

# REVENUE SHARING

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HEARINGS  
BEFORE THE  
COMMITTEE ON FINANCE  
UNITED STATES SENATE  
NINETY-SECOND CONGRESS

SECOND SESSION

ON

## H.R. 14370

TO PROVIDE PAYMENTS TO LOCALITIES FOR HIGH-PRIORITY EXPENDITURES, TO ENCOURAGE THE STATES TO SUPPLEMENT THEIR REVENUE SOURCES, AND TO AUTHORIZE FEDERAL COLLECTION OF STATE INDIVIDUAL INCOME TAXES

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JUNE 29; JULY 20, 21, 25, 26, AND 27, 1972

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# REVENUE SHARING

THURSDAY, JUNE 29, 1972

U.S. SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D.C.*

The committee met at 10 a.m., in room 2221, New Senate Office Building, Senator Russell B. Long (chairman) presiding.

Present: Senators Long, Anderson, Talmadge, Ribicoff, Bennett, Curtis, Jordan of Idaho, and Fannin.

## OPENING STATEMENT

The CHAIRMAN. Today the Committee on Finance begins hearings on H.R. 14370, the State and Local Fiscal Assistance Act of 1972, more commonly known as the general revenue-sharing bill. The bill would distribute \$5.3 billion to the State and local governments in 1972 and somewhat larger amounts in each of the four succeeding years, increasing to a level of about \$6.5 billion by 1976.

About two-thirds of the funds to be distributed in 1972—\$3.5 billion—would be paid directly to cities, counties, parishes, and local governments for use on high priority expenditures. These high priority expenditures include maintenance and operating expenses for public safety, environmental protection, and public transportation. They also include capital expenditures for sewage collection and treatment, refuse disposal systems, and public transportation. The amounts distributed to local government units would be based generally on their urbanized population and the relative wealth of the jurisdiction.

The remaining amount—\$1.8 billion in 1972—would be made available to State governments without limitation as to how the funds may be used. The amounts distributed to the States would be disbursed, one-half on the basis of the States' total tax effort, and one-half on the basis of the revenue raising effectiveness of State income taxes.

The bill also provides a mechanism by which State governments may have their income taxes collected by Federal tax authorities, relieving themselves of the administrative tax collection burden.

It has been my hope that the Committee on Finance could advance this bill so that the Senate could be given an opportunity to vote on the measure. It is a bill that the State and local governments view as urgent, and the committee will consider the bill with that thought in mind.

During this first session of the hearings on this important legislation, the committee will hear the Honorable George P. Shultz, Secretary of the Treasury, who will present the administration's case for

the bill. Then we will hear the Honorable Howard H. Baker, Jr., Senator from Tennessee, and the Honorable Hubert H. Humphrey, Senator from Minnesota, who are the principal cosponsors of companion legislation in the Senate.

The committee plans further hearings on the bill after recess. An announcement indicating the dates will be published by the committee in a few days.

I might say, in addition to this prepared statement, it has been my thought it might be useful to try to conduct hearings during the recess. Unfortunately, my plans in that regard were announced too late and other Senators were not able to make their plans to be with us. Therefore, we will have to wait until after the recess to begin the hearings.

Our staff has prepared a memorandum describing the House-passed bill and comparing the administration's proposal with the House-passed bill. We will print that at this point in the record along with a copy of our press release announcing these hearings and also a copy of the bill before us.

(The material referred to follows. Hearings continue on page 75.)

**PRESS RELEASE****FOR IMMEDIATE RELEASE**

June 23, 1972

**COMMITTEE ON FINANCE  
UNITED STATES SENATE  
2227 New Senate Office Bldg.****COMMITTEE ON FINANCE ANNOUNCES INITIAL HEARINGS ON  
REVENUE SHARING**

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The Honorable Russell B. Long (D., La.), Chairman of the Committee on Finance, announced today that the Committee will begin public hearings on Thursday, June 29, 1972, on H.R. 14370, the State and Local Fiscal Assistance Act of 1972 (General Revenue Sharing). This bill would distribute to the States and local governments \$5.3 billion in 1972, and somewhat larger amounts in the four succeeding years.

The Honorable George P. Shultz, Secretary of the Treasury, will present the Administration's case for the legislation at Thursday's hearing. He will be followed by the Honorable Howard H. Baker, Jr., United States Senator from Tennessee, and the Honorable Hubert H. Humphrey, United States Senator from the State of Minnesota. Senators Baker and Humphrey are coauthors of S. 3651, a companion bill to H.R. 14370.

Witnesses presenting the viewpoint of the States and local governments, as well as others desiring to testify with respect to the legislation, will be heard at a later time. The schedule for the continuation of hearings on revenue sharing will be fixed in a subsequent announcement.

Requests to Testify. -- Senator Long said that those who wish to testify on H.R. 14370 as the hearings resume are invited to submit their requests to Tom Vail, Chief Counsel, Committee on Finance, 2227 New Senate Office Building, Washington, D. C. The request should be submitted by Monday, July 10, 1972.

The initial hearing on Thursday, July 29, will be held in Room 2221, New Senate Office Building and will begin at 10:00 A.M.

June 29, 1972

**To: The Members of the Committee on Finance**  
**From: Tom Vail, Chief Counsel**  
**Subject: House-passed Revenue Sharing Bill (H. R. 14370)**

1. Brief Summary of House-passed Bill

H. R. 14370 would distribute \$5.3 billion to the States and local governments in 1972 (beginning January 1) and somewhat larger amounts in the four succeeding years, increasing to a level of about \$6.5 billion by the fourth succeeding year. The bill creates a trust fund (to be known as the "Local Government High Priority Expenditures Trust Fund"), and appropriations, at a constant annual rate, are made out of Federal income tax collections for each entitlement period under the bill.

About two-thirds (\$3.5 billion in the first year) of the funds would be available to cities, counties and other local governments; the remaining one-third (\$1.8 billion in 1972) would be made available to State governments. The amount provided the localities is fixed each year at \$3.5 billion; the amount provided to the States increases by \$300 million each year, until it reaches a level of \$3 billion in the fifth year. The distribution of funds in the first year is shown in the Table 1 below:

A. Payments to Local Governments

Under the bill, the Federal Government would pay out \$3.5 billion annually (with payments at least quarterly) directly to local governments for five years, to be spent on "high priority" purposes. The "high priority" items are:

- (1) Maintenance and operating expenses for--
  - (a) public safety (including law enforcement, fire protection, and building code enforcement),
  - (b) environmental protection (including sewage disposal, sanitation, and pollution abatement), and
  - (c) public transportation (including transit systems and streets,) and
- (2) Capital expenditures for --
  - (a) sewage collection and treatment,
  - (b) refuse disposal systems, and
  - (c) public transportation (including transit systems and street construction).

There is an effort to prevent localities from using these funds to match Federal funds in other programs, and thus, in effect, force even more grant-in-aid funds. However, money is fungible and it is questionable that one could devise an air-tight method of avoiding an indirect use of these funds for matching purposes.

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Table 1. - Estimated First Year Distribution of Funds Under H. R. 14370,  
State and Local Fiscal Assistance Act of 1972, by State  
[Amounts in millions of dollars]

	State Share	Local Share	Total
United States, total - - - - -	1,800.0	3,500.0 "	5,300.0
Alabama	14.9	65.2	80.1
Alaska	3.5	3.1	6.6
Arizona	14.0	32.1	46.1
Arkansas	8.0	30.4	38.4
California	241.1	369.7	610.8
Colorado	20.3	39.1	59.4
Connecticut	21.0	51.7	72.7
Delaware	7.8	9.5	17.3
District of Columbia	10.8	15.2	26.0
Florida	31.9	118.1	150.0
Georgia	28.3	75.1	103.4
Hawaii	13.2	12.7	25.9
Idaho	5.8	9.6	15.4
Illinois	105.1	196.6	301.7
Indiana	31.0	82.8	113.8
Iowa	26.2	41.6	67.8
Kansas	13.8	34.0	47.8
Kentucky	19.2	52.6	71.8
Louisiana	18.4	64.8	83.2
Maine	5.6	14.2	19.8
Maryland	50.1	67.4	117.5
Massachusetts	74.6	104.4	179.0
Michigan	91.0	152.7	243.7
Minnesota	51.7	62.4	114.1
Mississippi	10.1	35.9	46.0
Missouri	27.9	79.6	107.5
Montana	6.9	9.9	16.8
Nebraska	9.7	24.8	34.5
Nevada	3.7	8.5	12.2
New Hampshire	3.3	10.2	13.5
New Jersey	44.7	135.0	179.7
New Mexico	6.5	16.0	22.5
New York	317.4	332.2	649.6
North Carolina	36.3	76.8	113.1
North Dakota	3.6	8.4	12.0
Ohio	49.5	177.8	227.3
Oklahoma	11.4	41.4	52.8
Oregon	24.8	35.2	60.0
Pennsylvania	98.4	202.5	300.9
Rhode Island	7.8	18.0	25.8
South Carolina	14.3	43.5	57.8
South Dakota	3.7	9.8	13.5
Tennessee	14.3	65.0	79.3
Texas	46.2	202.0	248.2
Utah	8.8	20.2	29.0
Vermont	5.7	5.3	11.0
Virginia	38.3	77.3	115.6
Washington	20.9	58.2	79.1
West Virginia	10.0	26.4	36.4
Wisconsin	65.9	71.1	137.0
Wyoming	2.2	3.9	6.1

1/ These figures are shown on an annual rate basis. The first distribution is for a half year, Jan. 1, through June 30, 1972.

The "high priority" categories are not intended to prevent a State from modifying the formulas for distribution within a State where desirable to meet local problems.

The \$3.5 billion appropriated to the localities each year, are to be allocated according to three criteria: (a) population; (b) the extent of urbanization (as measured by "urbanized population"); and (c) the extent of poverty in the localities (as measured by the relative income level of the residents). These three criteria may be altered by each State, from 25 to 40 percent, after the first year and a half, during which time they must be weighed equally.

#### B. Distribution to States

Funds distributed directly to the States begin at a level of \$1.8 billion and increase by approximately \$300 million a year until they reach about \$3 billion in the fifth year. These funds, payable at least quarterly, are allocated under two formulas, one based on the relative individual income tax collections of a State (called the income tax share) and the other based on the relative total tax effort of a State (called the combined tax effort share). The estimated amount allocated to each State under this formula is shown in Table 2 below:

#### C. Piggyback Arrangement

States are also given the option to request Federal collection of their State individual income taxes under a "piggyback" arrangement whereby the State tax is collected in conjunction with the Federal tax. This is to be available only in 1974 and later years, and only at such time as five or more States (representing 5 percent or more of individual tax returns) have requested the Federal Government to collect these taxes for them.

### II. Administration's General Revenue Sharing Proposal

The Administration's general revenue sharing proposal differs from the House bill in several important respects.

It would provide a permanent annual appropriation, automatically determined each fiscal year, equal to 1.3 percent of Federal individual income tax base.

#### A. Distribution to States

The Administration plan would distribute the funds to the States on a per capita basis, adjusted for revenue effort. The distribution to each State would be divided into two parts--a basic payment of 90 percent of the total appropriation and an incentive payment of 10 percent of the total. Incentive payments would only be provided to those States adopting an alternative intra-state formula.

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Table 2-Distribution of \$1,800,000, half on the basis of State and local taxes weighted by tax effort and half on the basis of one-half of 15 percent of estimated State individual income tax collections but not less than 1 percent nor more than 6 percent of estimated Federal individual income tax liability attributed to the State.

[In thousands of dollars]

State	On basis of general	On basis of income	Total
	tax effort	tax collections	
Total - - - - -	1/ \$ 900,000	2/ \$ 900,000	\$1,800,000
Alabama	7,554	7,395	14,949
Alaska	1,060	2,452	3,512
Arizona	8,422	5,596	14,018
Arkansas	4,025	3,864	7,979
California	130,850	118,477	249,327
Colorado	9,627	10,710	20,337
Connecticut	13,623	7,362	20,985
Delaware	2,366	5,464	7,830
District of Columbia	3,515	7,235	10,750
Florida	21,123	10,777	31,900
Georgia	12,421	15,868	28,289
Hawaii	5,378	7,782	13,160
Idaho	2,493	3,292	5,785
Illinois	74,443	70,675	145,119
Indiana	16,043	19,899	35,942
Iowa	13,366	12,823	26,194
Kansas	8,444	5,362	13,806
Kentucky	8,836	10,366	19,202
Louisiana	12,281	6,111	18,392
Maine	4,142	1,505	5,647
Maryland	20,007	30,101	50,108
Massachusetts	30,305	44,310	74,615
Michigan	41,326	49,702	91,028
Minnesota	18,053	33,689	51,742
Mississippi	7,157	2,948	10,105
Missouri	13,868	14,044	27,912
Montana	3,013	3,876	6,889
Nebraska	5,666	4,044	9,710
Nevada	2,643	1,072	3,715
New Hampshire	2,115	1,222	3,337
New Jersey	29,278	15,436	44,714
New Mexico	3,939	2,551	6,490
New York	152,205	165,218	317,423
North Carolina	14,347	21,918	36,265
North Dakota	2,609	971	3,580
Ohio	29,194	20,340	49,534
Oklahoma	6,762	4,651	11,413
Oregon	8,370	16,446	24,816
Pennsylvania	45,218	53,159	98,377
Rhode Island	3,799	4,040	7,839
South Carolina	6,205	8,132	14,337
South Dakota	13,032	667	13,699
Tennessee	9,336	4,977	14,313
Texas	29,671	16,558	46,229
Utah	4,373	4,469	8,842
Vermont	2,661	3,028	5,689
Virginia	13,997	24,359	38,354
Washington	15,346	5,567	20,913
West Virginia	5,020	4,936	9,956
Wisconsin	28,859	37,090	65,949
Wyoming	1,645	509	2,154

1/ Distributed on the basis of State and local tax collections in fiscal year 1970 multiplied by the percentage relationship between State and local taxes and personal income for fiscal year 1970.

2/ Distributed on the basis of one-half of 15 % of estimated calendar year 1972 State income tax collections (as derived by averaging estimated fiscal year 1972 and fiscal year 1973 collections) but not less than 1% nor more than 6% of estimated calendar year 1971 Federal individual income tax liability attributed to the State (the estimated calendar year 1971 total distributed among the States as in 1970).

Note: Details may not add to totals because of rounding.

**B. Distribution Within a State**

The distribution of funds within a State would be based on a two-step formula. First, the total proportion which a State must share with its general local government corresponds to the ratio of the general revenues raised by all units of local government in the State to the combined total of general revenues raised by the States and these local units of government. Second, the proportion of the local share which an individual city, county or township government receives corresponds to the ratio of its own general revenues to the total general revenues raised by all general-purpose local governments in the State.

**III. Comparison of Administration and House Bills**

The distribution of funds under both the Administration and House versions is shown in the table below. Basically, under the House bill, a greater proportion of the funds would be allocated to the localities than under the Administration's proposal.

-6-

Table 3-Estimated allocation of funds among State Governments to the Local Governments of those States under the House bill (H. R. 14370) and the Administration's General Revenue Sharing proposal.

[In millions of dollars]

State	House Bill			Administration General Revenue Sharing Proposal		
	State Share	Local Share	Total	State Share	Local Share	Total
Alabama	14.9	65.2	80.1	50.6	31.5	82.1
Alaska	3.5	3.1	6.6	5.8	2.8	8.6
Arizona	14.0	32.1	46.1	30.8	20.6	51.4
Arkansas	8.0	30.4	38.4	27.1	15.9	43.0
California	241.1	369.7	610.1	273.4	316.9	590.2
Colorado	20.3	39.1	59.4	29.9	30.2	60.1
Connecticut	21.0	51.7	72.7	28.2	31.0	59.2
Delaware	7.8	9.5	17.3	9.7	3.7	13.4
District of Columbia	10.8	15.2	26.0	22.9	--	22.9
Florida	31.9	118.1	150.0	87.0	80.4	167.4
Georgia	28.3	75.1	103.4	60.6	46.9	107.5
Hawaii	13.2	12.7	25.9	17.3	6.1	23.5
Idaho	5.8	9.6	15.4	11.9	8.2	20.1
Illinois	105.1	196.6	301.7	98.0	121.8	219.8
Indiana	31.0	82.8	113.8	59.7	56.1	115.8
Iowa	26.2	41.6	67.8	38.5	36.0	74.5
Kansas	13.8	34.0	47.8	25.4	28.9	54.2
Kentucky	19.2	52.6	71.8	52.0	26.2	78.2
Louisiana	18.4	64.8	83.2	68.5	32.9	101.5
Maine	5.6	14.2	19.8	12.5	10.4	22.9
Maryland	50.1	67.4	117.5	49.4	43.3	92.7
Massachusetts	74.6	104.4	179.0	66.6	69.5	136.2
Michigan	91.0	152.7	243.7	128.9	100.3	229.1
Minnesota	51.7	62.4	114.1	81.4	46.4	127.8
Mississippi	10.1	35.9	46.0	38.7	22.5	61.3
Missouri	27.9	79.6	107.5	45.0	51.4	96.4
Montana	6.9	9.9	16.8	8.9	9.9	18.8
Nebraska	9.7	24.8	34.5	16.4	23.6	39.0
Nevada	3.7	8.5	12.2	7.0	6.8	13.9
New Hampshire	3.3	10.2	13.5	6.4	8.6	15.0
New Jersey	44.7	135.0	179.7	64.0	88.9	152.9
New Mexico	6.5	16.0	22.5	22.9	8.9	31.8
New York	317.4	332.2	649.6	259.4	274.7	534.1
North Carolina	36.3	76.8	113.1	78.1	35.2	113.3
North Dakota	3.6	8.4	12.0	11.7	8.8	20.5
Ohio	49.5	177.8	227.3	94.9	117.6	212.5
Oklahoma	11.4	41.4	52.8	39.8	23.9	63.7
Oregon	24.8	35.2	60.0	28.7	28.1	56.9
Pennsylvania	98.4	202.5	300.9	131.3	114.9	246.2
Rhode Island	7.8	18.0	25.8	12.4	8.4	20.8
South Carolina	14.3	43.5	57.8	39.8	16.9	56.7
South Dakota	3.7	9.7	13.5	8.4	10.4	18.8
Tennessee	14.3	65.0	79.3	49.5	37.3	86.8
Texas	46.2	202.0	248.2	126.6	116.4	243.0
Utah	8.8	20.2	29.0	17.0	11.7	28.7
Vermont	5.7	5.3	11.0	7.5	4.5	11.9
Virginia	38.3	77.3	115.6	64.5	40.1	104.6
Washington	20.9	58.2	79.1	57.4	34.6	92.0
West Virginia	10.0	26.4	36.4	28.5	13.2	41.7
Wisconsin	65.9	71.1	137.0	70.8	53.6	124.4
Wyoming	2.2	3.9	6.1	6.4	5.1	11.4
Total	1,800.0	3,500.0	5,300.0	2,658.1	2,341.9	5,000.0

92<sup>d</sup> CONGRESS  
2<sup>d</sup> SESSION

# H. R. 14370

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IN THE SENATE OF THE UNITED STATES

JUNE 23 (legislative day, JUNE 19), 1972

Read twice and referred to the Committee on Finance

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## AN ACT

To provide payments to localities for high-priority expenditures, to encourage the States to supplement their revenue sources, and to authorize Federal collection of State individual income taxes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the "State and Local Fiscal  
5 Assistance Act of 1972".

II—O

1 **TITLE I—PAYMENTS TO LOCAL**  
2 **GOVERNMENTS AND TO THE**  
3 **STATES**

4 **Subtitle A—Local Government High-**  
5 **Priority Assistance**

6 **SEC. 101. PAYMENTS TO LOCAL GOVERNMENTS.**

7 Except as otherwise provided in this subtitle, the Secre-  
8 tary (as defined in section 141 (a) ) shall, for each entitle-  
9 ment period (as defined in section 141 (b) ), pay out of the  
10 Local Government High-Priority Expenditures Trust Fund  
11 created by section 104 to each unit of local government,  
12 for use by such unit for high-priority expenditures (as de-  
13 fined in section 102), a total amount equal to the entitle-  
14 ment of such unit for such period (determined under sec-  
15 tion 103). Such payments shall be made in installments  
16 during any period but not less often than once each quarter.  
17 Such payments for any period may be initially made on the  
18 basis of estimates. Proper adjustment shall be made in the  
19 amount of any payment to a unit of local government, to  
20 the extent that the payments previously made to such gov-  
21 ernment under this subtitle were in excess of or less than  
22 the amounts required to be paid. A unit of local government  
23 may not treat funds it receives under this subtitle as a con-  
24 tribution made from non-Federal funds for purposes of any  
25 formula provided by a law of the United States under which

1 non-Federal funds must be made available in order to receive  
2 Federal funds.

3 **SEC. 102. HIGH-PRIORITY EXPENDITURES.**

4 (a) **IN GENERAL.**—For purposes of this subtitle, the  
5 term “high-priority expenditures” means only—

6 (1) maintenance and operating expenses for—

7 (A) public safety (including law enforcement,  
8 fire protection, and building code enforcement),

9 (B) environmental protection (including sew-  
10 age disposal, sanitation, and pollution abatement),  
11 and

12 (C) public transportation (including transit  
13 systems and streets), and

14 (2) capital expenditures for—

15 (A) sewage collection and treatment,

16 (B) refuse disposal systems, and

17 (C) public transportation (including transit  
18 systems and street construction).

19 (b) **ESTABLISHMENT OF FURTHER PRIORITIES.**—If a  
20 State regularly spends (out of its own sources) more on any  
21 category of items falling within any subparagraph set forth  
22 in subsection (a) than the total amount regularly spent  
23 (out of their own sources) by all units of local government  
24 located in such State on such category, then such State may  
25 by law provide that, for purposes of this subtitle, such cate-

1 gory of items shall be excluded from the items which may  
2 be taken into account under subsection (a) with respect to  
3 units of local government located in such State.

4 **SEC. 103. AMOUNT OF ENTITLEMENT OF EACH LOCAL**  
5 **GOVERNMENT.**

6 (a) **ALLOCATION AMONG THE STATES.**—The amount  
7 appropriated to the Trust Fund by section 104 for any entitle-  
8 ment period shall be allocated among the States—

9 (1) one-third on the basis of population,

10 (2) one-third on the basis of urbanized population,

11 and

12 (3) one-third on the basis of population inversely  
13 weighted for per capita income.

14 (b) **ALLOCATION AMONG COUNTY AREAS.**—The  
15 amounts allocated to a State under subsection (a) for any  
16 entitlement period shall be further allocated among the  
17 counties located in such State—

18 (1) on the basis of population, in the case of the  
19 amount allocated to such State for such period under  
20 subsection (a) (1),

21 (2) on the basis of urbanized population, in the  
22 case of the amount allocated to such State for such period  
23 under subsection (a) (2), and

24 (3) on the basis of population inversely weighted  
25 for per capita income, in the case of the amount allo-

1 cated to such State for such period under subsection  
2 (a) (3).

3 (c) ALLOCATION TO COUNTY GOVERNMENTS, MUNIC-  
4 IPALITIES, TOWNSHIPS, ETC.—

5 (1) COUNTY GOVERNMENTS.—The county govern-  
6 ment shall be allocated that portion of each amount  
7 allocated to the county area for the entitlement period  
8 under the paragraphs of subsection (b) which bears  
9 the same ratio to such amount as the adjusted taxes of  
10 the county government bear to the adjusted taxes of  
11 the county government and all other units of local gov-  
12 ernment located in the county.

