bag fashion, which could better have been put to work where the needs were greater.

The 145 percent ceiling has, to date, penalized certain municipalities in an amount close to $7 million. To cite a few examples: (a) because of the 145 percent ceiling, Wilmington, Delaware will receive only 65 percent of the funds to which it is entitled; (b) Baltimore has also been penalized by the 145 percent limit on local entitlements. Thus the city receives $27 million rather than $36 million in GRS funds per year; and (c) in Detroit, the 145 percent allocation limit means that the city will lose $34 million in GRS funds over its 5 year participation.

In 1974, States were receiving roughly one-third of the GRS funds, with the other two-thirds parcelled out to thousands of counties, cities and smaller jurisdictions and sub-jurisdictions. Some States and some of the wealthier smaller jurisdictions were running surpluses while many cities were battling deficits. While the recession may have changed this picture somewhat for the calendar year 1975, it seems to us that some better means of achieving equity should be considered.

Cities which have sizable minority populations are further penalized by the now widely admitted census undercount. The Census Bureau has admitted that it undercounted blacks by 7.7 percent in the 1970 census, a rate four times greater than the undercount for whites. In cities with a substantial black population, the resulting census undercount means that the GRS allocation is diminished. In California, the Census Bureau has admitted that it has missed 643,000 Spanish Americans in its 1970 census count which represents a 27 percent undercount. The effects of this undercount on GRS allocation is obvious in those areas where Chicanos represent a significant percentage of the population. For example, one of our Coalition cities, Newark, will lose almost $500,000 annually because 20,000 black people were not counted in the 1970 census.

Any attempt to revise either the law or administrative guidelines should take into account the fact that tens of thousands of minority residents were not counted; and that, therefore, allotments based on such data will continue to shortchange jurisdictions with significant minority populations.

The General Revenue Sharing Act is not simply a transition from categorical programs to the new federalism. For many of our major American cities and for some of the smaller ones too both the statistics and the experiences of our citizen monitors indicate a Federal withdrawal from the urban areas and the needs of their people.

NOTE: The Steering Committee of the National Urban Coalition will be meeting on May 1. It is not yet clear whether our national board will reexamine its position on general revenue sharing at that time. If so, the president of the Coalition may wish to submit an additional statement for the record.

STATEMENT BY LINDA AVENA, PROJECT COORDINATOR FOR THE TEXAS LEAGUE OF WOMEN VOTERS

As part of the National Revenue Sharing Project co-sponsored by the League of Women Voters Education Fund, Center for Community Change, National Urban Coalition and the Center for Community Change, the Texas League of Women Voters was given responsibility for monitoring the state government's revenue share.[1] To perform this task, some eighteen volunteers worked as researchers and interviewers, gathering background data on government organization and budgetary patterns, examining media coverage of revenue sharing, and interviewing more than sixty state officials and citizen leaders. Volunteer researchers also gathered extensive demographic data on Texas and analyzed employment statistics of state agencies.

In February, 1975, at the close of our year-long study, we released a report on our findings titled *Federal Revenue Sharing: the Texas Portion*. This statement is based on that report and summarizes our findings, giving particular emphasis to citizen involvement in the revenue sharing allocation process and to Texas failure to comply with civil rights provisions of the State and Local Fiscal Assistance Act.

THE TEXAS BUDGETARY SYSTEM

Texas operates on a biennial budget. The budget is adopted by the legislature in May of odd-numbered years and forwarded to the governor for his approval prior to the beginning of the fiscal year on September 1. Texas has a dual budget system. One budget is prepared by the staff of the Legislative Budget Board (LBB), and forms the working document for the legislature. The governor, working through the Governor's Budget Office (GBO), submits a separate budget for consideration of the legislature. The legislature has ultimate authority for enactment of the budget since only the legislature can appropriate the money. The governor's power is limited to his persuasive influence and his ultimate item veto power.

STATE USE OF REVENUE SHARING IN TEXAS

Once the State and Local Fiscal Assistance Act had been signed into effect, revenue sharing funds were injected into the Texas budgetary process in the same manner as monies from any other revenue source as required by law. Calculations by state budgetary officials revealed that the state government

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[1] The Texas LWV study concerned itself only with use of Revenue Sharing by the *State Government*. Two local areas, San Antonio and Cameron County were monitored by another co-sponsor, the Center for Community Change.

would receive $316.1 million for the entitlements covered by the period January 1, 1972, through August 31, 1975. The Sixty-third Legislature, meeting in early spring of 1973, incorporated the $316.1 million into budgetary plans for the 1974-75 biennium. The state was paid retroactively to January 1, 1972, but was unable to spend the money until the beginning of fiscal year 1974 (September 1, 1973). The money, placed in a trust fund, collected over $6 million in interest before the recipient agencies began to spend it in September, 1973.

Although the Texas legislature retained the ultimate authority for determining revenue sharing allocations, the decision of how the funds should be distributed was fundamentally made by the staffs of the Legislative Budget Board and the Governor's Budget Office. The legislature relinquished the opportunity for a closer involvement in the allocation process when members made no effort to separate the revenue sharing monies for special consideration and debate or to re-evaluate the priorities determined by the staff of the LBB and GBO. No special hearing was held on revenue sharing. While members of the Senate Finance Committee and the House Appropriations Committee may have given the revenue sharing monies specific consideration, other members of the legislature had little input into the allocation of the funds. The revenue sharing allocation plan was presented to the legislators buried in the total appropriations bill—a document that one legislator described as "seven inches thick." Legislators were expected to consider the entire document and pass on the bill in two weeks' time. Given this time constraint, it is perhaps not surprising that they failed to pull revenue sharing out for separate review.

Allocation Priorities. The researchers in the monitoring study could find no indication that a comprehensive plan for utilizing revenue sharing monies to deal directly with pressing social or economic needs of the state was ever considered either by the LBB and GBO or by the legislature. Revenue sharing funds were never treated as an income source offering the state revenue for a concentrated, creative attack on one or several specific problem areas. Rather, revenue sharing monies were handled as a general income source and were distributed throughout the budget in a variety of areas to meet the needs of general government.

Planning for the use of revenue sharing monies was guided by four overriding considerations:

1. Avoiding a tax increase. Governor Briscoe had compaigned on a platform of no new taxes. The $316 million of revenue sharing funds helped him keep that promise. He threatened to veto any appropriations bill which contained a tax increase. The legislature acted in concurrence with this philosophy. As a result of the revenue sharing windfall, taxes were not increased for the first time in twenty-five years.

2. Avoiding the allocation of monies to any program already receiving federal funds. The "no-strings-attached" money promised by the creators of revenue sharing proved to have some very rigid restrictions knotted into it. One of these was the prohibition on using funds provided under revenue sharing for non-federal matching contributions. Past experience with such provisions caused the state's budget-makers to be very cautious. In allocating the revenue sharing monies, they scrupulously avoided any programs currently subsidized by federal funds.

3. Putting the money into nonrecurring capital expenditures where possible. State officials are very suspicious that revenue sharing will not last. They carefully avoided committing themselves to new programs which might later require state financing for continuation. This attitude prevented officials from exploring possible new social programs for revenue sharing funding. Such programs build a constituency and involve a commitment to continuance that they did not want to make.

4. "Using the money as widely as possible," as one budgetary official put it. The motivation for making this a principle for planning is unclear. Perhaps the idea was to let the impact of revenue sharing be felt by as many agencies as possible.

Employment of the above criteria led to a plan for use that avoided most social programs or programs that would be a substantial direct benefit to low-income people or minorities. Federally funded agencies, such as the Department of Public Welfare, which is responsible for public assistance, Medicaid, day care licensing, and like programs, were left off the revenue sharing gift list. Monies were awarded to such non-federally funded entities as the Texas Cosmetology Commission—agencies not noted for their impact on social problems.

The Recipient Agencies. Table I categorizes the allocation of revenue sharing by recipient agencies over the 1974–75 biennium. The two spending areas benefiting most from revenue sharing are higher education and the judiciary. Texas colleges and universities will receive $190,408.030 over the biennium. The judiciary allocation of $23,222,210 is paying the major expenses of over a dozen Courts of Civil Appeals. Construction projects are taking a large share of the revenue sharing funds, over $55 million being budgeted specifically for construction.[2]

The researchers in this study found it somewhat difficult to trace revenue sharing funds through the course of state budgeting to their final destination. In some cases, they were specifically allocated in the state appropriations bill to a specified agency for a set purpose, such as construction or delineated operating costs. In other cases, revenue sharing funds have been given to the agency or department head, along with other revenues, to be used at his discretion for any item in his budget.

Fiscal Impact. Revenue sharing has not significantly altered the pattern of state budgetary allocations in Texas, yet it did have a sizeable fiscal impact. While the state's revenue sharing allocation of $316.1 million amounted to only 3 percent of its total $9.7-billion budget for 1974–75, the amount clearly enabled the state to avoid a fiscal crisis that would have forced budget-makers to choose between program cutbacks and an anticipated tax increase.

TABLE 1.—*Allocation of general revenue sharing (GRS) moneys by category: State of Texas, 1974–75*

	Appropriations for fiscal 1974 and 1975
1. General government:	
Aeronautics Comm	$800,000
Attorney General	4,000,000
Building Commission	[1] 4,816,976
Comptroller (State Matching)	23,721,589
Board of Control	6,800,000
Fireman's Pension	675,312
Good Neighbor Comm	201,815
Advisory Comm. Intergovernmental Relations	55,000
Board of Private Investigators and Security Agencies	682,694
Bureau of Labor Statistics	1,000,000
General Land Office	2,000,000
Railroad Commission	1,000,000
Secretary of State	1,000,000
Securities Board	600,000
Treasury Department	1,000,000
Texas Amusement Machine Commission	980,481
Water Well Drillers Board	16,540
Total	49,350,407
2. Education:	
Texas Schools for the Blind and Deaf	[1] 1,658,130
Public Junior Colleges State Aid	12,000,000
The University of Texas at Arlington	9,000,000
The University of Texas at Austin	31,000,000
The University of Texas at El Paso	7,000,000
Texas A. & M. Main University	16,000,000
Prairie View A. & M. College	4,000,000
Tarleton State College	3,000,000
Texas A. & I. University at Corpus Christi	3,250,000
Texas A. & I. University at Kingsville	6,000,000
East Texas State University	7,000,000
University of Houston	16,000,000
Lamar University	6,000,000
Midwestern University	4,000,000
North Texas State University	10,000,000
Pam American University	4,000,000

See footnotes at end of table.

[2] Information obtained from staff members of the Legislative Budget Board and the Governor's Budget Office.

Table 1.—Allocation of general revenue sharing (GRS) moneys by category: State of Texas, 1974–75—Continued

	Appropriations for fiscal year 1974 and 1975
2. Education—Continued	
Stephen F. Austin State University	5,000,000
Texas Southern University	4,000,000
Texas Tech University	15,000,000
Texas Tech University School of Medicine at Lubbock	[1] 1,999,900
Texas Woman's University	5,000,000
West Texas State University	4,000,000
Angelo State University	3,500,000
Sam Houston State University	5,000,000
Southwest Texas State University	5,000,000
Sul Ross State University	2,000,000
Total	190,408,030
3. Health:	
Cosmetology Comm	[1] 280,000
Governor's Comm. on Physical Fitness	122,550
Department of Health	6,753,642
Department of Mental Health and Retardation	20,594,827
Total	27,751,019
4. Transportation	None
5. Social services:	
Texas Youth Council	[1] 2,867,362
Veterans Affairs Commission	1,396,784
Total	4,264,146
6. Housing and community development	None
7. Economic development:	
Tourist Development Agency	600,000
8. Environmental conservation:	
Water Rights Comm	2,000,000
9. Public safety:	
Department of Corrections	[1] 16,500,000
Board of Pardons and Paroles	2,000,000
Total	18,500,000
10. Recreation/culture	None
11. Judicial:	
Courts of Civil Appeals:	
1st District, Houston	345,322
2nd District, Ft. Worth	308,392
3rd District, Austin	322,212
4th District, San Antonio	334,484
5th District, Dallas	339,292
6th District, Texarkana	321,403
7th District, Amarillo	342,564
8th District, El Paso	331,225
9th District, Beaumont	325,028
10th District, Waco	292,750
11th District, Eastland	297,865
12th District, Tyler	325,157
13th District, Corpus Christi	340,048
14th District, Houston	343,940
Supreme Court	1,350,950
Judicial Qualifications Comm	121,148
Judicial Section—Comptroller's Department	17,180,430
Total judicial	[2] 23,222,210
Grand total	[2] 316,095,812

[1] Agencies Receiving GRS funds for Construction only.
[2] Totals adjusted to conform with H.B. 139 as passed and signed by Governor after veto.

Source: Governor's Budget Office and Legislative Budget Board.

What's more, the state's budgetary surplus is reaching unprecedented levels during the 1974–75 biennium, as can be seen in Table 2.

TABLE 2.—6-YEAR COMPARISON OF CUMULATIVE CASH BALANCES, STATE OF TEXAS

	Cash balance in general revenue fund [1]	Change from preceding year
Aug. 31:		
1969	$94,509,072	+$61,523,845
1970	152,855,674	+58,346,602
1971	115,083,866	−37,771,808
1972	53,866,600	−61,217,266
1973	205,898,981	+152,032,381
1974	553,249,005	+327 350,024

[1] Accumulated revenue available for expenditure in subsequent fiscal years, sometimes referred to as the surplus.

Source: "Annual Report of the Comptroller of Public Accounts, State of Texas," for cited years.

While much of the surplus can be attributed to unexpected tax revenues generated by inflation and the energy crisis, one cannot discount the impact of Texas' $316.1 million revenue sharing allocation. Since this income source was not accompanied by a parallel decline in revenue from other federal sources, the state was able to profit handsomely from the program.

President Nixon promised that revenue sharing would reduce the need for heavier property and sales taxes. His prophecy, insofar as it applies to taxes collected at the state level, was indeed fulfilled for Texas, but local governments in the state have not fared as well. It was not within the scope of this study to examine the impact of revenue sharing on local Texas governments, although the groups are conducting such research.[3] However, a few observations concerning revenue sharing and local governmental units can be made.

Although a state tax increase was prevented, the local tax burden actually rose. In Texas the property tax continues to be the principal source of revenue for local government, providing more than 87 percent of all locally collected tax revenues in 1972–73.[4] Revenue sharing seems to have had little effect on property tax increases. One study found that school property taxes in most school districts have increased by at least 25 percent during the last year (1973).[5] Many individuals and groups concerned with school finance reform had hoped that a new school financing system would emerge from the Sixty-third Legislature, one that would alleviate the inequities of the current system and shift a greater share of the financial burden to the state as a whole. Such a plan was not forthcoming. For the present, local governments are not slated to share in the state unanticipated surplus, and Texas continues to be overly dependent on the inequitably administered local property-tax system.

Citizen input into revenue sharing allocations

Citizen input into the revenue sharing allocation process at the state level in Texas was virtually non-existent in 1973. Several factors contributed to this non-involvement: (1) traditional citizen apathy to the state budgetary process, (2) lack of formal mechanisms to obtain citizen input on the specific issue of revenue sharing, and (3) limited press coverage of the process. A separate discussion of the above follows.

It must be granted that direct citizen input into the budget process is less likely to occur at the state level than it is at the local level-geographical distance, the complexities of state government, and a budgetary hearing process that is largely centralized in the state capitol make direct participation a difficult task for most private citizens and low-budget community and public interest groups. These considerations have fostered a greater dependence on elected officials to execute the "will of the people" where budgetary matters are concerned.

Unfortunately, there is little evidence (1) that public interest groups were aware of how revenue sharing might have been used or of how it was used or (2) that legislators exercised their prerogatives to debate the allocation of

[3] The groups mentioned in footnote 1 and the Texas Advisory Committee on Intergovernmental Relations.

[4] U.S. Bureau of the Census, *Governmental Finances* in 1972–73, Series GF 73-No. 5, Table 17, p. 33.

[5] Based on research conducted by Texas for Educational Excellence (San Antonio, Texas). See their *Newsletter*, Vol. 2, No. 5, May 1974.

revenue sharing monies. The legislators accepted the recommendations of the staffs of the LBB and GBO with little question. Further, interviews with legislators clearly indicated that most lacked awareness of where the money had gone.

Structurally, there are numerous avenues for citizen participation in the budgetary process in Texas. Citizens can testify either in the public hearings held by the LBB and GBO in the summers of even-numbered years or during the more highly publicized, heavily attended hearings of the House Appropriations Committee and the Senate Finance Committee. Perhaps the most effective and least publicized opportunity for citizen input is directly to the agency or department while it is preparing its budget. Departmental budgets are rarely examined very closely by citizen groups. In the case of revenue sharing, the process was made even more difficult because there was no hearing specifically devoted to receiving testimony on the allocation of the funds. Our researchers could find no evidence of citizen groups testifying directly for revenue sharing monies.

A permanent advisory council on revenue sharing, had one been established, might have offered citizens another formal mechanism for input. Even before the State and Local Fiscal Assistance Act was signed into law, Texas officials established a temporary Revenue Sharing Council, composed of city, county, and state officials, to assist Texas governments in implementing revenue sharing. However, this council was not intended to become a permanent advisory committee. With no official mandate for a continuing advisory committee or system for regional or statewide planning coordintion, the state felt no pressure to independently organize such an advisory committee.

Some evaluation of revenue sharing is being conducted by the Texas Advisory Commission on Inter-governmental Relations (ACIR) through a $55,000 grant from the state's portion of revenue sharing monies. This evaluation centers on the use of revenue sharing funds by local governments and is not primarily directed toward the state's share.

The Texas Department of Community Affairs assigned a staff person to provide local governments with information and technical assistance. This assistance was primarily limited to the early stages of revenue sharing and never took the form of an aggressive effort to coordinate planning or to evaluate what was happening across the state at other governmental levels.

Press Coverage. Citizen participation is often generated by press coverage of governmental proceedings. Press coverage given the state's revenue sharing allocation process in 1973 was limited and state officials did little to encourage it. The State and Local Fiscal Assistance Act requires recipient governments to publish an exact copy of the Planned and Actual Use reports in a newspaper of general circulation within the govenment's geographical area. Further, the government is obligated to advise all other local news media, including minority and bilingual news media.[6] The latter part of this regulation was not complied with. State government officials have admitted making no special attempt to contact minority and bilingual media. A poll of ethnic and minority media indicated that their lack of awareness of state revenue sharing decisions was attributable to the state's failure to communicate with them either through press releases or the required reports.

Revenue sharing and discrimination

While state officials in Texas gave careful consideration in 1973 to the nonmatching provisions of the General Revenue Sharing Act, they were far less cautious in fulfilling the antidiscrimination provisions. Programs funded by revenue sharing are expressly prohibited from discriminatory hiring practices and provisions of services.[7] The hiring practices of many Texas agencies over the years have resulted in a legacy of discrimination, the extent of which is only now being uncovered. A study of state employment is now being prepared by the Governor's Office of Equal Employment Opportunity (EEO), an agency created by legislative mandate during the Sixty-third Legislature, and subsequently given the task of gathering information to meet requirements of recent amendments to the federal Equal Employment Opportunities Act. By aggregating data to meet these requirements, the Governor's EEO developed a statistical breakdown of Texas state employment by agency, salary, ethnic group, and sex.[8]

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[6] See Regulation 51.13(b) of the State and Local Fiscal Assistance Act of 1972.

[7] See Section 122 and Regulation 51.32 of the *State and Local Fiscal Assistance Act of 1972.*

[8] Portions of this data have recently been compiled into a publication *Affirmative Action* Report, 1974 by the Governor's Equal Employment Opportunity Office.

The data, which included employees of all Texas agencies except educational institutions and agencies, was analyzed by project monitors. We found that the data clearly indicate that ethnic minorities and women are underrepresented in Texas state employment.

The data reveal two patterns of underutilization of these groups. First, minorities and women have not been hired in numbers commensurate with their incidence in the population. Blacks, both male and female, held only 7.7 percent of the 70,976 jobs included in the Governor's EEO study, while they make up 12.7 percent of the total state population, according to the 1970 Census.[9] Spanish-surnamed individuals amount to 18.4 percent of the population, yet they held only 11.1 percent of the state jobs.

Second, a comparison of salary levels among the various categories shows that employment incidence among minorities and women is positively skewed in the direction of low-paying, low-skilled jobs. For example, 71.2 percent of the state's black employees earned $5,999 or less in 1973. As salary levels increased, minority percentages at each higher level decreased. For example, in the $16,000 to $24,999 bracket, 96.4 percent of the jobs were held by white, non-Spanish-surnamed persons; only 2.5 percent were held by Spanish-surnamed persons and 0.4 percent by blacks. The top salary level ($25,000 and up) was the one exception to this rule: blacks and persons with Spanish surnames amounted to 11.4 percent of the employees in this category. The significance of this percentage is somewhat questionable, however, when one translates it into actual numbers of employees, as the 11.4 percent earning $25,000 or more amounted to only 28 individuals. Thus, our analysis indicates the greatest concentration of minority persons in low-paying jobs, with only a very small number employed at highest salary levels.

Women did not fare much better. While they constituted 41.3 percent of the state's employees, they did not hold the high-paying jobs. The majority (57.4 percent) earned less than $6,000; only 10.6 percent of the jobs paying $16,000 or more were held by women.

Revenue-Sharing-Funded Agencies. As agencies were selected to receive revenue sharing funds, no consideration was given to their hiring practices or employment records. Consequently, some of the agencies receiving revenue sharing monies have the worst records. Employment data was available for 42 agencies, commissions, and courts receiving revenue sharing funds. In these agencies 79.9 percent of the black employees, 68.2 percent of the Spanish-surnamed, and 66 percent of the women earned $6,000 or less. Of those earning $16,000 or more, only 5.1 percent were Spanish-surnamed, 0.8 percent black, and 12 percent female.

Based on our analysis of the governor's equal employment opportunity reports, the monitors in this study concluded that the allocation of the state's revenue sharing funds may have reinforced discriminatory hiring patterns among funded agencies. There can be no doubt that the allocation process failed to penalize agencies for discriminatory hiring patterns.

Equity of Services. It was not possible for this study project to make a systematic evaluation of the equity of services provided by revenue-sharing-recipient agencies. However, it can be surmised that minority citizens of the state will not share in the benefits provided by many of the funded agencies to the extent that non-minority citizens will. For example, a large portion of revenue sharing, $190,408,030, was appropriated to colleges and universities. Minorities will not benefit equally from these appropriations, since minorities do not reach college in numbers proportionate to their incidence in the population. While such inequities do not necessarily result from purposeful discrimination, they nevertheless have the effect of advantaging certain ethnic and racial groups more than others.

COMPLAINT WITH U.S. ATTORNEY GENERAL

Examination of employment records of the revenue-sharing funded agencies and of the state as a whole caused us to conclude that Texas is in clear violation of the laws governing its receipt of revenue sharing monies. On February 1, 1975, the Texas League of Women Voters filed a complaint with the U.S. Attorney General, charging that 1) ethnic minorities and women are under-represented in Texas state government employment, 2) ethnic and racial minorities and women who do become employees of the state are under-utilized and under-paid, 3) as state officials allocated Texas' revenue share, little or no attention was

[9] Office of the Governor, Office of Information Services, Summary: *Selected Census Data, Fourth Count,* Aug. 2, 1972, p. 2.

given to the employment records of funded agencies, with the result that most agencies funded with revenue sharing monies exhibit employment discrimination records similar to the state as a whole, and 4) neither the Equal Employment Opportunity Commission nor the Office of Revenue Sharing have acted to remedy violations of the law, despite the fact that records documenting discriminatory practices have been on file with the federal government since at least the fall of 1973.

Texas agencies and departments are currently under no official state mandate to prepare and maintain affirmative action plans to prevent discrimination. Legislation calling for such plans was declared unconstitutional by Texas Attorney General John Hill in July, 1974. This lack of a compulsory state affirmative action program further prompted our decision to file the complaint directly with the U.S. Attorney General.

Summary and recommendations

It is the opinion of the Texas League of Women Voters that revenue sharing has not been used to the best advantage of the state. The funds were distributed in a fragmented manner without the benefit of a well-defined comprehensive plan incorporating careful analysis of the state's greatest areas of need. There was no direct citizen input to the allocation process. Our study placed heavy emphasis on evaluating the impact of revenue sharing on the poor and minorities. It is our conclusion that revenue sharing allocations have had little impact in meeting the needs of minorities or of the poor who constitute one-fifth of the state's population.[10] Allocations, for the most part, went to programs that will be of little benefit in attempting to deal with Texas' pressing socioeconomic needs.

As a result of the study, suggestions were developed for policy and procedural changes which we believe will lead to a more equitable distribution of future revenue sharing funds:

1. Improvement of the data based for revenue sharing allocations. The U.S. Census reports that there was a 7.7 percent undercount of the black population in the 1970 Census.[11] The undercount of persons of Spanish-speaking background is estimated to be even higher. Some governmental agencies, notably the Cabinet Committee on Opportunities for Spanish-Speaking People, believe there may be a 30 percent undercount.[12] Since population characteristics form the basis for revenue sharing allocations, failure to count minority individuals means heavy monetary losses for states like Texas, which have substantially large undercounted minority populations.

If one assumes that per capita income is low among the uncounted minority populations, one can surmise that the use of uncorrected Census data will result in an inaccurate portrayal of the extent of poverty in a state like Texas. Thus, the monetary loss to Texas is compounded by the use of inaccurate per capita income figures as allocations are made under the existing revenue sharing formula.

2. Reconsideration of federal prohibitions against using revenue sharing money as matching funds for other federal programs. This prohibition, perhaps more than any other, has prevented revenue sharing from being used for social programs.

3. Identification of broad objectives and priorities for the use of funds by local and state governments. Such elements are comprehensive planning based on needs assessment, priority ratings for proposals, and development of specific goals for the use of funds must be brought into revenue sharing. State planning agencies, such as the Texas Department of Community Affairs and the Governor's Planning Office, should be utilized in developing revenue sharing plans.

4. Citizen participation structure. If the federal government is sincere in its declaration that revenue sharing is a tool to bring government closer to the people, it needs to do more to involve the public than just require that Planned and Actual Use Reports be published in a major newspaper. Decentralized public hearings for revenue sharing, held early in the decisionmaking cycle, should become an integral part of the process. Governments should be required to give notice of these hearings at least two weeks in advance, including press releases to inform local media. Ongoing citizen advisory committees with broadly representative membership should be established. The federal office of Revenue Sharing (ORS) should mount an aggressive public education campaign to help the

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[10] Texas Department of Community Affairs, *Poverty in Texas, 1973*. A Report by the Office of Economic Opportunity (Austin, Tex.: May 1974), p. 185.

[11] Quoted in U.S. Commission on Civil Rights Report, *Counting the Forgotten*, April 1974, p. 44.

[12] Ibid., pp. 48-49.

average citizen understand the program and become aware of the ways in which he can participate in the allocation process. The ORS has published several worthwhile documents explaining revenue sharing, but distribution has been limited due to the cost of the documents. A free publication for general distribution would be useful.

5. Stricter compliance procedures. In other sections of this report, it has been noted that Texas ignored provisions of the General Revenue Sharing Act requiring that funded agencies be nondiscriminatory in hiring practices and the administrative regulation requiring that ethnic media be notified of Planned and Actual Use reports. There is obviously a laxity on the part of federal ORS officials to make their own rules stick. This should be changed.

6. Modification of Planned and Actual Use reports to require more specific reporting. If the purpose of publishing Planned and Actual Use reports through the media is to inform the public, the reports should be made more informative—perhaps by requiring a listing of the agencies or departments allocated monies and of the specific projects being funded. This would facilitate accountability to citizens in the use of the funds and monitoring compliance by the Office of Revenue Sharing.

Senator HATHAWAY. Our last witness for this morning, before the lunch hour, is Mr. Clarence Mitchell, who is director of the Washington Bureau of the National Association for the Advancement of Colored People.

Mr. Mitchell, it is nice to see you again.

STATEMENT OF CLARENCE MITCHELL, DIRECTOR, NATIONAL ASSOCIATION FOR THE ADVANCEMENT OF COLORED PEOPLE

Mr. MITCHELL. I thank you, Mr. Chairman, for hearing me in this sequence, I could not come earlier because I was over at the House watching the marking up of the amendments to the Voting Rights Act of 1965.

I would like your permission to offer my statement for the record, and comment on it.

Senator HATHAWAY. Yes, without objection, the entire statement will be put in the record.

Mr. MITCHELL. In general, I think what Mr. Taylor has said is what we as an organization would support. I would also say that in our organization we have, as our statement indicates, spent a good deal of time trying to be sure that the message of what revenue sharing is all about is getting across to the people.

We point out that we distributed over 10,000 copies of program guidelines to 1,800 of our local branches, and we have reached directly some 3,000 community leaders around the country trying to get them to be aware of what this program is all about and how they might make the most of it.

I would like also to call specific attention to the incidents that we have given on how the program does "not" work. There are some things in this country that are recurring and some communities that are habitual offenders in the areas of human rights.

The communities that are listed here more or less fall in that category. As I was looking through Mr. Taylor's statement I noticed the name of Ouachita Parish, La. That is one of the habitual offenders on all fronts, with respect to matters of civil rights.

As anyone who reads the testimony of the voting rights legislation will know, Ouachita Parish in Louisiana was one of the reasons why we had the first Voting Rights Act passed in 1957. There was a systematic effort to purge the blacks from the voting rolls in the parish at that time. Several thousand were taken off, even though they had registered.

So it is not surprising to find that when they get revenue sharing they proceed to do it in a way—expend it in a way that is discriminatory. But here we have Auburn, Ala., which was giving the use of the city football stadium to a racially segregated, private school. Everybody knew the private school was being used to obstruct compliance with the 1954 school desegregation decision, and yet the city fathers blithley went ahead and said, sure, you can use the city stadium, even though they knew that the school was discriminatory. They used revenue sharing funds for the upkeep of the stadium. Fortunately, because of this process that we have of making people aware of what is involved, we were able to correct that situation.

Peoria, Ill., is another example. I think one of the difficulties in this country—and there are a lot of them—is that there are well-meaning people who do the wrong thing in response to various kinds of local pressure.

I have been in Peoria and had a wonderful time there. I got a key to the city, and I found the officials there are very nice people. Yet the local pressures were such that there was a lot of discrimination in the city's hiring. Finally, because of the efforts of our organization, we were able to get an improved situation in minority employment, at all levels.

Of course, this came about because we were trying to make sure that the revenue sharing money was spent in a proper way.

Dover, Del., has been a perennial problem, in many ways, to us in the area of civil rights. In fact, the State of Delaware up until recently was a kind of a roosting place for segregationists.

We have a lot of cases which involved efforts to correct discriminatory conditions in the State of Delaware. But here you had a fire department which was the town's volunteer fire department. They were getting $600,000 in revenue sharing money. I cannot imagine what they were going to do with that much money, because I do not think they had $600,000 worth of fires there.

But, in any event, they got it for a fire department, which had bylaws requiring that membership be limited to whites.

Chicago is another example where you would surely think up there they would not have a whole lot of racial discrimination. But it is a fact that our organization has had to challenge the hiring system in the police department, along with members of the police force.

As has been pointed out in previous testimony, one of the things that revenue sharing is spent for is law enforcement. Yet here in a great city like Chicago, you have that revenue sharing money was being spent to bolster and continue a system of discrimination in the hiring of policemen.

Another perennial here is New Bern, N.C., where the city had been promising that parks would be repaired in certain areas—which happened to be heavily black areas—but never got around to doing it.

New Bern got revenue sharing money and, true to form, top officials there started to spend that money in the all-white neighborhoods. Fortunately, that was another situation that our people were able to correct.

Senator PACKWOOD. Let me interrupt you a minute and ask you a question, if I can? Clarence, what is the best way to make sure, in this revenue sharing program, that discrimination ends? Simply to say you are going to lose all your money and have to pay back everything you ever got if you do discriminate? Would that be a significant deterrent?

What is the best way?

Mr. MITCHELL. I am sorry to say that I am of the opinion that revenue sharing is a serious mistake. I think that we did not have a perfect system under the arrangement where we were making specific grants, but it is better, really, and easier to watch from the standpoint of those of us who are trying to police it, than the present system where the money comes in and unless you have got some pretty good watchdogs around, it can be spent and disposed of.

The idea of ever getting it back, I think, is remote. I cannot imagine any city, or county, or State paying back to the Federal Government money that it has expended improperly, if it was spent by the duly constituted and authorized officials.

Senator PACKWOOD. Let us presume that revenue sharing is likely to continue—which I think it will. Do we say that if they discriminate in any form in the revenue sharing, they do not get any Federal money in grants, or otherwise?

Is that not really going to hurt the people who the specific grants go to? I am looking for the practical answers, as long as revenue sharing is going to go on, the best way to try to deter discrimination.

Mr. MITCHELL. Well, I would think that if it is inevitable that we are going to have it—and I do not concede that it is inevitable—that I would say that surely the best way of doing it is not to give it to anybody who discriminates.

If a governing body discriminates in voting, if it discriminates in expenditures for trash collection, or street paving, it shows a pattern of an unjust mind on the part of the public officials. In my judgment, anybody who comes in and asks for money collected from all of the people in this country, they ought to come in with clean hands. As all of us know, while all States contribute to the general revenue, there are many States which contribute a larger share to the national revenue. And, therefore, it seems to me the least we can do is to make sure that that money collected from all the people is not used to support unjust acts.

Senator HATHAWAY. I was just going to follow up on that point. You said you were against continuation of revenue sharing, but has not revenue sharing opened up a new area for antidiscrimination actions?

I mean, if it is all local money that is being used for trash disposal, I suppose there is nothing that we can do if the local officials decide they will pick up the trash in the white neighborhoods but not in the black neighborhoods.

But, once we have put revenue sharing money in, Federal money in, and any portion of that is used for that trash collection, then we have been able to step in and say, well, look, you cannot discriminate in the use of this money for trash collection.

So that we have made an inroad into an area of discrimination that heretofore we were not able to make.

Mr. MITCHELL. We have been able to make it before, because any State action is subject to an attack under the 14th amendment. And, indeed, the way we have been able to make changes in things like that is to institute an action challenging it as a denial of equal protection under the law.

Senator HATHAWAY. But then you have to go through some kind of a court action, whereas here we can simply say OK, you do not get the money, which is much quicker.

Mr. MITCHELL. OK, if they said that. But actually we usually find that the Federal Government is very much like putty in the hands of the discriminators. In all of the years I have been around here. I have found it likely that a person in the executive branch of Government will stand up against a Mayor Daley, for example, even if he feels that Mayor Daley is discriminating.

Or, maybe the mayor of Memphis, or some other city, where officials who run the city have a lot of political clout in Washington. I think from the standpoint of a practical person—and here I am only giving my own personal view, not the view of the organization—I think from the standpoint of a practical person, it is much easier to keep track of wrongdoers when they have money which is allocated for a specific purpose, and you can find out just how they are using it.

I happen to be familiar with Mobile, Ala., and I offer it as an example.

To show you the continuity of that city's discrimination problem, I went down there in 1942 or 1941, I believe it was, when there was a big race riot at the Alabama Ship Building & Dry Dock Co. There was a black dentist down there who had a beautiful home. He had a whole closet full of beautiful luggage, because he spent much of his time traveling, if he had any spare time, doing things he could not do in that community.

The city could not pave the street in front of that beautiful home, because it was a black neighborhood. The problem that comes up here, in 1974, from Mobile, Ala., is somewhat the same thing. City officials were not willing to spend the revenue sharing funds for streets, and sewer improvement, recreation facilities in the black neighborhoods.

I was personally involved in trying to straighten that out, and it was incredible the number of pseudo scientific explanations which were given as to why certain improvements could not be made in an area where the residents were black. I think there is great hope for Mobile. It is a beautiful place. I do not know whether you have ever been there, but there is a lovely redevelopment down in the downtown section.

I missed a plane one night, at 10 o'clock at night, and I spent time just wandering around there, enjoying it. So there is a possibility of a forward thrust. But, as long as the officials in charge of some of these communities think they can get away with it—they will discriminate.

But, as I say, it is much easier to keep track of the wrongdoing if there is some kind of a category that you can keep track of. I admit, of course, that such safeguards are not perfect. I would like to say, also, Senator Packwood, I heard your exchange with respect to whether you could be expected to know more about a community than a mayor does.

I think, in many situations, you as a Senator would know more about what is "just" in a situation than the mayor and would be in a beter position to see that justice is done. After all, a Senator draws his support from the whole State, and therefore can take a more constructive view than a mayor who feels that in the fifth ward, let us say, if he puts that sewerline in a place where residents do not want it, they may vote him out of office.

Senator PACKWOOD. You know, you were speaking of the roads. Ten or 12 years ago, when I was living in Portland, a relatively rural enclave and there is only 1 paved road and I did not live on it, there was a small carriage house that I lived in. I was a bachelor then. It was a funny road. It went up and turned left about 100 feet and then it turned right for about 100 feet. And, although it bore the same time, it was paved all the way up to a rather large house, and I discovered that 30 or 40 years ago—the history of the thing—the county commissioner had lived in that house.

There were appropriations for extending the street. The street did not go to his house. He simply had the street renamed so it did run to his house. I understand now how these things work.

Mr. MITCHELL. It is true. I think that is why it is so important to have the categories clearly defined, and properly restricted so you do not have a lot of boondoggling and favoritism and that kind of thing.

Let us be realistic. I happen to come out of a family which is represented in the Maryland Senate and in the Congress of the United States, and I know, over the years, of the kinds of things that we have had to battle in order to get the ear of the white elected officials.

I would say that generally speaking it has been my experience that in many cases the poor only get the ear and the attention of elected officials, at the lower levels, when it is election time. When the election is over, the people who have the best chance of getting the ear of the elected local city council member or the mayor are usually the kind of silk-stocking-folks who live out in nice neighborhoods, and the mayor likes to have his tuxedo on, going to some big affair where they are going to be photographed together, and that sort of thing.

But, the poor in many instances, first are inarticulate anyway. And, next, they have a hard time getting past the receptionist, after the election.

Senator PACKWOOD. I would appreciate it if you would do me this favor, because I think revenue sharing will continue, and I want to draw the strongest possible antidiscrimination clause we can put into it. I am not sure how it should work, but at least I do respect your right to oppose the whole program, and if you could give me a hand as to how it could be drawn if it is to exist, I would appreciate it.

Mr. MITCHELL. I certainly would be glad to do that, Senator Packwood, because you always try to prepare for all eventualities, and I would be delighted to try to submit that.

Senator PACKWOOD. Would you give me a call?

Mr. MITCHELL. Indeed.

Senator PACKWOOD. All right, thank you.

Senator HATHAWAY. Let me get it straight, Mr. Mitchell. Are you saying that even if the antidiscrimination provisions are applied to all of the funds, not just the revenue sharing portion thereof, as Mr.

Staats testified to this morning, that you would still not be in favor of continuing revenue sharing?

Mr. MITCHELL. Yes; and I hasten to add that that is my personal as distinguished from the organization's, position. The reason I cannot say the organization believes that, we will not hold our policymaking convention until July, here in the city—June and July, here in the city of Washington—where we formulate our policy.

So, as far as the organization is concerned at this point, we would hope to have the kind of amendment that Senator Packwood is talking about. And that is, a real, ironclad, foolproof antidiscrimination amendment. which would, require that the expenditure of revenue sharing funds be on a nondiscriminatory basis.

I just am not very sanguine about how that would work. I think we have had so much trouble trying to make present antidiscrimination provisions work, that once you get over to an area where there, as somebody said, "controls are loose as a goose", you just never know what might happen.

Senator HATHAWAY. Well, the fact that it would cover all local funds, I would think would be a sufficient threat to the local governments that they would be much more chary in their programs. And, even though I agree with you that it is much more difficult to enforce, it would be less so. I think, once such a provision was put into the law. It would scare them more.

Mr. MITCHELL. Well, to a certain extent, our Federal statutes already cover a lot of those local activities, in addition to the 14th amendment protection.

For example, we have a provision in the 1972 Equal Employment Amendment, which makes it unlawful to discriminate in the hiring of police. And yet here we had to get after them in the city of Chicago, even though that provision was in the law.

Senator HATHAWAY. Mr. Mitchell, thank you very much for your coming here. We appreciate your testimony.

Mr. MITCHELL. Thank you, Senator Hathaway.

[The prepared statement of Mr. Mitchell follows:]

STATEMENT OF CLARENCE MITCHELL, DIRECTOR OF THE WASHINGTON BUREAU OF THE NATIONAL ASSOCIATION FOR THE ADVANCEMENT OF COLORED PEOPLE

Mr. Chairman and members of the subcommittee, I am Clarence Mitchell, director of the Washington bureau of the National Association for the Advancement of Colored People. I thank you for this opportunity to appear and present testimony on revenue sharing.

The National Association for the Advancement of Colored People has found that the needs of the Nation's disadvantaged have low priority under revenue sharing. In its annual report dated March 1, 1975, the Office of Revenue Sharing stated that local government expenditures for social services for the poor and aged amounted to 2 percent, while 36 percent was spent on public safety and 19 percent for transportation.

Our organization, since early 1973, has distributed over 10,000 copies of its program guidelines to 1,800 local branches and others in an effort to help assure people of their rights under this program. We have held over 72 workshops at conferences on the program, reaching directly some 3,000 community leaders. A staff of two, working part-time on this program, is providing an outreach service which should be performed by the Federal Government.

Over $17 billion has been distributed to date by the Federal Government without minimal assurances against discriminatory treatment by Federal, State and local governments. A cross section of the complaints we have handled is as follows:

(1) ***Auburn, Ala.*** The city was stopped from permitting a racially-segregated private white academy from using the city football stadium when we found it using revenue sharing funds for upkeep of the stadium.

(2) *Peoria, Ill.* Long-standing discriminatory hiring practices by the city government ended with a 2-year agreement calling for minority employment at all levels, in all departments, to be increased to 15% above the percentage of minorities living in this city—after the NAACP branch initiated a complaint.

(3) *Dover, Del.* The local NAACP successfully challenged 100 years of discrimination by the town's volunteer fire department when the city attempted to allocate $600,000 of its revenue sharing money to this all-white (by its by-laws and practices) fire department.

(4) The NAACP branch in *Chicago* together with the Black Policeman's Association, challenged Chicago's discrimination in hiring and upgrading black policemen, when revenue sharing funds to be used by the city.

(5) *New Bern, N.C.* After six years of city failure to repair parks in the area of town where blacks are concentrated, the branch challenged use of revenue sharing funds to build and improve parks in areas where whites are concentrated. Then a contract was executed to improve parks in the area of black concentration.

(6) *Mobile, Ala.* The local NAACP challenged the town's use of revenue sharing funds for street and sewer improvements, recreation facilities, etc., in a discriminatory manner. After restoring balance to its use of funds, the city executed an agreement to communicate with the black community on future plans for use of these funds.

These cases were brought to light because of efforts on the part of private citizens and organizations. In our experience there is not enough monitoring by the Federal Government to see that funds are spent in a nondiscriminatory manner.

At this time we have a serious doubt about the wisdom on continuing the revenue sharing program.

Senator HATHAWAY. The subcommittee will recess until 2 p.m.

[Whereupon, at 1:10 p.m., the subcommittee recessed, to reconvene at 2 p.m. the same day.]

AFTERNOON SESSION

Senator HATHAWAY. The subcommittee will come to order.

Our first witness this afternoon is Mr. Charls Walker, former Under Secretary of the Treasury and presently what, Charls?

Mr. WALKER. I am a Washington consultant, Mr. Chairman.

Senator HATHAWAY. On what?

Mr. WALKER. Anything you want to consult on, I guess. I kind of specialize in legislative and economic matters.

Senator HATHAWAY. We are happy to have you here, Charls. Your entire statement will be made a part of the record. You may summarize it if you wish.

STATEMENT OF CHARLS E. WALKER, PRESIDENT, CHARLS E. WALKER ASSOCIATES, INC.

Mr. WALKER. It is very brief. I would like to run through it if I could. I want to tell you and members of the committee that I am greatly pleased to be invited as a private citizen to testify on general revenue sharing. Inasmuch as the program has, according to the strong weight of the evidence I have personally seen, lived up to its expectations, and inasmuch as I played a role, as Deputy Secretary of the Treasury, in both its design and movement through the Congress in 1971–1972, I naturally feel some parent's pride in this worthy effort. I hasten to add, however, that I am a firm believer in the late House Speaker Sam Rayburn's famous dictum: "The President proposes, but Congress disposes." Therefore, the credit for this successful experiment toward decentralization of Government must go to Congress in general, and the House Ways and Means and the Senate Finance Committees in particular, which were the parent committees at that time.

Since I am not at present involved in any way in revenue sharing, it is neither my intention nor obligation to refer to the data and events which seem to me to confirm its success. I believe that was done most convincingly yesterday by Treasury officials, the Department that managed the original legislation and which Congress wisely charged with responsibility for its administration. I say wisely because of the Treasury tradition for performing difficult tasks, at maximum speed and efficiency, at minimum cost—and that is not just parochialism, Mr. Chairman.

This was fully demonstrated in the fall of 1972. The legislation was signed into law on October 20, and by December 8, 36,000 checks aggregating $2.6 billion were in the mail to States, counties, and cities. According to all reports, snafus have been minimal, and still the Treasury staff administering this $30 billion program numbers just over 80.

This brings us to one of the chief virtues of general revenue sharing as conceived, enacted, and implemented, and that is that of all large Federal programs to help State and local governments, revenue sharing probably provides the biggest bang for the buck. There is no giant bureaucracy with heavy administrative costs in running the program, nor is there any need to rely on expensive delivery systems, since the funds go directly to responsible bodies at each governmental level. If I might interject here, Mr. Chairman, a story late President Johnson told me when I was visiting down at the ranch with him and talking over revenue sharing and how we might get it through the Congress back in 1971–1972. He said Charley, I want to tell you about the little boy whose family was in very great difficulty and needed money badly. He wrote a letter to God and said: "Dear God, would you please send us $100? We need it bad. Thank you, John Jones." The Post Office did not know what to do with his letter addressed to God, so they sent it to the President. When the President looked at it, he was touched. He sent a letter on White House stationery back to the little boy, John Jones, and said the Lord had gotten his letter and asked the President to send some money. He enclosed a $10 bill. About 6 weeks later another letter came in to the White House addressed to God. It was from John Jones and it said "Dear God, I got the money. I appreciate it very much. But we need another $100. Please, this time do not send it through Washington, because last time around those so-and-so's took out all but $10."

Before closing this brief statement, let me comment on three criticisms that have been raised. First, some have argued that too much of the money has been spent for capital purposes rather than ongoing programs. The data do not in my judgment support this conclusion. But I can well imagine that many State or local officials are wary of long-terms spending commitments based on Federal funding that might end next year. I, therefore, believe strongly, as I have from the first, that general revenue sharing should be permanent, tied to the Federal tax base, and therefore reasonably predictable in amount for the governmental unit involved. However, outright extension of the 1972 legislation would be better than no extension at all, sharply remaking the program to emphasize other goals, or subjecting it to annual appropriations.

Second, some argue that need should be given greater weight in the distribution formula. As you know, there are inherent shortcomings in the data that would have to be used that complicate this task, since living costs vary so much around the country. But the fundamental purpose of revenue sharing is not the same as that of a categorical or bloc grant. It is to return to the States and local governments part of the tax money which the Federal Government lays first claim to, has sort of preempted, because of its more or less accidental adoption of the progressive income tax in 1932. This resulted in Federal revenues that grow faster than GNP—that is when GNP is growing. The revenue sources available to State and local units are much less responsive to economic growth and inflation.

In addition, I have seen no convincing evidence that needs have indeed been neglected.

Finally, there are those would increase many times over the Treasury Revenue Sharing staff in order to establish a major new civil rights compliance program for revenue sharing. Treasury has played an important and proper role in civil rights with respect to financial institutions which are well within its realm of responsibility. But to inject the finance ministry, whose main job is handling the Nation's finances, more centrally into the civil rights area would in my judgment be a mistake. The Department of Justice, other Federal and State agencies, and the courts have both the responsibility and sufficient power to ascertain that revenue sharing is delivered to the people fairly and impartially. Moreover, the Office of Revenue Sharing in Treasury has, I believe, made full and effective use of all of the approaches available through established channels to comply with the civil rights provision of the legislation.

I do not believe that a major new civil rights compliance program in ORS is either desirable or necessary. But if the Congress believes that it is, then I would recommend strongly, albeit reluctantly, that administration of general revenue sharing be shifted from Treasury to another Department. The task of the finance minister, the Secretary of the Treasury, is to run a good finance ministry, not to devote large amounts of his precious time to correcting abuses that are the proper province of other governmental units.

Mr. Chairman, that concludes my statement. As I said, I was in on the formulation, enactment and implementation of general revenue sharing, and it may be that something from that experience will be useful to you and your committee. I again thank you for asking me to appear and hold myself ready for questions.

Senator HATHAWAY. Thank you very much, Charls. I appreciate your testimony very much, and I also appreciate the experience that you add in being in on the innovation of the program. I take it from your testimony that you did not think the program was designed to fulfill any particular needs. It was just to give back to the States and the communities money that they could not raise themselves.

Mr. WALKER. Not quite, sir. I should restate that in this sense. The proposal which we sent to the Congress in 1969, which was devised under Treasury leadership and revised in 1971, did not have need as a factor in the formula at that time. It became clear in the Executive sessions in the House Ways and Means Committee and again over here in the Senate Finance Committee that the Congress would insist on some degree of need being considered.

What I am saying is that I would not sharply shift the program's emphasis away from the emphasis that we have had; and when you look at how the funds have been expended—public safety, transportation, education, many, many vital areas—I am not convinced that the evidence is there that needs, in that sense, to help poor people have been neglected by the program.

Senator HATHAWAY. You think the needs requirements would be fulfilled by our categorical programs? But it has been our experience that a good percentage of some of the categorical programs have been cut back.

Mr. WALKER. I think a lot of the needs would be fulfilled by general revenue sharing because of the pressure upon State and local officials to spend revenue-sharing money in ways that are needed. But that decision would then be made, instead of on the banks of the Potomac here, it would be made in the local community or county or State or whatever. I think the burden of proof is on those who say needs, however defined, have been neglected, and I have not seen convincing proof otherwise.

Senator HATHAWAY. We have had some testimony, just the last testimony this morning, indicating that a lot of so-called priority items were not taken care of by many local governments.

Mr. WALKER. Do they have hard data on that?

Senator HATHAWAY. Well, I do not know.

There was a testimony, I do not know if any other data was submitted or not, but that is a matter, I guess, we would have to go into.

Another question I want to ask you before I go answer that rollcall, you advocate, as somebody else did this morning, that the amount of the revenue funds be tied to the tax base, sort of as a percentage. But as Senator Brock and I pointed out this morning, it may mean that as we collect less money, of course the States and the communities will get less money, and perhaps we should have a certain floor so that it will not go all the way down when they need it the most. It will go down at the time when they need it to go up.

Mr. WALKER. I agree with that. I think the idea of a floor is a good idea.

I would like also for this prestigeous full committee, that you are a member of, to take a look at the tax base and see how you can get a steadier tax base. We rely so heavily on the corporate tax for marginal purposes that when profits go up and down you have a big change in the amount of taxes that are being paid. As long as we have a base that is that variable, then I would agree with the floor idea that you attribute to Senator Brock.

Senator HATHAWAY. What about the countercyclical proposals that have been made by Senator Muskie and Senator Humphrey.

Mr. WALKER. I was rather attracted to them. I am deeply concerned about the rate of increase in Federal spending. Only 3 years ago we were arguing over a $250 billion spending ceiling, and now we are trying our best to keep it down to $360–$370 billion. That is an increase of over 40 percent. To me it is unsustainable. To me it means the possibility or probability of a return to very high rates of inflation.

Nevertheless, I see the need to recover from recession, and I can see the case for some types of increase in spending—so long as it is what I call selfdestruct and automatically disappears when the recession is over. So, I think that countercyclical revenue sharing, especially in light of the fact that some of your State and local units are so hard pressed in periods of recession, has merit. The idea has come on rather quickly. I think it needs more discussion and airing for all of the pros and cons. But I am initially rather sympathetic to it.

Senator PACKWOOD [presiding]. Why would we have the inflation with the big spending? You tie the two together?

Mr. WALKER. Living beyond our means; thinking there is such a thing as a free lunch. I think there is a certain natural level of taxation that people will take. Maybe it is 32 percent of GNP or 35 percent of GNP. I do not know where it is, but once you pass that point——

Senator PACKWOOD. Almost all of them think we have gone beyond.

Mr. WALKER. Well, there is time to retrench. I am encouraged about what the Budget Committees have come out with. I was very worried about the Budget Committees getting started in the middle of a recession. I am encouraged with the way they have come out with something that is considerably closer to what the President has been recommending.

Senator PACKWOOD. I am curious about inflation. You and I had a phone call and we exchanged letters on this. Is that because of the deficit you are now saying this, or just the magnitude of the spending, even if we paid for it all.

Mr. WALKER. Sir, it is the time horizon we are talking about. Let us talk about the deficits for just a moment. I am not worried about a deficit of $50 billion next year. I would be scared to death of a $100 billion deficit. I cannot tell you the flash point, but I think we could probably get along with $70 billion or so unless the recovery is very rapid and you have a huge upsurge in the demand for private credit.

I am looking down the road. We have got to flex the Federal spending curve in a downward direction. You cannot get it down absolutely, but flex down so that we have a lesser rate of increase in Federal spending.

I think the people want that.

I think they were saying that in 1972, and I think they were saying it over the Easter recess.

Senator PACKWOOD. You mean a downturn in Federal spending?

Mr. WALKER. No; not downturn. It is the first derivative. It is a slower rate of increase in Federal spending, which has gone up over 40 percent in the last 3 years. I say that is unsustainable, and you will either have to pay for it through—if you borrow genuine savings, interest rates will go through the ceiling; if you monitize the debt, turn on the Federal Reserve to do it, prices will go through the ceiling and interest rates will go through the roof anyway, because of inflation.

Senator PACKWOOD. $50 billion yes; $100 billion no; and $70 billion maybe. And you are a little uncomfortable beyond that?

Mr. WALKER. I am a little bit uncomfortable beyond that because I have a sneaky feeling coming on me now watching the figures roll out that this recovery could come on pretty strong, maybe even like like gangbusters. And if it does, if it does we could find ourselves back in a credit crunch in less than a year.

Senator PACKWOOD. Refresh my memory, Charley, in the Budget Committee in the Senate they came out with $67 billion did they not?

Mr. WALKER. Yes; depending upon definitions of taxes.

Senator PACKWOOD. They are presuming these taxes that would be put into effect are temporary.

Mr. WALKER. I do not think politically that is achievable——

Senator PACKWOOD. I do not either.

So, you are really talking about $75 billion with their deficit.

Mr. WALKER. You are talking about upward of $70 billion in both cases. But I was afraid they come out with something that would run $80 billion or $85 billion or so, and I am more concerned——

Senator PACKWOOD. Give us time.

Mr. WALKER. Yes. You know, everything is relative, sir.

Senator PACKWOOD. Just one last question. Do you feel so strongly about the civil rights enforcement that if we were going to insist upon enforcing it we ought to throw the whole revenue sharing program out of Treasury?

Mr. WALKER. If you insist on enforcing it through Treasury by saying this Treasury staff of 80, which they have asked to have increase to 100 and x, whatever it is—and they think they can do a good job with that—if you say they have got to be into a position like EEOC, which is now behind I do not know how many thousand cases, and need 300, 400, 500, 600, or 1,000 people to do it, that is not the Treasury I know and love. That is the only circumstance under which I would argue for a shift.

Senator PACKWOOD. I have no further questions.

Senator BROOK. We have a rollcall, so let me just ask you two quickies.

First of all, with the $370 billion expenditure level of government and $5 or $6 billion worth of revenue sharing, is it really realistic to ask revenue sharing to carry the total burden of enforcing civil rights compliance?

Mr. WALKER. I do not think so, sir. It is loading the frog down with buckshot, and awfully good frog that has proved itself here and at the risk of ruining that program. I think it would be something—I just do not think the gain that you would get from that would be worth the risk of what you do to the program.

Senator BROCK. Thank you very much.

Mr. WALKER. Thank you, Senator.

Senator BROCK. I am sorry we have to run.

Well, the committee will return in about 20 minutes.

[A brief recess was taken.]

Senator HATHAWAY [presiding]. The hearings will resume and we will have a panel of witnesses—Prof. David A. Caputo of Purdue University and Prof. Richard L. Cole of George Washington University.

Mr. CAPUTO. I am Professor Caputo.

Senator HATHAWAY. Why do you not go right ahead. Both of your statements will be made a part of the record. You may proceed to summarize them if you would.

STATEMENTS OF DAVID A. CAPUTO, PROFESSOR, PURDUE UNIVERSITY AND RICHARD L. COLE, PROFESSOR, GEORGE WASHINGTON UNIVERSITY

STATEMENT OF DAVID A. CAPUTO

Mr. CAPUTO. Yes; that is what we were planning to do. You should have three documents from us: A short biographical sketch with a listing of some of our publications dealing with general revenue sharing; an abstract of our testimony which will be what I will summarize to some extent; and then the actual statement.

We are going to split the presentation, really, into three parts. I will summarize, briefly summarize, the general expenditure patterns that we found, the attitudinal data that we have from city officials toward the program, and then some specific policy recommendations. Professor Cole will direct himself to some discussion of citizen participation, which is an aspect of our research which we think you will find especially relevant, given some of the earlier discussion.

We have been at work at this since October of 1972 and our conclusions and recommendations are based solely upon our work in cities over 50,000 in that time period. We have done our research in a variety of ways, namely, through a mail questionnaire to city officials to chief elected officers or city managers in cities over 50,000. In the appendix we have provided you with a response note as to which types of cities have tended to respond and which have not. The tables 1 through 3 summarize the responses when chief executive officers were asked how they spent their funds and I would like to just highlight those before I move on.

First of all, if you take a quick look at table 1, table 2, and table 3, the next few comments will be directed specifically toward that. You will find that the five categories of law enforcement, fire prevention, environmental protection, street and road repair, and parks and recreation accounted for a combined total of 53 percent of total general revenue-sharing funds in 1973, a little over 68 percent in 1974, and 66 percent in 1975.

Now we are well aware of the fungibility problems that have been discussed in terms of trying to trace the expenditures. However, our feeling is that these are the perceptions of the respondents as to how they, in fact, have spent their money. And that, in and of itself, their perceptions are quite important as to where they feel that money has, in fact, gone. We could argue whether it has been replacement or nonreplacement or substitution funds. But how that money has been used is quite important.

Senator HATHAWAY. On that point, though, do you have any—what was the basis of their perception?

Mr. CAPUTO. The basis was a questionnaire which they filled out. This is not Treasury Department information. This is questionnaires that they filled out and sent back to us indicating to us how they spent their money. We made it clear to them we were interested in what they were used for and not what they officially reported or whatnot, but actually how the funds were spent. This is what they indicated back to us.

Now ycu could raise the point that their perceptions were wrong and so forth, but we think at least this gives some collaborative data——

Senator HATHAWAY. Well, they may not necessarily be wrong but they may be different in each case.

Mr. CAPUTO. That is possible. You could make that conclusion.

Senator HATHAWAY. One might say we were going to cut back on education funds but we spent them. They would say we spent that $5,000 for education even though they did cut back $5,000. They would legitimately think that they had used the Federal revenue-sharing money for education because they had planned to cut back that amount of money anyway. Another one might have a different perception of that and think that it did just balance one another and he would not count any money spent for education.

Mr. CAPUTO. That is possible. When we sent this, we did not ask them what happened in terms of substitution funds and so forth. We asked them how they perceived spending the revenue-sharing funds specifically.

Those five categories that I have just mentioned, it appears, are going to continue to account for a large share of the total expenditures at the city level. There has been a good deal of discussion, and part of the testimony you have heard today, about funds going to social services for the poor and aged. And we found that if you take a quick look again at table 1 that the percentage has been relatively small. It began in 1973 at 1.7 percent, and went to 3.4 percent. However, there are several things that have to be pointed out there. One is that there has been an increase in the amount going to social services; and secondly, and probably every bit as important, is when you compare the percentage that these cities were spending on social services prior to general revenue sharing, you find that they were spending about 1.5 to 2.0 percent.

So actually, they are spending a larger percentage of general revenue-sharing funds in social services than they were prior to general revenue sharing.

Senator HATHAWAY. Did you get your numbers on an item basis or a percentage basis?

Mr. CAPUTO. We asked them item by item to indicate the percentages spent. In other words, we asked them what percentage of the funds were spent for operating capital in the various categories.

Senator HATHAWAY. But you would not know the capital expenditures were for a firehouse or——

Mr. CAPUTO. No. In other words, we did not ask them specific items.

Senator HATHAWAY. There is no way of telling whether it was actually needed or not or whether it was frivolous spending.

Mr. CAPUTO. No, we have no way of knowing, for instance, whether or not the funds went for fire protection in what area of the city or for what. We did not have data that specific.

Incidentally, it is interesting you should raise that because we specifically had a proposal in with the National Science Foundation in their competition to do just that because we thought that was the type of question that was going to come up when the renewal legislation was discussed and we did not receive support for that.

Now, if I could move on for a few moments to several other points that we think our expenditure data gives some evidence to. One is that one of the points that people referred to in the testimony today has been whether or not the funds have been used for new or existing programs. Our data very heavily supports the contention that the funds have largely gone to existing programs and not to new programs. This is true for most of the categories except for two, and that would be social services and also parks and recreation. We think there are a variety of reasons for this which we would be glad to explore if you would like us to.

Then finally table 3 summarizes differential expenditures according to city size, and we think here this provides some evidence for those who want to argue that the ceiling, the 145 percent ceiling limitation might be reconsidered in that we think clearly indicates that cities according to size apparently are feeling different fiscal pressures, especially in terms of fire and police protection. And the larger the city, the higher the percentage of their funds have gone for fire and police protection. We do not think that is an artifact of reporting where they are just trying pro forma to report an easy way to fill out the forms. We think in fact they probably are under much more intense pressure in those particular areas.

Now the second major category of things I would like to touch on for just a moment, and something that actually—we read some of the testimony yesterday and did not see any hard data on this and I think we do have hard data here which might be of interest to the committee. If you will take just a minute and look at table 4, it compares two things. It talks about the effect of general revenue sharing on the fiscal 1974 and fiscal 1975 city tax rates, as well as the city officials' perception of long-range effect on taxing levels.

And here you find, quite interestingly, that general revenue sharing is viewed as being quite important in either reducing the amount of tax increase or preventing the rate of a tax increase. It has not been largely responsible for reducing tax rates. So it has had, we would argue, depending upon the viewpoint of the local property tax as perhaps being a regressive tax instrument, that perhaps general revenue sharing may have had an unintended beneficial aspect here in that it is replacing a largely regressive tax. Funds raised with a regressive tax were actually raised with a more regressive tax.

Now the important thing, though, is a shift over the time from 1974 to 1975. And it is obvious to us in interpreting these results that as the cities have come under increasing fiscal pressure due to the inflation and due to the economic downturn, that one of the things that in fact has happened is that general revenue sharing has become even more critical to them, even more important, especially if you look at its impact in reducing the amount of a rate increase, tax rate increase, you will see that it has been a substantial plan for this particular year.

And finally, table 5, we think, I am sure that the Members of the Senate do not have to be convinced as to the likes and dislikes of local officials toward general revenue sharing, but we think this is very hard evidence that indicates that the program is deeply respected and also it probably has a very strong contingency of support among city officials, at least those in cities over 50,000. And here, if you read across the top, this simply asked city officials what effect they think general revenue-sharing funds will have on their total Federal funds, whereas the bottom table simply asked them how satisfied they are with the program. And what we think to be a very fascinating thing is that less than 40 percent of the respondents, if you read across all cities in 1975, less than 40 percent of the respondents feel that it is going to result in increases in Federal funds. In other words, they do not see general revenue sharing funds as net added funds to their communities. They see some trade-off between it and the special revenue-sharing and the decline of the categorical grant programs.

And despite this, despite the fact that they see that they may still be receiving the same total amount of funds from the Federal Government, nonetheless over 63 percent are very strongly satisfied and 26 percent somewhat satisfied. So actually, you have 90 percent of city officials who are very satisfied with the program. In this past time in our sample only two people were really dissatisfied in any respects with the program. We think there are several reasons for this and these reasons are not unimportant. Certainly, one of them would be the fact that there is no need for the cities to have a large bureaucracy at the city level dealing with the program. And if you begin to raise questions about enforcement and so forth, you can see the problems that this could encounter for some cities where they might have to devote more staff and personnel to it than they would wish to. So you have that situation.

In addition, you also have that they like very much the idea of no strings. The concept of no strings is very important to them.

Before I come back to summarize our specific policy recommendations, I would like to turn to Dr. Cole for a minute to summarize some of the citizen participation findings.

STATEMENT OF RICHARD L. COLE

Mr. COLE. Thank you very much, Senator.

As we all who have been here today know from the discussions which we have had and from the testimony which has been presented, a persistent area of controversy and concern in the revenue sharing debate involves the issue of citizen participation and distribution of its funds. And again, as we all know, unlike much of the major domestic programs of the past couple of decades such as OEO and urban renewal and model cities and so forth, the general revenue-sharing legislation, as was passed in 1972, includes absolutely no requirement for the participation or mandatory participation of citizens in the allocation of those funds other than what the city or State may be required by local legislation.

Some have felt, therefore, that general revenue-sharing funds might be allocated without proper regard for expressed citizen needs and in particular that the areas of social service, health, welfare, and other amenities might be slighted while areas of public safety might be benefited.

We think the data which we have collected can bear directly on this question of citizen participation and allow us to explore the following questions. No. 1, and I want to go through these very rapidly, No. 1—what has been the extent of citizen involvement in revenue-sharing allocations to this point and second how has it changed over the 3-year period that we have data for. Three, how effective has this participation been in terms of affecting the distribution of revenue-sharing expenditures. And fourth, are some forms of participation found to be more effective than others in this distribution?

We believe that answers to these questions should be of obvious interest to those considering extension of and possible alterations of the general revenue-sharing legislation bill, as well as to those citizens groups interested in effecting revenue-sharing decisionmaking.

Turning to our findings, in the first instance, as to the extent of citizen participation in revenue-sharing funds, if you have the testimony in front of you, it would be very helpful if you could turn to table 6, indicating the proportion of city officials in our survey in this 3-year period who have indicated that they did experience public hearings and citizen participation, did allow citizen participation and public hearings in the distribution of revenue-sharing funds and the extent to which they will allow such participation in the future. We think the findings are interesting.

In 1973 we find that about 49.7 or about 50 percent of the cities which responded did experience some form of citizen participation in the expenditure of revenue-sharing funds. That is in addition to whatever public hearings they may have held for their own.

The CHAIRMAN. Please do not read quite as fast. I am trying to keep up with you.

People talk slow where I come from. Go ahead.

Mr. COLE. All right.

As it shows in the first half of that column, the left-hand side of that table, in 1973 about half of the cities experienced some form of public hearings and citizen involvement in revenue sharing in addition to whatever else they may have experienced by their budgetary process. By 1974 that had increased to about 10 percentage points to 58.6 percent. And by 1975, the data is just preliminary but on the basis of the returns which we have at this point which is almost complete, about the same percent as in 1974 had experienced some form of public hearings and citizen participation.

We think that is an interesting finding.

The second half of the table, which is also, we think, of interest, indicates the extent to which mayors and city managers felt that they would encourage some form of public hearings and participation in the future. We note here a steady increase and rise in the proportion of officials who are positive in that direction, from about 37 percent in 1973 to about 60 percent in our latest 1975 survey.

Concluding simply that table, we feel that public involvement in general revenue-sharing decisions appears to be relatively high for a program which requires no such input. In this sense, it might be concluded that model cities, OEO, and urban renewal programs of the 1960's, have left a legacy of expectations, of participation by citizens and city officials, and this legacy has carried over into the revenue-sharing field. And even in the absence of such mandates there is a considerable amount of citizen participation in public hearings involving revenue-sharing expenditures.

Table 7 briefly summarizes the characteristics of cities which did and did not hold public hearings and I am not sure of how much interest that is. We included that because it may have some regional interest here. It is known from previous social science research citizen participation in all forms in the budgetary process and other forms of public debate is generally associated with larger cities, with central cities, with cities having large proportions of nonwhite residents, with major cities, and so forth.

We find pretty much the same thing involved in the general revenue-sharing expenditures, and I do not think there is a whole lot to say about that other than just to make that note. We do find that central cities are experiencing somewhat more citizen participation, and one allowing somewhat more citizen participation than are suburbs. We do find that those cities with a larger proportion of nonwhites are experiencing more citizen participation in revenue-sharing decision-makings. We do find some interesting deviations from what we had expected. For example, southern cities and western cities are more likely to allow citizen participation than those in other sections of the country. That was unusual. And then we found that managers are more likely to experience and encourage citizen participation in revenue-sharing decisions. That is something else which is unique.

But essentially, that is the essence of that table.

I think, summarizing those two tables—that is the extent and frequency of participation in general revenue-sharing decision—our major conclusion is that, and unexpectedly to us at least, a large proportion of cities in all demographic and political categories have experienced such participation and such involvement appears to be increasing or at least remaining stable.

Table 8, we look at what I feel is one of the most interesting aspects of citizen participation in the debate here, and this is the consequence of citizen participation in revenue-sharing decisionmaking. That is, those cities which are experiencing public hearings and allowing and encourging public participation, do they tend to allocate their funds differently? Does citizen involvement in revenue sharing a program which requires no citizen input. Does citizen participation in that program make a difference? Does it have an input in terms of monetary distribution of the funds and we believe it does, at least our data supports that it does.

The general assumption, of course, made by those advocating greater citizen oversight in revenue-sharing decisions is that decisions made in absence of such participation are likely to be more status quo oriented; that is, in the case of revenue-sharing decisions are more likely to emphasize public safety, police, and fire and so forth and may be less attentive to social and welfare needs.

Our data do show some important deviations between cities holding and those not holding public hearings and table 8 is a little bit difficult, I think, to read as I was going over it this morning because we have so much data crammed together. But we have our two latest surveys, 1974 and 1975, combined. The first two columns indicate all expenditures for all cities in 1974 and 1975. The middle two columns indicate the distribution of funds by cities which held public hearings. And the final two columns indicate the distribution of funds among those cities which did not hold public hearings. And we find what we believe to be an important and significant deviation here.

For example, those cities, both in 1974 and 1975, which did not hold public hearings spent considerably larger proportions or at least reported spending considerably larger portions of the revenue sharing money for public safety functions than did those cities holding public hearings. That is, in each year, 1974 and 1975, cities which did not hold public hearings spent about 40 percent of the revenue sharing money for public safety compared with only about 25 to 26 percent spent by those cities which did hold public hearings, and of course that is what would be predicted.

It is also found that those cities which did hold public hearings were more likely to, No. 1, evenly distribute their funds throughout the categories, and No. 2, to spend large proportions in such areas as street and road repair, parks and recreation, health services, and social welfare needs.