13 (2) OTHER UNITS OF LOCAL GOVERNMENT.—The  
14 remaining portion of each amount allocated to the coun-  
15 ty area for the entitlement period under the paragraphs  
16 of subsection (b) shall be allocated among the units  
17 of local government (other than the county govern-  
18 ment and other than township governments) located in  
19 such county—

20 (A) on the basis of population, in the case of  
21 the remaining portion of the amount allocated to  
22 the county area under subsection (b) (1), and

23 (B) on the basis of population inversely  
24 weighted for per capita income, in the case of the

1 remaining portion of the amount allocated to the  
2 county area under subsection (b) (3).

3 For purposes of the preceding sentence, the remaining  
4 portion of the amount allocated to the county area under  
5 subsection (b) (2) shall be treated as allocated to the  
6 county area under subsection (b) (1) and subsection  
7 (b) (3) in the same proportion as the amount allocated  
8 to the county area under subsection (b) (1) or (b) (3)  
9 (as the case may be) bears to the sum of the amounts  
10 allocated to the county area under subsections (b) (1)  
11 and (b) (3).

12 (3) TOWNSHIP GOVERNMENTS.—If the county in-  
13 cludes one or more township governments, then before  
14 applying paragraph (2)—

15 (A) there shall be set aside for allocation under  
16 subparagraph (B) of this paragraph to such town-  
17 ship governments that portion of each amount al-  
18 located to the county area for the entitlement period  
19 under the paragraphs of subsection (b) which  
20 bears the same ratio to such amount as the sum of  
21 the adjusted taxes of all of such township govern-  
22 ments bears to the aggregate adjusted taxes of the  
23 county government, such township governments,  
24 and all other units of local government located in the  
25 county, and

26 (B) that portion of each amount set aside under

1           subparagraph (A) shall be allocated to each such  
2           township government on the same basis as amounts  
3           are allocated to units of local government under  
4           paragraph (2).

5           If this paragraph applies with respect to any county area  
6           for any entitlement period, each remaining portion allo-  
7           cated under paragraph (2) to the units of local govern-  
8           ment located in the county (other than the county gov-  
9           ernment and the township governments) shall be  
10          appropriately reduced to reflect the amounts set aside  
11          under subparagraph (A) of the first sentence of this  
12          paragraph.

13           (4) ENTITLEMENT.—

14           (A) IN GENERAL.—Except as otherwise pro-  
15           vided in this paragraph, the entitlement of any unit  
16           of local government for any entitlement period shall  
17           be the amount allocated to such unit under this sub-  
18           section (after taking into account any applicable  
19           modification under subsection (d)).

20           (B) ENTITLEMENT LESS THAN \$200, OR  
21           GOVERNING BODY WAIVES ENTITLEMENT.—If (but  
22           for this subparagraph) the entitlement of any unit  
23           of local government below the level of the county  
24           government—

25           (i) would be less than \$200 for any en-

1           entitlement period (\$100 for an entitlement pe-  
2           riod of 6 months), or

3           (ii) is waived for any entitlement period  
4           by the governing body of such unit,

5           then the amount of such entitlement for such period  
6           shall (in lieu of being paid to such unit) be added  
7           to, and shall become a part of, the entitlement for  
8           such period of the county government of the county  
9           area in which such unit is located.

10           (C) LIMITATION.—The amount allocated to  
11           any unit of local government under this section for  
12           any entitlement period shall not exceed 50 percent  
13           of the sum (for the immediately preceding corre-  
14           sponding period of time) of (i) such government's  
15           adjusted taxes, and (ii) the intergovernmental  
16           transfers of revenue to such government (other than  
17           transfers to such government under this subtitle).  
18           In any case where the preceding sentence reduces  
19           the amount allocated to any unit of local govern-  
20           ment sharing in any allocation, the amount of such  
21           reduction shall (to the extent not barred by the  
22           preceding sentence) be added to (and shall in-  
23           crease) the allocation to every other unit of local  
24           government sharing in such allocation in propor-  
25           tion to its respective share of such allocation.

1 (d) SPECIAL ALLOCATION RULES.—

2 (1) STATE MAY BY LAW PROVIDE THAT RELATIVE  
3 TAX EFFORT SHALL BE TAKEN INTO ACCOUNT IN AL-  
4 LOCATING AMONG COUNTY AREAS.—In lieu of the al-  
5 location provided by paragraph (1) of subsection (b),  
6 a State may by law provide that the amount allocated  
7 to such State for any entitlement period under subsec-  
8 tion (a) (1) shall be allocated among the counties lo-  
9 cated in the State on the basis of population weighted  
10 for per capita adjusted taxes (instead of on the basis of  
11 population).

12 (2) STATE MAY BY LAW PROVIDE THAT RELATIVE  
13 TAX EFFORT SHALL BE TAKEN INTO ACCOUNT IN AL-  
14 LOCATING BELOW COUNTY LEVEL.—In lieu of the allo-  
15 cation provided by subparagraph (A) of the first sen-  
16 tence of subsection (c) (2), the State may by law pro-  
17 vide that the amount to be allocated for the entitlement  
18 period under such subparagraph (A) (and under so  
19 much of the last sentence of subsection (c) (2), and  
20 under so much of subsection (c) (3), as relates to such  
21 subparagraph (A)) shall be allocated on the basis of  
22 population weighted for per capita adjusted taxes (in-  
23 stead of on the basis of population).

24 (3) STATE MAY BY LAW VARY (WITHIN LIMITS)

1 THE AMOUNTS TO BE ALLOCATED AMONG COUNTY  
2 AREAS.—In applying the allocation formula of subsection  
3 (b), a State may by law vary the amount to be allocated  
4 under each of the paragraphs of subsection (b). Any  
5 such variance for any entitlement period—

6 (A) shall not cause the amount to be allocated  
7 by the State among the county areas for such period  
8 under any paragraph of subsection (b)—

9 (i) to be decreased by more than 25 per-  
10 cent; or

11 (ii) to be increased by more than 40 per-  
12 cent, and

13 (B) shall provide for allocating among the  
14 counties within the State 100 percent of the aggre-  
15 gate amount allocated to the State under subsection  
16 (a) for such period.

17 (4) USE FOR ARBAWIDE PROJECTS.—

18 (A) A State may by law provide that, in the  
19 case of one or more projects involving high-priority  
20 expenditures in 2 or more contiguous counties in  
21 such State, a portion of the entitlements of the units  
22 of local government located in such counties di-  
23 rectly affected by such projects will be spent, under  
24 the supervision provided in such State law, for  
25 high-priority expenditures for such projects.

1           (B) Subparagraph (A) shall apply to any  
2 project only to the extent that the amount of the  
3 entitlement of the unit of local government used  
4 for areawide spending under subparagraph (A)  
5 is matched (on a current basis) by State spending  
6 out of its own sources.

7           (C) The portion of the entitlement of any  
8 unit of local government for any entitlement period  
9 to which subparagraph (A) applies shall not exceed  
10 10 percent of such entitlement.

11           (5) UNIFORMITY; CERTIFICATION; ENTITLEMENT  
12 PERIODS AFFECTED.—

13           (A) A State law shall be deemed to comply  
14 with the requirements of paragraph (1), (2), or  
15 (3) (and of subsection (b) of section 102) only  
16 if such law applies throughout the State.

17           (B) Paragraph (1), (2), (3), or (4) (and  
18 subsection. (b) of section 102) shall apply within  
19 a State only if the Secretary certifies that the State  
20 law complies with the requirements of such para-  
21 graph (or subsection).

22           (C) Any such State law shall apply only to  
23 allocations for entitlement periods beginning after  
24 June 30, 1973, and beginning after whichever of  
25 the following is the later: (i) the date of the certi-

1            fication under subparagraph (B) with respect to  
2            such law, or (ii) the effective date specified in such  
3            State law.

4            (e) ALLOCATION DEFINITIONS AND SPECIAL  
5 . RULES.—For purposes of this section—

6            (1) ALLOCATION ON BASIS OF POPULATION.—

7            Any allocation on the basis of population among units  
8            located in a larger entity shall be made by allocating  
9            to each such unit an amount which bears the same ratio  
10           to the total amount to be allocated as the population of  
11           such unit bears to the population of the larger entity.

12           (2) ALLOCATION ON BASIS OF URBANIZED

13           POPULATION.—Any allocation on the basis of ur-  
14           banized population among units located in a larger  
15           entity shall be made by allocating to each such unit an  
16           amount which bears the same ratio to the total amount  
17           to be allocated as the urbanized population of such unit  
18           bears to the urbanized population of the larger entity.

19           (3) ALLOCATION ON BASIS OF POPULATION IN-

20           VERSELY WEIGHTED FOR PER CAPITA INCOME.—Any  
21           allocation, on the basis of population inversely weighted  
22           for per capita income, among units located in a larger  
23           entity shall be made by allocating to each such unit an  
24           amount which bears the same ratio to the total amount  
25           to be allocated as—

1           (A) the population of such unit, multiplied  
2           by a fraction the numerator of which is the per  
3           capita income of the larger entity and the denom-  
4           inator of which is the per capita income of such  
5           unit, bears to

6           (B) the sum of the products determined under  
7           subparagraph (A) for all such units.

8           (4) ALLOCATION ON BASIS OF POPULATION  
9           WEIGHTED FOR PER CAPITA ADJUSTED TAXES.—

10           (A) Any allocation, on the basis of popula-  
11           tion weighted for per capita adjusted taxes, among  
12           units located in a larger entity shall be made by  
13           allocating to each such unit an amount which bears  
14           the same ratio to the total amount to be allocated  
15           as—

16           (i) the population of such unit, multiplied  
17           by the per capita adjusted taxes of the govern-  
18           ment of such unit, bears to

19           (ii) the sum of the products determined  
20           under clause (i) for all such units.

21           (B) For purposes of subsection (d) (2), the  
22           per capita adjusted taxes of any unit having a  
23           population of 100,000 or less taken into account  
24           under subparagraph (A) of this paragraph shall  
25           not exceed the per capita adjusted taxes of the city

1 (if any) in such State having a population of more  
 2 than 100,000 and having the lowest per capita ad-  
 3 justed taxes of all cities in such State having a pop-  
 4 ulation of more than 100,000.

5 (5) POPULATION.—Population shall be determined  
 6 on the same basis as resident population is determined  
 7 by the Bureau of the Census for general statistical  
 8 purposes.

9 (6) URBANIZED POPULATION.—Urbanized popu-  
 10 lation means the population of any area consisting of a  
 11 central city or cities of 50,000 or more inhabitants (and  
 12 of the surrounding closely settled territory for such city  
 13 or cities) which is treated as an urbanized area by the  
 14 Bureau of the Census for general statistical purposes.

15 (7) INCOME.—Income means total money income  
 16 received from all sources, as determined by the Bureau  
 17 of the Census for general statistical purposes.

18 (8) ADJUSTED TAXES.—

19 (A) IN GENERAL.—The adjusted taxes of any  
 20 unit of government are—

21 (i) the compulsory contributions exacted  
 22 by such government for public purposes (other  
 23 than employee and employer assessments and  
 24 contributions to finance retirement and social  
 25 insurance systems, and other than special assess-

1           ments for capital outlay) as such contributions  
2           are determined by the Bureau of the Census for  
3           general statistical purposes,

4           (ii) adjusted (under regulations prescribed  
5           by the Secretary) by excluding an amount  
6           equal to that portion of such compulsory con-  
7           tributions which is properly allocable to ex-  
8           penses for education.

9           **(B) CERTAIN SALES TAXES COLLECTED BY**  
10          **COUNTIES.—In any case where—**

11           (i) a county government exacts sales taxes  
12           within a municipality and transfers part or all of  
13           such taxes to such municipality without specify-  
14           ing the purposes for which the municipality may  
15           spend the revenues, and

16           (ii) the Governor of the State notifies the  
17           Secretary that the requirements of this subpara-  
18           graph have been met with respect to such taxes,  
19           then the taxes so transferred shall be treated as the  
20           taxes of the municipality (and not the taxes of  
21           the county government).

22          **(9) INTERGOVERNMENTAL TRANSFERS.—The in-**  
23          **tergovernmental transfers of revenue to any govern-**  
24          **ment are the amounts of revenue received by the gov-**  
25          **ernment from other governments as a share in financing**

1 (or as reimbursement for) the performance of govern-  
2 mental functions, as determined by the Bureau of the  
3 Census for general statistical purposes.

4 (10) DATES FOR DETERMINING ALLOCATIONS AND  
5 ENTITLEMENTS.—Except as provided in regulations, the  
6 determination of allocations and entitlements for any  
7 entitlement period shall be made as of the April 1 im-  
8 mediately preceding the beginning of such period.

9 (11) DATA USED; UNIFORMITY OF DATA.—

10 (A) GENERAL RULE.—Except as provided in  
11 subparagraph (B), the data used shall be the most  
12 recently available data provided by the Bureau of  
13 the Census.

14 (B) USE OF ESTIMATES, ETC.—Where the Sec-  
15 retary determines that the data referred to in sub-  
16 paragraph (A) are not current enough or are not  
17 comprehensive enough to provide for equitable allo-  
18 cations, he may use such additional data (including  
19 data based on estimates) as may be provided for in  
20 regulations.

21 (f) GOVERNMENTAL DEFINITIONS AND RELATED  
22 RULES.—For purposes of this section—

23 (1) UNITS OF LOCAL GOVERNMENT.—The term  
24 “unit of local government” means the government of a  
25 county, municipality, township, or other unit of govern-

1       ment below the State which is a unit of general govern-  
2       ment (determined on the basis of the same principles as  
3       are used by the Bureau of the Census for general statis-  
4       tical purposes).

5           (2) CERTAIN AREAS TREATED AS COUNTIES.—

6       In any State where, for part or all of its geographic  
7       area, the next unit of local government below the State  
8       is a city or other unit, such unit shall be treated as a  
9       county (and its government shall be treated as a county  
10      government) with respect to that portion of the State's  
11      geographic area.

12          (3) TOWNSHIPS.—The term "township" includes  
13      equivalent subdivisions of government having different  
14      designations (such as "towns"), and shall be deter-  
15      mined on the basis of the same principles as are used  
16      by the Bureau of the Census for general statistical  
17      purposes.

18          (4) UNITS OF LOCAL GOVERNMENT LOCATED IN  
19      LARGER ENTITY.—A unit of local government shall be  
20      treated as located in a larger entity if part or all of its  
21      geographic area is located in the larger entity.

22          (5) ONLY PART OF UNIT LOCATED IN LARGER  
23      ENTITY.—If only part of a unit of local government is  
24      located in a larger entity, such part shall be treated for

1 allocation purposes as a separate unit of local govern-  
2 ment, and all computations shall, except as otherwise  
3 provided in regulations, be made on the basis of the  
4 ratio which the estimated population of such part bears  
5 to the population of the entirety of such unit.

6 (6) BOUNDARY CHANGES, GOVERNMENTAL REOR-  
7 GANIZATION, ETC.—If, by reason of boundary line  
8 changes, by reason of State statutory or constitutional  
9 changes, by reason of annexations or other governmental  
10 reorganizations, or by reason of other circumstances,  
11 the application of any provision of this section to units  
12 of local government does not carry out the purposes  
13 of this subtitle, the application of such provision shall  
14 be made, under regulations, in a manner which is con-  
15 sistent with such purposes.

16 **SEC. 104. LOCAL GOVERNMENT HIGH-PRIORITY EXPENDI-**  
17 **TURE TRUST FUND.**

18 (a) APPROPRIATIONS.—

19 (1) IN GENERAL.—There is hereby appropriated  
20 out of any amounts in the general fund of the Treasury  
21 attributable to the collections of the Federal individual  
22 income tax not otherwise appropriated—

23 (A) For the period beginning January 1,  
24 1972, and ending June 30, 1972, \$1,750,000,000.

1 (B) For the fiscal year beginning July 1,  
2 1972, \$3,500,000,000.

3 (C) For the fiscal year beginning July 1,  
4 1973, \$3,500,000,000.

5 (D) For the fiscal year beginning July 1,  
6 1974, \$3,500,000,000.

7 (E) For the fiscal year beginning July 1,  
8 1975, \$3,500,000,000.

9 (F) For the period beginning July 1, 1976,  
10 and ending December 31, 1976, \$1,750,000,000.

11 (2) DEPOSIT IN TRUST FUND.—The amount ap-  
12 propriated by paragraph (1) for any period shall be  
13 deposited in the trust fund created by subsection (b) on  
14 the first day of such period (or, if later, on the day on  
15 which this Act is enacted).

16 (b) CREATION OF TRUST FUND.—

17 (1) There is created in the books of the Treasury  
18 of the United States a trust fund to be known as the  
19 “Local Government High-Priority Expenditures Trust  
20 Fund” (referred to in this subtitle as the “Trust  
21 Fund”). The Trust Fund shall remain available without  
22 fiscal year limitation and shall consist of such amounts  
23 as may be appropriated to it and deposited in it as pro-  
24 vided in subsection (a). Amounts in the Trust Fund

1        may be used only for the payments to local governments  
2        provided by this subtitle.

3            (2) The Secretary of the Treasury shall be the  
4        trustee of the Trust Fund and shall report to the Con-  
5        gress not later than March 1 of each year on the opera-  
6        tion and status of the Trust Fund during the preceding  
7        fiscal year.

8        **SEC. 105. GENERAL PROVISIONS.**

9            (a) **ASSURANCE OF LOCAL GOVERNMENT HIGH-**  
10        **PRIORITY EXPENDITURES PLANS.**—In order to qualify for  
11        any payment under this subtitle for any entitlement period  
12        beginning on or after July 1, 1972, a local government must  
13        establish (in accordance with regulations prescribed by the  
14        Secretary, and after an opportunity for review and com-  
15        ment by the Governor of the State in which such local  
16        government is located) to the satisfaction of the Secretary—

17            (1) that the local government will establish a  
18        trust fund in which it will deposit all payments it re-  
19        ceives under this subtitle;

20            (2) that it will use amounts in such trust fund (in-  
21        cluding any interest earned thereon while in such trust  
22        fund) only for high-priority expenditures, and that it  
23        will so use such amounts during such reasonable period  
24        or periods as may be provided in such regulations;

25            (3) that it will use amounts in its trust fund estab-

1       lished pursuant to paragraph (1) for capital expendi-  
2       tures for purposes specified in subparagraphs (A), (B),  
3       and (C) of section 102 (a) (2) only if the capital items  
4       are additional and not of a character for which the local  
5       government regularly makes expenditures on a recurring  
6       basis;

7               (4) that the local government will pay over to the  
8       Secretary (for deposit in the general fund of the Treas-  
9       ury) an amount equal to 110 percent of any amount ex-  
10      pended out of its trust fund established pursuant to  
11      paragraph (1) in violation of paragraph (2) or  
12      (3) which is not promptly repaid to the trust fund (or  
13      the violation otherwise corrected) after notice and an  
14      opportunity to take corrective action;

15             (5) that the local government will—

16               (A) use such fiscal, accounting, and audit pro-  
17      cedures as will conform to guidelines established  
18      therefor by the Secretary (after consultation with  
19      the Comptroller General of the United States) and  
20      as will assure compliance with paragraphs (2),  
21      (3), and (4),

22               (B) provide to the Secretary (and to the  
23      Comptroller General of the United States), on rea-  
24      sonable notice, access to, and the right to examine,  
25      such books, documents, papers, or records as the

1 Secretary may reasonably require for purposes of  
2 reviewing compliance with this subsection (or, in  
3 the case of the Comptroller General, as the Comptroller General may reasonably require for purposes  
4 of reviewing compliance and operations under sub-  
5 section (c) (2) ), and

6  
7 (C) make such annual and interim reports  
8 to the Secretary as he may reasonably require;

9 (6) that all laborers and mechanics employed by  
10 contractors or subcontractors in the performance of  
11 work on construction financed in whole or in part out  
12 of its trust fund established under paragraph (1) will  
13 be paid wages at rates not less than those prevailing  
14 on similar construction in the locality as determined  
15 by the Secretary of Labor in accordance with the Davis-  
16 Bacon Act, as amended (40 U.S.C. 276a—276a-5),  
17 and that with respect to the labor standards specified  
18 in this paragraph the Secretary of Labor shall act in  
19 accordance with Reorganization Plan Numbered 14 of  
20 1950 (15 F.R. 3176; 64 Stat. 1261) and section 2 of  
21 the Act of June 13, 1934, as amended (40 U.S.C.  
22 276c) ; and

23 (7) that persons employed in jobs financed in  
24 whole or in part out of its trust fund established under  
25 paragraph (1) will be paid wages which shall not be

1 lower than the prevailing rates of pay for persons em-  
2 ployed in similar jobs by such local government.

3 In order to qualify for any payment under this subtitle for  
4 the entitlement period beginning on January 1, 1972, and  
5 ending on June 30, 1972, a local government must establish  
6 to the satisfaction of the Secretary that it will use such  
7 payment only for high-priority expenditures and will comply  
8 with such other requirements, consistent with the preceding  
9 sentence, as may be established by the Secretary.

10 (b) WITHHOLDING OF PAYMENTS.—If the Secretary  
11 determines that a local government has failed to comply  
12 substantially with any provision of this subtitle (other than  
13 section 106) or any regulations prescribed thereunder, after  
14 giving reasonable notice and opportunity for a hearing to  
15 the chief executive officer of the local government, he shall  
16 notify the local government that if such local government  
17 fails to take corrective action within 60 days from the date  
18 of receipt of such notification further payments to such local  
19 government shall be withheld for the remainder of the en-  
20 titlement period and for any subsequent entitlement period  
21 until such time as the Secretary is satisfied that appropriate  
22 corrective action has been taken and that there will no longer  
23 be any failure to comply. Until he is satisfied, the Secretary  
24 shall make no further payments of such amounts.

25 (c) ACCOUNTING, AUDITING, AND EVALUATION.—

1           (1) **IN GENERAL.**—The Secretary shall provide for  
2 such accounting and auditing procedures, evaluations,  
3 and reviews as may be necessary to insure that the  
4 expenditures of funds by the local governments comply  
5 fully with the requirements of this subtitle. The Secre-  
6 tary shall have authority to accept an audit by a State  
7 of the expenditures of a unit of local government under  
8 this subtitle if he determines that such audit and the  
9 audit procedures of that State are sufficiently reliable  
10 to enable him to carry out his duties under this subtitle.

11           (2) **COMPTROLLER GENERAL SHALL REVIEW COM-**  
12 **PLIANCE.**—The Comptroller General of the United  
13 States shall make such reviews of the work as done by  
14 the Secretary, the States, and the units of local govern-  
15 ment as may be necessary for the Congress to evaluate  
16 compliance and operations under this subtitle.

17 **SEC. 106. NONDISCRIMINATION PROVISION.**

18           (a) No person in the United States shall on the ground  
19 of race, color, national origin, or sex be excluded from  
20 participation in, be denied the benefits of, or be subjected  
21 to discrimination under any program or activity funded in  
22 whole or in part with funds made available under this sub-  
23 title.

24           (b) Whenever the Secretary determines that a local  
25 government has failed to comply with subsection (a) or an

1 applicable regulation, he shall notify the Governor of the  
2 State in which the local government is located of the non-  
3 compliance and shall request the Governor to secure com-  
4 pliance. If within a reasonable period of time the State  
5 fails or refuses to secure compliance, the Secretary shall  
6 have the authority (1) to refer the matter to the Attorney  
7 General with a recommendation that an appropriate civil  
8 action be instituted; (2) to exercise the powers and func-  
9 tions provided by title VI of the Civil Rights Act of 1964  
10 (42 U.S.C. 2000d); or (3) to take such other action as  
11 may be provided by law.

12 (c) When a matter is referred to the Attorney General  
13 pursuant to subsection (b), or whenever he has reason to  
14 believe that a local government is engaged in a pattern or  
15 practice in violation of the provisions of this section, the  
16 Attorney General may bring a civil action in any appropriate  
17 United States district court for such relief as may be appro-  
18 priate, including injunctive relief.

## 19 **Subtitle B—State Tax Supplements**

### 20 **SEC. 121. PAYMENTS TO STATES.**

21 Except as otherwise provided in this subtitle, the Sec-  
22 retary shall, for each entitlement period, pay out of the State  
23 Tax Supplements Trust Fund created by section 123 (c) to  
24 each State government a total amount equal to the entitle-

1 ment of such government for such period (determined under  
2 section 122). Such payments shall be made in installments  
3 during any period but not less often than once each quarter.  
4 Such payments for any period may be initially made on the  
5 basis of estimates. Proper adjustment shall be made in the  
6 amount of any payment to a State government, to the ex-  
7 tent that the payments previously made to such government  
8 under this subtitle were in excess of or less than the amounts  
9 required to be paid.

10 **SEC. 122. AMOUNT OF ENTITLEMENT OF EACH STATE.**

11 (a) **GENERAL RULE.**—The amount of the entitlement  
12 of any State for any entitlement period is the sum of—

13 (1) the income tax share of such State for such  
14 period, plus

15 (2) the combined tax effort share of such State  
16 for such period.

17 (b) **INCOME TAX SHARE.**—For purposes of this  
18 section—

19 (1) **IN GENERAL.**—The income tax share of any  
20 State for any entitlement period is the amount equal to  
21 the lesser of—

22 (A) the adjusted incentive amount of such  
23 State for such period, or

24 (B) the amount which bears the same ratio  
25 to the amount appropriated for such period under

1 section 123 (a) (1) as the adjusted incentive  
2 amount of such State for such period bears to the  
3 sum of the adjusted incentive amounts of all States  
4 for such period.

5 (2) INCENTIVE AMOUNT.—The incentive amount  
6 of any State for any entitlement period is 15 percent of  
7 the net amount collected from the State individual in-  
8 come tax of such State during 1972 or (if later) during  
9 the last calendar year ending before the beginning of  
10 such period.

11 (3) CEILING AND FLOOR.—The incentive amount of  
12 any State for any entitlement period—

13 (A) shall not exceed 6 percent, and

14 (B) shall not be less than 1 percent,

15 of the Federal individual income tax liabilities attributed  
16 to such State for taxable years ending during 1971 or  
17 (if later) during the last calendar year ending before  
18 the beginning of such entitlement period.

19 (4) ADJUSTMENT.—The adjusted incentive  
20 amount of any State for any entitlement period is one-  
21 half (one-quarter in the case of an entitlement period of  
22 6 months) of the incentive amount of such State (deter-  
23 mined under paragraphs (2) and (3)).

24 (c) COMBINED TAX EFFORT SHARE.—

25 (1) IN GENERAL.—The combined tax effort share

1 of any State for any entitlement period is the amount  
 2 which bears the same ratio to the amount appropriated  
 3 for such period under section 123 (a) (2) as the com-  
 4 bined tax effort amount of such State for such period  
 5 bears to the sum of the combined tax effort amounts  
 6 of all States for such period.

7 (2) COMBINED TAX EFFORT AMOUNT.—The com-  
 8 bined tax effort amount of any State for any entitlement  
 9 period is the amount determined by multiplying—

10 (A) the net amount collected from the State  
 11 and local taxes of such State during the most recent  
 12 reporting year, by

13 (B) a fraction—

14 (i) the numerator of which is the net  
 15 amount referred to in subparagraph (A), and

16 (ii) the denominator of which is the ag-  
 17 gregate personal income attributed to such State  
 18 for the one-year period ending on the second  
 19 June 30 before the beginning of such period.

20 (d) DEFINITIONS.—For purposes of this section—

21 (1) STATE INDIVIDUAL INCOME TAXES.—The in-  
 22 dividual income tax of any State is the tax imposed upon  
 23 the income of individuals by such State and described  
 24 as a State income tax under section 164 (a) (3) of the  
 25 Internal Revenue Code of 1954.

1 (2) **FEDERAL INDIVIDUAL INCOME TAX LIABILI-**  
2 **TIES ATTRIBUTED TO STATE.**—The Federal individual  
3 income tax liabilities attributed to any State for any pe-  
4 riod shall be determined on the same basis as such liabili-  
5 ties are determined for such period by the Internal  
6 Revenue Service for general statistical purposes.

7 (3) **STATE AND LOCAL TAXES.**—

8 (A) **TAXES TAKEN INTO ACCOUNT.**—The  
9 State and local taxes taken into account under sub-  
10 section (c) (2) are the compulsory contributions  
11 exacted by the State (or by any political subdivi-  
12 sion of the State) for public purposes (other than  
13 employee and employer assessments and contribu-  
14 tions to finance retirement and social insurance sys-  
15 tems, and other than special assessments for capital  
16 outlay), as such contributions are determined by the  
17 Bureau of the Census for general statistical purposes.

18 (B) **MOST RECENT REPORTING YEAR.**—The  
19 most recent reporting year with respect to any  
20 entitlement period consists of the years taken into  
21 account by the Bureau of the Census in its most re-  
22 cent general determination of State and local taxes  
23 made before the close of the entitlement period.

24 (4) **PERSONAL INCOME.**—Personal income means  
25 the income of individuals, as determined by the Depart-

1 ment of Commerce for national income accounts pur-  
2 poses.

3 (e) STATE MUST MAINTAIN EFFORT.—

4 (1) GENERAL RULE.—The entitlement of any State  
5 for any entitlement period beginning on or after July 1,  
6 1972, shall be reduced by the amount (if any) by  
7 which—

8 (A) the aggregate amount transferred by the  
9 State (out of its own sources) during such period  
10 to all units of local government in such State is less  
11 than—

12 (B) the similar aggregate amount for the one-  
13 year period beginning July 1, 1971.

14 (2) ADJUSTMENT WHERE STATE ASSUMES RE-  
15 SPONSIBILITY FOR CATEGORY OF EXPENDITURES.—If  
16 the State establishes to the satisfaction of the Secretary  
17 that since June 30, 1972, it has assumed responsibility  
18 for a category of expenditures which (before July 1,  
19 1972) was the responsibility of local governments lo-  
20 cated in such State, then the aggregate amount taken  
21 into account under paragraph (1) (B) shall be reduced  
22 to the extent that increased State spending (out of its  
23 own sources) for such category has replaced correspond-  
24 ing amounts which for the one-year period beginning  
25 July 1, 1971, it transferred to units of local government.

1           (3) SPECIAL RULE FOR PERIOD BEGINNING  
2           JULY 1, 1976.—In the case of the entitlement period  
3           beginning July 1, 1976, and ending December 31,  
4           1976, the aggregate amount taken into account under  
5           paragraph (1) (B) shall be one-half of the amount  
6           which (but for this paragraph) would be taken into  
7           account.

8           (4) REDUCTION IN ENTITLEMENT.—If the Secre-  
9           tary has reason to believe that paragraph (1) requires  
10          a reduction in the entitlement of any State for any  
11          entitlement period, he shall give reasonable notice and  
12          opportunity for hearing to the State. If, thereafter, he  
13          determines that paragraph (1) requires the reduction of  
14          such entitlement, he shall also determine the amount of  
15          such reduction and shall notify the Governor of such  
16          State of such determinations and shall withhold from  
17          subsequent payments to such State under this subtitle an  
18          amount equal to such reduction.

19          (5) TRANSFER TO GENERAL FUND.—An amount  
20          equal to the reduction in the entitlement of any State  
21          which results from the application of this subsection  
22          (after any judicial review under section 143) shall be  
23          transferred from the Trust Fund created by section 123  
24          (c) to the general fund of the Treasury on the day on  
25          which such reduction becomes final.

1 SEC. 123. STATE TAX SUPPLEMENTS TRUST FUND.

2 (a) APPROPRIATIONS.—

3 (1). APPROPRIATIONS FOR STATE INCOME TAX  
4 SHARES.—There is hereby appropriated out of any  
5 amounts in the general fund of the Treasury attributable  
6 to the collections of the Federal individual income tax  
7 not otherwise appropriated—

8 (A) For the period beginning January 1,  
9 1972, and ending June 30, 1972, \$450,000,000.

10 (B) For the fiscal year beginning July 1,  
11 1972, \$1,000,000,000.

12 (C) For the fiscal year beginning July 1,  
13 1973, \$1,200,000,000.

14 (D) For the fiscal year beginning July 1,  
15 1974, \$1,400,000,000.

16 (E) For the fiscal year beginning July 1,  
17 1975, \$1,600,000,000.

18 (F) For the period beginning July 1, 1976,  
19 and ending December 31, 1976, \$900,000,000.

20 If the amount appropriated by this paragraph for any  
21 entitlement period exceeds the sum of the adjusted incen-  
22 tive amounts of all States for such period (within the  
23 meaning of section 122 (b)), an amount equal to such  
24 excess shall be transferred from the Trust Fund created  
25 by subsection (c) to the general fund of the Treasury as

1 of the close of the first fiscal year ending after the close  
2 of such entitlement period.

3 (2) APPROPRIATIONS FOR STATE COMBINED TAX  
4 EFFORT SHARES.—There is hereby appropriated out of  
5 amounts in the general fund of the Treasury attributable  
6 to the collections of the Federal individual income tax  
7 not otherwise appropriated—

8 (A) For the period beginning January 1, 1972,  
9 and ending June 30, 1972, \$450,000,000.

10 (B) For the fiscal year beginning July 1,  
11 1972, \$950,000,000.

12 (C) For the fiscal year beginning July 1,  
13 1973, \$1,050,000,000.

14 (D) For the fiscal year beginning July 1,  
15 1974, \$1,150,000,000.

16 (E) For the fiscal year beginning July 1,  
17 1975, \$1,250,000,000.

18 (F) For the period beginning July 1, 1976,  
19 and ending December 31, 1976, \$675,000,000.

20 (b) DEPOSIT IN TRUST FUND.—Amounts appropri-  
21 ated by subsection (a) for any period shall be deposited in  
22 the Trust Fund created by subsection (c) on the first day  
23 of such period (or, if later, on the day on which this Act is  
24 enacted).

1       (c) **CREATION OF TRUST FUND.—**

2           (1) There is created in the books of the Treasury  
3 of the United States a trust fund to be known as the  
4 “State Tax Supplements Trust Fund”, (referred to in  
5 this subtitle as the “Trust Fund”). The Trust Fund  
6 shall remain available without fiscal year limitation and  
7 shall consist of such amounts as may be appropriated  
8 to it and deposited in it as provided in subsections (a)  
9 and (b). Except as provided in the last sentence of sub-  
10 section (a) (1) and in section 122 (e) (5), amounts in  
11 the Trust Fund may be used only for the payments to  
12 State governments provided by this subtitle.

13           (2) The Secretary of the Treasury shall be the  
14 trustee of the Trust Fund and shall report to the Con-  
15 gress not later than March 1 of each year on the opera-  
16 tion and status of the Trust Fund during the preceding  
17 fiscal year.

18           **Subtitle C—General Provisions**

19       **SEC. 141. DEFINITIONS AND SPECIAL RULES.**

20           (a) **SECRETARY.**—For purposes of this title, the term  
21 “Secretary” means the Secretary of the Treasury or his dele-  
22 gate. The term “Secretary of the Treasury” means the Sec-  
23 retary of the Treasury personally, not including any delegate.

24           (b) **ENTITLEMENT PERIOD.**—For purposes of this title,  
25 the term “entitlement period” means—

1           (1) The period beginning January 1, 1972, and  
2 ending June 30, 1972.

3           (2) The one-year periods beginning on July 1 of  
4 1972, 1973, 1974, and 1975.

5           (3) The period beginning July 1, 1976, and end-  
6 ing December 31, 1976.

7           (c) DISTRICT OF COLUMBIA.—

8           (1) TREATED AS STATE.—For purposes of this  
9 title, the District of Columbia shall be treated as a  
10 State, and any reference to the Governor of a State  
11 shall, in the case of the District of Columbia, be treated  
12 as a reference to the Commissioner of the District of  
13 Columbia.

14           (2) TREATED AS LOCAL GOVERNMENT.—For pur-  
15 poses of subtitle A, the District of Columbia shall be  
16 treated as a county which has no units of local govern-  
17 ment (other than itself) within its geographic area;  
18 except that it shall be treated as a State for purposes of  
19 the allocation under section 103 (a), and the amount  
20 allocated to it under section 103 (a) for any entitlement  
21 period shall be the entitlement of the District of Co-  
22 lumbia under subtitle A for such period.

23           (3) REDUCTION IN CASE OF INCOME TAX ON NON-  
24 RESIDENT INDIVIDUALS.—If there is hereafter enacted

1 a law imposing a tax on income earned in the District  
2 of Columbia by individuals who are not residents of the  
3 District of Columbia, then an amount equal to the net  
4 collections from such tax during any entitlement period  
5 attributable to individuals who are not residents of the  
6 District of Columbia shall be applied—

7 (A) first to reduce the income tax share of the  
8 District of Columbia under subtitle B for such period  
9 (to the extent thereof),

10 (B) then to reduce the combined tax effort  
11 share of the District of Columbia under subtitle B  
12 for such period (to the extent thereof), and

13 (C) then to reduce the entitlement of the Dis-  
14 trict of Columbia under subtitle A for such period.

15 **SEC. 142. REGULATIONS.**

16 (a) **GENERAL RULE.**—The Secretary shall prescribe  
17 such regulations as may be necessary or appropriate to carry  
18 out the provisions of this title.

19 (b) **ADMINISTRATIVE PROCEDURE ACT TO APPLY.**—  
20 The rulemaking provisions of subchapter II of chapter 5  
21 of title 5 of the United States Code shall apply to the regu-  
22 lations prescribed under this title for entitlement periods  
23 beginning on or after July 1, 1972.

24 **SEC. 143. JUDICIAL REVIEW.**

25 (a) **PETITIONS FOR REVIEW.**—Any local government

1 which receives a 60-day notice under section 105 (b), and  
2 any State which receives a notice of a reduction in its en-  
3 titlement under section 122 (e) (4), may, within 60 days  
4 after receiving such notice, file with the United States court  
5 of appeals for the circuit in which such State or local gov-  
6 ernment is located a petition for review of the action of the  
7 Secretary. A copy of the petition shall forthwith be trans-  
8 mitted to the Secretary; a copy shall also forthwith be  
9 transmitted to the Attorney General.

10 (b) RECORD.—The Secretary shall file in the court the  
11 record of the proceeding on which he based his action, as  
12 provided in section 2112 of title 28, United States Code.  
13 No objection to the action of the Secretary shall be con-  
14 sidered by the court unless such objection has been urged  
15 before the Secretary.

16 (c) JURISDICTION OF COURT.—The court shall have  
17 jurisdiction to affirm or modify the action of the Secre-  
18 tary or to set it aside in whole or in part. The findings of  
19 fact by the Secretary, if supported by substantial evidence  
20 contained in the record, shall be conclusive. However, if  
21 any finding is not supported by substantial evidence con-  
22 tained in the record, the court may remand the case to  
23 the Secretary to take further evidence, and the Secretary  
24 may thereupon make new or modified findings of fact and  
25 may modify his previous actions. He shall certify to the

1 court the record of any further proceedings. Such new or  
2 modified findings of fact shall likewise be conclusive if sup-  
3 ported by substantial evidence contained in the record.

4 (d) REVIEW BY SUPREME COURT.—The judgment of  
5 the court shall be subject to review by the Supreme Court  
6 of the United States upon certiorari or certification, as pro-  
7 vided in section 1254 of title 28, United States Code.

8 **SEC. 144. AUTHORITY TO REQUIRE INFORMATION ON**  
9 **INCOME TAX RETURNS.**

10 (a) GENERAL RULE.—

11 (1) INFORMATION WITH RESPECT TO PLACE OF  
12 RESIDENCE.—Subpart B of part II of subchapter A of  
13 chapter 61 of the Internal Revenue Code of 1954 (re-  
14 lating to income tax returns) is amended by adding at  
15 the end thereof the following new section:

16 **“SEC. 6017A. PLACE OF RESIDENCE.**

17 “In the case of an individual, the information which may  
18 be required on any return with respect to the taxes imposed  
19 by chapter 1 for any period shall include information as to the  
20 State, county, municipality, and any other unit of local gov-  
21 ernment in which the taxpayer (and any other individual  
22 with respect to whom an exemption is claimed on such re-  
23 turn) resided on one or more dates (determined in the man-  
24 ner provided by regulations prescribed by the Secretary or  
25 his delegate) during such period.”

1           (2) **CLERICAL AMENDMENT.**—The table of sections  
2       for such subpart B is amended by adding at the end  
3       thereof the following:

          “Sec. 6017A. Place of residence.”

4           (b) **CIVIL PENALTY.**—

5           (1) **IN GENERAL.**—Subchapter B of chapter 68  
6       of the Internal Revenue Code of 1954 is amended by  
7       adding at the end thereof the following new section:

8       **“SEC. 6687. FAILURE TO SUPPLY INFORMATION WITH**  
9           **RESPECT TO PLACE OF RESIDENCE.**

10       “(a) **CIVIL PENALTY.**—If any person who is required  
11       by regulations prescribed under section 6017A to include  
12       on any return information with respect to his place of  
13       residence fails to comply with such requirement at the time  
14       prescribed by such regulations, such person shall pay a  
15       penalty of \$5 for each such failure, unless it is shown that  
16       such failure is due to reasonable cause.

17       “(b) **DEFICIENCY PROCEDURES NOT TO APPLY.**—Sub-  
18       chapter B of chapter 63 (relating to deficiency procedures  
19       for income, estate, gift, and chapter 42 taxes) shall not  
20       apply in respect of the assessment or collection of any pen-  
21       alty imposed by subsection (a).”

22           (2) **CLERICAL AMENDMENT.**—The table of sec-  
23       tions for such subchapter B is amended by adding at  
24       the end thereof the following:

          “Sec. 6687. Failure to supply information with respect to  
          place of residence.”

1 **TITLE II—FEDERAL COLLECTION**  
 2 **OF STATE INDIVIDUAL INCOME**  
 3 **TAXES**

4 **SEC. 201. SHORT TITLE.**

5 This title may be cited as the "Federal-State Tax Collec-  
 6 tion Act of 1972".

7 **SEC. 202. COLLECTION PROVISIONS.**

8 (a) **AMENDMENT OF CHAPTER 64.**—Chapter 64 of the  
 9 Internal Revenue Code of 1954 (relating to collection) is  
 10 amended by adding at the end thereof the following new  
 11 subchapter:

12 **"Subchapter E—Collection of State Individual**  
 13 **Income Taxes**

"Sec. 6361. General rules.

"Sec. 6362. Qualified State individual income taxes.

"Sec. 6363. State agreements; other procedures.

"Sec. 6364. Regulations.

"Sec. 6365. Definitions and special rules.

14 **"SEC. 6361. GENERAL RULES.**

15 "(a) **COLLECTION AND ADMINISTRATION.**—In the  
 16 case of any State which has in effect an agreement with the  
 17 Secretary entered into under section 6363, the Secretary or  
 18 his delegate shall collect and administer the qualified State  
 19 individual income taxes of such State. All provisions of this  
 20 subtitle, subtitle G, and chapter 24 relating to the collection  
 21 and administration of the taxes imposed by chapter 1 on  
 22 the incomes of individuals (and all civil and criminal sanc-

1 lions provided by this subtitle or by title 18 of the United  
2 States Code with respect to such collection and adminis-  
3 tration) shall apply to the collection and administration  
4 of qualified State individual income taxes as if such taxes  
5 were imposed by chapter 1, except to the extent that their  
6 application is modified by the Secretary or his delegate by  
7 regulations necessary or appropriate to reflect the provi-  
8 sions of this subchapter, or to reflect differences in the taxes  
9 or differences in the situations in which liability for such  
10 taxes arises.

11 “(b) CIVIL PROCEEDINGS.—Any person shall have,  
12 with respect to a qualified State individual income tax (in-  
13 cluding the current collection thereof), the same right to  
14 bring or contest a civil action and obtain review thereof,  
15 in the same court or courts and subject to the same require-  
16 ments and procedures, as he would have under chapter 76,  
17 and under title 28 of the United States Code, if the tax were  
18 imposed by section 1 (or were for the current collection of  
19 the tax imposed by section 1). To the extent that the pre-  
20 ceding sentence provides judicial procedures (including re-  
21 view procedures) with respect to any matter, such procedures  
22 shall replace judicial procedures under State law, except  
23 that nothing in this subchapter shall be construed in any  
24 way to affect the right or power of a State court to pass  
25 on matters involving the constitution of that State.

1       “(c) TRANSFERS TO STATES.—

2               “(1) PROMPT TRANSFERS.—Any amount collected  
3 under this subchapter which is apportioned to a qual-  
4 ified State individual income tax shall be promptly trans-  
5 ferred to the State on the basis of estimates by the  
6 Secretary or his delegate. In the case of amounts col-  
7 lected under chapter 24, the estimated amount due the  
8 State shall be transferred to the State not later than the  
9 close of the third business day after the amount is  
10 deposited in a Federal Reserve bank. In the case of  
11 amounts collected pursuant to a return, a declaration of  
12 estimated tax, an amendment of such a declaration, or  
13 otherwise, the estimated amount due the State shall be  
14 transferred to the State not later than the close of the  
15 30th day after the amount is received by the Secretary  
16 or his delegate.

17               “(2) ADJUSTMENTS.—Not less often than once  
18 each fiscal year the difference between collections (ad-  
19 justed for credits and refunds) made under this subchap-  
20 ter during the preceding fiscal year and the transfers to  
21 the States made on account of estimates of such collec-  
22 tions shall be determined, and such difference shall be a  
23 charge against, or an addition to, the amounts otherwise  
24 payable.

25       “(d) SPECIAL RULES.—

1           “(1) UNITED STATES TO REPRESENT STATE  
2 INTEREST.—

3           “(A) GENERAL RULE.—In all administrative  
4 proceedings, and in all judicial proceedings (whether  
5 civil or criminal), relating to the administration and  
6 collection of a State qualified individual income tax  
7 the interests of the State imposing such tax shall be  
8 represented by the United States in the same man-  
9 ner in which the interests of the United States are  
10 represented in corresponding proceedings involving  
11 the taxes imposed by chapter 1.

12           “(B) EXCEPTIONS.—Subparagraph (A) shall  
13 not apply to—

14           “(i) proceedings in a State court involving  
15 the constitution of that State, and

16           “(ii) proceedings involving the relation-  
17 ship between the United States and the State.