In the latter category, health and welfare, cities holding public hearings were found to allocate about twice as much revenue sharing money as those not holding public hearings.

So again, we think we find significant and important deviations among those cities which did and did not hold public hearings.

An interesting question, we feel, is the extent to which different forms of participation and different types of participation may have made a difference in the allocations which I have just discussed and that is do those cities which hold more public hearings, more frequent hearings, and those holding hearings specifically for the consideration of revenue sharing money spend their funds differently from other cities?

Tables 9 and 10 of the testimony—table 9 examines the distribution of revenue sharing funds by numbers of hearings by those cities which held none and those which held one, those which held two, and those which held three or more. Again, we feel the results are very interesting considering the number of hearings. It is found that number of hearings does apparently have an effect and as the number of hearings increases money spent on public safety tends to decrease and amounts spent on social services tend to increase. It is not a steady monotonic trend throughout, but it is, we think, a noticeable trend in those directions.

Table 10 compares the distribution of funds among those cities which held hearings specifically to consider revenue sharing and those which held public hearings on revenue sharing during the total budget considerations of the cities.

Again, we find what we believe to be important deviations. Cities which hold hearings specifically for revenue sharing funds spend less for public safety and more for social services.

Thus, holding or not holding public hearings can affect the distribution of revenue sharing funds and the form of participation is also important.

In conclusion, we find a considerable amount of public participation in revenue sharing expenditures, even in the absence of legislative mandate which would require that. As I said before, about 50 to 60 percent of cities in our surveys do report some form of participation.

Two, participation has had an impact. Those holding hearings spend significantly less on public safety functions. They spend significantly more on social service and welfare needs. In addition, they more evenly distribute their funds throughout the priority categories.

Third, the form of participation may make a difference, we feel. Those holding more hearings and those holding hearings specifically for the consideration of revenue sharing funds spend less for public safety and more for social service functions.

And I would like to conclude by saying that we find, I believe both Dr. Caputo and I agree, that while the general revenue sharing legislation as was passed in 1972, obviously does not represent the optimum political situation for those groups seeking greater citizen control over local expenditure decisions, the act does not prevent meaningful citizen participation, we believe. Groups seeking larger allocations of revenue sharing funds must organize. Obviously, they must compete with other sometimes more established groups at the local level. Such organization and competition undoubtedly will be difficult. In some cases, maybe even impossible. But our findings indicate that such organization, when possible, can be successful and has a direct and positive impact on expenditure of general revenue sharing funds.

I think now Dr. Caputo would like to summarize our conclusions and our recommendations.

Mr. CAPUTO. Table 11, what we have done is we tried to summarize, and we apologize for trying to summarize a great deal of data in a relatively short period of time. That is one of our faults in terms of trying to figure out the best way to present this, but we wanted to be sure that it did, in fact, get in the public record.

What this does is it considers four basic consequences of general revenue sharing, and it tries to describe as it fits into two types of cities, and what we have done is set up a dichotomous relationship between the less wealthy, larger central cities and the more wealthy, smaller suburban cities, in essence, inner city versus suburban.

When you ask several questions you get a variety of answers, but, on the whole, the statistical pattern which emerges is quite clear, we feel. First of all, as to how the funds are used, we find to a very large extent the larger central cities, less wealthy, had to use the funds to support existing programs; smaller, more wealthy suburban communities have, in fact, been able to be innovative and have, in fact, started a much higher number of new programs.

As far as public hearings, we find almost the opposite. We find that the less wealthy large central cities attempted to have greater citizen participation in the form of public hearings, than the more wealthy, small suburban cities. In many respects that particular finding is almost in direct conflict with some of the statements this morning saying that large urban groups have been cut out of public hearings.

As far as impact on taxing levels, this in many respects is similar to what Mayor Gibson said yesterday, that in larger, less wealthy cities the effect of general revenue sharing quite often has been to lower taxing levels, whereas in the more wealthy, small suburban cities, the effect has been much more limited, or there has been no effect, and then, finally, the total impact in the larger cities has been to decrease the total Federal dollar and to increase it in more wealthy cities.

Now, specific recommendations that we would make are the following: that there should be very serious considerations given to increasing the total amount of funds going to the larger cities—and we define a larger city, in this case, as those over 250,000—perhaps by raising the ceiling, or perhaps by increasing the weight of income on the per capita effect in terms of the formulas.

Our feeling would be that in order for this to be done most successfully, the general revenue-sharing legislation would have to be funded at a higher level than it presently is.

No. 2, that the general revenue sharing funding process should continue to be a multiyear program and continue to be funded separate from the annual appropriations process, specifically, that it be renewed for a minimum of 5 years so that the recipient units of government can do the appropriate planning and have some real leadtime as to how the funds could be spent.

Third, our feeling is that there should be a concerted effort to try to enact continuing or renewal legislation this session, not in the session beginning in January of 1976, largely due to the fact that it could create a great deal of fiscal and financial chaos at the local and urban level if people are held in abeyance, if local planners are held in abeyance as to whether or not, in fact, the program is going to be continued.

Finally, then we would argue that there should be very careful consideration to the civil rights aspect of the legislation; however, our own personal feelings—and I believe, again, I speak for Dr. Cole on this—is that some of the efforts that the Office of Revenue Sharing has initiated in the past few months have gone a long way toward eliminating many of the compliance problems that people have raised.

And then, finally, we feel there should be very careful consideration given to any requirement to hold formal public hearings prior to general revenue sharing expenditures. We feel our data clearly indicates that the evidence is not conclusive on what the impact of those hearings may be and also whether or not, in fact, there is a real need for mandatory hearings.

Now, in closing, then I would like to, if I might just quote briefly from our book dealing with this subject, "Urban Politics and Decentralization: The Case of General Revenue Sharing," in which we say the following:

Thus, our conclusion is that general revenue sharing with reservations noted above is working at least as well as previous Federal grant programs, and our major policy recommendation would be the continuation and, perhaps, extension of the program. General revenue sharing, in summary, has not and will not be a panacea for the ills of urban America. In the final analysis the most important contribution of general revenue sharing may be the stimulation of citizen interest in local politics and the encouragement of increased and more effective participation in the urban decision-making process by previously ignored and uninvolved groups.

We thank you for the opportunity to present this evidence and our views, and we would be pleased to answer any questions you may have at this time and in the future.

Senator HATHAWAY [presiding]. Do you think the pattern of spending revenue sharing funds would increase the amount of the capital expenditures or the other way around?

Mr. CAPUTO. We notice some shift. There has been a decrease and we did not report this because we did not have a chance to analyze this closely in our 1975 data, but there appears there has been some decrease in the amount of funds going the capital expenditure route. We think the reason is initially, well, two reasons initially. In the first case, in many cases with the passage in 1972 it was treated as a windfall, because it came too late in the budgetary year for many of the communities.

Second, I think initially many communities were somewhat reluctant to start a program with fear that, perhaps, the program, the general revenue sharing, would not be enacted. If, in fact, there is real assurance that the program will be renewed, I think you may see a different expenditure pattern moving more toward operating expenditures, toward trying to support new programs; certainly, perhaps, not a dramatic shift because we know the evidence is very clear that local decisionmakers move slowly, but, nonetheless, I think this shift will be very perceptively toward that.

Senator HATHAWAY. Professor Cole. I did not hear all of your testimony, but do you advocate Federal guidelines for greater participation?

Mr. COLE. No; I do not. I think Dr. Caputo and I both are probably in agreement on this, and we both feel torn between what we both feel are two goals which we both support. One is that we do both support greater citizen participation in local affairs. We do support, we all like to see greater funds spent for social services, there is no question about that, and we feel that citizen participation can effect it. But, we think that on the whole we feel that the general revenue sharing legislation is best served by not having mandates for citizen participation.

As a matter of fact, that is one of the points of our testimony. That is, even in the absence of such mandates, about 60 percent of cities are experiencing some form of participation, and in those cities it is having a direct effect. I think we feel that citizen participation mandates, which were required for the community development legislation—a special community revenue sharing—were fair and was equitable, and I think we feel, in the long run, it is a fair situation as it is.

Senator HATHAWAY. Mr. Chairman.

The CHAIRMAN. I have no questions.

Senator HATHAWAY. Thank you both for your testimony. The other members may have some questions in writing that we would like to submit to you.

Mr. CAPUTO. Thank you.

[The prepared statements of Messrs. Caputo and Cole follow:]

STATEMENTS BY DAVID A. CAPUTO, ASSOCIATE PROFESSOR, DEPARTMENT OF POLITICAL SCIENCE, PURDUE UNIVERSITY, AND RICHARD L. COLE, ASSISTANT PROFESSOR, DEPARTMENT OF POLITICAL SCIENCE, GEORGE WASHINGTON UNIVERSITY

We appreciate the opportunity to present this statement and to respond to any questions you may have. Our statement is divided into three sections and we will alternate our presentation. I will summarize the general expenditure patterns we found, attitudinal data towards the program, and specific policy recommendations. Dr. Cole will summarize the major points concerning citizen participation. You have before you, three documents. The first is a brief biographical sketch of ourselves and research publications dealing with general revenue sharing. The second is a one page abstract of our presentation with the major points emphasized. The final document is our statement itself.

BACKGROUND OF RESEARCH

We have been investigating the impact of general revenue sharing expenditure decisions in 407 urban centers with population over 50,000. The research has been underway since October, 1972. In the ensuing 30 months, we have completed three mail questionnaires to the chief executive officers in each of the 407 cities and completed several other closely related projects. Table A–1 summarizes the response rates for the various categories of cities included in our survey. We have completed other research analyzing our response rates which indicate that we have the basis for generalizing from our respondents to other cities with similar characteristics. Due to the continued and excellent cooperation and assistance of the chief executive officer in cities over 50,000 we are confident of our results and the policy recommendations based on them. One cautionary note should be raised; the data for 1975 are based on 172 responses; we have over 210 responses to date, but were unable, due to time constraints, to include the remaining ones in the analyses summarized here. These results should be available by early June, but we don't believe they will significantly alter the points discussed here.

EXPENDITURE PATTERNS

Tables 1 through 3 summarize the responses when chief executive officers were asked how they spent their general revenue sharing funds. We believe that the responses indicate the chief executive officer's perception of how the funds were actually spent and reserve close examination (see Table 1).

The five categories of law enforcement, fire prevention, environmental protection, street and road repair, and parks and recreation, accounted for a combined total of 53% of total general revenue sharing funds in 1973, 68.2% in 1974, and 66.3% in 1975. It is clear that these five expenditure categories have been the chief recipients of general revenue sharing funds. In addition, the percentage expended on law enforcement and fire prevention has increased substantially from 1973 to 1975 while environmental protection, street and road repair, and parks and recreation have received a fluctuating percentage of funds during each of the three years.

A great deal of discussion and controversy has centered around the use of the general revenue sharing funds for social and health programs. Note that the percentage spent on social service programs, although still relatively small, doubled between 1973 and 1975 while the percentage expended for health has increased over the first year of general revenue sharing.

TABLE 1.—GENERAL REVENUE SHARING EXPENDITURES BY CATEGORY

[In percent]

Expenditure category	Expenditures		
	1973	1974	1975 [1]
Law enforcement	11.3	16.3	19.2
Fire prevention	10.3	15.3	15.4
Building/code enforcement	1.4	.7	2.4
Environmental protection	12.6	13.2	12.3
Transit systems	1.9	2.9	2.5
Street and road repair	11.6	12.5	10.9
Social services	1.7	2.8	3.4
Health	1.5	2.8	2.6
Parks and recreation	7.2	10.9	8.5
Building renovation	4.0	3.9	3.8
Libraries	1.4	2.2	1.6
Municipal salaries	4.3	1.1	1.8
Other	12.0	11.3	13.0
Undetermined	18.8	4.1	2.6
Total	100.0	100.0	100.0

[1] Preliminary results only based on partial returns.

In our book, we compare the percentage expended for each category with the percentage expended by that city in the year immediately preceding general revenue sharing. It appears that the expenditure patterns closely follow those of previous years and that there have been relatively few attempts to use general revenue sharing funds to finance new and vastly different local priorities. Table 2 also supports this point (see table 2). In the five expenditure categories which account for the largest percentages of expenditures, only the parks and recreation category indicates a significant percentage of the funds going to new programs. In both years, the percentages going to new programs exceed 33%. Interestingly, the social services expenditure category has seen the highest percentage of new programs. These data support the conclusion that general revenue sharing funds, for a wide variety of complex reasons, have not resulted in innovative and original programs. The funds have been used to strengthen or expand existing programs in a time of fiscal difficulty.

One related aspect of this discussion is the tendency to view all cities as similar. Our research indicates there are significant differences when variables such as size, demographic components, and socio-economic variables are considered. Table 3 compares the expenditures reached by various size cities for the three years the program has been in operation (see table 3).

TABLE 2.—USE OF REVENUE SHARING FOR NEW AND EXISTING PROGRAMS BY FUNCTION

[In percent]

Function	1974 survey (N=216) revenue sharing used for—			1975 survey (N=172)[1] revenue sharing used for—		
	Existing programs	Both equally	New programs	Existing programs	Both equally	New programs
Law enforcement	76.4	4.7	18.9	86.8	4.5	8.7
Fire prevention	82.3	5.3	12.4	78.5	2.5	19.0
Building code enforcement	76.7		23.2	78.5		21.5
Environmental protection	69.1	6.4	24.5	75.3	2.6	22.1
Transit systems	60.9	8.7	30.4	59.1	3.9	37.0
Street and road repair	76.1	8.0	15.9	77.0	3.0	20.0
Social Services	45.8	6.8	47.4	44.4	15.6	40.0
Health	66.7	7.4	25.9	71.2	5.8	23.0
Parks and recreation	55.6	6.5	37.9	60.9	3.8	35.3
Building renovation	71.1		28.9	72.4	3.5	24.1
Libraries	62.0	6.0	32.0	70.4	2.1	27.5

[1] Preliminary results only based on partial returns.

TABLE 3.—GENERAL REVENUE SHARING EXPENDITURES AND CITY SIZE

[In percent]

Expenditure category	1973 survey (N=212)				1974 survey (N=216)				1975 survey (N=172) [1]			
	50,000 to 100,000 (N=124)	100,000 to 250,000 (N=56)	250,000 to 500,000 (N=19)	Over 500,000 (N=13)	50,000 to 100,000 (N=122)	100,000 to 250,000 (N=60)	250,000 to 500,000 (N=21)	Over 500,000 (N=13)	50,000 to 100,000 (N=106)	100,000 to 250,000 (N=43)	250,000 to 500,000) (N=14	Over 500,000 (N=9)
Law enforcement	10.7	8.6	13.5	22.7	17.2	11.8	19.3	24.1	18.3	19.4	20.5	27.4
Fire prevention	9.9	9.0	14.0	13.3	15.0	15.9	12.7	19.7	16.8	7.4	24.2	22.6
Building code enforcement	1.6	.7	.3	4.1	.8	.4	.7	.3	3.4	1.2	.2	.5
Environmental protection	12.7	14.9	7.7	10.4	12.8	14.0	9.6	19.9	11.0	14.6	12.4	16.4
Transit systems	1.0	2.0	1.2	4.5	3.3	2.7	2.9	.9	2.2	4.0	.7	1.8
Street and road repair	11.1	12.0	13.6	8.3	13.2	12.8	10.3	8.5	10.2	14.2	4.8	6.4
Social services	1.9	1.7	.7	1.7	1.9	4.3	2.5	5.3	3.5	4.4	1.2	3.2
Health	1.6	1.2	1.2	2.2	2.6	3.1	2.7	2.8	2.1	3.7	2.7	2.8
Parks and recreation	7.4	8.1	4.0	7.6	11.8	9.7	10.9	6.3	8.6	7.5	10.0	11.2
Building renovation	5.0	2.5	2.0	3.9	4.9	2.6	3.7	.9	5.5	1.0	.6	2.4
Libraries	.8	1.6	.7	.8	2.3	2.3	.7	1.8	1.3	2.3	.9	1.8
Municipal salaries	3.4	3.7	9.2	1.6	.7	.5	5.6	1.0	2.9			
Other	12.5	20.0	5.6	1.7	8.4	16.9	17.0	5.0	7.8	19.3	13.6	1.9
Undetermined	20.4	14.0	26.3	17.2	5.1	3.0	1.4	3.5	6.4	1.0	8.2	1.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] Preliminary results only based on partial returns.

It indicates, quite clearly, that law enforcement and fire prevention expenditures become increasingly significant as city size increases. In 1973, cities over 500,000, expended over 36% of their general revenue sharing funds on law enforcement and fire protection functions; in 1975, the total expended was 50%. At the same time, the largest cities were spending significantly different percentages of their funds in the environmental protection, street and road repair, social services and building renovation categories. While many attribute these differences to inaccurate expenditure reporting, our position is that the reasons are much more complicated and probably closely related to the various demands placed on the cities for differing types of services. Thus, your large cities are faced with a different set of pressures and needs than your small and intermediate size cities. It would be natural for these pressures and needs to be reflected in general revenue sharing expenditure decisions.

In addition to the expenditure patterns, considerable interest exists over the impact of general revenue sharing on municipal taxing levels and the attitudes of local officials towards the program. Tables 4 and 5 summarize these points (see table 4).

TABLE 4.—IMPACT OF GENERAL REVENUE SHARING ON MUNICIPAL TAXING LEVELS

	Fiscal year 1974 survey (N=216)								Fiscal year 1975 survey (N=172) [1]							
	Reduced tax rate		Prevented increase in tax rate		Reduced amount of rate increase		No effect		Reduced tax rate		Prevented increase in tax rate		Reduced amount of rate increase		No effect	
	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number
Effect on tax rates	11.9	25	35.8	75	17.1	36	35.2	74	4.8	8	39.5	66	32.3	54	23.4	30
Long range effect on taxing levels	2.4	5	27.2	56	47.6	98	22.8	47	.7	1	21.6	36	66.9	111	10.8	18

[1] Preliminary results only based on partial returns

The top row of Table 4 compares the perceptions of the respondents in both 1974 and 1975 on the impact of general revenue sharing on taxing levels. Note that a smaller percentage of respondents in 1975 (23.4%) than 1974 (35.2%) felt that general revenue sharing funds had no effect on their local tax rate. In both years, over 40% of the respondents felt that general revenue sharing funds either reduced the tax rate or prevented an increase in the tax rate while 32.3% of the 1975 respondents felt general revenue sharing funds reduced the amount of tax rate increase which was necessary. It appears, then, that general revenue sharing is perceived as assisting in stabilizing or reducing the rate of increase in local tax rates.

The second row of Table 4 also deserves brief mention. It appears that between 1974 and 1975, probably due to the worsening economic conditions, that city officials began to feel much more strongly about general revenue sharing assisting them in reducing the amount of tax rate increase at the local level in the long run. Nearly 70% of the chief executive officers responded in this fashion indicating the increased fiscal pressure the cities are apparently experiencing.

Table 5 summarizes the perceived effect of general revenue sharing funds on total federal funds being received by the respective cities as well as the respondents' satisfaction towards the program (see Table 5).

TABLE 5.—EFFECT OF GENERAL REVENUE SHARING ON TOTAL FEDERAL FUNDS FOR URBAN AREAS AND RESPONDENT SATISFACTION WITH GENERAL REVENUE SHARING

	Greatly increase		Increase somewhat		No effect		Decrease somewhat		Greatly decrease	
	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number
Effect on total Federal funds:										
All cities:										
1973	13.2	24	30.2	55	23.1	42	18.7	34	14.8	27
1974	10.9	21	23.3	45	26.4	51	27.5	53	11.9	23
1975 [1]	12.1	19	27.3	43	29.3	46	19.7	31	11.6	18

	Very satisfied		Somewhat satisfied		Uncertain		Somewhat dissatisfied		Very dissatisfied	
	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number
Respondent satisfaction:										
All cities:										
1973	45.3	91	32.3	65	13.4	27	6.0	12	3.0	6
1974	62.1	121	28.2	55	3.6	7	5.1	10	1.0	2
1975 [1]	63.4	104	26.7	44	8.7	15	1.2	2	----	----

[1] Preliminary results only based on partial returns.

It is most interesting that while most chief executive officers feel the impact of general revenue sharing funds on their total federal funds will be marginal (less than 25% feel that the funds will greatly decrease or increase their total federal funds), there is very high satisfaction with the program. The number very satisfied has grown from 45.3% in 1973 to 63.4% in 1975. Accompanying the increase in satisfaction, there has been a decrease in the always quite small dissatisfaction with the program. This is a very important point; city officials strongly favor the program and apparently view it as being quite important to their cities. This will be an important factor in any discussion of the renewal legislation. Certainly one of the most controversial and discussed aspects of the program involves the lack of specific citizen participation requirements. Dr. Cole will discuss our findings in this area.

CITIZEN PARTICIPATION IN REVENUE-SHARING DECISIONS

As those familiar with urban politics are well aware, a distinguishing feature of much of the major domestic legislation of the past couple of decades has been its emphasis on the participation of citizens in the distribution of funds. The Urban Renewal program, for example, required a "program of citizen participation in the planning and execution of the project;" the OEO legislation called for the "maximum feasible participation" of the poor; and the Model Cities program required the participation of those in "target areas." Although some have criticized these as often offering only cosmetic and superficial avenues of "meaningful" citizen input, it nevertheless is true that previous domestic legislation has established a tradition of citizen involvement and an expectation on the part of many citizens' groups that such participation was to be a continuing feature of any domestic program funded by the Federal government. It is also true that many believe that such participation is necessary in order to ensure an adequate distribution of Federal and local funds for socially oriented domestic programs.

General Revenue Sharing, on the other hand, is distinguished by its *lack* of requirement for citizen involvement. General Revenue Sharing funds, of course, are to be spent according to normal budgetary procedures, regardless of whether those procedures require public hearings or opportunities for direct citizen input. Thus, from General Revenue Sharing's inception, the citizen participation issue has continued to be a major area of contention and controversy.

Typifying the fears of many—that the lack of participation requirements would lead to a use of General Revenue Sharing funds which would largely neglect socially oriented programs—are the comments of the director of an East Akron Neighborhood Center. Testifying in 1971 before the Senate Subcommittee on Intergovernmental Relations considering the bill, the director stated: "How could [the Federal government] even think about passing a revenue-sharing bill that is going to say, 'you take the money, to State or city or anywhere else, and do what you want with it.' What will happen to poor people? In the city where I live they may as well jump over into the river right now. . ."

In this section we explore the following questions: (1) To what extent have cities encouraged and/or allowed the participation of citizens in revenue sharing decisions?; (2) Is such participation increasing or decreasing?; (3) How effective has this participation been?; (4) Are some forms of participation more effective than others? Answers to these questions should be of obvious interest to those considering the extension of the General Revenue Sharing legislation as well as to those citizen groups interested in affecting revenue sharing spending decisions.

Concerning the extent of citizen participation in General Revenue Sharing decisions, Table 6 indicates that a substantial proportion of cities have experienced such involvement. As Table 6 indicates, about half of those cities responding to our surveys in the three budgetary years covered by this study did experience some type of citizen participation efforts during their General Revenue Sharing decision-making process (see table 6).

TABLE 6.—PUBLIC HEARINGS AND THE ALLOCATION OF REVENUE SHARING FUNDS

	Public hearings held prior to this year's allocation?		Public hearings to be held in the future?		
	Yes	No	Yes	No	Undecided
1973 (N=195)	49.7	50.3	37.7	37.7	24.6
1974 (N=203)	58.6	41.4	50.7	49.3	(1)
1975 (N=172)[2]	56.8	43.2	59.3	40.7	(1)

[1] This option was not provided in the 1974 and 1975 surveys.
[2] Preliminary analysis based on incomplete data returns.

Interestingly, the proportion of officials reporting some type of citizen participation increased by about 10 percent from the 1973 to the 1974 and 1975 surveys. Also, Table 6 shows that the proportion of cities indicating that public hearings will be held in future revenue sharing allocations has steadily increased from 1973 to 1975. Thus, although the revenue sharing legislation requires no citizen participation, about half of the officials responding to our survey report that their cities have allowed such input and that their cities will continue to encourage such participation. While such participation may be less extensive than some observers of revenue sharing would find satisfactory, the proportion of cities allowing some citizen participation appears high for a program which lacks such a formal requirement.

It is known from previous studies that citizen participation in urban affairs tends to be highly correlated with various demographic and political factors. It has generally been found that opportunities for participation are greater in larger, central cities, with higher proportions of non-white residents. Political factors such as form of government, and degree of municipal "reformism."[1] also have often been found to be related to municipal citizen participation programs. Table 7 compares citizen participation in General Revenue Sharing decisions, "controlling for" these various demographic and political factors (see table 7).

[1] Throughout this study, municipal "reformism" refers to the extent to which cities display the commoningly-referred to reform characteristics of city manager (rather than mayor), at-large (rather than ward elections), and non-partisan (rather than partisan) elections. Cities having all of these reform characteristics re assigned the score of "4," those having none are assigned the score of "1."

TABLE 7.—PUBLIC HEARINGS AND THE ALLOCATION OF REVENUE SHARING FUNDS BY POLITICAL, ENVIRONMENTAL AND DEMOGRAPHIC CHARACTERISTICS [1]

[In percent]

City characteristic	Holding public hearings (119)	Not holding public hearings (84)
Total, all cities	58.6	41.4
Form of government:		
Mayor	53.3	46.7
Manager	61.5	38.5
Municipal reform: [2]		
1	62.5	37.5
2	52.6	47.4
3	61.3	38.7
4	62.6	37.4
City size:		
50,000 to 100,000	52.2	47.8
100,000 to 250,000	71.4	28.6
250,000 to 500,000	52.4	47.6
Over 500,000	72.7	27.3
City type:		
Central	65.1	34.9
Subruban	46.4	53.6
Region:		
Northeast	41.9	58.1
North-central	53.6	46.4
South	74.5	25.5
West	63.3	36.7
Mean income:		
Less than $10,500	58.4	41.6
$10,500 to $12,500	61.5	38.5
Over $12,500	54.2	45.8
Proportion nonwhite:		
Less than 5 percent	48.9	51.1
5 to 15 percent	65.4	34.6
Over 15 percent	68.4	31.6
Population Change:		
Less than 0 percent	50.0	50.0
0 to 25 percent	61.2	39.8
Over 25 percent	62.7	37.3

[1] Data in this table are based on the 1974 survey.
[2] The measure of municipal "reformism" is explained in footnote 1.

For the most part, the data presented in Table 7 conform to expected participation patterns. As the literature suggests, central cities and those having larger proportions of non-white residents were more likely to experience participation by citizens in their revenue sharing decisions. Sixty-five percent of the cities classified as "central," and 68 percent of those having more than 15 percent of their population non-white reported some degree of citizen participation.

At the same time, some interesting deviations from expected patterns are apparent. Southern and western cities are more likely to have had citizen participation during the revenue sharing decision-making process than cities in the northeast and north central sections of the country. City size appears to have been an important factor, however its influence is not consistent. Smaller cities and those in the 250,000–500,000 size category were *less* likely to have experienced citizen participation in their revenue sharing decision; the largest cities and those in the 100,000–250,000 category were *more* likely to have experienced citizen participation. Perhaps the major exception to what might have been expected is that council-manager cities were somewhat more likely to have held public hearings than were mayor-council cities. This is precisely opposite what would be expected given the supposed "professional" biases of council-manager cities. It might be concluded that mayor-council cities are more concerned with the political implications of encouraging citizen participation in revenue sharing decisions and then being subject to political reprisal if the public's suggestions are not followed. Alternatively, one might conclude that citizens felt access to the decision-making process was more open in mayor-council cities and that the need for public hearings in those cities was less than in manager cities. In any case, it is clear that council-manager cities have been somewhat more likely to have experienced citizen participation during the allocation of General Revenue Sharing funds than have mayor-council cities.

Thus, in answer to the questions of frequency and extent of citizen participation in the expenditure of General Revenue Sharing funds, it is found that about half of those officials responding to these three surveys report some degree of citizen involvement in their revenue sharing decisions and this proportion appears to be increasing. When examining these results by the various demographic and political factors, few major deviations were noted, except that central cities, those with larger proportions of non-white residents, and those in the south and west have been more likely to have experienced some degree of citizen involvement. The major conclusion in this regard is that, despite the absence of a provision in the General Revenue Sharing legislation requiring citizen input, an unexpectedly large proportion of cities in all demographic and political categories have nevertheless experienced some type of citizen participation.

While the questions of frequency and extent of citizen participation are important, even more important is the result or impact of citizen participation on revenue sharing decisions. The sentiment sometimes expressed among students of urban politics is that decisions reached in the absence of citizen oversight may be less redistributive and more status quo oriented than those where citizen particpation is meaningful. Concerning General Revenue Sharing expenditures in particular, it has often been suggested that without effective citizen participation and oversight, the social service and health categories of municipal spending will be ignored while the public safety and other "hardware" expenditure categories will be stressed. Table 8 indicates the extent to which the expenditure patterns of those cities experiencing some degree of citizen participation differ from those experiencing none (see table 8).

TABLE 8.—EFFECT OF PUBLIC HEARINGS ON GENERAL REVENUE SHARING ALLOCATIONS

[In percent]

Function	Total expenditures all cities		Cities holding public hearings		Cities not holding public hearings	
	1974	1975	1974	1975	1974	1975
Environmental protection	13.2	12.4	13.0	9.7	13.6	17.5
Law enforcement	16.3	19.3	12.2	16.0	22.7	25.8
Street and road repair	12.5	10.9	15.4	12.2	9.2	9.8
Fire prevention	15.3	15.5	13.4	14.1	17.4	17.8
Parks and recreation	10.9	8.7	12.6	10.5	7.2	6.9
Building renovation	3.9	3.9	4.1	4.0	3.9	2.9
Salaries	1.1	1.8	.6	.7	1.3	.4
Transit systems	2.9	2.6	3.5	3.7	2.3	1.5
Social services	2.8	3.6	3.9	3.6	1.7	3.5
Health	2.8	2.7	3.8	3.5	1.6	2.1
Libraries	2.2	1.6	1.4	1.5	3.2	1.9
Building and code enforcement	.7	2.5	.6	2.2	.8	3.3
Other	11.3	13.0	11.7	16.7	10.1	3.7
Undetermined	4.1	2.7	3.8	1.6	5.0	2.9

The data in Table 8 provide some very intriguing comparisons. In both 1974 and 1975 it is shown that cities which did *not* hold public hearings did, indeed, allocate larger proportions of their revenue sharing money to public safety functions. As Table 8 indicates, those cities *not* holding hearings spent over 40 percent of their General Revenue Sharing funds for public safety functions (law enforcement and fire prevention) in 1974 and 1975 compared with about 26 percent spent for public safety by cities which *did* hold public hearings. On the other hand, cities which *did* hold public hearing were more likely to evenly distribute their funds in both fiscal years, and to spend larger proportions of their money in such areas as street and road repair, parks and recreation, health services, and social service needs. In this regard, then, it appears that citizen participation is related, to some degree, to differences in revenue sharing expenditures and that citizen involvement can measurably affect the distribution of revenue sharing funds.

An interesting question which arises concerns the extent to which different modes of participation may affect expenditures. That is, do those cities holding more public hearings or those holding hearings specifically to consider General Revenue Sharing funds differ in their expenditure patterns from other cities? Tables 9 and 10 explore these concerns (see tables 9 and 10).

TABLE 9.—EFFECT OF NUMBER OF HEARINGS ON GENERAL REVENUE SHARING ALLOCATIONS

[In percent]

Function	Number of hearings			
	0	1	2	3 or more
Environmental protection	17.5	12.4	15.7	5.3
Law enforcement	25.8	20.7	21.4	14.6
Street and road repair	9.8	13.6	9.3	10.9
Fire prevention	17.8	20.6	10.5	9.9
Parks and recreation	6.9	8.4	11.2	11.4
Building renovation	2.9	4.5	1.6	4.8
Salaries	.4	.6	.1	1.3
Transit systems	1.5	3.0	2.0	5.1
Social services	3.5	3.6	2.[illegible]	4.3
Health	2.1	1.3	3.[illegible]	4.6
Libraries	1.9	1.0	2.6	1.4
Building and code enforcement	3.3	2.4	1.3	3.9
Other	3.7	7.2	15.4	18.0
Undetermined	-2.9	.7	3.2	4.5

TABLE 10.—EFFECT OF NATURE OF HEARINGS ON GENERAL REVENUE SHARING ALLOCATIONS

[In percent]

Function	Hearings held	
	Specifically to consider general revenue sharing	During consideration of total budget
Environmental protection	15.5	12.1
Law enforcement	15.8	22.3
Street and road repair	20.4	10.0
Fire prevention	10.1	20.9
Parks and recreation	6.7	10.2
Building renovation	3.8	3.1
Salaries		.9
Transit systems	5.0	1.7
Social services	5.5	2.8
Health	3.5	3.0
Libraries	1.4	1.5
Building and code enforcement	.1	3.6
Other	3.2	6.8
Undetermined	9.0	1.1

As indicated in Table 9, *number* of hearings held has a measurable impact on revenue sharing decisions. As numbers of hearings increase, the proportion of General Revenue Sharing funds allocated to public safety functions declines and the proportion allocated to social services increases.

Also, as is indicated in Table 10, the *nature* of the hearing has a significant impact. Those cities holding hearings specifically for the purpose of considering revenue sharing expenditures spend smaller proportions on public safety and larger proportions on social services than those holding hearings during the regular budgetary process.

Thus, considering the question of form of participation, it is found that differing types of participation opportunities may measurably affect revenue sharing expenditures. Cities allowing more hearings and those holding hearings specifically for the purpose of considering revenue sharing expenditures are less likely to spend their funds on public safety functions and more likely to spend their funds on social service needs.

Summarizing the issue of citizen participation in the expenditure of General Revenue Sharing funds, it is found that, in spite of no legislative mandate, over half of the cities responding to our surveys have encouraged or allowed such participation. In addition, an increasingly large number of cities are indicating that they will continue to hold such hearings in the future. Over the three year period covered in this study, then, citizen interest and involvement in the General Revenue Sharing legislation has remained strong. Here, we would suggest that much of the domestic legislation of the past couple of decades has established a tradition and expectation of citizen involvement in local affairs and that this tradition has "carried over" into the revenue sharing arena.

Further, it is our finding that such participation may significantly affect the expenditure of revenue sharing funds. Those cities holding public hearings spend measurably smaller proportions of their revenue sharing money on public safety functions and more on health, social services, and amenities. Thus, we not only find that citizen participation in General Revenue Sharing decisions is strong and active, but we also find that such participation can have a significant impact on the expenditure of such funds. It is also found that these tendencies are magnified when considering the factors of number and nature of hearings.

Thus, we find that while the General Revenue Sharing legislation as passed in 1972 may not represent the optimum political situation for urban groups seeking greater citizen control over local expenditure decisions, the Act does not prevent meaningful citizen participation under a variety of conditions. Groups seeking larger allocations of revenue sharing funds must organize and compete with other, and often more established, groups at the local level. Such organization and competition will be difficult and in some cases impossible, however our findings indicate that such organization, when possible, has a direct and positive impact on the expenditure of General Revenue Sharing funds.

RECOMMENDATIONS AND CONCLUSIONS

Table 11 summarizes the impact of general revenue funds and we would like to offer the specific recommendations based on it and our extensive research dealing with the impact of general revenue sharing (see Table 11).

TABLE 11.—CONSEQUENCES OF GENERAL REVENUE SHARING, A SUMMARY OF OVERALL TRENDS BY TYPE OF CITY [1]

Consequences	Type of City: Less wealthy large central cities	More wealthy small suburban cities
Use of funds?	Existing programs	New programs
Public hearings?	Yes	No.
Impact on taxing levels	Lowered taxing levels	No effects.
Effect on receipt of Federal funds	Decrease	Increase.

[1] This table based on 1973 and 1974 data and represents overall trends which may not be indicative of any single city. Preliminary analysis of the 1975 data indicates similar patterns.

(1) Increase the amount of funds going to the larger cities (those over 250,000) by increasing the weight of income on the per capita affect after a certain size has been reached, while holding constant or increasing the amount going to other cities. This increase in funds may enable those cities experiencing acute service needs to meet those obligations. Such a change may also result in the increase of experimental and innovative programs at the urban level.

(2) Continue to fund general revenue sharing separate from the annual appropriations process and continue it for a minimum of five years so that recipient units of government can in fact know and plan for the use of any funds they will receive during the specified duration of the program. This may also increase the use of the funds for innovative purposes.

(3) There should be a concerted effort to enact continuing legislation this session rather than next due to the importance of such action for meaningful fiscal planning by many city decision-makers. Uncertainty and delay could be quite costly both in terms of funds wasted and needs ignored.

(4) Careful consideration of compliance with the civil rights aspects of the legislation should be considered without jeopardizing the major objectives of the program. Efforts should be, as they presently are, increased in preventing discriminatory use of the funds by the appropriate administrative agencies.

(5) Maximum flexibility in setting local expenditure decisions is to be encouraged. Restrictive expenditure regulations should be reviewed and possibly eliminated.

(6) Careful consideration should be given to any requirement to hold formal public hearings prior to general revenue sharing expenditures. As we have pointed out, there is conflicting evidence on the impact of the hearings and subsequent expenditure decisions.

In closing, we would like to quote from the closing paragraphs of our book, *Urban Politics and Decentralization: The Case of General Revenue Sharing:*

> Thus, our conclusion is that general revenue sharing, with the reservations noted above, is working at least as well as previous federal grant programs, and our major policy recommendation would be the continuation (and perhaps extension) of the program. . . . General revenue sharing, in summary, has not and will not be a panacea for the "ills" of urban America. . . . In the final analysis, . . . the most important contribution of general revenue sharing (may be) the stimulation of citizen interest in local politics and the encouragement of increased and more effective participation in the urban decisionmaking process by previously ignored and uninvolved groups. (p. 156)

We thank you for the opportunity to present this evidence and these views. We would be pleased to answer any questions you may have at the present time or in the future.

TABLE A-1.—QUESTIONNAIRE RESPONSE RATES

Classification	Number of cities surveyed (A)	Cities responding: 1973 Number	1973 (Percent of A)	1974 Number	1974 (Percent of A)	1975 Number	1975 (Percent of A)
Total, all cities	409	213	52.1	216	52.8	172	42.3
Population group:							
Over 500,000	26	14	53.8	13	50.0	9	34.6
250,000 to 500,000	30	19	63.3	21	70.0	14	46.7
100,000 to 250,000	98	56	57.1	60	61.2	43	43.9
50,000 to 100,000	255	124	48.6	122	47.8	106	41.6
Metropolitan type:[1]							
Central city	258	138	53.5	137	53.1	(2)	(2)
Suburban	151	75	49.7	71	47.0	(2)	(2)
Region:[1]							
Northeast	99	40	40.4	48	48.5	(2)	(2)
North central	106	58	54.7	58	54.7	(2)	(2)
South	101	60	59.4	52	51.5	(2)	(2)
West	93	55	59.1	50	53.8	(2)	(2)
Form of government:[1]							
Mayor-council	164	74	45.1	66	40.2	(2)	(2)
Council-manager	212	126	59.4	122	57.5	(2)	(2)
Other	31	13	41.9	19	61.3	(2)	(2)

[1] Not all cities could be coded on this variable due to incomplete information.
[2] These response rates have not been determined yet, but it appears that they follow the general pattern of the 2 previous years.

The CHAIRMAN. Mr. Chairman, might, I ask that you call the representatives from the Louisiana Sheriff's Association next, because I may have to go vote in a little while, and I had hoped to be here for that testimony.

Senator HATHAWAY. I would be happy to. Our next witness is Sheriff Frank M. Edwards, Jr. and Sheriff Adler V. Ledoux.

The CHAIRMAN. Sheriff Edwards is not with us, but we have Sheriff F. O. Didier, of Avoyelles Parish, accompanied by Mr. Otis E. Lomenick, Jr., legal adviser for the Saint Landry Parish sheriff's office.

We are very happy to have you gentlemen with us, and I am pleased to welcome two old friends before this committee. They speak for a very fine group of men.

Senator HATHAWAY. We are glad to have you here.

STATEMENT OF F. O. DIDIER, JR., SHERIFF OF AVOYELLES PARISH, STATE OF LOUISIANA, ACCOMPANIED BY ADLER V. LEDOUX, SHERIFF OF SAINT LANDRY PARISH, AND OTIS E. LOMENICK, JR., LEGAL ADVISER FOR THE SAINT LANDRY PARISH, SHERIFF'S OFFICE

Mr. DIDIER. Thank you very much, Mr. Chairman.

Request for review of Federal revenue sharing on behalf of the Louisiana Sheriff's Association. To Hon. U.S. Senator Russell B. Long, chairman of the Finance Committee, and committee members.

From the Louisiana Sheriff's Association delegation, Adler V. Ledoux, Sheriff of Saint Landry Parish, F. O. Didier, Jr., speaking, sheriff of Avoyelles Parish, Otis E. Lomenick, Jr., legal adviser for the Saint Landry Parish sheriff's office.

The Louisiana Sheriff's Association, which is composed of all the sheriffs of the 64 parishes or counties in the State of Louisiana, appears before this committee through its duly appointed representative to testify relative to a very serious problem concerning finances in the operations of the sheriff's offices. Relief may be available through this committee by some alterations in the method of distributing funds under Federal revenue sharing.

Louisiana occupies a unique position, maybe not desirable, among the 50 States in the manner in which the office of sheriff is financed. In all States other than Louisiana, the county governing bodies collect taxes and fund the operation of the sheriff's office. In Louisiana, the sheriff is the chief law enforcement officer in the parish, outside of the incorporated municipalities, and is the tax collector for the parish. For his services as tax collector the sheriff is entitled to a commission. He must pay the entire cost of the operation of his office, which includes, inclusive, salaries, purchase of equipment and its maintenance, insurance, bonds for himself and his deputies, feeding of the prisoners in the parish prison, less $2 per head per day due by the police jury under State law, and salaries of court bailiffs, all of which funds must be derived from commissions based upon renewal of local taxes.

Federal revenue sharing is now distributed to municipalities and parish, county, governing authorities. These governmental bodies establish the priorities for expanding the funds, and the entire grant is distributed by them. Public safety, which includes law enforcement, has been designated in the Federal guidelines as a top priority item. In spite of this priority, Louisiana sheriffs are not given any voice in the manner in which the funds are expended. The end results has been little or no contributions by the parish police juries to activities which may be classified as law enforcement programs. Some sheriffs have received from their police juries small grants, usually under $10,000, from the revenue sharing funds. Most sheriffs receive nothing. Saint Landry, which he represents, and Avoyelles Parish, which I represent, are examples of the latter.

Some parishes police juries reported on their actual use report, general revenue sharing report form that they have expended moneys out of the revenue-sharing funds for law enforcement. No itemization is shown as to what areas in law enforcement these funds have been expended. No funds went directly to the sheriffs for purchase of equipment, salaries or any other expenditure of the sheriff's offices.

The Louisiana Sheriffs' Association urges this committee to seriously review the method of distribution of Federal revenue-sharing funds to governmental bodies in the State of Louisiana with a view of distributing directly to the several sheriffs some of these funds. Such a distribution would insure direct application of Federal revenue sharing to law enforcement in Louisiana.

Letters from various elected officials of the various municipalities in Saint Landry Parish and law enforcement agencies are attached to this presentation. These letters are mute testimony of the dependence on the sheriff's assistance in criminal investigations in these various communities. Here, like I say, we could have brought letters from every sheriff in the State of Louisiana; however, we brought only one set of letters, and that is from Sheriff Ledoux' parish.

Mr. Chairman and members of the committee, you are fully aware of the continual increase of the crime rate throughout the Nation as a whole, and that if we are going to control crime it is going to cost us heavily. You are also aware that without proper funding, law enforcement could in no way fight crime. The Louisiana Sheriff's Association requests that this committee find some means of assisting law enforcement financially by designating a percentage of the Federal revenue sharing moneys which is allotted to go directly to the sheriffs.

That just about sums the entire thing up.

Mr. Chairman, as I have said in the statement here, we are unique as sheriffs, being the only State, Louisiana, who funds the entire operation of the sheriff's office by taxes that we collect that the governing bodies, except in the State of Louisiana.

The CHAIRMAN. Mr. Chairman, might I just make a point here that should be made clear for the record to all of our colleagues. I, for one, was shocked, embarrassed, and dismayed to find out that although the sheriff and his deputies are the principal law enforcement agency in every parish in Louisiana, and they are regarded as almost the sole law enforcement agency in the rural parishes; yet in the great majority of parishes, while revenue-sharing reports from across the Nation indicate 23 percent spent for public safety, while not a $1, not 1 penny was paid over to the sheriffs to help carry out their function.

Sheriff Didier reports to me, for example, he has less money now than he had before available to do his job, very substantially less, and I have received that report from other sheriffs. I simply could not understand it. However, after one realizes the difference in how Louisiana is organized and how the other States are organized, one understands why.

In other States the sheriffs are funded through the county governing body. In Louisiana the sheriff is usually the principal law enforcement officer in each parish and his office is funded by receiving a percentage of the taxes that are collected in the parish. He is the tax collector as well as a sheriff, so he receives a percentage of taxes collected. He is elected and does his job completely independently and not under the supervision of the county governing body.

Now, what has happened—and it is only human that it would happen that way and it is logical politically—is that the police jury, which has responsibility for things like the parish roads, the collection of garbage, sewage, and sanitation and things like that spends it in the area of its responsibility. And since there is no money earmarked for the sheriffs, the police furors seem to have assumed that it was not intended that any of this money should be spent for the sheriffs, and, in any event, just as I think almost any politician tends to do in terms of priority, they just have not found that the sheriff's function in hiring deputies, apprehending criminals, or protecting property had anything like the priority of some of the other programs.

I suppose that when the police juries report for law enforcement or public safety, they found they could make the place a little safer by putting a street light up. That falls within their responsibility and, incidentally, for the police juror for that ward, putting a street light in a dark place where people appreciate it helps him get reelected; or, to make the place safer, they found that they could put a piece of pipe in a culvert and, therefore, when someone went home at night he would not drive through the ditch and he would be safer than he would be if the money were given to the sheriff to hire a deputy, and so the result has been that in the overwhelming majority of parishes, at least 90 percent—is that about the figure now, Sheriff?

Mr. DIDIER. That is close.

The CHAIRMAN. I see you both nodding, so in about 90 percent of the parishes, not a penny has been, in all the years of the program dedicated or provided by the parish governing body to the sheriffs. Now, that would not have happened if I had realized that to begin with. I would have certainly made the effort, as a member of this committee, to see to it that they received their fair share of the revenue-sharing funds, separate and independently, just as though they were a separate unit of government. It reminds me of that old story down in Louisiana where some alcoholic in the French Quarter woke up in bad shape and found a post card lying around, so he wrote on the front of it God, G-O-D, God, please send me a hundred dollars. I am in terrible shape. He put his name on it and he put an address down. The Postmaster, not knowing where to send it, sent this communication to the most powerful man he knew in America, who was in Washington, D.C. It went up to the head post office and was sent on to the White House. The President said, what do we do about this? I never heard of this fellow, but let us send him $5, I am feeling in good humor today. So, the President sent him the $5. After awhile the President received another post card: "God, thanks for the $5; it helped a lot; next time please send me a hundred dollars direct. They routed the last hundred by way of Washington, D.C., and those people took out 95 percent for expenses.

Now, as far as the sheriffs are concerned, with regard to the part of this money they were supposed to get, you might say that the local governing bodies took out 100 percent of their funds to spend on other things. Those other things might have included a load of gravel somewhere that put a road back to somebody's rural home, or cutting some grassy area where the place would be more sanitary, or improving the local parish roads and lighting and things of that sort. Now, I am not being critical of those people. They undoubtedly did a lot of good with that money, but they simply placed a higher priority, almost without exception, on their functions than they did on the function to be performed by the sheriffs law enforcement. I really think the best way to solve that problem is for us to simply earmark funds for the sheriffs, just as though they were a separate unit of government. Whatever money we think should go to law enforcement is going to have to be earmarked. Without that kind of requirement 90 percent of the sheriffs have not received 1 dime, just nothing. While the people down at the Treasury Department might not understand that yet, that is just one of the many instances where Louisiana is somewhat different from the rest of the Nation.

Senator HATHAWAY. Thank you, Mr. Chairman. Thank you gentlemen for bringing to our attention a problem that we had no knowledge of. I understand this is peculiar to the State of Louisiana. It does not exist in any other State?

Mr. DIDIER. Yes.

Mr. LEDOUX. That is correct. We thank you very much. We certainly appreciate your time.

The CHAIRMAN. I would like to point out that they are very ably backed and supported by Congressman Gillis Long, who is a very able Member of the House of Representatives on the Rules Committee.

Senator HATHAWAY. Gillis, we are glad to have you with us.

Mr. LONG. Thank you very much.

Senator HATHAWAY. Our next and last witness is Senator Jake Garn from Utah. Senator, we are happy to have you with us. You do not have a prepared statement, I understand.

STATEMENT OF HON. JAKE GARN, A U.S. SENATOR FROM THE STATE OF UTAH

Senator GARN. No; Mr. Chairman, I do not. After 7 years as a local government official, I do not really need it. I could talk for hours on the need for general revenue sharing. I am going to reassure you that I am not going to, so you can relax. I do appreciate the opportunity to share some of my thoughts with you, and, maybe more importantly, respond to some of your questions.

I am only 3½ months away from being a mayor. Senator Long may remember that I testified representing the National League of Cities on behalf of general revenue sharing when it was first enacted.

I think I will not take your time to talk about a lot of details. You have had a lot of testimony. I have listened to some of it here today and I will not get into all of the details, the mechanics, the formulas, et cetera, but I would like to talk more from the standpoint of principle, of the need that I see for this type of legislation, with as few regulations and strings attached as possible.

I have often used the statement after 7 years in local government, that as mayor of Salt Lake City I really did not feel like the mayor, but like a local manager for the Federal Government. Frustration some days was almost intolerable, trying to figure out the various categorical grants and what rules or guidelines, what regulations, fit our particular situation.

So we, like most cities, hired a grantsman, hired a "Federal intergovernmental coordinator," a fancy title for someone to seek out and find Federal grants in the morass of Federal programs, almost without number, someone to try to figure out how they should work.

I will give you just one brief example. I had a fellow in my office who worked in the HUD regional offices, when they were in San Francisco for the Salt Lake City area, and he said, mayor, we have some water and sewer grants for your congressional district. And, politically, we would like very much to give grants in your congressional district because we have given a lot more in the other and there is some money left in the last quarter.

And, if you would apply, I am sure we could get you the money to cover this reservoir that you need to get your water system approved. And I said, great. We have only got two left to cover and then we will be a fully approved water system.

He said, you know, it is such a short time frame I would like very much to help you with the application. So we sat down and spent a day and a half. He stayed in Salt Lake City. We worked on the application. We supplied him the data and he filled it out.

We mailed it to San Francisco and it was passed to him. It came back rejected. He rejected his own application—because, obviously, it came in with a large group of others and he did not recognize that it was his.

Not only did we not get that particular grant in the last quarter of that particular year, we received it 2½ years later, and I estimate that we had spent $50,000 of staff time for a $250,000 grant. And then after the reservoir cover was completed, we received a bill for $25,000 for inspection fees to come out and see if it met the guidelines.

It did not make any difference that the Utah Public Health Service had investigated it; the Salt Lake City County Health Department; the U.S. Public Health Service; EPA, you name it. Everybody checked it, but HUD still had to.

So, we got another $25,000 so we ended up 2½ years later with a $175,000 net. And we had to meet such requirements as getting a letter that we would not discriminate in the distribution of our water.

Well, with a water system that served 350,000 people over 900 miles of waterlines over 6 inches in diameter within the city, I would like somebody to tell me how I would deliver different water from one home to the other, next door to it, unless we built a completely duplicate water system for every person we wanted to discriminate against.

And, on and on and on in this 2½ year period. One requirement was that we send in our operating costs. And, not being an engineer, I naively sent a letter back asking how does a reservoir cover operate? We sent our maintenance costs for painting it and taking care of it, but it just sits there. It does not do anything.

So they wrote back and said no; we cannot approve your grant until you let us know what your operating costs are. So, I said, give them a figure. Tell them it costs $10,000 a year, and they were satisfied with that.

And we finally got our grant. Well, it is a comedy of errors like you could not believe. And in the time I spent as a mayor, in many areas from housing to water and sewer grants, to ADEP grants in the airport, you just cannot believe the redtape.

You sit down and you think why are they doing this to us at the Federal level? They appear to want to help us. They have good intent. They are sympathetic with our problems. We go back and we testify and then they want to empower GS-7's and GS-8's to tell an elected public official how to run his business.

I just happen to feel very strongly that as an elected mayor of a community I ought to be held responsible for my actions. If I was a bad mayor of Salt Lake City, there was a very good way for the people of that city to take care of that. They get a new mayor at the next election.

But there is no way for them to get rid of a GS–8 or a Regional Director of HUD or HEW or DOL or any of them. I felt like a puppet at the bottom of some strings being pulled this way and that way.

I also felt very strongly about the categorical programs. I do not want to be misunderstood. I am not saying they were all bad. They were not. A lot of them were very helpful to cities. But, in an overall general context, it was very much as if I had passed a law requiring every man in Salt Lake City to wear a size 42 suit.

Now you might say, well is that not ridiculous? Because obviously every man is not a size 42. It would be too big for some and too small for others. It might fit a few. It does not make any more sense for Congress to pass laws that require uniform requirements for 15,000 members of the National League of Cities, thousands of counties and 50 States, and expect that they will fit, that there will not be a lot of waste and inefficiency—tremendous amounts of money wasted in programs.

Now, as a former officer of the National League of Cities, first vice president last year, and working with the board over a number of years, I worked with people of very diverse political philosophies. Tom Bradley, mayor of Los Angeles, has a quite different political philosophy than mine. Dick Hatcher of Gary, Ind., and most of the mayors of this country are very good friends of mine.

But, there is one thing that we have been absolutely united on, regardless of our being Democrats or Republicans or liberals or conservatives: that we needed the strings cut. We needed to make the decisions and be able to tailor programs to our own unique problems and then be held accountable to our own citizens for those actions.

There is no way that I can relate the problems of Salt Lake City to Gary, Ind. Dick Hatcher and I used to talk about them. Some of them were similar. But his problems are in areas of much greater magnitude than mine, and a uniform program for both cities could not help but produce inequities.

So, forgetting the amount of money in the various formula allocations, I think the most important principle of general revenue sharing is that for the first time in 40 years of seeing more and more power taken away from locally elected officials and moved to Washington, this was the first turn around. It was the first time that Congress decided to say, hey, maybe local government officials are not idiots. Maybe you are not dumb. Maybe you have some ability to run your own cities.

I think that that is more important than the amount of money that is being funded, that we sustain that principle. That we recognize the ability of local government officials to address themselves to their own problems, and, again, tailormake that suit for their own city.

I think we are a long way away from the old city hall. "You cannot fight city hall." I have worked in the National League of Cities for several years, and I think you gentlemen have seen mayors come and testify. You have some of the brightest, most capable, intelligent mayors and county commissioners, councilmen and Governors around this country, and I think that that is really where the strength of government is. They are the ones that are with their people day after day.

These previous witnesses talked about citizen participation. As a former mayor, that is one thing in the last 3½ months I have missed greatly. I feel very isolated in Washington. I feel sort of in a vacuum. I do not have that daily contact. I do not have that input from the citizens, being able to respond to them.

So I think that it is extremely important that we recognize that those people are in the front lines. They are out in the infantry of government every day and we do need to be able to trust them.

Now, obviously, I have heard all of the criticisms that in many cases cities may not have spent the money the way we back here thought they should. Well, that is the whole point. Maybe in their communities their citizens approved of that.

Now we may think that that is wrong, but that is the whole point I want to make. I thought that was what we were trying to accomplish, was to have local determinations rather than have us dictating uniform solutions.

You have heard a great deal about too much being put into capital improvements. There is a very simple answer to that. That is because local officials do not trust the Congress of the United States. Over and over and over again programs have been passed that they start to rely on, and then the rug is jerked from under them. And I did the same thing.

The first year of general revenue sharing, you better believe I built some fire stations and so on, because then if you jerked it away from us, we had something that was paid for and it would remain as a benefit to the citizens of the community.

Whereas, if we put it into salaries, operating budget, social programs, then you decided well, we do not like the way you have spent it and you jerk it away, what do we do with those programs?

So as an example, too, of general revenue sharing, Salt Lake City was receiving approximately $4 million. Congress in other acts has successfully taken $3½ million of that away. So right now, we are spending most of our general revenue sharing to take care of other acts.

I will give you some examples. The Fair Labor Standards Act Amendments passed last year, mandated certain rule changes and compensatory time off, overtime payments. As a result, we were no longer able to give compensatory time off to parks department employees in the summer. After they accumulated long hours of overtime, they would take 4 or 5 weeks off in the middle of the winter; and snow removal crews did the opposite, taking time off during the summer on a voluntary basis. Some 85 percent of them did that. And now we have to pay overtime, in cash, unless we give that compensatory time off within the week in which the overtime is incurred, or the following week. It defeats the whole purpose.

So last year, in my budget, which I made up for this fiscal year to June 30, 1975, I had to allocate a half million dollars to make up the cost of these FLSA requirements. And the only place I could get it was out of my revenue sharing, to pay for an act that Congress had passed. So I do not really think they recognize the economic impact of those amendments. Eventually, it will cost the taxpayers of Salt

Lake City some $3 million per year, because of the requirements of eventually putting firemen on 40-hour workweeks, and paying them time-and-a-half for sleeping. So in one act, $3½ million has been removed.

Tom Bradley testified that that provision would cost the citizens of Los Angeles $32 million a year. Across the country, hundreds of millions of dollars; and on this principle of decentralization and local control, the National League of Cities, the U.S. Conference of Mayors, and the Governors Conference have challenged that act in the courts. The oral arguments were heard yesterday in the Supreme Court.

And one other example; the PEP program, public employment program. We were receiving $1,800,000 under the public employment program, and when it was stopped, we had people hired, as the sheriffs have talked about—we have not done to our sheriffs and police chiefs what apparently has been done in Louisiana. We used $1,800,000, or almost 50 percent of our general revenue sharing, to replace the PEP funds when they were removed, so we could keep 100 policemen on, and some 40 to 50 firemen. And so, we are way behind now. Because of other acts of Congress, other bills that have been passed, our $4 million of revenue sharing is not even paying the bill for these other acts.

Well, I am going on much longer than I had intended to. I told you I could talk for hours, but I will not. But I do want to emphasize the principle more than the mechanics. You are going to hear a lot of testimony. You are going to hear some sheriffs, you are going to hear mayors of big towns and little towns, argue about formulas and mechanics and making changes.

What I am saying is, the principle of decentralization, of giving these great local government officials the right to make their own decisions and then be held accountable to their own citizens, is the basic reason I think general revenue sharing ought to be re-enacted.

One other comment on citizen participation. I would oppose requiring citizen participation, because again, then you are telling local governent officials what they must do. Most cities are having citizen participation. In the State of Utah, and in Salt Lake City, my general fund budget, total budget, was about $50 million. So I got $4 million of general revenue sharing. Well, by State law, we are required to have public hearings on that $46 million, and we treated our $4 million no differently from the $46 million. We have to publish public hearings, we have to publish the budget in the paper, it has to be on file so many days before each public hearing; and I think you will find that is true around most of the rest of the country. And if I could be entrusted with $46 million of local taxpayers' money, I would suppose I should be able to be trusted with an additional $4 million of Federal money. So I would not like to see that mandated as a part of the act. I think that decision should be left up to local government officials. If they are being arbitrary and contrary, and not willing to listen to their citizens, then I would suggest their citizens get a new mayor in the next election.

The CHAIRMAN. Senator, could I just bring up one point that bothers me about this? I have fought as much as anybody in the Senate to prevent any strings from being imposed on the use of revenue-sharing funds. But it does dismay me, and it has for the last fews years, to go down to New Orleans and find that if I walk the streets in the morning in the central business district, that I will be stopped by winos, addicts, and various and sundry persons of that sort, begging for money. I have learned, over a period of time, that if I leave my coat behind and leave my tie behind, and go out in shirt-sleeves, there is a better chance I will not be bothered by the addicts and the winos scrounging around, grabbing people, stopping them for money.

It is unfortunate that public beggary has grown so rapidly in New Orleans recently. I have discussed this with the mayor. He says he does not have any money to provide adequate services, so he cannot do anything about it. Now, we gave that city $6 million more than they expected to get out of revenue sharing. You will find that one of the purposes for which this money can be used is social services for the poor. The city could find a place to house those people and let them sleep it off, rather than have them sleep out on the streets all night.

In fact, there was a time when the city could pick those people up, dump them in the paddy wagon, and haul them off to jail. After they slept off their intoxication, they would be discharged and permitted to go on their way. I think it is an imposition on people from out of town, since they are most likely to be stopped by public beggars. They do not usually bother the local people as much as they do the people who are traveling through, or someone who looks like a stranger from out of town.

It seems to me that with all of the money we are spending for social welfare purposes in this country—I guess we must be spending $50 billion by now—and if we are going to give the cities billions upon billions of dollars, and I am going to vote for more than we have given them, we ought to be able to expect that certain simple things can be done by that government. I suppose if you said in this bill, that if a city permits public beggary, maybe they would just get 90 percent of what they would otherwise receive. Maybe we could get some of my mayor friends to keep the beggars off the streets, or at least those who do not need to beg, who are out begging money for heroin or liquor. I wonder what your thoughts are about this. Apparently, the local people would not put up with it. Do not we in Congress owe a responsibility to interstate commerce, and particularly to people who pass through cities, to encourage a city to maintain certain minimal services, such as to protecting the public from being intimidated by addicts and alcoholics?

Senator GARN. I feel very strongly that national cures are greater than the problem. Now, I do not think that Congress ought to be mandating that sort of thing, because you actually make my point very well, Senator, in that public beggary is not a problem in Salt Lake City. So, getting back to the major point of local decision-making——

The CHAIRMAN. Well, I assume you are doing in Salt Lake City what I would like the mayor of New Orleans to do.

Senator GARN. My point is this. If you mandated that 10 percent of the funds be lost unless people had a program for public beggary, then you are getting back into the categorical type approach, where that would solve the problem for New Orleans by congressional dictate. But then, we would be mandated in Salt Lake City to spend 10 percent of our funds——

The CHAIRMAN. No; I am not saying that. I am saying, let's simply provide a penalty, if you permit that type of thing to develop——

Senator GARN. But you would find cities all over the country that would have no need for spending any of that, and so they would come back—and this is what happened in the categoricals—and they would say, well, we are going to have to have a program for that, whether we need it or not. It happened with categoricals; they would come out, and HUD would say, oh, we have got programs for this and this and that.

The CHAIRMAN. No. I do not believe you see what I am driving at, Senator. All I am saying is, that if we could just say in the bill that you do not get the full amount of revenue sharing if you permit public beggary in your city. That is one of the things a city government ought to take care—if you have people who go out and beg, and stop people on the streets begging, you ought to do something about it. If a man is justified in doing that, you ought to help him. If he is not justified in doing that, you ought to apprehend him. I am not talking about mandating such a program. I am talking about just doing what you ought to be doing anyhow.

Senator GARN. No, I understand what you are saying. I am just disagreeing in that Congress ought to mandate those things. That is something I think ought to be handled within the city of New Orleans, and even though we may not like it, that this is not the place to solve it. That is the place to go down with Moon and say, hey Moon, you are not shaping up; and I am going to start a campaign, or the citizens are, to say this is a real problem, and if you do not do it, we are going to get rid of you at the next election. That is the principle and the concept that I am talking about.

The CHAIRMAN. Well, I am especially concerned about the kind of mischief that is directed at people traveling in interstate commerce. You have perhaps heard, or maybe know first-hand, of some of those situations that I have experienced in more States than one, including my own. I do not know of any operating that way now, but there have been shakedown type operation, or at least skin game type operations, designed to catch strangers passing through a State. Local people know it is a skin game, and perhaps tolerate it. If they like the local law enforcement officer, they might vote to reelect him, even though they know he is permitting some people to operate a shakedown—well, it is not so much of a shakedown as much as just a skin game. We used to have some snake farms in Louisiana that somebody would operate. I think you read about that type thing, where a fellow would get some out-of-town person in there, and by the time they get through, they have gotten him involved in some kind of a con game, and skinned him out of his money, and that type thing directed at people who are strangers passing through a State. It would not be tolerated if they did it to the local citizens. They do it to strangers passing through. It is a burden on interstate commerce, and I think in that area, we in the Congress have a right to expect it not to be tolerated.

Now, I know that things like that have happened. I know also that, eventually, good government stamped them out. But I just wonder if we ought to tolerate it in the first instance, if we know it is going on.

Senator GARN. Assuming I agree with you on this particular thing, I do not know where it would end; because I am sure you could find particular problems in particular cities, where something is desirable to stop. And I certainly do not disagree with what you are trying to accomplish. I could argue that we could create the general revenue-sharing program again, that had so many dictates—we are right back to a big jumbo of categories, because we could take care of this one for your city and your State, and then I can think of some exemptions we ought to have for Utah, too. But I do not know; it might be interesting to you to find out if New Orleans—and I certainly do not know what Moon's situation is there, as far as when he says he does not have the money, even though he has received the $6 million, if that is what it is——

The CHAIRMAN. More than $6 million. He got $6 million more than he asked us to vote for. That is the point. He came here as part of the mayors' committee and asked us to pass a bill that the House sent to us. Well, after the Senate got through amending that bill, the formula was more favorable to cities with lower per capita income than the House formula. So here is a city that actually received $6 million more than it could have anticipated from the House bill; and I have no doubt that expenses have gone up and all of that, and that they need money. All I would say is that I find myself wondering whether I was right in fighting against any strings at all. We do have a right, particularly in the Congress, to expect that cities not permit the kind of rascality that preys on interstate commerce, for example.

Senator GARN. Well, I would say this. If we had been granted that revenue sharing and there had been no inflation, or a moderate amount of inflation, and the Congress had not passed other acts, such as the Fair Labor Standards Act, had not removed public employment programs and others that we had built up dependence upon; and then we were spending money and not taking care of problems, then I think you could certainly be justified in coming back and saying, Mayor Garn, boy, you have blown that money. But I do not know what the figures are in New Orleans, but I would assume it is probably very much the same that Moon, by other acts of this Congress, has had funds taken away from him, and inflation has eaten it up; but it may be he does not have the money for public beggary programs. I do not know I am not that familiar with the statistics. But as I outlined in my own city, it is gone. Revenue sharing, at the present level, does not even make up for what Congress has taken away from us in other areas, let alone the inflationary trend. Despite what Congress has done, I can submit to you that over the years that revenue sharing has been in effect, if there had been no inflation, we could get along without general revenue sharing at all in our city. Because, in order to keep police, we had to raise their wages drastically. We were having an 18 to 20 percent turnover. Our payroll in Salt Lake City is about 80 percent people now, to keep them on the general fund budget—not all of the side funds, water, utility, and that. But in the general fund, we are paying people, and we have been having to have 6 to 10 percent raises per year to keep up with the inflation. And that is the thing that has killed us.

We finally succeeded in getting another quarter of a percent. I say we—I still talk like a mayor—the new mayor and the city commission and the other mayors around the State of Utah got another one-fourth percent sales tax local option for cities, to take effect July 1. I begged for years for one-half percent, rather than even asking the Federal Government; because if you wanted my true philosophy, I would like to see the Feds totally out of local government. I would like to see us self-sustaining, because one of the bad features of revenue sharing is that the people who are spending the money are not those who are taxing it. And I happen to have a philosophy that says, if I am going to spend the money, I ought to be held accountable to the voters for raising the taxes; and general revenue sharing obviously does not do it. We appropriate it, we send it out there, and local government officials are spending it. But it is not politically popular or possible to get Congress to cut taxes, and say OK, we will reduce Federal taxes and let you raise yours to pick up the slack, or we will have a tax credit program where a certain percentage of the Federal tax that is taken out of Salt Lake City or New Orleans is left there to begin with. Those would be my preferences, and they would be the preferences of most of the local government officials of this country. But we had enough struggle getting a half a loaf, and I think most of us consider general revenue sharing a half a loaf, but a vast improvement over the categorical type programs.

It was a nightmare. That water reservoir cover story—I wish it was a nightmare, but it was not. It was real, and it happened time after time with compliance. And one of the problems, I suppose, is that the bureaucracy many times takes a bill out of Congress that is not too bad, and then tends to butcher it totally. We worked very long and hard on special manpower revenue sharing. We thought it was a pretty good bill. We came back here and worked on it, and by the time the Department of Labor got through with it, writing 70 pages of regulations on title I, we were not sure it was the same bill. I think sometimes Congress needs to be more specific in their directions, and not leave the bureaus, the agencies, so much latitude to interpret what Congress intended. Because I am sure that the manpower revenue sharing is much more restrictive than the Senate and the House intended it to be.

Senator HATHAWAY. Are you advocating we do not pass revenue sharing?

Senator GARN. Oh, heavens no.

Senator HATHAWAY. You indicated those who spend it ought to be those who raise it.

Senator GARN. That is an objection to it. But as I said, it is a half a loaf, and it is so much better than the categoricals, I am all for it. I just wish we could go further, to those other options that I mentioned.

Senator HATHAWAY. This thesis has been raised over and over again during these hearings; that if you are not spending the money wisely, then people will vote you out of office, because they can vote any public official out of office. But that really does not hold up, because I think those who need to be taken care of are not always—not usually, in fact—in the majority. And consequently, you can keep bypassing the poor all of the time and remain in office; and if the Federal Government had not stepped in, as it has in the past, and come up with programs—albeit they have not all worked out successfully—these people would not be getting any help at all.

Senator GARN. Well, you are correct.

Senator HATHAWAY. Even though I assume all these mayors, Governors, and so forth—even assuming that all of them are dedicated public servants, the majority of people are pressing them for something other than the many other needs that are just as pressing. And so, they respond to their own constituency.

Senator GARN. You are correct, and there is no doubt about it. There is something to be said for looking at the overall needs of the community, too, which help everybody in the community, not specifically the poor. But what has never been done by Congress is the total package of revenue sharing that was proposed, and there is a lot of misunderstanding about that. General revenue sharing was never intended to be for social programs. It was not intended for the categorical-type programs in any way. It was not intended to have strings, and it was not presented on that basis.

We came in and said, we are having a crisis in our police and fire departments and water departments in our general fund, and what was asked for by the president of the National League of Cities, the conference of mayors, was a two-package deal; that general revenue sharing would come in to rescue our general fund budget, special revenue sharing such as the manpower, which would be targeted for manpower, community services which passed last year—Community Development Act—that would have block-type grants, general guidelines for citizen participation to direct itself to those social areas primarily of the community. But what we immediately got, without having the special grants passed, was citizens coming in and saying, you are not listening to us. You are not spending money on this and that. You built a fire station, you built a water treatment plant; you are not spending it on social needs. It was never intended—not one dime; and I was just blunt about it and said, look, that is not what this is for. I need this to run the city.