18           “(2) ALLOCATION OF OVERPAYMENTS AND UN-  
19 DERPAYMENTS.—If the combined amount collected in  
20 respect of a qualified State individual income tax for any  
21 period and the taxes imposed by chapter 1 for such  
22 period with respect to the income of any individual is  
23 greater or less than the combined amount required to be  
24 paid for such period, the collected amount shall be di-

1 vided between the accounts for such taxes on the basis  
2 of the respective amounts required to be paid.

3 “(3) FINALITY OF ADMINISTRATIVE DETERMINA-  
4 TIONS.—Administrative determinations of the Secretary  
5 or his delegate as to tax liabilities of, or refunds owing to,  
6 individuals with respect to qualified State individual in-  
7 come taxes shall not be reviewed by or enforced by any  
8 officer or employee of any State or political subdivision of  
9 a State.

10 “SEC. 6362. QUALIFIED STATE INDIVIDUAL INCOME  
11 TAXES.

12 “(a) QUALIFIED STATE INDIVIDUAL INCOME TAXES  
13 DEFINED.—For purposes of this subchapter—

14 “(1) IN GENERAL.—The term ‘qualified State in-  
15 dividual income tax’ means—

16 “(A) a qualified resident tax, and

17 “(B) a qualified nonresident tax.

18 “(2) QUALIFIED RESIDENT TAX.—The term ‘qual-  
19 ified resident tax’ means a tax imposed by a State on the  
20 income of individuals who are residents of such State  
21 which is either—

22 “(A) a tax based on taxable income which  
23 meets the requirements of subsection (b), or

24 “(B) a tax which is a percentage of the Fed-

1           eral tax which meets the requirements of subsection  
2           (c),  
3           and which, in addition, meets the requirements of sub-  
4           sections (e) and (f).

5           “(3) QUALIFIED NONRESIDENT TAX.—The term  
6           ‘qualified nonresident tax’ means a tax which is imposed  
7           by a State on the wage and other business income of  
8           individuals who are not residents of such State and  
9           which meets the requirements of subsections (d), (e),  
10          and (f).

11          “(b) QUALIFIED RESIDENT TAX BASED ON TAXABLE  
12          INCOME.—

13           “(1) IN GENERAL.—A tax meets the requirements  
14           of this subsection only if it is imposed on an amount equal  
15           to the individual’s taxable income (as defined in section  
16           63) for the taxable year, adjusted—

17           “(A) by subtracting an amount equal to the  
18           amount of his interest on obligations of the United  
19           States which was included in his gross income for  
20           the year,

21           “(B) by adding an amount equal to his net  
22           State income tax deduction for the year, and

23           “(C) by adding an amount equal to his net  
24           tax-exempt income for the year.

1           “(2) **PERMITTED ADJUSTMENTS.**—A tax which  
2 otherwise meets the requirements of paragraph (1)  
3 shall not be deemed to fail to meet such requirements  
4 solely because it provides for one or more of the follow-  
5 ing adjustments:

6           “(A) There is imposed a tax on the amount  
7 taxed under section 56 (relating to the minimum  
8 tax for tax preferences).

9           “(B) A nonrefundable credit is allowed against  
10 such tax, on the basis of a specified number of dol-  
11 lars per capita, with respect to a general sales tax  
12 imposed by the State.

13           “(C) A credit determined under rules pre-  
14 scribed by the Secretary or his delegate is allowed  
15 against such tax for income tax paid to another  
16 State.

17           “(3) **DEFINITIONS.**—For purposes of this subsec-  
18 tion and subsection (c)—

19           “(A) **NET TAX-EXEMPT INCOME.**—The term  
20 ‘net tax-exempt income’ means the excess (if any)  
21 of the interest on obligations excluded from gross  
22 income under section 103 (a) (1) (relating to in-  
23 terest on certain State and local obligations), over  
24 the sum of (i) the amount of deductions allocable  
25 to such interest which is disallowed by application

1 of section 265, and (ii) the amount of the proper  
2 adjustment to basis allocable to such obligations  
3 which is required to be made for the taxable year  
4 under section 1016 (a) (5) or (6).

5 “(B) NET STATE INCOME TAX DEDUCTION.—

6 The term ‘net State income tax deduction’ means the  
7 excess (if any) of (i) the amount deducted from  
8 income under section 164 (a) (3) as taxes paid to a  
9 State or a political subdivision thereof, over (ii)  
10 amounts included in income as recoveries of prior  
11 income taxes paid to a State or a political subdivision  
12 thereof which had been deducted under section 164  
13 (a) (3).

14 “(c) QUALIFIED RESIDENT TAX WHICH IS A PER-  
15 CENTAGE OF THE FEDERAL TAX.—

16 “(1) IN GENERAL.—A tax meets the requirements  
17 of this subsection only if it is imposed as a specified per-  
18 centage of the excess of the taxes imposed by chapter 1  
19 over the sum of the credits allowable under part IV of  
20 subchapter A of chapter 1 (other than the credits allow-  
21 able by sections 31 and 39).

22 “(2) REQUIRED ADJUSTMENT.—A tax meets  
23 the requirements of this subsection only if the liability  
24 for tax is decreased by the decrease in such liability  
25 which would result from excluding from gross income an

1 amount equal to the interest on obligations of the United  
2 States which was included in gross income for such year.

3 “(3) PERMITTED ADJUSTMENTS.—A tax which  
4 otherwise meets the requirements of paragraphs (1) and  
5 (2) shall not be deemed to fail to meet such require-  
6 ments solely because it provides for both of the following  
7 adjustments:

8 “(A) the liability for tax is increased by the  
9 increase in such liability which would result from  
10 including as an item of gross income an amount  
11 equal to the net tax-exempt income for the year,  
12 and

13 “(B) the liability for tax is increased by the  
14 increase in such liability which would result from  
15 including as an item of gross income an amount  
16 equal to the net State income tax deduction for the  
17 year.

18 “(4) FURTHER PERMITTED ADJUSTMENTS.—A  
19 tax which otherwise meets the requirements of para-  
20 graphs (1) and (2) shall not be deemed to fail to meet  
21 such requirements solely because it provides for one or  
22 both of the following adjustments:

23 “(A) A nonrefundable credit is allowed against  
24 such tax, on the basis of a specified number of dollars  
25 per capita, with respect to a general sales tax im-  
26 posed by the State.

1           “(B) A credit determined under rules pre-  
2           scribed by the Secretary or his delegate is allowed  
3           against such tax for income tax paid to another State.

4           “(d) QUALIFIED NONRESIDENT TAX.—

5           “(1) IN GENERAL.—A tax imposed by a State  
6           meets the requirements of this subsection only if it has  
7           the following characteristics—

8           “(A) such tax is imposed by the State on the  
9           wage and other business income of individuals who  
10          are not residents of such State,

11          “(B) such tax applies only with respect to  
12          wage and other business income derived from  
13          sources within such State,

14          “(C) such tax applies only if 25 percent or  
15          more of the individual's wage and other business in-  
16          come for the taxable year is derived from sources  
17          within such State,

18          “(D) the amount of such tax imposed with re-  
19          spect to any individual who is not a resident does  
20          not exceed the amount of tax for which he would  
21          be liable under such State's qualified resident tax if  
22          he were a resident of such State and if his taxable  
23          income were an amount equal to the excess of—

24                  “(i) the amount of his wage and other  
25                  business income derived from sources within  
26                  such State, over

1           “(ii) that portion of the nonbusiness de-  
2           ductions taken into account for purposes of the  
3           State’s qualified resident tax which bears the  
4           same ratio to the amount of such deductions as  
5           the income referred to in clause (i) bears to  
6           his adjusted gross income, and

7           “(E) the State has in effect for the same pe-  
8           riod a qualified resident tax.

9           “(2) WAGE AND OTHER BUSINESS INCOME.—The  
10          term ‘wage and other business income’ means—

11           “(A) wages, as defined in section 3401 (a),

12           “(B) net earnings from self-employment (with-  
13          in the meaning of section 1402 (a) ), and

14           “(C) the distributive share of income of any  
15          trade or business carried on by a trust, estate, or  
16          electing small business corporation (within the  
17          meaning of section 1371 (a) ) to the extent such  
18          share (i) is includible in the gross income of the  
19          individual for the taxable year, and (ii) would con-  
20          stitute net earnings from self-employment (within  
21          the meaning of section 1402 (a) ) if such trade or  
22          business were carried on by a partnership.

23          “(e) REQUIREMENTS RELATING TO RESIDENCE.—A  
24          tax imposed by a State meets the requirements of this subsec-  
25          tion only if for purposes of such tax—

1           “(1) **RESIDENT INDIVIDUAL.**—An individual  
2           (other than a trust or estate) is treated as a resident of  
3           such State with respect to a taxable year only if—

4                   “(A) his principal place of residence has been  
5                   within such State for a period of at least 135 con-  
6                   secutive days and at least 30 days of such period are  
7                   in such taxable year, or

8                   “(B) in the case of a citizen or resident of the  
9                   United States who is not a resident (determined in  
10                   the manner provided in subparagraph (A)) of any  
11                   State with respect to such taxable year, such indi-  
12                   vidual is domiciled in such State for at least 30 days  
13                   during such taxable year.

14           Nothing in this subchapter shall be construed to require  
15           or authorize the treatment of a Senator, Representative,  
16           Delegate, or Resident Commissioner as a resident of a  
17           State other than the State which he represents in Congress.

18                   “(2) **ESTATE.**—An estate of an individual is treated  
19                   as a resident of the last State of which such individual  
20                   was a resident (within the meaning of paragraph (1))  
21                   before his death.

22                   “(3) **TRUSTS.**—

23                           “(A) **TESTAMENTARY TRUST.**—A trust with  
24                           respect to which a deceased individual is the prin-  
25                           cipal contributor by reason of property passing on

1 his death is treated as a resident of the last State of  
2 which such individual was a resident (within the  
3 meaning of paragraph (1)) before his death.

4 “(B) NONTESTAMENTARY TRUST.—A trust  
5 (other than a trust described in subparagraph (A))  
6 is treated as a resident of such State with respect  
7 to a taxable year only if the principal contributor  
8 to the trust, during the 3-year period ending on the  
9 date of the creation of the trust, resided in the State  
10 for an aggregate number of days longer than the ag-  
11 gregate number of days he resided in any other  
12 State.

13 “(C) SPECIAL RULES.—For purposes of this  
14 paragraph—

15 “(i) If on any day before the close of the  
16 taxable year an existing trust received assets  
17 having a value greater than the aggregate value  
18 of all assets theretofore contributed to the trust,  
19 such trust shall be treated as created on such  
20 day. For purposes of this subparagraph, the  
21 value of any asset taken into account shall be  
22 its fair market value on the day it is contributed  
23 to the trust.

24 “(ii) The principal contributor to the trust  
25 is the individual who contributed more (in  
26 value) of the assets contributed on the date of

1           the creation of the trust (determined after ap-  
2           plying clause (i)) than any other individual.

3           “(iii) If the foregoing rules would create  
4           more than one State of residence (or no State  
5           of residence) for a trust, such trust shall be  
6           treated as a resident of the State determined  
7           under similar principles prescribed by the Secre-  
8           tary or his delegate by regulations.

9           “(4) LIABILITY FOR TAX ON CHANGE OF RESI-  
10          DENCE.—With respect to a taxable year, in the case of  
11          an individual (other than an individual who comes into  
12          being or ceases to exist) who becomes a resident, or  
13          ceases to be a resident, of the State, his liability to such  
14          State for the resident tax is determined by multiplying  
15          the amount which would be his liability for tax (after  
16          the nonrefundable credits allowed against such tax) if  
17          he had been a resident of such State for the entire taxable  
18          year by a fraction the numerator of which is the number  
19          of days he was a resident of such State and the denomi-  
20          nator of which is the total number of days in the taxable  
21          year. In the case of an individual who is treated as a  
22          resident of a State with respect to a taxable year by rea-  
23          son of paragraph (1) (B), the preceding sentence shall  
24          be applied by substituting days of domicile for days of  
25          residence.

26          “(5) CURRENT COLLECTION OF TAX.—In applying

1 chapter 24 (relating to withholding) and section 6015  
 2 and other provisions relating to declarations of estimated  
 3 income (and amendments thereto) —

4 “(A) in the case of a resident tax, an individ-  
 5 ual is treated as subject to the tax if he reasonably  
 6 expects to reside in the State for 30 days or more or  
 7 if such individual is a resident of the State (within  
 8 the meaning of paragraph (1), (2), or (3)), and

9 “(B) in the case of a nonresident tax, an in-  
 10 dividual is treated as subject to the tax if he rea-  
 11 sonably expects to receive wage and other business  
 12 income (within the meaning of subsection (d) (2) )  
 13 for 30 days or more during the taxable year.

14 “(f) **ADDITIONAL REQUIREMENTS.**—A tax imposed by  
 15 a State shall meet the requirements of this subsection only if—

16 “(1) **STATE AGREEMENT MUST BE IN EFFECT FOR**  
 17 **PERIOD CONCERNED.**—A State agreement entered into  
 18 under section 6363 is in effect with respect to such tax  
 19 for the taxable period in question.

20 “(2) **STATE LAWS MUST CONTAIN CERTAIN PRO-**  
 21 **VISIONS.**—Under the laws of such State—

22 “(A) the provisions of this subchapter (and of  
 23 the regulations prescribed thereunder) as in effect  
 24 from time to time are made applicable for the period  
 25 for which the State agreement is in effect, and

26 “(B) any change made by the State in the tax

1 imposed by the State will not apply to taxable years  
 2 beginning in any calendar year for which the State  
 3 agreement is in effect unless such change is enacted  
 4 before September 1 of such calendar year.

5 “(3) **STATE LAWS TAXING INCOME OF INDIVID-**  
 6 **UALS CAN ONLY BE OF CERTAIN KINDS.**—The State does  
 7 not impose any tax on the income of individuals other  
 8 than—

9 “(A) a qualified resident tax,

10 “(B) a qualified nonresident tax, and

11 “(C) a separate tax on income which is not  
 12 wage and other business income and which is re-  
 13 ceived or accrued by individuals who are domiciled  
 14 in the State but who are not residents of the State  
 15 within the meaning of subsection (e) (1).

16 “(4) **TAXABLE YEARS MUST COINCIDE.**—The tax-  
 17 able years of individuals under such tax coincide with  
 18 taxable years for purposes of the taxes imposed by  
 19 chapter 1.

20 “(5) **MARRIED INDIVIDUALS.**—A married indi-  
 21 vidual (within the meaning of section 143)—

22 “(A) who files a joint return for purposes of  
 23 the taxes imposed by chapter 1 shall not file a sep-  
 24 arate return for purposes of such State tax, and

25 “(B) who files a separate return for purposes

1 of the taxes imposed by chapter 1, shall not file a  
2 joint return for purposes of such State tax.

3 “(6) NO DOUBLE JEOPARDY UNDER STATE LAW.—

4 The laws of such State do not provide criminal or civil  
5 sanctions for an act (or omission to act) with respect to  
6 a qualified resident tax or qualified nonresident tax other  
7 than the criminal or civil sanctions to which an individual  
8 is subjected by reason of section 6361.

9 “(7) PARTNERSHIPS, TRUSTS, SUBCHAPTER S  
10 CORPORATIONS, AND OTHER CONDUIT ENTITIES.—Un-  
11 der the State law the tax treatment of—

12 “(A) partnerships and partners,

13 “(B) trusts and their beneficiaries,

14 “(C) estates and their beneficiaries,

15 “(D) electing small business corporations  
16 (within the meaning of section 1371 (a) ) and their  
17 shareholders, and

18 “(E) any other entity and the individuals hav-  
19 ing beneficial interests therein, to the extent that  
20 such entity is treated as a conduit for purposes of the  
21 taxes imposed by chapter 1,

22 shall correspond to the tax treatment provided therefor  
23 in the case of the taxes imposed by chapter 1.

24 “(8) MEMBERS OF ARMED FORCES.—The relief  
25 provided to any member of the Armed Forces of the

1 United States by section 514 of the Soldiers' and Sailors'  
2 Civil Relief Act (50 U.S.C. App. sec. 574) is in no  
3 way diminished.

4 " (9) WITHHOLDING ON COMPENSATION OF EM-  
5 PLOYEES OF RAILROADS, MOTOR CARRIERS, AIRLINES,  
6 AND WATER CARRIERS.—There is no contravention of the  
7 provisions of Public Law 91-569 (and the amendments  
8 made thereby) with respect to the withholding of com-  
9 pensation to which such Public Law applies for purposes  
10 of the nonresident tax.

11 **"SEC. 6363. STATE AGREEMENTS; OTHER PROCEDURES.**

12 " (a) STATE AGREEMENT.—If a State elects to enter  
13 into an agreement with the United States to have its individ-  
14 ual income taxes collected and administered as provided in  
15 this subchapter, it shall file notice of such election in such  
16 manner and with such supporting information as the Secre-  
17 tary or his delegate may prescribe by regulations. The Secre-  
18 tary shall enter into an agreement with such State unless the  
19 Secretary notifies the Governor of the State within 90 days  
20 after the date of the filing of the notice of the election that the  
21 State does not have a qualified State individual income tax  
22 (determined without regard to section 6362 (f) (1) ). The  
23 provisions of this subchapter shall apply on and after the date  
24 (not earlier than the first January 1 which is more than 6

1 months after the date of the notice) specified for this purpose  
2 in the agreement.

3 “(b) WITHDRAWAL.—

4 “(1) BY NOTIFICATION.—If a State wishes to with-  
5 draw from the agreement, it shall notify the Secretary  
6 or his delegate of its intention to withdraw in such  
7 manner as the Secretary or his delegate may prescribe  
8 by regulations. The provisions of this subchapter (other  
9 than this section) shall not apply after the date specified  
10 for this purpose in the notification. Except as provided  
11 in regulations, the date so specified shall not be earlier  
12 than the first January 1 which is more than 6 months  
13 after the date on which the Secretary or his delegate is  
14 so notified.

15 “(2) BY CHANGE IN STATE LAW.—Any change  
16 in State law which would (but for this subchapter) have  
17 the effect of causing a tax to cease to be a qualified State  
18 individual income tax shall be treated as an intention  
19 to withdraw from the agreement. Notification by the  
20 Secretary to the Governor of such State that the change  
21 in State law will be treated as an intention to withdraw  
22 shall be made by the Secretary in such manner as the  
23 Secretary or his delegate shall by regulations prescribe.  
24 Such notification shall have the same effect as a notice  
25 under paragraph (1) of an intention to withdraw from

1 the agreement made on the effective date of the change  
2 in State law.

3 “(c) TRANSITION YEARS.—

4 “(1) SUBCHAPTER CEASES TO APPLY DURING  
5 TAXPAYER’S YEAR.—If the provisions of this subchap-  
6 ter cease to apply on a day other than the last day of  
7 the taxpayer’s taxable year, then amounts previously  
8 paid to the United States on account of the State’s quali-  
9 fied individual income tax for that taxable year (whether  
10 paid by withholding, estimated tax, credit in lieu of re-  
11 fund, or otherwise) shall be treated as having been paid  
12 on account of the State’s individual income tax law for  
13 that taxable year. Such amounts shall be transferred to  
14 the State as though the State had not withdrawn from  
15 the agreement. Returns, applications, elections, and other  
16 forms previously filed with the Secretary or his delegate  
17 for that taxable year, which are thereafter required to be  
18 filed with the appropriate State official shall be treated  
19 as having been filed with the appropriate State official.

20 “(2) PREVENTION OF UNINTENDED HARDSHIPS  
21 OR BENEFITS.—The State may by law provide for the  
22 transition to a qualified State individual income tax or  
23 from such a tax to the extent necessary to prevent double  
24 taxation or other unintended hardships, or to prevent  
25 unintended benefits, under State law.

1           “(3) ADMINISTRATION OF SUBSECTION.—The  
2 provisions of this subsection shall be administered by the  
3 Secretary or his delegate, by the State, or jointly, to the  
4 extent provided in regulations prescribed by the Secre-  
5 tary or his delegate.

6           “(d) JUDICIAL REVIEW.—

7           “(1) IN GENERAL.—Whenever under this section  
8 the Secretary or his delegate determines that a State  
9 does not have a qualified State individual income tax,  
10 such State may, within 60 days after the Governor of  
11 the State has been notified of such action, file with the  
12 United States court of appeals for the circuit in which  
13 such State is located, or with the United States Court of  
14 Appeals for the District of Columbia, a petition for re-  
15 view of such action. A copy of the petition shall be  
16 forthwith transmitted by the clerk of the court to the  
17 Secretary or his delegate. The Secretary or his delegate  
18 thereupon shall file in the court the record of the pro-  
19 ceedings on which he based his action as provided in  
20 section 2112 of title 28, United States Code.

21           “(2) JURISDICTION OF COURT; REVIEW.—The  
22 court shall have jurisdiction to affirm the action of the  
23 Secretary or his delegate or to set it aside in whole or in  
24 part and to issue such other orders as may be appropriate  
25 with regard to taxable years which include any part of

1 the period of litigation. The judgment of the court shall  
2 be subject to review by the Supreme Court of the United  
3 States upon certiorari or certification as provided in sec-  
4 tion 1254 of title 28, United States Code.

5 “(3) STAY OF DECISION.—

6 “(A) If judgment on a petition to review a de-  
7 termination under subsection (a) includes a deter-  
8 mination that the State has a qualified State  
9 individual income tax, then the provisions of this  
10 subchapter shall apply on and after the first Janu-  
11 ary 1 which is more than 6 months after the date of  
12 the judgment.

13 “(B) If judgment on a petition to review a de-  
14 termination by the Secretary under subsection (b)  
15 (2) includes a determination that the State does not  
16 have a qualified State individual income tax, then  
17 the provisions of this subchapter (other than this  
18 section) shall not apply on and after the first Jan-  
19 uary 1 which is more than 6 months after the date  
20 of the judgment.

21 “(4) PREFERENCE.—Any judicial proceedings un-  
22 der this section shall be entitled to, and, upon request of  
23 the Secretary or the State, shall receive a preference and  
24 shall be heard and determined as expeditiously as  
25 possible.

1 **"SEC. 6364. REGULATIONS.**

2 "The Secretary or his delegate shall prescribe such  
3 regulations as may be necessary or appropriate to carry out  
4 the purposes of this subchapter.

5 **"SEC. 6365. DEFINITIONS AND SPECIAL RULES.**

6 "(a) **STATE.**—For purposes of this subchapter, the  
7 term 'State' includes the District of Columbia.

8 "(b) **GOVERNOR.**—For purposes of this subchapter, the  
9 term 'Governor' includes the Commissioner of the District of  
10 Columbia.

11 "(c) **APPLICATION OF SUBCHAPTER.**—Whenever this  
12 subchapter begins to apply, or ceases to apply, to any State  
13 tax on any January 1—

14 "(1) except as provided in paragraph (2), such  
15 change shall apply to taxable years beginning on or after  
16 such date, and

17 "(2) for purposes of chapter 24, such change shall  
18 apply to wages paid on or after such date."

19 (b) **CLERICAL AMENDMENT.**—The table of subchapters  
20 for chapter 64 of such Code is amended by adding at the end  
21 thereof the following:

"SUBCHAPTER E. Collection of State individual income taxes."

22 **SEC. 203. CONFORMING AMENDMENTS.**

23 (a) **LARGE REFUNDS.** Section 6405 of the Internal  
24 Revenue Code of 1954 (relating to reports of refunds and

1 credits) is amended by adding at the end thereof the follow-  
2 ing new subsection:

3 “(d) QUALIFIED STATE INDIVIDUAL INCOME  
4 TAXES.—For purposes of this section, a refund or credit made  
5 under subchapter E of chapter 64 (relating to Federal col-  
6 lection of qualified State individual income taxes) for a tax-  
7 able year shall be treated as a portion of a refund or credit of  
8 the income tax for that taxable year.”