Now, Congress is supposed to pass community development revenue sharing, and manpower revenue sharing, and education, and so on; and that is just coming into being. So I would still fight for general revenue sharing to be used primarily in those areas as the local mayors and county commissioners and so on see fit, with the block-type grants being directed at the social needs; for which, as you know, the applications are just coming in now, and that program from last year is just barely underway.

Senator HATHAWAY. You mentioned that you had public hearings on your budget, but someone—I think Elmer Staats—testified this morning that there was a substantial number of cities where they did not have public hearings. So some have advocated that we put in some guidelines to that effect. Do you go along with that?

Senator GARN. No, no. On the general revenue sharing part, on just the answer I have just given you, on that primarily being an act for the total city programs, the operation of the city.

Senator HATHAWAY. So if the city is corrupt, and does not bother to publish other than what they have to publish now on the Federal share of their budget, that is all right?

Senator GARN. In the general revenue sharing, on the principle that I have talked about, yes. That may sound rather hard and cruel, but again, if you compare this to the categorical, which had all of the requirements of do this, do that, and everything else, I would submit to you that whatever waste there has been, whether it be from ignorance or whether it be from poor management, whether it be from corrupt local governments, that the waste is far, far less than in the categorical-type programs.

As an example, the $4 million of revenue sharing we got in Salt Lake City, we did not have to hire a single employee to administer that. Our model cities grant of $3 million took over 15 employees to administer that $3 million. So how much of that $3 million was eaten up in paying the salaries of those 15? We could have handled $7 million just as well, but again, in the areas where you are talking about the need for citizen participation in the special revenue block grants, you do require it, and I do not object to that. I am trying to keep these two packages separate again, and give those local officials—even if they are wasting it in some cases—the opportunity to use that in the general fund budget.

Our mil levy in Salt Lake City, without general revenue sharing, would have had to have been increased at least 10 mils, and our general fund mil levy was 18½. So you can see a tremendous increase in a city that does have a decreasing population, a concentration of elderly living on fixed incomes, minority and poverty groups within the city compared to the suburbs is typical around the country. And the worst possible thing we could have done to them is that kind of a property tax increase of over 50-percent increase in the property tax without general revenue sharing.

Senator HATHAWAY. What about civil rights requirements?

Senator GARN. I do not have any objection to civil rights requirements.

Senator HATHAWAY. What about using general revenue sharing as an incentive for the States and municipalities to have a more progressive tax structure?

Senator GARN. Well, there again, you are dictating. I have been one of the biggest advocates, in my home State, of revising the whole tax structure, because the property tax which cities and school districts primarily depend upon is probably the most unfair, most regressive tax of all, because it does not have any relationship to a person's ability to pay. In Salt Lake City, we have a very, very high percentage, and in the whole State of Utah, of home ownership. You have just thousands and thousands of widows who—their husbands worked hard all of their lives, paid for their homes, it is free and clear, and they live on social security, and they cannot come up with their property taxes every year, the fixed income types. And we have studies, and have testified and worked on that, and I think that kind of tax reforms is necessary at the local level. But I do not want the Feds to make us do it. I do not want it mandated.

Senator HATHAWAY. Do you have any more questions?

The CHAIRMAN. No, thank you.

Senator GARN. I see you found out I am still more of a mayor than I am a Senator, but I appreciate the opportunity to testify, and any time, as this goes on, I certainly would be happy to provide you with any specific examples or knowledge that I have from the other side of the fence.

The CHAIRMAN. Well, you made a very fine statement, Senator Garn. It has been most helpful. Thank you very much.

Senator HATHAWAY. Thank you. The hearings are adjourned.

[Whereupon, at 4 p.m., the subcommittee adjourned, subject to the call of the Chair.]

GENERAL REVENUE SHARING

WEDNESDAY, MAY 21, 1975

U.S. SENATE,
SUBCOMMITTEE ON REVENUE SHARING
OF THE COMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2221, Dirksen Senate Office Building, Senator William Hathaway presiding.

Present: Senators Long (chairman of the full committee), Hathaway, Gravel, Dole, Packwood, and Brock.

Senator HATHAWAY. The Subcommittee on Revenue Sharing is continuing its hearings this morning.

[The prepared statements of Senators Hathaway, Dole, and Brock follow:]

OPENING STATEMENT OF SENATOR HATHAWAY

Senator HATHAWAY. Thank you all for being with us here today. On April 16 and 17 we held hearings to lay out a background for the issues to be considered in connection with the renewal of the general revenue sharing program. Today and tomorrow we will be primarily concerned with just how GRS funds were actually spent, what they were spent for, and how much public input there was in the spending process.

OPENING STATEMENT OF SENATOR BROCK

Senator BROCK. Mr. Chairman, I would like to commend you for holding this second set of hearings on general revenue sharing in 1975. I hope that scheduling all these hearings portends well for the passage of revenue sharing during the first session of Congress.

Let me also commend you on the focus of this hearing and the specific questions that you have presented to each witness. Let me particularly commend the Finance Committee staff on drafting question No. 3, "How would you compare your experience with general revenue sharing to other major Federal aid programs in which you participate?"

Unless I am wrong, I believe that the witnesses will testify that GRS funds are better because they quickly and regularly get funds to the State and local governments as compared to categorical-type grants. And they allow for local decisions on local priorities, not the priority of some Washington bureaucrat. To better illustrate the problems of categorical grants, I would like to draw attention to a recent Washington Post article that stated there are "several billion dollars in Federal grants—for programs ranging from drug control to flood prevention—have yet to be claimed by local governments."

Further investigation revealed that there were not billions of dollars unclaimed, rather billions of dollars tied up in administrative products. At a time when our State and local governments are in desperate straights, I find this bureaucratic procedure alarming. And, although there are not billions of dollars unclaimed, there are still millions unclaimed.

Because of this, and because our State and local governments do so desperately need funds, I am today submitting a bill that would take all those unclaimed funds and switch them to the Office of Revenue Sharing and then let ORS swiftly distribute them under their formula.

Also, to address the administrative problems and depending upon how our witnesses answer question No. 3, I intend to reintroduce some of the old special revenue-sharing bills that would allow the State and local governments more freedom. They should especially have more freedom and less paperwork on old categorical-type programs that should have been moved in the special revenue-sharing-type programs.

Mr. Chairman, let me again commend you on calling these hearings and I await the answers to question No. 3—although I believe I can safely predict their answers.

[From the Congressional Record, Jan. 15, 1975]

STATE AND LOCAL FISCAL ASSISTANCE ACT OF 1975

Mr. BROCK. Mr. President, I am pleased to introduce a piece of legislation that should properly be the first order of business for the 94th Congress. I am particularly delighted to have so many distinguished cosponsors, and I hope that this bodes well for our effort to extend and expand revenue sharing which is so crucial to our Federal system.

Why should this be one of the first priorities of Congress? There are several reasons: First, the act must be extended by the end of 1976, or else this important piece of legislation will die. But, perhaps more important than for immediacy purposes is the fact that our State and local governments must know the status of this bill by the end of 1975 in order for them to prepare their budgets. Some States will be planning their fiscal year 1977 budgets as early as this summer.

Second, with this Congress to face so many complex problems, such as inflation/recession legislation, health care, energy problems, and the like, we should try to swiftly pass such items as revenue sharing, that have been adequately pilot tested and proven effective.

Mr. President, the bill my colleagues and I have introduced is essentially a simple extension of the original legislation. We do not intend to make dramatic changes, such as with distribution formulas. However, there are three changes of significance that I would like to point out.

First, this extension bill will make revenue sharing permanent, as it should be under our federalist system of government. Second, revenue sharing will be made inflation proof, especially in this year of double-digit inflation, and third, the annoying and rather useless redtape of the program has been minimized.

Let me take a minute to elaborate on these changes.

Making the fund permanent: Most of the original advocates of the revenue sharing concept have envisioned this as a permanent fund. One early advocate, Dr. Walter W. Heller, former Chairman of the President's Council on Economic Advisers during the Kennedy-Johnson administration, envisioned a trust fund that would make funds available to States "as a matter of right, free from the uncertainties and hazards of the annual appropriations process." Senator HOWARD BAKER, a prime mover in revenue sharing legislation in both the 91st and 92d Congresses, originally envisioned a permanent program. Although I, too, originally wanted a permanent fund, Congress in its wisdom properly placed a 5-year pilot testing period in the original bill. But that test is coming to a successful end, so any new act should now be made permanent.

The new Budget Act (Public Law 93-344), designed to give Congress more control over the total budget, recognized this need for permanent funding of revenue sharing. While the Budget Act places close scrutiny on most spending authority, it states that this "shall not apply to new authority which is an amendment to or extension of the State and Local Fiscal Act of 1972 * * *"—section 401(d)(2).

Making the fund inflation proof: The present annual funding increase for revenue sharing works out to approximately 2.5 percent a year, which, as we all know, does not adequately reflect our present inflation rate. Therefore, revenue sharing must be tied into an automatic escalator indicator that properly reflects our economy. Particularly since S. 11 will make revenue sharing permanent, we must find some easily determinable index so that the fund level can be adjusted automatically without Congress having to continually authorize new levels.

The Advisory Commission on Intergovernmental Relations—ACIR—a group made up of Members of Congress, Governors, mayors, State legislative leaders, elected county officials, and private citizens, has studied various funding methods. They have finally recommended that funding be put at a constant percentage of the Federal personal income tax base, the adjusted gross income—AGI, and we have taken their recommendation. Federal income tax collections are a true indicator of our citizens' capacity to pay for programs, and thus a proper base to use for a program whose purpose is to return responsibility to the appropriate local level.

Easing restrictions on local governments: Under the present act, local governments must restrict their expenditures for certain high priority items. There are two reasons for doing away with these restrictions. First, the whole purpose of revenue sharing is to return funds to local governments, in other words, to those who truly know local problems. This was to be done with a minimum of bureaucratic redtape. Imposing restrictions or even priorities is the antithesis of this concept. Why is it that we in Congress always feel we have the answers, when, in reality, there is no single programmatic solution for the thousands of different local communities, each with separate and distinct problems?

Although there may be philosophical differences on this point, as a practical matter, such limitations or restrictions simply become time-consuming redtape, due to the fungibility of funds. In short, the various governments put revenue sharing money into these priority items and put their own money, that would have gone into these programs, into other programs they deem necessary. Why not eliminate this redtape and redundancy?

These three changes will make an already very successful program even more successful.

Mr. President, there are, of course, reasons why people do not support revenue sharing. Some feel that revenue sharing divorces taxation from spending, that there are more pressing needs, that revenue sharing funds are not adequately used to eliminate discrimination, that they reduce Federal budgetary flexibility, and so on. Like most criticisms, there are grains of truth in all these points. But when you fully investigate each argument, the benefits overwhelmingly outweigh any real or presumed liabilities in revenue sharing. In fact, I hope that some of my colleagues in the Senate who have objections will also air their views, so that debate can be adequately aired and a response made or improvements achieved.

Whatever the objections to revenue sharing, the advantages so outweigh the disadvantages that this program should be passed. It is a program that has been adequately pilot tested, it is a program that has broad bipartisan support, it is a program that returns power to the local governments, it is a program that allows local officials the funds to take care of problems that only they can see, and that could never be considered if we had thousands of categorical grants. In short, Mr. President, it is a program that works.

OPENING STATEMENT OF SENATOR DOLE

Senator DOLE. Mr. Chairman, I appreciate the opportunity to be recognized for just a few minutes this morning to express my special personal interest in these hearings on operating experiences under the Federal revenue-sharing program.

As the subcommittee is aware, I have myself authored a bill, S. 9, to extend the State and Local Fiscal Assistance Act for 5 years. I am also an original cosponsor of the administration revenue-sharing bill, S. 1625, which the distinguished chairman and ranking minority member, Mr. Hathaway and Mr. Packwood, and other key Senators on the full Finance Committee introduced May 1.

So my purpose in joining the panel today is to commend it for initiating this second in a series of hearings on Public Law 92-512, and to reaffirm my full support of legislation to renew, refine, and expand the entire revenue-sharing concept. In addition, I wish to indicate that later on—when the investigating phase is completed and substantive changes are being considered—I intend to take a very active participating role.

For now, however, let me only say that the operating experience under revenue sharing in my State of Kansas since 1973 has been highly successful. I want that observation to be made very clear in the official record which the subcommittee will be studying, and for that reason have asked respresentatives of the Kansas League of Municipalities—as well as the mayors of several selected Kansas communities—to present written testimony on their respective activities.

I understand that further hearings are contemplated in order to accommodate additional such witnesses. If so, I would like to have these public officials included in the schedule, but if not, I would appreciate an assurance from the chairman that the information they prepare—even though submitted belatedly—may be accepted as a part of the testimony received today and tomorrow.

With that, let me again offer my enthusiatic support for the concept of revenue sharing and for the efforts which the subcommittee has undertaken to evaluate its impact and performance. Mr. Chairman, I thank you for the benefit of the time to make these comments.

Senator HATHAWAY. The first witness is the Honorable Neil Goldschmidt, Mayor of Portland, Oreg.

Mr. Goldschmidt?

STATEMENT OF HON. NEIL GOLDSCHMIDT, MAYOR OF THE CITY OF PORTLAND, OREG.

Mr. GOLDSCHMIDT. Mr. Chairman, Senator Packwood, I did not bring a prepared statement this morning. And I hope, after making some brief comments, that if there are questions about the way we have handled our revenue sharing program in Portland, that I can answer those for you.

Let me outline a couple of main points about the program, from our perspective. I hope it will be useful. We are, in Portland, running toward the end of our original schedule to extend revenue sharing over 6 years. For the year 1975-76, despite a significant expenditure level reduction in our budget, by cutting existing programs and people and adding almost none, we have had to revise that revenue sharing schedule in order to balance the budget, essentially to reach forward in the planning schedule and pull those moneys back, in order to balance.

An additional $2.4 million in revenue sharing resources were budgeted for 1975-76, to compensate for inflation over and above what we estimated would be necessary; the cumulative effects of a recent population revision which reduced Portland's revenue sharing allocation; plus the additional revenue sharing resources needed to balance the budget in this year, will essentially eliminate revenue sharing reserves which were planned for 1977-78, in the belief that we ought not to assume this program would be renewed until, in fact, Congress had expressed its intent.

Next, at the end of 1976–77, Portland will be expending revenue sharing at an annual level, or rate, of about $14.4 million per year.

The administration's proposal for revenue sharing would provide us with slightly more than $10 million per year. In short, the proposed annual increase of 2½ percent annually, on a national basis, will be inadequate to reflect the impact of inflation on us.

We started out with an annual expenditure rate of about $8.6 million. We planned ahead, assuming some inflation. We underestimated, as I assume everybody else did from what I have been hearing, and the effect of that is we will be spending at a rate of $14 million by the end of this program.

And we have no reason to believe that the rate of inflation we are projecting at that level, will change in the near future.

Lastly, as to expenditure patterns, two trends are evident. First, Portland is increasingly spending its revenue sharing funds for ongoing operations, rather than on capital outlay. The allocation for capital outlay has been cut from 60 percent in 1972–73 where we had some retroactivity payment that allowed us to do that, to 20 percent in 1974–75. And our definition of capital outlay for this purpose would include vehicles and equipment to keep our police operational.

Second, our expenditures for human resources have increased in that period of time. Now I would like to go back just briefly and describe for you what we did when we learned Congress would pass the program. In fact, when we learned it looked probable, we began to plan for it.

The primary components of our revenue sharing plan were to use revenue sharing to meet one-time capital needs, to as great a degree as possible, where the following situations existed. We would invest these funds where we could determine that the investment would reduce operating expenses in future years.

An example of this might be automating sprinkler systems in the parks where crew reductions would be possible. A little of this has been done. We did it where it would avoid an increase in operating expenses, where deterioration of plant and equipment was pretty serious, and our maintenance costs were going up substantially, and where we could get a better use of an existing capital investment.

For example, a park community facility where we already had the personnel to manage it. And, by adding a capital resource there, we could, in fact, expand on the use of the personnel that we had.

We phased into revenue sharing by gradually building up the level of expenditures which would allow us to offset the increases resulting from inflation, and gave us additional time to plan the programs that we could implement with revenue sharing.

And, the planning, of course, enabled a more flexible choice between capital expenditures and new programs. We determined, then, to extend revenue sharing a year and a half beyond the end of the Federal legislation so that if this program was not continued, we would have time to discuss with our voters what alternatives we were to choose.

As I indicated, we have had to back off on that, to some degree. The important point I would like to make, as a former part of this, is that our State budget law does not allow us to finance by deficit as Senator Packwood knows, as a member of the legislature. It applies to the legislature as well as to local government.

We have very strict laws on public hearings, and in fact our budget, after going through a public hearing process, must be submitted to an independent body created by the legislature to review it to make sure it has done exactly that.

And, the critical thing for us—and I am talking about Portland, Oreg., but I think for other cities as well—is that a budget that goes through citizen task forces, by bureau, through an executive budget review committee, then into a mayor's proposed budget, and then through public council deliberations, we think is a responsive budget; and that this budget includes revenue sharing funds but is not organized specifically only to deal with their particular legal requirements.

I would just like to emphasize how important it is to us that Congress act early on this legislation. We think it is not responsible for us to plan on expenditures of funds that we have no legal manner of assuming that we will have.

It is my own personal view, and I think my council would agree with this, that if there were some indication either that the level of purchasing power to be provided by this act when it would go into effect would be reduced, or that, in fact, it will be delayed in determnation until the very last possible minute, that we would have to begin selective program reductions now to avoid the kind of wholesale slashing that goes on if you wait over a long period of time.

If you match up the problems we have with our labor contract, our affirmative action requirements, where the last hired tend to be the first laid off, if you end up waiting until the last minute and look at the impacts on productivity which are all negative, and the time it takes to do a local tax initiative, and just package all of those together, I think they are pretty much a self-answering proposition as to why it is critical that Congress not wait and assume that local governments will produce an effective expenditure of these funds, if we wait until the last minute for the program to be passed and implemented.

I would be glad to respond to any questions you may have.

Senator HATHAWAY. Thank you very much, Mr. Goldschmidt.

Could you tell us what percentage of your total expenditures revenue sharing accounts for?

Mr. GOLDSCHMIDT. Let me treat it this way. Our general fund budget, and that is those things—not sewer fees tied to sewers, water fees tied to water, just excluding all of those special fees for purposes of financing only those activities, our general fund budget in 1975–76 will be $91.2 million.

Of that amount, general revenue sharing amounts to $13.2 million, or approximately 14 percent, if my mathematics are correct.

Senator HATHAWAY. How much of the $91.2 million is raised locally?

Mr. GOLDSCHMIDT. Of the $91.2 million, $31 million is in property taxes; another $11.2 million is in licenses and permits which we raise; and then you have some State-shared gas tax revenues. They are not raised locally. They are raised in the State and distributed back, but the effect would be the same as if we had our own—and, franchise fees. So I would say about 75 percent of that money, of the remaining money, is raised locally.

You have got a little bit of shared-State liquor revenues and a small amount of other sources of revenue, and then about $4 million in gas tax revenues—$4½ million.

Senator HATHAWAY. No other Federal money is in there except for revenue sharing?

Mr. GOLDSCHMIDT. No, we are not treating special Federal grants as a part of the general fund for purposes of this analysis. Essentially what we are talking about here is revenues which we control locally, utility franchise taxes, that sort of thing. Revenues which we get from the State and have been there so long nobody assumes they will not be there the next time around, like gas tax revenues, or revenues that we receive, and we are including revenue sharing for that purpose, where there is a planned expenditure pattern over a long enough period of time you would assume they would be there.

I hope I have answered your question, but $91.2 million is——

Senator HATHAWAY. In other words, the $91 million is what you can spend any way you want to?

Mr. GOLDSCHMIDT. That is basically correct.

Senator HATHAWAY. And the other is tagged for something else?

Mr. GOLDSCHMIDT. That is right. The total budget is about $250 million.

Senator HATHAWAY. I see. How much Federal money do you receive in addition to revenue sharing, for special purposes?

Mr. GOLDSCHMIDT. Well we have been a little bit ahead the last couple of years because we were one of the LEAA impact cities and received a substantial amount of the $20 million, a lot went to the State, but we also got a lot.

I would say you are looking at an average amount of maybe—excluding money to the housing authority, which is a separate agency for purposes of State law—maybe about $5 to $6 million additional there a year, depending on, again, which year it is and whether or not the programs go through us—and, that is prior to CETA. Again, I am describing categorical programs that we used to go out and compete for, now with CETA, I would have to go back and check it.

Senator HATHAWAY. Have you been able to keep the property tax at the same level since revenue sharing was enacted?

Mr. GOLDSCHMIDT. The answer to that is yes, but we do not choose to use any of this money for property tax offset. The State constitution says we may get a 6-percent increase, and no more, in property taxes each year. The rate in Portland for the general fund has dropped 5 consecutive years because of the growth in our property tax base from new development.

I think the rate is likely to go up this year, because starts are down considerably, but we have not used this for property tax reductions in any fashion.

The State legislature instituted a senior citizens low-income property tax reduction program that has been very successful and essentially took the onus off of us to even deal with that problem.

Senator HATHAWAY. How much are you going to increase your property tax?

Mr. GOLDSCHMIDT. I am sorry?

Senator HATHAWAY. You say you are going to go up this year?

Mr. GOLDSCHMIDT. We do not know yet. Our property tax—the city's—will not go up, I suspect. But, the cumulative property tax is about $30 per $1,000 in Portland right now, and that includes a school district which is separate, has its own elected board, two community colleges that have access to parts of that tax base, a port that covers three counties, of which we are only part, an intermediate education district that is equalizing off of our tax base, and so on.

And so, until the assessor finishes his work, and the levies or rates are set, I cannot tell you. But we will not be the ones responsible for that increase, I suspect.

Senator HATHAWAY. It is $30 per $1,000 assessment of the current market value?

Mr. GOLDSCHMIDT. Yes, of the true market value.

Senator HATHAWAY. You mentioned that you are not spending much money now for capital outlays but are using most of it for operating expenditures. Has that been constant right from the time you first got the funds?

Mr. GOLDSCHMIDT. No, we began at a rate that was considerably higher in 1972–73. It was about 40 percent for operations and maintenance. And, in 1974–75 it would be up to 79, almost to 80 percent, and I would guess it will continue even higher than that.

The reason for that was the approach we took with regard to the possible personnel expenditure reductions we could get from capital investments. And also because that small retroactivity payment essentially we ballooned on the front end.

A fleet replacement schedule was instituted at that time. We really were in big trouble on police cars. We had had no improvements in the parks. I think we have probably pumped $4 or $5 million into recreation improvements, which we will include in the capital expenditure category. Some reduced personnel costs, in others, just for the enjoyment of the public and for additional resources.

Senator HATHAWAY. Excuse me just a moment. I would like to yield to Senator Dole who has another commitment and would like to make a statement.

Senator DOLE. I will not make a statement. I am just pleased that these hearings are being held, and I am needed at the Agriculture Committee to make a quorum. I will try to return shortly thereafter. I do have a statement, Mr. Chairman, I would like to make a part of the record, and I would hope that these hearings are pursued—perhaps we could have some input from the State of Kansas and some of the people in that area, but in any event I support the hearings and commend the chairman and members of this committee for initiating the hearings on Public Law 95-512—or 92-512—and I will insert the statement for the record.

Senator HATHAWAY. Thank you very much, Senator.

Your statement will be made a part of the record and inserted at the outset of the hearings.

Now, you said that 90 percent of the funds are used for current expenditures?

Mr. GOLDSCHMIDT. The figure this year will be about, in 1974–75, 79.7 percent. And I do not have the 1975–76 figure yet because we have just wound up the budget hearings, and we did not, in the hearings, spend a lot of time identifying which ones were revenue-sharing items.

I mean, they are there in the budget information. Most of the decisionmaking was on what to cut. I would guess that if it was 80 percent in 1974–75, it is going to be close to 90 percent, on operations and maintenance, in this next fiscal year.

So we have gone from 40.4 percent in 1972–73 for operations and maintenance. I would guess next year it would be at 90 percent. And, by the way, I do not consider that to be necessarily healthy because, in effect, every time we allow an absolute plant to function, we just increase our operations and maintenance costs. I think the productivity the public sees, from that standpoint, is not particularly healthy.

Second, we have a lot of facilities. We could get more use out of them with more capital investment. An example of that are unlighted tennis courts all over the city. We would like to see those lighted. We would like to see more hours of play on them.

We are not in a position, at this point, to do more than we have done with the revenue-sharing dollars so far, but I am not ashamed of the fact that we used an existing plant and expanded its use for the public, with the use of revenue-sharing dollars.

And, in fact, we had a lot of encouragement and support from our neighborhood organizations in the city to do that.

Senator HATHAWAY. Have you started any new or experimental programs with revenue sharing money?

Mr. GOLDSCHMIDT. We have been able to accept certain programs, as a standing part of our budget, because of the presence of revenue sharing.

Let me give you a specific example. When we started this LEAA impact program, we were approached by the Department of Health, Education, and Welfare about establishing a youth diversion program in the city, as a pilot project, along with the impact program.

That program has four centers operating. We have assumed two of those on the general fund, and our planned expenditure pattern assumes that at the end of 4 years when the Federal funds have phased out, we will start the other two, that if each of them is as productive as the first two have been—the statistical measurements—we will have four.

That is about $600,000 a year at the end of the fourth year. Those centers did not exist and could not exist—we could not have accepted the categorical grant had we not known we had the resources to phase them into the budget.

We have—when you talk about starting new programs, we have expanded some programs in the police bureau. We have a youth division now that has 23 people working out in neighborhoods that used to be stuck in city hall or in the police department.

And I think you can trace back analytically the ability to add clerical personnel, free those officers up, get them out doing things that we need them to do. The community relations program—I think I can trace through for you a whole series of things in police.

We have increased our affirmative action tools substantially in civil service and personnel. Again, I think it is attributable to the fact that the manpower increases have been made possible.

We have increased our planning staff through the use of these funds. This came at a time when, as you will recall, we were paralyzed for some period of time, on a decision on categorical HUD funds for community development block grants and were able, in spite of that, to continue an aggressive neighborhood planning program and neighborhood stabilization program.

I think the list is fairly impressive in terms of new programs. We supported the establishment of a detoxification center by the county and helped pay for that. Now we spend about $50,000 a year transporting alcoholics to their center as a part of our responsibility.

I do not want to bore you with the list. We will provide you with that as a detailed list at some point in the near future. We are going to go back and——

Senator HATHAWAY. Yes, we would like to have a list of all of the expenditures.

Mr. GOLDSCHMIDT. We will be pleased to provide it.

[The following table was subsequently supplied by Mr. Goldschmidt:]

REVENUE SHARING EXPENDITURES THROUGH FISCAL YEAR 1975, PORTLAND, OREG.

	Amount received	Amount spent	Capital expenditures	Operating expenditures
Fiscal year:				
1973	10,488,152	340,512	154,710	185,802
1974	9,237,893	7,176,456	3,608,416	3,568,040
1975 (planned)	9,458,000	13,183,414	2,049,668	11,133,776
1976 (planned)	9,549,408	13,184,932		
1977 (projected)	7,388,854	14,398,000		
Total	46,122,307	[1] 48,283,344		

[1]Differencei s due to interest earnings.

EXPENDITURES BY PRIORITY CATEGORY THROUGH FISCAL YEAR 1975

	Amount (million)	Percent
Recreation	$5.4	26.7
Public safety	7.9	39.1
Public transportation	3.8	18.8
Health	1.4	6.9
Other	.9	4.5
Financial administration/general government	.3	1.5
Social services	.2	1.0
Environmental protection	.3	1.5
Total	20.2	

Senator HATHAWAY. Are they broken down so that we could tell which of the expenditures are from the revenue-sharing money and which are ordinary budget?

Mr. GOLDSCHMIDT. Yes. The one misleading thing about this accounting system is that we can tell you what we spent revenue-sharing money on, because legally that is what we are required to do. It does not explain very well, politically, what you would not have been able to do if you did not get it. And we will try to do both when we file the report.

That tends to be an awfully long compendium, but I think there are some things we would not have been able to do that we are not paying for with revenue sharing, because we have revenue sharing.

Senator HATHAWAY. Well, would you be able to tell from looking at the statement, if you have cut back in another area and used the Federal revenue-sharing money for what you have cut back on? For example, if you were spending $1,000 a year on police cars, and then you cut back and used $1,000 of Federal revenue-sharing money instead—that would not, in effect, be a new expenditure.

Mr. GOLDSCHMIDT. That is right, and there are some cases for accounting purposes, almost, because of the difficulties in keeping track of the funds, that I think you will find the cities have tried to isolate revenue-sharing money so that legal requirements could be met.

And I am sure there are some situations where we had money in a program before, and we have supplanted that, to some degree, and we will try to identify those for you.

Senator HATHAWAY. Don't you think the legal requirement is a little unrealistic? Shouldn't we require the complete disclosure of all expenditures of the cities? Because the funds go into the same pot, to separate these revenue sharing funds out and to show here how the Federal money was spent—that does not really give us a true picture, does it?

Mr. GOLDSCHMIDT. I think that is accurate. And, if I might harken back to a study that our league of women voters did on the budget, one of my disagreements with them was that they focus so intensely on revenue sharing, as if it were really the whole ballgame.

It is not. We put it in the general fund, treated it like money, and made our decisions on that basis. And, frankly, I do not understand why they are so concerned that we should set up a special procedure for notification and hearings on that money. We do not perceive it as a healthy thing, to treat general revenue sharing as it it were a categorical grant, because it is not.

As to the accounting program, I have talked to our budget office about methods we could use to be more honest with the Congress about how we spent. I do not like to see a situation where we pick things we think Congress would like us to spend money on in order to impress them with how sensitive we are to their political problems, because, frankly, that is taking away a substantial amount of the flexibility we perceive Congress intended to see there and the local responsibility that should be exercised.

Senator HATHAWAY. But, in effect, the strings that Congress has attached do not have much, if any, effect, do they?

Mr. GOLDSCHMIDT. I think that is correct. I think it is correct to the extent that we have not believed that the intent of that law was to direct our expenditures in some particular direction they otherwise might not have gone, with the exception that we did not feel we should be out building huge buildings and things with the money because I think the intent is pretty clear on that.

Senator HATHAWAY. Just let me ask one more question before I turn it over to Senator Packwood. Could you describe to us just what public impact there is on your budget process?

Do you have open hearings? Is it publicized—TV, radio, newspapers, and so forth—in addition to what you are required to do under the Revenue Sharing Act?

Mr. GOLDSCHMIDT. Basically, the revenue-sharing requirements are less than our State law requires us to do already. We have a requirement that we publish notice in the paper. We had that already—I mean, that we indicate to the public when we are going to have meetings.

We spent some of our revenue-sharing money in supporting neighborhood organizations, giving them staff coordination. That resource, in effect, has plugged back into the budget, so we have much better participation because of revenue-sharing dollars.

But, not because of the legal requirements of the act. We had a task force in every major bureau with citizens on it. The law does not say you have to do that. We just threw open the doors and said come in and look around, and ask questions. And then in the executive review committee that my assistant chaired, and the budget officer chaired, which had citizens on it, then I propose a budget, it goes to the council, they have hearings, and after it is done it goes to a thing called tax supervising conservation commission, which the Governor appoints and is a State-created body to examine whether or not we have complied with the State budget law.

It is a rather well-aired process. And prior to the beginning of any of this, we have a capital improvement budget process where we do not allocate funds, but do list priorities. We go through basically the same kind of procedure, with citizens on that.

In short, I guess what I am saying is that at least in the State of Oregon, thanks to State legislative determination, local government budget law is rather strictly controlled and open, and not only is no deficit financing allowed, but you are not really allowed to have a large contingency amount of money sitting in your budget undecided about what you are going to use it for.

If you have got that kind of money around, their feeling is that you ought to give it back to the people you collected it from. That has created one problem, I might say, with revenue sharing, because our perception is we ought to be budgeting over longer periods of time, essentially over the maximum period of time that the law allows you to spend it.

We tend to get these payments in such a way that the local budget law management group wants to see very carefully whether or not that is not just subterfuge to keep big amounts of money in a contingency account.

So we have had to adjust our budgeting practices a little bit to isolate those moneys, to show them we could not get at them without going through a new budget and then getting the public participation they require.

Senator HATHAWAY. So a member of the public can come in and question any item in the proposed expenditure?

Mr. GOLDSCHMIDT. Any item, absolutely. And, as I said, the thing that kind of disturbs me is that they do not really care what pot it is coming out of when they come in to argue about it. If they want more vice and narcotics officers, or if they want less of something else, they do not care where you are getting the money from. It is the issue of the priorities they are after.

Senator HATHAWAY. Senator Packwood?

Senator PACKWOOD. Well, Portland is on a July to June budget, are they not?

When will you be starting your budget procedure for the next fiscal year—not the one starting this July, but the one after that?

Mr. GOLDSCHMIDT. We will wrap up our budget at the tax supervising conservation commission about the first week of June. We will go into the new fiscal year on July 1, and begin—well, let me say one thing specifically.

We have a thing called a quarterly allotment program in our own budget process where we take back unexpended money from our managers, and then by midyear, we will have a midyear budget review which is generally just a reallocation of money that either we have saved on bid items, or we are going to have to overappropriate to go ahead and do them and so on.

So, in effect, we have another budget process that is just tooled up—again public—to look at where we stand at midyear. Right after that, beginning in January or February, we will begin next year's budget process formally, which is submissions from the bureaus estimates of expenditures, and problems that they will face.

And that process, through citizen participation, ends up with the mayor proposing a budget in the early spring and then going to formal council hearings.

Senator PACKWOOD. So the way you operate, it is not going to do you and good with revenue sharing if we do not pass this bill until next March or April, and you have no idea what is coming. Because you simply throw it into a common pot, and you cannot count on whether you are going to get $8, $10, or $14 million. And you simply have to assume you are not going to get it.

Mr. GOLDSCHMIDT. That is accurate.

Now, again, we have budgeted to keep ourselves alive, but when you are expending at an annual rate of $14 million, and your appropriation, even at the best, is going to be—that you have heard of—$10 million, and then you are not even sure the law is going to be passed on top if it, it is just prudent to start laying people off selectively. Not people, but positions. We ought to start now so we do not have to lay people off; just getting rid of positions that are vacated by death or retirement or whatever.

The productivity levels would begin to be affected a couple of years before—essentially before they ought to.

Senator PACKWOOD. Neil, one of the biggest arguments we are going to get on this bill is strings. Local government is really controlled by the rich and the advantaged, and they do not understand the needs of the poor, or the proper priorities. We had that kind of testimony 2 or 3 weeks ago.

Can you address yourself to that?

Mr. GOLDSCHMIDT. I suppose I am a little bit bitter about that accusation. I was in Mississippi in 1964, and just left before three people—one of whom I considered a friend—was killed. I started my own career in legal aid in Portland, and as the Senator knows, because he represented the district I live in, we have our problems as well, And I think the city government when I ran, was not addressing them. and that is why I ran—to make it more responsive.

We think revenue sharing has helped us do that, not help us obstruct it. Now Portland is no better or no worse than any other city in the country. There are things that I think are better about it, because I live there. There are things that the mayors who follow me are going to tell you about theirs that make it an attractive place to live.

But the one thing that is different are our responsibilities, and I do not think that is generally understood. There is no way to write a national categorical program that precisely addresses Portland, St. Louis, or some other community. I do not have responsibility for elementary and secondary education; many of my fellow mayors do.

My county has responsibility for public health; many of the mayors have responsibility for that program. We are all very different, and in order to determine whether we are assessing properly, and whether we are meeting those needs properly, you have to collect the governmental bodies that have the distributed responsibilities—State, local governmental units, including our separate education boards and measure all of them. We believe that the best way to do that is let it be decided at the local level, not because we have always done it right, but because we have not been able to figure out a better way to do it—and I mean we, as a nation. I do not believe there is a better way to do it.

And I guess I want to get down to this final point. This country is going to get bigger. Its population is going to get bigger. And the problems are not going to get simpler. None of us believe that. But if the excuse for going to a national program of categorical grants to finance solutions to local problems is that local government is not responsive, that is a big mistake.

The answer is, if the money is there, the competition for it will be there. If the political responses are inadequate, then let us make them more adequate. And I will tell you this much. When I was elected to the city council, they used to meet at noon in a hotel room, and make decisions before they ever went into a meeting. I did not know that—I was not sure of it, at least. It does not go on any more, and one of the reasons is that the people in our community went out and knocked on doors to get a new city council elected, and we got some new people elected and we changed it.

And one of the things it would destroy, what I think is a growing political initiative at the local level, is to cripple it so that the people with talent believe that no matter how much talent you have, you are not going to have any resources anyway.

The current projections in my community are that over the next 5 years we are going to have inflation for all services, and in excess of 8 percent. We can identify only 4 percent increases in revenues. And that is even if we got a good shake out of you—I mean, I am saying, even if you do your job, we have a lot of work to do, and we do not know exactly how to solve that problem. But we know it is not going to be solved in Washington.

But if this program will not do its share, frankly, I think we are back to what Henry Maier was talking about, half jokingly—and only half—a few years ago. Why don't we just turn our charters into the State governments and let them try to solve it? Which I think would be a terrible disappointment even to have that kind of attitude.

Senator, that is a long response, but I do not think there is anything more fundamental in this national debate over revenue sharing than whether or not Congress honestly believes that it can deal better with racial problems on the blocks and streets of Portland, with the fact that 60 percent of the home burglaries in my town are committed by kids under 18 years of age. And in some other community that might not be the problem. And that long list of things that people say we are not doing, and that we ought to do, I ask them to come to Portland and sit in on the budget hearings because I think when we were done this time that the range of debate, interestingly enough, was down to 1 percent of the decisions.

I mean, you are finally getting down in terms of real controversy in my community about whether we ought to keep funding a veterans program on returning Vietnam veterans, whether or not we ought to have a street workers program in downtown Portland because a lot of the kids down there are not our residents, and basic policy questions about the role of the city government. And if we are not responsive, then throw us out of office.

Senator PACKWOOD. Neil, that is exactly the kind of statement that I hope will convince Congress not to put strings on this program. Because if we do, we might as well take it away from Portland, take it away from Portland, Maine, and we will run it with the assistant secretaries in departments, here.

I have no further questions.

Mr. GOLDSCHMIDT. I appreciate that, Senator. And I guess my question would be—and I do not ask it of the two people here, because I have read your previous comments, both of you, and I am very appreciative of them.

Somebody else should write a better program. I mean, it is not all that easy. Particularly, I sympathize with all those who went through all the compromises before. And I just want to make one final observation, because I am taking up the committee's time, and I do not want to do too much of that.

There are other cities that have more serious problems than we do, and you read about New York in the paper everyday. I do not want to leave you with the impression I am here speaking for Portland. I am going to be very disappointed if New York City continues to have these kinds of problems.

This legislation is one way to address that. There are some amendments that are being discussed by this committee and others in your oversight hearings, about whether or not we ought to amend the amount that some particular city within a State ought to get. And I have no position on that today. But the fact that there is a law written that says 145 percent, you might want to go to 175 percent, that is worth looking at. It would not help us, I do not think, in Portland, but I do understand Congress has a national responsibility to deal with the question of needs. I am not arguing that point at all.

The problems of New York City, the problems of St. Louis, the problems of other communities are something we care about, because to the extent that I think my community perceives that cities are dying—cities, plural—around the United States, I have a tougher fight to make to get them to invest in rehabilitating their homes, to get them to invest in block meetings on burglary reduction and all of the things that are personal to them—energy and so on. And I think this legislation is of a lot greater import psychologically in that regard than it is being given credit for. Because if Congress' determination is, we haven't the talent in this country in the cities to do the job, and if you cannot write a program that meets the needs of those cities as diverse as they are, then this country is in a lot bigger trouble than I suspect most people are willing to admit publicly.

Senator HATHAWAY. Well, would you say we ought to abolish all of the categorical aid programs? Should we just take the money and divide it up according to the revenue-sharing formula?

Mr. GOLDSCHMIDT. No.

And I follow with great interest what is being done in terms of economic stimulation and some of the other activities that are going on. I think when the Congress of the United States determines that there is something that essentially ought to be dealt with on a categorical basis—and in many cases you are not dealing with us, you are dealing with education, and in my situation, that is not even my responsibility—I think you ought to go ahead and do it. I am describing the impact of this one program, and I think this one program, which essentially is now providing the underpinning for local government. I realize the State is into it for one-third, but in our case, we do not have access to the revenue resources the State does. This is a philosophical commitment, in my view, to the existence of general purpose local government in the United States as a part of the Federal, State, and local relationship; that the amount of power that would be assimilated at the Federal level, to that extent is being reduced. And I recognize that.

There are, however, things that I think meet special Federal requirements. When the U.S. Congress imposes environmental requirements on all of us because the consensus in Congress is the public wants it, and then says, we have an obligation to finance those, I do not expect you to distribute those willy-nilly. I think some local jurisdiction should have to demonstrate need, and their willingness to respond to those requirements. And I think you know the rest of the list better than I do.

But this is a very special program. Those who argue that because progressive income tax is a method of redistributing income, or whatever, in the beginning—we think this formula does that to some extent by paying attention to need. We do not think this formula which you are using now, or any formula you use in the future, would be oblivious to the responsibility to help the weak. So, to some extent, that has some of the tinges of some of the earlier categorical programs that were an attempt to get directly at a population that otherwise would not have gotten assistance.

Senator HATHAWAY. But are we not, in effect, with the revenue sharing program, simply taking the onus off of many local governments so that they do not have to raise those revenues themselves? You take States that have no income tax, for example.

Mr. GOLDSCHMIDT. We had an interesting discussion at breakfast—because I was a Senate intern many years ago, and I was reading through former Senator Richard Neuberger's files, and there was correspondence from people like Walter Heller and others where the debate was raging in the fifties about whether or not you ought to require local governments to have a progressive tax structure to share in any kind of revenue sharing at all.

Oregon has a very progressive tax structure, and it would be easy for me to say, ah yes, that is the way it ought to be. I think that is fighting the battle, to some extent, on the wrong plane.

Now your question of whether it takes the onus off of it, I think is incorrect. As I said, you are not going to solve our revenue problem, but rather, enable us, I hope, to solve it. It is not going to be a solution by itself.

Second, the decision by cities to go after the revenue they need to serve the neediest people in the United States who generally live in the cities—and I am not excluding the rural poor, but I am talking in terms of numbers—essentially is another way to create more disincentives to live there. If the tax raising function essentially says, what you will do is raise from those who cannot afford to pay enough money to solve their problems and increasingly lean on the few remaining who live in the cities to help them do it, you will drive the few remaining out. In our case, we are about 38 percent or so of the region's population. We could put in an income tax, and we have looked at it—1 percent on net personal income on the State return would generate about $14 million, of which about $3.5 million would be from noncity residents. You could expect very quickly that the percentage of the total would shift. I suspect you would find some businesses moving, the stock brokerage firms, we get their business-earned revenue inside of the city, would only have to move 1½ miles out to a new suburban area to avoid that completely. The lists of shifts for economic reasons that would in fact, I think, produce the unintended consequences of that kind, are not, I think, what Congress wants to see happen in the cities.

I think this is a more equitable way to get at the problem and I do not think it relieves us of the responsibility. In fact, we intend to go to the voters for a 10-year parks capital levy, we hope next May, and for some other things that will indicate that we are doing our share. We are dealing with our neighbors and trying to get them to assume some expenses. As an example, our zoo, we think it ought to be paid for regionally. Essentially we are trying to get at some of the things anyway. If this thing disappears, I think we are going to be busy, mired down in firing employees and reducing police service and proving to our citizens they are not going to be able to stay long unless we solve the problem.

Senator HATHAWAY. Doesn't what you say indicate that what we need is a fairly exhaustive study as to just who should be funding what programs and who should be administering them, that revenue sharing is just a sort of stopgap measure until we come to some conclusions on that basis?

Take welfare for example. The Federal Government should probably fund all of welfare and leave the administration up to the local communities. Other programs probably should be mentioned. Locally, you mentioned the zoo, and, of course, it is administered locally; and others should be funded and administered, both, by the Federal Government.

Mr. GOLDSCHMIDT. Senator, I do not object to the study.

Senator HATHAWAY. This is sort of a patchwork, helter-skelter approach.

Mr. GOLDSCHMIDT. I do not think this is patchwork. I do not think it pretends to address all of the Federal, State, and local relations that exist. This has been studied to a great extent by Congress already and by others who continue to file reports with you about where they see the imbalance and where the problems may be.

I guess my feeling is that if we have to wait on a good theoretical model on who ought to raise money and who ought to spend it, we are going to be waiting a long, long time; because I have watched this committee, Senator Muskie, and others over a period of years in Congress that I have been following it—and that is not very many—I think wrestle very firmly with the problem with the greatest intent to try to get at the roots of the difficulty. You would have no problem persuading the people of New York City to let the Federal Government take over welfare payments. It would be an easy financial determination for them, and conceptually it may make sense in terms of the way people are migrating across boundaries and putting drains on their services. But I do not think they would say at the same time that you ought to wait on a decision on revenue sharing until you are capable of making that. That is just one more burden you have shifted onto them. While they are waiting for you to decide on revenue sharing, they neither have revenue sharing nor do they have a solution to the other.

I do not think you are going to get a consensus on some of these other programs because of the divergence of the way we are structured under State law.

Senator HATHAWAY. No. What I was thinking of doing was adding an amendment to the revenue sharing bill, one that would authorize an exhaustive study so at the end of this term of 5 years, we would have a better picture of just how we should fund different programs in the future.

Then, on the next go-around, we would have a more realistic, more sophisticated method of funding it.

Mr. GOLDSCHMIDT. If revenue sharing is passed out of here with an appropriate inflationary rider to it so that its purchasing power is maintained and you do whatever you were going to do in terms of making sure the public gets access to its expenditures, and the civil rights laws are properly enforced—in other words, you have made all of those determinations, I do not have any problem with taking a look at that.

I would say this, that another study on this subject without a pretty firm resolve from Congress to participate during the period of the study so that it is essentially a process in which we are really involved and we hope we are going to get a conclusion, is not going to be productive. If you assign it to some university professors and some mayors——

Senator HATHAWAY. No. I was thinking of a study with mayors, Governors, State legislatures, Members of Congress, and members of the administration all participating, such as we had in the Commission for Studying Financing of Higher Education. That lasted only a year or so. It was going to last longer than that, but it did not need to.

Mr. GOLDSCHMIDT. If the planes ever came to Oregon, I would even appreciate being in on that study.

Senator HATHAWAY. This is the last question I will ask you. We have some others we would like to put to you in writing, but we can only allot about 40 minutes to each witness.

You said that an inflation rider should be attached to the bill.

Mr. GOLDSCHMIDT Yes.

I think the difficulty we get is that in effect—let me be specific—I am very concerned that we go back to the quality of purchasing power, the amount of purchasing power we had in this program at the beginning, and that once we get there that it be assured that during the life of the program some adjustment would continue to be made.

My impression is that the Administration bill—which by the way I think is a fantastic starting place, and it is a good piece of work—looks to be about a $150 million a year increase over the life of the bill, and that is going to be less than 3 percent, I think on an annual basis. What I am suggesting is you may need $500 million in order to really deal with inflationary problems. I realize this has fiscal impacts and budget impacts, but what you have on our side is either you start spending on this level and you buy that amount when you are done: you are sliding. Or, you start lower, which means we are going to have to lay off on the front end and shove the money ahead.

The political pressure, as you would understand, absolutely militates against that sort of budget. They say, well, you have all of this money in the bank, why are you laying people off. Why do you not hire us and keep us working and go back and battle Congress some more for that? So, we negotiate a contract with you to some degree, but the political forces at work in our community are not supportive of that kind of arrangement.

I think, practically speaking, as a percentage of the national spending power that this program ought to be described in a way that we understand what you really want it to accomplish. A flat level of annual allocation to us unrelated to inflation, which may double or drop or whatever, is not, it seems to me, a realistic way to approach it. I am not telling you that I have an easy formula. I read some of the documentation and the disagreements about how that would be accomplished. Obviously the biggest problem is money. I do not make any bones about it; but I am not ashamed to say I think you ought to spend it, because I think the program will produce the returns. The one thing we can get you that I do not think can be bought from any categorical program is an improvement in the democratic process in our own community.

Where people know the resources will be, they will get in and work on how they ought to be spent. This business of, you know, yes, we have the money today to do a 5-year plan on parks improvements or whatever you are going to do—oops, sorry, we cannot make it because inflation is up a point over what we thought it was going to be. This is an insane way to run local government—insane in the sense that if you want people to invest in their own lives, they do not understand why we cannot control things better than we do. You can talk all you want about 6-percent limitations and why gas taxes are down and the rest of it—it still comes out—what the hell is the point of dealing with local government? It does not even know which end is up.

Senator HATHAWAY. Thank you very much, Mr. Goldschmidt.

Mr. GOLDSCHMIDT. Thank you, Mr. Chairman.

I want to express our appreciation for your willingness to put in the time.

Senator Packwood, thank you very much.

Senator HATHAWAY. Our next witness is the Hon. John Poelker, mayor of St. Louis.

Mr. Poelker, we are glad to have you with us.

Your complete statement will be made a part of the record, and if you would summarize it, we would appreciate it.

STATEMENT OF HON. JOHN H. POELKER, MAYOR, CITY OF ST. LOUIS, MO., ACCOMPANIED BY JACK WEBER, BUDGET DIRECTOR, CITY OF ST. LOUIS, MO.

Mr. POELKER. Thank you, Mr. Chairman, Senator Packwood.

With me today is Jack Weber, the budget director for the city of St. Louis. We can answer some questions and address a few points to the budgetary problems involved in the failure to enact this in time for us to include it in our budgetary process.

I have your copy, Mr. Chairman, of a letter that Mayor Landrieu of New Orleans and I are addressing to all of the Senators concerning support for this legislation, enactment of revenue sharing, and I would hope that it would be made a part of the record also.

Senator HATHAWAY. Yes, it will be made a part of the record.

[The letter referred to follows:]

NATIONAL LEAGUE OF CITIES,
Washington, D.C., May 21, 1975.

Hon. WILLIAM D. HATHAWAY,
Chairman, Subcommittee on Revenue Sharing, Senate Committee on Finance, Washington, D.C.

DEAR MR. CHAIRMAN: On April 25, 1975, President Ford sent to the Congress his legislative recommendation for the extension of the general revenue sharing program. The National League of Cities, through its Revenue Sharing Task Force, has thoroughly reviewed the President's proposal, and we believe that it represents a sound approach to ensuring the continuation of this vital domestic assistance program. We, therefore, urge you and your colleagues to join as cosponsors of S. 1625 and to press for early Congressional action on the extension of the general revenue sharing program.

The National League of Cities has established the reenactment of general revenue sharing as its highest legislative priority. As the national spokesman for over 15,000 municipal governments, we are committed to achieving this objective during the First Session of the 94th Congress. Although the current revenue sharing program does not expire until the end of 1976, it is imperative that Congressional extension of revenue sharing occur during this calendar year. In testimony before the Senate Finance Committee on April 16, we pointed to several factors which mandate early Congressional action:

"Well over 50 percent of all municipal governments begin their fiscal year on July 1. This fall, as local officials begin their budgetary planning for FY 1977, there will appear on the revenue side of their ledgers a significant gap in the general revenue sharing category. Revenue sharing funding will only be displayed for the first six months of the next fiscal year and beyond that point the budget officer will be forced to print in a zero—a zero that will get translated into a 50 percent reduction in revenue sharing financed programs and services, the vast majority of which will come from the municipalities' operating budget. This is particularly true in the larger cities where 95 percent of revenue sharing funds are now being used for the operation of basic and essential services.

"If at this time next year a new revenue sharing program has not been enacted into law, we will see local government after local government being forced to adopt budgets for FY 1977 that will call for either significant reductions in essential services or substantial increases in the local property tax. We do not believe that such action on the part of local governments will be in the best interest of the nation's economic recovery objectives. For many urban residents, the prospects for an improved urban economy will be suddenly jolted as governmental services decline and their taxes increase.

"It would be tragically ironic if this Congress, which in the process of reforming and modernizing its own budgetary procedures, should needlessly delay the consideration of the revenue sharing program which is so vital to the long-range planning and budgetary needs of local government."

We believe that an early endorsement of the general principles in S. 1625 by a majority of Senators, is a first step in achieving reenactment during 1975. This is not to suggest that the President's proposal should be considered without modification. As the bill moves through the legislative process, it will be subject to rigorous appraisal, inevitably resulting in an improved revenue sharing program.

The National League of Cities, while enthusiastically endorsing the general principles of the President's bill, will work for specific changes which we feel are necessary. However, the overriding concern of the nation's cities is for early Congressional action on S. 1625, thereby ensuring the continuation of the program and preventing severe and needless disruptions in state and local budgets.

We wish to commend the Senate Finance Committee and its Subcommittee on Revenue Sharing for commencing the legislative reenactment process. The Subcommittee's hearings on revenue sharing have demonstrated the Senate's sensitivity to the revenue sharing timetable. The National League of Cities urges the Senate to continue to move forward and to establish for itself the goal of final Congressional action on revenue sharing during the First Session of the 94th Congress. We stand ready to assist you in achieving this important objective.

Sincerely,

JOHN POELKER,
Mayor of St. Louis.
MOON LANDRIEU,
Mayor of New Orleans.

Mr. POELKER. I have attempted in my prepared statement to address some of the questions that your staff people sent out to us, and if you will indulge my reading this, then we can get into some questions; I think it would help clarify the impact of revenue sharing on the city of St. Louis.

When the city of St. Louis received notification of its first general revenue sharing entitlements in 1972, the operating budget for its fiscal year, May 1 through April 30, had already been approved. Restrained sources of revenue had placed severe restrictions on the budget, and there was an aggravated backlog of needs for new truck, automotive, and construction equipment, street improvements, building rehabilitation and maintenance, and vacant and vandalized building demolition.

In response to public announcements, hundreds of recommendations were received from neighborhood groups and individual citizens for allocations for specific projects. In the final analysis, however, the projected budget crisis for the following budget year beginning May 1, 1973, brought necessary realism to the planned expenditure of the general revenue sharing funds. It became apparent then, and the subsequent crisis in maintaining minimal services in the city's operating budget, that the general revenue sharing funds had to be used as a necessary adjunct to existing revenues in order to maintain existing city services in lieu of adding new services or addressing the backlog of capital improvement needs.

This decision was made in consideration of the fact that the limits of authorized tax levies had been reached, as is identified by the broad scope of tax levies that exist in the city of St. Louis. The tax levy on real and personal property for city operating purposes alone is $1.49 per $100 evaluation. We have a local option sales tax of 1 percent, the maximum authorized by the State legislature; we have a 1 percent local earnings tax, the maximum authorized by the State; we have a 10-percent tax on public utilities gross receipts, the highest in the State of Missouri; and a $2 per $1,000 of gross receipts on merchants, manufacturers, and other businesses.

Now, you can see from this that we have a pretty broad variety of local option taxes at the local level. A general statement is, if there is a tax that the city of St. Louis does not levy, they have not heard about it.

With the proceeds from these multiple taxes at a depreciating or minimum growth rate due to a continuing loss of the affluent population, a continuing movement of businesses and job opportunities, and a depreciating real property-tax base, our options were few indeed. Just as an aside to something that Mayor Goldschmidt said, some of these taxes that we have had to levy in St. Louis that are not levied in suburban counties and suburban cities around have militated against us, because it has sort of influenced the movement of people to avoid the local earnings tax, to avoid the local sales tax, which is not levied uniformly throughout the State or uniformly throughout the metropolitan area.

With the impact of inflation in the costs of city salaries, fringe benefits, and purchases, it was required as of our fiscal year beginning May 1, 1973, to consider the general revenue sharing funds as just another line item of revenue to keep the operating departments on a minimal service basis.

Our hopes in 1972 for doing something with revenue-sharing funds to respond to the backlog of needs or expanding or initiating new services were necessarily abandoned.

The impact of general revenue sharing is simply this—it has spared St. Louis from a bankruptcy of services, but yet given us the strength to carry on. This strength to carry on was at the same time supported by the Federal categorical grants and now the block grants which are equally a vital factor on the city's ability to respond to the demands of a high percentage of elderly and low income that become an increasingly higher percentage of our dwindling population.

The city of St. Louis, which is not a part of St. Louis County, is in truth and in fact a unique governmental entity that is trying to rebuild not only its core downtown, but also to restore and maintain its residential sectors. The combination of general revenue sharing, categorical grants, and the block grants are vital to our success in combating these problems.

We feel that we have utilized sound, practical, and uniform methods in dealing with these funds and in their expenditures, accounting, and reporting requirements. In fact, the mere presence of these funds in our fiscal system has resulted in better accountability for all of the funds entrusted to us.

Our government structure in itself is an open government within public view as well as participation. With 28 elected aldermen from individual wards, and the population in the city now estimated to be 560,000, and with a budget review from the early stages in open meetings of the board of estimate and apportionment—consisting of the mayor, the comptroller, and the president of the board of aldermen. along with many citizen boards and commissions and specific citizen participation and communication advisory groups—there is not only a continuous awareness of our citizens' needs, but a constant input from our citizens.

Senator HATHAWAY. Excuse me, is this citizen input required by law?

Mr. POELKER. Our detailed budget reviews by the board of estimate with the various department heads under the "sunshine law" in Missouri are now open meetings. It is the system that provides for that, because the budget discussions with the department heads in preparing the budget for submission to the board of aldermen is not a mayor's budget in which he sits down with the department heads and with all of the agencies and revises the budget to submit. Since it is constructed and reviewed by a board, those reviews, from the very beginning of the budgetary process, with the department heads after they have gone through the process of complying with all of the bureau's responsibilities, are open meetings to the press and citizenry of our city. We are in a constant open meeting on budget reviews long before we have a real public hearing on the budget.

Senator HATHAWAY. Thank you.

Mr. POELKER. The National League of Cities, responding to the needs of all cities, as do we, have as our top priority the advancement of legislation to reenact the Federal general revenue-sharing program, known as the 1972 State and Local Fiscal Assistance Act.

The official policy statement that the National League of Cities adopted at its last conference in December of 1974, embodies some proposed changes in the reenactment legislation, and at the same time recognizes the legislative options for review and discussion of other segments of the legislation.

I am just going to point out some of the basic parts of the National League of Cities' policy statement, While they may be inconsistent with the President's proposal, they do support basically the proposal that the President has submitted to the Congress. There are some things, that are in response to some of the questions that were addressed to us—continual funding with a fixed base of revenue not subject to some of the annual budgetary processes.

I would just like to enumerate just a few of those points for you.

In order to counter the inflationary pressures on local government and in order to insure adequate growth in resources available to local government, the general revenue-sharing program should be funded at a constant percentage of the Federal personal income tax base, otherwise known as the adjusted gross income.

That position answers the question that you discussed with Mayor Goldschmidt about what kind of an addition should be put on each year. The President's proposal, as does the existing law, provides for an additional $150 million a year which, under the new law, would be about a 2-percent increase on an annual basis. We feel it should be 8 percent, or if it were tied to the Federal personal income tax base, it would then, as a percentage of that, graduate as the inflationary pressures drove up the Federal income tax base also.

In order to guarantee continuity and dependability of funding, the general revenue-sharing program should be authorized and committed on a continuing basis, unrestricted by the annual appropriation process. This again, addressed itself to the need for cities to know far enough in advance in their budgetary preparations, what to expect in the way of support for that line item of their budget that general revenue-sharing represents.

We suggest that there be a review of the formula components and the restraints, which includes the limit on local governments restricting them to 145 percent of the average statewide per capita allocation.

We think there should be review of the publicity requirements and evaluation of the accountability reports as to reflect the impact of general revenue sharing on local government revenues and expenditures, rather than the present system, which really has been used to try to help identify where revenue-sharing funds have been spent at the local level. It really only complies with what the Congress wrote into the original act—into what categories you shall spend it. I think our budget director will explain how we in St. Louis have just more or less arbitrarily allocated the general revenue sharing funds to departments which are definitely covered by the act, so that there would be no question that we are complying. Our allocation this year of $5 million of our revenue-sharing funds to the police department budget is a compliance act on us rather than a separation of certain services in the police department that are being funded by the revenue-sharing funds.

In general, we think the requirements for public hearings should be strengthened in those localities where budget processes are not subject to public hearings and participation. We recognize that there are some segments of the country where the budget process, in its local concept only, is not subject to public participation or public review. We feel that the infusion of general revenue sharing funds into those governments should demand of them that they have public hearings on the budget.

We are also concerned with the coordination of the enforcement of civil rights provisions of the act. The Office of Revenue Sharing, with what limited funds have been allocated to them administratively, has attempted to address this problem. There is a conglomeration of civil rights requirements and innumerable Federal regulations that are not all consistent. There is a lack of coordination between the various agencies who not only have administrative responsibility for civil rights performance, but also there is a lack of coordination in the enforcement arms of various sectors of the Federal Government that are involved in seeing that local governments have an affirmative action program, and that you are giving attention to nondiscriminatory practices against the low income people, elderly people, and women.

I think we are all in favor of that. We see no problem in conforming with that at most local levels. I think the problem is that there has been a lack of coordination in enforcement that needs to be addressed.

As I mentioned, I think the restrictions in the law that say you should spend it for these categories, really has not served a useful purpose. I think in line, gathering from the questions you asked of Mayor Goldschmidt, that you are more interested in what the impact of general revenue sharing has upon the total budget of that city and what percentage of its funds are in that category.

At this point our budget director has prepared a couple of little schedules that answer those questions, and Mr. Weber will just provide a summary of those statements and give your committee the opportunity to look at that at your leisure.

Mr. Weber, if you would just kind of summarize some of the information that shows the relationship of general revenue sharing funds to our total operating budget—and I dealt just briefly with the fact that since the second year of revenue sharing, it has just become enmeshed in our budget as another line item, and really has not permitted us to do some great things that many people expected us to do with general revenue sharing funds.

Mr. Weber?

Senator HATHAWAY. Go ahead, Mr. Weber.

Mr. WEBER. First of all, I would like to say, as far as general revenue sharing goes, I do not know how we could exist without it. In our city budget we have roughly 109 sections that have people with them; but 9 of those sections take 60 percent of our budget—

the fire department, police department, and our hospital division which consists of two general hospitals and two nursing home types of hospitals. If we were to lose $15 million a year that we are now getting, you can see what the impact would have to be on that remaining 40 percent of the budget. That includes our welfare department, which we call the corrective section, and jail workhouse, et cetera.

When we first got the revenue sharing, we did feel we would be able perhaps to catch up on some of our capital equipment purchases which had lagged seriously because of previous budget problems. We thought we could probably catch up on some of our building maintenance, improvements to our facilities, parks, and city buildings, and so forth; and in the first year we were able to allocate something around $9 million. Before those projects all got completed, we got into the next budgetary crisis, and we had to unappropriate some of the funds that we had anticipated using for improvements to our hospitals, and to construct some new recreation facilities. We had to allocate that to our operating budget.

Now, this little chart that is in front of you shows the relationship here. The revenue sharing accounts for approximately 10 to 12 percent of our budget over the last 3 years. In our jurisdiction that would represent several hundred jobs, if we have to eliminate them. We are in areas where we cannot particularly eliminate them. We are not a county; we are not part of a county. We are the city of St. Louis. We have limited boundaries. However, we do perform the functions of the court; many State functions that are performed by the counties are performed in the city, and we cannot cope with our court function. Our police board's budget cannot be cut by the local jurisdiction. It is established by the police force, which is appointed by the State government.

[The chart referred to by Mr. Weber follows:]

SUMMARY OF ALLOCATION OF FEDERAL REVENUE SHARING FUNDS

	1973-74	1974-75	1975-76
Miscellaneous offices:			
Assessor, supply, city counselor, city court, human relations, city marshal	$107,290	0	0
Comptroller: Comptroller's office, data processing, and garage	220,595	0	0
Parks, recreation, and forestry	2,032,630	$2,300,000	$1,710,000
Utilities: Lighting streets, lighting buildings, and powerplants	50,790	0	0
Streets: Street maintenance, traffic, and refuse division	3,088,650	2,800,000	2,000,000
Safety: Fire department, building commissioner, air pollution control and excise commissioner, weights and measures	2,509,485	6,000,000	5,034,000
Health and hospitals	4,746,190	0	0
Police department	3,250,000	10,000,000	10,000,000
Total	16,005,630	21,100,000	18,744,000

Mr. WEBER. So, overall, in looking at revenue sharing as a portion of the city's budget, it would be impossible for me even to begin to think about putting together a budget of any kind if we did not right in the beginning think that we do have this money as part of our resources. I cannot overemphasize from my point of view that it would be nearly impossible for me to review a budget for the existing services, now at the budget division levels and the budget division reports, using a level of the budget estimate.

I would not know where to start because thinking in terms of eliminating $10 million from the budget, we have already over the last 4 to 5 years probably eliminated 1,000 jobs out of what was about a 9,500-person employment, under the merit system.

So, when we know what revenue sharing is going to be, it is an asset we can bank on. We know we are going to get the quarterly allotment; we know it far enough ahead to consider it on a firm basis. We do not have to estimate it and hope we are going to meet that estimate, and so forth. It is a firm piece of revenue we can depend on. Without it—well, all I can do is shake my head when I think that it might not be renewed.

You will possibly notice from this chart in front of me that we have been trying to stay with a four-quarterly allotment; but to balance this year's budget we had to include the fifth quarter which falls within our period. So that will leave us for three quarters for the coming year if revenue sharing is not extended, which would be another $3 to $4 million drop in our budget. We got by this year without a pay increase for all of our city employees because of the budgetary crisis. I might add, the request from the operating department which was for just those existing departments, not new functions or new programs or anything, totaled well over $200 million. We have a budget proposal which is $180 million before the board of aldermen now.

[The chart referred to by Mr. Weber follows:]

REVENUE SHARING ENTITLEMENTS, 1973-75

City of Saint Louis fiscal years (May 1, through Apr. 30, 1972-76)

	Amount
Fiscal year 1972-73:	
December 1972	$6,251,132
January 1973	5,998,561
Total	12,249,693
Fiscal year 1973-74:	
April 1973	3,568,452
July 1973	3,568,452
October 1973	3,667,114
January 1974	3,667,114
Total	14,471,132
Fiscal year 1974-75:	
April 1974	3,667,114
July 1974	3,667,114
October 1974	3,780,196
January 1975	3,780,196
Total	14,894,620
Fiscal year 1975-76:	
April 1975	3,780,196
July 1975	3,780,196
October 1975	3,457,905
January 1976	3,457,905
April 1976	3,457,905
Total	17,934,107
Total entitlements	59,549,552

Note: Above figures do not include interest on invested idle funds.

SUMMARY

Fiscal year (May-April)	General revenue sharing entitlement	General revenue sharing allocation	Total operating budget
1972-73 (4 quarters)	$12,249,693	$6,253,265	$148,486,115
1973-74 (4 quarters)	14,471,132	16,005,630	166,528,795
1974-75 (4 quarters)	14,894,623	21,100,000	170,257,170
1975-76 (5 quarters)	17,934,106	18,744,000	179,973,510

PRINCIPAL USE OF FEDERAL REVENUE SHARING, 1973-1975

[City of Saint Louis fiscal years (May 1 through Apr. 30), 1972-76]

Appropriated fiscal year 1972-73 (May 1, 1972 to Apr. 30, 1973):	
Improvements to streets	$1,400,000
Renovation and/or construction of buildings/facilities	2,017,025
Automotive and construction equipment	1,436,240
Removal of derelict buildings	1,400,000
Total	6,253,265
Appropriate fiscal year 1973-74 (May 1, 1973 to Apr. 30, 1974):	
Salaries	13,015,000
Equipment	2,373,250
Miscellaneous renovation, repairs and supplies	617,380
Total	16,005,630
Appropriated fiscal year 1974-75 (May 1, 1974 to Apr. 30, 1975): Salaries	21,100,000
Proposed appropriation fiscal year 1975-76 (May 1, 1975 to Apr. 30, 1976):[1] Salaries	18,744,000
Total allocation	[2] 62,102,895

[1] Currently under consideration by board of aldermen.
[2] Total appropriations include amount earned as interest on invested idle funds.

Mr. WEBER. In our other resources we are limited. The State constitution establishes our property tax rate. The State legislature sets a limit on our local earnings tax, sets a limit on our local sales tax; and as the mayor pointed out, we have the highest franchise tax rate in the State.

Those things collectively provide about 80 percent of our locally generated revenue, and obviously revenue sharing provides another 12 percent, possibly. The rest of it is fees and charges for services.

That briefly is the impact of revenue sharing on our budgetary process.

Senator HATHAWAY. The book you gave us is a detailed breakdown?

Mr. WEBER. Yes. That gives you a detailed breakdown on wherever revenue sharing is allocated. It is noted in that budget document. It identifies it as Federal revenue sharing.

Senator HATHAWAY. Mayor Poelker, thank you very much for your testimony, and for your suggestions with regard to civil rights and accounting and public hearings. We will incorporate amendments to that effect. There are some in already, but we are going to expand them.

Let me ask you a question.

Elmer Staats, Comptroller General, testified before this committee against revenue sharing and said that we could accomplish the same result if we simply took away some of the strings in our categorical aid programs so that they could be more equally available to various governmental units.

Do you agree with that?

Mr. POELKER. No; I do not.

I would agree with the statement, and I think it pretty well reflects the attitudes of most of the mayors, that Mayor Goldschmidt made, about the need to keep the general revenue sharing funds from any discussions about categorical grants or block grants which are addressed to sort of national problems that the Federal Congress has felt a need to utilize Federal funds to alleviate.

I think you have to go back to the original concept of revenue sharing, which addressed itself to the need for revenue sharing or the feasibility of revenue sharing at a time when the Federal income tax was rising at a rate faster than the gross national product, back in the middle sixties—sharing of revenues to help cities and States also to address themselves to some of the problems. I just do not see that anyone at the local level of government would agree to that concept.

Senator HATHAWAY. I notice that your figures indicate that about 85 percent of your general revenue sharing funds have gone for salaries since 1972.

Mr. POELKER. That pretty well reflects our budget. About 85 percent of our budget is for salaries and fringe benefits. Fifteen percent is to buy gasoline, or asphalt, or drugs for the hospitals, or purchases. We are in a service business, and 84 or 85 percent of our total budget is related to salaries and fringe benefits.

Senator HATHAWAY. I would hope this does not mean that some special interest groups have been able to lobby the council for increases in salaries.

Mr. POELKER. No. I think particularly in St. Louis it has not been true. In the fiscal year that just ended on April 30 our employees got a 4½-percent raise in pay. This year I have just had to tell them that there is no money for a pay increase, and a pay increase would only result in probably 1,000 or more layoffs; and they have so far accepted that. The board of aldermen have accepted it. So this year there will be no pay increase. So for a 2-year period our employees would be receiving about 4½ percent; that puts us very far behind the level of Federal salaries and other governmental agency salaries in the St. Louis area.

Senator HATHAWAY. Getting back to the Staats proposal, you said that most of the categorical aid programs would carry out national objectives. But isn't there a categorical aid program of some kind for almost every local expenditure?

Mr. POELKER. There probably are through LEAC, manpower and the community development block grants, and we do touch many of the departments of the city of St. Louis as do most cities through those programs. They do permit us to address problems that are specifically related to those particular services that have not been addressed. I think that is the advantage of the categorical grant.

You know, we have a corrections department, and through an LEAC grant we have been able to implement some training programs in our corrections department. In our police department we have an LEAC grant. We have been able to do some innovative things that were not possible under the budgetary process, which may have been squeezed out by what some pressure groups at the local level think is a greater priority. So to obviate that pressure, to divert categorical funds that exist now to other priorities that in the eyes of the national Government are not as important, I think would be dangerous.

Senator HATHAWAY. In what areas do you expend general revenue sharing where there are no Federal categorical programs at all?

Mr. POELKER. We do in a lot of our administrative offices. For example, we run a $46 million hospital service in the city of St. Louis, including four hospitals, two general hospitals, and two chronic hospitals. There is very little in the way of categorical grants for hospitals. The fire department is another area in which there are no categorical grants. The streets department—well, there are some FAU funds available through the State Highway Acts.

Senator HATHAWAY. I thought there were some funds available for hospitals, also. You say there are not?

Mr. POELKER. Not for any operating funds.

Senator HATHAWAY. Hill-Burton funds?

Mr. POELKER. Well, there are Hill-Burton funds available, but we have been having a difficult time competing for those funds with public hospitals in the State of Missouri.

Senator HATHAWAY. I think that was the point Staats was making. If some of the provisions in the categorical grants were liberalized, you would have a better chance of getting that money. Then we could do away with revenue sharing.

Mr. POELKER. I think in reality that would not be workable. It might sound good in proposal, but when you get down to the nitty-gritty allocation of funds and pressures for priorities at the local level, I think you would probably destroy the objective of some of these categorical grants if they were absorbed into a single pot.

Senator HATHAWAY. Thank you. Senator Packwood.

Senator PACKWOOD. Mr. Mayor. One of the criticisms that has been levied at the program is that a number of the cities, at least in some of the programs, racially discriminated, normally in hiring practices; at least in the case of Chicago, there has been a court decision that has held that there was racial discrimination. What, in your estimation, would be the best way to enforce nondiscrimination through the general revenue sharing program without, at the same time, putting so many strings on as to make it almost impossible for the cities to have any discretion.

Mr. POELKER. I think it would be very hard to address, in trying to use general revenue sharing as a vehicle to get the kind of affirmative action programs that are necessary at the local government or State government levels. I think there are so many—the civil rights provisions are different in the present Revenue Sharing Act; they are different in the Manpower Act; they are different in the Community Development Act; and, if somehow or other, a local government could develop an affirmative action program and confirm its hiring and promotion practices to a single agency, that would be the resolve. I think we would really be approaching the objectives of all of these provisions in a manner that could be enforceable, but when you have so many agencies involved, each Federal agency, whether it is Manpower, or whether it is HUD, or whether it is HEW, has different approaches to resolving whether or not the city is following the civil rights provisions of that particular act.

Senator PACKWOOD. What about if we left it very broad; if we said, you shall not racially discriminate in the spending of general revenue sharing, and leave it to the court enforcement, but if you were found by a court to have discriminated, you would lose your general revenue sharing.

Mr. POELKER. I do not see any objection to anyone losing their revenue sharing moneys, if they have not complied to the civil rights provisions of the law in having an affirmative action program:

Senator PACKWOOD. This would not necessarily be an affirmative action program. We would simply say, it is a law written this way, thou shalt not racially discriminate. You are going to run the risk. If you do not want to have an affirmative action program, that would be your business, but if you were later brought to court and there was proof that the city of St. Louis was practicing racial discrimination in the administration of the general revenue sharing funds, you would lose them, maybe forever, maybe for a year. I am not sure what the penalty would be. This puts the burden on St. Louis. You do not have to come forth with the program, but, in retrospect, you had better not have discriminated.

Mr. POELKER. Well, I think we would react, just as affirmatively one way or the other—I think we do have a strong affirmative action program.

Senator PACKWOOD. Mayor Goldschmidt indicates the same problem. He says, we will bend over backward to avoid discrimination, but we hate to meet seven different standards from seven different programs all trying to achieve the same thing. If we could have a uniform standard, so it would apply to all programs. That is the same thing you are saying.

Mr. POELKER. I think that would be very desirable and acceptable thing to the cities throughout the country.

Senator PACKWOOD. I have no other questions, Mr. Chairman.

Senator HATHAWAY. On that point, it would apply to all funds too.

Mr. POELKER. Well, you would have to——

Senator HATHAWAY. Because with the fungibility of funds, you could just shift and say. "Look, these funds were 10 percent we got from the Federal Government. We have not discriminated with them." However, perhaps with the other 90 percent of your local funds you have.

Mr. POELKER. I think it has got to apply to all of the funds.

Senator HATHAWAY. Good. Thank you very much, Mr. Mayor, Mr. Weber We appreciate your testimony very much.

Our last witness for this morning is the Honorable Charles Joseph, the mayor of Benton Harbor, Mich. Mr. Joseph, your entire statement will be made a part of the record. If you would like to summarize it for us, we would appreciate it.

STATEMENT OF HON. CHARLES JOSEPH, MAYOR OF THE CITY OF BENTON HARBOR, MICH., ACCOMPANIED BY JOSEPH PEOPLES, DIRECTOR OF FINANCE

Mr. JOSEPH. Thank you, Mr. Chairman, Senator Packwood. I am pleased to have this opportunity to appear before you at this public hearing on revenue sharing. As I understand the purpose for my appearance before this distinguished body is to share some of the experiences of small cities as they may relate to revenue sharing.

The city of Benton Harbor has 16,481 people, according to the 1970 census.

Benton Harbor has several social, economic, and physical problems facing it. The area has been plagued with high unemployment, estimated at 29.7 percent, and current estimates place Berrien County over 9-percent unemployed, with the city of Benton Harbor being nearly three times this high. This high unemployment rate exists largely in the young black community that ranges in a majority of 15 to 34 years old.

Coupled with this problem is a high crime rate experienced in the city that is rated only second to Detroit, per capita, and more than 48 percent of the total population of Benton Harbor is on some kind of public assistance, with the highest concentration of welfare recipients per capita in the Nation.

So the city has experienced a high level of exodus of whites from the community to the outlying surburban areas, thereby creating a real serious urban problem.

By 1972, when general revenue sharing was made available, we, as a small city, felt that the revenue sharing was timely and it was being put to good use, and the use of general revenue sharing was most effective in capital improvements, amounting to $595,000 for streets and the central business district parking lots, and $850,000 for operating expenditures in public safety and environmental protection, and general revenue sharing was budgeted as part of the overall city budget. Rather than it being used as a categorical grant, it was made a part of our budget system and was accountable through that budget system with audits and all of the normal procedures in a city government. Public hearings were held with the citizens, and participation was received from the citizens, and input was received and utilized in using this money on street repair.

I may add, Mr. Chairman, that this $595,000 used for street repairments, repaired a street that had been in need for repairs for more than 20 years, where the taxpayers dollars locally could not have done that. It was easier to determine how to spend funds allocated for local priorities with this general revenue sharing the way we instituted it in our buedgt system. The accounting and auditing was channeled through the city's regular budget and finance system. The reporting of funds was more simplified due to the process, and revenue sharing funds provided better aids in the budgeting, because, due to the general nature, they left less room for guesswork and more precise room for planning and for the future on certain definite projects.

The city of Benton Harbor had far more latitude in setting priorities and establishing those objectives through general revenue sharing. Now, all activities related to the general revenue sharing was handled in the same way as other city programs through the regular city process. Revenue sharing, for a large extent, replaced lost property tax dollars. Also, revenue sharing resulted in higher levels of program effort being able to be sustained and, without revenue sharing, the city would have had to significantly reduce the services to a very, very low level.

I turn to the legislative modification. We feel that, because general revenue sharing funds have been partially successful in our efforts, removal of some of the restrictions would be most desirable so that they could be used for more city programs and projects of a general nature. Over a 3-year period, revenue sharing was most beneficial in the following ways: In 1972 and 1973 revenue capital amounted to $595,000 and operating budget was none, percentage of the general operating budget of $2,203,223 was zero. In 1973 and 1974 revenue capital was none. Revenue operating was $381,869,15.1 percent of the general operating budget of $2,524,502, In 1974 and 1975 revenue capital was none. Revenue operating, $468,976, of which 16.3 percent of a general operating budget of $2,866,563. For the 1975–76 budget, revenue capital will be none; revenue operating will be $470,000. That will amount to 17.2 percent of the general operating budget of $2,726,050.

Mr. Chairman, speaking for small cities across this Nation, but using Benton Harbor as a focal point, we feel that our problems are not unique, but are the same as the larger cities and, being that the majority of the cities of this country, are made up of small cities and not overlooking the needs of the major metropolitan areas and the large cities, we feel the general revenue sharing in small cities should be considered in general revenue sharing, as well as the large cities.

My problems in Benton Harbor are second to Detroit in many cases, but second to Newark in most cases, only in the welfare category. There is no other city with the population concentrated as Benton Harbor has. It has the largest concentration of welfare recipients. There are many cities throughout this country, less than 30,000, less than 50,000, but we feel that revenue sharing should not only be for major cities, but should be geared as well to the small cities, where the problems are very serious and of an urban area.

Our crime, based on the high unemployment, has increased. Our rates; our tax on senior citizens, which amounts to 12 percent of my population, have increased over the past several months because of the 30-percent unemployment. The jobs are very scarce; the economic aspect of the city, like any major city, has been moving to the suburban areas, thereby decreasing the tax base of the city.

In 1975 and 1976, to give you a breakdown on the revenues for the city versus the expenditures of Federal grants, amount to 39.6 percent of an $8 million budget. State-shared taxes was 7.9; charges for services, 7.7; property taxes, 16.1; and licensing and State grants and pension contributions and previous fund balances account for the other. Expenditures of community development is 45 percent; management, 1.2 percent; public utilities, 7.6 percent; administrative services, 11.7, and environmental protection, 14.4, and public safety, 20.1.

As recent as the first of this month, Mr. Chairman, when the city of Benton Harbor laid off 17 people in public safety, the police and fire department, and replaced them under the CETA funding. In 1976 and 1977, we expect to have more serious problems, and without revenue sharing we find that the city of Benton Harbor is on the brink of being put into receivership in the next 1½ to 2 years, so it is vital to us to have the additional funds made available to the city as has happened in 1972 when general revenue sharing was made available. We have used that as a means of not only improving streets and parking lots, but to help to operate the city's overall functions, in the same method as we use our own city taxes and other taxes. So, I would urge the committee to consider not only extending the general revenue fund, but making it broad enough so that small cities with serious urban problems will benefit, as well as the major cities in this country, and then I think we are moving in a more positive direction. Thank you.

Senator HATHAWAY. Thank you very much, Mr. Joseph. Would you identify the gentlemen who is with you?

Mr. JOSEPH. The gentleman to my left is the finance director for the city of Benton Harbor; Mr. Chairman, I apologize for not introducing him at the outset.

Senator HATHAWAY. Have you been able to hold the line on local taxes since revenue sharing was put in operation, or have local taxes gone up?

Mr. JOSEPH. Local taxes have gone up in a sense, and we have lost tax base at the same time, and we filled the void with revenue sharing, but I will ask Mr. Peoples to comment on that question.

Mr. PEOPLES. Well, we are at the limit on taxation in the number of mills by law we could spread, and there is some question as to that, and the citizens voted some additional millage on themselves, which was very commendable. Faced with these problems, we are now, right now, at the limit. Our tax base is declining; no appreciation of property in the area.

Senator HATHAWAY. The overall amount of money has been the same?

Mr. PEOPLES. Pardon?

Senator HATHAWAY. The overall amount of money from local taxes has been the same?

Mr. PEOPLES. Pretty close.

Senator HATHAWAY. Pretty close?

Mr. PEOPLES. Yes.

Senator HATHAWAY. What publicity do you grant to the general public with respect to all of the local expenditures? Do you have public hearings?

Mr. JOSEPH. We hold public hearings, and I hold public forums. We hold public hearings, published in the news media, and then the public forums of a scheduled nature, where I, personally, go from—we have four wards in our city, and with the ward commissioners we hold the public forums and we brief the people on a continuous basis on what is happening with the funds and revenue sharing.

Senator HATHAWAY. So, the people, in general, can comment on the proposed expenditures?

Mr. JOSEPH. Absolutely. They have direct input.

Senator HATHAWAY. On all of your expenditures, not just on revenue sharing?

Mr. JOSEPH. Right.

Mr. PEOPLES. Mr. Chairman, in the past it has been, in a city of our makeup, the upper income businessman has been on the city council. That has changed. We have people on the city council now that are blue collar workers, and they are more attuned to the general public, as far as expenditures. They are grassroots, so-to-speak, council, and I think that is probably a trend in cities of our size and larger.

Senator HATHAWAY. You mention in your statement, of the crime problems in your area, and say you need to expend more of the revenue sharing funds for that. Are not the LEAA funds sufficient to combat the crime problem?

Mr. JOSEPH. One of the problems with a city our size is we do not qualify, we do not have the population numbers to qualify in many areas. This is where revenue sharing has been very important. For example, for 1975 and 1976, the budget for our police department is $1,132,000 for a population of 16,500. We laid off, I believe, eight policemen in our department and replaced them with the CEDA funds and, while we have been doing this, we have still encountered a serious problem of crime. Recently it has been attacks on the senior citizens at the time they receive their social security checks. That is another phase of a burden that we have not been faced with before.

Senator HATHAWAY. If revenue sharing were not reenacted, what would you propose to do? Cut back on expenditures or increase your local tax?

Mr. JOSEPH. I think, under the present circumstances of the population and the high concentration of poor people that are not capable of paying the taxes, the city will be in very serious condition. We would, naturally, have to cut back on services. I think cutting back on services at any time in the near future will be disastrous to the city of Benton Harbor. Revenue sharing, I think, is vital to its existence for some time to come.

Senator HATHAWAY. Do you get any State assistance?

Mr. JOSEPH. We get some assistance through the State.

Senator HATHAWAY. Is that general or for specific purposes?

Mr. JOSEPH. It is for specific purposes and the State revenue sharing.

Senator. HATHAWAY. You have State revenue sharing?

Mr. JOSEPH. Yes.

Senator HATHAWAY. For general purposes?

Mr. JOSEPH. Yes.

Senator HATHAWAY. What does that amount to in your budget?

Mr. PEOPLES. I cannot answer that. We received, based on a formula per capita, a rate that is set by the State, a share of State income tax, intangibles tax, and——

Mr. JOSEPH. Excuse me just a moment, Mr. Chairman.

Senator HATHAWAY. Certainly.

Mr. PEOPLES. It amounts to approximately 8 percent of our budget in State-shared revenues.

Senator HATHAWAY. And the Federal amount is how much?

Mr. JOSEPH. Federal is 39.6.

Mr. PEOPLES. That includes grants.

Senator HATHAWAY. That includes grants, but the general revenue sharing amounts to how much?

Mr. JOSEPH. Revenue sharing is 4.7, Federal revenue sharing.

Senator HATHAWAY. I see. Senator Packwood.

Senator PACKWOOD. I have no questions, Mr. Chairman.

Senator HATHAWAY. Let me ask you, Mr. Joseph, to comment on the same question I asked the previous witness about the Comptroller General. Mr. Staats, stated that if we simply broadened the categorical aid programs, we could do better than if we extended revenue sharing.

Mr. JOSEPH. Mr. Chairman, I cannot speak specifically to that question, but, speaking from my limited knowledge and point of view, I see both being somewhat different in scope and in services. I see, I can testify to what general revenue sharing has done in our city in doing some things that the city had wanted to do over a 20- or 30-year period. We are getting into the categorical specific needs, such as child care; with a large concentration of welfare recipients and poor people, that is a necessity, and to deal more specifically with jobs and parks and recreation and youth services and youth education and senior citizens, I see those being separate but meeting the overall objectives of the city. General revenue sharing is designed to do some capital kinds of things: Streets, parking lots, buildings, and what have you. The categorical grants would deal more specifically with some areas where they are sometimes overlapping into adjoining communities or into the counties, so I see them, in some cases, different, but meeting the overall objective from both sides.

Senator HATHAWAY. You think that the strings attached to general revenue sharing ought to be dropped?

Mr. JOSEPH. What was the question?

Senator HATHAWAY. The strings attached, the categories?

Mr. JOSEPH. I believe that some of the restrictions on general revenue sharing could be reduced, and it would be most desirable in our case, as a small city, to do some other things with this. For an example, with the population of our city in a majority of 15 to 34 years old, it is very unstable at times. You have a lot of problems, you have a lot of confrontation. We need to get into the parks and recreation area and do some things to utilize the time of the young people, to help develop them. We have not been able to do this.

On the one side, we do not qualify, under the categorical grants, because our population is so small. On the other side, we were not able to use the funds for that purpose for the lack of having adequate funds, or the fact that some restrictions prevented us from doing so.

Senator HATHAWAY. It seems from what you said, though, that if the categorical programs were modified to take care of the smaller communities better than they do at the present time, that you would be just as well off that way, as you would be with general revenue sharing. If the LEAA program, for example, was better tailored to fit the needs of the smaller communities, you would be getting more money for police and other law enforcement mechanisms.

Mr. JOSEPH. I think, to a degree, that might be true in the categorical programs, but, being able to plan the general revenue sharing as a part of the budget, knowing what you are going to get and knowing how you are going to expend it, is very important in our case. As I stated earlier, it was made a part of our entire budget system and our finance system is audited in the same way as we do our own taxes paid on a local basis, whereas categorical grants are unpredictable at times. You may get them and you may not. They may be canceled out on you, or they may not.

General revenue sharing is based over an annual basis. We feel that we can plan better; as our budget starts July 1 and runs through June 30 of each year, we can plan on general revenue sharing. That is better for long-range planning; whereas, categorical grants are too inflexible at times.

Senator HATHAWAY. Thank you very much. Do you have any questions?

Senator PACKWOOD. No questions.

Senator HATHAWAY. Thank you very much both of you.

Mr. JOSEPH. Thank you.

[The prepared statement of Mayor Joseph follows:]

Prepared Statement of the Honorable Charles Joseph, Mayor of the City of Benton Harbor, Mich.

Hon. William Hathaway, Chairman, members of the committee: I am pleased to have this opportunity to appear before you at this public hearing on Revenue Sharing. I understand the purpose for my appearance before this distinguished body is to share some of the experiences of small cities as they may relate to Revenue Sharing.

While I am not in a position to talk about many small cities, I can talk about my own city, Benton Harbor, Michigan in hopes that activities there may reflect some activities of other small cities.

Benton Harbor has several social, economic, and physical problems facing it. The area has been plagued with high-unemployment rates and current estimates place Berrien County over nine percent unemployed with the City of Benton Harbor approximating twice this rate. This high unemployment rate exists largely in the young Black community. Coupled with this problem is a high crime rate experience in the City of Benton Harbor, with a very high rate of robbery. Further, it has been estimated that 30 percent of the residents of the City receive some level of public assistance. This high level of government transfer payments takes form of Aid to Dependent Children, and other forms of welfare payments and unemployment transfers, all of which are programs with favorable benefits in Michigan.

The City has experienced a high-level exodus of whites and more affluent people to rural areas or to the City of St. Joseph across the river. 1975 estimates show Benton Harbor with an 80 percent black population and St. Joseph with a one-percent black population. Even more critical than a racially segregated twin city area is the obvious problem of income segregation and buying power erosion. Local attitudes suggest that moderate- or higher-income residents are abandoning older neighborhoods to escape what they perceive to be substandard educational opportunities, a deteriorating housing stock and serious robbery and aggravated assault incidence. The shift of income to areas outside Benton Harbor has substantially reduced the viability of local retail activity, depressed the sale value of residential property (drops 50 percent in sales value are not uncommon over a five-year period), and significantly eroded the assessed valuation of real property.

The loss of high-paying jobs and a generally-slumping work force, the high natural increases in population, the high-welfare assistance levels, the high-crime rates, the high-unemployment levels among the youth and work force generally, out-migration of whites, decline of the school system, decline of retail in the CBD, decline in rateable tax-base and other socioeconomic conditions have all worked together to create a city-wide syndrome leading to a decline that is rarely experienced in the Midwest.

PERCENTAGE OF UNEMPLOYMENT RATES BY GEOGRAPHICAL AREA

	1970	1971	1972	1973	1974	1975
Benton Harbor	10.8	(1)	(1)	11.1	16.2	22.8
Berrier County	5.3	6.6	5.6	6.8	11.9	(1)
Detroit	7.0	8.5	8.0	7.2	9.3	(1)
Michigan	6.7	7.6	7.0	5.8	8.7	(1)

1 Not available.

Source: Michigan Employment Security Commission.

UNEMPLOYMENT

Unemployment is a critical problem for the City of Benton Harbor. The annual employment rate generally is twice that of Berrien County and is substantially higher than that of Detroit and the entire State of Michigan.

PERCENTAGE OF FAMILIES BELOW THE POVERTY LEVEL, 1970

Benton Harbor	21.2
Berrien County	9.5

Source: 1970 census.

INCIDENCE OF POVERTY

The incidence of poverty in Benton Harbor is more than twice that of the surrounding region.

MEDIAN FAMILY INCOME

Benton Harbor	$7,422
Berrien County	10,056
Detroit	10,045
Michigan	11,032
United States	9,616

Source: 1970 census.

INCOME

Benton Harbor's median family income is substantially lower than that for the surrounding region (Berrien County), The City of Detroit, the State of Michigan.

PERCENTAGE OF BUILDING CONDITIONS—BENTON HARBOR, 1974

Sound	28.7
Minor repairs	36
Major repairs	22
Demolition required	13.3

Source: "Profiles of Change," R. L. Polk, 1974.

BUILDING CONDITIONS

As of 1974, approximately 71% of Benton Harbor's housing stock was substandard. The term "substandard" as used here, refers to structures needing major and minor repairs as well as those requiring demolition.

PERCENTAGE OF UNEMPLOYMENT—QUARTERLY BREAKDOWN, BENTON HARBOR, MICH. 1974

1st quarter	2.4
2d quarter	2.8
3d quarter	4.8
4th quarter	6.2
Total	16.2

Source: Michigan Employment Security Commission.

STRATEGIES FOR FUTURE ACTION

Because Benton Harbor's critical economic and physical status, local leaders have recognized two necessary ingredients for future actions and strategies:

Planning efforts for the future must be implementation-oriented and focus largely upon utilizing resource capabilities wherever they may exist as opposed to general policy statements and guidance.

Local institutional arrangements must be mobilized in a more effective way to create a sense of concurrence and uniformity of approach.

The strategy which Benton Harbor has decided to pursue will focus on achieving these objectives. This strategy builds in and demands a high degree of local involvement and looks more toward short-range *actions* than long-range policy level goals. Long-range policies will be developed as an understanding of short-range objectives developes in the planning process.

The sum-total effect of the many physical, economic, and social problems evident in Benton Harbor dictates that the approach embody several diverse objectives and must include housing, schools, employment and labor force, population shifts, existing program efforts and land-use to name a few. Only by considering a broad-range of functional objectives can a realistic problem-solving strategy be developed. In addition to broad objectives, the approach must present an on-going effort of evaluation, monitoring and reevaluation of the consequences of various actions.

Finally, the approach will look to innovative solutions where innovation is necessary but should otherwise rely on proven and tested techniques and federal program assistance.

BENTON HARBOR POPULATION DISTRIBUTION BY AGE AND RACE

	1950	1970	Population change
14 and under:			
White	4,000	1,500	−2,500
Nonwhite	420	4,300	+3,880
15 to 24:			
White	2,300	1,100	−1,200
Nonwhite	300	1,850	+1,550
25 to 39:			
White	4,000	1,000	−3,000
Nonwhite	600	1,625	+1,025
40 to 54:			
White	2,900	1,250	−1,650
Nonwhite	400	1,150	+650
55 to 64:			
White	1,600	900	−700
Nonwhite	100	500	+400
65 and over:			
White	1,650	1,500	−150
Nonwhite	50	300	+250
Total:			
White	16,450	7,250	−9,200
Nonwhite	1,870	9,725	+7,855
Grand total	18,320	16,975	

Source: Revised community renewal program, Benton Harbor, Mich., 1973.

POPULATION DISTRIBUTION

In the 20 years between 1950 and 1970 the total decrease in Benton Harbor's population was 9,200 persons. Simultaneously, there was an increase of 7,855 non-white persons. This represents a shift in the non-white population from a 10 percent minority to 60 percent majority. The greatest population loss for whites was in the 25-39 age category, while the greatest increase for non-whites was in the 14 years and under category. Persons under 18 years of age presently comprise 49 percent of the city's total population.

PERCENTAGE OF MALE HIGH SCHOOL GRADUATES, 1970

Benton Harbor	28.4
Berrien County	52.0

Source: 1970 census.

EDUCATION

The education attainment of Benton Harbor residents lags far behind that of the surrounding region.

PERCENTAGE OF PUBLIC ASSISTANCE DEPENDENCY

Benton Harbor:	
Persons receiving AFDC payments	5,965
Percent of population	36
Berrien County:	
Persons receiving AFDC payments	15,609
Percent of population	9

Source: 1970 census.

AFDC DEPENDENCY

Benton Harbor's per capita AFDC (Aid for Dependent Children) load is the highest in the United States. The percentage of persons residing in Benton Harbor receiving AFDC payments is four times that of the surrounding region.

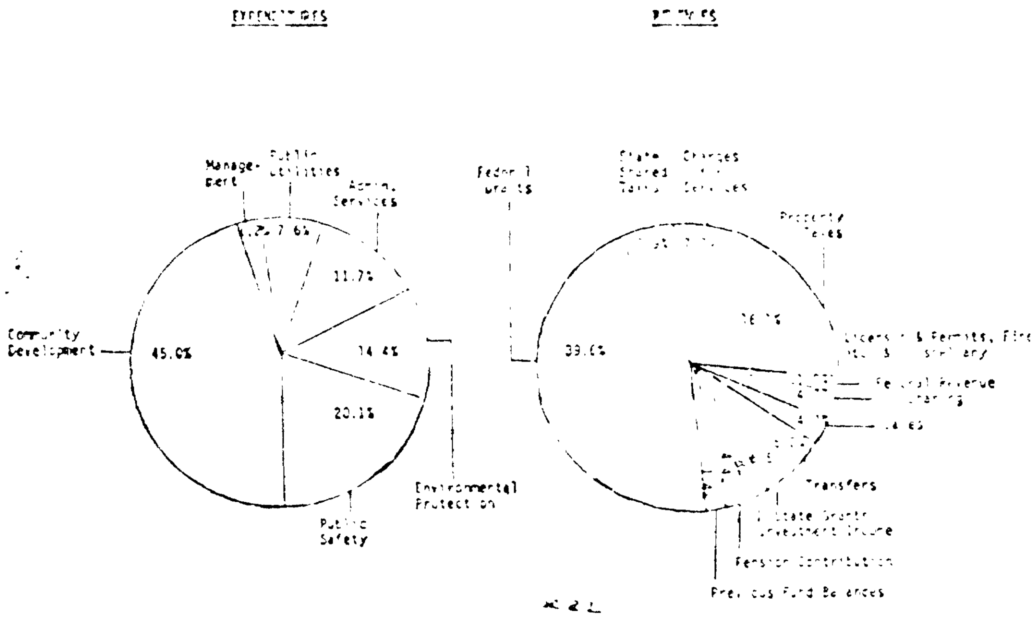
MAJOR CRIMES PER 100,000 POPULATION

	1973	1974
Benton Harbor	11,548	18,228
Berrien County		11,702
Detroit	6,717	9,209
Michigan	4,049	6,638

Source: Uniform crime report unit, Michigan State police.

CRIME

The crime rate which is defined as the number of major crimes[1] per 100,000 population, is exceedingly high when compared with that of Berrien County, Detroit, and the State of Michigan. Between 1973 and 1974, the incidence of major crimes committed in Benton Harbor increased by 37 percent.



1. The use of General Revenue Sharing was most effective in Capital improvements amounting to 595,000 for streets and central business district parking lots, and 850,000 for operating expenditures in public safety and environmental protection.

2. General Revenue Sharing was budgeted as part of the overall City Budget Process.

A public hearing was held for citizen participation for which their input was received. This procedure did not differ from our normal experience because we as a city has been successful in working through citizens. We encourage citizens participation.

3. A. It was easier to determine how to spend funds allocated for local priorities.

B. The accounting and auditing was channeled through the city's regular budget and finance system.

C. The reporting of funds was more simplified due to the process.

D. Revenue Sharing Funds provided better aids in budgeting because due to the general nature they left less room for guess work.

E. The City of Benton Harbor had far more latitude in setting priorities and establishing objectives.

F. All activities related to General Revenue Sharing was handled in the same way as other city programs.

4. Revenue sharing, for a large extent, replaced lost property tax dollars. Also, revenue sharing resulted in higher levels of program effort being able to be sustained. Without revenue sharing, the City would have to significantly reduce to exacerbate service levels.

5. Legislative Modifications—We feel that because general revenue sharing funds have been partially successful in our efforts, removal of more restrictions would be most desirable.

6. Over a three year period, revenue sharing was most beneficial as follows:

1972–1973—Revenue capital, 595,000 revenue operating—none and percentage of general operating budget of 2,302,223 was zero.

1973–1974—Revenue capital—none, revenue operating 381,869 15.1% of general operating budget of 2,524,502.

[1] Major crimes include the following offenses: murder, rape, robbery, aggravated assault, burglary, larceny, auto.

Senator HATHAWAY. The subcommittee will recess now until 1:30 p.m., at which time we will hear two more witnesses, Mr. Dumas, the mayor of Baton Rouge, and Mr. Landrieu, the mayor of New Orleans.

[Whereupon, at 11:35 a.m., the subcommittee recessed, to reconvene at 1:30 p.m., the same day.]

AFTERNOON SESSION

Senator HATHAWAY. The subcommittee will come to order.

We are privileged this afternoon to have Mayor Dumas and Mayor Landrieu, of Baton Rouge and New Orleans, respectively, testifying before us.

The chairman of the full committee, Senator Long, is at a luncheon, but he should be over here very shortly. But he asked me to go ahead and start.

Mr. Dumas, do you have a written statement?

Mr. DUMAS. I do not have a prepared statement. The only thing I would like to submit for the record is the budget on all the entitlements that we have received in general revenue sharing—where the money has been spent, how it has been spent.

Senator HATHAWAY. That will be fine. We will make that part of the record.

Why do you not just go ahead and speak.

Representative MOORE. Senator—I am Congressman Henson Moore of the Sixth District of Louisiana, and I would like to introduce Mayor Dumas to the committee if I may.

STATEMENT OF HON. W. HENSON MOORE, A REPRESENTATIVE IN CONGRESS FROM THE SIXTH CONGRESSIONAL DISTRICT OF THE STATE OF LOUISIANA

Representative MOORE. Mayor "Woody" Dumas has been the mayor of Baton Rouge and the president of our parish, which some people erroneously call counties in other parts of the country. For some 11 years he served at the public service level; at the municipal level for some 25 years. He was elected the last time as mayor-president with over 77 percent of the vote.

He has been a past president of the Louisiana Police Jury Association, which is the county commissioners, erroneously called in other parts of the country. He has been past president of the National Association of Counties; former vice president of the Louisiana Municipal Association; currently the chairman of the committee for the renewal of revenue sharing of the National Association of Counties.

As I indicated, he is the mayor of Baton Rouge and the president of East Baton Rouge. He is the only mayor-president in the world, and East Baton Rouge Parish was the first county or parish in the country to have such a combined form of government. His area has some 350,000 people in it. It is the second largest metropolitan area in Louisiana. It is my hometown; he has been my mayor for the last 11 years.

And I would like to say he has long been a proponent of revenue sharing, and he has convinced me in the most vivid terms possible, to where I am now just as avidly in favor of it as he is, and I would certainly support it on the House side.

He has got some very interesting comments, I think, for this committee on the necessity for revenue sharing in the future. I commend his comments to the committee in the highest terms possible.

Thank you.

Senator HATHAWAY. Thank you very much, Congressman.

Mayor Dumas.

Mr. DUMAS. Mr. Chairman, Senator Russell Long, from Louisiana——

The CHAIRMAN. Might I just add a word to what Mr. Moore said? I am pleased to see that Mayor Dumas is carrying on in his usual tradition. He has convinced my Congressman that he ought to be—Mr. Moore is my Congressman—that he ought to be for revenue sharing. I thought if there was any doubt about it, after he talked to Mayor Dumas for a while he was going to feel that way, because when the original Revenue Sharing Act was introduced, most of our delegation had declared themselves in one way or another as against it, including my senior colleague, Senator Ellender. Mayor Dumas started organizing all the local officials and parish officials in Louisiana, and had groups for us to meet everywhere we went. Senator Ellender said the Government had no revenue to share. I said, well, you just wait until Senator Ellender gets through meeting with all those groups Mayor Dumas is organizing in Louisiana and he will find some revenue to share; and he did. Mayor Dumas is a persuasive salesman and a very effective get-it-done administrator, Mr. Chairman. He is a good politician in the best sense of the word, because he does what he says he is going to do.

I am pleased to have been his friend for many years. I undoubtedly was saved from many physical injuries because Mr. Dumas convinced me early in life that I was not a football player. He beat me out to play end on the Convention Street Grammar School team, and from that time forward, I directed my interests in other areas. When you look at him, I think you can understand——

Senator HATHAWAY. Yes, I can understand.

The CHAIRMAN [continuing]. Why he made a debater, rather than a potential football player, out of me.

Go right ahead, Mr. Dumas.

STATEMENT OF HON. WOODROW W. DUMAS, MAYOR, BATON ROUGE, LA.

Mr. DUMAS. Thank you, Senator.

I am very fortunate—and I say this with great pride—for it is the first time in 8 years I have been before a House or Senate committee where I was proud to be introduced by my Congressman. [General laughter.]

That is a long drought, 8 years. But times change and people change, so I am very proud of Congressman Moore for what he is doing in the job and the way he is handling himself and the way he represents all of the people and not just a few.

And my good friend, Senator Long, knows how I feel about him. We in Louisiana are very proud of him because—how do you fight success? Nobody can whip him, so you might as well join him.

Mr. Chairman, I am here today as I was back in 1970 and 1972, when a great need was felt among the cities and the counties throughout the United States that something had to be done.

We said, before the Ways and Means Committee, before the Honorable Wilbur Mills, that we did not feel that the U.S. Congress ought to try to save the world. We felt that if the U.S. Congress—meaning the U.S. Senators and Congressmen—would help save the cities, and the counties, and the parishes, where I come from, and make us strong and viable, then we would help you save the world. Because without the cities and the counties and the parishes being strong and viable and productive, there will not be any America, and without an America, there will be no free nations in the world. When America goes down, all of the free nations are going down, just as sure as I am sitting here.

I came today to tell you how I feel, as a mayor, about general revenue sharing. I have no prepared speech, except that I do have 23 years of experience in local government. I have never had an inclination to be anything but what I am, and I have been fortunate enough to be elected mayor three times in a row.

Now, running a city is not an easy task for any mayor—and I am glad to be here today with my good friend, Mayor Landrieu from New Orleans, who also has a very difficult task of running the city of New Orleans, which is the largest city in Louisiana.

We have problems. I have heard the major of St. Louis and many others speak. I hope that this Congress and the President of the United States will have the same foresight and the same intelligence as your predecessors, because they voted for general-revenue sharing in 1972, and that was the saving of America; that saved Baton Rouge. Baton Rouge was, in the past, a sleepy river town on the river, with the State capital and Southern University on the north and LSU, Louisiana State University, on the south. Today we are a strong, growing, viable community with unemployment of about 5 percent or less. And in these days and times, that is rather unusual, but there is a reason for it. And I say this, and I am looking you square in the eye, that without revenue sharing, I could not have done the job that was expected of me as a mayor. I could not have done the things for the people of Baton Rouge that we have done. Because we found, that in the past, the prior mayors and the councilmen (as they were in other cities throughout the United States) were taking money out of the operating budget for capital improvements.

Because of that, when it came time to raise the employees salaries or to provide such things as social programs there were no funds. Because of revenue-sharing funds we have been able to provide for needed social programs. Department heads make their presentations for the budget in July. I must present a balanced budget to the council no later than November 5 of each year, to be approved by the council not later than December 15 of each year, to be effective January 1.

It is a rather difficult job for department heads to project that far ahead with this economic situation we have, but I say with pride that we have done it. And I know as well as I am sitting here that without the general-revenue sharing that was provided by the Congress and the President of the United States, that Baton Rouge and

New Orleans, every city in the United States, would have been gone, and we would have no America.

Just to show you what we have here, and what I have done as a mayor, this is our budget on current revenues of the taxes. We have a 6-cent sales tax; we have property taxes; we have every kind of tax you can think of. We cannot add any more. The law says that we cannot have deficit spending. So last year, when I received the budget for this year, I cut $9 million out. Now the only mistake that has been made in my association with the Congress and the President of the United States on the revenue sharing, is that we were told not to misconstrue general-revenue sharing with categorical grants. We believed the Congress, we believed the U.S. President, and therefore we went about our way of doing our work the way we were supposed to. We now have a budget of outside agencies, of referral centers, of Head Start programs, consumer protection—just one thing after another—that were not the responsibility of local government and were never intended to be the responsibility of local government. But now, as you know, the amount of categorical grants are decreasing, but the costs of local government, are increasing.

So, I find myself now making three budgets: One by law that I must, under the plan of government; two, if I intend to keep the social and humanitarian grants going many of them requiring matching funds from the local government. There are many categorical grant programs in here, but we must have matching funds, and you cannot match these with Federal revenue sharing. So that makes it tough. We must find current revenues to be able to do this. And then on top of that, I have not used any of the general revenue sharing funds for operational purposes; but I must say this, that 85 percent of our budget for the police, firemen, department of public works, et cetera, goes to salaries. The other 15 percent is for other services: Gas, oil, et cetera. So. if we should lose this, then I must find a place to replace the $8 million—which means it is going to be catastrophic to my city, as well as other cities who have greater problems than we have, because we are consolidated. We consolidated 26 years ago—I am the mayor of the city and president of the parish—and therefore we have no ward boundaries. We are one of the five cities like that.

I have heard questions this morning about community participation.

Here is our plan of government, which shows the judiciary, the executive, and the legislative branch, but all of these little squares on the chart are lay citizens who are appointed by the council and myself to serve on the planning commission, the regional planning commission, the community advancement, the plumbing board. All of these people serve without any remuneration whatsoever. This shows our public participation and every one of these departments are affected by it.

For example, we had never done anything in Baton Rouge for mental health. With revenue sharing, we bought an old mortuary building, converted it and gave it to the State. A year ago, or 3 months ago, we had no one going there; today, there are 1,965 people who are being served at the Margaret Dumas Memorial, which was named after my mother.

One of the problems we find in housing, in HUD, is that when they have money for renovation of houses, they say, here is $1 million, renovate these two projects. When the bids go out, it is $1,800,000 or

$2 million. And when it goes back to the HUD office in New Orleans, they say, we do not have any additional funds to help you, so you have to cut out. In order to keep from losing 50 elderly senior citizens' houses in a project, we put up $200,000 of revenue sharing. And without it, all of these things would not have been done.

But I dare say, and I predict this: that if the U.S. Congress fails to keep its commitment on the categorical grants in HEW, HUD, and all the others we cannot take on these services. I cannot afford to let this book get any larger. As a matter of fact, the public defenders, on May 31, are going to be discontinued by my city because we just do not have funds. The Federal Government gave funds for a program for 3 years and that is all we can go.

I am here today representing NACO, and the city and parish of Baton Rouge, I know that I speak for many of my friends throughout the Nation when I say that it is incumbent upon you to save the cities and the counties. Do not let us go. If we go, the country is going. It is a mutual necessity here, because if you do not keep us going you are not going to have a place to politic in in 3 or 4 years. I would hate to be mayor of Baton Rouge without OEO and community action, and I would hate to be mayor without a lot of other programs. It is no big job to add $8 million to a budget of almost $50 million when you receive $2 million every 3 months. We have a director of finance and a finance committee, we have all of the mechanisms that we need. We are very effective and very prudent in our spending, so when we get these entitlements and spend these moneys, everybody in Baton Rouge knows where it is spent because they see they are getting something for it.

On the day before yesterday, I broke ground for a $17,500,000 civic center that 9 years ago could have gone for $5 million, but inflation has taken its toll. So we had to apply $9 million of revenue sharing to this. In this program, we are going to hire about 1,200 or 1,500 people who are going to work that would not be working ordinarily. So, these brick and mortar funds that you are talking about are providing jobs. And we have to adhere to the Bacon-Davis laws, which is the wage scale. We have to adhere to the civil rights laws and that is no problem. We are doing it the way it is supposed to be done. I find one thing, if you want to get the job done and if you want to get along with the Federal Government, just do what they say. Do not argue with them, just do what they say and you will do all right and then you will not have any problems.

So I want to thank you, Senator Long, Senator Hathaway, Mr. Chairman, and the others, for allowing me to come here today to represent thousands of Americans. I am an American just like you are. I would like to say this in front of your committee, thank God for President Ford. I am a Democrat, and I say, thank God for the recent action he took—having served 11 years, 1 month, 18 days and 3 hours in the U.S. Navy. I am a Teddy Roosevelt man. That action probably saved us from world war III.

I did not come here today to talk about that, but I do want to compliment the President of the United States and his staff and the Congressmen and the Senators for backing him up. I want to let you know that not all cities are alike. They all have different laws and different rules. But I say, if you have a boil on your arm you do not cut your arm off, you just remove the boil. And if there are people—mayors or councilmen or presidents or county commissioners—who fail to comply with the revenue-sharing guidelines, they must be punished. But don't start fooling with revenue sharing and put more restrictions in it. It is already complicated enough, but I believe we can handle it. Just leave it like it is, and we will survive another 5½ years. I do not know what is going to happen after that.

I appreciate your allowing me to come here today to speak on behalf of this program because I know of nothing—and I have been coming up here since 1953 on many Federal programs—that the U.S. Congress and the President has done that has done more for America. Just give us what we need to run the cities and counties. If you have got a little left over, give it to China and to Russia and to Pakistan and all these people that hate us. Just keep a little for us in America that love America and who are paying the taxes.

Thank you, sir.

Are there any questions?

Senator HATHAWAY. Do you have public hearings, in addition to the citizens board, on your budget?

Mr. DUMAS. Yes, sir. We have public hearings. Any time we advocate the expenditures they are introduced at one council meeting and tabled to the next regular council meeting. We do not have emergency meetings when we spend money. It has to be advertised, and everybody in Baton Rouge has a right to come and be heard. It is a public hearing. All expenditure decisions are public, and everybody that wants to can come. But it is amazing, when you hold something like that on a $47 million budget, there may be one or two people that come. But if you hold a zoning meeting or a change in the liquor license, they will fill the room. So that is the difference.

Senator HATHAWAY. Have you been able to hold the line on local taxes since revenue sharing went into effect?

Mr. DUMAS. We have been able to do that. What we did, in order to build our civic center, was put another sales tax on. We took half of the sales tax in order to pay for the brick and mortar part of it. And the other half-a-cent sales tax we put on went to operating purposes, because it is current revenues coming out of an annual sales tax. And that is the way we have been successful in Baton Rouge. We just passed a $53 million bond issue for roads and drainage and school boards.

To the recreation and parks commission, we gave over $700,000 of revenue sharing when we first received it. Now that they were able to get a 2-mill tax—1 for maintenance and 1 for construction. We have put on as much tax as we can.

Senator HATHAWAY. Senator Brock.

Senator BROCK. I have enjoyed your testimony. I might say that I hope the Democrats in Tennessee are never smart enough to run anybody as good as you are for the Senate.

Mr. DUMAS. Thank you, sir.

Senator BROCK. I appreciate it, and I value your statement on the President, too. I thank you for that. I also appreciate the fact that you have your Representative here. He is one of the finest additions to the Congress we have had in a long time, and I commend you for him.

Mr. DUMAS. We think he has promise.

[General laughter.]

Senator BROCK. With all of my criticisms of the Congress, that is saying quite a bit. I think a lot of him; I know you do, too.

Mr. DUMAS. We work together. I am a Democrat, he is a Republican, but I believe we did help him somewhere along the line. He is a good fellow.

Senator BROCK. I have one specific question.

We have had some testimony here from people who are opposed to the continuation of revenue sharing, that not enough money has gone to what they describe as humanitarian programs. You have indicated that most of your money has gone to capital funds programs.

I wonder if you would like to comment for me on whether or not you think the criticism was justified in terms of how the community spends its money. Should we write in some formula into the bill that requires you to spend it for humanitarian purposes? Or is there some logic to the fact that your capital expenditure for the senior citizen—I mean the mental health center—has a humanitarian purpose?

Mr. DUMAS. I only mentioned that one, sir. I could mention more like housing. We have a school that once was McKinley High School, but we intend to spend $150,000 of general revenue sharing to fix that up for the Head Start program. Without it, they cannot do it. And this is done in conjunction with the community advancement CAP program. This is the OEO program which is vital to any mayor, to any person in the country.

I think the problem will be if Congress continues to allow the abolition of categorical grants and the confusion with revenue sharing. For example, I know that I have been told by people in Baton Rouge, by—you call them bureaucrats; there are others who have other names for them—that when they come to Washington, they say, go back to Baton Rouge, your mayor has revenue sharing for these humanitarian programs. I do not think that it was ever intended by Congress to merge categorical grants with revenue sharing. That is where the problem is.

Senator BROCK. Mayor, we presented very clearly the alternative of general revenue sharing for local government to revive and to revitalize the root structure of our society, which is the community. And then we also proposed—or my administration proposed—special revenue sharing in combination with categorical grants for the specific purposes. But there was never any intention of merging the two. I think that is the point that you make, and I think we ought to make time and again. It is important.

Mr. DUMAS. Unless there is a distinction between these programs by this body and by the House we will have problems. You have many groups who are apprehensive about cutting categorical programs and I can understand their apprehension about this. The opposition we got back in the sixties and the early seventies before it was passed came from groups who feared categoricals would be cut if we got revenue sharing. They were right to some extent. In Baton Rouge we have been responsive to these humanitarian needs and we are, through revenue sharing, building facilities and doing things that are needed. But I know that somewhere along the line, as we get these 3-year grants of the manpower program or the public defender or the law enforcement program the city must pick up cost. We have got one beautiful program in Baton Rouge called community relations in the police department and that is going out May 31 because there are no funds left. We have no way to find any more money to keep them going. But from a humanitarian standpoint, good relationship between the police department and the young blacks and whites in the community is vital. It is a shame to let this program go down, just as the public defender has. There are needy people, and that is what these people are talking about. In the alcoholics program, I was offered $500,000 3 years ago but at the end of 3 years, we had to pick up the tab. We cannot do it, because the law says I cannot operate a deficit budget. We are not fortunate, like you are.

Senator BROCK. We are not fortunate either, Mayor.

Mr. DUMAS. Well, you are better off than we are.

After your deliberations we hope you will leave revenue sharing like it is. Then make sure that the services for welfare or aid to dependent children or consumer protection or public defender or all of these outside agencies are continued. I do not know whether my colleagues like it or not, but when we started out with revenue sharing, it was understood that there would be no matching of Federal revenue sharing with other Federal funds. I still believe that. I think if you can give them too much—if a mayor or a councilman or a county commissioner takes everything for granted, then the first thing you know, he is not worth a darn.

On these categorical Federal programs you decide what they are to be used for. I do not think it would be wise for the Congress to tell us you can match Federal funds with Federal funds. We think revenue sharing is great for us, and without it, we cannot survive. And I know I speak for 99 out of 100 cities throughout the United States.

Senator BROCK. You speak for many of the cities, and I thank you. Mr. Chairman, I would like consent to insert this statement in the record.

Senator HATHAWAY. Without objection it will be inserted. Would you like it at any particular place in the record?

Senator BROCK. Perhaps at the outset of the hearing.

Senator HATHAWAY. At the outset of the hearing is fine.

Senator Long.

The CHAIRMAN. I just want to say that Mayor Dumas is the mayor of my city and president of my parish. I live in the parish part nowadays, so Mayor Dumas is my president; he is not my mayor because I do not live in the city. There is no doubt in my mind that if every mayor, who had a Member of Congress living in his community over which he has jurisdiction, did as good a job of handling his revenue sharing money and making that Member of Congress aware of how this money was being handled, what it was being used for, and the good he was doing, I do not think it would be necessary for anybody to come to Washington and testify because everybody would be aware of the very fine work that is being done. I am sure that other mayors are doing a good job, as are other county commissioners. But unfortunately, I think, a lot of them have allowed their light to be hidden beneath the bushel because they have not made their Members of Congress aware of all the good that is being done. In some instances they have not even made the citizens of that community adequately aware, as we would have hoped to have been the case, of what was being achieved with that money.

Now there is only one string that I favored putting on the revenue sharing, and that was that you would tell the local people what they were getting for their money. You have done a good job of doing that in Baton Rouge. You have given the people real value for every nickel of their revenue-sharing money and you have made them aware of it.

I know that as a citizen of the community as well as being a Member of Congress, and if everybody else had done as good a job in that respect—I am just talking about the public relations aspect—as you have, I do not think there would be one moment's question about revenue sharing being continued.

Mr. DUMAS. I believe that the predecessor of Mr. Moore, if he had to do it over again, would have been for revenue sharing.

[General laughter.]

Mr. DUMAS. If anything beat him, that beat him and I am not trying to intimidate anybody. I am just saying each man has his own way of doing things. He has his own conscience to go by. He only has to live with it.

Sam Short—you remember him—who used to be chairman of the highway department. He had a little saying on his desk:

> Good things come to the man who waits. But here is a rule that is slicker. The man who goes for what he wants, gets it so much quicker.

We know what we want; we want revenue sharing. If revenue sharing is not reenacted we are going to be a sitting duck for every little country in the world because this is what causes revolutions, and I will just put this in the record and then I will shut up.

An individual, regardless of race, color, or creed, who loses his or her self-respect as a citizen or loses their identity as a citizen, as a human being, does not care who is in power. And this is why these categorical programs that you have, like the OEO program are vital. I, as the mayor of Baton Rouge, a white man, hired a black director. I cannot reach certain sections of the black community or sometimes in the white sections. But by doing it the way we are doing it, hiring a man who hires a man that can get down and touch these people down at that level and let them know they are human beings, will save a lot of problems for America. If you turn your back on these needs, there are going to be a lot of problems.

So I am just here today to tell you I am proud of the progress we are making in Baton Rouge. I am proud to come here before you.

And I will say this about Senator Russell Long: I just hope all of the rest of the mayors in this country have got a Senator like mine. He is all right.

The Chairman. Thank you, Mr. Dumas, but I wanted to ask about one particular problem.

Now over in the House of Representatives the Chairman, Mr. Mahon from Texas, is chairman of that House Appropriations Committee and never did like the idea of revenue sharing. He thought this ought to be a matter of annual appropriations, where I assume that every nickel of it would be justified, where you and every other mayor in America and every county commissioner would annually go before his appropriations committee and make a plea for a little piece of money to match something that each of you hope to do. Presumably, everything you have done for Baton Rouge would be reviewed by the

House Appropriations Committee every year, approved or disapproved by that Committee, and debated on the House floor where any part of it could be knocked out by a floor amendment. Then each of you would have to come over to the Senate and make your plea over here. You would have to tell about the mental health facility you have, which I am very proud was named after your mother. I could not think of a finer person to name it after. Then the Appropriations Committee would have to argue about whether or not we should have a mental health facility in Baton Rouge and whether $300,000 was enough or too much and argue and quibble and cut part of it and let part of it go through. Every little item, including the highway extension you told me about where you needed to widen a plank road from two lanes to four lanes and right in the middle of it somebody found that they had failed to relocate the sewer line or storm sewer.

What was that?

Mr. DUMAS. The gas transmission line was one and the sewer line was the other. We had to relocate both of those to the tune of about $300,000.

The CHAIRMAN. So somebody failed to anticipate that in widening the highway you would have to relocate a sewer line or a gas line, and the revenue-sharing money took care of it. You had some money to handle that problem.

Now that could not conceivably be handled under the Mahon approach where the Appropriations Committee has to be advised in advance? Presumably, you would have to be thinking at least a year before you got the money of how you would use this money.

Is that not right? You could not spend it to meet unforeseen requirements or sudden emergencies?

Mr. DUMAS. You could not do it, Senator, for the simple reason that for any contract that we have, whether it be roads, drainage, building, whatever it is, the law says that you must have the money if it is a $2 million project or $200,000 project, before you can sign the contract. The funds must be put aside for that particular project. And this is the fallacy of an annual revenue-sharing program. If Congress had the same mandate as the council in Baton Rouge where by December 15, at midnight the budget shall be balanced or the President's budget will be enacted, that would be a motivation or some kind of incentive on the Congress to move faster. Then we would know by December 15, that on January 1 or 16, that those funds were available. We could project our budget, but now we cannot.

If you put us on an annual basis, we would be more confused than we are now.

The CHAIRMAN. Well, now you have an additional problem involved here. There is another Texan and he is a very fine man, I admire him, Congressman Jack Brooks. He is now chairman of the Government Operations Committee, and I understand that revenue-sharing jurisdiction has been transferred to his committee in the House as a so-called reform matter on the theory that they did not want it automatically renewed. They wanted to be sure it was not automatically renewed.

Congressman Brooks has been talking as though he would favor doing away with revenue sharing and substituting some sort of a Federal aid to cities program to take its place.

Now if that is the case, first, I would like to know whether the cities, the counties, the local officials, or the people that have to handle this money think they could get as much mileage for the money expended that way as they can under the revenue-sharing program we have now. Second, I would like your comments with regard to what happens if the House gives us the kind of performance we are getting on energy legislation.

So far, the Congress has not wanted to buy the President's package for energy. We are so reformed up here and fragmented in influence and power that nobody knows who the devil is supposed to be in charge of the show anymore. Now it looks like the Ways and Means Committee may not even be able to get the energy bill before the House.

They finally managed to put together a majority to get the bill as far as the Rules Committee. But now I am told the Rules Committee is going to send it back to the Ways and Means Committee and that the bill may not even get to the House floor.

Mr. DUMAS. If you are not confused, maybe you do not understand the situation.

The CHAIRMAN. Well, I would like to get your thoughts on point No. 2. How are the public officials, the mayors, the county commissioners, and all of our local officials, as well as the firemen and the policemen, all of those trying to do a job for the public, going to feel if their money gets caught in this kind of a fiasco that we have seen going on altogether too much in the last year?

The President recommends something which is revenue sharing. Then the Congress says, "No, we will not go with that." Then the Congress finally gets a bill through the House and sends something down to the President's desk, which the President vetoes. As a result, all of the local people wind up in fiscal distress because their revenue-sharing program went down the drain.

Now if that is what those Texans are going to give us, how are the people of this Nation going to feel about it?

Mr. DUMAS. Let me say this about the Texas people. I like Texans so much I married one. I married a girl from Port Arthur, Tex. And another thing about Texas. History says that when Texas was fighting for its independence, the members of the Louisiana parishes went to Texas to fight on the side of the Texans for their independence and brought the flag of the parishes. It was the "Lone Star." They went over and left it there, and that is how Texas got the "Lone Star."

So there should be a great relationship between Texas and Louisiana, because we did help them.

But I think that you would find, as Mr. Brock had mentioned earlier, that the reason we have some opposition to revenue sharing is because the people who are already in responsible positions have not been able to maintain their level of categorical grants.

Now if revenue sharing gets involved in the process of appropriations committees and other areas, where there is a conflict between the President and Congress this will create problems. I do not think that the cities and the counties and the parishes can just take our time doing anything.

Last week, on Thursday morning at 4 a.m., I was awakened when a tornado hit Baton Rouge. I did not know it the night before, but it took a great deal of time and money and effort, overtime and everything. In one subdivision, 90 percent of the homes were hit, with 60 percent totally demolished. Thanks to the Federal funds with that which we built our system years ago, we were able to get organized at 7 a.m. in the morning. The department of public works was mobilized and we knew what we were doing and we saved a lot of time and a lot of people's lives. As a matter of fact, we did not lose a life.

These are the kinds of things at our local level—if a fire breaks out, you cannot call up here to the President and find out whether he thinks we ought to answer it or not. Those men have jobs to do and their salaries must be set. And the salaries and the welfare of these people are vital to them.

I am hoping if Congressman Brooks—and Congressman Mahon, will take another look at revenue sharing. We in the cities cannot afford to act spontaneously to handle whatever situation that Baton Rouge might have. We cannot wait weeks and months for you to make up your mind. I am not asking for any more or any less. Just do what you did in 1972, reenact the revenue sharing and give us another 5 years to try to keep America alive.

That is all I can say.

The CHAIRMAN. Now if revenue sharing had been a Federal aid program where the State put up something, the city put up something, and the Federal Government matched it, like a categorical aid program, how would that have worked? When that hurricane hit Baton Rouge and did devastating damage, you could not have shifted any of this money around to relieve the suffering and the tremendous damage that occurred to the area that was struck by the hurricane, could you?

Mr. DUMAS. The only thing we have, sir, is that each year in setting up our budget we anticipate hurricanes, tornadoes, or some disaster. In the parish and the city budget, I set aside $100,000. Hurricane Betsy of 1965, as you recall, cost us $1,385,000 to clean up the city. It took us 17 days. So one does not know the entire cost. The people of Baton Rouge and the city worked around the clock for 4 days putting back, cutting the trees out, cleaning up the debris, and all of the other things.

So I just think, Senator, that you should leave the program as it is, I don't know how you fight success. We are operating, we are getting things done, we are being able to do things that we could not have done ordinarily, and if you change that and try to require matching funds we cannot do it. We do not have matching funds so we could not take this categorical money. But we do not have the matching funds. You can say, yes, 75–25, that sounds goods, but where in the devil are you going to get the 25?

Those are the things that bother us. We cannot spend any more than we can anticipate collecting. And if you cut us short, you are not just cutting us. You are cutting the whole Nation. I guarantee you this, as sure as God made little green apples there will not be the great United States of America around as there has been in the past, that I have loved and enjoyed.

Without revenue sharing, America is going down the drain, without a doubt.

The CHAIRMAN. Thank you very much, Mr. Dumas.

Mr. DUMAS. Thank you, sir.

Senator HATHAWAY. Thank you very much, Mayor Dumas.

Mr. DUMAS. I would like to present this to you for the record—how we used our money—and I hope 5 years from now we will show you another one just as good.*

Thank you, sir.

Senator HATHAWAY. Our next and final witness of the day is the Honorable Moon Landrieu, mayor of New Orleans.

Mr. Landrieu, it is a pleasure to see you again.

STATEMENT OF HON. MOON LANDRIEU, MAYOR OF THE CITY OF NEW ORLEANS

Mr. LANDRIEU. Thank you, Chairman Long. I am happy to appear on the same afternoon with Mayor Woody Dumas, for whom I have great admiration and respect. He says that I am awestruck when I am in his presence and he is not too far from wrong. I do feel at a disadvantage, however, being with him since he has managed to have a Member, and I might say a very distinguished Member of Congress from the opposite party, introduce him in glowing terms.

Also, Chairman Long, I suspect that there are very few people in this country who are entitled to more credit for revenue sharing than you, if indeed any except perhaps Woody Dumas, who not only was in the fight very early but in a somewhat little known story personally saved general revenue sharing. That occasion was at the signing of the revenue-sharing bill in Philadelphia at which President Nixon presided and formally signed the bill in the presence of dignitaries from around the country in Independence Hall. Amidst all of the ceremony somebody forgot the bill. I turned around and Mayor Dumas had the bill in his hand and being a veteran watcher of the State legislature, knows the value of a signed bill. All of a sudden some minor panic broke out among the officials who were managing the ceremony because the bill had been lost, and it turned out of course that Mr. Dumas had the bill. One Federal official came up to him to get it and Woody would not turn the bill over to him until he properly showed his credentials, which I thought was very wise, and then returned the bill back to the appropriate Federal officials where, I am sure, that it is now housed in the appropriate records of this Nation. But I enjoyed that bit of ceremony and thought it very fiting, ending the fight that Mayor Dumas had long waged on behalf of revenue sharing.

I might say, Senator, that I have been in government now for some 15 years. I doubt that there has been a piece of legislation at the national level that has been so misunderstood as general revenue sharing, and yet one that is so simple in concept. Those of us who lobbied for the bill, whether mayors or county executives or Governors and others, frankly are a bit surprised today at still the amount of confusion that exists concerning the purpose of this bill and the vital function that it has played in the role of basic support for municipal governments.

I think part of that confusion arose, not because the bill was not thoroughly debated at the time of its passage, but because of what happened in the immediate aftermath of the passage of that bill. It was very unfortunate that the terms "general revenue sharing."

* The document was made a part of the official files of the committee.

"special revenue sharing," are not totally and completely understood by all, even some Members of Congress; but that former President Nixon, inadvertently, I suppose, in the budget message immediately following passage of that bill, placed in it the unfortunate phrase, "coupled with the cutbacks and freezing of certain categorical programs," in which they made reference to the fact that general revenue sharing was not a fact and could be used for those purposes. Even though clarifying statements were made subsequent to that, they nonetheless hung over the country for a long period of time and perhaps in some areas still today, a feeling that there was, in fact, a substitution of general revenue sharing for some of the categorical programs and for some of the programs that are still in existence but for which funds had been frozen.

It naturally caused a severe run on every county and city and State government in this country. Those who had been wedded to categorical programs that were suspended, threatened with discontinuation, immediately appealed for the use of general revenue sharing.

In some instances perhaps those funds were used but in most instances they were not, and, consequently, many people who would normally be supporters of general revenue sharing were turned against it because they felt the money was being misused since it was not being used for the purposes in which they were primarily interested.

I cannot speak for every government in this country and make no effort at doing so. This morning I would like to speak only for my city and answer questions which you have concerning our use of general revenue sharing money.

It would be difficult, first of all, to try to capsulize the use of each city's or county's money because, as Mr. Dumas pointed out, we are not monolithic; we are all quite different. We are different in age; we are different in our legislative authority, our constitutional authority; and we come from differing political philosophies and backgrounds across this country. And it is really this diversity which in one sense makes this country so strong. It also makes it extraordinarily difficult to legislate for every agency of government across this country. Therein lies the weakness in many of the categorical programs, although I strongly support the continuation of many of those programs and the very strength of general revenue sharing because it does recognize the differences. It does recognize the fact that those people at the local level who are most familiar with their limitations and the needs of their people are in the best position to determine how funds should be spent within the general framework and the general policy established at the Federal level.

I, for one, am not opposed and feel quite strongly that the Federal Government should maintain a very strong hand in establishing policy and establishing standards for this Nation and establishing goals. But programmatically, within those broad policy constraints, I feel equally strong that those at the local government can operate most effectively and efficiently and develop the programs that are needed to meet those Federal goals. General revenue sharing gives us this opportunity.

Oftentimes because of the size of the Federal budget, I think that our pleas are not considered to be very extraordinary. Today, in the headlines of the Times Picayune, which is a major newspaper in the

State of Louisiana and perhaps a large part of the South, the major headline says that New Orleans is going to face an $8 million to $10 million deficit in ~~this~~ coming calendar year. We have stated this for sometime. It just remains to be seen what that deficit finally resolves itself to, not whether or not we will have a deficit. That, too, in fact will not be understood when at the end of the year we do not show a deficit because by law we must balance that budget. It will be balanced even if it means that the services must be drastically reduced. That is the only alternative. Revenue sharing will not close that gap for us because that gap will be there even with revenue sharing. I do not know how we want to close that budgetary gap, nor does anyone else.

I submitted to the legislature a proposal for taxing authority for three additional taxes this year to be imposed by the city of New Orleans on people living within the city of New Orleans. On the advice of my legislative floor leaders, I withdrew that package because it did not appear to have a chance of passing. These were not taxes imposed by the State legislature on the State for transferral to the city of New Orleans, nor taxes imposed by the State legislature on the people of the city of New Orleans for the people of the city of New Orleans, but rather simply the authority of the city council to impose taxes if they chose to do so and I could not pass it through the State legislature.

We will continue to try, but without general revenue sharing, the deficit will run up from $10 million to some $28 million.

Now admittedly, when you are fooling with a budget of $370 billion, that does not sound like a lot of money; but the Federal budget is about 3,000 times the budget of the city of New Orleans. Now if you will multiply $10 million times 3,000 it, I believe, will come out somewhere around $30 billion. If you multiply it times $20 million, it would look like $60 billion; and if you multiplied it by $28 million, well, you are very close to $85 billion. I have not figured that out, but that would be the Federal equivalent of the deficit with which we would be faced without general revenue sharing.

And I might say that we would be faced with that deficit without 1 cent of borrowing capacity which the Federal Government has, though it necessarily is not pleasant to have to borrow the money. We would not have the authority to borrow nor taxing authority to cover that deficit.

Now I dare say that if the Federal Government were placed in this posture, it would find it a very difficult problem to resolve because even with the borrowing capacity, there is great consternation at the national level today, as there should be, about deficit of $68 billion, even though it can be met at least temporarily by borrowing. Local governments really do not have that authority. Needless to say, a deficit of that consequence would completely destroy that city government.

If there were programs that could be cut back some savings could be had but surely not to the extent of $28 million, and I can assure you not to the extent of $10 million, because the services which that city is rendering are today inadequate. We are not engaged in programs that are normally construed to be extremely expensive or even wasteful. We do not operate welfare. We do not operate education. Most of the categorical or social programs are conducted by categorical grants from the Federal Government. We basically put the policemen on the street, the firemen in the stations, and pick up the garbage and pave and repair streets. Yes, we also have some libraries and we conduct some recreation programs, inadequate as they are, and regulate the taxi bureaus and a few other services. But by and large the bulk of that city's budget is taken up in police protection, fire protection, streets, and sanitation. When you get beyond that, the services are indeed minimal.

I do not know how in order to close that budgetary gap we are going to be able to reduce the police department in a city in which crime is constantly on the rise. Hopefully, not rising as rapidly as it has in the past, but nonetheless at frightening levels and continuing to rise.

Likewise, in the fire department, which members maintain is very undermanned, so too, with the great backlog of street improvements—and in the sanitation department, and one need only look at the major cities in this country to find that there is, indeed, great filth and dirt on the streets of the cities, the underfunding of cities and of other governmental agencies has a rather pernicious effect.

Now, sometimes, it is not too evident because those of us in public office develop a sense of survival. We know those things that are going to have a dramatic impact on the electorate. We know those that can be done that do not cause such a dramatic impact and would make us look a little better in our accountability. For instance, it is quite easy to defer maintenance on public buildings or on equipment. It is quite easy, for instance, to ignore parish prisons and not do the necessary improvements and let a successor face the problem of constructing an entire new building, long before that building's life should have expired.

It is easy to do that with capital equipment, which, instead of having a normal life of 10, 15, 20 years, finds itself already being worn out and having to be scrapped. It is quite easy to do that with streets. And, consequently, underfunding causes an enormous backlog of very essential needs that go unmet.

Most of the cities of this country are very poorly funded and very poorly funded for a number of fundamental reasons.

No. 1, we all have limited political jurisdictions. The boundaries of those cities, also the boundaries of the city of New Orleans, were prescribed years and years ago. Our last annexation, Senator Long, was more than 100 years ago, and we have virtually built our boundaries on the east and the north and the south. We cannot annex any more territory, and yet, we constantly find ourselves having to maintain services for everyone who lives in the area. And I know you know that story quite well, so I speak basically for the record, this morning.

And, yet, with a population that is growing older and poorer, it is very difficult for those who are left in the cities who do not want to leave to support the services not only for themselves but for a growing population outside of those cities.

There is another factor that is not often spoken to and that is that there are changes that have taken place, and thank God, for the better, imposed upon us by the Federal Government. And, I say thank God for the better, because it has been the Federal Government either through the court system or Federal legislation that has brought about a degree of equality in this country.

Prior to that movement, there was an inequitable expenditure of funds at the local level on the haves as distinguished from the have-nots, not necessarily racial in overtone, but certainly somewhat, but also with economic overtones.

The better neighborhoods got the street improvements and the parkways and the public improvements and the police protection. The poorer neighborhoods did without.

With those policy changes, as I said, either through Federal legislation or through the courts, we now find local governments making an effort, not only to spend money fairly, but in many instances, to play catchup in those areas of our communities which were badly neglected.

And, consequently, the burden now compounds itself with less money and with the obligation to care not only for those portions of the cities that were being cared for before, the entire city, trying to play catchup and providing for those who live outside of the city. So, it is no wonder that general revenue sharing, when it was finally passed, was met with ecstatic acceptance by the local officials of this country, and, for the most part, I think the record has been good.

I have certainly come today to answer any questions on the record established by the city of New Orleans. I think the same could be done by every president of parishes and mayors of this country.

All of us do not handle the money the same way, and that is how we interpreted the law. It gave us an appropriation with money and said to turn in your own local priorities.

Many of us were quite skeptical about the future of revenue sharing, though I was not, and I have been confident it would be reenacted. I hope that I have seen nothing to shake that confidence, but there were many who did not believe because of a long legacy of policy changes and broken promises. Consequently, they spent all of their money in one-time projects, some because that is where the need was the greatest, others because they feared that the program would not be continued, not only after the 5 years, but would not be continued beyond 1 year.

Some communities banked the money for fear that spending it would force them into an ever-increasing level of expenditures. We, in the city of New Orleans, tried to program the money over a 5-year period and phase our $14 million and now $18 million into the budget over a 4-year period of time.

Initially, the bulk of it went into capital expenditures and repair of buildings that had been long neglected and certain physical improvements that we could make. I had hoped to put 25 percent in the first year into operation and 75 percent into capital, the next year 50–50, then 75–25, and, eventually, all of the money into the operating side of the budget.

Determined as we were, we were not able to hold that line. We immediately began to put more into operations than we had hoped.

For the most part, this year we put virtually all of our money, with the exception of a couple of million dollars, into the operating side of the budget. But, money did not, in fact, go into expanded social programs. There was some minor expansion, but, I must say, that money was very limited. It went into the basic services I referred to before: fire, police, sanitation, sewage, and other areas that were absolutely essential.

Today, we have, in fact, infused all of that money into our operating and capital budgets and find ourselves, even with that, facing a $10 million deficit.

Now, one might say, well, Mr. Mayor, it seems to me that the answer to your problem is to get yourself a new mayor because obviously you do not know how to run the affairs of your city. Well, that is quite possible and there would be some who would argue that point very strongly to you, although I do not think that it is very valid.

The fact of the matter is that our revenues are growing at approximately 2 percent a year. We are not a growth community. We have lost population between 1960 and 1970; and I suspect that we will continue to lose populations. though I hope not at the same rate.