9 (b) TAX COURT SMALL CLAIMS.—

10 (1) Section 7463 of such Code (relating to dis-  
11 putes involving \$1,000 or less) is amended by adding  
12 at the end thereof the following new subsection:

13 “(f) QUALIFIED STATE INDIVIDUAL INCOME  
14 TAXES.—For purposes of this section, a deficiency placed in  
15 dispute or claimed overpayment with regard to a qualified  
16 State individual income tax to which subchapter E of chap-  
17 ter 64 applies, for a taxable year, shall be treated as a por-  
18 tion of a deficiency placed in dispute or claimed overpay-  
19 ment of the income tax for that taxable year.”

20 (2) Section 7463 of such Code is amended by  
21 striking out “\$1,000” in the heading and each place it  
22 appears in subsection (a) thereof and inserting in lieu  
23 thereof “\$1,500”.

24 (3) The table of sections for part II of subchapter  
25 C of chapter 76 of such Code is amended by striking

1 out "\$1,000" in the item relating to section 7463 and  
2 inserting in lieu thereof "\$1,500".

3 **SEC. 204. EFFECTIVE DATE.**

4 (a) **GENERAL RULE.**—Except as provided in subsec-  
5 tions (b) and (c), the provisions of this title (and the  
6 amendments made thereby) shall take effect on the date of  
7 the enactment of this Act.

8 (b) **COLLECTION AND ADMINISTRATION OF STATE**  
9 **TAXES BY THE UNITED STATES MAY NOT BEGIN BEFORE**  
10 **JANUARY 1, 1974.**—Section 6361 of the Internal Revenue  
11 Code of 1954 (as added by section 202 (a) of this Act) shall  
12 take effect on whichever of the following is the later:

13 (1) January 1, 1974, or

14 (2) the first January 1 beginning more than one  
15 year after the first date on which at least 5 States (hav-  
16 ing residents who in the aggregate filed 5 percent or  
17 more of the Federal individual income tax returns filed  
18 during 1972) have notified the Secretary of the Treas-  
19 ury or his delegate of an election to enter into an agree-  
20 ment under section 6363 of such Code.

1           (c) JURISDICTION OF TAX COURT IN DISPUTES IN-  
2 VOLVING \$1,500 OR LESS.—The amendments made by para-  
3 graphs (2) and (3) of section 203 (b) of this Act shall take  
4 effect on January 1, 1974.

Passed the House of Representatives June 22, 1972.

Attest:

W. PAT JENNINGS,

*Clerk.*

The CHAIRMAN. Mr. Shultz, we are pleased to have you back with us again today. You are recognized to proceed with your statement. We are pleased to have you back with us again today, and you may present your suggestions to the committee.

**STATEMENT OF HON. GEORGE P. SHULTZ, SECRETARY OF THE  
TREASURY, ACCOMPANIED BY DEPUTY SECRETARY CHARLS  
WALKER**

The CHAIRMAN. You are accompanied by Charls Walker, who is well known to us here. Again, I would like to repeat what I said yesterday, that you have some very fine people to work with you over there. I hope that you will be able to keep just as effective a team as you found over there.

Secretary SHULTZ. I say again, Mr. Chairman, I am pleased that the team is staying together and Mr. Walker is with me to work with me on this testimony, as well as many other things.

I might say it has been interesting to me to see the number of things the Treasury can do that can help victims of flood damage. Mr. Walker has done a great job of coordinating all of that and getting it into place. That is just one example of the sort of thing that he does as a regular routine matter.

Senator BENNETT. Mr. Chairman, before the Secretary begins his report, the way to help the victims of flood damage is simply to change the date up to which people can deduct the cost of their damage from their 1971 income tax forms. I expect to offer an amendment to the debt ceiling extension bill to change that date from April 15 to July 1, which will take care of it, unless the thing continues. It started out again today. Maybe we had better say August 1. Agnes apparently has some relatives that are sticking around. But I expect to offer that amendment. If it fails on this bill, we can offer it on another one.

The CHAIRMAN. You might want to move it sooner than that, Senator. We will talk about that.

Senator BENNETT. If we can get it handled more expeditiously, I think this is important.

The CHAIRMAN. I am with you in trying to help these sufferers of this flood disaster.

I have observed a little of it on television and first hand. I feel very sorry for the people who have suffered from it. But those people just learned about these hurricane disasters some years ago. When Lyndon Johnson was President, I managed to prevail upon him to go to Louisiana and see what the devastation of Hurricane Betsy was immediately after the fact, and thereafter he was willing to go along with us in what amounted to about \$200 million of assistance to the victims of Hurricane Betsy, part of which was the small business provisions which were, I believe, administered very effectively and fairly and properly.

I regret that over in California there seems to have been some cases of people taking advantage of Uncle Sam by redoing the whole inside of a house just because somebody had a crack in the wall after an earthquake scare.

But we in Louisiana, I believe, benefited the way the law intended, and we are most grateful for the national assistance we have had. I am pleased with what we were able to enact at that time it could be improved somewhat and could be available. I hope we can keep it in bounds and benefit those we intend to benefit and not some chiseler, which invariably has a way of wrecking a program. Somebody comes in cheating on a program, taking advantage of a situation which would benefit unfortunate people, which means people like you, Secretary Shultz and Mr. Walker, and those of us on this committee have to go back to work and do more legislating to see that we are benefiting those who would be benefited and not doing so much for those who don't need any.

Immediately after we got that procedure working for Louisiana, Mr. Johnson, then President, proceeded to take the whole team and move it to Texas for disasters, which was fine as far as I am concerned. Anything we can perfect in Louisiana would be good in Texas.

Senator BENNETT. Mr. Chairman, I may have misspoke when I started talking about offering the amendment. I may have said it would be on the revenue-sharing bill. I mean it would be in the bill on the floor today. I think that is what I mean.

The CHAIRMAN. This is why I said what I did.

Senator BENNETT. I will have the amendment for consideration on the floor today.

The CHAIRMAN. If we can now keep things off this bill that don't belong on it I think we can get more help.

Senator BENNETT. We don't need more flood damage on the bill with a flood of amendments.

The CHAIRMAN. Mr. Secretary, we will be happy to hear your statement.

Secretary SHULTZ. Mr. Chairman, I want to thank you for beginning so promptly your public hearings on the vitally important matter of general revenue sharing. Your decision to begin deliberation immediately after successful House action on the State and Local Fiscal Assistance Act of 1972 (H.R. 1437) promises to hasten the day when general revenue sharing becomes law.

The people of this Nation have been telling us that:

They doubt Government's capacity to meet their public service needs;

They think Government costs too much;

They feel unable to influence the course of events that Government takes.

There is an uneasiness, dissatisfaction, frustration, and concern among the people today, and a rising doubt about our ability to govern ourselves in a fair, rational manner.

Government has moved away from the people in the past 25 years. The people seem to feel that government is too distant to provide sensible solutions to the pressing problems they face everyday.

Over the past 25 years, the recognition of a problem in American society has mandated a Federal solution. Program atop Federal program has been added in Washington with the hope that if we throw enough Federal dollars and Federal bureaucracy at the problem, it will go away.

As a result of this almost reflex practice, the structure of our Federal system has become exceedingly topheavy. Moreover, the increased concentration of programs at the Federal level has virtually guaranteed that overall government in the country will become more distant from the people.

But this generation of new programs has not contributed as hoped to the solution of our basic problems. Indeed, it may have exacerbated them and worsened our ability to solve local problems effectively.

We have put in place our 500 Federal grant-in-aid programs which form a crazyquilt of partial solutions to particular local problems in the Nation. This plethora of narrow programs has created an enormous Federal bureaucracy and forced our State and local governments to compete with one another in their quest for Federal grants-in-aid.

Virtually all of our States have been forced to open Washington offices in order to "win" Federal funds. The application process frequently takes as long as 18 months even for those who know their way around the halls of our Federal agencies.

How many times have each of you had to intervene for your State to expedite a grant request or mitigate the redtape that has engulfed Federal-State relations?

This maze of programs has significantly reduced accountability at the State and local level because it has generated literally thousands of new special purpose districts that have been set up to receive and spend these funds, but which only infrequently answer to the voters. In 1957 there were 14,000 special districts in the United States—in 1972 there are approximately 22,000.

In contrast, the number of counties, cities, and towns has remained rather stable over this period while the number of school districts has actually decreased.

This bewildering array of different kinds of local governments has confused, frustrated and angered the public. It also has created in Washington a vast number of uncoordinated and sometimes duplicate efforts to solve the same or similar problems. We may laugh at this lack of coordination among Federal agencies, but it is the public confidence in government that ultimately suffers.

These are the developments that our people know about. These are the trends that we must reverse. We cannot afford to ignore, or dismiss, this growing disenchantment. Our very system of government is at stake, because a republic which does not enjoy the confidence of its people is a republic in trouble.

We simply must find ways of making our Federal system work better. We have to make it more responsive, more efficient, and less costly.

It is in this context that general revenue sharing ought to be debated and discussed. General revenue sharing seeks to achieve basic reform in the manner in which the Central Government provides aid to the States and their localities. It is a brandnew technique which has been designed purposely to break with the traditional practices of the categorical-type aid programs.

The aim is to provide critically needed financial assistance to State and local governments under a format which will simultaneously shift more authority for decisionmaking to these units of government.

Only by this coupling of discretion with dollars can we make real progress in moving government closer to the people—in order to face realistically and to solve positively the problems that beset us.

This idea of providing unrestricted aid to State and local governments has not gone without criticism. Before turning to the specifics of President Nixon's proposal and H.R. 14370, I would like to comment briefly on the most frequently made objections.

1. How can we share revenues when the Federal budget is in a deficit?

As former Director of the Office of Management and Budget, I know perhaps as well as anyone the meaning of expenditures being in excess of revenues. The budgetary deficits we have experienced have been crucial in returning the economy to an expansionary path. Our experience in the first and second quarter of this year bears this out. Given then that our budget is out of balance, and that it is an important countercyclical fiscal device, we may still inquire if revenue sharing should be funded.

Each year, hundreds of requests come in to OMB for upward adjustments in appropriation requests. Hundreds get turned down. The question really is: Is revenue sharing worth it?

The answer is twofold. First, the basic reform and revitalization of our Federal system is a No. 1 priority in the Nation. The malaise and frustration of the American public require that we redefine our approach to assisting States and local governments now, today. Tomorrow is too late.

Second, the alternative to no revenue sharing this year would, in my judgment, not be a smaller deficit but rather an increase in other programs of lower priority.

2. Won't revenue sharing actually increase the control of the Federal Government over the States and localities rather than decrease it?

While I have heard this question many times, I must admit that I am unable to comprehend its rationale. It might have validity if we were to roll back history and reopen the question of the propriety of Federal fiscal assistance to the States and localities.

Obviously, that is not a realistic option in 1972, when Federal aid to State and local governments has reached an annual level of \$40 billion.

The concept of general revenue sharing has developed out of a growing concern that the traditional forms of Federal aid involve too much Federal control. We believe that this less conditional form of fiscal assistance will result in a reduction of Federal control and will serve to revitalize the decisionmaking capacity of State and local government.

3. Doesn't revenue sharing violate a time-honored principle of public finance by divorcing taxing responsibility from spending responsibility?

Here, again, it should be recognized that our categorical grant-in-aid programs have in fact done this for some time. Despite the Federal controls, the spending under these programs, in the final analysis, has been by the State and local governments. There is a good deal of evidence that the State governments have not suffered in their transfer-of-funds programs to their localities. Moreover, it should be borne in

mind that the Congress is making the overall spending decision by inaugurating the revenue-sharing program. Should it find that the goals of revenue sharing are not being achieved, the Congress can change the program or end it as it sees fit.

At the local level, we must recognize that revenue sharing will reduce the upward pressure on regressive property and sales taxes. And it relieves these pressures primarily through the most progressive financing device we have at our disposal: the Federal individual income tax.

At the same time, the individual taxpayer will acquire a stronger voice in how governmental services are provided to him, because these decisions will be made at the local level rather than in Washington. Needless to say, these officials are more accountable to him than those in the Federal agencies.

4. Why not provide a Federal tax credit for State and local income taxes?

It is our view that the tax credit is an inferior device for fiscal reform and fiscal relief. The beneficiaries of the credit would be, at the outset, local citizens. There would be no fiscal relief to State governments. And, except in a few States, a credit would not provide any fiscal relief to localities, because few have local income taxes. In addition, the tax credit approach would provide a permanent advantage to high-income States.

Others have suggested that instead of revenue sharing, we ought to increase further our reliance on Federal categorical grants to States and localities. I cannot imagine a less productive alternative. We do not need more of the same. We do need a basic reform in the way we provide aid to the States and localities.

To sum up:

*For our States and localities.*—Revenue sharing represents a substantial new assistance in meeting recurring financial crises. As is well known, the States and localities rely primarily on sales and property taxation. These two taxes tend to provide less revenues per increase in gross national product than the Federal individual income tax.

As a result, there has been a chronic shortfall of revenues as public service demands grow with the economy. In turn, the provision of public services has been chronically below that demanded. The Federal preemption of the individual income tax has caused this structural imbalance in fiscal resources which revenue sharing will redress in good measure.

The delays and rigidities that plague current Federal aid programs will be replaced by a supple, viable, prompt, and responsive system.

*For our entire Federal system.*—General revenue sharing offers new hope for the revitalization of State and local government. Revenue sharing reflects a strong Federal commitment to domestic needs in the States, counties, and cities. At the same time, it signals a new respect and faith in the capacity and wisdom of local self-government.

This is the philosophy that underlies the general revenue-sharing approach to Federal aid to State and local governments.

Mr. Chairman, the specifics of President Nixon's revenue-sharing proposal are well known. Let me refresh the committee's memory on that basic proposal, while at the same time noting what the House

actually did in passing the State and local Fiscal Assistance Act of 1972.

1. The President proposed that specified amounts of funds be returned to States and localities each year. In order to assure that these units of government would have an opportunity to order their own priorities and plan their spending, the administration proposal would have tied the amount of the individual income tax base.

On this formula, the total grant would be \$2.25 billion for the retroactive period from January 1, 1972, to July 1, 1972. In fiscal year 1973, it would provide \$5.3 billion and climb to an estimated \$6.9 billion by fiscal year 1976.

Over the period of the House bill—January 1, 1972–December 30, 1976—the administration approach would pay out \$29.85 billion.

The amounts to be distributed under H.R. 14370 are not tied to the tax base, but are specified in the statute. The House bill does provide for growth of \$300 million a year after the first year of operation. By fiscal year 1976, over \$6 billion annually will be paid out. The total over the 5 years of the program is \$29.8 billion—virtually identical to the 5-year total under the President's proposal.

2. The President proposed that the funds be distributed to the States and localities on a fair and equitable basis. Specifically, the portion going to the States would have been determined by population adjusted for revenue effort (revenues raised relative to personal income in the State). The portion going to the localities would have been distributed on the basis of local revenues raised relative to the total of all revenues raised in the State.

H.R. 14370 distributes \$1.8 billion directly to the State governments. Of this total, \$900 million would be distributed on the basis of general tax and tax effort in the State, and the remaining \$900 million on the extent to which the State relies on the individual income tax.

3. The President proposed that the use of the funds by the States and localities be unrestricted, except that they would have to be expanded legally and without discrimination.

H.R. 14370 includes a nondiscrimination provision and attaches no strings to the use of the \$1.8 billion which goes to the State governments. Local units would, however, have to use the \$3.5 billion allocated to them for operation of priority purposes: They can spend these funds for public safety, environmental protection, and public transportation programs. Allowable capital expenditure items are: Sewage collection and treatment, refuse disposal systems, and public transportation.

4. The President proposed that funds within each State be distributed on the basis of relative local revenues. The House bill contains a series of complex formulas that distribute funds on the basis of population, urbanized population, and population weighted inversely by per capita income.

5. Under both the President's proposal and the House bill, the financial reporting will be simple.

During executive session in the Ways and Means Committee, a variety of other formulas were considered. One included tax effort and inverse per capita income as a modification to the President's proposal. However, each of the alternatives reviewed contained cer-

tain anomalies. The House formula represents a series of constructive compromises on the difficult matter of within-State allocation.

If the committee wishes to reexamine the solutions found in the House bill, we would be happy to work with you to improve the bill.

There are then certain differences between the President's proposal and the House bill.

While we prefer determining the amount to be shared each year as a percentage of the Federal tax base, we also respect the desire of the Congress to limit the duration of the program so that it can be evaluated and changed if necessary. We feel certain that a 5-year trial period is sufficient to see if this redirection in our Federal system is as effective as we anticipate.

In the distribution of funds among State governments, the House bill places great emphasis on State income taxes. It has been the position of the administration not to favor particular State tax instruments, but rather to reward overall State and local tax effort. Accordingly, we would prefer to replace the income tax incentive with a provision closer to the President's original proposal.

Another difference involves the restrictions placed on local uses of these revenue-sharing funds. The President's proposal required only that the funds be used for legitimate governmental purposes and in a nondiscriminatory fashion. The House bill provides for a series of high-priority categories. We would recommend that your committee consider removing these restrictions on local spending contained in the House bill.

A third aspect of the House bill which deserves comment is the use of urbanized population as a factor to distribute the \$3.5 billion among the States to the localities. This factor discriminates rather severely against three States—Alaska, Vermont, and Wyoming—without urbanized population.

Consequently, we recommend that the committee explore ways of removing this discrimination.

As I indicated before, the House bill bears an essential similarity to the President's proposal. We endorse it and hope that we can work with this distinguished committee to improve upon it as an instrument to reform and revitalize our Federal system of government.

Mr. Chairman, I again thank the committee for these early hearings and urge you to move with all deliberate speed in reporting a general revenue-sharing measure to the Senate.

Thank you.

(Appendix to Mr. Shultz' statement follows:)

**APPENDIX I—DESCRIPTION OF FORMULAS IN STATE AND LOCAL FISCAL ASSISTANCE ACT OF 1972 (H.R. 14870), JUNE 29, 1972**

*1. Overview of Bill*

The Mills revenue sharing bill, H.R. 14870, provides about \$30 B of aid to State and local governments over 5 years. Each year \$3.5 B is allocated to localities and \$1.8 B to state governments. The \$1.8 B grows by \$300 M a year after the first year. Localities must establish a trust fund to spend the money and must establish that they will spend only for certain high priority purposes that are specified in the bill. In contrast, there are no limitations on state uses of the state grants. In addition, the bill provides for the federal collection of state

imposed individual income taxes after January 1974 after 5 states with at least 5% of the returns have indicated a willingness to "piggyback" onto the federal tax system.

## 2. Allocation Formulas

### A. ALLOCATION OF \$3.5 B TO LOCAL GOVERNMENTS

#### (i) State Area Allocations Formula

Each year for five years the \$3.5 B is distributed among state geographic areas on the basis of population, urbanized population (the number of persons living in cities over 50,000 or more) and population weighted by per capita income. More specifically, \$1.167 B is distributed among state areas on a population basis; the share per state for population is simply the state's share of the U.S. population multiplied times \$1.167 B. \$1.167 B is allocated analogously among state areas on the basis of urbanized population.

The final \$1.167 B is allocated by multiplying a state's population by a need index, and comparing the state's population weighted for need to the sum of all of the state's weighted for need. The index in turn is the per capita income of the United States divided by the per capita income of the state. Thus, a state with a below average per capita income will have a need index value over 1.0 while a well to do state will have a need index below 1.0. The higher index value in turn then increases the share of the \$1.167 B going to a state compared to the share it would get based on just population.

Once the allocation is made to the state area on the basis of the above three factors, the funds are allocated to county geographic areas. For the first year and one-half of the program, a specific formula, specified in the bill, allocates the funds to the county area and below. Subsequently, however, a state may use certain alternative formulas in a manner specified in the bill.

#### (ii) Allocation Formula to County, City, and Township Governments for First 1-1/2 Years

The allocation to individual local governments is derived in a series of steps. First, the three state area amounts are distributed to county geographic area on the same basis. Thus, a county area receives an allocation of the State population amount based on the county area's share of the state population. Similarly, a county area receives an allocation of the state's urbanization amount based on the county area's share of the state's urbanized population. Finally, the amount allocated to the state area based on population-weighted-for-need is allocated among county areas on an analogous basis except that the need index is now the state per capita income divided by county area per capita income. This allocation procedure thus creates three dollar amounts at the county geographic area level.

The further division of these three county area amounts is first made among types of local governments within the county area. Then, having determined how much the county government, all cities (or all townships) in the county shall receive, an allocation is made among those local governments. This first division is made on the basis of relative adjusted taxes raised. So, if a county government raised 20 percent of all non-school taxes raised in the county area, it would receive 20 percent of each of the three allocations to the county area (20 percent of the amount to the county area on the basis of population, 20 percent on the basis of urbanization, and 20 percent on the basis of population weighted by the need index).

The second division of the remaining 80 percent of the three amounts follows the pattern established in the formula allocating funds to the county area. Each city receives a share of the 80 percent of the population amount based on its share of the total city population in the county. Similarly, each city receives a share of the 80 percent of the population amount based on city population weighted by a need index. Here, the index is the ratio of county area per capita income divided by city per capita income. The distribution of the 80 percent of the urbanized population amount among cities is slightly more complex than in the first division of funds because there are no urbanized population data at the city or township level. To allocate the urbanized population amount, part is distributed on the basis of population, and part on the basis of population weighted by the need index. The exact amount that is distributed on each basis is determined by prorating on the basis of the relative size of the original two amounts at the

county area level. Thus, if \$1 M came to the county area on the basis of population and \$2 M on the basis of population weighted for need,  $\frac{1}{3}$  ( $1/(2+1)$ ) of the urbanized amount would be distributed among cities on a population basis and  $\frac{2}{3}$  on a population-weighted-by-need basis.

*(iii) Arithmetic Example of Allocation Formulas for First 1-1/2 Years*

*(a) State by State:*

Suppose State X has 4.36 percent of the U.S. population, 4.80 percent of the U.S. urbanized population, and a per capita income of \$3373. The amount going to the state area on the basis of population then is \$50.87 M ( $4.36\% \times \$1.167 \text{ B}$ ); the amount going to the state area on the basis of urbanized population is \$56.0 M ( $4.80\% \times \$1.167 \text{ B}$ ). Suppose further that the state's population, weighted for need, is 3.94 percent of the sum of all the states weighted for need. That is, since the state has a higher than average per capita income, its share of the U.S. population adjusted for need is relatively smaller than its straight population share. Then, the state would receive \$45.98 on the basis of population weighted for need.

*(b) Within State.—(i) To County Area 1:*

Suppose County Area 1 has 15.0 percent of the state population. Then the county area would receive \$7.63 M on the basis of population ( $15\% \times \$50.87 \text{ M}$ ). Suppose that the county area had 18 percent of the state's urbanized population; then \$10.08 M would be allocated to the county area on the basis of urbanized population ( $18\% \times \$56 \text{ M}$ ). Finally, suppose the county area had a per capita income of \$3,582. Then its need index score would be .9416 ( $\$3373/\$3582$ ), and it would get a smaller percentage of the state area grant based on need than had its share of this amount been based just on population. Suppose the county area population weighted for need works out to 12 percent of the sum of the county area populations weighted for need. Then the area would receive \$5.52 M on this last basis.