Though the demands on local government continue to grow and our expenses rose at the rate of about 8 percent a year, general revenue sharing helped us close the gaps that would have been deficit gaps that we would have been facing each year. We would normally face a $8 to $10 million gap each year on a growing basis and on a continuing basis so that it would be, if we used $8 million, and then $16 million, and then $24 million because we have charted it out to over a 5-year period.

But the fact of the matter is, general revenue sharing helped us close that gap. Certain intergovernmental transfers from State governments helped us close the gap the next year, but now we have tapped out of those and are faced with a new deficit this year, even on top of general revenue sharing if it is to be reenacted.

I can only tell you, and I say just as strongly as Mayor Dumas did, that it would surely be disaster for the city of New Orleans and I think disaster for this country, if general revenue sharing were not reenacted and reenacted in such a way that the chief executives of the local governmental units could depend on that source of financing and enacted in such a way that there is some growth in the program.

There are those who feel that perhaps certain cities could be doing more for themselves, and that may be true of certain cities, and that certain counties could do more and surely that States could do more.

That may be so. I cannot solve the problems of the world any more than can this committee. But I can only speak to you about my city and tell you that without general revenue sharing there is not any earthly way to maintain any sense of order or any continuity or effective government in that community.

Now, Senator, I have spoken much longer than I had anticipated. And I know there has been a great deal of rhetoric on general revenue sharing and perhaps there is some need for detailed information. If I can provide it for you, I shall be happy to do so today.

The CHAIRMAN. I think you made a fine statement, Mayor Landrieu, and I believe the record should reflect the magnificent contribution you have made in the area of revenue sharing. I believe you were the chairman of the Mayors Conference at the time the revenue sharing proposal was first made, and I think you were one of the earliest sponsors of the idea. Is that not correct?

Mr. LANDRIEU. Well, in fact I was chairman during part of that, Senator, of the legislative action committee. I have not yet been so honored, as being chairman of the mayors of this country.

The CHAIRMAN. I know you have played a major part, because I have attended some of the meetings, including one in New Orleans which was held—I suppose that was the committee working on revenue sharing.

Mr. LANDRIEU. The legislative action committee, yes.

The CHAIRMAN. I have been convinced, Mayor Landrieu, that you need some money to help the cities and that this money should not be in a categorical aid program.

How much money is the Federal Government providing for New Orleans this year in categorical aid?

Mr. LANDRIEU. Senator, I honestly do not have that figure for you. We will receive close to $18 million in general revenue sharing this year. We will also receive——

The CHAIRMAN. Can you supply the categorical aid program figures for the record? I think that would be adequate.

[The information referred to follows:]

CITY OF NEW ORLEANS

FEDERAL CATEGORICAL FUNDS IN 1975 CITY BUDGET BY CITY AGENCY AND FEDERAL SOURCE

Operating budget

1. Alcohol Safety Action Project:	
Department of Transportation	$476, 804
2. Manpower and Economic Development:	
CETA:[1]	
Title I	4, 540, 050
Title II	4, 128, 536
Title VI	4, 370, 842
	13, 039, 428
3. Criminal Justice Coordinating Council:	
LEAA:[2]	
Part C	2, 455, 774
Part E	11, 797
Discretionary (includes Parish Prison)	7, 421, 307
	9, 888, 878
Youth Assistant Commission (HEW)	43, 450
	9, 932, 328
4. Policy Planning Division:	
HUD:	
a. 701 comprehensive planning	114, 550
b. Eco analysis grant	150, 000
c. Work-study	92, 000
	356, 550
5. Bureau of Drug Affairs:	
NIDA[3]	1, 150, 583
6. Civil Defense:	
DOD	75, 000
7. Health Department:	
AFDC[3] (cost reimbursement including dental)	1, 812, 529
Co-op Health Information System	100, 600
TB control	52, 310
Rodent control	333, 647
Lead paint poison prevention	223, 340
	2, 521, 826

See footnotes at end of table.

8. Community Improvement Agency:	
HUD	723, 587
Total city operating budget	28, 276, 106

Capital budget for the city

1. HUD, 15 parks and open space	2, 819, 615
2. BOR,[2] Brechtel, Joe Brown, Gertown Parks	2, 870, 396
3. HEW,[2] Carrolton Health Clinic	490, 000
Total city capital budget	6, 180, 011
Total categorical funds in 1975 budget	34, 456, 117

[1] Manpower grants shifted from categorical to block grants in 1974.
[2] LEAA, other than discretionary, are block grants to States HEW funds, including drug abuse, are channeled through the State. Bureau of Outdoor Recreation (Interior) funds are disbursed by the State according to a State plan.

Mr. LANDRIEU. They are very significant. We are receiving $14 million in community development funds. It is a very significant program, an excellent program, and next to general revenue sharing, perhaps the most significant program that Congress has enacted for the cities of this country.

The CHAIRMAN. I am not being critical. All I am saying, Mr. Mayor, and I do not want to get into specifics because I want to get on to something else this morning is, if I understand correctly, that the proposal by President Nixon was to provide general revenue sharing to help State and local governments with their budgetary problems that existed at that time and to help restore independence to local government; that was not to be a tradeoff for the State and local governments taking over the categorical aid program. That was specifically understood.

Mr. LANDRIEU. You are absolutely correct about that, Senator. As a matter of fact, one of the difficulties that any of us has in computing accurately the amount of categorical grants is that in many instances those categorical grants bypass local governments and are not administered by the local governments.

When you get into HEW, there are a maze of grants that come into the community and flow around the local government. I am not opting for control of those grants. I simply say it becomes a difficult thing to measure. Some of them are not limited to the boundaries of our jurisdiction. They may be regional in scope. We do have a handle on LEAA money but that goes through the State and then by application from the local government to the State LEAA for particular grants.

There were subsidized housing programs that did not come directly through the city but either went through a housing agency or directly through the Federal office in the local area to the builder; and there are just hundreds of those grant programs that do not lend direct support to the local government but nonetheless may very well be worthy but they are costly to operate.

We still feel that the Federal Government has to maintain a strong categorical grant program even though they do not come directly to the cities in many instances because many of them are R. & D. programs, many of them are to carry out specific and narrow objectives of the Federal Government. Under no circumstances would we have accepted general revenue sharing as a tradeoff for categorical grants.

First of all, the amount of money that most of us were receiving in categoricals exceeded that which was contained in the general revenue sharing bill. It was specifically stated to us on more than several occasions by the President personally and by a spokesman for the administration, that general revenue sharing money was over and above all the then-existing categorical grant programs.

However, I must say that the President at that time did state that he disagreed with some of the categoricals and irrespective of the passage of general revenue sharing was in fact going to impound certain funds and eliminate certain programs. It perhaps was a strategy in order to gain the necessary support for special revenue sharing, which later became the community development block grant system; if indeed it was a strategy rather than a matter of political philosophy, it did cause some confusion for which we are paying today.

But no, sir, you are absolutely correct. This was money over and above that which was then being expended on categoricals.

The CHAIRMAN. I just want to make one other point which I think supports your case, and I think it is more appropriate that I make it, rather than you or one of the other witnesses speaking on behalf of State and local governments. The President recommended that revenue sharing be continued. He also recommended a $16 billion tax cut. Now, I do not think that the President or any President would have recommended a $16 billion tax cut with the thought that he was planning to cushion the tax cut by leaving all of the State and local governments in distress by cutting off the money that had been going to them. The Congress voted a bigger tax cut and the President finally signed what we sent him, a $22.8 billion tax cut. I do not think the Congress would have passed that major reduction in Federal revenues with the plan of being an Indian-giver, of giving a tax cut to people and taking the money away from their local governments at the same time; just as I do not think the President would have projected a $52 billion Federal deficit which he now estimates to be $60 billion and which the congressional Budget Committees forecast at $69 billion to help meet the economic situation we have now, with job programs designed to put people to work in local communities, on the theory we can afford that, but that we cannot afford to continue the help we are giving to the States, cities, and other local governments for the vital work they need it for. Is it not correct that the great majority of cities in this country would be left in distress, if not to the extent of New Orleans, at least to a considerable degree, if their revenue sharing money were terminated this year?

Mr. LANDRIEU. I do not think there is any question about that, Senator Long. As Mr. Dumas pointed out and I echoed, we are not monolithic, so it is difficult to say every city or every county; but I think I can speak with some authority that New York City, even with general revenue sharing, is in a total state of financial crisis at this moment; that so are the cities of Detroit, Newark, Cleveland,

and St. Louis, and the city of New Orleans and many, many others. There are certain cities that are experiencing phenomenal growth and economic booms today. But it is just a question of time before those cities experience the same infirmities that most of the older cities face. So I have no hesitancy to say to you that without the reenactment of revenue sharing, there will be unquestionably a disaster, a domestic disaster of a magnitude never before seen by this country and never quite envisioned. It would not make any sense whatsoever to grant a $16 billion tax cut and then force local governments to raise the taxes to an equal amount of money because the taxes which we would have to impose would not be a progressive tax, but either a sales tax or a property tax, which are far more regressive and harmful to the individual than is the progressive income tax.

So, I think as a matter of economic policy, though I certainly do not qualify as an expert in that field or any other, I think it would be a disastrous exchange of dollars.

The CHAIRMAN. I hope you will take this message to the other mayors, Mayor Landrieu, and Mayor Dumas who is still in this room, the former president of the National Association of County Governments, that revenue sharing will be continued and will be every bit as helpful as it was in the past, and maybe more so, provided that the other mayors and the other county officials do what you two have done. Now, if all of those people just sit at home and take the program for granted, then they should not be surprised to find it has been discontinued. But if they work as hard as you two have worked, I do not have the slightest doubt that revenue sharing will be continued.

I think the warning should go out that there is some difficulty involved here, especially on the House side.

Mr. LANDRIEU. Let me say one other word, and I know we have our homework to do. There is one issue that seems to attract a great deal of rhetoric, and that is the citizen participation.

Again, it is difficult to speak in generalities and be absolutely accurate. But for the most part, in the vast majority of cases, there is no government that operates as openly as local government—not because you do not want to, but simply because there is a limitation on the amount of your time. If you are in the business of managing the country, you obviously have to be somewhat more limited in the accessibility of 200 million people to you than if you are operating a small unit of local government. There is not a public official closer to the people than the mayor of a small town. Even I, as the mayor of a city of 600,000 people, am more isolated and can give less attention than the mayor of a town of 500 or of 2,000. That man lives there day and night. People do not have to call and ask for an appointment or a special hearing. They are waiting on his doorstep when he gets home at night. They are meeting him in the barbershop.

The CHAIRMAN. Sometimes they wake him up in the middle of the night, too.

Mr. LANDRIEU. There is not any question about that. Even in a city our size, which is a large city by national standards, certainly in the top 25 cities of this country, the people of that community have access to that city council. All they have to do on any given Thursday, without invitation, is to walk into that council chamber and raise their hand and speak. You cannot do that in State legislative bodies. You can speak before the committees, but the time is extraordinarily limited, and then, if you are on the agenda, you get a chance to speak. If you are invited to speak, you may do so.

I argued before the legislature the other day one of the most significant bills to come before that body, in my judgment, that would have an enormous impact. Congress will be dealing with similar legislation and that is on compulsory arbitration for wages, salaries, and working conditions of employees. The entire amount of time assigned for that debate was less than an hour for both sides.

I am not being critical of the legislature because having served there I understand the limitations under which they work. But councils are continuing bodies. City hall is constantly open. We have one uniformed police officer in that entire building. Anybody who wants to walk up into that office is going to get a hearing. If they do not see me personally, they are just going to walk into somebody's door and get a hearing. That is true of every council. If you did not do that, you could not get elected to public office at the local level.

We do have a very open budgetary process. One of the problems is that it is difficult to get the public interested in detailed financial matters. Mayor Dumas pointed out, I think quite vividly, that if you had a zoning matter, or a liquor permit, or antivivisection, you can pack that council chamber; but we can advertise as often as we want to the fact that that budget is coming up and we are going to spend $140 million, and if there are more than 10 people in the chamber when that budget is adopted, there will be plenty of people—simply because it is an issue with which they do not really care to deal.

Now, you have certain interest groups, legitimate, who are there, whether they be from the symphony or the opera or from the medical side, staff people, those who are heads of organizations that represent special interests—good interests, but nonetheless special interest—who appear, but it is extraordinarily difficult with the broadest kind of advertising to get that kind of participation that has been hoped for under this bill.

We have treated our money exactly like we treat our property tax revenues and our sales tax revenues. We place it in the budget; we have open departmental hearings; we have open city budget hearings; and then the final adoption of the budget is very open and before which citizens may certainly speak.

The problem is you oftentimes get the complaint from people who do not get what they want in the budget and then say the process is closed and not opened. That is not the thing. It is that they did not get what they wanted because the priorities were set in a different way by people who saw the priorities in a different light. But it is quite easy for special interest groups to make the allegation that the process is closed and, therefore, you should not have general revenue sharing. Nothing could be further from the truth, at least in my city, and I think that is true in most governmental jurisdictions across this country.

The CHAIRMAN. Thank you very much.

That concludes this hearing.

[Whereupon, at 3:04 p.m., the committee recessed, to reconvene 10 a.m., May 22, 1975.]

GENERAL REVENUE SHARING

THURSDAY, MAY 22, 1975

U.S. SENATE,
SUBCOMMITTEE ON REVENUE SHARING
OF THE COMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2221, Dirksen Senate Office Building, Senator William D. Hathaway (chairman of the subcommittee) presiding.

Present: Senators Hathaway, Nelson, and Packwood.

Senator HATHAWAY. The subcommittee will come to order and we will continue the hearings on revenue sharing.

Our first witness this morning will be Mr. George Rienke, county executive, Dane County, Wis.

Mr. Rienke, we will make your entire statement a part of the record. And if you would summarize it, we would appreciate it.

STATEMENT OF GEORGE RIENKE, COUNTY EXECUTIVE, DANE COUNTY, WIS.

Mr. RIENKE. Dane County, with a population in excess of 300,000 ranks second in size in the State of Wisconsin. We have 35 townships, 20 villages and 5 cities—all receiving Federal revenue sharing funds.

By the end of 1975, Dane County will have received $7.9 million through the Federal revenue sharing program. By placing these funds in a separate trust account, as required by law, an additional $240,000 in interest has been earned to date, making a total of $8.2 million available.

The table indicates, in detail, the priority expenditure categories in which these moneys have been expended. On a percentage basis, funds have been expended as follows: Public safety, 59 percent; public health, 9 percent; and, as you can see, lower percentages in other areas. One might ask why such a large percentage for public safety. Law enforcement ranks fourth in cost in our county, behind social services, transportation, and hospital and elderly care, which receive greater support through other State and Federal aid programs.

[The table referred to follows:]

DANE COUNTY, WIS., FEDERAL REVENUE SHARING FUND EXPENDITURES

Classification	Actual, 1973	Actual, 1974	Proposed, 1975	Total
Public safety	$2,118,375	$1,771,500	$967,794	$4,857,660
Environmental protection	120,625	70,860	87,342	278,820
Health	331,000	283,440	112,330	726,776
Recreation	121,000		100,000	221,007
Financial administration	278,000	236,200	94,381	608,581
Human resources			548,206	548,206
Juvenile court program			438,188	438,188
Capital expenditures	277,737		215,000	492,737
Total	3,246,737	2,362,000	2,563,241	8,171,978

In years prior to revenue sharing, we utilized State and Federal grant moneys to hire new personnel, to purchase specialized equipment, to provide for training and education of law enforcement officers, to broaden our scope of services for our metropolitan area which has had a population increase of 35 percent since 1960. When these grant moneys dry up, and we determine the need for these services still exists, the burden for paying for the service falls upon the shoulders of the local property taxpayer. To reduce this burden, revenue sharing dollars have been applied to offset a property tax increase. This application of revenue sharing funds was strongly recommended by the Governor of the State of Wisconsin to our counties and local units of government.

Initially, the finance committee of the county board established the priority expenditure categories. This procedure has now been changed. In 1974, I took this matter to the people. A series of eight meetings were held in different areas of the county and citizens were invited to participate in a discussion of county government operations, including the expenditure of Federal revenue sharing dollars. In addition, annual budget hearings are held by the county executive on department requests and requests of nonprofit organizations. As many as 30 public meetings are held with the time and date being publicized and direct invitations sent to various interested groups such as the League of Women Voters, the Greater Madison Chamber of Commerce, the Wisconsin Taxpayers Alliance, the Capital Community Citizens plus local officials and the news media. Still further communication with the public is gained through a weekly half-hour television program on county government.

Through this process, priorities have been realined with a greater emphasis being placed on human resource needs, juvenile problems, day care, senior citizen services, and specific capital improvements, including the purchase of a juvenile shelter home and a park department and public works maintenance building.

Many human resource programs receive some type of State and/or Federal support. However, this support only covers mandated services and falls short of funding optional services that are unique to our county such as: Outreach workers for continuing senior citizen programs to stimulate the volunteer efforts of church groups, social and fraternal organizations, service clubs and local officials; drug and emotional crises intervention services generated by the large concentration of the student population; and aquatic weed programs demanded by citizens to improve the recreational capabilities of our lakes.

Dane County has responded to citizen needs and demands for services by taking over Madison's municipal airport; is currently getting State approval to establish a county-operated landfill location; and has seen the need to financially cooperate with the State of Wisconsin in setting up almost 50 county-operated special handicapped schools in the areas of the educable, trainable, emotionally disturbed, special learning and early childhood areas. Since 1955, Dane County has shared handicapped student transportation costs with the State.

It is my prerogative, as county executive, in submitting the proposed annual county budget to the board of supervisors for their review and approval, to decide on the priorities of expenditure as determined by the information obtained during the budget preparation period and the result of invited continuous citizen participation.

The existing Federal revenue sharing program, as compared to other Federal aid programs for specific purposes, has allowed management to establish priorities at the local government level, based on our particular needs and economic conditions. This method of returning federally collected tax dollars to local units is in many ways superior to the block grant type of allocation of Federal aid and I urge its continuance at no less than the present level. Too often, block grant funds for specific purposes become available on short notice for a limited period when local matching moneys are not readily available and cannot be promptly appropriated. To allow for a balanced adequate level of county services, categorical, block, and revenue-sharing grants, as Federal financial aid, are all needed.

Generally, I support the present formula which is based on population, tax effort, and per capita income factors. While I feel that restrictions on the use of funds should be eliminated if the program is continued, if this is not acceptable, then I would suggest that the guidelines be changed to allow: No. 1, for the placement of funds directly into the recording of the receipt of such funds in a separate account, in a fashion similar to other funds earmarked for specific purposes, thereby eliminating special charges by banking institutions associated with the handling of trust accounts. Funds received are presently placed in a separate bank account and interest is earned on such deposits and kept in the separate account. Only after expenditures have actually been made in the authorized categories, are these funds transferred to our working bank to, in effect, reimburse regular accounts.

No. 2, the elimination of the planned use report and its publication when public hearings have been held to establish priority expenditure categories.

No. 3, for notice of calendar year allocations to provide timely local government budget information.

No. 4, for additions to the formula of distribution to consider the rate of inflation and other specific economic conditions.

We list Federal revenue-sharing amounts and interest earned on such funds to date. While the July and October 1975 payments are known, they are not yet received.

[The table referred to follows:]

DANE COUNTY, WIS., FEDERAL REVENUE SHARING RECEIPTS, 1972-75

Date received	Receipt	Interest	Tota
1972: December	$952,375		$952,375
1973:			
January	913,901		913,901
April	539,096		539,096
July	539,097		539,097
October	480,291	$95,847	576,138
1974:			
January	480,291		480,291
April	480,291		480,291
July	480,294		480,294
October	647,217	124,768	771,985
1975:			
January	647,217		647,217
April	647,217		647,217
July	647,217		647,217
October	502,752	18,384	521,136
Total	7,957,256	238,999	8,196,255

The schedule entitled, "Budget Fund Allocation—Surplus and Revenues" is furnished to show the relation that Federal revenue sharing funds have to the total of budget funds appropriated, other revenues, and the final county tax levy. You should particularly notice the increase in funds being allocated annually for county expenditures.

[The table referred to follows:]

DANE COUNTY, WIS.

BUDGET FUND ALLOCATION—SURPLUS AND REVENUES

	1970	1971	1972	1973	1974	1975
Highway:						
Operation and maintenance	1,133,305	2,365,240	2,489,554	2,931,527	3,024,900	3,549,753
Outlay-improvements	2,459,049	2,040,819	2,551,362	2,295,063	2,088,908	2,118,208
Subtotal	3,592,354	4,406,059	5,040,916	5,226,590	5,113,808	5,667,961
Surplus and revenues	1,733,139	2,323,208	2,636,824	2,806,107	2,691,050	2,547,746
Net highway cost	1,859,215	2,082,851	2,404,092	2,420,483	2,422,758	3,120,215
General government:						
Operation and maintenance	24,448,266	28,501,529	33,704,856	39,140,924	40,132,531	49,217,154
Outlay-improvements	1,115,796	1,440,203	1,243,800	1,773,183	2,748,237	3,394,706
Subtotal	25,564,062	29,941,732	34,948,656	40,914,107	42,880,768	52,611,860
Surplus and revenues	14,578,098	19,578,214	20,134,690	30,768,928	32,569,804	41,239,736
Net general government costs	10,985,964	10,363,518	14,813,966	10,145,179	10,310,964	11,372,124
Tax levy	12,845,179	12,446,369	17,218,058	12,565,662	12,733,722	14,492,339
Federal revenue sharing funds [1]			[2] 1,470,378	1,500,000	2,362,000	2,541,651
Total budget funds allocated	29,156,416	34,347,791	39,989,572	46,140,697	47,994,576	58,279,821

[1] Included in general surplus and revenues above.
[2] Shown as 1972 anticipated revenue in 1973 budget.

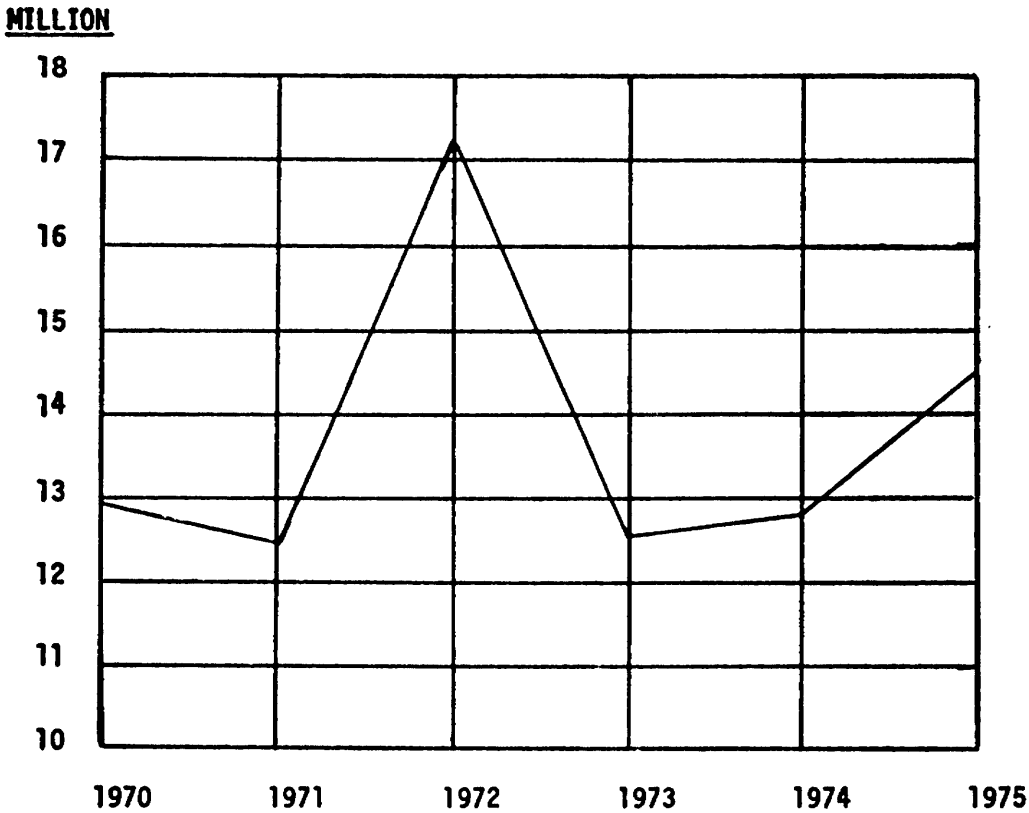
On the next chart you will see that for the year prior to the receipt of Federal revenue funds, Dane County had the highest property tax levy ever, $17,218,000. For us, the Federal revenue sharing was timely and came shortly after we had experienced a taxpayer revolt and when many property tax payments had been made under protest. Should the current Federal program be discontinued at the end of 1976, the net effect would be an increase in the county property tax levy which would be passed on to the local towns, villages, and cities and would more than likely, result in a reoccurrence of taxpayer protest. While the majority of local officials will continue to do their best to hold the line on property taxes and still meet the demands for quality services, Federal Government support through the reenactment of the State and Local Fiscal Assistance Act is important.

[The chart referred to follows:]

DANE COUNTY, WISCONSIN

TAX LEVIES

1970 - 1975
(Budget Years)



The schedule shown on page 11 shows the effect that revenue sharing has had on the property tax mill rates of Dane County's 60 towns, villages, and cities. The rates, highest in 1971, generally decreased, in part, because of revenue sharing fund receipts. It should be noted that the tremendous increases in the equalized valuation, established by the Wisconsin Department of Revenue, of all real and personal property, has generally resulted in lower tax rates, although increasing tax levies have still resulted in bigger tax bills. Real and personal property valuations, principally through the appreciating of land and property values, have increased sixteenfold in Dane County from $250 million in 1945 to over $4 billion today. Most of this increase has occurred during the past 10 years.

The net effect is that often, though lower mill rates are applied, the owner of the same property continues to pay higher taxes. When this taxpayer is retired or living on a fixed income, the tax burden is awesome and certainly, through the continued receipt of Federal revenue sharing funds, his burden can be lessened.

[The table referred to follows:]

DANE COUNTY, WIS.

LOCAL UNIT—EQUALIZED PROPERTY TAX RATES (PER $1,000)

	1970	1971	1972	1973	1974
TOWNS					
Albion	24.87	25.80	21.36	17.90	18.18
Berry	29.36	31.22	24.47	22.45	24.03
Black Earth	27.65	28.27	20.04	20.56	22.61
Blooming Grove	24.87	27.78	25.47	22.80	23.17
Blue Mounds	22.61	22.61	21.45	20.43	21.56
Bristol	25.37	26.68	20.58	20.00	24.44
Burke	24.02	26.79	23.37	19.93	22.63
Christiana	27.28	31.76	24.55	22.65	22.48
Cottage Grove	37.72	30.80	23.93	23.15	25.04
Cross Plains	27.03	29.45	23.23	21.78	22.34
Dane	24.83	28.38	21.99	20.70	20.24
Deerfield	27.88	31.13	24.80	23.53	23.64
Dunkirk	25.39	27.23	23.47	20.37	21.45
Dunn	26.12	29.32	23.15	20.45	21.76
Fitchburg	26.18	28.41	23.93	24.16	26.36
Madison	27.44	26.12	23.93	24.39	27.44
Mazomanie	26.07	27.10	21.55	20.14	20.58
Medina	24.76	28.11	19.64	18.50	23.11
Middleton	31.65	27.97	26.38	21.92	22.85
Montrose	23.78	27.82	23.59	19.34	20.46
Oregon	28.13	30.82	24.59	20.34	22.44
Perry	23.73	28.14	20.52	19.98	21.08
Pleasant Springs	27.23	26.43	21.41	19.14	20.42
Primrose	25.52	30.11	21.60	19.93	18.67
Roxbury	25.10	26.41	20.85	17.60	20.27
Rutland	24.72	27.18	22.25	19.31	21.15
Springdale	22.97	27.46	23.02	20.07	21.64
Springfield	24.44	27.58	21.14	20.57	21.33
Sun Prairie	24.05	26.59	23.34	19.24	20.64
Vermont	25.46	28.32	17.73	19.53	21.29
Verona	25.23	28.10	22.43	20.89	23.55
Vienna	24.52	26.15	21.99	18.99	19.93
Westport	24.38	27.31	24.23	20.41	20.99
Windsor	22.75	27.81	22.25	20.25	21.32
York	25.74	27.22	21.26	20.52	23.55
VILLAGES					
Belleville	32.08	30.84	27.94	23.85	26.33
Black Earth	33.06	32.92	27.00	22.15	17.75
Blue Mounds	26.00	23.28	19.46	19.72	18.42
Brooklyn	35.70	35.17	31.24	26.49	32.42
Cambridge	29.69	36.36	28.29	24.86	25.32
Cottage Grove	27.35	31.19	28.56	25.79	27.49
Cross Plains	32.34	33.01	29.94	28.60	29.33
Dane	30.79	34.22	29.42	26.44	27.44
Deerfield	29.73	29.83	27.38	26.12	26.40
DeForest	23.10	26.99	26.44	25.97	24.24
Maple Bluff	23.55	27.00	25.29	25.82	28.80
Marshall	30.49	31.29	26.26	23.48	26.14
Mazomanie	33.71	34.44	28.65	26.84	26.56
McFarland	32.55	31.52	28.42	26.93	27.53
Mount Horeb	29.09	33.45	27.71	21.64	25.97
Oregon	33.80	34.87	26.43	21.20	24.54
Rockdale	28.63	28.57	26.07	22.61	17.97
Shorewood Hills	26.66	30.92	25.30	28.00	28.75
Verona	32.26	33.43	28.78	24.65	28.67
Waunakee	30.18	31.20	28.22	25.95	25.99
CITIES					
Madison	34.46	37.41	33.55	34.19	32.82
Middleton	31.04	34.04	28.63	25.56	27.51
Monona	29.84	32.51	29.69	26.66	27.60
Stoughton	31.33	30.30	28.24	24.54	27.02
Sun Prairie	27.91	29.98	24.27	22.77	26.72

While my comments have been generally related to our particular situation in Dane County, I cannot believe that we are so unique but that the majority of the other 3,000 counties in the United States are not faced with the same financial problems as I have called to your attention in this presentation, and that they would not join with me in requesting that the partnership in revenue sharing between the Federal and local units of government be continued.

Mr. Chairman, at this time, I should like to add the following information, which is taken from the May 1975 report of the Wisconsin Taxpayer Alliance made a part of the record.

Senator HATHAWAY. Yes, without objection it will be made a part of the record.

[The material referred to follows:]

THE WISCONSIN TAXPAYER

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Federal Revenue Sharing

General Provisions. Distribution Formulas. Allocations to Counties and Large Cities.

Federal revenue sharing is a 5-year program in which a total of $30.2 billion in federal funds will be disbursed to the 50 state governments and to virtually all of the 39,100 counties, municipalities and other general local governmental units in the United States. Revenue sharing began in 1972 and will end in 1976 unless reenacted by congress.

Revenue sharing is a unique federal program in several respects. It has few restrictions on the use of funds. There are no eligibility conditions, application requirements or performance criteria. The money has been appropriated in advance for the entire program so the funding operates automatically. (These characteristics are similar to the Wisconsin shared tax system which preceded the federal program by over 60 years.)

Through June 1974, $14.3 billion, or almost half of the 5-year total, had been distributed. During the 1974-75 fiscal year, another $6.2 billion will be allocated. The remaining $9.7 billion will be paid in the final 18 months of the program, which is scheduled to end in December 1976.

GENERAL PROVISIONS

Eligibility

Only "general" units of government, as defined by the U.S. Census Bureau, are eligible recipients of federal revenue sharing funds. School districts and special districts are not included in the definition.

In Wisconsin, eligible units are counties (total of 72), cities and villages (575), and towns (1,270). Excluded are all 436 Wisconsin school districts, the 16 vocational, technical and adult education districts, and special districts, such as metropolitan sewerage districts and town sanitary districts.

In addition to general units of government, the law provides for disbursement to Indian tribes providing substantial governmental services. In Wisconsin, there are 10 tribes receiving funds.

Allocation

All governments are guaranteed to receive some money, but relatively more funds are allocated to those units which have fiscal need as measured by high tax effort (taxes related to personal income) and by low per capita income.

Interstate. Revenue sharing funds are distributed among the states on the basis of the more favorable of 2 formulas. The "3-factor" formula, which tends to favor the less urbanized states (including Wisconsin), bases the allocation on population, per capita income, and state-local tax effort. The "5-factor" formula includes 2 additional components—urbanized population and state income tax collections.

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Hypothetical Computation of Area and Local Share of Federal Revenue Sharing Funds

	Population	Personal Income	Per Capita Personal Income	Taxes
	ASSUMPTIONS			
County Area				
Town A	1,000	$ 4,800,000	$4,800	$ 28,000
Town B	1,000	4,800,000	4,800	23,500
Town C	1,000	4,500,000	4,500	23,500
Subtotal - Towns	3,000	$ 14,100,000	$4,700	$ 75,000
City D	15,000	$ 71,250,000	$4,750	$1,000,000
Village E	2,000	10,350,000	5,175	125,000
Subtotal - City & Village	17,000	$ 81,600,000	$4,800	$1,125,000
County				$1,000,000
Total - County Area	20,000	$ 95,700,000	$4,785	$2,200,000
State	4,000,000	$18,000,000,000	$4,500	
Total local portion of state's revenue sharing funds - $100,000,000				

Table continued on page 3.

State-local. The funds allocated for each state are distributed one-third to the state government and two-thirds to local units. This distribution is the approximate national split between state and local expenditures.

Local Distribution. There also are 3 factors in the local distribution formula: population; relative per capita income; and local tax effort (taxes related to personal income). Local taxes include property and other general taxes, licenses, fees and permits. Excluded are taxes for education purposes, service charges, interest and special assessments.

Local units receive their revenue sharing allocations based on their: population; relative need (measured by per capita income); and comparative effort they exert in meeting their needs (as gauged by taxes related to personal income).

The table beginning above provides a summary of the various formulas and their hypothetical application in an assumed county area (consisting of the county government and all local units within the county).

As indicated in the table, the allocation occurs in 3 steps: 1) to the county area; 2) among classes of government; and 3) to individual units of local government.

The effect of the various formula factors is illustrated in the computed payment to the towns. Although each of the 3 towns has the same population, there are different combinations of taxes and personal income, which result in a different computed revenue sharing allocation to each town.

For example, Town A, with high personal income but also having the highest taxes, was allocated the

Hypothetical Computation Table Cont.

ALLOCATIONS
Formulas and Applications

TO COUNTY AREA

$$\text{Local portion of revenue sharing funds (\$100,000,000)} \times \frac{\text{Pop. (20,000)} \times \dfrac{\text{Taxes (\$2,200,000)}}{\text{Pers. inc. (\$95,700,000)}} \times \dfrac{\text{State per cap. inc. (\$4,500)}}{\text{Per cap. inc. (\$4,785)}}}{\text{Sum of products for all county areas (86,520[1])}} = \$500,000$$

TO CLASSES OF GOVERNMENT (Based on % of total taxes for area.)

	Area's allocation		
County	\$500,000	$\times \dfrac{\text{County taxes (\$1,000,000)}}{\text{Area taxes (\$2,200,000)}} =$	\$227,250
Towns	\$500,000	$\times \dfrac{\text{Town taxes (\$75,000)}}{\text{Area taxes (\$2,200,000)}} =$	\$ 17,050
Cities & Villages	\$500,000	$\times \dfrac{\text{City \& village taxes (\$1,125,000)}}{\text{Area taxes (\$2,200,000)}} =$	\$255,700
			\$500,000

TO INDIVIDUAL GOVERNMENTS

$$\text{Town A} \quad \underset{\text{Allocation}}{\$17,050} \times \frac{\dfrac{\text{A's pop}}{1,000} \times \dfrac{\text{A's taxes (\$28,000)}}{\text{A's pers. inc. (\$4,800,000)}} \times \dfrac{\text{Per cap. inc. all towns (\$4,700)}}{\text{A's per cap. inc. (\$4,800)}}}{\text{Sum of products for all towns (15.9084[2])}} = \$\ 6,087$$

$$\text{Town B} \quad \$17,050 \times \frac{1,000 \times \dfrac{\$23,500}{\$4,800,000} \times \dfrac{\$4,700}{\$4,800}}{15.9084[2]} = \$\ 5,142$$

$$\text{Town C} \quad \$17,050 \times \frac{1,000 \times \dfrac{\$23,500}{\$4,500,000} \times \dfrac{\$4,700}{\$4,500}}{15.9084[2]} = \$\ 5,821$$

$$\$\ 17,050$$

City D (Same formula as for towns, except city information is used.)

$$\text{Allocation (\$255,700)} \times \frac{15,000 \times \dfrac{\$1,000,000}{\$71,250,000} \times \dfrac{\$4,800}{\$4,750}}{234.6505[3]} = \$231,230$$

Village E (Same formula as for towns, except village information is used.)

$$\text{Allocation (\$255,700)} \times \frac{2,000 \times \dfrac{\$125,000}{\$10,350,000} \times \dfrac{\$4,800}{\$5,175}}{234.6505[3]} = \$\ 24,470$$

$$\$255,700$$

[1]Assumed.
[2]Calculated as follows: Town A, 5.6794; Town B, 4.7981; Town C, 5.4309; total, 15.9084.
[3]Calculated as follows: City D, 212.2050; Village E, 22.4455; total, 234.6505.
Note: Allocation to Indian tribes, when applicable, based on formula: Area allocation × $\dfrac{\text{Indian pop.}}{\text{county pop.}}$
Balance is allocated to classes and individual governments.

largest amount ($6,087). Town B, which had the same personal income as A but had lower taxes, received the lowest allocation ($5,142). Town C, with taxes at the same level as B but with the lowest personal income, had an allocation of $5,821.

Adjustments

The law provides for minimum and maximum payments. Each county area, and every unit of government (except counties) must receive at least 20% of the state-wide per capita allocation (the local portion of the state-local total divided by the state's population). In the example, this would be $5 per person ($100,000,000 ÷ 4,000,000 x 20%). Thus, local units which levy no taxes still are guaranteed to receive revenue sharing payments.

The maximum allocation to local units is 145% of the state-wide per capita figure.

The law provides for another adjustment limiting revenue sharing to 50% of a unit's total taxes and state and federal aids.

When adjustments are necessary, the amounts otherwise allocated to similar units are affected proportionately up or down. The entire system for calculating allocations and then adjusting them as necessary depends on sophisticated computer programming. The illustration on pages 2 and 3 is a simplified example.

It is virtually impossible for local officials to determine whether their revenue sharing allocations are correct. While local officials are familiar with their tax information, they have no way of confirming the accuracy of the population or personal income data for their community, let alone for other communities in Wisconsin and other states. The adjustment factors and the comparative elements in the formula further complicate clear understanding and easy computation.

Use of Funds

State. The federal law places no categorical restrictions on use of revenue sharing funds by the states. Wisconsin reports that it uses its allocations for state school aids.

Local. Local units of government may use revenue sharing funds on any capital expenditures and for operating expenses in 8 "priority" categories. These operating categories include virtually all spending except general administration, such as the salary of a city mayor, village clerk or county register of deeds. Consequently, there are no effective restrictions on local use of funds.

Property Tax Relief. Although "property tax relief" is not listed as one of the purposes of revenue sharing, it may be a major result. For example, if a community had planned to budget $25,000 for police department operations and $5,000 in revenue sharing funds were anticipated, the $5,000 could be substituted for part of the police department's costs, and the property tax levy reduced by that amount.

Matching. Revenue sharing funds may not be used to provide a local matching share for another federal aid program, such as a sewerage disposal facility.

Debt. Payments of principal on debt incurred after January 1, 1972, may be financed by revenue sharing funds. Payment of interest on any debt does not qualify.

Reports

Recipients of revenue sharing must make 2 reports annually. One is a planned-use report, which indicates the categories of expenditures and amounts planned to be spent in each. The other is an actual use report, which shows the amounts actually spent in each category. A copy of each completed form must be published in a newspaper having general circulation in the local unit.

Other Provisions

Fiscal Procedures. Appropriate accounting procedures must be used to maintain the identity of revenue sharing receipts for auditing and accountability purposes. If these funds are temporarily invested, the interest earned is added to the amount.

Discrimination, Prevailing Wage. Funds may not be used to discriminate on the basis of race, color, national origin or sex.

If 25% or more of the cost of a capital project is to be funded by revenue sharing receipts, laborers and mechanics employed by contractors must be paid the prevailing wage rate for similar construction in the community. This is in accord with the federal Davis-Bacon Act.

Both of these requirements are standard clauses in federal grants.

INTERSTATE COMPARISONS

The table above compares past, current and projected revenue sharing allocations for Wisconsin and the United States.

Revenue Sharing — Wisconsin and U.S. 1972-1976

Category & Period	Wis. (Millions)	U.S. (Millions)	% Wis. to U.S.
Past Payments Jan. '72 - June '74	$358.3	$14,281.1	2.51%
Current Allocation July '74 - June '75	155.2	6,169.0	2.52
Subtotal	$513.5	$20,450.1	2.51%
Projected Amounts July '75 - Dec. '76	$241.9	$ 9,675.0	2.50%*
Grand Total	$755.4	$30,125.2	2.51%

*Estimated by Wisconsin Taxpayers Alliance.
Source: Based on information from U.S Office of Revenue Sharing.

Wisconsin, which has about 2.17% of the U.S. population, receives approximately 2.5% of the national total of revenue sharing funds, as indicated in the table.

If this experience continues, it is projected that for the entire 5-year program, Wisconsin will be allocated an estimated $755 million of the $30 billion U.S. total.

Primarily because of its high relative tax effort, Wisconsin ranks among the top 10 states in federal revenue sharing receipts.

For the 1974-75 allocation, Wisconsin's per capita personal income of $3,032 was close to the middle position (22nd ranked), but its state-local tax effort of $155.51 per $1,000 personal income was 3rd highest.

Because tax effort is a major factor in revenue sharing allocations, this combination of average per capita income and high tax effort resulted in 1974-75 revenue sharing funds of $33.96 per capita (based on estimated 1973 population), which was 10th highest among the states. Wisconsin has had similar per capita ranks since the revenue sharing program began.

WISCONSIN ALLOCATIONS

State-local

The table below shows the state-local distribution of 1974-75 revenue sharing allocations.

Revenue Sharing Allocations to Wisconsin 1974-75

Distribution	Total (Thousands)	% of Total	Per Capita
State-Local			
State	$ 51,727	33.3%	$11.71
Local	103,454	66.7	23.42
Total	$155,181	100.0%	$35.13
Local			
Counties	$ 52,514	50.8%	$11.89
Cities & Villages	43,302	41.8	13.74
Towns	7,475	7.2	5.93
Indian Tribes	163	0.2	27.84
Total	$103,454	100.0%	$23.42

Source: Based on information from U.S. Office of Revenue Sharing.

Of the $155.2 million for Wisconsin, $51.7 million (one-third) is for the state government, with $103.5 million (two-thirds) going to 1,927 Wisconsin counties, cities, villages, towns and Indian tribes.

Interlocal

Counties and incorporated municipalities (cities and villages) receive over 90% of the local portion of revenue sharing funds. The county share is $52.5 million, or 51% of the state-wide local total, while cities and villages are allocated 41%, or $43.3 million. The balance goes to towns ($7.5 million) and Indian tribes ($0.2 million).

Per Capita Comparison

The total allocation to Wisconsin in 1974-75 is equivalent to $35.13 per capita (based on 1970 population). It is distributed between state government ($11.71) and local units ($23.42).

Among the different types of local units, the average per capita distributions vary markedly, ranging from $27.84 per person to Indian tribes to $5.93 per capita in towns. In cities and villages, the average per person distribution is $13.74 and in counties, $11.89.

Related to Property Taxes

The comparative revenue importance of revenue sharing, when related to property taxes, will vary from year to year and by individual municipality or county.

Most towns offer relatively few municipal services, and taxes, therefore, would be low. Cities usually provide more municipal services, and taxes would be higher. Consequently, the revenue sharing impact, related to taxes, would be higher in towns than in cities.

Based on 1974 tax collections, revenue sharing allocations in 1974-75 are equivalent to 41% of the $18.3 million property tax for town purposes. Revenue sharing is 15% of the $285.7 million municipal-purpose tax levy in cities and villages.

In counties, revenue sharing payments are 24% of the $22.6 million levy for county purposes. On a state-wide basis, revenue sharing is 20% of the $526.6 million total property tax levy for county and municipal purposes.

Minimums and Maximums

A large number of Wisconsin communities receive their revenue sharing funds by application of the 20% minimum.

According to a report of the Advisory Commission on Intergovernmental Relations, 963 Wisconsin cities, villages and towns, or 52% of the total number, were affected by the minimum payment clause in 1973-74, while 47% receive allocations by normal operation of the formula. Only 1% of the municipalities were subject to the maximum allocation (145% of the state-wide per capita average for all local units).

By type of municipality, the minimum payment was paid in 64% of the towns and 26% of the cities and villages. Communities receiving the minimum allocation are towns or small villages which have little or no municipal-purpose tax efforts (taxes related to personal income). Municipalities subject to the 145% cutoff usually are industrial communities with relatively small populations or resort areas with high-value recreation property and few year-round residents.

LARGE CITIES

The table opposite shows the 1974-75 total and per capita revenue sharing allocations to Wisconsin's 10 largest cities.

Wauwatosa had the lowest per capita amount ($7.60). Of the 10 cities, Wauwatosa had the highest per capita income and the lowest local tax effort.

Green Bay had the highest per capita allocation ($20.20). Compared with the other large cities, Green Bay had the second highest tax effort and the second lowest per capita income.

Except for these 2 cities, there is relatively little difference in the per capita amounts paid the other 8 large cities. They range from $13.34 in West Allis to $16.75 in Milwaukee, the state's largest city. Madison, the second largest, was apportioned $16.45 per person.

Revenue sharing funds do not provide a major share of total revenues in the largest Wisconsin cities. In Madison, for example, revenue sharing of $3.0 million in calendar 1974 was 6.6% of the $43.8 million in total receipts. Property taxes, the largest single revenue source, provided $18.6 million, or 42.5% of the total.

COUNTY COMPARISONS

The table beginning on page 8 lists, by county, taxes for 1972 and

Revenue Sharing Allocations to 10 Largest Wisconsin Cities 1974-75

City*	Allocations Total	Per Capita
Milwaukee	$12,013,198	$16.75
Madison	2,825,254	16.45
Racine	1,397,694	14.69
Green Bay	1,773,436	20.20
Kenosha	1,222,891	15.52
West Allis	955,880	13.34
Wauwatosa	445,886	7.60
Appleton	906,253	16.07
Oshkosh	775,399	14.61
La Crosse	815,752	15.95

*Listed in order of population.
Source: Based on information from U.S. Office of Revenue Sharing.

PROPERTY TAXES AND REVENUE SHARING IN WISCONSIN COUNTIES

County	1970 Population	1972 Adjusted County Taxes Total	Per $1,000 of Personal Income	Rank	1974-75 Revenue Sharing Allocations Total	Per Capita	Rank
Adams	9,234	$ 743,913	$ 35.43	3	$ 256,319	$27.76	4
Ashland	16,743	620,071	16.55	48	232,643	13.90	37
Barron	33,955	1,530,562	18.38	37	493,114	14.52	32
Bayfield	11,683	624,636	23.99	19	236,370	20.23	17
Brown	158,244	8,507,671	18.77	35	2,004,005	12.66	44
Buffalo	13,743	803,505	26.01	14	308,442	22.44	11
Burnett	9,276	616,698	31.15	6	261,188	28.16	2
Calumet	27,604	1,051,973	14.16	59	281,809	10.21	55
Chippewa	47,717	1,540,979	13.03	65	486,431	10.20	56
Clark	30,361	1,228,162	18.27	38	485,150	15.98	28
Columbia	40,150	1,397,055	12.16	68	331,097	8.25	68
Crawford	15,252	831,260	25.30	16	347,327	22.77	10
Dane	290,272	15,182,983	15.29	55	2,515,213	8.67	65
Dodge	69,004	3,448,682	17.57	40	826,545	11.98	47
Door	20,106	1,035,317	19.53	32	288,822	14.36	34
Douglas	44,657	1,980,753	16.93	44	557,508	12.48	45
Dunn	28,991	1,241,363	17.89	39	420,173	14.49	33
Eau Claire	67,219	2,564,016	13.29	62	603,857	8.98	64
Florence	3,298	232,044	31.94	5	92,751	28.12	3
Fond du Lac	84,567	3,320,040	13.52	61	764,235	9.04	63
Forest	7,691	508,844	32.99	4	194,905	25.34	6
Grant	48,398	1,376,091	11.92	69	469,297	9.70	59
Green	26,714	1,490,133	19.21	33	343,012	12.84	42
Green Lake	16,878	801,920	16.94	43	197,576	11.71	48
Iowa	19,306	1,262,730	25.28	17	366,143	18.97	21
Iron	6,533	344,830	23.14	20	128,568	19.68	19
Jackson	15,325	913,323	22.56	23	250,182	16.33	27
Jefferson	60,060	2,712,063	15.43	53	614,267	10.23	53
Juneau	18,455	991,348	22.55	24	337,836	18.31	24
Kenosha	117,917	5,827,222	16.11	49	1,201,743	10.19	57
Kewaunee	18,961	669,926	13.12	64	179,198	9.45	61
La Crosse	80,468	3,232,025	14.49	58	815,752	10.14	58
Lafayette	17,456	1,130,812	28.93	7	398,986	22.86	9
Langlade	19,220	978,866	22.52	26	371,121	19.31	20
Lincoln	23,499	1,288,474	22.86	22	434,303	18.48	23
Manitowoc	82,294	2,843,750	11.90	70	654,148	7.95	69
Marathon	97,457	4,158,169	15.89	51	1,118,727	11.48	49
Marinette	35,810	1,647,446	18.94	34	541,669	15.13	30
Marquette	8,865	589,222	26.44	12	180,853	20.40	16
Menominee	2,607	421,227	131.88	1	83,487	32.02	1
Milwaukee	1,054,249	88,955,598	24.35	18	14,356,322	13.62	39
Monroe	31,610	1,316,259	17.31	41	439,834	13.91	36
Oconto	25,553	1,267,864	23.09	21	532,571	20.84	14
Oneida	24,427	1,273,353	20.07	30	365,672	14.97	31
Outagamie	119,398	4,433,977	12.66	67	992,083	8.31	66
Ozaukee	54,461	1,659,837	8.21	72	233,557	4.29	72
Pepin	7,319	457,293	26.57	10	160,360	21.91	12
Pierce	26,652	1,052,968	15.12	57	299,167	11.22	50
Polk	26,666	1,343,338	20.33	29	422,539	15.85	29
Portage	47,541	2,002,810	16.69	45	609,872	12.83	43

PROPERTY TAXES AND REVENUE SHARING IN WISCONSIN COUNTIES CONT.

County	1970 Population	1972 Adjusted County Taxes			1974-75 Revenue Sharing Allocations		
		Total	Per $1,000 of Personal Income	Rank	Total	Per Capita	Rank
Price	14,520	$ 708,358	$22.54	25	$ 293,437	$20.21	18
Racine	170,838	9,481,706	17.10	42	1,745,690	10.22	54
Richland	17,079	1,084,395	28.14	8	413,320	24.20	8
Rock	131,970	5,616,186	14.14	60	1,203,302	9.12	62
Rusk	14,238	564,451	18.66	36	242,756	17.05	25
St. Croix	34,354	1,596,657	15.97	50	365,766	10.65	52
Sauk	39,057	2,183,807	19.69	31	525,607	13.46	40
Sawyer	9,670	760,799	37.99	2	242,631	25.09	7
Shawano	32,650	1,323,746	16.61	46	425,136	13.02	41
Sheboygan	96,660	4,599,285	15.33	54	926,626	9.59	60
Taylor	16,958	878,993	26.49	11	445,227	26.25	5
Trempealeau	23,344	1,167,614	22.03	27	439,567	18.83	22
Vernon	24,557	847,012	15.71	52	341,059	13.89	38
Vilas	10,958	716,938	27.59	9	184,592	16.85	26
Walworth	63,444	3,993,742	21.46	28	900,603	14.20	35
Washburn	10,601	665,490	25.96	15	220,804	20.83	15
Washington	63,839	2,582,261	12.86	66	506,450	7.93	70
Waukesha	231,335	9,789,757	11.66	71	1,442,034	6.23	71
Waupaca	37,780	1,618,271	16.58	47	470,522	12.45	46
Waushara	14,795	897,552	26.07	13	321,547	21.73	13
Winnebago	129,946	5,340,121	13.24	63	1,074,498	8.27	67
Wood	65,362	2,754,701	15.23	56	696,501	10.66	51

Source: Based on information from U.S. Office of Revenue Sharing

the 1974-75 revenue sharing allocation. These amounts are for the county governments only and do not include information for cities, villages and towns.

Relative tax effort (taxes per $1,000 of personal income) and revenue sharing amounts per capita also are shown in the tabulation, along with the rankings in both categories.

As indicated in the table, counties with relatively high local tax effort generally rank high in per person revenue sharing payments. In counties with low taxes, revenue sharing amounts are correspondingly low. These effects are in line with the revenue sharing formulas which allocate comparatively more money to units with higher local tax efforts.

The highest level of per capita revenue sharing allocations was $32 to Menominee county, which also had the highest tax effort and the lowest per capita income (not shown in the table). The lowest per person apportionment was to Ozaukee county ($4.29), which had the lowest comparative tax effort and the highest per capita income of any county in the state. Waukesha county, which had the second lowest per capita allocation, ranked 71st in tax effort and 2nd in per capita income.

Mr. RIENKE. Wisconsin, which has about 2.17 percent of the U.S. population, receives approximately 2.5 percent of the national total of revenue sharing funds. If this experience continues, it is projected that for the entire 5-year program, Wisconsin will be allocated, and allocated $755 million of the $30 billion U.S. total. Primarily because of its high relative tax efforts, Wisconsin ranks among the top 10 States in Federal revenue sharing receipt.

For the 1974–75 allocation, Wisconsin's per capita personal income of $3,032 was close to the middle position. But its State and local tax efforts of $155.51 per $1,000 of personal income was third highest. Because tax effort is a major factor in revenue sharing allocations, this combination of average per capita income and a high tax effort resulted in 1974–75 revenue sharing funds of $33.96 per capita, based on estimated 1973 population, which was the 10th highest among the States.

Wisconsin has had similar per capita ranks since the revenue sharing program began. We realize that the State and local share are one-third and two-thirds. And this report does show that Wisconsin counties of the local two-thirds share, received for 1974–75 allocation, 50.8 percent, cities and villages 41.8 percent, towns receiving 7.2 percent and the Indian tribes two-tenths of 1 percent. Based on 1974 tax collections, revenue sharing allocations in 1974–75 are equivalent to 41 percent of the $18.3 million property tax for town purposes. Revenue sharing is 15 percent of the $285.7 million municipal purpose tax levied in cities and villages.

In counties revenue sharing payments are 24 percent of the $22.6 million levied for county purposes. On a statewide basis, revenue sharing is 20 percent of the $526.6 million total property tax levied for county and municipal purposes.

Mr. Chairman, I would like to look at two of the charts, first, tax levies. I would like to call to your attention that in 1971 we had something between $12 and $13 million as a property tax levy in Dane County. The year prior to revenue sharing, partially because of not as many surplus funds being available to apply in the budget and also because of the tremendous increase in our AFDC and welfare costs, we had the highest tax levy ever, as I indicated earlier, up to $17 million. Because of the application of Federal revenue sharing funds, and you will recall that initially there was a retroactive payment for 1972 and an anticipated revenue for 1973 which would have taken into consideration, in our case, $2.9 million was received. We can see that our 1973 levy went down to again, between $12 and $13 million; 1974 stayed the same because of our taking over the airport, getting into the sanitary landfill business, getting into the juvenile shelter operations. In 1975, our levy was within reason, but, again, between $14 and $15 million.

You can see if the $2 to $3 million of revenue sharing is not received, Dane County's tax levy would go up. If we then look at one final chart, budget fund allocation, surplus and revenues, where we show total budget funds allocated at the bottom of the page, I would want to call to your attention that Dane County and other counties are expected to take a bigger part in local operations. Dane County has recognized the needs of providing services for its residents. In 1970 when we had an allocation of $29 million, and for the current year, we have total funds allocated for expenditures of twice that amount, of $58 million.

Now, while the levy immediately above, for 1975, three lines above, shows a $14½ million levy, assuming that the expenditure allocation would have continued as being the same, we would have had a 17½-percent increase in our property tax levy, the year prior, 18 percent, and the year before, 23½ percent.

While we have said that the revenue sharing dollars are 4 percent of the total of funds allocated in Dane County on an annual basis, I repeat that revenue sharing funds are very important to us and that of the levy, which it would totally and finally affect, Dane County would have to increase its property tax levy certainly something between 17 and 20 percent, should Federal revenue sharing payments cease.

At this time, Mr. Chairman, I want to thank you for the privilege of appearing before your subcommittee. And I will attempt to answer any questions that you might have.

Senator HATHAWAY. Thank you very much, Mr. Reinke.

Senator Nelson?

Senator NELSON. Mr. Chairman, I regret that I did not arrive to introduce Mr. George Reinke, who is a friend of long standing and has a long and distinguished career in county government in our second largest county. I think it is about 30 years, is it not, George? Mr. Reinke was the first elected county executive when that office was created, first elected county executive in Dane County.

And I appreciate very much your appearance here. Are you appearing in behalf of the county or in behalf of the National Association of Counties.?

Mr. RIENKE. I am appearing as a representative of the National Association of Counties and I am representing my own position. I also represent the Wisconsin County Board Association to which all 72 Wisconsin counties belong. The Wisconsin County Board Association also supports the continuation of revenue sharing.

Senator NELSON. You state that you generally support the formula for distribution and state further that you feel that restrictions of these funds should be eliminated if the program is continued. The list of categories I have here for the appropriate use or authorized use of general revenue sharing funds, shows that they may be applied to public safety, environmental protection, public transportation, health, recreation, libraries, social services for the poor or aged, financial administration, and capital expenditures.

When the bill was before us for markup, I thought the specific requirements for allocation were too detailed, and they were broadened. Is the current list restrictive in any way in managing the finances of the county? And how would it help you if there were no strings attached?

Mr. RIENKE. Well, some of the objections I have listed in one, two, three order are the deposit of the dollars and the like.

I could make the general statement that I think the manner in which the Federal revenue sharing was established was appreciated. By that I mean, it was not too totally restrictive. I think that in our instance, we have been able to use Federal revenue-sharing dollars in two parts, both for new programs and the continuance of Federal programs that were discontinued and we carried on on our part with Federal revenue-sharing funds. In certain instances, we have used the funds for capital improvements and purchases of buildings that otherwise we might have had to pay for over a period of time.

I would say, Mr. Senator, that generally I accept the formula. I am not being critical at this time or suggesting that the formula should be established in such a fashion that Dane County might get more. I think the recognition of the tax effort, the recognition of the general population are good. My principal objections on the restrictions are listed and relate to the depositing of the money, the possible recognition of the inflationary spiral as prices go up. Dane County and the Wisconsin counties do not have too many other sources of revenue. And whenever our costs rise it means a rise in the property tax.

We have no county income tax. In the State of Wisconsin the county board can levy a sales tax of one-half of 1 percent, which go totally to the towns, villages, and cities and nothing to the county. And so, Wisconsin counties have not taken advantage of this statutory provision.

Senator NELSON. My question was aimed specifically at your comment on the restrictions on the use of funds and how those restrictions handicap the administration of the budget. Is it serious or is it not?

Mr. RIENKE. It is not that serious an objection. My principle concern is for the continuation of Federal revenue sharing and I would accept the present restrictive portions.

Senator NELSON. If there were no restrictions, would you spend the money in any different fashion?

Mr. RIENKE. I do not think we would. I would say that I think the way it has been established has been reasonable.

In Dane County last year our county treasurer received $750,000 that was the result of interest on investing money that was not used currently. We do not say that these moneys are specifically earmarked for a special purpose. They are used to reduce costs that otherwise property taxes would have to be levied.

And, so, where we especially earmark in this case, whether we hire an outreach worker for the aged or whether we use it to pay a salary, or keep property taxes stable it does not matter which funds you use whether Federal revenue sharing or other the net result is the same for the property taxpayers.

You can say my salary is going to come out of revenue sharing, but the outreach worker for the aged would come out of the property tax, the net result is the same. But by placing a restriction, it does mean recordkeeping and for not too good a purpose except to report that county government is, of course, concerned with human resources providing health, welfare, and social needs for our citizens.

Senator NELSON. So, it is the bookkeeping and reporting you have to make in order to account for your compliance with the categories that are authorized for expenditure of these funds that causes the problem. Is that it?

Mr. RIENKE. It is not that difficult. But, I would say yes.

Senator NELSON. This is what I was getting at. Myself, I do not see much point in the categories. If you put all of the money in one pool, one pot, then you can just arbitrarily, I would think, report, well, revenue sharing went for this-and-this purposes and any of the rest of the revenue that was spent for purposes other than what was under general revenue sharing came from general property tax levies.

Is that not the kind of bookkeeping game that goes on?

Mr. RIENKE. The net result is the same, but it does sound better to you that I can say we have purchased a juvenile shelter home, we have continued the juvenile program and that we have set up a program for the senior citizens and appropriated hundreds of thousands of dollars on volunteer efforts.

It sounds better, I agree, if I can say this is what we are using revenue-sharing dollars for.

Senator NELSON. How much of an administrative cost is that, do you think?

Mr. RIENKE. Not prohibitive.

Senator HATHAWAY. Senator Packwood?

Senator PACKWOOD. But it is a pain in the neck. And the planned use reports are a pain in the neck and they accomplish nothing. You do not need to do them.

Mr. RIENKE. Well, I think that the planned use reports are useful because the Federal Government is providing the dollars. I can understand you have questions. We would hope that during the period of the past 4 years, that Congress would have fewer questions on the capabilities of local government to handle funds in their budgeting. It is definite that local government is hiring more professionals, going to computers, and using a better means of analyzing budgets.

Senator PACKWOOD. I have no questions at all. I would give you the money with the only requirement that you must account that you got it, that it was spent for a public purpose, and I would let it go at that.

Mr. RIENKE. I would say we would have no objection to reporting how we would spend the dollars. I think that where the dollars are forthcoming, we should be willing to report how they were spent.

Senator PACKWOOD. I have no other questions.

Senator HATHAWAY. But even that does not make too much sense, in view of the fact that the funds go into one pool. If you are just going to report what was supposedly the Federal money, unless all of the money is reported, we do not get a very good picture. However I suppose your entire expenditure report is a public document anyway. If we want to look at it, we can look at it, is that not right?

Mr. RIENKE. I would say that we do employ private auditors, CPA's, from the outside to audit our records. We would have no objection to submitting reports on our auditing. I have not felt, from the beginning, that Federal revenue sharing dollars should be looked at as special and, how can we spend them? I feel that Federal revenue sharing dollars are just as important as property tax dollars, and should be expended judiciously.

It is true that some municipalities may have felt, here is something we are getting extra, we are not going to spend it for the other purposes that we do, but what else might we do if we had a windfall. I do not look at it as a windfall that we are supposed to pick up things that we otherwise would not spend moneys for. I think it is good to purchase public buildings, to set up a program that does involve the citizens' needs, something that you perhaps might do 1, 2, or 3 years earlier than you might not have done. But through the receipt of the Federal revenue-sharing dollars, you are able to provide a service several years in advance of the time that you might otherwise have done so.

Senator HATHAWAY. I think one of our concerns when the bill was first enacted was that many of the groups, such as the poor, who needed the money would not have sufficient lobby with the local governments; unless we put in some categories, they would not get a break at all.

But from the testimony we have received to date from many mayors and county officials, and Governors as well, there is a pretty clear indication that the public does have quite an impact through the various hearing mechanisms that most communities have set up. And I suppose you would not object if we amended the law to state that hearings on the entire municipal or county or State budget, whatever it might be, would be mandated.

Mr. RIENKE. I have no objection.

Our Wisconsin law does provide that the county board must hold an advertised hearing.

Senator HATHAWAY. I think most of them do.

Mr. RIENKE. I think I made it clear in my report about the early meetings that I held, out in the villages and throughout the entire county, were not for the specific purpose of revenue sharing, but it was part of our discussion.

It is possible that perhaps we should hold a separate public hearing for revenue sharing only.

Senator HATHAWAY. Well, I would not think so. I think just a hearing on the entire budget would be sufficient, as long as it is a genuine hearing where the public could actually get up and say—you know, any member of the public could get up and actually say what they want to say. It is not a public hearing the way this is a public hearing where only the four of us can talk. A public hearing the way we have in my community where it lasts for many, many hours—oftentimes until late into the night, or several nights—where any member of the public can come in and criticise any expenditure, and demand why the money is not being spent for a particular purpose, and so forth.

I presume that is the type that you have.

Mr. RIENKE. Right.

Senator NELSON. May I ask another question?

Senator HATHAWAY. Yes.

Senator NELSON. Well, is the heart of the matter not the point made by Senator Packwood? Is there any necessity for adding to the bureaucratic work of a municipality in order to account for an expenditure of moneys for a public purpose?

Now there is nothing in the law that requires you to expand any particular service—or that requires any municipality to expand the services it now gives by using Federal dollars to expand it, is there?

Mr. RIENKE. No.

Senator NELSON. So that, in fact, a municipality could take, if it desired—and that ought to be decided at the local level—all of the Federal moneys and then reduce its expenditures from local funds by the amount of Federal expenditures they get in the fields of public safety, environmental protection, public transportation, health, and so forth, if they so desired, could they not?

Mr. RIENKE. I would say, input to the municipalities. And I think this is what has happened throughout the United States. The fact that the Federal revenue-sharing program does exist, has made citizens' groups aware of the fact that these are new dollars coming in, and that these new dollars might be spent in other areas.

I do think that some municipalities, and perhaps because we are at Madison, Wis., the capital city, we are maybe a bit more progressive, a bit more responsive to the needs of our citizens. I think the counties, generally, are all more responsive to producing services that are required, be it sanitary landfill or anything else.

What I am saying is that the citizens themselves will take care of the situation, rather than somebody outside saying use this revenue sharing and do no more. I think the citizens themselves will encourage public officials, will be more aware of updating their services, if Federal revenue-sharing dollars are forthcoming.

Senator NELSON. Is it not simply a fact that the people at the local level should, and will, by the elective process, decide what the level of the budget will be, and how much property taxes they are willing to accept, and how many services they are willing to give. So that, therefore, the Federal revenue sharing is just part of the general budget of the county, and it does not require additional services, and does not prohibit additional services.

It may make it possible for additional services if they want to have additional ones, but it does not require anything other than that it be part of the budget of the county, even under the present law.

Mr. RIENKE. This is true in part, except that any local unit of government that has participated in other programs has had to pick up discontinued programs. We had a program for 2 years on a juvenile shelter, which ran upward of almost $150,000 a year for 2 years. In 1974 we had to pick this up and continue it.

We have the senior citizen program and outreach workers which was funded only for 1 year, then the property taxpayer picks it up. So I think that local unit participation in all of the other programs really is a stimulation to have local government responsive, rather than being backward.

I think then, revenue-sharing dollars are really necessary to carry on programs that are initially started through other Federal aid programs.

Senator NELSON. Well it may be that having a certain amount of revenue-sharing dollars makes it possible—if the taxpayers are willing—to do things they did not do previously.

Mr. RIENKE. That is right.

Senator NELSON. But if the county or municipality wants to remain backward—to use your phrase—there is nothing in the revenue-sharing law that says you have to be more progressive and spend more money on other programs, is there?

Mr. RIENKE. That is true.

Except the public hearings, if they are held. I would say that these would result in pushing local officials into responding.

Senator NELSON. Yes, but that would be a normal part of the political process. If the citizens came and said, we don't want any new programs financed by revenue-sharing money, we want to use the additional revenue-sharing funds to reduce the burden of the property tax, and if you fellows who hold county and city office don't like that, we will get somebody who will. The fact of the matter is, they do not have to use a penny of revenue sharing to expand services.

So that raises the query, what is the purpose of requiring some bookkeeping and all of this hoi polloi in order to show that you spent the money on something that you do not have to spend it on if you do not want to anyway.

Mr. RIENKE. I might say Mr. Chairman and members of the committee, that my special point this morning was to call to your attention the fact that Federal revenue sharing is important to county government, and if we have programs such as I mentioned—the juvenile shelter program or senior citizen programs—and if dollars are not available after, and these Federal programs that are initiated and canceled, I can tell you there would be a real hue and cry on the part of our citizenry. And that is why I feel part of Federal revenue-sharing dollars may very well be used by some municipalities and not result in any increase in the property tax by simply not adding any new programs.

Senator NELSON. Should that not be the decision to be made by the people in the municipality, and not down here?

Mr. RIENKE. Yes. Right.

I think the local people will take care of it, either through the election of their officials or by getting input at the public hearing which is held on an annual basis.

Senator NELSON. Thank you.

Senator HATHAWAY. Thank you very much, Mr. Rienke. We appreciate your testimony.

Mr. RIENKE. Thank you.

Senator HATHAWAY. Our next witness is Mr. Richard C. Leone, treasurer of the State of New Jersey.

Mr. Leone, we are happy to have you with us. Your statement will be made a part of the record. You may summarize it if you wish.

STATEMENT OF RICHARD C. LEONE, TREASURER, STATE OF NEW JERSEY

Mr. LEONE. I am going to summarize it briefly. I guess any State or local official can summarize his testimony very briefly by saying, I am in favor of revenue sharing, keep it going, we want more, and no new regulations, please. But in the interest of responsibility, I will be a little more detailed than that in talking about it.

I want to put it in the context of New Jersey's situation which is that of a State constitution which requires a balanced budget. And even to the extent that in the current year, for example, where we have had a sharp decline in revenues, we have had to cut back on spending—literally impound funds, and other devices—in order to save $144 million.

We have a budget of about $2.8 billion, not including Federal aid, which is roughly another billion dollars that we handle. And our proposed budget for the next fiscal year represents an increase of only 1 percent over the current budget, which is a very small increase—the smallest in a generation in New Jersey, and we do not even have that budget yet, because we have been unsuccessful in getting the legislature to enact the revenue package for about $412 million needed to balance that budget.

We have until the end of June to do that, otherwise we have to cut back another 14 percent. The struggle in New Jersey, as you probably know, is that our State is a State that does not have an income tax. It has been a struggle that has been going on for 20 years. I know Senator Muskie was in the State recently, and encouraged Governor Byrne by saying it took 16 years to get one in Maine and not to lose heart.

But it is a long struggle. We spend about 46 cents in every State dollar in direct aid to counties and municipalities, about 50 cents on State operations, and about 4 cents on capital expenditures. We have a very small State government, in the relative sense. We are 46th in per capita of State spending; we are 50th on per capita employees.

Just to give you an example of how that works out, just two Federal programs—medicaid and welfare—require us to spend a half billion dollars, which amounts to 17 percent of the total budget of the State. There are a lot of reasons for that; most of them have to do with the political tradition, home rule in New Jersey, and the fact that over time, the State government has lagged behind other States in taking on responsibilities.