*(ii) Within County Area 1:*

Suppose there is a county government, and two city governments in the county area, and suppose further that the county government raised \$1 M in non-school taxes and each of the cities raised \$1 M in non-school taxes. Then the county government would receive 33.3 percent of each of the three amounts to the county area since it raised 33.3 percent of all local non-school taxes in that county area. Thus, the county government would receive \$2.54 M from the area population amount ( $\frac{1}{3}$  of \$7.63 M), \$3.36 M from the area urbanized population amount ( $\frac{1}{3}$  of \$10.08 M), and \$1.84 M from the area population-weighted-for-need amount ( $\frac{1}{3}$  of \$5.52 M). The two cities would share, on the basis of population, the remaining  $\frac{2}{3}$  of the population amount (\$5.09 M), and would share, on the basis of population-weighted-for-need, the remaining  $\frac{2}{3}$  of the \$5.52 M (\$3.68 M). The cities also share the remaining \$6.72 M ( $\frac{2}{3}$  of \$10.08 M) that came to the county area on the basis of urbanized population. Since \$1.63 M came to the county area on the basis of population and \$5.52 M came to the county area,  $7.63 \div \$13.15$  or 58.0% of the \$10.08 M is shared between the two cities on a population basis and 42.0% of the \$10.08 M is shared on a population-weighted-for-need basis.

If a local grant is calculated to be less than \$200, the bill provides that the funds go to the county government in which the city or township is located. There is also a maximum grant that any local unit may receive: the bill provides that no locality may receive a grant in excess of 50% of its revenues (including Federal and State transfers, exclusive of those transfers in the bill). The excess is distributed among other localities in the county on the basis of the formula.

*(iii) Possible State Variations in Local Formulas:*

Two kinds of variations are available to the state government. First, it can replace population in the first part of the formula with population weighted by per capita adjusted taxes. Thus, rather than allocate the \$50.87 M among the county areas on the basis of population, it can stipulate that the \$50.87 be distributed on the basis of population weighted by adjusted taxes. Similarly, in the allocation among cities (and townships), the state may stipulate that population weighted by adjusted taxes rather than population alone allocate the area funds. This general variation is called the "B" formula, and a state can specify that it be used to the county area but not within, to the county area and within, or just within the county area.

The second kind of variation a state may use involves the reweighting of the three factors at the state level. In the above arithmetic example, the state received three amounts: \$50.87 M (population), \$56.0 M (urbanized population), and \$45.98 M (need). To reweight these three factors, a state can reduce any of the three amounts by up to 25 percent, and increase any amount by up to 40 percent. So, in terms of the above, for example, if the state wanted to give more weight to urbanization and less to population, it could take 25 percent of the population amount or \$12.72 M ( $\frac{1}{4}$  of \$50.87 M), and add it to the urbanization amount which would then rise to \$68.72 M (\$12.72 M + \$56.0 M). Since this is a 22.7 percent increase in the urbanization amount, this reweighting does not violate the 40 percent rule.

A state can combine both kinds of formula variations; however, in using either type of variation, it must do so by state law.

#### B. ALLOCATION OF \$1.8 B TO STATE GOVERNMENTS

The state government grant is based on two formulas, each of which allocates initially \$900 M.

(i) *Formula based on taxes and tax effort*

Each state share of the first \$900 M is calculated by multiplying a state's total taxes by its tax effort (total state and local taxes divided by total personal income) and dividing this figure by the sum of these figures for all states. The resulting percentage is that state's share of the \$900 million.

(ii) *Formula based on state imposed individual income tax liabilities*

The second \$900 M is based essentially on  $7\frac{1}{2}$  percent of state individual income tax collections. Each state is to receive this  $7\frac{1}{2}$  percent, but no more than 3 percent of the federal individual income tax liability in that state; if it has no individual income tax, then it receives one-half percent of the federal individual income tax liability. If the sum of all the state grants in the above procedure exceeds \$900 M, then each state receives its prorata share of the \$900 M.

After the first full year of operation, \$300 M of additional 'hold harmless' funds are added to the State entitlement. Of this annual increment of \$300 M, \$200 M is distributed on the basis of individual income tax collections, and \$100 M is distributed on the basis of total taxes and tax effort.

The CHAIRMAN. Thank you very much, Mr. Secretary. You do have something in your recommendation to encourage the State to do some of the things that States ought to be doing to help themselves. You do have that philosophy implicit in your bill; do you not?

Secretary SHULTZ. Yes, sir, in the sense that in the President's proposal, tax effort is recognized as a factor in the distribution.

The CHAIRMAN. One of the problems that existed in some States—and I suppose Louisiana would be right up there at the top of those who have these problems—is that lack of uniformity in the property assessments. Some parishes put the assessment—it may be only 10 to 20 percent or even less—at a percentage of the assessment in other parishes.

There is competition in parishes, or counties, if you compare it to your State, as well as competition among States. It is difficult for a county that has a more realistic assessment base to compete with one right next door that has ridiculously low property assessments.

All of those counties and the State itself would be better able to finance its needed activities if they had uniformity of assessment.

What would your attitude be if we put something in this bill to encourage or reward States who have a uniform system of property assessments?

Secretary SHULTZ. I think, as a general proposition, we are a little hesitant to use this bill as a means of, so to speak, telling States about how they should structure their own tax systems.

The tax effort approach doesn't have within it a judgment about the way in which money is raised, but rather says how much is raised in comparison with the personal income flow. So you get a judgment there of revenue effort from whatever source it might be.

I do think, as the President has stated quite a number of times, the equitability of the property tax, the way it operates, locality by locality within a State, as a means of supporting public education is certainly up for serious discussion and challenge. Of course, there is a case now before the Supreme Court on that.

The CHAIRMAN. What is more inequitable than assessing one man's property for tax purposes at 1 percent of value while some other fellow has to pay taxes based on 90 or even 100 percent of the value? What is more inequitable than that?

Secretary SHULTZ. There probably is something more inequitable, but I can't think of anything offhand. I am not differing with you as to the fact that there are many inequities and problems in the property tax system. I am only saying that as we would hope to work with the committee on this bill it is a question whether we should use this bill as a means of trying to tell the States how they ought to go about their own revenue-raising operation.

The CHAIRMAN. You are using the bill, though, are you not, as an instrument to lean on States to use an income tax for financing their needs; are you not?

Secretary SHULTZ. That is in the House bill, and we are not particularly pushing that, as I said in my statement. We think that is subject to the same question that I have raised about your property tax proposal. Although I think it is fair to say that the President is very much interested in and concerned to do something about the inequities of the property tax system.

The CHAIRMAN. Let me tell of a situation that exists in New Orleans. Hale Boggs tells this story. I may not have it exactly correct, but it is true. Congressman Boggs went down to Louisiana and discovered that the home in which he was living was assessed at a notoriously low price. It didn't seem fair to him, and he thought it would be fair that he ought to pay his share of the taxes.

So he went down to city hall, and when the assessor was not there he did talk to one of the assistants and explained this was not right at all and in fairness he ought to pay his share of the taxes so his assessment should be increased.

It took some doing, but he finally persuaded the clerk down there to increase his assessment.

After he got back home, the following day he got a call from the assessor who said, "Congressman Boggs, I have discovered something. You have enemies down there. Somebody has raised your assessment. But don't worry, I took care of it. I cut it back even below where it was before."

This thing of favoritism in assessments can be a real problem in government. I suspect we in Louisiana suffer from that, and it would help our problem if Louisiana could be encouraged to correct that situation that is wrong.

I am not the only one saying this. Organized labor has been saying that. The outstanding newspapers of the State, the larger ones, have been saying that. It would seem that if Louisiana would do more to

help correct the mess it has in its property assessment system, it would probably greatly reduce and perhaps totally eliminate the need for further revenue being passed along from the Federal Government to the State of Louisiana. At least, it would certainly reduce that need.

I do find some appeal to encourage States to have an income tax. Louisiana has an income tax, and I think some of the other States in our area do, but we are right next door to Texas. We are in competition for industry, and the persons in Texas say, "Don't go to Louisiana. Come to Texas because we have no income tax."

If we compete with them in other ways we give somebody the advantage in property taxes if they come to Louisiana. It has been competition among States for industry, which is one of the problems you are aware of, and it's a problem of financing government.

But it occurs to me that if we are going to raise money here at the Federal level and pass it along to the States we ought to insist that just in terms of raising revenue to help themselves—not telling them how to spend it—they ought to do some of the things we have every right to expect from someone coming to us for help.

I have taken that attitude with everything I have had to do, whether it is the foreign program, Federal aid to States, or personally to somebody. He ought to do everything he can to help himself if he wants you to help him.

I see the House had some of that philosophy cranked into their bill, and I hope that after you have thought about it you might be able to make some suggestions to support something if we decided to require that they would receive the full amount. A State should do some things in order to keep their house in order.

Secretary SHULTZ. I agree with the general thrust of your point completely and certainly will be glad to work with you.

The CHAIRMAN. Senator Bennett?

Senator BENNETT. Mr. Secretary, I was delighted in your testimony that you recognized the problem that the House bill creates for my neighboring State of Wyoming and for the States of Alaska and Vermont, which are about as far apart from each other as they can get.

Senator Hansen of Wyoming is a member of this committee, and I am sure if he were here he would bring up the problem this bill creates. I am happy you recognize it, and I hope the committee will do something to see if we can solve it so those States will not be penalized because of this urbanization approach.

Mr. Secretary, as I understand it, the Puerto Ricans do not benefit from this bill; is that right?

Secretary SHULTZ. They are not included in this, although there are very large distributions to Puerto Rico from Federal grant-in-aid programs.

Senator BENNETT. But those are the specific grant-in-aid programs?

Secretary SHULTZ. But in the President's special revenue-sharing proposals, taking the first full-year basis, in the rural development area it would be \$25.9 million to Puerto Rico; in the transportation area, \$13.7 million; in law enforcement, \$6.3 million; in the manpower area, \$24.7 million; in the urban development area, \$52.4 million.

So this adds up to well over \$100 million in the special revenue-sharing area. I think it has to be noted that, in a sense, this is a rev-

enue-sharing bill and in Puerto Rico neither individuals nor corporations pay Federal income tax. That is a special break they are getting, and this is kind of an offset.

Senator BENNETT. Do you feel then the combination of that program and this one leaves Puerto Rico in a comparable shape compared with the other States?

Secretary SHULTZ. Yes, sir.

Senator BENNETT. That is all, Mr. Chairman.

(The Department subsequently submitted the following additional information relative to Puerto Rico:)

OFFICE OF THE SECRETARY OF THE TREASURY,  
Washington, D.C., July 24, 1972.

Mr. TOM VAIL,  
Chief Counsel, Committee on Finance,  
U.S. Senate, Washington, D.C.

DEAR TOM: This is in response to your inquiry about Puerto Rico's exclusion from the general revenue sharing program.

Puerto Rico fully participates in the special revenue sharing proposals but does not participate in the general revenue sharing program. I cannot give you exact figures on Puerto Rico's share under each of the special revenue sharing programs because House and Senate versions contain differences in formulae and differences in total dollar amounts being requested. A rough breakout in the special revenue sharing areas on a first full-year basis is:

	<i>Million</i>
Rural development.....	\$25.9
Transportation.....	13.7
Law enforcement.....	6.3
Manpower.....	24.7
Urban.....	52.4

These estimates, and I want to emphasize their preliminary nature, suggest Puerto Rico will receive over \$100 million in special revenue sharing. I should point out that federal categorical aid to Puerto Rico has been extensive. We are not forgetting them at all. We have excluded the Commonwealth from the general revenue sharing program because the underlying purpose of the program is to share back a portion of the Federal Government's tax collections on a fair and equitable basis. Puerto Rico pays neither federal individual income taxes nor federal corporation income taxes. It is for this reason that they were omitted from the general revenue sharing program.

Sincerely yours,

JAMES E. SMITH,  
Special Assistant to the Secretary,  
Congressional Relations.

The CHAIRMAN. Mr. Talmadge.

Senator TALMADGE. Mr. Secretary, where are we going to get the money?

Secretary SHULTZ. I think, Senator, it is a question of saying to yourself here we have an overall budget and what are the things that are most important to put in that budget? Our determination is—and the President has budgeted general revenue sharing as part of his proposal in fiscal 1973 and in fiscal 1972, as you know—that it is a priority need, represents a priority need and ought to be fitted in in the manner suggested in his budget.

Senator TALMADGE. Would we have tax recommendations in the future to pay for this?

Secretary SHULTZ. I think the overall Federal budget is the controlling thing as far as our need for changes in the overall structure of the tax system. Here we are talking about a program that is a large

program, \$5 billion and more each year. Nevertheless, since the Federal budget in fiscal 1973 is surely going to hit the area of \$250 billion, this can hardly be said to be a dominant consideration. So I think it needs to be thought about in terms of where do you wish to put your priorities.

Senator TALMADGE. Is your answer in simple language, Mr. Secretary, that it will add to the deficit?

Secretary SHULTZ. If it is enacted, as we hope it will be, certainly it will be an added expenditure compared to if it weren't enacted. Nevertheless, we think it has such important priority that it should be enacted.

Senator TALMADGE. Since revenue sharing will increase the Federal deficit, did you consider the alternative method of permitting State and local governments to print money?

Secretary SHULTZ. We didn't think that was a very good one.

Senator TALMADGE. No consideration was given to that at all?

Secretary SHULTZ. No, sir.

Senator TALMADGE. Mr. Jordan?

The CHAIRMAN. Mr. Jordan?

Senator JORDAN. I have been able to go along wholeheartedly with the idea of assembling or putting together a lot of related grants to make one overall block grant to a State, but I have never been able to accept fully the proposition of general revenue sharing. Maybe you could help me out.

What sources of revenue does the Federal Government have that the State and local governments do not have?

Secretary SHULTZ. I think the principal thing that the Federal Government has used which is of a central importance in the revenue system is the income tax, the individual and corporate income tax.

Senator JORDAN. My State has a steeply graduated income tax as a chief source for revenue for State government.

Secretary SHULTZ. The States vary considerably, of course, in the taxes that they use. But taken on the whole, there is a relative importance to the property tax and the sales tax as a method of supporting State government.

Senator JORDAN. But there is no prohibition against all States having individual taxes if they wish, is there?

Secretary SHULTZ. No, sir, there is not.

Senator JORDAN. If you have such confidence in State and local governments being really willing and able to spend Federal moneys wisely, why couldn't we also trust them to levy and collect it wisely?

Secretary SHULTZ. We certainly expect they will. On the other hand, I think you have a relatively efficient Federal tax system here which can be used. Beyond that, it has always seemed to me important to recognize what the Federal Government is doing to States and cities by its categorical grant-in-aid program, which, as you know, now amounts to something on the order of \$40 billion.

When the Federal Government puts those categorical programs out there with very attractive matching provisions, it virtually coerces the States and cities to spend money in accordance with federally set priorities. I think in many respects this drain on States and localities has been one of the factors responsible for the fiscal difficulties in

which they have found themselves. They have been forced into this in order to, in effect, conform to the pattern the Federal Government has imposed.

Here we are trying to devise a program which will be helpful to them but not impose that type of coercion.

Senator JORDAN. It might be that the general revenue-sharing funds they receive will be used to provide the State share of matching for categorical grants-in-aid.

Secretary SHULTZ. In the House bill the purposes for which local governments may use the funds are specified. The States, under the House bill, may use the funds for any valid governmental purpose. We think this "no strings" treatment should be accorded the localities, as well.

I might say in the special revenue-sharing proposals of the President the matching requirements have been reduced or eliminated in many cases to meet this point.

Senator JORDAN. I won't ask any more questions and take any more time, Mr. Chairman.

The CHAIRMAN. Mr. Fannin.

Senator FANNIN. On page 22 of this bill<sup>1</sup> there is the requirement that all income tax under contracts, and so forth, which receive money from the allocations paid under this bill be paid in accordance with the wages paid under the Davis-Bacon Act. I regard the act inflationary. Some industry wages are more than what union contracts provide. Does the administration support the provision dealing with the Davis-Bacon Act?

Secretary SHULTZ. Yes.

Senator FANNIN. Why would you promote inflation? I can't understand how the administration can justify not asking industries to not charge higher prices. You have wage rates you want to hold and still you support the Davis-Bacon Act.

To give you an example, in one city in Arizona where a highly skilled mechanic was making \$3.90 an hour someone wrote me a letter and said his son had a job waving a flag on a construction job under the Davis-Bacon Act being paid \$5.40 an hour. How can we justify the inequity of that nature?

Secretary SHULTZ. I think to the extent there are problems with the Davis-Bacon Act they ought to be addressed as to general proposition. But on the problems of the construction industry the administration has worked very hard and we now have a collective bargaining commission that has, I believe, been very helpful in that industry.

There is a special stabilization effort going on that has been quite a successful effort, and we have been trying to work cooperatively with the industry, and I think that there has been quite a fair measure of success and cooperation, both from the employers and the unions on that.

So we are trying to meet this problem of costs in the construction industry in that manner.

Senator FANNIN. Mr. Secretary, I will give you an example. There is a powerplant under construction. The wage rate in that area is a moderate wage rate. The Secretary of Interior and I and others were

<sup>1</sup> See p. 31 of this volume.

staying at a hotel there, and the owner said he lost his cook because he went to the powerplant as a common laborer making almost double what he was making at the wages regularly paid cooks throughout the State. He was making at that time \$7.20 an hour and getting a \$10 subsistence in an area which, I believe, is almost a recreational area.

How can we justify anything like that, starting labor out at \$7.20 an hour?

Secretary SHULTZ. There are all sorts of anomalies in the American wage structure. I don't know that particular situation. The wage rates in the construction industry are a product of many things. The Davis-Bacon Act is an aspect of the total picture, but only an aspect. So I can't comment on this.

Senator FANNIN. In answer to your statement that you say you are holding these wage rates, I can tell you that a few months after this visit I wanted to check because I was making a talk. So I called to find out whether I was correct on the wage rate. It had changed from \$7.20 an hour for a common laborer to \$7.90. I don't understand how the Government can justify supporting a bill which would bring exorbitant wage rates about.

I think this is one place where the Government can step in and do a service in trying to hold this inflationary trend and make it possible for us to compete with the other countries of the world. As you know, the wages are relative; and if they go up in the construction industry, they are going to go up in other industries.

So I am very concerned about it, and I hope you will look further into this matter and make some recommendations.

Secretary SHULTZ. I think it should be said that the Davis-Bacon Act doesn't set the prevailing rate. It provides that when Government work goes forward, it should go forward at the prevailing rate. The prevailing rate is, so to speak, to be established by the processes of collective bargaining and by the marketplace and however else. The notion is that the Government ought to pay at that rate.

Senator FANNIN. I am talking about how it is done "however else," because I think the Secretary has been negligent in the "however else" you speak about. The wage rates in that area are so exorbitant as compared to wages rates in other areas. There is no justification for it.

I don't want to take any more time this morning. I regret I was not here earlier, and I have to go back to the floor, but I hope you will check into it to see what you can do. I think you can do a great deal regarding this very serious problem. Thank you.

The CHAIRMAN. Mr. Secretary, I want to ask you about one or two other matters. You have suggested certain changes in the House bill, and you have indicated areas in the bill where improvements might be made. Would you please prepare for the record a detailed description and the amendatory language to reflect such a description at the end of the changes you recommend, so that we can consider them and those who want to advocate them would have the language available to suggest.

Would you also, please, describe in detail the areas in your bill where you think improvements might be made, even if you have no

specific suggestion, so we can consider it for whatever value those proposals may have.

This, I am sure, would aid later witnesses in preparing their statements, and we could make it available to them during the recess.

Secretary SHULTZ. Yes, sir; we will.

(The Department's views on the State and Local Fiscal Assistance Act of 1972, and recommendations for specific changes in the bill, follow:)

THE SECRETARY OF THE TREASURY,  
Washington, July 27, 1972.

Hon. RUSSELL B. LONG,  
Chairman, Committee on Finance,  
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on S. 3651, "State and Local Fiscal Assistance Act of 1972," which seeks to provide payments to localities for high-priority expenditures, to encourage the States to supplement their revenue sources and to authorize Federal collection of State individual income taxes; and for the views of this Department on Amendment No. 1215 to S. 3651.

The bill is essentially a proposal to allocate a portion of Federal individual income tax collections to State and local governments over a five-year period. Grants to State governments are designed to encourage States to use individual income taxes; grants to counties, cities, and townships are designed to provide relatively more aid to those units located in more densely populated county areas and to those units located in county areas with below-average per capita income. The State grants may be used for any purpose; the local grants may be used for certain specified high-priority purposes. Finally, the bill provides for Federal collection of State income taxes after January 1, 1974, and after at least five States with at least five percent of the tax returns in the United States agree to the provisions of the bill.

Amendment 1215 to S. 3651 replaces the income tax incentive in the State grant formula with a formula that essentially distributes funds on the basis of Federal individual income tax liability in each State.

The Department generally endorses S. 3651; however, there are specific changes in the bill that the Department recommends.

In the distribution of funds among State governments, the bill places great emphasis on state income taxes. It has been the position of the Department not to favor particular state tax instruments, but rather to recognize overall state and local tax effort. There are a number of alternatives to the formulas in S. 3651 including Amendment 1215. While the Department prefers that the Federal Government not mandate state tax structures, and while Amendment 1215 succeeds in eliminating this mandate, the Department feels that the resulting benefits to wealthy States that Amendment 1215 provides are inappropriate because the formula rewards States whose taxpayers are in higher average tax brackets. Thus, the Amendment does not reflect the state tax effort being made and does not reflect the relative need of the States.

The Department has explored two other approaches to moderate the income tax incentive of S. 3651: distribute the entire State government entitlement on the basis of state and local taxes and tax effort, and distribute the state entitlement generally on the basis of S. 3651 but allocate 20 percent of the funds on the basis of population weighted inversely by per capita income to reflect the overall need of the States. This second approach would then allocate \$720 million on the basis of state and local taxes and tax effort, \$720 million on the basis of state income tax collection, and \$360 million on the basis of population weighted inversely by per capita income. Table I provides the state-by-state distribution under S. 3651, taxes and tax effort, and taxes and tax effort state income tax collections, and population weighted inversely for per capita income. While the Department finds the second approach acceptable because it does not mandate particular state tax instruments, it also recognizes that the House of Representatives has indicated that the provision of Federal aid to State governments will encourage them to meet the goals outlined by the Congress and that the States will make increased use of the income tax. Accordingly, the Department recommends that the Com-

mittee adopt the third alternative which moderates the income tax incentive and takes account of differential State ability to pay.

In the distribution of funds among the States to the localities, one-third of the funds is distributed on the basis of urbanized population. This factor discriminates against three States without urbanized population: Alaska, Vermont, and Wyoming. The Department has explored several methods of eliminating this discriminatory treatment and recommends that a floor for each State of one-tenth of one percent of the funds allocated among the State areas on the basis of urbanized population be created to solve this problem. Table II shows the impact of this change on the State-by-State distribution of local funds.

A third aspect of the bill that the Department recommends change in involves the high-priority expenditure categories that the localities must spend within. The Department recommends that these categories be eliminated to allow them sufficient flexibility in setting their own priorities.