I will spend a moment or two on just reporting on what our local governments have done with revenue sharing in New Jersey. We believe in the federal system, and we still believe that the local governments are whatever the State says they are, and we have a difference of view, perhaps, with some of the people in Washington about how its responsibilities ought to be sorted out.

Our counties spent about 46 percent of revenue sharing on health and 18 percent on multipurpose government expenditures, 15 percent on public transportation, and so on. They balked at the national trend of spending on public safety, but our municipalities made up for it by spending 52 percent of their revenue-sharing dollars on public safety. And in the cities alone, the figure climbs to 57 percent.

These decisions were made at the local level within the framework of that local budgetary process. I think in New Jersey it lends itself well to the management of general revenue-sharing funds, and provides a full opportunity for citizen participation. Local governments in New Jersey, by State laws, are required to hold public hearings, and to publish in local press their budgets, and publish in advance proposed changes and have meetings.

I might mention here that the requirement that you have a separate publication of revenue-sharing expenditures by local governments, costs our governments about as much as $200,000 a year over and above what they spend to publish their own budgets and to announce hearings on their own budgets. I might just suggest that the committee might want to think about whether that is a necessary requirement where you have already very full disclosure requirements at the local level.

We do an audit of every local government; it is accepted by the Federal Office of Revenue Sharing as the required audit for Federal revenue-sharing fund.

Now to the State: As required by law, we place our general revenue-sharing funds in a trust fund. In the first year, originally, they were then allocated to capital in a very specific way. I think in part because there was a tentativeness about what they would mean. More recently, those funds go into the trust fund, and then are transferred as needed to support general State expenditures.

We do not get as much as other States. Our $66 million allocation represents a little over 2 percent of our State budget. There are two principal reasons for that: We have high per capita wealth—about second in the country—and fairly low tax effort, particularly because we do not have an income tax. By spreading the revenue-sharing dollars, we have made it difficult, I know, to trace them. But I think we have called attention to the fact that we need revenues.

I am not going to recite the figures that you are familiar with that have to do with the downturn in State and local revenues, the budget gaps that are faced by many industrial States, the decline of purchasing power, a whole host of things which I think have tended to undermine Federal attempts to stimulate the economy, and which I believe in the past have not been taken seriously enough by people in Washington who plan ways to turn around the economy.

We lay people off, we cut back on anticipated expenditures, we have a 1-percent budget increase in the face of 12 and 13 percent inflation; we reduce, not only in terms of opportunities, but generally we reduce aggregate demand in New Jersey and we do not help the economy. We have to raise taxes and tax away a Federal rebate of income taxes. We undermine that stimuli, and I think those things have to be considered together. I do not think they are, frequently, by the Congress.

And obviously, we are not the only State with problems. The direct result of eliminating revenue sharing would be to force us to raise taxes, or to cut State services or aid to municipalities. We depend on it. I mentioned earlier that budget excluded about a billion dollars in Federal aid. Well, it does include revenue sharing which we list in our budget as a source of revenue, along with sales taxes, motor fuels, and corporation taxes.

I would say the obvious deficiency of the Federal law, from my perspective, is that, unlike those other revenue sources, revenue sharing does not grow. We take on a responsibility in year 1 of an entitlement, or—additional responsibilities. The costs of those responsibilities tend to grow more rapidly then the rate of inflation, because of the nature of government services, and yet, that revenue source does not grow.

Our revenue sources, generally——

Senator NELSON. May I interrupt a moment?

You say you take on a new responsibility, and then the revenue source, that is, Federal revenue sharing, does not grow as the cost of the program increases?

Mr. LEONE. That is right.

Senator NELSON. Well, I would assume that in your budgeting, you take that into consideration—what your revenue sources are, and what their potential is—do you not?

Mr. LEONE. I can only say this: You have been a Governor, and I think are familiar with the State budgeting process, which is not altogether different from that in Washington. It tends to be more episodic than we would like. Each year is frequently a crisis; you look at what needs you have, your demands always exceed those needs, and you try to apply what revenues you have and hope to get through another year.

And we do not—and I will be frank about it, and perhaps this is largely because of the lack of elasticity in the New Jersey taxes—we are not able to plan a program over the years. It is almost inevitable in New Jersey that you have to have tax increases in order to keep up with expanding expenditures.

All I am saying is that in the particular year in which revenue sharing starts, you have full budgeting. You do not put away any money under that kind of pressure and under those demands. And then you tend the following year not to have any growth, whereas you do in other revenues.

I like the idea of a revenue-sharing program which would be in steps over several years. I like better, the idea of a revenue-sharing program which would include something like the countercyclical approach proposed by Senator Muskie, which would take into account the fact that in years like the current year, we not only have high unemployment, we not only have new needs in welfare or medicaid or unemployment compensation, but we have a decline in revenues because of the extent to which State and local revenues are dependent on business activities, the economic climate, and they are not very elastic.

That kind of approach, as an addition or supplement to revenue sharing, would help deal with the problem I am talking about. I do not know if that is responsive.

Senator HATHAWAY. When you are suffering, we are suffering too. That is one of the problems with the countercyclical approach. How do you overcome that?

Mr. LEONE. I understand that one of our mayors was down a few weeks ago, testifying before Senator Muskie, and said that the States should be left out of the revenue-sharing program because the cities need it more, and they are suffering more than the States, more than the Federal Government.

And he testified before us and asked for more State money because they are suffering more. And I testify before you and say we are suffering more, but we are all suffering.

I might just conclude this presentation, at least by making a couple of points about why we show it in the general pot and why I think that is a good idea, as opposed to some specifically allocated expenditures which would be designated as those funded by Federal revenue-sharing dollars at the State level.

I can only do that by coming back to the previous point, which is, New Jersey is an industrialized, heavily populated State. It has a complicated political and governmental structure; budget decisions emerge from that process involving political figures, the legislature, interest groups. It is the way budgetary decisions ought to be made.

It is my feeling that to set up a separate process for a particular piece of the pie would almost insure that that was not as accurate a reflection as it might be of what the combination of age and interests are in New Jersey that produces this interest. I think you get the best kind of decision out of that political process, and that we do better by dealing with this general revenue sharing, and not a specific set of dollars for specific proposals.

That is all I have to say in a formal way. I will answer any questions.

Senator HATHAWAY. Mr. Leone, thank you very much for your testimony. Your State and a few others are the only ones in the country that do not have some kind of an income tax. And as you know, one of the purposes of revenue sharing was to sort of encourage more progressive taxation within the States.

Could you give us some kind of a reading on what progress you are making toward a State income tax?

Mr. LEONE. We calculate that we would receive as much as $54 million in additional revenue sharing if we enacted an income tax of the kind we are talking about this year.

Governor Byrne has proposed an income tax, largely as tax reform, to replace all the property taxes. We have been fighting that battle since taking office in January of 1973. We passed it through one House—we have used the revenue-sharing argument, I might add—and we are close in the other House. And I still suspect that we will be successful by the end of June. But it is a difficult struggle.

And in the 10 States which do not have an income tax, there tends to be long political tradition against it, and it tends to be very hard to overcome.

Senator HATHAWAY. We could help you by weighting that factor even greater than it is.

Mr. LEONE. I do not think it is unfair. I am not complaining about our share. We have a low tax effort and, therefore, in terms of a national purpose, it makes sense to do it the way it is done.

Senator HATHAWAY. Are there any other problems with the formula?

Mr. LEONE. I mentioned a couple of things about townships in my testimony. Our townships in New Jersey are the same as municipalities, and by splitting the pot that way, in particular counties, it tends not to achieve the results you might want to achieve, because they are competing for different funds. In fact, in New Jersey, unlike some other places in the country, there is no difference—villages, townships, cities—it is a historical thing, and the townships, some of which are much larger than cities, and so on, they are treated as municipalities in New Jersey law, subject to all of the same statutes.

Senator HATHAWAY. Do all of the municipalities in the State have public hearings? Is it a law that you have to have public hearings on the budget?

Mr. LEONE. That is right, publicized in advance and notified in advance of any changes.

We have a very strong local finance law which emerged from the depression, in which all budgets have to be approved by the State division of local finance. They are audited, and one of the things we found, for example, is that the actual use reports tend to vary considerably from the planned use reports on revenue sharing. When we finally finish an audit of a previous year and include the audit of revenue sharing, we find a change has taken place in the course of that year. Our local finance director tells me that you can frequently be misled by dealing with the planned use reports. I do not know if that is a problem Washington is interested in, but there seems to be a good deal of movement from the day of that planned use report until the end of the fiscal year.

Senator HATHAWAY. I would think that is one part of it that probably could be eliminated, as well as the categories, because of the fungibility of the funds. All it is, is a bookkeeping matter, anyway.

Mr. LEONE. That is right.

Senator HATHAWAY. You are only shuffling accounts.

One inequity has been brought to our attention, and that is in the formula on the tax effort. Some say it should be weighted more for the low-income States than others, because say 10 percent of a $5,000 income is a much greater tax effort than 10 percent of a $10,000 income. It does not hurt them as much.

What do you think of that?

Mr. LEONE. I would even argue that other factors ought to be introduced. You take on—New Jersey is a relatively wealthy State on a per capita basis, but it has a lot of people with problems who tend to be very expensive for State and local government—very high medicare, high welfare costs, high levels of support for those things, which could even be taken into consideration without making that formula overcomplex.

I think as it stands, it does not accurately reflect what the demands are on State and local government, and therefore what their needs are for a piece of the Federal revenue pie, which is really what we are talking about.

Senator HATHAWAY. What do you think of Elmer Staats' suggestion that we do not need revenue sharing at all?

He testified here a month ago and said we do not need revenue sharing at all; what we have to do is broaden the categorical aid programs and cut out some of the strings.

Mr. LEONE. I am not a great fan of the categorical aid programs. I think we have spent too much time and effort on bureaucrats talking to bureaucrats about categorical aid programs instead of getting the money out where it can do some good. That is what I like about revenue sharing.

I would simplify the categorical aid programs that have been talked about for a long time here, and then try to reduce—it is a cumbersome process. It is my feeling that the programs have been killed. Urban renewal is a good example. Urban renewal used to take 15 years for an application to finish. The average project was 8 or 9 years.

We do not do ourselves a lot of good in meeting public purposes by adding to requirements, and I think that with proper auditing and accountability, and with judgments made from time to time as to how the money is being spent in areas that have no national impact, that it would be desirable to free up more money, not to tie up more money.

Senator HATHAWAY. In revenue sharing, you mean.

Mr. LEONE. In revenue sharing.

Senator HATHAWAY. You do not think you could just broaden the categorical aid programs to compensate them?

Mr. LEONE. No, I do not.

Senator HATHAWAY. Why not?

Mr. LEONE. Let us take a look at——

Senator HATHAWAY. Say we just had a program that said housing, and all a State had to do was submit a plan for housing and they got the housing money, providing it was a reasonable plan.

Mr. LEONE. I mentioned in my testimony, I was Executive Director of a White House Task Force in 1967. One of the things we proposed to President Johnson, through him, is that you have sort of a block grant or approach where a State submits a plan for housing, health, or something else, and they would get the money. That is not a bad idea. That is not a substitute, however, I think, for general revenue sharing, in which you allow people to set their priorities somewhat differently, and to supplement—it is almost tax reform, their local revenues, which tend to be more regressive. I would not argue against that approach. I think it would be desirable to do that with the existing programs. But you mentioned housing. The only housing that has been built in New Jersey at moderate cost in the last couple of years is State subsidized, and that has been damned little, largely because the Federal programs, which started out to be fairly exciting in the late 1960's, were dried up.

I would not like to see all our resources tied to—I could come in here, in other words, and say we take our $66 million and we use about $6 million for housing because we are not getting the Federal money we were getting. So I just do not think it ought to be tied up. The administration changed. There are various changes in Washington, and yet the needs may remain the same in the State or local government.

Senator HATHAWAY. Do you feel that the hearing requirement that you have is sufficient to protect the interests of all segments of the population, the poor in particular, in various communities?

Mr. LEONE. I do not think that the budgetary process at the State or local level is perfect. But as you know, I do not think that—we have a strong sunshine law; access to information is very broadly interpreted in New Jersey. Groups that are well organized tend, at least, to be heard. But it is also true that frequently a local government meeting is attended by a couple of people who meet at variance, and maybe a reporter from a local newspaper, and that is it.

I do not think that changing the regulations or adding—or making our 30 days' notice 60 days', or making it four notices in the month before, would make a heck of a lot of difference. The system is not perfect. We get participation when there is an important issue. We tend to get it on emotional issues, on the budget hearings; in local government you tend to have the most struggle about education anyway.

Generally, we are not dealing with that.

Senator HATHAWAY. Do amendments to the budget require hearings?

Mr. LEONE. Yes, they do.

Senator HATHAWAY. But the public is informed right up to the end?

Mr. LEONE. We have a reasonably strong law in this particular State. That is why I think the Federal Government might set minimum requirements to take care of places where they do not have such a thing.

But as I mentioned, almost $200,000 for a second set of newspaper advertising, probably does not serve anybody very well.

Senator HATHAWAY. So, you think the danger of frivolous spending, or spending not for the needs, is not very great?

Mr. LEONE. Anyone in public life in New Jersey who said there was no danger of frivolous spending would be misleading the committee; but I do not think it is the process itself.

Senator HATHAWAY. I should not have asked.

Mr. LEONE. I do not think technical changes in the process would help us very much.

Senator HATHAWAY. Senator Packwood.

Senator PACKWOOD. I have no questions.

That is a good answer and I agree with it.

Senator HATHAWAY. Thank you very much, Mr. Leone. We appreciate your testimony.

Mr. LEONE. Thank you.
[The prepared statement of Mr. Leone follows:]

TESTIMONY OF THE HONORABLE RICHARD C. LEONE, TREASURER, STATE OF NEW JERSEY

Senator Hathaway and members of the committee: I am Treasurer of the State of New Jersey and also the State's Chief Fiscal and Budget Officer. I appreciate the opportunity to testify today on New Jersey's experience with General Revenue Sharing.

I think it would be helpful, however, if I first provide you with some background on the fiscal situation and budgeting process into which these Federal dollars flow.

New Jersey has a constitutional requirement to operate with a balanced budget. Consequently, the current year's budget has been cut back by about $144 million to offset declines in anticipated revenues. Our major State tax sources, such as the sales, corporation and motor fuel taxes, are extremely sensitive to shifts in the economy. Because of the current depression, we are actually receiving less total revenue during the current year than we did in fiscal 1974.

The proposed budget of $2.8 billion for fiscal 1976, not including Federal aid, represents an increase of only about 1 percent, the lowest in New Jersey in a generation. The State Legislature, so far, has been unable to agree on a $412 million revenue package needed to balance that budget. Without a revenue package, the budget will have to be cut by 14%, a measure which would have a severe impact on both State and local services—and increase our already very high unemployment rate.

During the current fiscal year, New Jersey is spending 46 cents of every State dollar on aid to its municipalities and counties, 50 cents on State operations, and 4 cents on Capital expenditures. The proposed budget represents no significant change in those proportions.

New Jersey, although one of the most densely population States, has a relatively small State government. We are the lowest in per capita number of State employees and 46th in the Nation in per capita State spending. Federally mandated programs add to the demands on our limited revenue base. Medicaid and Welfare alone cost New Jersey State government a half a billion dollars a year, 17% of our total budget.

The existence of small State government has its roots in a long tradition in New Jersey of home rule—strong local government.

It is here at the local level that I would like to begin considering the impact of of the General Revenue Sharing Funds.

New Jersey's 567 municipalities and 21 counties have received a total of $427.1 million in General Revenue Sharing for Entitlement Periods I through V. Of this, $278.8 million was allocated to municipalities, and $148.8 million to the counties.

During the 1974 fiscal year, New Jersey's counties spent the largest portion of their General Revenue Sharing funds, 46%, on Health, largely a response to the need for community mental health centers. Other county priorities were Multi Purpose General Government (18%), Public Transportation (15%), Public Safety (11%), Recreation (4%), Financial Administration (3%), and Social Services (1%). The remaining categories received less than a percent or no funds at all.

And while New Jersey counties bucked the national trend by not allocating the largest portion of General Revenue Sharing funds to Public Safety, the State's municipalities more than made up for it.

During fiscal 1974, municipalities spent 52% of all General Revenue Sharing funds for Public Safety. When cities are considered apart from municipalities that figure climbs to 67%. The remaining municipal share was spent on Environmental Protection (16%), Public Transportation (11%), Multi Purpose/General Government (5%), Recreation (4%), Libraries (2%), with less than a percent or none at all for the other categories.

The decisions to spend the dollars in these categories were made at the local level within the framework of the budgetary process, a process which in New Jersey lends itself well to the management of General Revenue Sharing funds and provides the opportunity for citizen participation.

Since 1940, New Jersey counties and municipalities have been required to conduct public hearings on their budgets and to publish in the local press the proposed budget and notice of the hearing 30 days in advance. Any changes in the budget, as presented at the public meeting, must be approved by resolution at yet another public meeting.

When General Revenue Sharing was enacted, the New Jersey Division of Local Finance, which must approve and audit all local budgets, immediately adopted regulations which made these funds a part of local budgets, and thus, subject to all of the requirements for public participation, as well as fiscal controls.

I would note here that the audit of every municipal and county budget conducted annually by the Division of Local Finance is accepted by the Federal Office of Revenue Sharing as the required audit of General Revenue Sharing Funds.

I have been referring to New Jersey's municipalities and I would like to point out here that there is no difference in powers or responsibilities among the State's cities, borough, towns, villages or townships. Therefore, the General Revenue Sharing program's treatment of townships in New Jersey as distinct from municipality results in inequities, which probably do not surface in relation to the "townships" of the Midwest.

Specifically, below the "county level", the General Revenue Sharing formula is designed to allocate on the basis of relative adjusted tax effort, two shares of funds. One share is provided to all "no township" municipalities in a county area, and the remaining sum is shared by the group of municipalities called townships.

As an example, one urban county in New Jersey has 22 municipalities, including four townships. The borough, towns, and villages compete within the non-township allocation along with the State's largest city, and seventh largest city. The largest city receives the maximum allowable Revenue Sharing allocations. The townships compete among themselves with the following result: The four townships as a group receive just over $11.00 per capita; the non-townships which are comparable in terms of population and tax effort, although poorer in terms of per capita income, receive, exclusive of the two large cities, approximately $7.40 per capita; one of the towns with a higher population, greater tax effort and identical income to one of the townships in the county receives $6.50 per capita compared to $16.50 per capita for the latter.

These results serve to present the non-township municipalities at a disadvantage—an unnecessary disadvantage—in urban states where some townships have populations exceeding 50,000, 80,000 and even 100,000. I hope that the Congress will consider the law to take account of this regional variation.

The balance of my testimony will focus on the State use of General Revenue Sharing dollars.

As required by law, General Revenue Sharing receipts are placed in a trust fund. In New Jersey these funds then move directly into the General State Fund as needed to support general state expenditures. This procedure has been accepted by the U.S. Department of the Treasury, and seems to me an entirely proper one—in harmony with the basic purposes of the law.

New Jersey does not get as much as similar states; our $66 million allocation represents just over 2% of the budget. This is principally because of the State's per capita wealth, and its lack of an income tax.

By "spreading" revenue sharing dollars across the state government, we may have made it difficult to "trace" their use, but I hope we have also called attention to the general need for funds at the State level—for a host of necessary public purposes.

The Committee probably is familiar with the evidence that State and local governments are in a period of retrenchment—with widespread tax increases and cuts in services. One Congressional subcommittee has estimated that these austerity measures have caused a drop of $8 billion in purchasing power. I think these figures are only the beginning of a very grim State and local fiscal picture that threatens to undermine the Federal efforts to stimulate the economy.

Inflation and the rising cost of services have caused many states to cut back drastically. A survey of 48 states indicates that taxes will have to be raised in 20 by $2.1 billion. Another 22 are reducing their services by $1.9 billion and delaying $400 million in capital construction. Only four states plan to reduce taxes, and this by only $50 million.

Local governments are experiencing similar losses. The 140 surveyed indicated that a combined FY75 surplus of $340 million has been depleted, and they are faced with a combined deficit of $40 million. This trend has led to tax increases of $1.5 billion, spending cuts of $1.4 billion, and cancellation of plans to spend $600 million in capital construction.

When the FY75 budget for New Jersey was prepared, it was estimated that we would end the year with a surplus of slightly over $6 million. The severe turndown in the economy, steadily rising unemployment, a fall-off in revenues have all contributed to a severely tightened budget, including deferrals of over $100 million in State projects and services.

New Jersey is not alone. New York has a fiscal gap of nearly $600 million. Connecticut has cut spending by $40 million and still has a deficit of $90 million. Florida's surplus is gone. California's has already dropped from $500 million to $400 million and a further drop of $350 million next year is anticipated.

These facts suggest that this is scarcely the time to cut back on general assistance to State governments.

In New Jersey we have come to view revenue sharing as a stable and valuable source of funds. In size it compares roughly, for example, with our receipts from inheritance taxes or with a half cent State sales tax. The integration of this Federal source into the State budget is complete. In other words, the direct result of the elimination of revenue sharing would be to force us to raise taxes, and probably also to cut State services and aid to municipalities.

We need a continuation and would hope for an improvement.

One obvious deficiency of the current law is that the funds do not grow. Yet the services we add or underwrite with revenue sharing dollars always increases in cost. The Ford Administration has proposed a modest growth factor of $150 million a year. The same Administration has projected much higher rates of growth for inflation. And, the cost of government services tends to increase at a rate which exceeds the general rate of inflation. Our planning for revenue sharing funds will be inhibited by this unrealistic limit on growth. In fact, a continuance of the current pattern or only slight improvement will increase the need to raise State and local taxes.

Perhaps the best way to deal with this problem is through Congressional action on some form of countercyclical revenue sharing such as that proposed by Senator Muskie in S. 1359. Personally, I would strongly advocate this approach, as an addition to general revenue sharing.

Earlier I tried to outline the technical aspects of our handling of revenue sharing funds because I know of the Committee's keen interest in that subject. We could apply a fair amount of ingenuity to the ways in which this process might be changed in order to make it easier for the Federal government to understand the impact of this sort of assistance to State and local governments. And I suppose we could come up with additional conditions to apply to the process we use to decide how to spend these funds. But all of that, it seems to me, would be contrary to what I hope is the basic purpose of general revenue sharing: And that is to provide State and local governments with additional resources in order to deal with the priorities and problems they identify as critical to the people they serve.

A modern highly industrialized State like New Jersey has a complicated political and governmental system. Budget decisions are arrived at through a process which is much like that in Washington, albeit a smaller scale. Cabinet officers spend days in hearings before legislative appropriations committees; interest groups and citizens testify. Internally, our budget officers work year round holding hearings for departments, analyzing requests, making recommendations. Most of the principal political figures in the State become involved in one stage or another of this process. What I have said is the obvious. While the system is not perfect, it is something we learn to live with and are able to change only within the margins.

I would argue that for the State of New Jersey to deal with revenue sharing in a different way would inevitably lead to a distortion of priorities for the State, and more directly we would probably not do as good a job of budgeting those funds. We in State and local governments frequently set budget priorities in response to where you, in Congress, provide the Federal dollars. To that extent, Federal programs already warp decision-making at the State and local level. And I understand that this is intentional, where there is a specific Federal purpose involved. But, if the purpose is to share revenues with State and local govenrments, then it seems to me very important to allow them, within certain limits, to make the decision through their regular processes as to how those funds should be allocated. (And I might note that the most obvious of those "certain limits" are the anti-discrimination factors which presently apply to revenue sharing.)

Perhaps it is because I am from the New Jersey State government and we are 50th in per capita number of State employees. But I always marvel at the size and depth of the Federal bureaucracy. I am likewise always troubled by the extent to which public monies are spent under the grant-in-aid programs in the course of the cumbersome administrative procedures. These procedures, by and large, involve State and local bureaucrats, talking sometimes apparently endlessly, with Federal bureaucrats. From our perspective this numbing process from time to time brings forth a grant and we then are properly grateful. What troubles me is that we are spending all these public dollars to pay public employees who are in fact providing no direct service to the public.

The actual services tend to be provided at the State and local level. And it seems to me it ought to be a goal of the Federal government and of the Congress to find ways to get the money to where it can be spent to pay teachers, doctors, nurses, and policemen, instead of to pay specialist in "grantmanship" at State and local levels and specialists in what I can only call "anti-grantsmanship" at the Federal level.

I think revenue sharing is a good idea that ought to be continued. As I have stated, the counter cyclical approach to additional revenue sharing should be piggy-backed on the current formula; but I would go further. I think the Congress should consider basic reform in Federal aid. I am thinking of block grants for health, education or other purposes—grants which might be required to conform with some long-range plan but would not bog us down in interminable simultaneous negotiations among bureaucrats.

In 1967 I was Executive Director of a White House Task Force on the Cities set up by President Johnson. We urged simplification of the Federal aid system. We wanted to see money move more quickly. We noted the unbelievable delays in programs like urban renewal delays which contributed mightly to their downfall. In the 8 years since that panel made its report, with the exception of general revenue sharing, there has been very little progress in that direction of reform and simplification. Programs have been cutback; but that is not exactly what we had in mind.

Indeed, in many respects things have become more complicated. My guess is that revenue sharing is about the only thing we get today which doesn't require an environmental impact statement. It is one of the few durable things we have. We do receive medicare and welfare funds and the like every year, but they require us to spend more and more. Revenue sharing, on the other hand, represents a contribution to our revenues which we count on. And that shifts me to the other side of the equation—the revenue side as opposed to the spending side.

We have talked about the way revenue sharing funds are spent and the way decisions are made as to how to spend them. From the perspective of a State fiscal officer, however, their most important attribute is that they do not require us to increase generally regressive State and local taxes. Seen as a revenue source they are alternatives to higher motor vehicle fees, cigarette taxes, gasoline taxes or property taxes. The taxes are far less fair than even the flawed Federal tax system.

I think you will find that under current conditions most State and local government officials spend much more time worrying about how to obtain revenue rather than how to spend it. We are heavily engaged in expensive areas of the public sector. Our local governments desparately cry out for more State aid. Our revenues on the other hand tend to be much less elastic than those of the Federal government. We are in a race in that we cannot win without regular tax increases. Elimination of revenue sharing would aggravate that problem and add to the economic woes of taxpayers.

In short, the basic concept remains sound—and the need is more urgent than ever.

Thank you.

Senator HATHAWAY. Our next witness is the Honorable Charles Warren.

Mr. Warren is a member of the Committee on Ways and Means of the California State Assembly.

Welcome to the subcommittee, Mr. Warren.

Do you have a prepared statement, or are you just going to talk from your notes?

Mr. WARREN. I am going to talk from some notes, Mr. Chairman, and Senators, if you do not mind.

Senator HATHAWAY. Go right ahead.

STATEMENT OF HON. CHARLES WARREN, MEMBER, COMMITTEE ON WAYS AND MEANS, CALIFORNIA STATE ASSEMBLY

Mr. WARREN. I received a call the day before yesterday by the chairman of our ways and means committee indicating his desire to be here personally to make the presentation to you. However, he was preparing the budget for submission to the house next Monday, and inasmuch as I was already here, in an attempt for fiscal conservatism, he suggested that I appear here in his stead.

Let me suggest that I will ask that a formal statement be submitted to the committee, if I may, covering the points which your questions to prior witnesses have indicated are of interest to you.

First off, let me further disclaim by indicating that I was here in the first instance to attend a meeting of the Federal Energy Administration. I am chairman of the energy commission's materials committee in my State, and a member of the ways and means committee; so I am not exactly a fiscal budgetary expert, but I will try to give you some information which I think may be of interest to you.

I think it is fair to say that California shares the experience of other States and other local governments in the experience with the State and Local Fiscal Assistance Act of 1972, when thereafter the revenues provided by that act became an integral part of California's fiscal condition.

We had a unique history. In the following year, in 1973, our then-Governor Reagan managed to break the concrete in which he placed his feet and agreed with the legislature that we should go to an income tax withholding program. As a result of the conversion to withholding, there was a one-time budgetary surplus to the State of California which, in combination with the first increment of re enue sharing, made for general and widespread public comment as to the disposition of those funds.

For the most part, our intention was devoted to increasing the amount of assistance to local school districts and an attempt to correct what appeared to be the inequities of overreliance on property taxation, which is the major form of taxation available to counties, cities, and school districts in California.

Essentially the legislature agreed that the first draft, the first call on the money allocated to the State by the revenue-sharing program should be devoted to education; and of the approximately $900 million that the State has received since, we have devoted all but $65 million to local assistance for educational purposes.

The $65 million excepted from that allocation was used on a one-time basis to implement the welfare provisions of H.R. 1 in 1973. I suppose I should point out that the State assists local school districts, and the school districts have jurisdictional boundaries which do not necessarily coincide with either cities or counties. They are independently managed, locally elected school district boards. The State assists in three ways. We give what is known as ADA, average daily attendance, a per-pupil allocation in each school district. We have an equalization formula based on any inequities which appear as a result of property tax assessments for each of the districts. Then we have a categorical aid program where the State funds special programs such as remedial reading, bilingual education, compensatory education, early childhood, and so forth.

The other five points that you asked be discussed in your notice of hearing can be answered, I think briefly, as follows. California, in its allocations of revenue-sharing funds, treats them in a process which is the same as the ordinary budgetary process in State government. We have full open public hearings. All meetings are open to the public, including joint conference committees, including the rules committee. The only exception to the requirement that there be notice to public hearings is rules committee, when it considers personnel matters; but in other respects we have a very strong open meeting act, known as the Brown Act, which we have, by amendment, extended to almost all categories of governmental activity. In fact, it is forbidden for members or public officials to meet or gather at any occasion which might appear to be a meeting. That is contrary to law. So, it is a very strong, well observed rule.

We have, in terms of the budgetary process itself, a senate finance committee and a ways and means committee, each of which is broken down into subcommittees to consider various aspects of the budget. Each of those subcommittees has open hearings. The budgetary items considered by each of the subcommittees is noted several days in advance, which gives an opportunity, I think, for full public expression and determination of fund allocation.

You also indicated an interest in having us compare our experience with general revenue sharing as opposed to other major Federal programs. Inasmuch as we have included revenue-sharing funds in our regular budgetary process, any comparison is difficult except, all things considered, I think California would have to agree that revenue sharing is preferable to matching fund programs and special grants.

We recognize on the State level, as I hope is recognized on the Federal level, that there is a great diversity among communities and among States, which diversity is probably best perceived by government at the local level; and to the extent that it is properly recognized at the local level, I think State and Federal Governments should recognize that service.

You also asked what legislative State modification might be suggested in the Federal revenue-sharing program. We recommend that an additional element be added to the program, and that element to include an approach to the countercyclical problem which confronts California and other States and local governments generally.

The State of California, as are other States, is constitutionally required to have a balanced budget. It cannot deficit spend when economic activity is slow and the State experiences a shortfall in revenue. Thus, in such times when we have the hard choice of reducing necessary public services such as public assistance and education, or increasing taxes, and the tax increase, if that is an option we select, is often counterproductive to what the economic circumstances require.

During the 1969-70 recession, the State had to resort to an immediate tax increase to maintain spending for State programs. Then again, in 1973, when the economy was booming, we had a surplus due to the one-time windfall, due to income tax withholding and revenue sharing, as I have indicated earlier.

Now, a portion of this surplus that we had in 1973 we kept as a cushion for the following year's budget, and the remainder was rebated to the California taxpayer as an income tax reimbursement to cushion the effects of converting to withholding.

This year we estimate that the State will have a modest surplus of about $135 million at the end of the 1975–76 fiscal year. But inflation continues to eat at State programs; and if the economy does not turn up as anticipated, we may face the same dilemma we had in 1970, which is a hard choice, as I indicated, of cutting back essential services or imposing additional tax measures at a time when they are not indicated by accepted economic policy.

One way we suggest to relieve the States and local governments of this pressure is to make a portion of the revenue-sharing funds countercyclical. During good times, when our revenues match our expenditures, that portion of the revenue-sharing funds could be reduced. During poor economic times, revenue-sharing funds could be increased.

A countercyclical element in revenue sharing would relieve us of some of the problems resulting from the fiscal inflexibility typical of State and local governments.

We would also like to recommend that Federal revenue sharing provide for permanent trust fund financing, and that a minimum 3 to 5 years of advance appropriation. In our deliberations on the forthcoming budget a key element involved estimating future tax receipts and other revenues such as revenue funds.

We must know with a high degree of certainty what the degree of revenues will be in the coming fiscal year. When uncertainty exists we cannot effectively plan our State budget, and since two-thirds of our general fund budget goes for local assistance, uncertainty at the State level compounds the budgetary problems at the local level.

If we knew that revenue sharing would continue and the amount of revenue that could be expected, we could more effectively plan our budget, and the local governments could, in turn, more accurately rely and more confidently rely on this resource for ongoing programs, rather than one-shot capital outlay projects as in the past.

Finally, you asked for a comparison of general fund and revenue-sharing receipts and expenditures, and I might set them forth for the 4 fiscal years as follows.

For fiscal year 1972–73, we received revenue-sharing funds of $235 million, with a general fund budget of $5.6 billion. In 1973–74, the amount of revenue sharing decreased to $231 million, whereas we had a substantial increase in our general fund budget of $7.3 billion. In fiscal year 1974–75, the revenue-sharing funds again receded somewhat to $230.7 million, whereas we again experienced a substantial increase in our general fund budget to $8.5 billion. In the fiscal year upcoming, 1975–76, revenue-sharing funds were in the neighborhood of $225 million; our general fund budget will be about $9.25 billion, indicating that Federal revenue sharing is about 2.4 percent of our general fund budget.

In each year we are appropriating $215 million for local assistance to education, the remainder being utilized, as I indicated, for that one-time basis in 1973–74, of $65 million for implementation of H.R. 1 social welfare costs.

I believe that concludes my statement, Mr. Chairman.

Senator HATHAWAY. Thank you very much, Mr. Warren.

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What part of California do you represent?

Mr. WARREN. I represent urban Los Angeles. I am in Los Angeles City. But we have, in the legislature, gone to a biennial full-time session, and so there are increasing numbers of the legislature, as I have personally, who find that they are living most of the time in the State capital of Sacramento, as you are in Washington, D.C.

Senator HATHAWAY. There are many good aspects of countercyclical approach, but the problem is that it just increases the Federal deficit. We are suffering from lack of revenues usually at the same time you are.

Mr. WARREN. That is right. But that is an option we do not have.

Senator HATHAWAY. Do you have it in a way you could bond for capital expenditures instead of using, say, revenue sharing funds?

Mr. WARREN. Yes; we do have a bonding program for education construction. For capital outlay projects of that kind we have bonding for water projects, education capital outlays.

Senator HATHAWAY. Are they subject to a referendum?

Mr. WARREN. Yes, they are.

Senator HATHAWAY. So in that way you can sometimes get some funds that you would not otherwise have.

Mr. WARREN. But usually you are going to the voters for approval of a bonding measure at a time when they are not inclined to approve—under the worst economic circumstances.

Senator HATHAWAY. Right.

As you stated, all of the legislative hearings are open to the public. That does not mean the public could participate in them. They could sit there as they are sitting in this room now.

Mr. WARREN. That is correct.

We are beginning to experiment in California with a governmental device which—well, in one instance, at least, we called the administrative adviser, which because of the sensitive nature of the subject to be considered, it is the responsibility of the administrative adviser to develop public participation, comment, and criticism. The administrative adviser exists in the new Energy Resources Conservation and Development Act, which was passed last year. Because of the nature of the political decisions which have to be made, that is, the number of powerplants, their character, their siting, we felt it was necessary to affirmatively encourage public participation in these public hearings. So an independent office was created of the administrative adviser to do that.

I would assume that this would be somewhat similar to your consumer affairs representative which, I understand, Congress is now considering.

Senator HATHAWAY. The Senate just passed it.

Mr. WARREN. This concept, I believe, will be expanded upon in California; but I do not believe in all areas, only in those which are identified as the most sensitive and perhaps relevant.

Senator HATHAWAY. Did you say there is a State sunshine law, so that all municipalities have to hold hearings on their budgets—counties and so forth?

Mr. WARREN. Yes, all municipalities.

Senator HATHAWAY. At these hearings the public actually can participate?

Mr. WARREN. Yes.

I would like to say, when I left Sacramento Tuesday morning, it is a good thing we did not have an octagonal capital, because on each of the four sides of the capital we had marches and demonstrations; we had the doctors and nurses on one; we had Caesar Chavez and the farmworkers on the other; we had the teamsters on the other side; and then we had a jazz band formed by inmates at our various prisons.

Senator HATHAWAY. Which side did you leave from?

[General laughter.]

Mr. WARREN. I went out through the garage exit.

Senator HATHAWAY. And took a subway to the airport?

Mr. WARREN. We used to have in California license plates designated, you know, S for senator, A for assemblyman, and a number of other representatives designated on plates. In the recent months. because of the demonstrations and activity at the capital, everybody has converted to the ordinary license plates to seek some anonymity from the process.

Senator HATHAWAY. Do you have any quarrel with the allocation formula?

Mr. WARREN. No. We have no specific quarrel with the means by which the allocation is determined.

Senator HATHAWAY. Do you think the low-income States ought to get a bigger share by weighting it a little bit more for their tax effort.

Mr. WARREN. I agree with the preceding witness. I am not sure. It depends on how you determine low income. You know, averages can be concealing as well as revealing. If you have a group which is composed of low income, and then another group of high income, the average—well, somewhere in the middle would not necessarily reveal the number of problems that exist. On the other hand, if you have a jurisdiction where there is fair general distribution of income, I think problems are generally fewer, although on the average the income would be less.

For example, we met this again in education in our efforts in the last few years to determine an urban factor. Looking at some of our urban areas on an average income basis, it would appear that their problems should be fewer. But upon analysis, the problems were greater, and they were greater because we identified generally in the category of this urbanization cost; and we feel that this is an element which is not reflected in other school districts. So we have been trying to build in an urban factor to give additional funds to areas where average income figures would indicate that we do not need, but in actuality the need does exist. So I think that, while sounding fair, it has to be examined very carefully.

Senator HATHAWAY. California has a State income tax?

Mr. WARREN. Yes.

Senator HATHAWAY. Are you familiar with the piggybacking section of the general revenue sharing law, title II, which is an option open to any State to have their State income taxes collected? No State yet has taken advantage of that, and I wonder if you have any knowledge of why California has not.

Mr. WARREN. I believe the top income tax now is 13 percent, which I think is one of the highest among the States. We have not seen the need to piggyback on the federal system.

Senator HATHAWAY. Do you think progressive taxation should be a big factor in distributing the money? That is, the State that has more progressive tax would get more revenue-sharing money, all other factors being equal, than another State?

Mr. WARREN. Yes, I do; because actually what we are attempting to do here, I think—or what we decided to do in large part—was to attempt to deal with the problems of local school districts, cities as counties, all of which have to depend upon a tax base which is more regressive than ours. And I suspect that our State tax system is more regressive than the Federal tax system. We rely principally on the income tax, on the sales tax, part of which we subvent to these counties and school districts. I think our sales tax is 6½ percent, again one of the highest.

Senator HATHAWAY. Is that on everything?

Mr. WARREN. No. We do not have it on so-called essentials, such as medical care, food, clothing, and rent. We do not impose that on the essential services or utilities.

Senator HATHAWAY. And many of the witnesses testified that we should not mandate certain categories within which the money should be spent. I suppose you agree with that. It is sort of a bookkeeping entry, anyway.

Mr. WARREN. You mean insofar as revenue-sharing funds?

Senator HATHAWAY. Yes.

Mr. WARREN. Oh, yes. I agree wholeheartedly with that.

Senator HATHAWAY. How about using revenue sharing for matching funds for Federal programs?

Mr. WARREN. You mean convert revenue sharing into a——

Senator HATHAWAY. You cannot do it now. You are not supposed to do it. But of course, you can get around that the same way you get around the other.

Mr. WARREN. I would discourage any inclination to use revenue sharing for matching fund purposes, for earmarked projects.

Senator HATHAWAY. What if a community's biggest needs could be fulfilled by some Federal categorical program? Why should they not be able to use the revenue-sharing funds to match, so they can fulfill that need?

Mr. WARREN. It depends on who determines the need. In fact, it has been suggested that—well, I will withdraw that, because I am not sure this reflects whose point of view. I think it would be a mistake, as I believe it is a mistake for the Federal Government to have a requirement of matching funds for designated projects, as a condition for the receipt of Federal assistance. There may be highly sensitive, well-recognized areas where that can be done, or that should be done; and to those limited extents, it may be proper. But it is an option which I think the Federal Government should exercise carefully, and recognize that it should be exercised only in those exceptional circumstances; and that the general rule in this should be to further the program similar to that which is now being employed in the current revenue-sharing program. Indeed, if I would recommend anything, it would be that the funds be filtered through the State legislature for local distribution; maybe mandating local distribution, but in a manner and in a formula in which there is State input.

Senator HATHAWAY. On the two-thirds share, you mean that goes to the locality?

Mr. WARREN. I think the allocation, the amount to be allocated, should be the same, but I think with some input as to how those funds should be expended. On the one hand, I am telling you to keep your nose out of our business, and on the other hand, I am saying, well, let State government make these decisions. So I want to be very careful how I articulate this thing, and I think there are proper areas reserved for both, and recognition of those areas sould be given, and we should constantly be aware of them.

Senator HATHAWAY. So that you would set up guidelines for the mayor of Los Angeles, for example, on how he should spend his money?

Mr. WARREN. Well, in some areas, yes.

Senator HATHAWAY. But if you should do it, why should we not do it?

Mr. WARREN. Well, I was going to say I recognize that counterargument. Well, I think this; we have one effort. I believe that State governments can be improved, and I really think that perhaps that is the proper role of the Federal Government: To make the governmental processes more open, more responsive. And that I applaud. But once you have made them open to make them more responsive, then I think we have to recognize, hopefully, their increased responsibility and their responsiveness to the public needs of their own State.

Senator HATHAWAY. Right.

Mr. WARREN. If you make them into good institutions, or better institutions, then you have got to give them the means by which to exercise the responsibility. I think this is one way to do it. You know, sitting in your chair, looking at the type of governments which exist in all of the 50 States, I suspect I would have the same concern. But, on the other hand, sitting in my chair, recognizing that in the State of California—the improvements in the legislative process have been accomplished over the last few decades, makes me feel it is a very responsible body, and that there are increased roles that the State legislature should be assigned. I think that we can function as an arm of the Federal Government, at least in our State, better than you might think we can.

Senator HATHAWAY. And, of course, the basis for letting this money out without any strings attached is that we do feel now that the various governmental entities, or units that are receiving the money, are responsible and that they do have public hearings to keep them responsible.

And, consequently, any unit should have no strings attached, whatsoever, whether they are Federal strings or State strings, or any other outside governmental entity strings.

Mr. WARREN. I do not see how you do this, I really do not. I think that any attempt to put strings on——

Senator HATHAWAY. That is, in effect, what we have been doing for the first few years of it. Even though there have been categories on the books, you do not necessarily have to adhere to them.

Do you see that there may be some erosion or weakening of local government, as Federal revenue sharing increases—assuming it does increase?

Mr. WARREN. That there is erosion of local authority?

Senator HATHAWAY. You do not have responsibility for raising the money any more, at least in part, and if this keeps growing, as it may well grow, is that going to weaken State and local government?

Mr. WARREN. No, I do not believe so. I see, essentially, a reversal, frankly. I think it is fairly common to believe that—and it is very commonly accepted—that for a long while there was an erosion in the authority of local governments, but I am not sure that that process continues. Indeed, it may be reversed.

Local governments have, because of their accessibility, the most responsive level of government, but I am not sure that it is the most responsible level of government. And I feel that it may be that their "irresponsibility"—and that word is in quotes—is a reflection of the present fiscal constraints.

The only major revenue source available in our State, at least, to cities, counties, and school districts, and this whole additional arm of local government, the special districts which also have taxing authority, is the property tax.

And the property tax, I think, as everybody recognizes, is a regressive tax. It is one which causes considerable public concern when it is abused, or when it is utilized.

Because of the fiscal constraints, I think the cities, counties, school districts have all been obliged and forced to turn to State legislatures and the Federal Government for assistance, else their hands are tied. And I think that assistance should be given by both State government and Federal Government—the Federal Government, certainly, in terms of revenue sharing without strings attached, because they know what their problems are; and by State legislatures, as giving them direct financial aid such as sharing sales tax with them and other revenues that we have, and by giving them additional taxing authority.

So, my feeling is that local government should be assisted to a greater extent than we are doing now. And, if we do that, I think they will become more responsible in responding to the public pressures, or to the public will, of which they are peculiarly aware.

I do not know whether I made myself clear on that.

Senator HATHAWAY. What I am concerned about is, is there any danger, since it is pennies from heaven coming from Washington, you do not have to raise it locally even though it was raised locally in the first place before it went to Washington, is there any danger they would look at it as if it is found money, rather than earned money, and therefore you do not have to scrutinize expenditures on found money as closely as you would from earned money?

Mr. WARREN. Let us say I have not experienced that. It may exist but, by and large, I know of no level of government which is unaware, in its budgetary processes, of the need to be prudent and conservative.

Personally, I am not fearful that they would be less than prudent in their appropriations expenditures.

Senator HATHAWAY. Well thank you very much, Mr. Warren.

Mr. WARREN. Thank you very much, Mr. Chairman.

Senator HATHAWAY. We appreciate your coming here today.

Mr. WARREN. It was my pleasure.

Senator HATHAWAY. Let us see, our last witness is Mr. Jack Waller, legislative representative of the International Association of Fire Fighters, and he is accompanied by Mr. Walter Lambert, director of research of the International Association of Fire Fighters.

Do you gentlemen have a statement?

Mr. WALLER. Yes, it is very short, Senator. We only attempt to make about two points in it.

Senator HATHAWAY. Good.

STATEMENT OF JACK A. WALLER, LEGISLATIVE REPRESENTATIVE OF THE INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS, ACCOMPANIED BY WALTER LAMBERT, DIRECTOR OF RESEARCH OF THE INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS

Mr. WALLER. The International Association of Fire Fighters wish to express our deep appreciation to the chairman of the Senate Finance Committee for conducting these hearings. We appreciate very much having the opportunity to express to the chairman and the members of the committee the feelings of 182,000 professional firefighters who make up the membership of the International Association of Fire Fighters, AFL–CIO, CLC.

For the record, my name is Jack A. Waller, legislative representative of the International Association of Fire Fighters, and I am accompanied this morning with Walt Lambert, the director of research of the International Association of Fire Fighters.

Historically, Senator, you know that firefighters of this Nation have supported legislation that would secure adequate revenues to the local governments. We believe that in most States the tax structure is so constituted, that the Federal Government and the States, either by law or excessive use, preempt from municipal use many of the sources of revenue.

For example, we would cite the income tax which is utilized by all but 10 states and the Federal Government, and also the sales tax which is utilized by practically all States, and we could go on and on with other taxes that are preempted in the same manner.

It is our belief that the constitutions of almost every State precludes a county or municipality from engaging in deficit spending. I realize that these governments in some instances may float bond issues to meet capital outlays, but the amount of the bonded indebtedness must conform to the municipality's ability to pay, and I think this has been brought to light most recently in the city of New York.

Today, we continue this support, as we have in the past, and hope that you will not only continue, but expland revenue sharing, at least in amounts equal to the inflationary trends of this Nation, so that the municipalities of this Nation can hopefully maintain, or regain, the financial vitality to rejuvenate the cities of this Nation.

We are happy to participate in supporting this type of legislation and we are also cognizant of the responsibility in the areas of the dispersal of these funds.

I know that you are aware that section 103 of the conference version of the 1972 legislation provides that funds received by units of local government may be used only for priority expenditures.

Now this section defines priority expenditures, in pertinent part, as ordinary and necessary maintenance and operating expenses for public safety—including law enforcement, fire protection, and building code enforcement—and it goes on with public transportation and the others that you are well aware of.

In the International Association of Fire Fighters, we wholeheartedly support the above-mentioned priority expenditures as spelled out in the law. We have one serious problem, and that is that we feel that too much of the general revenue-sharing moneys that revert to our local communities no longer go to paying the expenses for the maintenance of the vital services of our communities, such as fire and police protection and building code enforcement.

We would be the last organization to stand before you and deny the very difficult job that the Federal Government has in enforcing the requirements of general revenue sharing.

The use of general revenue-sharing funds, as reported by State and local governments from January 1, 1972, to June 30, 1974, indicates that 36 percent of the funds allocated to municipalities was expended for public safety.

Now we sincerely believe that this data clouds a serious situation that we refer to as "revenue shifting." In many cases, local or State governments have indicated an increase in revenue-sharing funds to a priority agency without a comparable increase in relationship to the appropriations for that agency. Priorities are meaningless if they are simply used as a cloak to hide the true expenditures of revenue-sharing funds.

We are hopeful that some accountability will be required in any legislation that passes the Congress. We hope that the Federal Government will continue reverting back to the municipal governments of this Nation a reasonable amount of Federal funds that originally were collected in those various municipalities.

This accountability must assure that a reasonable portion of revenue-sharing funds are expended for the much needed public safety priority areas.

The International Association of Fire Fighters realizes that every effort must be made to change the tax structure of most of our municipal governments so that the property tax can be held at its present levels and in those areas where it has risen too high, that it has become a regressive tax, that it can be reduced.

Most cities exist on the property taxes, amusement taxes, excise taxes, sales taxes, B. & O. taxes, utility taxes, and we all know that all of these taxes are in no way based upon the ability of an individual to pay, but in all cases—with the possible exception of the property tax—are based upon the necessity to spend.

In conclusion, the International Association of Fire Fighters goes on record in supporting the continuation of and the expansion of revenue-sharing funds to local governments with a hope that a way can be found to prevent the continuation of "revenue shifting."

That is our statement, Mr. Chairman.

Senator HATHAWAY. Thank you very much for your testimony. You are one of the few people who state we ought to maintain the categories. Most of them have said we should not, and give them a free rein to spend the money any way they want.

As a practical matter, they can because the funds all go into one pool and they can say whatever they want with the Federal dollar and how it was spent. As you point out, that does not necessarily mean there have been increases, overall, even though they might show increases in the Federal revenue-sharing funds.

But, if we do what you want us to do, we would have to scrutinize the entire budget, I suppose.

Mr. WALLER. I guess that is what we are asking. I think if you scrutinize them in one or two places, and shut off the revenue which you have, which the Federal Government has, in at least one or two instances, I believe the ill would be cured quite rapidly.

Senator HATHAWAY. It may be a very difficult job to do. We are sort of going in the direction of letting the municipalities and local governments spend it where they want, hoping that the requirement for public hearings and input from everybody who wants a share of the money, will be sufficient so that the municipalities will spend the money wisely.

What you are asking is for the Federal Government to be a lobby for you, in effect. Is that not right?

Mr. WALLER. Well, at least to be the watchdog over the expenditures of these funds, to a degree, after they arrive in the community. And we agree with the priorities spelled out in the present legislation, only our belief is that those priorities are not being lived up to; that it is saying that the public safety people got 39 percent of the revenue-sharing funds in that community when in reality that did not increase the budget of the public safety department, because it is taken off at the other end.

Senator HATHAWAY. Right. That does not help at all. It might be too difficult a job, though, to get into, to determine if they gave you $2 more, whether that was sufficient out of the big chunk they got from the Federal Government, or should they have given you $2,000 more.

Do you not think you have sufficient influence in the municipalities? Do not the firefighters generally throughout the country say they have sufficient influence to get their share?

Mr. LAMBERT. Senator, I do not think so. It depends on the area that you come from. I am thinking of another problem in here. We have a practical problem and a political problem and we are worried.

We support revenue sharing. We are worried that those people that are opposed to the Federal Government becoming involved in that area, opposed to federalism, and so forth will take the lack of the Congress to set up some guidelines, will take that and use it against revenue sharing.

That is one of our fears, that they will attack Congress and say, just hand the money back to the cities, and instead of the money being spent for the crucial, critical priorities services, look where the Federal funds went to.

And then there are some problems in this area. We have already had some of that, so that is one of our problems.

Mr. WALLER. I am sure you are aware, even here in Washington, D.C., we are being threatened by massive layoffs of police and fire, right at the most crucial time when arson is just going rampant in this country; and, for example, here in Washington we are expecting the bicentennial next year, and they are talking about laying off thousands of police officers when actually they should be talking about increasing the police force.

So, when your question is, do we think we are getting our share, I think the answer has to be maybe, no, we are not.

Senator HATHAWAY. Well, take that for an example. Does not the government of the District of Columbia realize they are going to use more policemen? And should not the policemen be able to convince the local government of that fact, and get them to appropriate more money for hiring additional police officers? Why does the Federal Government have to talk with them?

Mr. WALLER. I have reached the conclusion that I think public safety is being used at the present time.

Senator HATHAWAY. Being "used"? What do you mean?

Mr. WALLER. To extract a greater amount of financial assistance from the Federal Government, showing it as a horrible example of a priority service that needs expansion at this particular moment, throughout the whole Nation—both police and fire. And, at the same time, the cities are saying, we are going to lay those people off.

So it certainly would make the need for Federal assistance greater in the municipalities, I feel. So I have a feeling just inside of me that is just my own, that in some cases we are just being used in this field.

Senator HATHAWAY. You mean they are demanding more assistance from the Federal Government, and spending the Federal money we already given them for other purposes?

Mr. WALLER. Yes.

Senator HATHAWAY. Well, suppose we just answer them by saying we gave you so many dollars for that and you did not use it. That is your tough luck.

Well, certainly the issue that you raise will be one that we will consider. It will probably be a heated topic of controversy when we get to markup over this bill because there are arguments on both sides as to whether we should maintain the categories or not maintain them. And I certainly appreciate your input on this issue.

Mr. WALLER. We certainly appreciate being able to give the views of our membership on this issue.

Senator HATHAWAY. Thank you very much.

Mr. LAMBERT. Thank you, Senator.

Senator HATHAWAY. The subcommittee will stand in recess, subject to the call of the Chair, and we will keep the record open for a period of 2 weeks to receive any additional written statements.

[Whereupon, at 11:48 a.m., the subcommittee recessed, subject to the call of the Chair.]

Appendix A

Second Annual Report of the Office of Revenue Sharing

Second Annual Report *of the Office of Revenue Sharing*

March 1, 1975
Department of the Treasury
Washington, D.C.

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

March 1, 1975

Gentlemen:

The State and Local Fiscal Assistance Act of 1972 (Public Law 92-512) requires me to report "... to the Congress not later than March 1 of each year on the operation and status of the (general revenue sharing) Trust Fund during the preceding fiscal year."

I am pleased to submit that report herewith, including not only the financial information you have requested but also a description of the Treasury Department's administration of the general revenue sharing program.

Sincerely yours,

William E. Simon

William E. Simon

The Honorable
Nelson A. Rockefeller
President of the Senate
Washington, D. C. 20510

The Honorable
Carl Albert
Speaker of the
House of Representatives
Washington, D. C. 20515

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INTRODUCTION

This second Annual Report of the Office of Revenue Sharing encompasses a year in which the still-new general revenue sharing program passed its mid-point in returning to States and local governments the $30.2 billion authorized by Congress when it enacted the State and Local Fiscal Assistance Act in October 1972.

The Office of Revenue Sharing has sought to implement and administer the general revenue sharing program with fidelity to the intent of Congress, with dedication to achieving the purposes of the Act, and with understanding of the diverse needs and capabilities of the nearly 39,000 governments that receive the funds.

In this endeavor, we have had the complete support of President Ford and Secretary Simon. We have benefited from the constructive help and suggestions of the Congress. Many governors and thousands of local officials have given of their time and knowledge. Scores of federal offices and agencies have rendered assistance. Hundreds of national and local organizations, and the media, have greatly aided in making general revenue sharing an understandable and fully-functioning part of our federal system of governance.

With this vital assistance, the effectiveness of general revenue sharing has been demonstrated.

As envisioned by the Congress when it created the program, general revenue sharing has become a major component of the balanced federal approach to strengthening governmental capabilities to serve the public throughout the Nation. Combined with recently enacted consolidated grant programs, categorical grant programs targeted to specific needs, individual assistance to many millions of Americans, and direct action by the Federal Government where appropriate, general revenue sharing significantly enhances our ~~national~~ ability to effectively and efficiently meet the vital public needs of Americans wherever they may live.

During this year, when the fiscal pressures on cities and States have again intensified, the critical need for certainty concerning the future of general revenue sharing has gained increasing local, state and national attention. During the year, all major national associations of state and local officials have urged early action to extend general revenue sharing. The Advisory Commission on Intergovernmental Relations recommended prompt action to make the program permanent.

After careful review of the operation of the program, President Ford has announced his intent to send to Congress legislation to continue the general revenue sharing program. Extending general revenue sharing through Fiscal Year 1982 would assure State and local governments the predictable receipt of shared revenues essential to effective planning of finances, service programs and public improvements in every community.

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As we enter the second half of the presently authorized general revenue sharing program, we rededicate our efforts, in partnership with State and local governments throughout the country, to achieving better, more responsive government and a higher quality of life for all Americans.

Graham W. Watt
Director
Office of Revenue Sharing

March 1, 1975

THE YEAR IN BRIEF

The 12 months just passed have been a time of achievement, of change, of assessment, and of challenge for the still new general revenue sharing program.

One year ago, a major objective of the Office of Revenue Sharing was to make Fiscal Year 1975 the first fully operational annual cycle as envisioned by the creators of the general revenue sharing program. That objective has been achieved. Every provision of the State and Local Fiscal Assistance Act now is being accomplished in the sequence and in the manner provided for by the Congress.

A notable achievement in the continuing development of the revenue sharing compliance system took place in May when the State of New York became the first State to enter into a formal agreement with the Office of Revenue Sharing for the cooperative audit of recipients of revenue sharing funds. Subsequently, 38 additional states have formally joined this unique partnership providing for the audit of revenue sharing funds received by some 15,000 local governments across the nation. And, as this report is being written, the first cooperative agreement is being negotiated with a state human rights commission to strengthen further the Federal-state partnership assuring faithful compliance by recipient governments with the few—but important—requirements of the general revenue sharing Act.

The first amendment to the State and Local Fiscal Assistance Act of 1972 took place in May of 1974 when the Congress enacted the Disaster Relief Act of 1974 with a provision that any local government affected by a Presidentially declared disaster may, for 60 months, continue to use more favorable pre-disaster data for the purpose of revenue sharing entitlements. The Office of Revenue Sharing moved promptly to implement the new provision so that the 6,000 governments affected by this amendment to date will be assured the benefits provided for by the Congress.

Although the Office of Revenue Sharing has no research staff or funds of its own, the past year has been one of intense study of the revenue sharing program in concept, in operation, and in effects. The Office of Revenue Sharing has cooperated wholeheartedly in the studies by the Congress, by the General Accounting Office, by the Administration, and by the research community. Early in 1974, projects sponsored by the National Science Foundation made it possible for the allocation computer programs and data files of the Office of Revenue Sharing to be made available in conveniently useable form to the entire research community. This action, together with additional NSF initiatives which bring together into computer processable form all significant data obtained by research projects across the nation, provides what may be the most comprehensive analytical base ever constructed for a new federal program.

Early in October, the small staff of the Office of Revenue Sharing moved to its new location in Columbia Plaza, 2401 E Street, N.W., where for the first time all the staff were assembled in a single location.

In January of 1975, President Ford called for the early renewal of the general revenue sharing program in his State of the Union Message.

The following chronology highlights the significant events of the second full year of general revenue sharing's operation.

Chronology

January 5, 1974

Second quarterly payment of the fourth entitlement period.

March 1, 1974

The first "Annual Report of the Office of Revenue Sharing" was presented to Congress. Also, "General Revenue Sharing—The First Actual Use Reports" was published based on the completed Actual Use Reports submitted by state and local governments.

March 5, 1974

Technical amendments to the regulations governing the administration of general revenue sharing were published.

April 5, 1974

Third quarterly payment of the Fourth Entitlement Period.

April 30, 1974

The Planned Use Report forms, including the estimated amount of entitlements for the fifth period were mailed to 38,436 revenue sharing recipient governments to be completed, published and returned to the Office of Revenue Sharing by June 24.

May 20, 1974

The first state agreement for audit of recipients was signed with the New York State Comptroller.

May 27, 1974

The State and Local Fiscal Assistance Act of 1972 was amended by the Disaster Relief Act of 1974, allowing recipient governments suffering disasters declared by the President to use pre-disaster data for five years. The amendment was made effective retroactively to April 1, 1974.

June 4, 1974

The Intergovernmental Relations Subcommittee of the Senate Committee on Operations began oversight hearings on general revenue sharing.

June 21, 1974

Actual Use Reports pertaining to payments received from July 1, 1973-June 30, 1974 were mailed to all local governments to be returned by September 1, 1974.

July 3, 1974

Actual Use Reports pertaining to payments received from July 1, 1973-June 30, 1974 were mailed to all state governments and were due by September 1, 1974.

July 5, 1974

Fourth quarterly payment of the Fourth Entitlement Period.

August 2, 1974

The Bureau of the Census began collecting Fiscal Year 1974 financial data to be used in computing entitlements for the Sixth Entitlement Period.

August 7, 1974

"Payment Summary: Entitlement Periods One through Four plus Entitlement Period Five Estimates" was published.

September 30, 1974

First formal interagency agreement signed with Equal Employment Opportunity Commission.

September, 1974

First financial data survey (FY-74) mailed to Indian tribes and Alaskan native villages by Bureau of the Census.

October 7, 1974

Commenced operations at new consolidated location of Office of Revenue Sharing at 2401 E Street, NW., (Columbia Plaza).

October 7, 1974

First quarterly payment for the Fifth Entitlement Period.

October 24, 1974

Office of Revenue Sharing received Secretary's Commendation at Treasury Awards Ceremony.

November 15, 1975

Final Disaster Relief Act Regulations published in the *Federal Register* (to become effective 12/16/74).

January, 1975

President Ford called for renewal of general revenue sharing in his State of the Union address.

January 3, 1975

Second quarterly payment of Entitlement Period Five to 36,771 state and local governments, bringing the total of general revenue sharing funds distributed to this date to $17.3 billion.

February 14, 1975

The first new estimates of population and per capita income were mailed to all local governments for review. Disaster affected governments were provided predisaster data for certification of disaster impact.

February, 1975

The second report of uses of funds by recipient governments was published.

March 1, 1975

Publication of Annual Report, Office of Revenue Sharing.

THE REVENUE SHARING PROCESS

Revenue sharing payments are made quarterly, directly to more than 38,000 eligible state and local governments. The amount to be paid each government is determined annually by the Office of Revenue Sharing according to the formulas contained in the State and Local Fiscal Assistance Act. Before the annual allocations are made, the Office of Revenue Sharing obtains the necessary data elements and reviews them with the recipient governments to increase accuracy of data and to reduce the need for subsequent adjustments. The Act also requires that each recipient government publish and provide to the Office of Revenue Sharing a report of plans for uses of funds to be received in the coming year, and a report of uses of shared revenues for the past year. Further information about these major elements in the annual revenue sharing process follows.

Eligible Governments

All general purpose governments as defined by the U.S. Bureau of the Census are eligible to participate in the general revenue sharing program. Also, Indian tribes and Alaskan native villages are eligible participants. Figure 1 identifies the number of each type of government within each state. Currently, there are 39,207 governments eligible to receive revenue sharing funds. This total changes almost continuously as a result of new incorporations, disincorporations, consolidations, and mergers.

Allocations are computed annually for each eligible government. Not every eligible government receives payments, however, since the law does not permit payments of less than $200 per annum, except to Indian tribes and Alaskan native villages. Because computations of entitlements are based on data which is updated each year, a government that has an entitlement of less than $200 one year and thus receives no payment may have a higher entitlement in the next year and then receive its regular payments. If a government chooses not to participate directly in the revenue sharing program, it may waive its funds to the next higher eligible unit of government. A few small governments have exercised this option so that the funds that would have been paid to them were included in the payment to the government of the county in which they are located.

FIGURE 1

TYPES OF GOVERNMENTS BY STATE

State Name	Counties	Municipalities	Townships	Indian Tribes & Alaskan Native Villages	Totals
Alabama	67	409	....	....	477
Alaska	9	130	....	89	229
Arizona	14	67	....	18	100
Arkansas	75	462	....	....	538
California	57	412	....	57	527
Colorado	62	260	....	2	325
Connecticut	....	34	149	....	184
Delaware	3	54	....	....	58
District of Columbia	....	1	....	....	1
Florida	66	389	....	2	458
Georgia	158	529	....	....	688
Hawaii	3	1	....	....	5
Idaho	44	199	....	5	249
Illinois	102	1,270	1,436	....	2,809
Indiana	91	563	1,008	....	1,663
Iowa	99	954	....	1	1,055
Kansas	105	627	1,500	4	2,237
Kentucky	119	403	....	....	523
Louisiana	62	298	....	1	362
Maine	16	22	474	3	516
Maryland	23	151	....	....	175
Massachusetts	12	39	312	....	364
Michigan	83	533	1,247	5	1,869
Minnesota	87	855	1,800	13	2,756
Mississippi	82	281	....	1	365
Missouri	114	908	344	....	1,367
Montana	56	126	....	7	190
Nebraska	93	535	486	3	1,118
Nevada	16	17	....	17	51
New Hampshire	10	13	222	....	246
New Jersey	21	335	232	....	589
New Mexico	32	92	....	22	147
New York	57	619	930	8	1,615
North Carolina	100	466	....	1	568
North Dakota	53	359	1,368	5	1,786
Ohio	88	935	1,320	....	2,344
Oklahoma	77	562	....	25	665
Oregon	36	238	....	4	279
Pennsylvania	66	1,013	1,550	1	2,631
Rhode Island	....	8	31	....	40
South Carolina	46	263	....	....	310
South Dakota	67	310	1,031	9	1,418
Tennessee	94	323	....	....	418
Texas	254	1,048	....	2	1,305
Utah	29	216	....	5	251

TYPES OF GOVERNMENTS BY STATE—Continued

State Name	Counties	Municipalities	Townships	Indian Tribes & Alaskan Native Villages	Totals
Vermont	14	60	237	....	312
Virginia	95	232	....	2	330
Washington	39	266	39	22	367
West Virginia	55	227	....	....	283
Wisconsin	72	575	1,270	10	1,928
Wyoming	23	89	....	2	115
National Total (51)	3,046	18,778	16,986	346	39,207

The Operational Cycle

The recurring operational cycle contains these major steps:

1. Summer 1974. Collection of necessary local tax data by the Bureau of the Census.
2. February 1975. Receipt by the Office of Revenue Sharing from the Census Bureau of all updated state and local data to be used for the Sixth Entitlement Period, beginning July 1, 1975.
3. February 1975. Office of Revenue Sharing furnishes each recipient government the data that will be used to calculate sixth period payments.
4. March 1975. Office of Revenue Sharing and Bureau of the Census review all data questioned by recipients and revise data as warranted.
5. April 1975. Office of Revenue Sharing calculates final entitlements for the fifth period (FY-75) and determines necessary adjustments. All state and local entitlements for the sixth period (FY '76) are calculated.
6. April 1975. Office of Revenue Sharing advises all 39,000 recipient governments of the estimated amount of their FY '76 payments: this amount is preprinted on the Planned Use Report forms which recipients are required to complete, publish, and file with the Office of Revenue Sharing in June. (In the first week of April the regular quarterly payment to each recipient is made by the Office of Revenue Sharing.)
7. June 1975. Planned Use Reports are received, checked, and acknowledged by the Office of Revenue Sharing. Incomplete report forms are returned with instructions for completion or correction.
8. July 1975. Office of Revenue Sharing sends forms to 39,000 recipients to report actual uses of funds through June 30, 1975. (In the first week of July, the Office of Revenue Sharing makes the final payment to all recipients of their FY '75 entitlement.)
9. September 1975. Actual Use Reports are received by the Office of Revenue Sharing, checked, and acknowledged. Incomplete report forms are returned to recipients for completion or correction.
10. October 1975. The first quarterly payments for FY '76 are mailed to all state and local governments which have met the reporting requirements. (Others are individually contacted and provided assist-

ance to comply with the reporting requirements. These governments become eligible to receive first and second quarter payments together in January.)

11. January 1976. The second quarterly payment for FY '75 is made to recipients.
12. April 1976. The third quarterly payment for FY '75 is made to recipients. Concurrently, corrections to any data errors or changes arising during the year are verified, final entitlements for FY '76 are calculated based on the corrected data, adjustments are computed and carried forward to the next entitlement period for which payments are being calculated this month.
13. July 1976. The final quarterly payment for FY '75 is made to recipient governments.

As can be seen, the cycle for each annual entitlement period necessarily overlaps the prior and the following entitlement period for data collection and reporting. Nevertheless, payments are made regularly each quarter. The cycle is designed to be as simple as possible for recipients, with the Office of Revenue Sharing providing *specific* notices and instructions each time a recipient government must take any action.

Data

Revenue sharing funds are allocated according to the formula contained in the State and Local Fiscal Assistance Act, using the data which is specified in the Act. These data are provided principally by the Bureau of the Census based on the decennial census and the recurring annual surveys of state and local finance and of governmental boundaries.

Each year the Office of Revenue Sharing assembles the most recent data for each government. Then, with the assistance of each government, the Office of Revenue Sharing and the Bureau of the Census detect and correct errors in the new data.

The Office of Revenue Sharing provides these data elements to all recipient governments for review before using them to calculate entitlement amounts for each year. As an additional means to obtain the most accurate data, the Office of Revenue Sharing publishes these data and provides them to the governor of each state, to the Congress, and to interested organizations and individuals. This data improvement and publication process assures significantly more accurate data and provides a safe-guard for the integrity of the data upon which equitable distribution of funds depends.

Allocations to Recipients

Revenue sharing payments are made quarterly. Each payment is one-fourth of the estimated annual entitlement amount calculated each year in April as specified in the Act. The calculation necessarily includes sophisticated computer techniques because the formulas divide a national total among the states, and then divide each state total between the state government and among its local governments according to the *relative* shares determined from the formulas developed by the Congress.

The annual process used by the Office of Revenue Sharing to calculate entitlement amounts is:

1. The appropriation is allocated among the states according to the three-factor Senate formula (population, tax effort and income);
2. The appropriation is allocated among the states according to the five-

factor House formula (population, urbanized population, per capita income, state income tax collections, and tax effort);

3. The higher of the two amounts is selected for each state. Since the sum is greater than the entitlement period total, each amount is scaled down proportionately.

4. If either Alaska or Hawaii uses the three-factor formula, its allocation is increased by the same percentage adjustment as applies to the base pay allowances of federal government employees residing in those states (15% in Hawaii and 25% in Alaska).

The next step is to allocate *within* each state, according to the following process:

1. One-third of the state's allocation is apportioned to the state government, and the remaining two-thirds is apportioned among units of local government within the state.