In the allocation of funds to the State governments, no provision is made for the creation of a state trust fund to receive the revenue sharing allocation; however, localities are required to create a trust fund. The Department recommends that the State governments be required to set up such a trust fund as well because it will improve the uniformity of accounting systems and increase our ability to audit State uses of these funds.

The Department has been advised by the Office of Management and Budget that there is no objection to the submission of this report to your Committee. Enactment of S. 3651 with the changes the Department has recommended above would be in accord with the program of the President.

Sincerely yours,

GEORGE P. SHULTZ.

Enclosures.

TABLE I.—DISTRIBUTION OF \$1.8 BILLION AMONG STATES UNDER THREE FORMULAS

[In millions of dollars]

	House bill H.R. 14370 <sup>1</sup>	Taxes and tax effort <sup>2</sup>	House bill weighted for need <sup>3</sup>
Alabama.....	14.9	15.1	22.1
Alaska.....	3.5	2.1	3.2
Arizona.....	14.0	16.8	14.5
Arkansas.....	8.0	8.0	11.2
California.....	241.1	261.6	222.5
Colorado.....	20.3	19.3	20.1
Connecticut.....	21.0	27.2	21.0
Delaware.....	7.8	4.7	7.2
District of Columbia.....	10.8	7.0	9.7
Florida.....	31.9	42.2	37.4
Georgia.....	28.3	24.8	32.0
Hawaii.....	13.2	10.8	11.8
Idaho.....	5.8	5.0	6.1
Illinois.....	105.1	108.9	101.2
Indiana.....	31.0	32.1	33.9
Iowa.....	26.2	26.7	26.2
Kansas.....	13.8	16.9	15.2
Kentucky.....	19.2	17.7	22.5
Louisiana.....	18.4	24.6	23.1
Maine.....	5.6	8.3	6.6
Maryland.....	50.1	40.0	46.0
Massachusetts.....	74.6	60.6	68.6
Michigan.....	91.0	82.6	87.0
Minnesota.....	51.7	36.1	48.1
Mississippi.....	10.1	14.3	14.3
Missouri.....	27.9	27.7	30.8
Montana.....	6.9	6.0	6.9
Nebraska.....	9.7	11.3	11.0
Nevada.....	3.7	5.3	3.7
New Hampshire.....	3.3	4.2	4.0
New Jersey.....	44.7	58.6	46.2
New Mexico.....	6.5	7.9	7.4
New York.....	317.4	304.4	280.9
North Carolina.....	36.3	28.7	40.0
North Dakota.....	3.5	5.2	4.2
Ohio.....	49.5	58.4	55.4
Oklahoma.....	11.4	13.5	14.2

See footnotes at end of table, p. 93.

TABLE I.—DISTRIBUTION OF \$1.8 BILLION AMONG STATES UNDER THREE FORMULAS

(In millions of dollars)

	House bill H.R. 14370 <sup>1</sup>	Taxes and tax effort <sup>2</sup>	House bill weighted for need <sup>3</sup>
Oregon.....	24.8	16.7	24.0
Pennsylvania.....	98.4	90.4	99.3
Rhode Island.....	7.8	7.6	7.9
South Carolina.....	14.3	12.4	18.3
South Dakota.....	3.7	6.1	4.6
Tennessee.....	14.3	18.7	20.0
Texas.....	46.2	59.3	58.5
Utah.....	8.8	8.7	9.2
Vermont.....	5.7	5.3	5.4
Virginia.....	38.3	28.0	39.0
Washington.....	20.9	30.7	23.0
West Virginia.....	10.0	10.0	12.0
Wisconsin.....	65.9	57.7	60.6
Wyoming.....	2.2	3.3	2.3

<sup>1</sup> 50 percent taxes and tax effort and 50 percent State income tax collections.<sup>2</sup> 100 percent taxes and tax effort.<sup>3</sup> 40 percent taxes and tax effort, 40 percent State income tax collections, 20 percent population weighted inversely for per capita income.TABLE II.—DISTRIBUTION OF \$3.5 BILLION AMONG STATES, IMPACT OF  $\frac{1}{10}$  OF 1 PERCENT FLOOR FOR NON URBANIZED STATES

	S. 3651	S. 3651 with floor		S. 3651	S. 3651 with floor
Alabama.....	65.2	65.1	Montana.....	9.9	9.8
Alaska.....	3.1	4.2	Nebraska.....	24.8	24.8
Arizona.....	32.1	32.0	Nevada.....	9.5	8.5
Arkansas.....	30.4	30.3	New Hampshire.....	10.2	10.2
California.....	369.7	369.0	New Jersey.....	135.0	134.7
Colorado.....	39.1	39.0	New Mexico.....	16.0	16.0
Connecticut.....	51.7	51.7	New York.....	332.2	331.5
Delaware.....	9.5	9.5	North Carolina.....	76.8	76.7
District of Columbia.....	15.2	15.1	North Dakota.....	8.4	9.0
Florida.....	118.1	117.9	Ohio.....	177.8	177.5
Georgia.....	75.1	75.0	Oklahoma.....	41.5	41.4
Hawaii.....	12.7	12.7	Oregon.....	35.2	35.1
Idaho.....	9.6	9.9	Pennsylvania.....	202.5	202.2
Illinois.....	196.6	196.3	Rhode Island.....	18.1	18.0
Indiana.....	82.8	82.6	South Carolina.....	43.5	43.5
Iowa.....	41.6	41.5	South Dakota.....	9.8	10.2
Kansas.....	34.0	33.9	Tennessee.....	65.0	64.9
Kentucky.....	52.6	52.5	Texas.....	202.0	201.7
Louisiana.....	64.8	64.7	Utah.....	20.2	20.1
Maine.....	14.2	14.2	Vermont.....	5.3	6.5
Maryland.....	67.4	67.2	Virginia.....	77.3	77.1
Massachusetts.....	104.4	104.2	Washington.....	58.2	58.1
Michigan.....	152.7	152.4	West Virginia.....	26.4	26.3
Minnesota.....	62.4	62.2	Wisconsin.....	71.1	70.9
Mississippi.....	35.9	35.9	Wyoming.....	3.9	5.0
Missouri.....	79.6	79.5			

Note: Figures may not total because of rounding.

The CHAIRMAN. I would like to ask you about one or two other matters. The so-called high-priority item on page 3 of the bill really covers a multitude of areas. Would it be possible under the bill for Mayor Lindsay to take a welfare person and hire him as a "sanitary engineer" at \$6 an hour?

Secretary SHULTZ. The problem for any city government is to figure out what it is that needs to be done. They can spend money under the House bill or under the President's bill in the area of sanitation, and then they have to follow their own processes in deciding who is going

to work and how much they are going to pay them. There is not restriction on it.

The CHAIRMAN. You wouldn't seek to prevent that type of thing from happening?

Secretary SHULTZ. No. I think that is up to the city government involved.

The CHAIRMAN. Allocations to the States depend importantly on State revenue-raising efforts. One-half of the allocation would be based on tax revenues derived from the income tax in each State. There are some States which have constitutional bans on establishing personal income tax. Others depend on production taxes, severance taxes, or sales taxes for revenues.

It will be argued that we should not give such importance to personal income taxes rather than other forms of taxation. Would you care to expand your views on that subject?

Secretary SHULTZ. I think I would just say that our view is that it is a mistake to use this bill as a device to push States into an income tax if they don't want to. There are severe problems for some States in their constitutions.

The CHAIRMAN. One thing we could do if we wanted to—and I am not sure we want to; I am just throwing the idea out so we have it available to consider—we could, if we wanted to, levy an additional income tax on corporations, as well as individuals, and provide them a credit against that in the event that those States already had an income tax, even to the extent of paying to the States which don't have an income tax and which don't collect revenue from that source. The income tax that we collected out of that State is from sources within that State.

I am sure you are capable of devising a formula whereby we could attribute to each State what their share of the income tax distribution has been and have, in effect, levied for them an income tax at the State level. Have you given any thought to that approach in considering this area of Federal aid to States?

Secretary SHULTZ. I know there are a great many possible formulas and rearrangements that have been worked through. Whether something precisely along the lines you suggest has been, I am not sure. Perhaps Dr. Walker knows.

In any case, we will be very pleased to work with the committee and try to respond to suggestions and set up a procedure to conform with whatever the suggestion is and then try to work through and study its implications.

I do know it is often rather surprising when you start out with a formula and then you actually work it through and see the distribution of funds. It doesn't always come out the way you might initially expect.

The CHAIRMAN. Dr. Walker, what can you tell us about the general approach?

Mr. WALKER. I would like to check my memory of this for the purposes of the record. I do not believe it came up in that precise form or even general form in the many hours of discussion we had in the executive session of the House Ways and Means Committee.

The original bill on which this bill was patterned, if I recall correctly, would have terminated parts of the grants to the States if they

didn't enact a State income tax within 2 years. That was dropped. But we can certainly explore this and see what the computer shows as to the various approaches.

The CHAIRMAN. I wish you would look into it and see what it might do. It is always possible that if we did that and gave the income to a State, they might proceed to arrange to try to give it back to the same people from whom it was collected on the theory they didn't want the income tax anyway and didn't want the revenue from it. That would be one possible approach to the measure, if you really thought that States ought to rely more on an income tax than they did.

Secretary SHULTZ. If the feeling is that the States should rely more on the income tax and it is desirable to use this bill for that purpose, then the Ways and Means bill has an approach to that. That can be worked around and worked with.

The CHAIRMAN. If they had all of that great difficulty—constitutional impediments and all of that sort of thing—there is one way we could levy one for them and give them the benefit of it. I have my doubts as to where it could be but it is one more device that could be used, one more approach that could be taken up. I would express an opposition to our imposing our judgment upon them, but it is one more approach that might conceivably be used.

Are there any further questions, gentlemen?

Thank you very much. We appreciate your appearing today. You can be sure we are going to consider what you say, and we seek to move this bill along.

We are pleased to have with us today the Honorable Howard Baker, Jr., the senior Senator from Tennessee, who is a cosponsor of the bill, and we will be pleased to have Senator Baker testify.

Senator BAKER. Mr. Chairman, thank you very much. I am delighted to have the opportunity to appear before this distinguished committee and may I again thank you for the invitation to sit with the committee and hear the excellent testimony by Secretary Shultz and Deputy Secretary Walker. Both of them have been diligent and effective in their pursuit of concepts involved here.

The CHAIRMAN. We also have Senator Humphrey here, a cosponsor. I think it is appropriate we have a Democratic sponsor on the bill.

Senator BAKER. Preliminarily, just to continue, I would especially like to pay my thanks to Secretary Walker for his very, very excellent and persistent work on this concept and that of his staff and the Treasury Department over a long period of time.

Mr. Chairman, I am delighted and honored to be a cosponsor of this bill with Senator Humphrey who is here before us, and I would be more than pleased at this point to yield and defer to my colleague to make an opening statement if he wishes. Then I have a statement that I would like to make for the record.

Senator HUMPHREY. Thank you, Senator, and Mr. Chairman. I appreciate this. We have a Committee of Government Operations with some key legislation today, Mr. Chairman, and I just left that to come here to make brief testimony in behalf of the bill that is now pending before the Committee on Finance.

The CHAIRMAN. I think, Senator Humphrey, those of us who are not candidates for office should be a little bit considerate of the time

demands of those who are, and I think it is generous for Senator Baker to yield at this point.

Senator HUMPHREY. I think it is extra generous of Senator Baker.

Senator BAKER. I can't think of anybody I would rather be more generous to.

**STATEMENT OF HON. HUBERT H. HUMPHREY, A U.S. SENATOR  
FROM THE STATE OF MINNESOTA**

Senator HUMPHREY. I have a statement, Mr. Chairman, which I would like to file for the purposes of your record, and I shall just make some brief commentary.

The CHAIRMAN. It will be entered in the record, and you may go ahead and summarize it.

Senator HUMPHREY. I was very pleased to have the opportunity to join with Senator Baker and a number of other Senators who are co-sponsors of S. 3651, the State and Local Fiscal Assistance Act of 1972. I have long been interested in the subject called revenue sharing and lately more appropriately called State and local assistance.

Early when I came back to the Senate in 1971, the first measure I introduced in the Senate was a revenue-sharing bill. It was sponsored in the House of Representatives by Congressman Reuss of Wisconsin.

Our proposal set up some standards which we would hope would encourage more progressive taxation policies, but at some time we recognized the urgent need of local and State government for immediate financial assistance.

I have been before a number of the local governmental groups. As you may recall, Senator Long, I was recently in New Orleans before the U.S. Conference of Mayors as one of their speakers. I have spoken before, during the past 2 to 3 years, with the National Legislative Leaders Conference and the National Association of County Officials.

In each of these instances I have addressed myself to the subject of public finance or the better financing of our local governmental institutions.

The fact, as I see it, is that we have come to a point in our governmental structure where the local governments in particular, that is, municipal and county governments, are facing a crisis—a financial crisis.

I have witnessed this in my tour across this country in the last 6 months. The tour was not necessarily always directed toward the subject of revenue sharing, but occasionally that subject matter would come up, and particularly as I visited with local government officials. When I say "local government officials," I mean all the way down from the State House to the courthouse to city hall.

There is no problem that is more serious today for local government than that of property tax and the fact that it is becoming almost counterproductive with the shortage of revenues.

A mavor was asked in one of the Senate hearings here some years ago: "What is it your community needs?" He said, "We need three things: We need revenue, funds, and financial resources."

Truthfully, that is what they need.

The CHAIRMAN. Couldn't you just put that all into one word?  
Senator HUMPHREY. Money.

For the past 2 years I have served as chairman of the Special Subcommittee on Rural Development. We have traveled to many States and the one fact that comes out is the mass migration of people from rural America into urban America. This overwhelming flow of people into our metropolitan areas has placed heavy burdens upon local government, burdens they simply cannot fulfill under the present tax structure.

The purpose of the bill before you is quite simple and direct: It is to provide over a 5-year period a sum of money which can be distributed under a formula which is propounded in the legislation to local governments, to municipalities, counties and States.

To have it less than that period of time as outlined in the legislation, I believe, would be very injurious.

One of the points I would like to make is that if you have grants to a community for a year and then you don't have something to follow it up with the next year, you have rising expectations on the one hand; you start programs on the other, and then you have to slow them down or cut them out without the resources being available and you have wasted a lot of money.

The purpose in this proposed legislation is to have an extended period of time so that the local governments can make some proper planned use of the resources.

I know there are some arguments against this legislation. The opponents of the State and Local Fiscal Assistance Act have cited, for example, that public accountability is severely undermined by divorcing the responsibility for raising tax revenues from the dispensing of public benefits. I want to say to my fellow Senators I believe it is time we share this responsibility. The local government officials are watched much or more than we are, and the average citizen doesn't know where that money comes from. He knows it is tax money and that is all. If that money is poorly expended, the local citizen will hold the public official at the local level accountable as much as he holds any Member of Congress accountable. I don't believe that public accountability argument holds water.

The second point that is often made about revenue sharing is that it will not lead to decentralization; it will only lead to greater and greater dependence upon Federal resources. I would just like to say a word about that. The average citizen doesn't differentiate between Federal, State and local government. When he is mad at government, he is just mad at everyone. The government for him is where he lives.

Most of the government that affects people's lives is right out in the community where they live. Ninety percent of everything known as "government" to the average citizen is in his town, in his block, in his neighborhood, in his county, in his village and in his township. That is where it all happens.

What he is interested in are these services which government can provide where he lives. I think we here in Washington would make a mistake if we tried to presume that we can chart everything from the Nation's Capital out to John Citizen out there in the locality. We have to place some reliance on those local officials. I know they will make mistakes. I was a mayor of a city. I made a lot of them. But I will tell you that more people knew about the mistakes I was making than some I am making now because they were really watching me.

I happen to have a great deal of respect for local government officials.

Furthermore, I might add that there is a great deal of variation in our country. One of the things that has bothered me as I have been in government longer is the fact that we do lay down standards here at the Federal level that sometimes do not fit the community pattern.

I see Senator Curtis. The other day he had an amendment that related to the Occupational Safety Act. I think I understand. I could not be present that day. I am sorry I had to be gone, but I understand what goes on in small town business, and I know it is a lot different than what goes on in ITT or ATT or General Mills or General Motors. However, I believe we have to have these variations. I believe we also have to be willing to rely upon local government officials to make some of the decisions, but they can't make any decisions if they don't have the resources.

The tax money is people's money. Frankly, the Federal Government taxes more equitably than any other level of government. The Federal income tax and corporate tax, with all of its problems and all of its loopholes, is much fairer than taxing the property, the home or piece of land out there in the countryside. Every American today knows that there is a taxpayers' revolt on what we call the property tax, particularly on the homeowner; it is just getting prohibitive in some areas to own a home because of the local tax structure.

Therefore, let us talk about our country and about citizens and the Government. It is the government of this country, Federal, State and local. It is the tax resources of this country. The Federal Government has a greater power to tax more equitably, for example, than any other area.

I would like to look at the Federal Government as we look upon a supply source for, let us say, our military. You don't win many wars by having generals holding back the supplies. You get them out there where the troops are.

The troops in this battle for good government are out where the county officials are, where the local officials are. We have put them out there, to use a facsimile which I don't think people like to hear me use, where they don't have any ammunition. They are being run over by problems and can't meet them. I believe this act provides some temporary relief.

Another criticism is that there is no tax revenue to share. I grant you that is a most valid argument. There is no tax revenue to share. But the Federal Government has a better way in raising tax revenue if they have to than any other level of government, and its credit is better.

Most of the localities are under strict charter and constitutional prohibitions as to the amount of indebtedness they can have or as to what bonds they can issue.

Another argument that is made is that cities and States will not be content with the sum provided in that legislation. I can't say they will. This is \$28.5 billion for a 5-year period, as I recall. The opponents of this legislation say this is just the first step on an ever-increasing mortgage on Federal resources.

Let me just say that Federal resources—there isn't any such thing. It is people resources. Where do the people live? They are not all here

in Washington. They are not all in the Federal buildings. Where we are we represent constituents. Those Federal resources belong to the people, and this money is going out directly where the people live. This money is not going off to Taiwan or Afghanistan; it is going into Louisiana, Utah, Nebraska, New Mexico, Tennessee, Minnesota, Idaho, and a few other places—right where the people live.

I submit the argument that we are going to mortgage Federal resources doesn't mean a thing. Federal resources have no meaning. Federal resources relate only to one thing: Where people live in the jurisdiction of the United States of America, and this legislation is designed to help people in every part of our country.

Seventy percent of our people live in the cities today. Eighty percent are supposed to be, according to projections, living there by 1980. I would like to see it reversed.

I have been here with Senator Curtis and I have been traveling around this country for a program of rural development trying to get some reverse of this movement into the cities. I happen to believe we are going to just never be able to meet the problem of urban America until we do something about modernization of rural America, bringing industry into rural America and making the living conditions in rural America a little better.

We are on a bipartisan program trying to do something about that, and I think we have made some progress this year. I believe this legislation will help. It will help county government, by the way. And I want to emphasize here that county government is becoming evermore important in this country. County government may very well be part of the answer or the improvement of county government, part of the answer to our governmental problems to date.

Finally, the argument is made that it will bypass the annual budget control function and responsibility of the Appropriations Committees. Not at all. You will be able to call people in and ask what they did with the money. As a matter of fact, it is pretty hard to find out about the money we are appropriating now.

I would rather trust, if you want it on the line, the mayor of the Twin Cities than some of—a lot of folks don't like some of them—but I would just as soon trust them as the heads of many departments in Washington. At least they have to rerun for election. The heads of departments we call in before these committees don't have to run for anything. They are nominated by the President and confirmed by the Senate and that is it.

When you are out there and you are Governor and county judge or county commissioner or mayor or city councilman and you are called down here to do some explaining you have some folks back there who look at the paper and see what old John did say. If he didn't say the right thing, there will be a headline as big as that door.

That old soul will have you working him over and the Appropriations Committee working him over, instead of the League of Women Voters. He will have double accountability.

I think that is my argument. I think it is a pretty good piece of legislation. I hope this committee will promptly report it.

By the way, Senators, many municipalities and State budgets are depending upon this legislation. If we don't get it, we are going to be in serious trouble. I think we will strike a blow for freedom here, as

they used to say around here at one time—to strike a blow for liberty. Is that what they used to say at those sundown meetings—if we pass this legislation?

The CHAIRMAN. Senator, I think you have a good argument, particularly the point that it is just a lot easier to get rid of a bad local official, particularly an elected official, than it is to get rid of a sorry bureaucrat. Those people have a way of staying on no matter who is President.

Senator HUMPHREY. They have tenure. I know about not having tenure, Senator. I have just lost it all. I am telling you, I am recycled from beginning to end. All of you people made me a freshman again.

The CHAIRMAN. Senator Bennett?

Senator BENNETT. In view of that last remark, I would say that what the Senator is most interested in is delegate sharing.

Senator HUMPHREY. I say to the distinguished Senator from Utah, your counsel and advice is the one bright note I have had for the day. I am afraid you are without influence in the precincts I am having to work.

Senator BENNETT. As an innocent bystander from the other side of the fence, I certainly wish you every possible consideration.

The CHAIRMAN. Senator Curtis?

Senator CURTIS. Do you regard this proposal as a temporary measure over the 5 years?

Senator HUMPHREY. I doubt it, Senator. I really doubt it. But I think it will give us a test run to see whether it does what it is supposed to do.

Senator CURTIS. Do you think it will directly result in the lowering of taxes that people pay now to State and local governments?

Senator HUMPHREY. I think it will at least slow down any momentum that we have that we now sense for an increase in taxes. You will notice that in practically every State—I won't say "all"—that local governments have had to increase their taxes appreciably in the last 5 years or more.

Senator CURTIS. I appreciate the frankness of your answer. I think there will be millions of people disappointed. In one way or another they have gotten the idea this was going to relieve their real estate taxes.

Senator HUMPHREY. Senator, it could in some areas, but I know you want candid comment from me, and I honestly don't believe I could say with certainty this is going to reduce the property taxes. I will tell you one thing. If we don't do something like this you either are going to close up services, vital services back home, or you are going to raise those property taxes or some other kind of taxes.

I think this money will come from a tax source that is more equitable than putting an extra few mills or increasing the millage on homes out in Minnesota or Nebraska. I really believe this is a better way to help this local government take care of a host of things that means so much. The local governments don't go into money frills. Out home in Minnesota during the wintertime we are trying to keep the streets clean from snow and ice. That is no frill. It is a matter of life and death. We are trying to find ways to take care of the water

and sewer and to take care of the municipal services that affect people's lives.

I believe I can go back to my constituents and say, "In this legislation, I have done more for you than I have done under many of the categorical programs."

I might also say, if this legislation works, we will be able to more carefully reexamine categorical programs and possibly give a little more leeway to local government people to chart their own course.

The CHAIRMAN. Senator Jordan?

Senator JORDAN. One question. Do you think this is likely to start a trend to have the Federal Government do all of the taxing and let all of the State and local government officials enjoy the benefit of expending? That is where the votes are. Do you think this is liable to portend the transference of all taxing on the part of the Federal Government eventually?

Senator HUMPHREY. No; I do not. If it did, I would think that would be terribly wrong. I think we ought to be aware of the abuse of this kind of proposal. It could be abused.

By the way, if that were to happen, I would like to announce I am running for Governor as shortly as possible.

Senator JORDAN. It is \$5 billion a year. Why not \$25 billion a year and \$50 billion a year?