2. The amount to be allocated to units of local government is divided by the population of the state to establish the per capita entitlement for all governments within the state.

3. The local government amount is distributed to country areas (these are geographic areas not governments) based upon the ratio that each county area bears to all county areas within the state according to the formula: *population x tax effort x relative income*.

4. If this calculation allocates to any county area an amount which, on a per capita basis, exceeds 145% of the per capita entitlement calculated in Step 2, its amount is reduced to the 145% level and the resulting surplus amount is shared proportionately by all the remaining unconstrained county areas within the state.

5. Similarly, if any county area is allocated less than 20%, on a per capita basis, of the amount calculated in Step 2, its allocation is increased to the 20% level and the resulting deficit is taken proportionately from all the remaining unconstrained county areas within the state.

6. Each county area allocation is then divided into four parts: First, an amount for Indian tribal governments or Alaskan native villages is determined by the ratio of tribal or village population to the total population of the county area.

Then from the remainder, a township allocation is determined on the basis of the ratio of all township adjusted taxes to the total adjusted taxes in the county.

Next, a county government share is determined similarly, on the basis of county government adjusted taxes.

The remaining proportion is for the other units of local government.

7. Next, townships and other local governments are allocated funds on the basis of the formula: *population x tax effort x relative income*. If a unit of government receives more than 145% on a per capita basis, it is adjusted to the 145% level. If a unit receives less than 20%, its allocation is increased to the lower of either the 20% level, or 50% of its adjusted taxes and transfers. Then, if any unit receives more than 50% of its adjusted taxes and transfers, its allocation is reduced to that level and the excess is given to the county government.

8. If the county government has been allocated more than 50% of its adjusted taxes and transfers, its allocation is reduced to that level, and the excess is returned to the state government.

9. If any allocation is less than $200, or any unit of local government waives its entitlement, those funds are allocated to the next higher level of government.

10. Finally, if the amounts allocated by the above procedure do not total 100% of the funds available for distribution, the appropriate adjustment is made to the entitlement figure in step 3. The process (steps 3 through 8) is repeated until the amounts allocated equal exactly the funds available.

Each April the Office of Revenue Sharing computes the entitlements as described above, and advises each government of the amount of shared revenues it may expect to receive in the coming year. One-fourth of that amount is paid each quarter.

Cumulative Payments by State

With the payment made January 6, 1975, the Office of Revenue Sharing has paid over $17.3 billion to recipient governments as follows:

States	$5,890,107,203
Counties	4,422,712,469
Municipalities	6,160,405,465
Townships	854,183,712
Indian Tribes and Alaskan Native Villages	20,812,719
Total	$17,348,221,568

Cumulative payments to each type of recipient are shown by state in Figure 2.

Reporting on Uses

Section 123(a) of the Act requires each eligible government, in order to qualify for payments for entitlement periods beginning January 1, 1973, to assure the Secretary of the Treasury that it will take certain specific actions. These assurances are obtained annually by the Office of Revenue Sharing.

Each eligible government is required by Section 121(b) of the Act to submit a report to the Secretary of the Treasury setting forth the amounts and purposes for which it plans to spend the funds it will receive during a forthcoming entitlement period. This Planned Use Report was initiated for the third entitlement period.

Section 121(a) of the Act requires each recipient government to report to the Secretary of the Treasury the amounts and purposes for which it actually spent the funds which it received. The Actual Use Report was first required as of June 30, 1973.

The Act also requires each state and local government to publish a copy of its Planned Use Report and of its Actual Use Report in a newspaper published within the state having general circulation within the geographic area of that government. This requirement has been implemented for each Planned Use and Actual Use Report.

Because over 27,000 of the eligible recipients are small governments having less than 2,500 population, every effort has been made to simplify and reduce the cost of meeting these reporting requirements. To that end, the initial reports were limited to a single page and the forms were furnished to each recipient government together with work copies and necessary instructions. Even so, several thousand governments had difficulty completing the reports, publishing them and returning them on schedule to the

Office of Revenue Sharing. Some jurisdictions stated that the costs of publication were excessive considering the amount of the payment they received.

As a result, the Office of Revenue Sharing redesigned the report forms. The assurances to the Secretary have been incorporated in the Planned Use Report form. The part of the form which must be published has been reduced to one-half page, and may be photo-reduced for publication. This innovation eliminated one form entirely and substantially reduced publication costs for all governments.

Other improvements have been made in the Planned. Use Report form. The content has been improved to communicate more general information about the program to the citizens of each jurisdiction. The estimated amount to be paid in the next period is preprinted on each government's form along with that jurisdiction's account number to reduce the possibility of error. The forms sent to each government include work sheets, file copies and complete instructions for completing, publishing and filing the form with the Office of Revenue Sharing. In addition, each government is given an addressed return envelope to reduce handling errors.

Uses of Funds by Recipients

In September 1974, state and local governments reported their actual uses of funds as of June 30, 1974. An analysis of these Actual Use Reports recently has been completed and is being published by the Office of Revenue Sharing. That analysis will be sent to each Member of Congress, to the Governors, and to interested organizations and the media.

Figure 3 summarizes the reports of the states and local governments about their use of all revenue sharing funds expended through June 30, 1974.

Although Figure 3 aggregates expenditures, it is important to note that the reports themselves show close adherence by local governments to the priority categories explicitly set forth in the State and Local Fiscal Assistance Act. Thus, the amounts shown as expended by local governments for "education" represent funds spent for *capital* purposes for education as authorized by law, and do not constitute operating expenditures. State governments, not limited by the priority expenditure categories, applied a substantial part of their revenue sharing funds to education operating expenses.

As of September, 1974 82% of state and local governments indicated that general revenue sharing funds had enabled them either to reduce taxes, hold tax rates stable or avoid new taxes.

FIGURE 2

CUMULATIVE DISBURSEMENTS OF GENERAL SHARING FUNDS AS OF JANUARY 6, 1975

State Name	State	Counties	Municipalities	Townships	Indian Tribes & Alaskan Native Villages	Totals
ALABAMA	$98,031,250	$73,042,295	$123,354,002	$..................	$..................	$294,427,547
ALASKA	7,467,593	5,705,900	8,564,156	....	461,450	22,199,099
ARIZONA	57,498,507	46,217,176	63,706,070	....	5,054,882	172,476,635
ARKANSAS	64,092,503	65,012,375	50,348,184	....	....	179,453,062
CALIFORNIA	616,886,301	745,622,434	487,565,778	....	403,010	1,850,477,523
COLORADO	60,472,503	42,715,978	78,167,008	....	116,489	181,471,978
CONNECTICUT	73,021,478	....	78,012,319	68,146,608	....	219,180,405
DELAWARE	19,879,525	18,895,404	13,153,503	....	....	51,928,432
DISTRICT OF COLUMBIA	77,678,593	....	....	....	....	77,678,593
FLORIDA	166,965,710	148,131,335	186,675,953	....	61,454	501,834,452
GEORGIA	120,298,892	139,200,117	101,066,060	....	....	360,565,069
HAWAII	25,543,953	12,633,627	38,454,275	....	....	76,631,855
IDAHO	23,433,764	27,021,042	19,588,477	....	258,764	70,302,047
ILLINOIS	295,539,122	134,687,858	359,381,078	77,366,251	....	866,974,309
INDIANA	122,796,072	84,204,744	132,781,467	28,524,713	....	368,306,996
IOWA	81,763,140	95,103,370	68,345,610	....	35,971	245,248,091
KANSAS	55,821,093	56,745,726	48,668,523	6,183,211	22,699	167,441,252
KENTUCKY	110,701,413	80,380,428	92,822,948	....	....	283,904,789
LOUISIANA	135,019,381	107,555,940	155,627,774	....	18,514	398,221,609
MAINE	35,156,423	4,652,262	28,980,207	36,548,822	139,976	105,477,690
MARYLAND	114,605,518	133,339,234	95,965,309	....	....	343,910,061
MASSACHUSETTS	182,245,167	20,943,170	205,025,647	138,712,424	....	546,926,408

MICHIGAN	245,150,087	142,649,271	302,884,502	45,150,958	80,032	735,914,850
MINNESOTA	114,208,820	121,716,072	92,814,805	14,117,713	668,609	343,526,019
MISSISSIPPI	99,333,536	119,470,087	66,975,715	....	130,507	285,909,845
MISSOURI	107,986,009	71,647,040	139,151,315	4,966,463	....	323,750,827
MONTANA	22,690,223	30,093,050	13,636,518	....	1,642,832	68,062,623
NEBRASKA	41,781,580	41,455,262	39,244,788	2,658,130	174,415	125,314,175
NEVADA	12,687,188	15,855,488	9,314,646	....	196,538	38,053,860
NEW HAMPSHIRE	18,392,718	4,771,379	17,428,996	14,667,833	....	55,260,926
NEW JERSEY	181,169,014	129,803,539	160,977,091	71,584,615	....	543,534,259
NEW MEXICO	37,651,964	29,616,859	37,173,483	....	4,790,597	109,232,903
NEW YORK	643,494,495	275,600,457	874,936,969	135,942,411	347,922	1,930,328,254
NORTH CAROLINA	148,069,952	159,621,485	137,011,118	....	325,806	445,028,361
NORTH DAKOTA	23,338,880	23,943,056	15,664,537	6,121,898	926,404	69,994,775
OHIO	230,284,312	146,533,214	269,047,129	44,852,464	....	690,717,119
OKLAHOMA	64,553,808	48,062,345	79,845,372	....	1,152,619	193,614,144
OREGON	57,213,003	43,309,765	70,881,278	....	179,213	171,583,259
PENNSYLVANIA	302,833,488	171,610,911	339,040,101	95,666,707	400	909,151,607
RHODE ISLAND	26,057,130	....	37,062,733	15,034,044	....	78,153,907
SOUTH CAROLINA	81,197,990	82,272,021	73,459,802	....	....	236,929,813
SOUTH DAKOTA	25,804,561	30,133,162	15,936,206	3,731,771	1,677,674	77,283,374
TENNESSEE	108,642,061	94,798,322	124,976,603	....	....	328,416,986
TEXAS	273,736,732	201,322,681	344,627,257	....	56,566	819,743,236
UTAH	34,092,853	33,951,088	33,658,949	....	523,520	102,226,410
VERMONT	16,212,006	396,117	11,186,736	20,903,393	....	48,698,252
VIRGINIA	114,391,368	84,662,483	144,608,951	....	5,132	343,667,934
WASHINGTON	83,643,570	75,014,111	91,592,691	3,401	669,042	250,922,815
WEST VIRGINIA	74,684,580	44,167,467	51,176,848	....	....	170,028,895
WISCONSIN	145,107,066	142,717,552	124,292,833	23,299,882	432,925	435,850,258
WYOMING	10,780,308	15,701,770	5,543,145	....	258,757	32,283,980
NATIONAL TOTALS	$5,890,107,203	$4,422,712,469	$6,160,405,465	$854,183,712	$20,812,719	$17,348,221,568

FIGURE 3

USE OF REVENUE SHARING FUNDS REPORTED BY STATES AND LOCAL GOVERNMENTS

January 1, 1972 - June 30, 1974 (in millions of dollars)

Rank	Category of Use	All Gov't.	(%)	States	(%)	Local Gov'ts.	(%)
1	Public Safety	$2,190.	(23%)	$ 45.	(1%)	$2,145.	(36%)
2	Education	2,068.	(22%)	2,000.	(57%)	68.	(1%)
3	Transportation	1,405.	(15%)	267.	(8%)	1,138.	(19%)
4	General Gov't./Multi-Pur.	841.	(9%)	208.	(6%)	633.	(11%)
5	Environmental Protection	674.	(7%)	56.	(2%)	618.	(10%)
6	Health	645.	(7%)	231.	(7%)	414.	(7%)
7	Recreation & Cultural Serv.	425.	(4%)	40.	(1%)	385.	(6%)
8	Other	355.	(4%)	316.	(9%)	39.	(1%)
9	Social Services for the Poor or Aged	354.	(4%)	229.	(7%)	125.	(2%)
10	Financial Administration	188.	(2%)	24.	(1%)	164.	(3%)
11	Housing & Comm. Development	104.	(1%)	37.	(1%)	67.	(1%)
12	Libraries	101.	(1%)	6.	(—)	95.	(2%)
13	Economic Development	51.	(1%)	13.	(—)	38.	(1%)
14	Corrections	43.	(—)	43.	(1%)	—	(—)
15	Social Development	22.	(—)	—	(—)	22.	(—)
		$9,466.	(100%)	$3,515.	*(100%)	$5,951.	(100%)

* Does not total due to rounding.

TRUST FUND STATUS

The State and Local Fiscal Assistance Act of 1972 established in the Treasury of the United States a Trust Fund to be used only for the payments to state and local governments as provided in the Act. The Trust Fund remains available without fiscal year limitation. The Act appropriated to the Trust Fund approximately $30.2 billion divided into seven periods as follows:

Entitlement Period	Start	End	Amount
1	Jan., 1972	June, 1972	$2,650,000,000
2	July, 1972	Dec., 1972	$2,650,000,000
3	Jan., 1973	June, 1973	$2,987,500,000
4	July, 1973	June, 1974	$6,050,000,000
5	July, 1974	June, 1975	$6,200,000,000
6	July, 1975	June, 1976	$6,350,000,000
7	July, 1976	Dec., 1976	$3,325,000,000

Also appropriated are additional amounts for adjustments for non-contiguous states. These amounts are distributed only to the extent required pursuant to Section 106(c) of the Act, and any unused amounts must be returned from the Trust Fund to the General Fund of the Treasury.

To insure the integrity of the Trust Fund and to eliminate the prospect of recurring recomputations of entitlements of all 39,000 governments for prior entitlement periods, the Office of Revenue Sharing has established an Obligated Adjustment Reserve equal to one-half of one percent of the amounts appropriated for each entitlement period.

This cumulative reserve is available to the Secretary of the Treasury to satisfy legitimate claims against the Trust Fund for prior entitlement periods. The amount retained in the Trust Fund as Obligated Adjustment Reserve will be reduced whenever the Secretary determines the amount is adequate to meet foreseeable liabilities against the Trust Fund. The reduction will be made by paying the excess amount to recipients as part of a regular distribution.

Overview

The table below provides an overview of Trust Fund transactions from inception of the program through January 6, 1975. As of that date, the second quarterly payment of the current entitlement period had been made, and the balance in the Trust Fund provides for the third and fourth quarterly payments to be made in April and July.

	Inception thru Jan. 6, '75	(In Millions of Dollars) Year Ended June 30 '73	'74	July 1, '74 thru Jan. 6, '75
Balance Beginning of Period..	$ 0	$ 0	$1,658	$1,607
Transferred to Trust Fund ..	20,553	8,295	6,054	6,204
TOTAL	$20,553	$8,295	$7,712	$7,811
Less:				
Entitlements Paid	$17,347	$6,637	$6,105	$4,605
Returned to Treasury	3	0	0	3
TOTAL	$17,350	$6,637	$6,105	$4,608
Balance, End of Period	$ 3,203	$1,658	$1,607	$3,203
Less Reserves	94	73	73	94
Balance, End of Period Available for Distribution	$ 3,109	$1,585	$1,534	$3,109

As shown in this table, from inception of the program through January 6, 1975 $20.553 billion has been credited to the Trust Fund of which $3 million has been returned to the Treasury, leaving $20.550 billion available for payment of entitlements. Of this amount $17.347 billion has been disbursed to recipients. Of the remaining $3.203 billion, $94 million is reserved and the remaining $3.109 billion is available for distribution to recipients.

Cumulative Summary to June 30, 1974

Figure 4 shows changes in the Trust Fund balance from inception through June 30, 1974, encompassing the first two years of Trust Fund operations.

During this period approximately $14.349 billion in appropriations was transferred into the Trust Fund. Of this, $12.742 billion was distributed to recipient state and local governments leaving a fund balance of slightly over $1.607 billion on June 30, 1974. This balance consisted of $1.532 billion distributed to recipient state and local governments on July 8, 1974, $69.381 million in reserves, $3.477 million of non-contiguous states funds (most of which was returned to the General Fund of the Treasury on November 30, 1974) and amounts allocated for previous periods due for distribution after June 30, 1974.

Fiscal Year 1974

Figure 5 shows changes in the Trust Fund balance resulting from Fiscal Year 1974 operations. The appropriations shown as "Transferred into Trust Fund" include amounts for noncontiguous states adjustments.

The Trust Fund balance on June 30, 1973 was slightly over $1.658 billion. Appropriations for Entitlement Period Four of $6.055 billion were added to the June 30, 1973 balance and entitlement payments of approximately $6.106 billion were disbursed. This left a Trust Fund balance on June 30, 1974 of $1.607 billion. This balance included approximately $1.532 billion which was distributed to recipients on July 8, 1974 as the fourth quarterly payment of Entitlement Period Four. The balance also included

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\$69.381 million in obligated reserves (available for subsequent allocation adjustments), \$3.477 million consisting primarily of noncontiguous states funds not required (which was returned to the General Fund of the Treasury in Entitlement Period Five) and amounts allocated for prior periods due for distribution after June 30, 1974.

Interim Report, Fiscal Year 1975

Figure 6 shows the effect of Trust Fund operations on the fund balance from July 1, 1974 through the second quarterly payment of Entitlement Period Five made on January 6, 1975. Appropriations for the Fifth Entitlement Period of \$6.205 billion were added to the June 30, 1974 fund balance of \$1.607 billion. Entitlement payments of \$4.606 billion were disbursed and \$3.46 million in noncontiguous states adjustment funds not required was returned to the General Fund of the Treasury. This left a Trust Fund balance on January 6, 1975 of approximately \$3.203 billion. The January balance consisted of \$93.420 million in reserves, \$18,556 in funds to be distributed to noncontiguous state governments in the final allocation for Entitlement Period Five, and \$3.109 billion available for distribution to recipients.

The \$3.109 billion available for distribution to recipients is to be disbursed in the quarterly payments scheduled for April 7, 1975 and July 7, 1975.

Analysis of Changes in Fund Balance

Transactions affecting the amount available for distribution to recipients and the reserve accounts for the year ended June 30, 1974 and the period from July 1, 1974 through January 6, 1975, respectively are shown separately in figures 7 and 8. During Fiscal Year 1974, all reserves were adjusted to provide one-half of one percent of all entitlements, exclusive of the Noncontiguous States Adjustment Fund, for the Obligated Adjustment Reserve.

In the period from July 1, 1974 through January 6, 1975, \$3.459 million of noncontiguous states adjustment funds not needed were returned to the General Fund of the Treasury. This left a balance in the Noncontiguous States Adjustment Reserve of \$18,556 on January 6, 1975. This balance will be distributed to noncontiguous state and local governments in the final allocation for Entitlement Period Five.

FIGURE 4

STATE AND LOCAL FISCAL ASSISTANCE TRUST FUND
SUMMARY OF CHANGES IN FUND BALANCE
FROM INCEPTION THROUGH JUNE 30, 1974

		Entitlement Period			
	Total	1	2	3	4
Transferred into Trust Fund	$14,349,450,000	$2,652,390,000	$2,652,390,000	$2,989,890,000	$6,054,780,000
Less:					
Entitlements Paid	12,742,290,246	2,638,046,408	2,638,024,358	2,975,711,159	4,490,508,321
Fund Balance—June 30, 1974	$ 1,607,159,754	$ 14,343,592	$ 14,365,642	$ 14,178,841	$1,564,271,679
Analysis of June 30, 1974 Fund Balance:					
Reserve for Obligated Adjustments	$ 69,381,426	$ 12,610,856	$ 12,632,906	$ 13,997,058	$ 30,140,606
Noncontiguous States Adjustment Funds*	3,477,422	1,732,736	1,732,736	11,950	0
Available for Distribution	1,534,300,906	0	0	169,833	1,534,131,073
Fund Balance—June 30 ,1974	$1,607,159,754	$ 14,343,592	$ 14,365,642	$ 14,178,841	$1,564,271,679

* Consists principally of noncontiguous states adjustment funds not required—$3,458,866 returned to General Fund of the Treasury after June 30, 1974.

FIGURE 5

STATE AND LOCAL FISCAL ASSISTANCE TRUST FUND
SUMMARY OF CHANGES IN FUND BALANCE
FOR PERIOD JULY 1, 1973 THROUGH JUNE 30, 1974

		Entitlement Period			
	Total	**1**	**2**	**3**	**4**
Fund Balance—June 30, 1973	$1,658,301,194	$ 28,343,429	$ 134,844,136	$1,495,113,629	$ 0
Transferred into Trust Funds	6,054,780,000	0	0	0	6,054,780,000
Total Funds Available	$7,713,081,194	$ 28,343,429	$ 134,844,136	$1,495,113,629	$6,054,780,000
Less:					
Entitlements Paid	$6,105,921,440	$ 13,999,837	$ 120,478,494	$1,480,934,788	$4,490,508,321
Fund Balance—June 30, 1974	$1,607,159,754	$ 14,343,592	$ 14,365,642	$ 14,178,841	$1,564,271,679
Analysis of June 30, 1974 Fund Balance:					
Reserve for Obligation Adjustments	$ 69,381,426	$ 12,610,856	$ 12,632,906	$ 13,997,058	$ 30,140,606
Noncontiguous States Adjustment Fund*	3,477,422	1,732,736	1,732,736	11,950	0
Available for Distribution	1,534,300,906	0	0	169,833	1,534,131,073
Fund Balance—June 30, 1974	$1,607,159,754	$ 14,343,592	$ 14,365,642	$ 14,178,841	$1,564,271,679

* Consists principally of noncontiguous states adjustment funds not required—$3,458,866 returned to the General Fund of the Treasury after June 30, 1974.

FIGURE 6

STATE AND LOCAL FISCAL ASSISTANCE TRUST FUND
SUMMARY OF CHANGES IN FUND BALANCE
FOR PERIOD JULY 1, 1974 THROUGH JANUARY 6, 1975

		Entitlement Period				
	Total	1	2	3	4	5
Fund Balance—June 30, 1974	$1,607,159,754	$14,343,592	$14,365,642	$14,178,841	$1,564,271,679	$ 0
Transferred into Trust Fund	6,204,780,000	0	0	0	0	6,204,780,000
Total Funds Available	$7,811,939,754	14,343,592	14,365,642	14,178,841	1,564,271,679	6,204,780,000
Less:						
Entitlement Paid	4,605,931,517	1,959,967	2,007,492	2,565,100	1,534,190,378	[2]3,065,208,580
Noncontiguous States Adjustment Funds not Required (Returned to General Fund of the Treasury)	3,458,866	1,729,433	1,729,433	0	0	0
Fund Balance—January 6, 1975	$3,202,549,371	$10,654,192	$10,628,717	$11,613,741	$ 30,081,301	$3,139,571,420
Analysis of January 6, 1975 Fund Balance:						
Reserve for Obligation Adjustments	$ 93,419,866	10,650,889	10,625,414	11,591,839	29,551,730	30,999,994
Noncontiguous States Adjustment Funds[1]	18,556	3,303	3,303	11,950	0	0
Available for Distribution	3,109,110,949	0	0	9,952	529,571	3,108,571,426
Fund Balance—January 6, 1975	$3,202,549,371	10,654,192	10,628,717	11,613,741	30,081,301	3,139,571,420

[1] Consists of funds to be distributed to noncontiguous state governments in the final allocation for Entitlement Period 5.

[2] Includes payments of $5,986,640 made in Entitlement Period 4, applicable to Entitlement Period 5.

FIGURE 7

STATE AND LOCAL FISCAL ASSISTANCE TRUST FUND
ANALYSIS OF CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 1974

		Entitlement Period			
	Total	1	2	3	4
	FUND BALANCE AVAILABLE FOR ALLOCATION TO RECIPIENTS				
Balance June 30, 1974	$1,502,741,822	382,163	7,248,051	1,495,113,608	0
Transferred into Trust Fund	6,054,780,000	0	0	0	6,054,780,000
Total Funds Available	7,557,521,822	382,163	7,246,051	1,495,113,608	6,054,780,000
Adjustment to Establish Obligation Adjustment Reserve at .5% of Entitlements	80,394,412	12,879,515	112,615,343	(14,949,450)	(30,249,996)
Balance Available for Disbursement to Recipients	7,637,916,234	13,360,678	119,861,394	1,480,164,158	6,024,530,004
Less Payments to Recipients	6,103,615,328	13,360,678	119,861,394	1,479,994,325	4,490,398,931
Balance June 30, 1974	$1,534,300,906	0	0	169,833	1,534,131,073

RESERVES

Obligated Adjustment Reserve:					
Balance June 30 ,1973	$ 152,117,758	26,240,465	125,877,293	0	0
Adjustments:					
To Establish Reserve at .5% of Entitlements..	(80,394,412)	(12,978,515)	(112,615,343)	14,949,450	30,249,996
To Transfer Portion of Reserve Applicable To Noncontiguous States Adjustment to that Reserve	(35,808)	(11,935)	(11,944)	(11,929)	0
Net Adjustments	(80,430,220)	(12,990,450)	(112,627,287)	14,37,521	30,249,996
Reserve Balance	71,687,538	13,250,015	13,250,006	14,37,521	30,249,996
Less Disbursements	2,306,112	639,159	617,100	940,463	109,390
Balance June 30, 1974	69,381,426	12,610,856	12,632,906	13,997,058	30,140,606
Reserve for Noncontiguous States Adjustment Fund Not Allocable:					
Balance June 30, 1973	3,441,614	1,720,801	1,720,792	21	0
Adjustment for Portion of Reserve Originally.... Placed in Obligated Adjustment Reserve	35,808	11,935	11,944	11,929	0
Balance June 30 ,1974	3,477,422	1,732,736	1,732,736	11,950	0
Total Reserve Balance June 30, 1974	72,858,848	14,343,592	14,365,642	14,009,008	30,140,606
Fund Balance June 30, 1974	$1,607,159,754	14,343,592	14,365,642	14,178,841	1,564,271,679

FIGURE 8

STATE AND LOCAL FISCAL ASSISTANCE TRUST FUND

ANALYSIS OF CHANGES IN FUND BALANCE
FOR PERIOD JULY 1, 1974 THROUGH JANUARY 6, 1975
January 1, 1973 - December 31, 1974

		Entitlement Period				
	Total	1	2	3	4	5
		FUND BALANCE AVAILABLE FOR ALLOCATION TO RECIPIENTS				
Balance June 30, 1974	$1,534,300,906	0	0	169,833	1,534,131,073	
Transferred to Trust Fund	6,204,780,000	0	0	0	0	6,204,780,000
Total Funds Available..	7,739,080,906	0	0	169,833	0	6,204,780,000
Less Adjustment to Established Reserve for Entitlement 5..	30,999,994	0	0	0	0	30,999,994
Balance Available for Disbursement to Recipients ..	7,708,080,912	0	0	169,833	1,534,131,073	6,173,780,006
Less Payments to Recipients (Net of Repayment)	4,598,969,963	0	0	159,381	1,533,601,502	3,065,208,580
Balance January 6, 1975	$3,109,110,949	0	0	9,952	529,571	3,108,571,426

RESERVES

Obligated Adjustment Reserve:						
Science June 30, 1974	69,381,426	12,610,856	12,632,906	13,997,058	30,140,606	
Addition to Establish Reserve for Entitlement 5	30,999,994	0				30,999,994
Payments to Recipients	(6,961,554)	(1,959,967)	(2,007,492)	(2,405,219)	(588,876)	0
Balance of Obligated Adjustment Reserve January 6, 1975	93,419,866	10,650,889	10,625,414	11,591,839	29,551,730	30,999,994
Reserve for Amounts not Allocable:						
Balance June 30, 1974	3,477,422	1,732,736	1,732,736	11,950	0	0
Returned to General Fund of Treasury	3,458,866	1,729,433	1,729,433	0	0	0
Balance of Unallocable Reserve January 6, 1975	18,556	3,303	3,303	11,950	0	0
Total Reserves January 6, 1975	93,438,422	10,654,192	10,628,717	11,603,789	29,551,730	30,999,994
Fund Balance January 6, 1975..	$3,202,549,371	10,654,192	10,628,717	11,603,789	30,081,301	3,139,571,420

PROGRAM PROGRESS

Action was taken during the year to implement the new Disaster Relief Act amendment, to complete implementation of the state maintenance of effort requirement, to continue action in the area of data improvement and assistance to recipients, and to ensure effective compliance with the requirements of the State and Local Fiscal Assistance Act.

Disaster Relief Implementation

In May 1974, the Congress enacted Public Law 93-288, the Disaster Relief Act of 1974. This Act amended the State and Local Fiscal Assistance Act of 1972 by adding a new section 145. Briefly, the new section provides that a recipient government which is within a major disaster area designated by the President may continue to have its predisaster data factors used for purposes of the allocation process if those data factors are more favorable than the post disaster data factors. The amendment was made retroactive to April 1, 1974.

Soon after enactment of this new provision, the Office of Revenue Sharing established working relationships with the Disaster Assistance Administration of the Department of Housing and Urban Development.

A list of all general purpose governments located within major disaster areas designated by the President since April 1, 1974, was obtained. Additions to that list are reported regularly by the Disaster Assistance Administration, along with the date of the declaration of the disaster. To date, approximately 6,000 recipient governments have been identified which are within major disaster areas designated by the President since April 1, 1974.

These 6,000 governments may, for a period of 60 months from the date of the disaster, have their predisaster data factors used for revenue sharing allocations.

Needed regulations were written and published in *The Federal Register* on November 15, 1974, to govern the application of the disaster relief amendment. The regulations provide for the use of predisaster data for a recipient government if the chief executive of that government certifies that the adverse changes in the data used by the Office of Revenue Sharing to compute the next allocations were a result of the disaster. The chief executive officer must have available for audit documentary evidence that the change in data resulted from the disaster.

The Office of Revenue Sharing has developed procedures and computer systems to ensure that each government affected by the disaster relief provision is afforded a full opportunity to benefit from that amendment. The data for each government affected by a disaster is examined by the Office of Revenue sharing to determine whether any change occurred in the data since the date of the disaster declaration and, if so, whether that change resulted in data less favorable to the government.

In each case where new data is less favorable to a disaster affected government, the Office of Revenue Sharing sends that government, in February, a specific notice advising the recipient government of the disaster relief provision, and provides the government with the post disaster data items and the predisaster data items that would be more favorable to it. If the chief executive officer of the recipient government elects the use of the predisaster data items, she or he completes the certification on the notice and returns it to the Office of Revenue Sharing. The predisaster data then is used to compute the allocations in April for the forthcoming payment year.

The Office of Revenue Sharing will continuously maintain a list of governments eligible for the disaster relief amendment, adding new governments as they are designated and deleting governments at the end of the 60 months of eligibility. For those governments which elect use of predisaster data, normal auditing procedures will verify the evidence supporting the certification that the data change was caused by the disaster.

Data Improvements

Given the formulas contained in the State and Local Fiscal Assistance Act of 1972, the actual allocations and payments to each of the 39,000 governments depend entirely on the data used and the annual computations of entitlements. These data, specified in the Act itself, are updated every year to the extent that new data are available. Prior to the revenue sharing program, these data had been used only for general statistical purposes and did not have the completeness and accuracy necessary to ensure equitable allocations of funds to State and local governments. Therefore, at the beginning of the program, the Office of Revenue Sharing instituted a continuing program of action to improve the data in cooperation with the Bureau of the Census and other Federal agencies.

In addition to Federal agency action to improve the data used in general revenue sharing, the Office of Revenue Sharing annually obtains the assistance of all 39,000 recipient governments to further improve the data.

This continuing data improvement program is an administrative procedure designed to identify and correct individual data errors. As part of this program, each government was asked in February 1974, to establish data to be used to compute the allocations for Fiscal Year 1975 and to submit any proposed corrections for any data element believed to be in error. By March of 1974, approximately 1,600 governments responded with proposed corrections. This resulted in revised data for approximately 750 governments. In total, 2,000 data items were revised prior to April when the initial calculation of entitlements for the new Fiscal Year was performed. Completion of this data improvement process before the initial allocation for the present payment period was important to minimize the need for future adjustments.

The Office of Revenue Sharing and the Bureau of the Census also maintain an ongoing program of data review and evaluation based on field audits, internal evaluations, and reports from State and local sources. This intensive review process has resulted in changes to increase the accuracy of current year data for nearly 1,000 governments since the initial allocations were made in April 1974. The more accurate data will be used in the computation of the final allocation for Fiscal Year 1975. Any adjustments resulting from the more accurate data will be added to or subtracted from the payments to be made in Fiscal Year 1976.

Both the preliminary data used for each entitlement period and the final

data resulting from the data improvement program are published and distributed to the governors, to the Congress, to research organizations, and are made available to the public. Regular publication of all data used in computing revenue sharing allocations gives further assurance of the integrity of the data used for revenue sharing allocations and assures that the proper payments are made to every government.

Intercensal Estimates

During the past year, the first intercensal estimates of population and per capita income were produced for all local governments in the United States. This was the product of a major new data effort authorized by the Congress in the State and Local Fiscal Assistance Act of 1972. These new data were provided by the Bureau of the Census for use by the Office of Revenue Sharing to compute payments to be made in Federal Fiscal Year 1976. Previously, the data used was limited to that available from the 1970 Census since no uniform data for all the local governments in the Nation were available.

The new estimates were the result of more than two years of work by the Bureau of the Census, including development of new estimating techniques, the use of place of residence data obtained by the Internal Revenue Service on tax forms, and data from other Federal and State sources. This breakthrough in intercensal estimating techniques is expected to provide periodic updates of the important per capita income and population data used in the revenue sharing formula, as envisioned by Congress when it designed the revenue sharing program.

Comprehensive Data Analysis

To ensure that essential long range data improvements were accomplished, the Office of Revenue Sharing engaged the Stanford Research Institute to carry out a comprehensive study to aid in targeting key priorities for data improvement over the next five years and beyond. This study was guided with the assistance of experts from Congressional staff, the Office of Management and Budget, the Bureau of the Census, and the Treasury Department.

The summary volume of this study has been provided to each Member of Congress and has been distributed widely throughout the research community. Some of the major results are presented briefly here.

The study made an in-depth assessment of the relative effects on the equity of revenue sharing allocations of varying degrees of currency, comprehensiveness and accuracy of each of the many data elements used in the allocation formula. This detailed analysis led to the major finding that it was vitally important to have the most recent data possible for use in general revenue sharing. The recency, or currency, of data was found to be far more important than normal variations in the accuracy of data items as they relate to particular jurisdictions.

The basis of this finding is that the changes which occur throughout the United States vary significantly from year to year in such important data variables as population, per capita income and adjusted taxes. One jurisdiction may be growing rapidly while another is holding a stable population. Another jurisdiction may substantially increase its tax rates while the surrounding jurisdictions are lowering their tax rates. Still another jurisdiction may lose industries and suffer losses in per capita income even in the midst of economic growth of the region. These kinds of changes substantially affect the relative shares of revenue sharing funds received by local governments within a State.

This key finding that the currency of data is of paramount importance for the near future led to rapid action. Top priority was given to the effort of the Bureau of the Census to produce new estimates of per capita income and population for all local jurisdictions. This intensified effort, as has been mentioned, was brought to successful completion in January of 1975 so that the new data could be used for computing the next allocations for recipient governments. Also, the Bureau of Indian Affairs of the Department of the Interior undertook a parallel action to provide comparable new estimates of Indian tribal and Alaskan native village population, the only data factor used to compute allocations to Indian tribes and Alaskan native villages. This effort also was successful and the new estimates will be used for computing the next allocations. Further improvements were made to the annual survey of local taxes conducted by the Bureau of the Census, and these new data also are being used for the next computation of allocations.

Further, as a result of the data study, action has been initiated to make long range improvements in National definitions of State level data, in the conduct of the 1980 Census, in data for Indian tribes and Alaskan native villages, and in standardizing data elements used in all Federal formula grant programs.

State Optional Formula

Section 108(c) of the State and Local Fiscal Assistance Act of 1972 permits any state by law to prescribe an optional formula for the allocation of funds among county areas within the state or among units of local governments by modifying several factors in the formulas. The Office of Revenue Sharing developed a system to assist the governors to determine what formulas they might wish to consider for local governments in their state and all states were informed of the provisions of the law and of the availability of technical assistance. Several states have inquired about this provision of the Act and have been provided technical analyses of the changes they have considered.

No state has chosen to exercise its authority to prescribe an optional formula for the distribution of funds to local governments. It should be noted that the adoption of an optional formula provides no greater sum for distribution within the state, but simply would change the relative shares of the total amount to be received by the local governments within the state.

The Office of Revenue Sharing will continue to provide technical assistance to states wishing to consider an optional formula for local government distribution.

State Maintenance of Effort

Section 107(d) of the Act requires that states maintain at least the same level of transfer payments to local governments as existed prior to the revenue sharing program, or suffer a reduction in their state entitlement amount. To assist in carrying out this provision of the Act, the Office of Revenue Sharing requires from each state an annual report on its transfers of funds to local governments. The second series of these state transfer reports are now being received by the Office of Revenue Sharing and will be analyzed to determine whether states have maintained their levels of transfer payments. Should any state be found to have failed to maintain its transfers, the revenue sharing entitlement amount of that state will be reduced as prescribed in the State and Local Fiscal Assistance Act.

Legal Developments

The regulations promulgated pursuant to the State and Local Fiscal Assistance Act of 1972 were amended on two occasions during the year. The revenue sharing regulations appear in Part 51 of Subtitle B of Title 31 of the Code of Federal Regulations.

On March 5, 1974, the regulations were amended to clarify the language of certain provisions and to give notice to state and local governments of certain internal procedures in use by the Office of Revenue Sharing. The section dealing with the final date upon which deteminations of allocations and entitlements, including adjustments thereto, may be made for an entitlement period was amended to provide that such determinations shall be declared final without regard to the close of the affected entitlement period. The section regarding waiver of entitlements was expanded to include waiver of adjustments scheduled to be combined with the entitlements. The constructive waiver procedure, which applies when a government is determined to have waived its payments by inaction, was clarified to provide the intended recipient governments two formal opportunities to establish eligibility. An alternate procedure for adjustment was added which permits the Office of Revenue Sharing to revise entitlements during the applicable entitlement period rather than adjusting only the entitlement payments of subsequent entitlement periods. The section defining the procedure by which states can develop an optional allocation formula was amended to require a notice of 90 rather than 30 days for a new formula to be put into effect. The section regarding compliance with the Davis-Bacon Act was amended to provide recipient governments with notice that this Act applies only to projects having a total cost in excess of $2,000, and to inform governments of procedures for obtaining and filing prevailing wage rates.

As already noted previously, the regulations were also amended on November 15, 1974 to implement the provisions of the Disaster Relief Act of 1974.

In January, 1975, additional proposed regulations were published for comment by March 15. These regulations would clarify the deferral option of the Secretary of the Treasury in cases where a federal court or a federal administrative law judge has made a finding that a recipient government has failed to comply with the nondiscrimination provisions of the State and Local Fiscal Assistance Act.

During 1974, the Secretary of the Treasury has been named a defendant in several civil actions filed under the State and Local Fiscal Assistance Act of 1972. Thse suits relate to the nondiscrimination section of the Act, and to the computation of entitlements and applicability of the revenue sharing formula in relation to the entitlement amounts of particular units of governments. One class action suit which sought to have the revenue sharing Act declared unconstitutional was dismissed by the court upon the motion of the government.

Assistance to Recipients

During the past year the Office of Revenue Sharing has continued to strengthen its program to supply information and assistance to the nearly 39,000 recipient governments. Continuing changes in elected and appointed officials combined with the changing issues facing state and local governments across the Nation give rise to a continuing need to be sure that state and local officials and those who work with them are knowledgeable about the provisions of the revenue sharing Act and their own responsibilities.

These important needs are met through several ORS programs. Information about revenue sharing is provided to all recipients on a regular basis. This general assistance is augmented through cooperative efforts involving national and state organizations and is accompanied by extensive individual assistance.

General Assistance

With each quarterly payment, the Office of Revenue Sharing continues to send a letter to each chief executive officer advising her or him of important program developments and of actions that should be taken by each government during the coming several months. Also, the Office of Revenue Sharing communicates directly with each government to provide information on action to be taken in connection with the annual review of data, and the completion and publication of Planned Use Reports and Actual Use Reports. In addition to these more than 200,000 written communications annually, each recipient government is sent copies of special publications such as *General Revenue Sharing and Civil Rights* for use by the local or state officials.

A new "executive pocket guide" to revenue sharing has been prepared and is to be distributed to all local governments. This pocket guide was designed especially to meet the needs of newly elected and appointed officials. It summarizes those aspects of the legislation and regulations which are especially important to chief executive officers of local governments in order for them to participate effectively in the revenue sharing program. It also contains a calendar of dates when important revenue sharing actions occur, and identifies types of sources of information that should be on hand.

Cooperative Efforts

A major part of the revenue sharing assistance program consists of efforts undertaken in cooperation with others. The network of official governors' representatives was expanded to include interested officials in state agencies concerned with local affairs, regional planning and development organizations, local affiliates of public interest groups, and university-based extension programs serving local governments.

In cooperation with state governments in Arizona, Arkansas, Missouri and Tennessee a series of technical workshops was held for smaller local governments in each of those states. This project was undertaken in recognition of the special needs of the many small recipient governments. In these "substate" projects, the Office of Revenue Sharing works with the state officials to develop information which addresses the special concerns of small local governments in that state, and then conducts a series of technical workshops at various locations throughout the state to aid both local officials and citizens to better understand the program and their related responsibilities.

In February, 1975, the Office of Revenue Sharing held a second series of briefings on Capitol Hill for Members of Congress and their staffs. These briefings were designed to acquaint new staff members with the basic operation of the program and emphasize aspects of the general revenue sharing program which are of continued interest to recipient governments.

Three issues of *ReveNews* were published during the year to provide technical assistance information to more than 2,000 individuals and organizations who are sources of advice and assistance to recipient governments. These include Congressional offices, state officials, national and local associations of government officials, civil rights and civic groups, and the media. This newsletter provides information on Office of Revenue Sharing administrative actions, interpretations of the revenue sharing Act and regulations, and reports on major issues in the revenue sharing program such as public involvement and local revenue sharing decisions, and good civil rights practice.

Office of Revenue Sharing staff participated as speakers in more than 100 national and regional conferences, technical workshops and seminars conducted in most states.

Individual Assistance

During 1974, staff of the Office of Revenue Sharing answered more than 6,000 written questions and over 14,000 telephone inquiries from recipients, their representatives in Congress, interest groups and citizen organizations, in addition to responding to more than 700 letters from Congressional offices. Over 47,000 requests for printed information were filled and 3,500 verifications of payments were sent to auditors.

Approximately 300 letter legal opinions were provided in response to individual requests of governments, and these opinions have been summarized and are being published for the benefit of all interested parties in a supplement to the 1973 digest of opinions.

Office of Revenue Sharing staff participated in more than 400 meetings with individual local officials and interested citizens to discuss specific problems of individual jurisdictions.

Through efforts such as these, the Office of Revenue Sharing seeks to meet the widely varied technical assistance needs of large and small local governments throughout the United States while still operating with a small staff in Washington, D.C. The success of these efforts is due largely to the exceptional cooperation provided by the thousands of organizations and public officials who continue to maintain a strong and active interest in the success of the general revenue sharing program.

COMPLIANCE

The State and Local Fiscal Assistance Act of 1972 established a new form of fiscal assistance to state and local governments. The Act contains relatively few prohibitions, conditions and restrictions.

While there are a minimum of requirements in the Act, all of these are considered to be very important.

The law prohibits the use of shared revenues in any activity in which there is discrimination because of race, color, national origin or sex; if shared revenues are used to pay 25 percent or more of the cost of a construction project, Davis-Bacon Act wage requirements must be met; general revenue sharing funds may not be used to match Federal grant money; for local governments, funds may be used for ordinary and necessary capital expenditures authorized by law or for operating and maintenance expenditures for public safety, environmental protection, public transportation, health, recreation, libraries, social services for the poor or aged, and financial administration.

To assure compliance with these and other provisions of the law, the Office of Revenue Sharing has developed a compliance system that seeks to utilize the many resources which already exist. These include civil rights and women's rights organizations, other federal departments and agencies, state and private auditors and their professional associations, civic groups, and national associations representing local and state governments.

Where evidence of non-compliance with the provisions of the Act is found by the Office of Revenue Sharing, or brought to its attention through audit or by complaint, the Office of Revenue Sharing determines the facts, advises the affected government of its findings, and seeks prompt, voluntary corrective action. In cases involving local governments, the governor of the state is advised and his assistance to achieve corrective action is sought. Should these efforts be unavailing, the Office of Revenue Sharing proceeds with the administrative remedies provided in the State and Local Fiscal Assistance Act and regulations or it may refer the matter to the U.S. Department of Justice for appropriate action, depending on the circumstances of each case.

Where evidence of fraud is found, the Attorney General of the respective state is asked to take appropriate action. Should he fail or decline to act, the matter is then referred to the U.S. Justice Department for appropriate action.

Audits and Reviews

Congress recognized in Section 123(c) of the Act that state government audit agencies could be a significant resource to enlist in the monitoring of fiscal compliance with the Act, and it specifically authorized the Secretary of the Treasury to accept state government audits of general revenue sharing expenditures under appropriate conditions insuring reliability.

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Audit Guide

As an early step in establishing a comprehensive compliance program, the Office of Revenue Sharing published an *Audit Guide and Standards for Revenue Sharing Recipients* for use by federal auditors, state audit agencies, and independent public accountants conducting audits of recipient governments. Approximately 85% of all entitlement funds are being audited in accordance with the *Guide*, according to information reported by recipients last Fall.

The *Audit Guide* includes a list of eight specific civil rights requirements which auditors of revenue sharing funds must examine for compliance in addition to ascertaining financial compliance. In instances of apparent fiscal or civil rights noncompliance, a copy of the audit report must be sent to the Office of Revenue Sharing in Washington for its evaluation and taking of corrective action.

State Agreements

During this year, the Office of Revenue Sharing undertook to implement the Congressional intent that state audit programs be relied upon where feasible, thus avoiding wasteful duplication of effort. In May, 1974, the Office of Revenue Sharing executed its first cooperative audit agreement with the Comptroller of the State of New York.

To date, every state's audit agency has been contacted by the Office of Revenue Sharing and 38 additional states have entered into formal agreements.

These cooperative agreements provide for the audit of general revenue sharing funds of 33 state governments and 14,943 local governments (some state audit agencies audit only state funds, some audit only local funds and some audit both).

The Office of Revenue Sharing is negotiating the first formal cooperation agreement with a state human rights commission to strengthen the effectiveness of the cooperative program in civil rights compliance.

Quality of Audits

While the Office of Revenue Sharing desires to extend audit coverage of entitlement funds through cooperative agreements with states, it is also concerned with the quality of the audits being performed. The agreements with state agencies provide for periodic review of the work performed by them in auditing revenue sharing funds. Also, the Office of Revenue Sharing has developed, in cooperation with the American Institute of Certified Public Accounts, a quality control plan under which ORS reviews audits, including supporting work papers, of revenue sharing funds made by independent public accountants.

Sample Audits

Jurisdictions not audited by a state agency or independent public accountant are audited on a sampling basis by Office of Revenue Sharing staff with emphasis on the larger jurisdictions whose payments are greater. Arrangements have been made to augment this sampling program by the work of other audit agencies of the Department of the Treasury whose audit staffs are stationed throughout the country.

Interagency Cooperation

The Office of Revenue Sharing is developing close working relationships with other Federal agencies having similar compliance activities.

The Office of Revenue Sharing signed the first formal interagency agreement with the Equal Employment Opportunity Commission in September of 1974 ". . . to establish a joint working relationship designed to enable both agencies to resolve complaints of employment discrimination against public employers and their contractors." Discussions with other federal agencies about similar agreements, both to facilitate the investigation of complaints and to obtain compliance, are underway.

Even while formal agreements are being developed, effective joint efforts are carried out. In January and February of 1975, for example, the Civil Rights Division of the Justice Department assigned staff investigators to join Office of Revenue Sharing compliance auditors making compliance reviews in jurisdictions in the South. Joint efforts reduce costs and provide more complete reviews than would otherwise be practical.

Correcting Discrepancies

During calendar year 1974, Office of Revenue Sharing staff made 57 audits and reviewed over 1,600 reports of audits of revenue sharing funds completed by other auditors. These audits showed 233 apparent instances of non-compliance in 146 jurisdictions. As with discrepancies found by Office of Revenue Sharing auditors themselves, discrepancy notices were issued to the governments requiring corrective action to be taken.

Public Participation

The revenue sharing Act encourages public participation in deciding how revenue sharing funds are to be used in each locality. The public has the opportunity to help ensure that revenue sharing funds are used in full compliance with the provisions of the Act.

Chief executives of local governments and governors sign assurances that their governments will comply with the requirements of the law as part of their annual reporting responsibility. These assurances are published, placing chief executives on public record regarding their obligations to achieve compliance in the use of shared revenues by their governments.

Information

To aid the public and government officials to understand how to comply with the Act, the Office of Revenue Sharing issued two special publications during the year. One, *Getting Involved: Your Guide to General Revenue Sharing* describes the system and process of general revenue sharing and gives special attention to those aspects which encourage public involvement in decisionmaking about the uses of these funds. The booklet also explains compliance requirements of the Act. *General Revenue Sharing and Civil Rights*, the second booklet, focuses citizen and government officials' attention on the non-discrimination provisions of the law and explains how to get corrective action.

Both publications were sent to every recipient government, to many civil rights and civic interest groups, to the media, to Members of Congress, to state and federal agencies, and individuals on request. In addition, Office of

Revenue Sharing staff participated in national, regional and local meetings of public interest groups.

Complaints

These public information activities emphasize that any person or local organization that has reason to believe that a state or local government has not complied with the civil rights or other requirements of the law may send the complaint directly to the Office of Revenue Sharing. Only a simple letter is needed: there are no complicated forms to be used, and no need to notarize the complaint.

During the past two years, the Office of Revenue Sharing received complaints involving 291 recipient governments:

Analysis of Complaints Received by the Office of Revenue Sharing

January 1, 1973-December 31, 1974

Category	Active At End of Period	Closed	Total
Civil Rights Cases	69	38	107
Financial & Other Cases	117	70	187
Total Cases	186	108	294
Recipient Govts. Involved	185	106	291

The action taken by the Office of Revenue Sharing upon receipt of a complaint is described in the following excerpt from the booklet *General Revenue Sharing and Civil Rights:*

1. The complaint will be acknowledged and examined.
2. If the examination of the complaint indicates a possible violation of the law, the Office of Revenue Sharing will:
   a. notify the chief executive officer of the receipt of the complaint;
   b. notify the governor, in the case of a local government.
   c. conduct an investigation into the alleged violation; or
   d. if the Office of Revenue Sharing does not have jurisdiction, because revenue sharing funds are not involved, refer the complaint to the federal, state or local agency which has legal jurisdiction.
3. The affected government will have the opportunity to respond to the complaint and, should evidence of noncompliance be gathered in the investigation, the government will be given an opportunity *to comply voluntarily.*
4. If the affected government does not act voluntarily to correct the discrimination (usually within a period of not longer than 60 days) then the Office of Revenue Sharing will begin formal action. At the option of the Secretary of the Treasury, this may be a referral to the Attorney General for appropriate civil court action or it may be the initiation of an administrative hearing. Section 122(b) gives the Secretary of the Treasury a choice of correction actions:
   - he may refer the matter to the Attorney General of the United States with a recommendation that an appropriate civil action be instituted;

- he may exercise the powers and functions provided by Title IV of the Civil Rights Act of 1964—that is, institute an administrative proceeding pursuant to the provisions of the Administrative Procedure Act; or
- he may take such action as may be provided by law.

5. Upon conclusion of the legal action (for example, in the case of an administrative law judge proceeding a hearing has been held, proposed findings and conclusions have been submitted, the administrative law judge has issued an order and any appeals have been resolved), if any government is judged to be in violation of the law, the Office of Revenue Sharing may:

   not only recover the illegally spent revenue sharing money, but also withhold all future revenue sharing money until the Secretary of the Treasury is satisfied that full compliance with the law is achieved.

Case Illustrations

The following case studies are examples of how the Office of Revenue Sharing often in cooperation with other individuals and organizations, works to achieve compliance with the civil rights and fiscal requirements of the Act.

Employment Discrimination

An Urban League located in a mid-western county wrote to ORS alleging discrimination in county government employment involving revenue sharing funds. The ORS contacted the county citing the allegation and requesting additional information. As is customary, ORS did not disclose the complainant's identity but did send copies of the correspondence to the Urban League.

Subsequently, Urban League officials, on their own initiative, met with county officials and a mutually acceptable plan of action was agreed upon. Later, Urban League officials cited the inquiry by ORS as ". . . instrumental in helping to bring about . . ." a resolution of the complaint.

Failure to Follow Budget Procedures

A complaint filed with ORS against a county government in a mid-western state alleged that it had failed to follow provisions of state law mandating local government budget procedures. The Office of Revenue Sharing learned upon investigation of a ruling by the state attorney general that exempted general revenue sharing funds from provisions of state law applying to local funds, on the basis that shared revenues were considered as "federal aid" and could be expended even if not included in the local government's budget.

The Office of Revenue Sharing contacted the state attorney general to explain that it was the intent of Congress that general revenue sharing funds be handled in the same manner as local revenues and not as "federal aid." The state attorney general issued a revised legal opinion advising that revenue sharing funds must be included in local budgets. Because of the closeness to the 1975 municipal budget deadline in the state, ORS arranged with the state attorney general to mail copies of the opinion to every local government recipient of general revenue sharing funds in the state, over 2,200 jurisdictions.

One significance of the ruling is that proposed uses of general revenue sharing funds by local governments will now be subject to the state's requirements of notice and public hearing before adoption as part of the overall budget.

Discrimination in Street Paving

ORS received a petition of complaint from 116 residents alleging that general revenue sharing funds were being used largely to repair streets in white sections of a southwestern small city.

ORS staff met with the city officials who conceded that the allegation was correct but cited a storm emergency as the reason. It was agreed that the city would correct its past discriminatory practices.

A new multi-year street paving program was developed by the city and priority was given to paving streets in the Black sections of the city. ORS has continued to monitor the progress of the city, which is now considered to be in compliance.

Employment Discrimination

A professional employee in a southern city finance department wrote a letter to the Office of Revenue Sharing alleging that she had been denied permanent appointment to the city civil service because of her ethnic background.

A review of the case failed to establish that general revenue sharing funds were involved in the program or agency in which the complainant was employed. Since ORS, therefore, did not have jurisdiction, ORS so informed the complainant and referred the case to the Equal Employment Opportunity Commission for action.

Volunteer Fire Company Discrimination

ORS received a complaint alleging racial discrimination in the admittance practices of a volunteer fire company located in a mid-Atlantic region of a state.

An auditor and a civil rights investigator were sent to the community from ORS. They determined that revenue sharing funds were involved because an architect retained to design a new fire station had been paid from general revenue sharing funds. It was determined that no Blacks ever had been members of the volunteer fire company although many are residents of the community, and admittance requirements were not job-related and tended to be discriminatory.

Through ORS compliance efforts, the members of the fire company voluntarily amended their bylaws, and have since accepted Black members into the organization.

Sex Discrimination

The admittance policies of a New England community volunteer fire company were the subject of a complaint to the ORS alleging sex discrimination. An ORS compliance team visited the community, found that general revenue sharing funds had been appropriated to the fire company, that admittance was limited to males, and that a qualified female had been denied membership. In cooperation with ORS, the volunteer fire company amended its bylaws to remove all references to sex, and offered membership to the woman who had previously been rejected.

Corrective Action

The Office of Revenue Sharing may learn of an apparent failure to comply with the Act through its own audits and reviews, through state or independent audits, through reviews by the General Accounting Office, through complaints, or through work of other Federal agencies. Whatever the source of the information, the Office of Revenue Sharing determines the facts and if non-compliance exists institutes corrective action.

To date, only one government has declined to voluntarily take action to comply with the Act. In that instance, the case was referred to the Department of Justice and court action has been taken.

Under the independent authority of the Attorney General provided by the revenue sharing Act, the Department of Justice also institutes civil actions to achieve compliance with the non-discrimination provisions of the Act.

THE REVENUE SHARING ORGANIZATION

In February 1973, the Secretary of the Treasury officially constituted the Office of Revenue Sharing within the Office of the Secretary. The Office of Revenue Sharing is charged with the mission of administering Title I of the State and Local Fiscal Assistance Act of 1972 (P.L. 92-512).

Functions

Figure 9 shows the current organization of the Office of Revenue Sharing. The eight units of the Office of Revenue Sharing carry out the following functions:

1. *Administration:* manages personnel, budget, central services and other internal administration of the office.

2. *Program Planning and Coordination:* coordinates special research projects at the request of the Director; manages the program planning system.

3. *Data and Demography Division:* responsible for acquisition of current and accurate data used to compute allocations of funds; conducts the data improvement program.

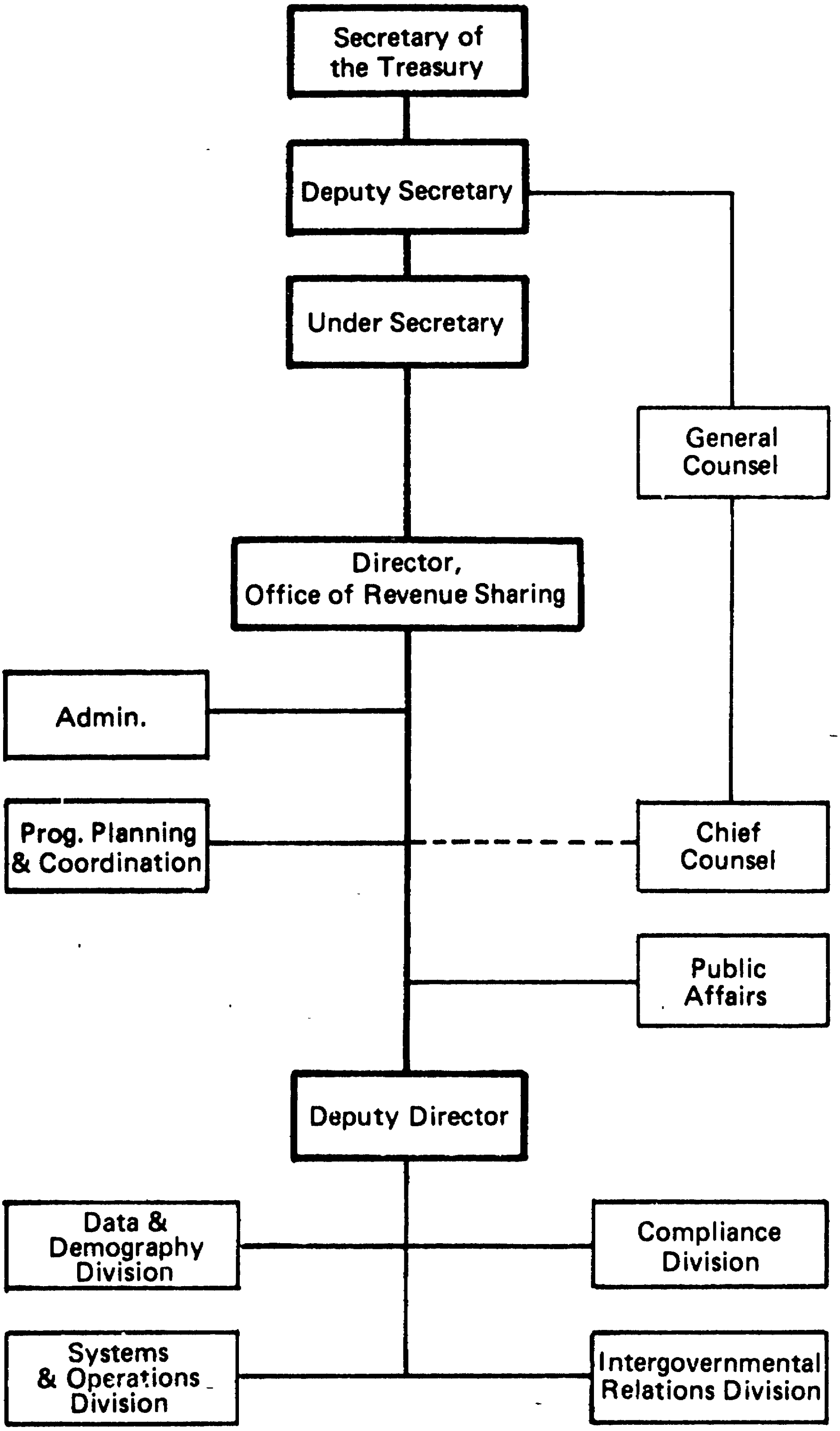
4. *Systems and Operations Division:* computes allocations of funds; writes payment vouchers; does all associated accounting; issues and processes required reports; produces computer-generated communications and publications.

5. *Compliance Division:* responsible for assuring compliance with the law by all recipient governments; coordinates and performs audits and investigations of recipients; undertakes cooperative compliance programs with ciivl rights, womens' rights and governmental organizations.

6. *Chief Counsel:* interprets the law; issues opinion letters; prepares regulations; represents the Office of Revenue Sharing in all legal matters concerning the general revenue sharing program.

7. *Intergovernmental Relations Division:* provides technical advice and assistance to state and local governments; maintains liaison with public interest groups.

8. *Public Affairs:* provides information about general revenue sharing to the public, the media, citizens groups, other federal agencies, research groups and the Congress.


Secretary of the Treasury
Deputy Secretary
Under Secretary
General Counsel
Director, Office of Revenue Sharing
Admin.
Prog. Planning & Coordination
Chief Counsel
Public Affairs
Deputy Director
Data & Demography Division
Compliance Division
Systems & Operations Division
Intergovernmental Relations Division

Budget

President Ford's budget for Fiscal Year 1976 proposes this staffing for the Office of Revenue Sharing:

	No. of Positions
Office of the Director	5
Public Affairs	3
Administration	5
Program Planning and Coördination	3
Systems and Operations	25
Data and Demography	9
Intergovernmental Relations	15
Compliance	51
Total Positions	116

The staff of the Chief Counsel for the Office of Revenue Sharing is provided by the General Counsel of the Treasury. Currently, 10 positions are assigned.

The appropriation requested in FY 1976 for administration of the revenue sharing program totals $2,704,000, excluding the personnel costs of staff provided by the General Counsel.

Interagency Cooperation

The Office of Revenue Sharing works closely with a variety of federal offices and agencies to insure the efficient, effective operation of the general revenue sharing program. The Department of Commerce, through the Bureau of the Census, provides the data upon which revenue sharing allocations and payments are based. Field offices of the Department of Labor make the area wage determinations that recipient governments must use to comply with the Davis-Bacon Act requirements which are referenced in the State and Local Fiscal Assistance Act. The Department of Justice assists the Office of Revenue Sharing to investigate and prosecute cases of fraud and violations of the Act. The Office of Revenue Sharing cooperates with the Civil Rights Commission, the Equal Employment Opportunity Commission, and the Departments of Health, Education and Welfare and Housing and Urban Development in civil rights matters.

The Government Printing Office provides printing and mailing services, and the U.S. Postal Service has been helpful in improving the delivery of revenue sharing materials to recipient governments, particularly those in isolated locations. The Office of Revenue Sharing has had the assistance of the Office of Management and Budget and the General Services Administration's Office of Federal Management Policy in the preparation of its *Audit Guide and Standards* for Revenue Sharing.

As required by the State and Local Fiscal Assistance Act, the Office of Revenue Sharing obtained the advice and concurrence of the Comptroller General of the United States in the preparation of the *Audit Guide,* and cooperates closely in studies of the revenue sharing program.

Within the Department of the Treasury, the Office of Revenue Sharing is provided administrative services from organizations established within the Office of the Secretary, is served by the Bureau of Accounts for check disbursement, by the Secret Service for investigation of potential criminal activity involving revenue sharing checks, and by the Internal Revenue Service which collects data as required by the State and Local Fiscal Assistance Act of 1972.

SYSTEM READINESS

The legislative history of the State and Local Fiscal Assistance Act of 1972 shows clearly that the Congress intended to establish a new form of federal financial assistance to state and local governments. The Congress was careful to distinguish general revenue sharing from all "grant" programs.

Under general revenue sharing, states and local governments receive funds to which they are by law entitled—an important distinction from grants for which governments must apply.

Payment amounts are determined not by administrative discretion but by explicit formulas which divide a national appropriation among the states and local governments according to published data which measures their relative population, tax effort, per capita income and similar factors.

Implementation of this new intergovernmental financial program required development of new methods of administration, establishment of innovative relationships, and decentralized means of assuring accountability.

Implementation of the general revenue sharing program has produced a new system, capable of transferring funds quickly and efficiently to all or any combination of governments, according to any formula involving any criteria for which data is available or may be obtained.

This new intergovernmental fiscal system has been designed with the flexibility needed to accommodate all 50 states should they choose to adopt optional revenue sharing formulas, and to operate these 50 subprograms at nominal cost.

General revenue sharing is bringing about better and more responsive government at all levels. As a program, it responds to the unique needs of states and local governments. As a new system, it offers opportunity to serve other federal initiatives.

Other Office of Revenue Sharing Publications Available at the Government Printing Office

What is General Revenue Sharing?
A publication answering questions most frequently asked by government officials about the general revenue sharing program.
Catalogue Number—T 1.2: R32/6
Price—40¢

Audit Guide and Standards for Revenue Sharing Recipients
A publication to aid state and local governments auditors and public accountants to understand the audit requirements for GRS money.
Catalogue Number—T1.10/2: AU 2
Price—90¢

Regulations Governing the Payment of Entitlements Under Title I of the State and Local Fiscal Assistance Act of 1972
A publication containing Indexed Regulations and the text of the General Revenue Sharing Act.
Catalogue Number—T1.10: IN5
Price—15¢

Compliance by the States and Large Urban Jurisdictions—Initial Report
September 1973
U.S. Government Printing Office 4800-223
Price—85¢

One Year of Letter Rulings on General Revenue Sharing: A Digest
March 1974
U.S. Government Printing Office 4800-244
Price—75¢

Payment Summary, Entitlement Periods 1 thru 4—With Period 5 Estimate
August 1974
U.S. Government Printing Office 4800-00252
Price—$4.40

Annual Report of the Office of Revenue Sharing
March 1974
U.S. Government Printing Office 4800-00240
Price—55¢

Getting Involved: Your Guide to General Revenue Sharing
March 1974
Catalogue Number—T1 10/2:R 32/2
Price—40¢

General Revenue Sharing and Civil Rights
November 1974
Catalogue Number—4804-00783
Price—70¢

General Revenue Sharing—Reported Uses, 1973-1974
February 1975

Appendix B

Communications Received by the Committee Expressing an Interest in These Hearings

STATEMENT OF FRANK RODIO, JR.

THE NEW FEDERALISM AND GENERAL REVENUE SHARING: THREE YEARS OPERATING EXPERIENCES

Mr. Chairman and distinguished Members of the United States Senate Committee on Finance, Subcommittee on Revenue Sharing:

Public Law 92–512, the State and Local Fiscal Assistance Act of 1972, more commonly known as "general revenue sharing," was signed into law by former President Richard Nixon on October 20, 1972 at Philadelphia, Pennsylvania's historic Independence Hall. The place where general revenue sharing legislation was signed was both appropriate and symbolic enough since the United States birthplace was at Independence Hall on July 4, 1776 and general revenue sharing legislation was termed the beginning of an era to be known as "the New Federalism" that was hopefully thought would lead to the strengthening of the United States federal system.

"The New Federalism" had its origin when former President Richard Nixon explained its purposes as follows: "... After a third of a century of power flowing from the people and the States to Washington it is time for a New Federalism in which power, funds and responsibility will flow from Washington to the States and to the people."

It took 3 years for general revenue sharing legislation to be enacted into law. We are in 1975, one year away from the Bicentennial of United States independence on July 4, 1976. The United States, described as the "American experiment" in self-government is a federal republic with a federal government and federal system comprising executive, judicial and legislative branches in Washington, D.C. based upon the separation of powers principle and the remainder of the federal system comprising 50 States, 3,047 counties and 233 metropolitan areas.

As we approach July 4, 1976 one questions whether or not Public Law 92–512 enacting into law general revenue sharing legislation has strengthened the United States as a federal republic with the corresponding byproducts of federal system and "New Federalism."

The United States Government has surpassed national bankruptcy. The City of New York is broke. I would like to elaborate upon my own erstwhile "Garden State" of New Jersey's experiences with Public Law 92–512 some 3 years after enactment.

New Jersey is highly balkanized, being the most densely populated State in the Union of 50 United States of America having 953.1 persons per square mile, a population distribution of 88.9% urban and 11.1% rural and having 21 counties, 567 separate municipalities and 606 school districts. Speaking of schools, education is the foundation of New Jersey's financial and fiscal crisis.

New Jersey's 1947 Constitution mandates a "thorough and efficient" education for New Jersey students. In 1973, New Jersey Superior Court Associate Justice Theodore I. Botter ordered the 120 member New Jersey State Legislature to devise an equitable school financing system that is compatible with the "thorough and efficient" constitutional edict. The New Jersey State Supreme Court upheld the Botter decision and New Jersey has been embroiled in an often bitter political dispute ever since over how to follow the court's mandate.

New Jersey may become the 45th State to enact a personal income tax as Governor Brendan Thomas Byrne has recommended. The New Jersey school system is financed basically from the local property tax whose rates New Jersey can boast to be among the highest in the Nation. The Botter decision has as its aim to knock down this inequitable method of school financing. Recently the 40 member New Jersey State Senate passed a bill defining a "thorough and efficient" education for New Jersey students.

New Jersey will receive some $648 million in general revenue sharing funds in the entitlmnt priod starting July 1, 1975. New Jersey received such federal aid which includes grants for highways, halth, education, and public welfare totaling $903,828 ending June 30, 1973 with aid per capita being $122.79.

The entire 50 United States of America spent $118,835,657 with $41,598,615 for education, $21,678,312 in public welfare, $15,025,156 in highways, $9,166,777 in insurance trusts, $5,476,704 for hospitals, $2,724,813 for natural resources and $1,873,353 in health tax spending.

New Jersey spent altogether $3,800,271 with $1,024,100 in education, $740,-705 in public welfare, $443,118 in highways, $535,798 in insurance trusts, $171,257 in hospitals, $58,541 in natural resources and $44,234 in health. These figures are for fiscal year 1973 and are the ones actually expended from taxes received.

With this financial breakdown, Mr. Chairman, it has become increasingly imperative and obvious that Congress and the President should enact into law not a six year extension of general revenue sharing legislation but a ten year extension of Public Law 92-512. General revenue sharing legislation had as its aim to decentralize government, help meet growing financial needs at grass roots levels and keep a lid on State and local taxes.

Since October 20, 1972 some $30.2 billion has been earmarked for the five years ending December 31, 1976. All 50 States plus the District of Columbia, 3,047 counties, 18,778 cities, 16,986 townships and 346 Indian tribes and Alaskan native villages can collect general revenue sharing. The apportionment method is by a complex method taking into account an area's population, a government's tax effort, per capita income and extent of urbanization.

General revenue sharing legislation puts few strings on State sepnding. Local governments must spend money on certain capital projects or among eight "priority" categories—public safety, environmental protection, public transportation, health, recreation, libraries, social services for the poor and aged and financial administration.

General revenue sharing funds make up an average of 5 to 8 percent of local government budgets and some 2 to 3 percent of State budgets. One area, Mr. Chairman, where general revenue sharing legislation can be improved is citizen input during local governing bodies revenue sharing usage hearings. This procedure should be incorporated into any revision of general revenue sharing legislation enacted into law by Congress and the President.

I described New Jersey in a statistical analysis, Mr. Chairman, and I believe New Jersey and its local governments have been shortchanged in light of the qualifying criteria laid down by Public Law 92-512. I have attached supporting charts, graphs and maps to support my analysis. In addition, I should like to enumerate the experiences of several Camden County, New Jersey municipalities with Public Law 92-512.

First here are a few interesting New Jersey statistics as they relate to general revenue sharing guidelines. New Jersey's per capita taxes for the State for 1974 increased nearly $18 over 1973 to $279. New Jersey's per capita rank dropped to 43rd from 40th among the 50 States. New Jersey's total State taxes of nearly $2.1 billion in the fiscal year ending June 30, 1974 ranked it tenth in total tax dollars collected. Three States with largest tax collections were New York ($8.5 billion,) California ($8 billion,) and Pennsylvania ($4.6 billion.)

New Jersey's tax dollar increase was about $125 million in 1973. Percentagewise it was up 6.5% less than the 50 State average increase of 8.9% which resulted in a USA per capita average State tax of $352.00. Since 1964 a year in which New Jersey's $77.41 per capita tax ranked it 48th over New Hampshire and Nebraska, New Jersey's per capita tax increase of nearly 260% was the highest among the 50 States.

Largest dollar increase per capita during the same 1964–1974 period was Hawaii's $381.39 giving it the highest per capita state tax burden of $584.26. The largest tax source among all states is the general sales tax ($22.6 billion,) utilized by 45 States followed by individual income taxes ($17.4 billion) imposed in varying forms in 44 States.

Major New Jersey tax source is the general sales tax enacted into law in 1966 which in fiscal year 1974 produced over $735 million which represents 36% of New Jersey's total tax revenue. New Jersey State taxes are not the largest portion of the total State-local New Jersey tax load. That dubious honor belongs to the local property tax which I discussed earlier.

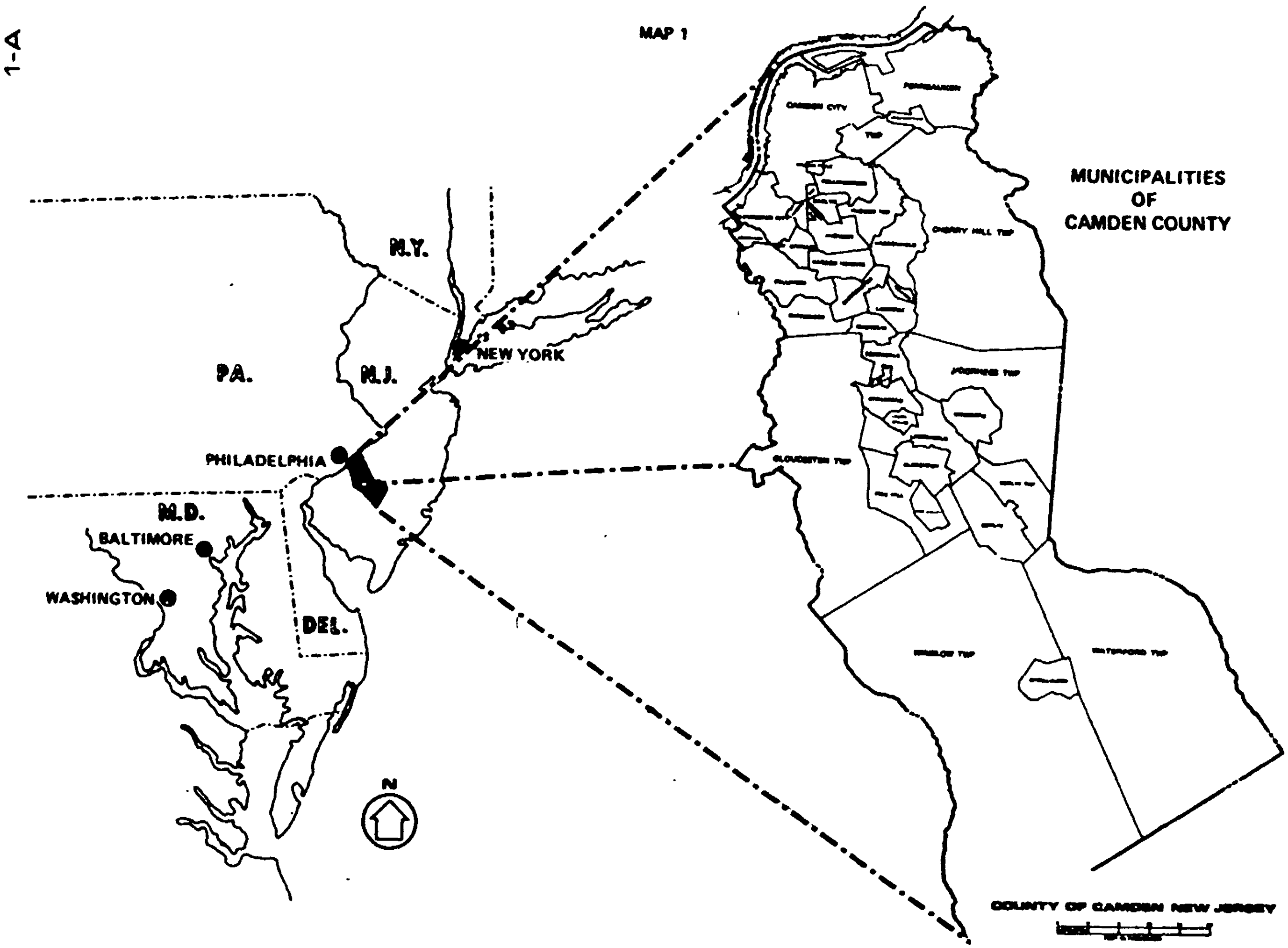
This taxation method provided a total of $2.7 billion or nearly 30% more governmental revenue than all States taxes. The total New Jersey State—local per capita tax burden of $630.51 for 1972-1973 makes New Jersey's rank tenth in the USA. Camden County is a microcosm of the entire erstwhile "Garden State" of New Jersey having 37 municipalities ranging from the urban core of Camden City, Gloucester City, Cherry Hill and Pennsauken Townships in the north to rural Chesilhurst Borough, Waterford and Winslow Townships in the southeast with the older, established suburban municipalities in the middle.

I have attached appropriate supporting charts, graphs and maps outlining financial and fiscal problems facing Camden County and its 37 constituent municipalities. Camden City received some $7,488,118 in general revenue sharing budget appropriations from 1972 to 1975. Camden City received $2,864,087 in 1974 and spent $2,383,940 for public safety, capital expenditures, $445,848 for environmental protection, $34,276 in social welfare services for the poor and aged and $23 in financial administration.

In 1973 urban Cherry Hill Township received $701,781.50 spending it for the eight revenue sharing categories. Rural Waterford Township received some $50,495 from July 1, 1973 to June 30, 1974 also spending it for eight revenue sharing categories.

The United States federal system can and should be preserved as we approach the Bicentennial of United States independence on July 4, 1976. General revenue sharing and the "New Federalism" are two such methods of preservation. Thank you.

MAP 1


MUNICIPALITIES
OF
CAMDEN COUNTY
N.Y.
PA.
N.J.
NEW YORK
PHILADELPHIA
M.D.
BALTIMORE
WASHINGTON
DEL.
N
COUNTY OF CAMDEN NEW JERSEY

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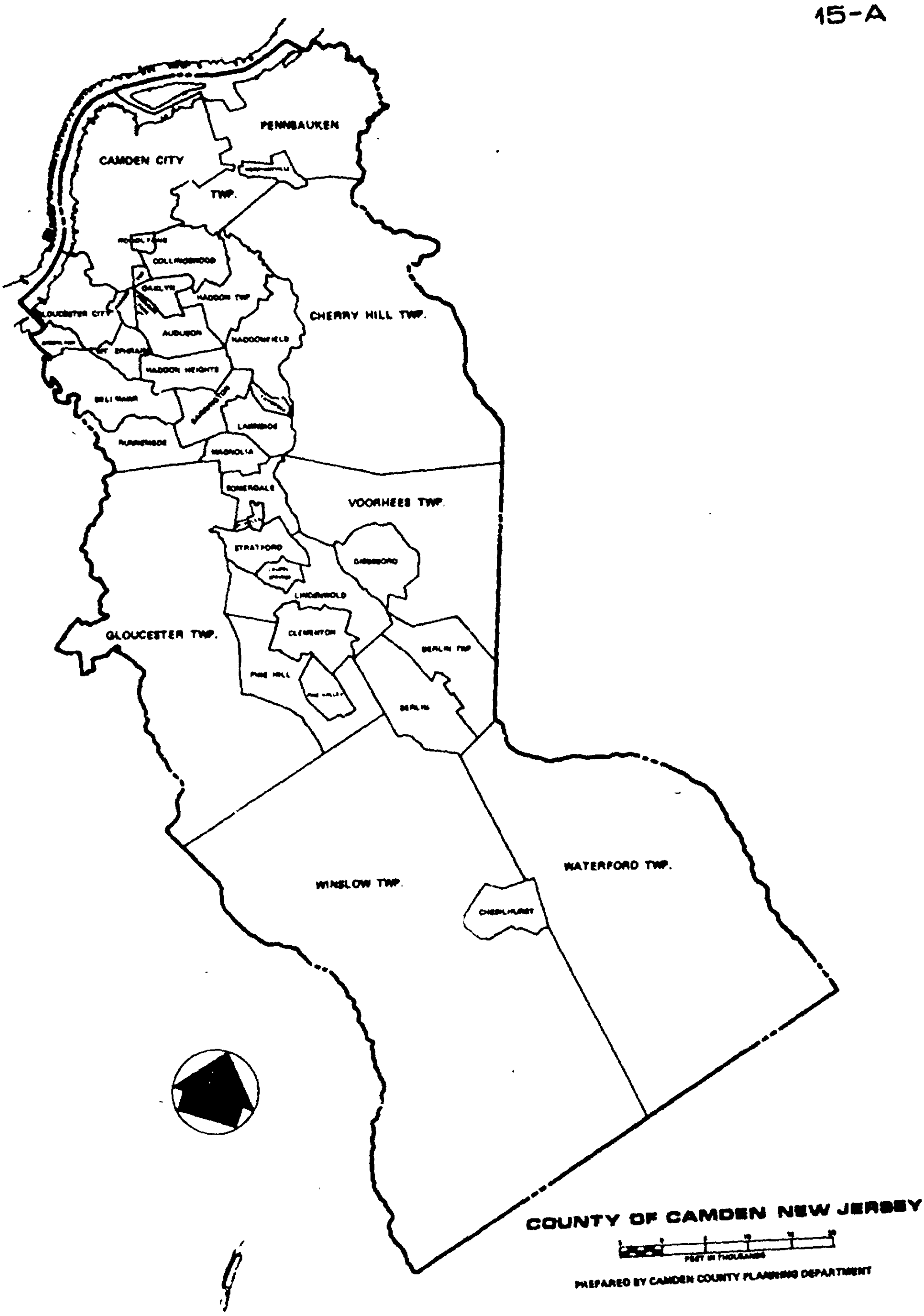
PENNSAUKEN
CAMDEN CITY
TWP.
COLLINGSWOOD
HADDON TWP
CHERRY HILL TWP.
AUDUBON
HADDONFIELD
HADDON HEIGHTS
BELLMAWR
LAWNSIDE
RUNNEMEDE
MAGNOLIA
SOMERDALE
VOORHEES TWP.
STRATFORD
LINDENWOLD
CLEMENTON
GLOUCESTER TWP.
PINE HILL
BERLIN TWP
BERLIN
WINSLOW TWP.
WATERFORD TWP.
CHESILHURST
COUNTY OF CAMDEN NEW JERSEY
FEET IN THOUSANDS
PREPARED BY CAMDEN COUNTY PLANNING DEPARTMENT

CAMDEN COUNTY INCOME LEVELS AND COMPARISONS 1960-1970

	Per Capita Income	1970 MFI	1960 MFI	% Increase 60-70 MFI	All 1970 Families	# Fam. Below Poverty Level	% Fam. Below Poverty Level
AUDUBON BORO	$3,657	$11,298	$7,287	55.0%	2,910	88	3.0
AUDUBON PARK BORO	2,857*	9,870	6,441	53.2	401	11	2.7
BARRINGTON BORO	3,574	11,621	7,350	58.1	2,252	66	2.9
BELLMAWR BORO	3,091	10,826	6,801	59.2	4,063	155	3.8
BERLIN BORO	3,366	11,130	7,296	52.5	1,250	38	3.0
BERLIN TWP.	2,691*	10,320	6,300	63.8	1,312	57	4.2
BROOKLAWN BORO	3,381	11,071	6,672	65.9	780	46	5.9
CAMDEN CITY	2,441	7,954	5,471	45.4	24,675	3,968	16.1
CHERRY HILL TWP.	4,483*	15,786	8,561	84.4	16,219	379	2.3
CHESILHURST BORO	2,651*	10,409	-	-	186	21	11.3
CLEMENTON BORO	3,157	9,463	6,104	55.0	1,214	69	5.7
COLLINGSWOOD BORO	3,782	10,511	7,475	40.6	4,579	211	4.6
GIBBSBORO BORO	2,957	11,430	7,145	60.0	599	30	5.0
GLOUCESTER CITY	2,851	9,297	6,289	47.8	3,666	292	8.0
GLOUCESTER TWP.	3,077*	11,307	6,660	69.8	6,580	278	4.2
HADDON TWP.	4,196*	12,255	8,059	52.1	5,014	166	3.3
HADDONFIELD BORO	5,686	15,291	9,451	61.8	3,446	66	1.9
HADDON HEIGHTS BORO	4,006	12,603	8,239	36.4	2,477	78	3.1
HI-NELLA BORO	3,808*	9,643	-	-	348	4	1.1
LAUREL SPRINGS BORO	3,414	12,259	7,328	67.3	705	27	3.8
LAWNSIDE BORO	2,859	9,716	4,716	106.0	669	76	11.4
LINDENWOLD BORO	3,142	10,460	6,208	68.5	3,295	122	3.7
MAGNOLIA BORO	2,860	10,261	6,620	55.0	1,490	72	4.8
MERCHANTVILLE BORO	4,327	11,806	8,630	36.8	1,184	71	6.0
MT. EPHRAIM BORO	3,360	10,811	7,224	49.7	1,543	88	5.7
OAKLYN BORO	3,622	10,938	7,519	50.3	1,309	53	4.0
PENNSAUKEN TWP.	3,358*	11,225	7,276	54.3	9,364	469	5.0
PINE HILL BORO	2,543	9,597	5,881	63.2	1,286	103	8.0
RUNNEMEDE BORO	3,205	10,782	6,957	55.0	2,862	141	4.9
SOMERDALE BORO	3,064	10,856	7,124	52.4	1,671	63	3.8
STRATFORD BORO	3,231	11,574	7,273	-	2,434	107	4.4
VOORHEES TWP.	3,307*	12,181	6,548	86.0	1,503	79	5.3
WATERFORD TWP.	2,772*	10,038	6,139	63.5	987	39	4.0
WINSLOW TWP.	2,495*	10,014	5,605	78.8	2,447	236	9.6
WOODLYNNE BORO	3,168	9,841	7,127	38.1	869	55	6.3
COUNTY TOTAL	$3,347	$10,960	$6,698	63.6%	115,589	7,824	6.8

*Approximate, equals aggregate income figures provided by TRI-STATE REGIONAL PLANNING COMMISSION divided by municipal population

PREPARED BY: CAMDEN COUNTY PLANNING DEPARTMENT

TABLE III

PERCENTAGE OF TOTAL AREA BY MAJOR LAND USE CATEGORY FOR MUNICIPALITIES IN CAMDEN COUNTY, N.J.

1968

Municipalities	Population 1/	Residential	Comm. & Serv.	Recrea.-Open Space	Transp. Comm. & Util.	Industrial	Farm Resource Production	Water & Vacant	
CITIES									
1. Camden	102,551	24.57	11.03	4.28	22.55	11.49	–	26.08	1
2. Gloucester	14,707	25.12	8.09	2.40	20.46	10.21	–	33.72	2
BOROUGHS									
3. Audubon	10,802	58.17	10.73	1.20	24.04	–	–	5.88	3
4. Audubon Pk.	1,492	40.09	4.94	4.83	23.78	–	–	26.36	4
5. Barrington	8,409	55.35	5.01	2.59	18.33	10.34	–	8.38	5
6. Bellmawr	15,618	34.95	7.82	2.14	23.20	.87	–	31.02	6
7. Berlin	4,997	22.09	6.43	7.08	10.13	1.22	18.03	35.02	7
8. Brooklawn	2,870	27.56	16.65	4.32	16.14	.50	–	34.83	8
9. Chesilhurst	801	18.54	1.26	–	9.43	.04	.88	69.85	9
10. Clementon	4,492	30.63	4.94	2.38	12.56	.54	–	48.95	10
11. Collingswood	17,422	50.70	9.36	10.34	21.01	1.15	–	7.44	11
12. Gibbsboro	2,634	17.66	4.33	5.30	7.11	1.14	1.60	62.86	12
13. Haddonfield	13,118	58.78	7.35	11.81	19.25	–	–	2.81	13
14. Haddon Hts.	9,365	57.02	5.80	7.05	25.49	.04	–	4.60	14
15. Hi-Nella	1,195	34.82	6.77	.80	15.39	.12	.77	41.33	15
16. Laurel Springs	2,566	60.50	4.88	1.95	22.30	.06	–	10.31	16
17. Lawnside	2,757	26.97	7.10	2.55	17.31	–	–	46.07	17
18. Lindenwold	12,199	35.46	4.84	2.55	14.84	.03	3.96	38.52	18
19. Magnolia	5,893	52.46	7.83	1.81	16.62	5.64	–	15.64	19
20. Merchantville	4,425	68.90	6.21	3.27	21.62	–	–	–	20
21. Mt. Ephraim	5,625	54.22	7.97	3.31	21.35	.04	–	13.11	21
22. Oaklyn	4,626	52.81	8.18	5.02	19.29	.28	–	14.42	22
23. Pine Hill	5,192	25.58	1.11	8.92	8.21	1.21	–	54.97	23
24. Pine Valley	23	2.20	–	93.89	3.00	–	–	.91	24
25. Runnemede	10,475	44.80	7.11	3.01	18.00	.24	–	26.84	25
26. Somerdale	6,510	49.64	7.65	1.85	17.19	.84	–	22.83	26
27. Stratford	9,801	55.05	10.56	1.50	16.77	.08	–	16.04	27
28. Tavistock	12	1.57	–	92.39	3.97	–	–	2.07	28
29. Woodlynne	3,101	51.66	5.36	3.53	25.71	–	–	13.74	29
TOWNSHIPS									
30. Berlin	5,692	21.91	3.16	.99	9.84	.15	8.69	55.26	30
31. Cherry Hill	64,395	34.61	7.73	5.01	11.57	2.17	3.89	35.02	31
32. Gloucester	26,511	16.87	9.34	2.77	7.45	.46	15.91	47.20	32
33. Haddon	18,192	53.86	8.81	6.54	17.82	.67	–	12.30	33
34. Pennsauken	36,394	24.93	7.68	4.26	13.55	9.18	2.14	38.26	34
35. Voorhees	6,214	13.44	2.65	7.69	5.51	1.94	16.24	52.53	35
36. Waterford	4,073	6.46	.55	56.80	2.09	.10	12.49	21.51	36
37. Winslow	11,202	7.78	2.56	4.80	13.46	.35	27.82	43.23	37

SOURCE: Camden County Planning Board, Field Survey, Summer of 1968

Note: 1/ 1970 Final Census Counts

MUNICIPAL PROPERTY TAX RATES

AUDUBON

	1972	1973	1974
County	1.42	1.52	1.64
Library	.04	.05	--
School	3.19	3.18	3.26
Local	.96	.94	.85
Vet & S.C.	.17	.17	.18
	5.78	5.86	5.93

AUDUBON PARK

	1972	1973	1974
County	1.02	1.00	1.03
Library	.03	.03	.03
School	5.63	5.35	3.29
Local	3.53	3.73	4.43
	10.21	10.11	8.78

BARRINGTON

	1972	1973	1974
County	1.45	.95	1.04
Library	.04	.03	.03
School	2.96	1.89	2.00
Local	.54	.46	.63
Vet & S.C.	.13	.07	.08
	5.12	3.40	3.78

BELLMAWR

	1972	1973	1974
County	1.33	1.39	1.81
Library	.04	.04	.05
School	2.67	2.86	3.03
Local	1.14	1.14	1.13
Vet & S.C.	.13	.12	.13
	5.31	5.55	6.15

BERLIN BOROUGH

	1972	1973	1974
County	1.30	1.33	1.48
Library	.04	.04	.04
School	3.05	3.03	3.11
Local	.27	.31	.35
Vet & S.C.	.09	.08	.09
	4.75	4.79	5.07

BERLIN TOWNSHIP

	1972	1973	1974
County	1.82	1.97	2.24
Library	.05	.06	.06
School	5.21	5.28	4.76
Local	.79	0.00	.22
Vet & S.C.	.18	.19	.19
	8.05	7.50	7.47

BROOKLAWN

	1972	1973	1974
County	1.22	1.43	1.52
Library	.04	.04	.04
School	2.53	2.69	2.58
Local	.49	.49	.49
Vet & S.C.	.18	.18	.18
	4.46	4.83	4.81

CAMDEN CITY

	1972	1973	1974
County	1.31	1.30	1.38
School	3.11	2.99	2.71
Local	3.14	3.31	3.32
Vet & S.C.	.17	.16	.15
	7.73	7.76	7.56

CHERRY HILL

	1972	1973	1974
County	1.06	1.17	1.33
School	3.09	3.30	3.31
Local	.47	.47	.47
Vet & S.C.	.05	.05	.04
	4.67	4.99	5.15

CHESILHURST

	1972	1973	1974
County	1.36	1.01	1.32
Library	.04	.03	.04
School	4.12	2.95	2.46
Local	1.00	.89	1.20
Vet & S.C	.10	.08	.08
	6.62	4.96	5.10

CLEMENTON

	1972	1973	1974
County	1.60	1.58	1.88
Library	.05	.05	.06
School	3.91	3.31	3.03
Local	1.23	.97	.97
Vet & S.C.	.16	.16	.12
	6.95	6.07	6.06

COLLINGSWOOD

	1972	1973	1974
County	.92	1.03	1.10
School	2.17	2.31	2.41
Local	.66	.64	.72
Vet & S.C.	.09	.10	.09
	3.84	4.08	4.32

GIBBSBORO

	1972	1973	1974
County	1.47	1.63	1.88
Library	.04	.05	.06
School	4.29	4.43	4.31
Local	.45	.45	.44
Vet & S.C.	.13	.13	.13
	6.38	6.69	6.82

GLOUCESTER CITY

	1972	1973	1974
County	1.42	1.48	1.63
Library	.04		
School	2.62	2.92	2.86
Local	1.23	1.17	1.15
Vet & S.C.	.18	.18	.18
	5.49	5.75	5.82

GLOUCESTER TOWNSHIP

	1972	1973	1974
County	1.48	1.60	1.83
Library	.05	.05	.05
School	3.89	3.96	3.89
Local	.64	.62	.62
Vet & S.C.	.13	.12	.12
	6.19	6.35	6.51

HADDON TOWNSHIP

	1972	1973	1974
County	1.36	1.48	1.65
Library	.04	.05	.05
School	3.13	3.23	3.33
Local	.56	.59	.77
Vet & S.C.	.14	.14	.14
	5.23	5.49	5.94

HADDONFIELD

	1972	1973	1974
County	.94	.99	1.09
School	2.00	2.06	2.27
Local	.50	.51	.60
Vet & S.C.	.06	.06	.06
	3.50	3.62	4.02

HADDON HEIGHTS

	1972	1973	1974
County	1.57	1.71	1.96
School	3.59	3.67	3.77
Local	1.03	.93	1.04
Vet & S.C.	.18	.18	.18
	6.37	6.49	6.95

HI-NELLA

	1972	1973	1974
County	1.08	1.28	1.35
Library	.03	.04	.04
School	1.84	2.58	2.76
Local	.67	.67	.95
Vet & S.C.	.06	.06	.06
	3.68	4.63	5.16

LAUREL SPRINGS

	1972	1973	1974
County	.94	.99	1.07
Library	.03	.03	.03
School	1.84	1.80	1.81
Local	.67	.53	.58
Vet & S.C.	.06	.09	.09
	3.45	3.44	3.58

LAWNSIDE

	1972	1973	1974
County	1.21	1.22	1.29
Library	.04	.04	.04
School	2.64	3.28	3.44
Local	1.22	1.22	1.23
Vet & S.C.	.08	.08	.08
	5.19	5.84	6.08

LINDENWOLD

	1972	1973	1974
County	1.21	1.15	1.31
Library	.04	.04	.04
School	3.11	2.24	1.99
Local	1.22	.71	.56
Vet & S.C.	.12	.08	.07
	5.39	4.22	3.97

MAGNOLIA

	1972	1973	1974
County	1.20	1.26	1.57
Library	.04	.04	.05
School	2.74	2.94	2.99
Local	.98	.92	1.16
Vet & S.C.	.12	.12	.13
	5.08	5.28	5.90

MERCHANTVILLE

	1972	1973	1974
County	.96	1.02	1.10
Library	.04	.03	.03
School	1.68	2.00	2.19
Local	.92	.85	.95
Vet & S.C.	.08	.08	.08
	3.67	3.98	4.35

MOUNT EPHRAIM

	1972	1973	1974
County	1.53	.86	1.03
Library	.05	.03	.03
School	2.26	1.46	1.55
Local	1.08	.68	.72
Vet & S.C.	.20	.12	.12
	5.12	3.15	3.45

OAKLYN

	1972	1973	1974
County	1.41	1.58	1.79
Library	.04	.05	.05
School	2.72	2.96	3.31
Local	.75	.75	.75
Vet & S.C.	.19	.19	.19
	5.11	5.53	6.09

PENNSAUKEN

	1972	1973	1974
County	1.49	1.50	.80
School	2.53	2.57	1.32
Local	.43	.36	.24
Vet & S.C.	.11	.11	.05
	4.56	4.54	2.41

PINE HILL

	1972	1973	1974
County	1.45	.78	1.04
Library	.04	.03	.03
School	4.34	2.07	1.95
Local	1.15	.80	.80
Vet & S.C.	.42	.11	.09
	7.40	3.79	3.91

PINE VALLEY

	1972	1973	1974
County	1.54	1.51	1.52
Library	.05	.05	.04
Local	2.52	2.80	3.16
	4.11	4.36	4.72

RUNNEMEDE

	1972	1973	1974
County	1.43	1.52	1.68
School	2.74	2.84	2.95
Local	.63	.63	.63
Vet & S.C.	.16	.17	.16
	4.96	5.16	5.42

SOMERDALE

	1972	1973	1974
County	.98	1.06	1.17
Library	.03	.03	.03
School	2.44	2.51	2.38
Local	.75	.75	.70
Vet & S.C.	.09	.09	.10
	4.29	4.44	4.38

STRATFORD

	1972	1973	1974
County	1.39	1.57	1.76
Library	.00	.00	.00
School	3.34	3.34	3.58
Local	.65	.47	.47
Vet & S.C.	.12	.12	.13
	5.50	5.60	5.94

TAVISTOCK

	1972	1973	1974
County	1.10	1.09	1.11
Library	.03	.03	.03
School	.05	.00	.00
Local	.44	.44	.44
	1.62	1.56	1.58

VOORHEES TOWNSHIP

	1972	1973	1974
County	1.23	1.81	1.82
Library	.02	.06	.05
School	2.43	2.59	2.68
Local	.53	.53	.47
Vet & S.C.	.06	.05	.05
	4.27	5.04	5.07

WATERFORD TOWNSHIP

	1972	1973	1974
County	.87	1.02	1.19
Library	.96	.00	1.05
School	1.45	2.25	2.07
Local	.34	.33	.31
Vet & S.C.	.10	.10	.10
	3.72	3.70	3.67

WINSLOW TOWNSHIP

	1972	1973	1974
County	1.36	1.38	1.48
Library	.04	.04	.04
School	3.88	3.50	3.13
Local	.00	.00	.01
Vet & S.C.	.08	.07	.07
	5.36	4.99	4.71

WOODLYNNE

	1972	1973	1974
County	1.47	1.55	.82
Library	.05	.05	.02
School	3.42	3.71	1.72
Local	1.67	1.66	1.04
Vet & S.C.	.28	.29	.14
	6.89	7.26	3.74

CAMDEN COUNTY - STATISTICAL ANALYSIS

Municipality	POPULATION - 1970		Square Miles and per Sq./Mi.					RATABLES - 1970		RATABLES - 1973	
	(1) Final Census	(2) Rank	(3) Total Area	(4) Gross Dens.	(5) Resid. Area	(6) Net Resid. Dens.	(7) Rank	(8) Taxable * Valuation $	(9) Rank	(10) Equalized** Valuation $	(11) Rank
CITIES (OF)											
1. Camden	102,551	1	9.56	10,727	3.96	25,897	1	354,764,497	2	380,323,658	2
2. Gloucester	14,707	8	2.83	5,197	1.15	12,789	5	63,921,607	8	79,226,429	13
BOROUGHS (OF)											
3. Audubon	10,802	12	1.50	7,201	0.94	1,149	33	59,707,231	10	82,480,343	12
4. Audubon Park	1,492	33	0.17	8,776	0.09	16,578	4	1,461,759	36	1,483,491	35
5. Barrington	8,409	16	1.59	5,289	1.01	8,326	14	49,453,812	13	71,817,605	15
6. Bellmawr	15,618	7	3.12	5,006	1.93	8,092	15	62,124,656	9	117,547,844	8
7. Berlin	4,997	23	3.57	1,400	2.68	1,864	27	27,463,473	19	53,768,039	18
8. Brooklawn	2,870	29	0.54	5,315	0.30	9,567	10	10,577,156	31	16,096,261	31
9. Chesilhurst	801	35	1.72	466	1.54	520	35	2,848,712	34	5,591,683	34
10. Clementon	4,492	25	1.98	2,269	1.51	2,975	24	19,349,350	24	34,477,902	26
11. Collingswood	17,422	6	1.96	8,889	1.03	16,914	3	81,321,555	7	121,147,302	7
12. Gibbsboro	2,634	31	2.21	1,192	1.76	1,497	29	13,492,711	29	19,812,279	29
13. Haddonfield	13,118	9	2.82	4,652	1.69	7,762	17	106,001,694	5	161,238,087	5
14. Haddon Heights	9,365	15	1.58	5,927	0.97	9,655	9	50,714,951	12	78,225,327	14
15. Hi-Nella	1,195	34	0.23	5,196	0.18	6,638	19	6,599,304	33	8,610,412	33
16. Laurel Springs	2,566	32	0.46	5,578	0.32	8,019	16	10,800,001	30	19,419,937	30
17. Lawnside	2,757	30	1.43	1,928	1.05	2,626	25	16,244,388	27	23,575,459	28
18. Lindenwold	12,199	10	3.87	3,152	2.95	4,135	22	36,306,966	17	94,188,742	11
19. Magnolia	5,893	19	0.98	6,013	0.66	8,292	12	22,976,616	23	37,284,693	22
20. Merchantville	4,425	26	0.61	7,254	0.42	10,536	7	24,829,546	21	36,450,509	23
21. Mt. Ephraim	5,625	21	0.92	6,114	0.59	9,534	11	27,636,427	18	42,002,492	20
22. Oaklyn	4,626	24	0.68	6,803	0.40	11,565	6	23,671,068	22	35,886,939	24
23. Pine Hill	5,132	22	4.00	1,283	3.19	1,609	28	15,120,647	28	35,141,299	25
24. Pine Valley	23	36	0.95	24	0.02	1,150	32	1,469,419	35	1,435,635	36
25. Runnemede	10,475	13	2.10	4,988	1.40	7,482	18	47,045,241	14	68,264,335	17
26. Somerdale	6,510	17	1.36	4,787	0.99	6,576	20	26,376,271	20	42,798,906	19

CAMDEN COUNTY - STATISTICAL ANALYSIS

Municipality	POPULATION - 1970							RATABLES - 1970		RATABLES - 1973	
			Square Miles and per Sq./Mi.								
	(1) Final Census	(2) Rank	(3) Total Area	(4) Gross Dens.	(5) Resid. Area	(6) Net Resid. Dens.	(7) Rank	(8) Taxable * Valuation $	(9) Rank	(10) Equalized** Valuation $	(11) Rank
27. Stratford	9,801	14	1.60	6,126	1.13	8,673	13	45,788,002	15	73,406,389	16
28. Tavistock	12	37	0.27	44	0.01	1,200	31	1,067,191	37	885,839	37
29. Woodlynne	3,101	28	0.23	1,348	0.15	20,673	2	9,473,680	32	14,018,755	32
TOWNSHIPS (OF)											
30. Berlin	5,692	20	3.27	1,741	2.81	2,026	26	18,572,344	26	32,496,533	27
31. Cherry Hill	64,395	2	24.26	2,654	17.76	3,626	23	503,229,480	1	863,375,835	1
32. Gloucester	26,511	4	23.25	1,140	18.48	1,435	30	112,098,168	4	222,599,785	4
33. Haddon	18,192	5	2.83	6,428	1.73	10,516	8	96,007,042	6	153,519,339	6
34. Pennsauken	36,394	3	12.27	2,966	6.32	5,759	21	273,442,725	3	377,394,307	3
35. Voorhees	6,214	18	11.68	532	9.53	652	34	40,688,279	16	113,705,538	9
36. Waterford	4,073	27	36.23	112	14.55	280	36	19,115,189	25	38,216,353	21
37. Winslow	11,202	11	58.26	192	45.44	247	37	55,883,562	11	106,828,797	10
CAMDEN COUNTY	456,291		226.89	2,011	150.64	3,029		2,337,644,720		3,664,743,078	
MEDIAN				4,787		6,638					

Col. (5) - From Land Use Survey 1968 - Residential area does not include street area.

(A) - Wharton State Forest - 20.77 Square Miles
(B) - State and County Parks and Forest - Ancora State Hospital - 9.64 Square Miles
* - Net valuation on which County taxes are apportioned. Taken from Abstracts of Ratables. Camden County, 1970.
** - From certification of table of equalized valuations - 1973, N.J. Dept. of Treasury

Prepared by the Camden County Planning Department
8/74

ABSTRACT—A REDISTRIBUTIVE EVALUATION OF REVENUE SHARING, BY JAMES FORTUNE, ASSISTANT DIRECTOR, BLACK ECONOMIC RESEARCH CENTER, NEW YORK, N.Y.

A major function of the federal government is to redistribute the wealth of this country, with the progressive income tax providing the largest source of redistributive funds. Revenue sharing must then be evaluated in terms of how well it performs this function since it represents federal policy.

The federal government should attempt to establish policies that provides for the redistribution of resources from the high income to the low income groups. The reason it should is simple. The federal government has a progressive tax system which lends itself to carrying out such policies. The federal taxing system is more flexible. It increases simultaneously with personal and corporate income. The federal government should avoid, as much as possible, diversion of such funds to nondistributive purposes. State and local governments have historically used revenues disproportionately for these purposes with their rigid and regressive property tax-base which lends itself more to nonredistributive purposes.

Evaluating revenue sharing in these redistributive terms gives some disappointing results. The evidence shows that state and local governments have used federally raised funds disproportionately in nondistributive ways such as to 1) support or balance the general budget, 2) reduce the backlog of projected capital investments and 3) reduce the property tax.

To date, very little revenue sharing funds have been used in redistributive areas such as low income housing or anti-poverty programs. Consequently, under revenue sharing the federal government has not lived up to its obligation to redistribute federally raised funds equitably.

Probably, the revenue sharing program would not have fared so poorly in redistributive terms had its enactment not been followed by a reduction or elimination of many categorical grants. These reductions followed a period in which the role of the federal government in domestic affairs had been greatly enlarged. The politically and economically disadvantaged had become dependent on this federal role.

After the enactment of revenue sharing, the total amount of federal funds available to state and local governments to offset the rising cost and increased demands for public services was considerably less than before revenue sharing. Specifically, the cities were then, and are now, in worst shape than before because revenue sharing was financed by cut-backs in categorical grants which went disproportionately to the cities and their poor. As a result, school systems have continued to disintegrate, housing is still being abandoned and health needs remain unfulfilled.

If the federal government is to reverse the process of deteriorating cities and avoid the crisis type situations of the late sixties, the revenue sharing program must be seriously and critically reviewed. If it is to be continued, changes must be made to correct the inequities that exist between the economically and politically advantaged and disadvantaged. If the federal government fails to do this, it will push the American society further down the road of destruction.

STATEMENT OF STEVEN E. SCHILSKY AND AMY L. SHORE, M.A. CANDIDATES, UNIVERSITY OF CHICAGO, SCHOOL OF SOCIAL SERVICE ADMINISTRATION

THE USE OF GENERAL REVENUE SHARING FUNDS FOR SOCIAL SERVICES TO THE AGED IN THE STATE OF ILLINOIS

THE ESSENCE OF GENERAL REVENUE SHARING

Title I of the State and Local Fiscal Assistance Act of 1972, commonly known as the Federal General Revenue Sharing (GRS) Bill was introduced in the United States House of Representatives in 1971 and signed into law by former President Nixon in 1972. Its main objective was to decentralize decisionmaking, thereby giving the people more say in the spending of tax dollars for local purposes. This was to be a more effective manner of dealing with local problems and would allow governments to aid specific communities with their own needs. (U.S. Treasury Department, 1972)

The law provides for $30.2 billion of collected federal individual income taxes to be returned to state and local governments over five years. This five year period is divided into seven entitlement periods during which a portion of the above sum is disseminated. We are currently in Entitlement Period V, during which $6.2 billion will be dispersed. The allocated funds may be used by local governments in one or more of the following categories:

1. Public Safety
2. Environmental Protection
3. Public Transportation
4. Health
5. Recreation
6. Libraries
7. Social Services for the Poor and Aged
8. Financial Administration (U.S. Treasury Department, 1972)

DESIGN OF STUDY

The area of study encompassed the city of Chicago, Cook County and the State of Illinois. The research for this investigation was completed over a three month period during which time many primary and secondary sources were consulted. Some of these included the Mayor's Office for Senior Citizens and the Cook County and State of Illinois Bureaus of the Budget. Also, we were in contact with the Office of Revenue Sharing in Washington, D.C. The purpose of this paper is to examine the use of General Revenue Sharing funds in Illinois, and in particular, to discover if any funds were being used for social services to the aged.

VARIOUS GOVERNMENT LEVEL EXPENDITURES

In Illinois, the cities, counties and the state publish planned and actual use reports. The former indicates how each government expects to spend their entitlement money and the latter how each finally did.

We are reporting on the entitlement period January 1, 1973 through June 30, 1973. At the time of our research, however, we were unable to ascertain an actual use report for the City of Chicago. Our findings are as follows:

The City of Chicago estimated their entitlement to be $34,898,054. Their planned use report indicated the following anticipated expenditures:

Public Safety	$34, 116, 338
Health	425, 756
Libraries (city of Chicago, 1973)	355, 960

Cook County planned to receive $8,144,100. Their planned use report indicated the following anticipated expenditures:

Public Safety	$7, 899, 777
Financial Administration (Cook County, 1973)	244, 323

The county's actual use report indicates that they received payments totalling $18,331,282. This money was spent in the following manner:

Public Safety	$12, 852, 316
Financial Administration	552, 218
Interest earned (on $5,442,644 not spent) (Cook County, 1973)	515, 897

Illinois' planned use report is based upon an estimated total of $50,755,021. This entire sum was anticipated to be spent on education. The state actually received $68,762,194. As of August 1973 they spent the following:

Education	$25, 000, 000
Interest earned (State of Illinois, 1973)	2, 214, 635

Mr. Richard E. Bratton, Assistant Director of the State of Illinois Bureau of the Budget states, "All of the expenditures have been in the form of transfers to the Common School Fund for the purpose of monthly state aid to education payments to each school district throughout the state. Current plans are to continue the use of revenue sharing as a resource to fund state aid to education." (Bratton, 1974)

The results of the above investigation showed that agencies concerned with provision of services to the aged did not receive any funds.

SUGGESTIONS FOR THE FUTURE AND CONCLUSION

Throughout our research we have uncovered many deficits in the General Revenue Sharing program as it applies to social services to the aged. We believe our recommendations will benefit not only the aged, but also the system as a whole and should be taken into consideration before the law expires on December 31, 1976.

1. The eight priority expenditure categories are too broad and ambiguous. They must be re-examined to determine whether or not they should be continued as such or others substituted in their place. Also, the categories need to be more specifically defined. For example, the category entitled Social Services for the Poor or Aged must be divided into two separate categories; one entitled Poor and one entitled Aged. Furthermore, the local governments must define their terms, i.e. Social Services, Poor, and Aged, in order that the public be aware of who will be included in these categories.

2. The State of Illinois spent all of its money on education. Expenditures on the part of society toward youth are of long standing, but expenditures on the part of society toward aging are new. We recommend that if a state wishes to spend all of its money on education some of it should go toward adult education; i.e. programs for the elderly.

3. Revenue sharing and its potential benefits were not explained and/or publicized to the general public. Joe Tom Easley, a member of the Southern Regional Council, recently stated in The New York Times, ". . . We have failed to detect any special efforts whatsoever on the part of local or state governments to involve local citizens in the decision making process on these Federal revenue-sharing funds." (Farrell, 1974) We recommend there be better communication between the politicians (who control the funds) and the professionals (who desire the funds) as to the needs and wishes of the target populations.

4. The Federal Government has ignored the responsibility of instituting an efficient checks and balances system. The current reporting procedures are not sufficiently adequate for the local governments to report their spending of GRS funds to the Federal Government. Consequently, there have been violations cited by Senator Muskie, of the antidiscriminatory requirement in the revenue sharing law. He criticized the Office of Revenue Sharing for not enforcing this requirement. (Farrell, 1974) There should be more rigid reporting procedures in order that the Federal Government, as well as the public, be informed of how the local governments have used the money. In our opinion, this is important for the efficiency of the system.

5. At the local level, revenue sharing money has not been divided equitably among all eight priority categories. For example, the large majority of money in Cook County was spent for Public Safety. We believe there should be a new dispersal plan instituted whereby local governments give one half of their funds to what they consider to be their number one priority and divide the other fifty percent equally among the other priority expenditure categories. In this manner, local governments will still have the power to determine their greatest needs, yet at the same time will be servicing all of the priority categories.

6. Representative Wilbur D. Mills has recommended that by January 1, 1975 the states' one third share of GRS funds should have been eliminated and this was to have been distributed among cities, counties, and towns. (Farrell, 1974) We disagreed with this suggestion since the states may use their revenue sharing funds for social services and a target population such as the aged may benefit from such spending.

In summary, the use of general revenue sharing funds for social services to the aged in the State of Illinois was investigated. The priority category entitled "Social Services to the Poor or Aged" did not receive any funds from either state, county or city government. GRS funds were used for tax cuts and for limiting probable tax increases as opposed to new spending. This was a result of the fact that no one was sure whether or not the program would continue. We hope that when the revenue sharing program does come up for renewal our suggestions or others similar to them are taken into consideration for the future benefit of not only the elderly but also the entire population.

REFERENCES

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The authors would like to express their appreciation to Professor Walter Walker for his guidance in this effort.

THE ST. PAUL URBAN COALITION,
St. Paul, Minn.

STATEMENT

To: Senate Finance Subcommittee on Revenue Sharing.
From: Mary Ann Sudeith, Coordinator, Revenue Sharing Project.
Date: April 11, 1975.

Don Lief from the National Clearinghouse on Revenue Sharing informed us that you were inviting statements from groups on General Revenue Sharing.

Last year Saint Paul participated in the National Revenue Sharing project of the League of Women Voters Education Fund, National Urban Coalition, Center for Community Change, and Center for National Policy Review. (Please find a copy of our local report enclosed.) [1]

We would like to share some of our thoughts with you as you consider this important subject. We do feel that General Revenue Sharing should be continued. Although, in our opinion, Saint Paul did not use General Revenue Sharing in the best interests of our city, it would be devastating to our city budget to lose these funds. General Revenue Sharing has become a very necessary part of our city's income.

We wish to encourage the elimination of the 145% ceiling defined in the General Revenue Sharing legislation. American cities are facing very serious financial difficulties. If these cities are to be revitalized, every effort must be made to channel as much financial assistance as possible to cities. Therefore, it is our opinion that this ceiling should be removed. This would also be a way of directing more General Revenue Sharing funds to poor and minorities, since these groups are concentrated in the cities.

Greater citizen participation is essential if decision making is really to be shifted to a local level. We would therefore recommend strengthening the requirements for citizen participation.

In our local study, we found that no consideration was given to the anti-discrimination provisions of the law in selecting the financial institutions to be the depositories of these funds. We feel strongly that the law should require affirmative action programs to be active and effective in all financial institutions used as depositories for General Revenue Sharing funds.

Some recipients of General Revenue Sharing funds did not even consider the civil rights provisions of the legislation when they allocated their General Revenue Sharing dollars. We feel that the anti-discrimination provisions of this legislation should be carefully enforced and that no steps should be taken

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[1] The report was made a part of the official files of the Committee.

to relax the enforcement of these provisions. It is our understanding that the Office of Revenue Sharing is reluctant to withhold General Revenue Sharing funds when alleged discrimination is brought to their attention. Provisions should be made to insure compliance.

SUBMISSION OF THE TAX FOUNDATION OF HAWAII

FEDERAL REVENUE SHARING IN THE STATE OF HAWAII, NOVEMBER 1974

Background

The State and Local Fiscal Assistance Act of 1972 (P.L. 92–512), generally known as the Revenue Sharing Act, appropriated $30.2 billion to be distributed to state and local general governments over the five-year period between January 1, 1972 and December 31, 1976.

The funds are distributed quarterly according to an allocation formula which uses each state's resident population, personal income and tax effort. The law requires that allocations be computed for six-month periods from January 1, 1972 through June 30, 1973 and for July 1, 1976 through December 31, 1976. Allocations for fiscal years 1974 and 1975 are to be computed for 12-month periods.

State governments receive one-third of each allocation and two-thirds is distributed to their local governments according to a formula which is similar to that used to determine the allocations by state. The funds are automatically distributed to qualifying units of government. The Office of Revenue Sharing computes all allocations on the basis of Bureau of the Census data.

There are few restrictions on the use of revenue sharing funds. State governments may spend their shares on any programs or projects not prohibited by state or federal law, however, the funds cannot be used for the purpose of matching other federal grants. Local governments are restricted to certain "priority" areas which are (1) operating and maintenance of public safety, environmental protection, transportation, health, recreation, libraries, financial administration and social services for the poor and aged, and (2) any properly authorized capital improvements. The Office of Revenue Sharing has ruled that the funds may be used to aid nongovernmental agencies whose functions fall within the priority areas, to reduce tax rates, and to pay the principal on debt incurred after January 1, 1972 for capital improvements which fall within the priority areas. Revenue sharing funds must be spent within two years of their receipt.

Revenue sharing in Hawaii

Over the lifetime of the Act, Hawaii state and local governments will receive approximately $130 million. The state's share will be about $43 million and the four counties $87 million. The exact amount cannot be determined since future allocations will vary as the factors used to establish them change within the state and the nation as a whole.

Fiscal 1975 allocations are: State, $8.9 million; Honolulu, $13.2 million; Hawaii, $2.1 million; Maui, $1.5 million; and Kauai, $931,500. On a per capita basis the neighbor counties are currently receiving allotments of $28 to $30. Honolulu is substantially lower at $22 and the state's share equals $11.

Planned and actual uses of revenue sharing funds

State government.—The law requires that all governments receiving funds under the Act publish statements indicating how they plan to use the revenues allotted for a given period. This is to be followed with another report showing the actual use of revenue sharing funds during that same period. The planned and actual use reports of the state government show that the funds it received were used within the period for which they were allotted to pay a portion of the state's general obligation debt retirement costs. Of the $19.2 million allotted, only $185,413 remained unexpended as of June 30, 1974.

County governments.—On the other hand, the picture presented by the counties' reports is confused by several factors. There were no planned use reports required for the amounts distributed for the first 12 months and, in fact, the counties spent very little from these funds prior to fiscal 1974. Maui and Kauai used no revenue sharing funds before June 30, 1973 leaving carryover balances of $1.5 million and $939,000 respectively as of that date. Honolulu used $300,000 leaving a balance of $14.8 million and Hawaii's balance was $2.3 million after expenditures of $910,000. Since the funds must be used within two years of their allocation, expenditures in fiscal 1974 were, in the main, funds received in earlier allotment periods. Thus the planned use reports for fiscal 1974 concerned the allotment for that period, while the actual use report for fiscal 1974 involved funds allotted for an earlier period and for which no planned use report had been published. As a result, at the county level, there is very little correspondence between the planned and actual use reports for a given allotment period.

Another factor which frustrates attempts to pinpoint exactly how these revenues are being spent lies in the fact that they can have the effect of "freeing up" other funds. For example, in 1974, Maui reported some 70% of its expenditures from revenue sharing funds had been used for operating costs in the areas of public safety and financial administration. However, county officials state that rather than indicating program expansion in these areas, this use freed other county revenues which were then used to accelerate the planned capital improvements program. Because of the two-year limit revenue sharing was used for an immediate priority item while the surplus it generated was treated as the "new" money and appropriated for CIP which might require funding over several years. It is probable that the use of revenue sharing funds in Honolulu and Kauai for operating expenses can be attributed to similar efforts to insure compliance with the provisions of the Act.

Impact in Hawaii

As nearly as can be determined the state and counties in Hawaii are being cautious in their use of revenue sharing funds. The approaching cut-off date of December 1976 plus a hesitance to use these funds for projects which might not be considered permissible by the Office of Revenue Sharing have combined to make local officials reluctant to "experiment" or expand existing programs by using these funds. It seems unlikely at this time that if the program is allowed to expire as scheduled in December 1976, either the county or state governments will find themselves locked into any expensive projects or programs initiated with revenue sharing funds.

The $9 million per year the state government has been receiving undoubtedly helped the administration keep its 1972 and 1973 general fund deficits under control and eased demands for an immediate tax increase. However, the revenues have been incorporated in the operating budget and, to the degree this has released other funds, termination of the program will require that the state find $9 million elsewhere to help meet its debt obligations.

There is a strong possibility that the program will be extended at least two years beyond 1976, however, current speculation is that the states will be cut out and their shares redistributed among the local governments.

Were this to happen Hawaii would suffer. In Hawaii the state government has virtually exclusive responsibility for health, libraries and social services. Furthermore, it operates major programs in the areas of transportation, recreation and environmental protection. Yet the current revenue sharing allocation formula distributes the bulk of the funds to the county governments in its efforts to support these "priority" functions. If the state government is denied even a portion of the revenue sharing funds and local government relies on federal funds, then consideration should be given to returning to the counties the responsibility for some of the functions now performed by the state. Otherwise there will be a serious imbalance between fiscal resources and financial responsibility for governmental programs within the state.

When Congress passed the Revenue Sharing Act it was hoped that the provisions of the law would not only permit but encourage the public to become involved in the process of determining how the funds were to be used and monitoring their actual expenditures.[1] Aside from publishing the required planned and actual use reports and accompanying press releases, neither the state nor the counties have made any special effort to encourage this type of citizen participation. The state and county governments hold public hearings prior to adop-

[1] The Office of Revenue Sharing of the Department of Treasury has published a booklet, "Getting Involved—Your Guide to General Revenue Sharing." The ORS urges community members to get involved. The purpose of the booklet is to provide information about the general revenue sharing program, especially about its aspects which directly encourage public involvement in decision making. Publication of the booklet stimulated the Foundation to publish its report which should serve as a guide to a better understanding of general revenue sharing in Hawaii.

tion of their budgets and those wishing to propose expenditures other than those presented in the executive budget may do so at these hearings. Neither the press nor the general public have indicated that additional opportunities for public input are called for.

Evaluation of revenue sharing

Despite the understandably enthusiastic support of many state and local officials throughout the nation, some of the provisions and effects of the Revenue Sharing Act reveal serious flaws in the program.

1. The lack of restrictions on the use of the funds violates the principle of legislative accountability in fiscal matters. It is generally agreed that the legislative body responsible for raising funds should also be the one responsible and accountable for the expenditure of those funds. Although it appropriated the $30.2 billion to fund the program, Congress has virtually no control over the expenditures made by the state and local governments.

2. In a written statement at a public meeting on revenue sharing held in Wailuku, Maui, Representative Patsy T. Mink of Hawaii expressed her disapproval of the use of the state's revenue sharing funds for debt retirement costs and concluded that ". . . The nature of revenue sharing is that the Federal government taxes every person in America and appropriates the funds to other units of government. In the process, the Federal government has totally lost control of how the funds are spent. It has lost the right to demand accountability. As a member of Congress, like you, I have no say on how best to use these monies although it is through my legislative authority that the power to tax stems . . ."

3. The chronic deficits in the federal treasury mean that what is being shared under this program is the national debt rather than currently available revenues. The damage this type of deficit spending does to the financial integrity of the federal government and the national economy may very well outweigh the benefits to the states and their localities. In fact, since 1972, a majority of state governments have experienced surpluses and many have enacted tax relief measures, thus indicating that the revenue sharing funds were not required to support essential services.

4. The method of distributing the funds discourages the streamlining and centralization of state and local governments. In Hawaii, which has an extremely simple and centralized government structure, the state has responsibility for the priority functions emphasized in the Act. Thus, while two-thirds of the revenue sharing funds go to the counties and the state cannot reduce its own support to them without a comparable reduction in its own revenue sharing fund, for three years the state has been in or very near deficit situations while the counties have been able to accelerate CIP and produce year-end operating surpluss. Continuation of this situation could force Hawaii, to decentralize some of its program. In the eyes of many this would be a step backwards.

Planned and actual use reports of the State and counties of Hawaii

The pages to follow are a tabulation of the planned use of general revenue funds to the state and counties compared with the actual use of the funds.

REVENUE SHARING—PLANNED AND ACTUAL USE REPORTS, STATE AND COUNTIES OF HAWAII

STATE OF HAWAII

	Planned use [1]	Actual use [1]
Jan. 1, 1972, to June 30, 1973: [2]		
General government	$485,609	$808,919
Education	1,217,323	3,934,109
Health and hospitals	155,413	587,946
Transportation	1,590,665	2,357,704
Social services	23,774	54,257
Housing and commercial development	602,278	1,085,136
Economic development	4,843	144,027
Environmental conservation	2,201	73,000
Public safety	28,617	61,162
Recreation and culture	291,893	758,608
Total	4,402,616	9,864,868
Fund balance, June 30, 1973		85,993

See footnotes at end of table.

REVENUE SHARING—PLANNED AND ACTUAL USE REPORTS, STATE AND COUNTIES OF HAWAII

STATE OF HAWAII—Continued

	Planned use [1]	Actual use [1]
July 1, 1973, to June 30, 1974:		
General government	$740, 210	$630, 913
Education	3, 599, 948	3, 367, 004
Health and hospitals	538, 006	643, 732
Transportation	2, 157, 441	2, 221, 472
Social services	49, 648	22, 892
Housing and commercial development	992, 965	877, 234
Economic development	131, 794	266, 467
Environmental conservation	66, 799	70, 508
Public safety	55, 967	47, 616
Recreation and culture	694, 172	941, 333
Libraries		61, 352
Corrections		6, 410
Total	9, 026, 950	9, 156, 933
Fund balance, June 30, 1974		185, 413
July 1, 1974, to June 30, 1975:		
General government	729, 936	
Education	3, 549, 980	
Health and hospitals	530, 539	
Transportation	2, 127, 496	
Social services	48, 959	
Housing and commercial development	979, 182	
Economic development	129, 964	
Environmental conservation	65, 872	
Public safety	55, 190	
Recreation and culture	684, 537	
Total	8, 901, 655	
HONOLULU		
Jan. 1, 1972, to June 30, 1973: [3]		
Public safety	[5] $5, 000, 000	[4] $6, 409
Recreation and culture		[4] 275, 000
Highway (transportation)	[4] 899, 000	[4] 928
Sanitation	[4] 794, 178	
Total	6, 693, 178	282, 337
Fund balance, June 30, 1973		14, 812, 066
July 1, 1973, to June 30, 1974:		
Public safety	[4] 270, 365	[4] 1, 549, 389 [5] 5, 000, 000
Recreation and culture	[4] 5, 849, 031	[4] 5, 075, 008
Transportation	[4] 3, 905, 000	[4] 3, 358, 252
Sanitation	[4] 3, 511, 000	
Environmental protection		[4] 2, 235, 691
General government		[4] 7, 937
Total	13, 535, 396	17, 226, 337
Fund balance, June 30, 1974		12, 411, 295
July 1, 1974, to June 30, 1975:		
Public safety	[4] 491, 000	
Recreation and culture	[4] 4, 734, 232	
Transportation	[4] 3, 647, 000	
Environmental protection	[4] 3, 632, 695	
General government	[4] 692, 000	
Total	13, 196, 927	
HAWAII COUNTY		
Jan. 1, 1972, to June 30, 1973: [3]		
Transportation	[4] $1, 018, 490	[4] $605, 085
Health		[4] 45, 400
Environmental protection		[4] 260, 000
Total	1, 018, 490	910, 485
Fund balance, June 30, 1973		2, 321, 758

See footnotes at end of table.

REVENUE SHARING—PLANNED AND ACTUAL USE REPORTS, STATE AND COUNTIES OF HAWAII—Continued

HAWAII COUNTY—Continued

	Planned use [1]	Actual use [1]
July 1, 1973, to June 30, 1974:		
Transportation	[4] $320,356	[4] $198,909
Environmental protection	[4] 50,000	[4] 72
Public safety	[4] 675,000	[4] 579,192
Recreation and culture	[4] 1,100,000	[4] 490,568
Water		[4] 45,400
Total	2,145,356	1,314,141
Fund balance, June 30, 1974		3,408,285
July 1, 1974, to June 30, 1975:		
Transportation	[4] 1,450,000	
Public safety	[4] 378,050	
Recreation and culture	[4] 300,000	
Total	2,128,050	

MAUI COUNTY

	Planned use [1]	Actual use [1]
Jan. 1, 1972, to June 30, 1973: [2]		
Health	[4] $180,000	
Social development	[4] 103,200	
Housing and commercial development	[4] 127,812	
Public safety	[4] 25,000	
Recreation and culture	[4] 250,310	
Total	686,322	None
Fund balance, June 30, 1973		$1,553,139
July 1, 1973, to June 30, 1974:		
Housing and commercial development	[4] 154,678	[4] 8,639
Public safety		[3] 1,202,291
Recreation and culture		[4] 96,043
Transportation	[4] 1,327,932	[4] 389,497
Financial administration		[3] 142,490
Other		[4] 19,543
Total	1,482,610	1,858,503
Fund balance, June 30, 1974		1,314,593
July 1, 1974, to June 30, 1975:		
Housing and commercial development	[4] 55,000	
Public safety	[3] 150,835	
Transportation	[4] 191,000	
Environmental protection	[4] 1,000,000	
General government	[4] 150,000	
Total	1,546,835	

KAUAI COUNTY

	Planned use [1]	Actual use [1]
Jan. 1, 1972, to June 30, 1973: [2]		
Recreation and culture	[4] $82,245	
Transportation	[4] 150,000	
Health	[4] 175,000	
Total	407,245	None
Fund balance, June 30, 1973		$939,439
July 1, 1973, to June 30, 1974:		
Public safety	[3] 753,188	[3] 737,988
General government	[4] 65,000	
Recreation and culture	[4] 72,348	[4] 147,912
Environmental protection		[4] 30,000
Transportation		[4] 19,260
Health		[4] 30,460
Financial administration		[3] 7,500
Total	890,536	973,120
Fund balance, June 30, 1974		923,802

See footnotes at end of table.

REVENUE SHARING—PLANNED AND ACTUAL USE REPORTS, STATE AND COUNTIES OF HAWAII—Continued
KAUAI COUNTY—Continued

	Planned use [1]	Actual use [1]
July 1, 1974, to June 30, 1975:		
Public safety	[3] $741,499	
General government	[4] 175,000	
Transportation	[4] 5,000	
Health	[4] 10,000	
Total	931,499	

[1] Debt retirement.
[2] Planned use report for 6-month period of Jan. 1, 1973, to June 30, 1973, only; actual use report for entire 18-month period.
[3] Operations.
[4] CIP.

Appendix C

Excerpts From the Federal Civil Rights Enforcement Effort—1974—Volume IV—To Provide Fiscal Assistance—A Report of the United States Commission on Civil Rights—February 1975

Excerpts From the Federal Civil Rights Enforcement Effort—1974—Volume IV—To Provide Fiscal Assistance—A Report of the United States Commission on Civil Rights, February 1975

FINDINGS AND CONCLUSIONS

1. General revenue sharing, enacted into law by the State and Local Fiscal Assistance Act of 1972, received one of the largest single domestic appropriations in American history.

a. That Act provides more than 30 billion dollars in financial aid to 39,000 State and local governments, to be used for a very broad range of programs and activities.

b. The Act provides that no one shall be discriminated against on the grounds of race, color, national origin, or sex in employment or distribution of benefits under any program or activity funded in whole or in part with GRS funds.

c. Responsibility for overall administration of the Act lies with the Office of Revenue Sharing (ORS) of the Department of the Treasury.

2. Abundant evidence indicates that discrimination in the employment practices and delivery of benefits of State and local governments is far reaching, often extending to programs funded by general revenue sharing.

3. ORS has not taken adequate steps to ensure that it has sufficient civil rights compliance staff to conduct even a minimally effective civil rights enforcement program.

a. Although congressional allocations place severe limitations on the size of ORS' compliance staff, ORS has used far too few of its congressionally allocated compliance positions for civil rights specialists.

b. ORS' delay in filling the compliance positions assigned to it undermined its hiring of civil rights staff.

4. The civil rights duties which have been delegated to ORS under the State and Local Fiscal Assistance Act of 1972 often overlap with those assigned to other Federal agencies under other laws, including Titles VI and VII of the Civil Rights Act of 1964, and yet coordination with other agencies has been inadequate.

a. ORS has not formally arranged for any other Federal agency's staff to monitor compliance with the civil rights requirement under general revenue sharing.

b. ORS has met with only a few agencies charged with administering Title VI, and these discussions have been only preliminary.

c. As of mid-December 1974, ORS had signed only one interagency agreement, namely one which provided that ORS will proceed to seek compliance where the Equal Employment Opportunity Commission has found reasonable cause to believe that discrimination exists.

d. The Department of Justice has written a draft agreement to prevent duplication of its compliance efforts with those of ORS, but even this agreement has not been concluded.

5. The portion of ORS' regulation relating to civil rights does not set forth in an adequate manner what is required by ORS and recipient governments to ensure nondiscrimination under the Act.

a. It is considerably weaker than Federal agency Title VI regulations. It does not require recipients to take affirmative action or collect civil rights data and it does not require ORS to conduct compliance reviews.

b. ORS' regulation has not made clear to recipients what constitutes discrimination under the Act. Although there is a body of experience under Title VI which could be used to guide recipients, since Title VI does not cover sex discrimination or most employment discrimination, the lack of guidance is particularly serious in those two areas.

6. One problem in the enforcement of the civil rights requirement is that revenue sharing funds may be used to free funds which in turn may be used for discriminatory purposes. ORS has found that it is too difficult to trace the uses of freed-up funds, and thus has no mechanism to ensure against their misuse.

7. ORS has no requirement for the collection and use of racial, ethnic, or sex data, although it has the authority to require such data collection.

a. Data on the race, ethnic origin, and sex of State and local government employees are collected by many GRS recipients to meet requirements of the Equal Employment Opportunity Commission (EEOC), but ORS does not regularly review these data. Therefore, ORS does not know the extent to and the levels at which minorities and women are employed in GRS-funded programs.

b. ORS has not required its recipients to collect or report racial, ethnic, or sex data on applicants, beneficiaries or persons eligible to participate in their programs. Therefore, ORS is not in a position to measure whether benefits of GRS-funded programs are being distributed equitably to minorities and women.

8. ORS has not placed an obligation upon recipients of GRS funds to take affirmative steps to ensure that they do not discriminate against minorities in their employment practices or in their delivery of program benefits.

a. ORS does not require recipients to conduct a self-analysis of deficiencies in employment or delivery of benefits.

b. It does not require its recipients to set goals and timetables to remedy any deficiencies in employment or delivery of services.

9. ORS' procedures for assuring itself of compliance by its recipients have been deficient, having been based during the first 20 months of ORS' existence largely on assurances, one-time compliance visits to about 100 recipients receiving the largest GRS payments, and complaint processing.

a. The assurances consist merely of a form statement signed by the recipients that there will be compliance with the Act.

b. The questions asked on the compliance visits were superficial, relating primarily to recipients' capabilities for achieving compliance rather than to the extent of compliance with the nondiscrimination provision.

c. For many months ORS made no special effort to inform the public how or where to file complaints and as of October 1974, ORS had received only 93 civil rights complaints. Although complaint volume is a poor indicator of civil rights compliance, ORS has cited the low volume of complaints as evidence of compliance. Moreover, ORS has been slow to resolve the complaints it receives and ORS appears to have been willing to consider complaints as resolved without sufficient evidence that the violations uncovered have been corrected.

10. ORS has not conducted any full-scale compliance reviews unrelated to the receipt of complaints of discrimination and ORS does not plan the systematic conduct of such reviews at any time in the near future.

11. ORS intends to rely on audits by State and local governments as the principal means of informing itself about the civil rights compliance status of recipients.

a. The Audit Guide, ORS' only instruction to auditors, is inadequate for telling auditors how to make a meaningful determination of civil rights compliance.

b. ORS had not taken steps to ensure that civil rights components of State and local governments' audits are of acceptable quality.

12. In one instance in which ORS became aware of noncompliance by a recipient which could not be rectified by conciliation it did not on its own initiative take steps to prevent GRS monies from funding that activity and had to be ordered by a court to defer the affected funds.

RECOMMENDATIONS

1. The President should request from Congress for fiscal year 1976 an appropriation of $7.5 million to be used to provide at least 300 additional positions for the civil rights compliance program under general revenue sharing.

2. The President should direct the Secretary of the Treasury to restructure the civil rights compliance program under general revenue sharing by entering into written agreements, prior to the end of fiscal year 1975, with other Federal agencies having civil rights responsibilities which overlap those of ORS, delegating to them the role of monitoring compliance with the civil rights requirements of the State and Local Fiscal Assistance Act and its implementing regulation.

a. ORS should retain responsibility for drafting regulations and guidelines, and taking enforcement action, but should delegate to other agencies such duties as data analysis, complaint investigation, compliance reviews, and negotiations.

b. Delegation of responsibility should be made by subject area; for example, police departments to the Law Enforcement Assistance Administration of the

Department of Justice, and health problems to the Department of Health, Education, and Welfare.

c. The interagency agreements should address such issues as the standards for compliance, scope and frequency of compliance reviews and methodology for complaint investigations.

d. Most of the 300 additional personnel should be employed by the agencies to which ORS' responsibilities are transferred; ORS should have additional civil rights staff only as necessary to implement the responsibilities it retains under the interagency agreements.

3. The President should direct the Department of Justice (DOJ) to take the lead in the immediate development of standards for a Governmentwide civil rights compliance program under general revenue sharing. In particular, DOJ should review for approval all ORS civil rights regulations and guidelines and ensure that they set appropriate standards for the conduct of data collection, affirmative action, compliance reviews, and complaint investigations. DOJ should also oversee the delegation by ORS of its civil rights monitoring function to other Federal agencies.

4. ORS should within the next four months publish in final form a revised civil rights portion of its regulation to make clear what is required by the State and Local Fiscal Assistance Act's proscription of discrimination.

a. ORS should adopt the substantive standards set by the Equal Employment Opportunity Commission, as enunciated in its decisions and various guidelines.

b. It should detail, in similar guidelines, the actions which constitute sex discrimination in the delivery of program benefits, and are therefore prohibited under the Act.

5. ORS should immediately request a legal opinion from the Attorney General as to whether the difficulty in tracing funds requires the Federal Government to ensure nondiscrimination in all programs of recipients of general revenue sharing. If the Attorney General does not construe present laws as providing such authority, ORS should ask the Congress to give it the power to deal with that problem.

6. An important element in the civil rights compliance program under general revenue sharing should be the regular review of statistical data to ensure that minorities and women are participating equitably in GRS-funded programs and are not underutilized as employees of those programs.

a. ORS should require State and local governments to collect data on the race, ethnic origin, and sex of beneficiaries, applicants, and persons eligible to participate in GRS-funded programs.

b. These data, along with data submitted to the Equal Employment Opportunity Commission on the race, ethnic origin, and sex of State and local government employees, should be analyzed with regularity on a sample basis.

7. ORS should require that each recipient develop an affirmative action program to ensure nondiscrimination in both employment and delivery of benefits in GRS-funded programs.

a. Recipients should be required to conduct analyses of deficiencies in both areas and to set goals and timetables to remedy all deficiencies.

b. ORS should adopt Revised Order No. 4 of the Office of Federal Contract Compliance of the Department of Labor to aid recipients in drafting the portion of the plans relating to employment, and ORS should write guidelines comparable to that order to aid recipients in drafting the portion of the plans relating to benefits.

8. ORS should not continue to regard such superficial compliance tools as assurances and complaint volume as reliable indicators of recipients' compliance status. Moreover, the speed with which civil rights complaints concerning general revenue sharing are handled must be increased.

9. The most impotrant element of civil rights monitoring of general revenue sharing should be the systematic conduct of preaward and postaward compliance reviews. A significant percent of recipients should be reviewed annually, including a sizable number of all types of recipients—States, counties, cities, and towns.

10. ORS should rely upon audits, not as the principal source of information on the compliance status of recipients, but as an indicator of where compliance reviews should be conducted.

a. ORS should revise its *Audit Guide* so that auditors are directed to obtain and conduct an elemental analysis of all available civil rights information such as racial, ethnic, and sex data, affirmative action plans, lawsuits, and complaints relating to employment and delivery of services in GRS-funded programs.

b. ORS should evaluate the quality of civil rights information being produced by existing audit systems by reviewing for adequacy a random sample of the audits which have been conducted.

11. Where, as a result of an investigation, ORS determines that GRS funds will be used in a program or activity which violates the nondiscrimination provision of the Act and the recipient government will not correct the potential violation, ORS should defer all funds from the recipient.