Senator HUMPHREY. Because I believe you are a man of judgment and would not go for that.

Senator JORDAN. No.

Senator HUMPHREY. And I don't think I would. I don't think we need to relieve people at the local level from their responsibilities. As a matter of fact, this legislation does not permit the local governments to relieve themselves of their current responsibilities, and will, I am sure, require them to do more than they are presently doing.

Senator JORDAN. Thank you.

The CHAIRMAN. Thank you very much, Senator. You have made a fine presentation here.

Senator HUMPHREY. I want to say Senator Baker is a good lobbyist. Earlier this year when the President sent down his message, Senator Baker came to me in that spirit of benign and blessed bipartisanship, and said, "Let's join together, Hubert." It is hard to tell Senator Baker that you didn't want to join with him. But I waited awhile, and I thought he would love me more if I waited longer. Then when we got the blessing from Congressman Mills on the other side, I felt it was a union that would last.

(Senator Humphrey's prepared statement follows:)

PREPARED STATEMENT OF HON. HUBERT H. HUMPHREY, A U.S. SENATOR FROM THE STATE OF MINNESOTA

Mr. Chairman, I am pleased to be here today to testify on behalf of S. 3651, the State and Local Fiscal Assistance Act of 1972, which Senator Baker and I, and a bipartisan group of Senators, introduced as a companion measure to H.R. 14870, which the House now has passed.

I want to express my personal gratitude to Chairman Long for promptly holding this hearing on revenue sharing.

I know how extremely busy the Committee has been with the Social Security and Welfare Reform legislation for the last few months.

That is why I think the Senate ought to take note that the members of this Committee are not resting—they are moving ahead, holding the necessary revenue sharing hearings and beginning the process that I believe will result in a first step towards fiscally rehabilitating our local governments.

I also wish to take a moment to praise the action of the House of Representatives.

Last week, the House passed this very bill now before this Committee. Chairman Mills is to be commended for his outstanding leadership.

Mr. Chairman, it has always been my belief that revenue sharing is not a partisan issue. It is not a political football to be kicked back and forth between Democrats and Republicans.

Revenue sharing is a people's issue.

It is an issue to be debated on its merits—free from the slings and arrows of both partisan bickering and presidential politics.

In this spirit, Senator Howard Baker and I joined together to introduce the House Committee bill in the Senate. And it is in this spirit that we have sought support from members of both parties.

Mr. Chairman, I have been a consistent and continuous supporter of revenue sharing since the idea was first broached. I thought it made sense then. I think it makes even more sense now.

As Vice President, I proposed revenue sharing in 1965. As the Democratic nominee for President I advocated enactment of such legislation in 1968, and I testified last June 8, 1971, before the Intergovernmental Relations Subcommittee for what was then the Humphrey-Reuss Revenue Sharing bill, the first bill I introduced on my return to the Senate.

Revenue sharing has gone from a concept to legislation, now passed by the House of Representatives.

Now I want to see the Senate make revenue sharing the reality of hard dollars for the states and local governments.

I have spent the last six months on an intensive "tour" of this nation. In the last 10 days I have met with the Conference of Mayors—League of Cities at their convention in Texas and with the National Association of County Officials at their convention in Washington, D.C.

I have listened to and talked with many thousands of people and hundreds of our elected officials, and if there is one unmistakable message, it is this: never before in the history of this nation has the diversity of our people, our cities, our counties, our communities, and our states placed such importance on how governmental programs are constructed, how policies are implemented, and how revenue transfers are made.

We can no longer pass legislation that through bureaucratic red tape and under-funding stifles the ability of local officials to deal with indigenous problems.

We can no longer assume that solutions developed in Washington will automatically work in Louisiana, Montana, Utah, Connecticut, Iowa, or California.

We can no longer make minute, detailed choices as to how funds will be spent in every city and community of this nation.

We simply must recognize that cities, states, and local governments are different because people are different. There are different needs, different levels of expected services, and different capacities as to how well local governments can meet those needs.

These differences call for new departures—if the needs of people are ever to be met.

Revenue sharing is a new departure—it is a departure from the way we normally do things here in Congress and in the Executive Branch.

But I submit to you that the local governments of this nation cannot afford a "business as usual" attitude on part of the Executive Branch or Congress.

The simple truth is that local governments are in a state of financial paralysis—and it is not just the "government" that is suffering—it is the people.

For, when a citizen speaks of "the government," he is talking about the government close to him—the government that no longer collects garbage twice a week—or does not or cannot provide adequate police protection—or allows dirty and unsafe streets—or is unable to modernize sewage treatment and solid waste disposal facilities.

This is the government. And its manifestation is in how that citizen is treated where he lives—in his home, his neighborhood, and on his street.

And if the government fails to meet the needs of that citizen, then we have failed.

Look at our local governments today. The scene is increasingly intolerable. The budgets of cities are invariably written in red ink—the future fiscal vitality mortgaged by bond indebtedness that stretches twenty to eighty years into tomorrow.

State governments have been compelled to increase taxes—and that tax burden usually becomes more regressive—in the form of higher excise taxes, sales taxes, income taxes, service fees, and property taxes.

Decisions to cut back services are made every month by every mayor of a large city, by every county executive and by every councilman.

Tax bases decline, property taxes on existing assessments skyrocket, creating the kind of tax environment that produces a chorus of citizens saying "no more."

Local officials come in increasing numbers to Washington hat in hand begging for some help, but too often finding a stone wall of indifference.

Schools close, jobs are lost, and opportunity gone forever.

The backlog of unmet needs continues to increase—the United States Conference of Mayors, for example, estimates that unmet needs are \$3 billion for urban renewal; \$5 billion for water pollution; \$8 billion for mass transit; \$2 billion for law enforcement.

Make no mistake about it—this indeed is the financial condition of government in our states and localities.

It is not pleasant. It is bleak. And it is a condition that should not be.

Mr. Chairman, that is one reason we need revenue sharing. But there are others also.

In a recent address before the United States Conference of Mayors and the National Association of County Officials, I suggested four goals for local governments:

1. To bring government close to the people and be responsive to their needs
2. To maintain the integrity of neighborhoods—to refocus on street level government, where people live
3. To establish certain minimums of basic services for all of our cities and communities
4. To plan the use of our resources

The Fiscal Assistance Act now before this committee will help us meet those goals.

This legislation provides \$29 billion in relatively unrestricted aid to local governments over a five-year period. Each year \$3.5 billion is allocated to localities and \$1.8 billion is allocated to state governments.

A five-year program gives state and local governments the ability to plan the use of these funds efficiently.

Localities may spend the revenue for high priority purposes designed to assist in the maintenance and operation of services in public safety, environmental protection, public transportation and capital expenditures for sewage collection.

A governmental reform element contained within the legislation provides for the federal collection of state imposed individual income taxes, if the state requests it. And there is an incentive for states to adopt progressive systems of taxation.

Mr. Chairman, some may quarrel with the exact form of the bill.

I would be the first to suggest that, if it were possible, some improvements ought to be made in the legislation.

I believe, for example, that the listing of high priority categories might well be expanded to include health care and youth recreation.

I would also urge this committee to examine the various formulae suggested by the legislation and to settle on that formula that provides a substantial return to those areas of the greatest need while at the same time maintains essential equity, protecting towns and rural communities.

I would think this committee should consider the principle that communities and states ought to maintain their revenue efforts consistent with the amount of federal aid and the number of services these communities are now providing.

Finally, Mr. Chairman, I want to make one last comment—a caveat that, I believe, it is essential to tie to the passage of the legislation.

I want to give fair warning now that this Congress and the Executive Branch of our federal government must not—indeed cannot—fall into the trap of thinking that problems of the cities, suburbs, and townships disappear with the passage of revenue sharing. We must not lull ourselves into thinking that the battle for the fiscal vitality of our communities is over when revenue sharing is established.

We must not think that now that we have revenue sharing we can all go home, that we have done our job, that the mayors and local officials have been satisfied and now we can all relax.

This, I believe, would be a dangerous attitude to take and fatal to accept. I want to serve notice now that the battle for the cities, for strong local government capable of financing its services, has just begun.

When revenue sharing passes, we will have just begun to provide for our neighborhoods.

We will have just begun to make a realistic payment towards effective street level government.

Rebuilding our cities, modernizing our communities, and providing a life of quality to our citizens will mean the financial investment of the century—by both public and private sectors—and the social commitment of a people determined to eradicate those vestiges of obsolescence, backwardness and decay.

But, I ask you, when you are investing in people, in their lives, their children, how families live and where they live, what better investment, what better commitment, can this nation make?

### STATEMENT OF HON. HOWARD H. BAKER, JR., A U.S. SENATOR FROM THE STATE OF TENNESSEE

Senator BAKER. Mr. Chairman, let me express my deep appreciation to Senator Humphrey for the greatness he has brought to this bipartisan effort. I also wish to express my appreciation to him for having just said all I know about this bill. But that is a risk you run when you yield to a distinguished colleague who is of such illustrious distinction as Senator Humphrey is, and who has such a wealth of knowledge. As I said, I believe he has said all I know on this subject.

I am very grateful to him for his cosponsorship and for the chance to work with him.

Senator HUMPHREY. I am going to ask to be excused. Gentlemen, thank you very much.

Senator BAKER. Mr. Chairman and members of this distinguished committee, I sincerely appreciate being afforded this opportunity to appear so early during your public consideration of general revenue-sharing legislation. There is no single legislative proposal in which I have a deeper and more durable interest. My first legislative proposal and "maiden speech" as a freshman Senator in March of 1967 were devoted to a "tax-sharing" bill—and I wish we still called it that.

As mentioned by Senator Talmadge, where are we going to get this money? The concept here embodied is to share tax revenues rather than to share surplus funds after the Federal Government has spent all it wants to. It seems to me that the term "tax sharing" is more descriptive, and I wish we were going back to that concept.

In any event, the term "tax sharing" did not catch and "revenue sharing" has. By whatever name, as far as I am concerned, it smells as sweet, and I fully support it.

I understand, Mr. Chairman, we have a vote in progress. Shall I continue, or shall I wait and come back?

The CHAIRMAN. I would forge ahead for the next 5 minutes, if I were you, Senator Baker.

Senator BAKER. Mr. Chairman, let me suggest that my statement, which is some 5½ pages long, be included in the record as if it had been given; and then I will summarize a little, if I may, since time limitations are severe.

The CHAIRMAN. It will be included in the record.

Senator BAKER. I have introduced revenue-sharing legislation, Mr. Chairman, as I believe you and other Members of the Senate know, since that first and maiden speech I made in 1967. I have introduced it a total of four times. I can recall that we didn't always receive a warm and friendly reception from all of the Congress.

I am especially mindful of the fact that the House Committee on Ways and Means and its very distinguished chairman, Congressman Mills, did not take kindly to the idea at the first instance.

My father served on the House Ways and Means Committee and I am fond of saying that he taught me at an early age to have a high respect for Wilbur Mills. In the early years of this revenue-sharing struggle I never had a higher respect for him because he had his foot square on my neck, as far as this bill is concerned.

But times have changed and I am constrained to say, in all seriousness, that the House Committee on Ways and Means, and Congressman Mills in particular, have brought to us now for consideration a bill that is far better and more refined than anything Walter Heller or Dr. Peckman or any of the other early economists or early congressional sponsors of this bill first brought to our consideration. I think it has been improved and it is a good substantial bill.

As you know, Mr. Chairman, I, together with 42 other cosponsors, including Senator Humphrey, introduced the House bill as a measure to be before the Senate and before this distinguished committee.

I have certain reservations about the bill. For instance, I do not feel that the section which deals with the incentive system or bonus system or penalty system, more accurately, in relation to the State income tax is appropriate. That is clearly colored by the fact that Tennessee does not have a State income tax, and we have a constitutional prohibition against State income tax. It is clear to me, if I have any political sensibilities at all, that the people of Tennessee share my concern. We have no State income tax. I profess a parochial interest in that fact.

I have a great concern over a continuing proliferation of not only State income taxes in those few remaining States that don't have it, but also the increase in the local income tax burden, because I have some fear we are going to end up balkanizing the country. We are going to end up with such a hodgepodge of different tax statutes and tax rates and levels of enforcement that we are in fact going to have trade barriers between States and communities as a result of local income taxes.

In spite of my feelings on this point, I will support this bill with that section if it comes to that. But I have introduced, Mr. Chairman, and I have had presented, and I understand there has been referred to this committee, an amendment which would delete the income tax penalty section.

Let me say quickly, however, that my primary dedication is to the concept of tax sharing or revenue sharing. While I prefer the amendment I have introduced to eliminate that income tax penalty provision, I will vote for this bill.

I enthusiastically support this bill as Congressman Mills and his distinguished committee reported it and as Senator Humphrey and I, as cosponsors, introduced it.

I also understand that Senator Gurney and Senator Ribicoff, and others, have amendments which would change the formula for distribution as well, and I support those.

But, most of all, I want the concept of revenue sharing badly. I want it embodied in the policy of the United States of America, and I want us to go forward with this legislation now.

I will support and enthusiastically support the bill as reported by the House or as amended along the lines I have indicated.

If there is any single measure that will affect the nature of federalism, the nature of the State-Federal government and Federal-local government relationship over the next several years, if there is any single measure that will affect it most, it will be tax or revenue sharing. I believe it represents a symbolic reaffirmation of our faith in the partnership concept, a revitalization of the ability to govern at the local level and a concept whose promise is very substantial and whose future evolution and development can bring us into a more effective and efficient combination of governmental activity at the State, local and Federal level.

Mr. Chairman, I could at this point discuss in detail the amendment I have submitted. It, in effect, just strikes the income tax penalty provision. I have a computer printout on the effects of my amendment which is part of my statement and will be included in the record.

I could go ahead and pay my respects, as I have already tried to do, to the Treasury Department, and especially to Dr. Charls Walker, for his help; to Wilbur Mills and the Committee on Ways and Means, and to you, Mr. Chairman and members of this committee, for long and detailed and tedious work on one of the, if not the, most important fiscal measures I have seen before the Congress since I came here in January of 1967.

But I won't prolong that except to say I hope we pass this bill or something very close to it this year, and I hope we can get about the business just as soon as possible.

Thank you very much.

The CHAIRMAN. Thank you very much, Senator.

Senator BAKER. Mr. Chairman, I will be glad to come back for questions, or whatever you would like, after we get the vote.

The CHAIRMAN. Thank you.

(Senator Baker's prepared statement follows:)

**PREPARED STATEMENT OF HOWARD H. BAKER, JR., A U.S. SENATOR FROM THE STATE OF TENNESSEE**

Mr. Chairman and other members of this distinguished Committee, I sincerely appreciate being afforded this opportunity to appear so early during your public consideration of general revenue sharing legislation. There is no single legislative proposal in which I have a deeper and more durable interest. My first legislative proposal and "maiden speech" as a freshman Senator in March of 1967 were devoted to a "tax-sharing" bill, as we called the concept in those days. I have introduced general revenue sharing bills in three consecutive Congresses, twice on behalf of the present Administration. I have testified twice during the current Congress before other committees in support of revenue sharing: on June 1, 1971 before the Senate Subcommittee on Intergovernmental Relations and on June 17, 1971 before the House Committee on Ways and Means.

We have come a long way in getting to this point. Walter Heller, the brilliant former chairman of the Council of Economic Advisers, began urging the concept of revenue sharing upon Presidents in the 1960's. Members of Congress began offering bills that embodied various approaches to the idea of revenue sharing. Both candidates for the Presidency and both national party platforms in 1968 supported the concept of general revenue sharing. In 1969, President Nixon be-

came the first incumbent President to propose general revenue sharing to the Congress.

In spite of this encouraging bipartisan support for revenue sharing, the proposal met with a chilly reception in the House Committee on Ways and Means. The distinguished chairman of that Committee declared his firm opposition to the entire idea as irresponsible and unnecessary. Following fifteen days of public hearings in June of 1971 and various discussions with various public officials, Chairman Mills saw fit to introduce, on November 30 of last year, H.R. 11950, the "Intergovernmental Fiscal Coordination Act of 1971." After the Committee reported H.R. 14370, the State and Local Fiscal Assistance Act of 1972, and that bill passed the House on June 22, only one week ago today, by a vote of 274-122. On May 30, 1972, Senator Humphrey and I and forty-one other Senators of both political parties introduced S. 3651, which is identical to the House-passed bill.

Mr. Chairman, Secretary Shultz has made a most persuasive case for the need for revenue sharing, and I would add little to the knowledge of the Committee if I tried to make that case all over again. The fiscal needs of our state and city and county governments are both urgent and widely known. The steady flow of fiscal resources away from state and local government and toward the central government since adoption of the 16th Amendment is well-known. The exhaustion or near-exhaustion of available revenue bases at the state and local level is well known, as is citizen exhaustion with rising taxes, especially the property tax. Revenue sharing is not panacea for all of these ills, but it is a very major step indeed in the right direction.

And it is a step that the Congress must take in a United way, in a bipartisan way. Although I am pleased that the plan was proposed by a Republican President, and although I hope that it will be signed into law by a Republican President, I have said on innumerable occasions that what is important is getting the relief to the states and local governments, not how much credit for the plan accrues to any party or individual. Members of both parties have made important contributions to the growth of this plan, and enactment into law of a revenue sharing proposal will be an accomplishment in which many groups and individuals can take genuine satisfaction.

Mr. Chairman, there are elements of the President's original proposal that I would prefer to H.R. 14370 and S. 3651. For example, I believe that tying revenue sharing to a fixed annual percentage of the nation's personal taxable income for an indefinite period of time would be preferable to the five-year program adopted by the House at relatively static dollar amounts, and I believe that no strings should be attached to local funds. But there are elements of the House-passed measure that represent, in my judgment, improvements over S. 680, the latest Administration proposal. For example, refinements of the bill's S. 680, the latest Administration proposal. For example, refinements of the bill's formulas have been made in the House that should, by and large, result in distribution of the funds in a more equitable manner, so that the most dollars will go where the most dollars are needed. I am pleased by reports that the Administration (and, particularly, its Department of the Treasury) made its personnel and facilities fully available to the House Committee, just as I am sure they will be made available to this Committee upon request.

I commend the other body for passing H.R. 14370, a bill that I could easily support and vote for without any change in it at all. Perhaps this Committee will choose to make alterations in the legislation before it reports a bill to the Senate. I am confident that any such changes would reflect the usual care and wisdom that the Senate has come to expect from the Committee.

There is one significant change that I would like to urge strongly before this Committee, and that has to do with section 122 of H.R. 14370, that section which provides the basis for payments directly to state governments. Section 122 basically provides that half of the total amount appropriated for state governments (\$1.8 billion in calendar year 1972) will be apportioned on the basis of each state's tax collections from all revenue sources (including taxes collected by local governments within that state). The remaining half of the total state appropriation is to be apportioned on the basis of receipts from state taxes on personal income. Mr. Chairman, I earnestly hope that this Committee will carefully consider this element of the House-passed bill and weigh each of its implications.

I believe that I am aware of the arguments put forward by those who would encourage (if not virtually force) states to enact personal income taxes, where such taxes do not exist, and to increase reliance on such taxes where they do exist. It is widely accepted that a graduated tax on personal income is the most progressive tax generally available to public authorities, and it is widely known that most states tend to depend most heavily on the property tax and the sales tax.

But I have a strong distaste for the idea that the federal government might directly intervene in the sovereign fiscal prerogatives of the several states to determine their own tax structures. It is true that in Tennessee we have no personal income tax and that the constitutional obstacles to enactment of such a tax are formidable, even if a majority of Tennesseans were to desire an income tax, which they do not. But I am sincere in my assertion that my opposition to this particular provision transcends the problem in Tennessee, as important as that is to me and the people that I represent in this Senate, I do not see how the Congress can enact revenue sharing, which has as one of its most basic premises the belief in turning over decision-making authority from the federal government to the state and local governments, while in the same measure the Congress tells individual states how they must raise their revenues.

Mr. Chairman, there are several ways in which this distinguished Committee might choose to deal with this aspect of the legislation. As you know, Senators Gurney and Ribicoff and others have offered an amendment to S. 3651 (No. 1215) which would distribute half of the total state appropriation on the basis of federal individual income tax liabilities attributable to each state rather than upon state personal income tax receipts. I find this approach far preferable to section 122 of S. 3651 as it now appears, and I could support that amendment.

Another approach—not dissimilar to that of Senators Gurney and Ribicoff—would be a return to what was, essentially, the simple distribution formula advocated in S. 680: that is, allocation of the total state share on the basis on population-adjusted for tax effort. Yesterday afternoon, Mr. Chairman, I introduced an amendment to S. 3651 (No. 1312), that would, I believe, accomplish such a purpose. A copy of that amendment is appended to this statement, together with a table showing the estimated distributions to each of the several states during the calendar year 1972 that would result from the adoption of my amendment, compared to distributions to the several states under S. 3651 as now written. Under this proposal, the *entire* appropriation made by section 123 of the bill would be apportioned among the states on the basis of population modified by tax effort. I would emphasize to the Committee that my amendment would not add one penny to the amount appropriated by the House-passed bill; nor would it alter in any way the amount of funds distributed to local governments or the formula for the distribution of such funds. I hope that the Committee will give this proposed amendment careful consideration, because I believe that it represents a much more equitable distribution of funds to state governments.

Let me repeat, however, that my overriding concern is that this Congress pass a revenue sharing bill. I could support the House bill unamended. I could support the Gurney-Ribicoff amendment. I could support an amendment similar to the concept offered by Senator Muskie in his bill, S. 1770, which offered a bonus over and above the amount that such state governments would receive in any event under the bill. While I have expressed as forcefully as I know how my opposition to any provision that would coerce states into the adoption of a personal income tax, none of these proposals, I am relieved to say, actually does that. S. 3651 does penalize states without personal income taxes, however, and I oppose such a penalty. That is the reason for my amendment. But I would be willing to accept such a penalty if that is the price that we must pay for getting these funds into the hands of state, county, and city governments as soon as we possibly can.

—Mr. Chairman, I again express my appreciation for this early opportunity to testify in support of an idea in which I believe so deeply. I am also grateful that this Committee has chosen to begin hearings so promptly on this legislation, which bodes well for its enactment before the 92nd Congress adjourns *sine die*. We are confronted by an historic opportunity to meet an urgent fiscal need at the state and local level, a rare opportunity to relinquish power at the federal level and return it to the people, who are providing all of these resources to begin with. We can act, we must act, and I know that we will act.

Thank you.

**AMENDMENT NO. 1312 TO S. 3651, INTENDED TO BE OFFERED BY SENATOR  
HOWARD H. BAKER, JR.**

On page 26, beginning with line 11, strike out all through line 23 on page 27 and insert in lieu thereof the following:

(a) General Rule.—The amount of the entitlement of any State for any entitlement period is the amount of the combined tax effort share for such State for such period as defined in subsection (b) of this section.

On page 27, line 24, redesignate subsection (c) as subsection (b).

On page 28, line 3, strike "123(a)(2)" and insert in lieu thereof "123(a)".

On page 28, lines 14 and 15, strike "net amount referred to in subparagraph (A)" and insert in lieu thereof "population of such State".

On page 28, beginning with line 21, strike out all through line 6 on page 29 and insert in lieu thereof the following:

(1) Population.—Population shall be determined on the same basis as resident population is determined by the Bureau of Census for general statistical purposes.

On page 29, line 7, strike "(3)" and insert in lieu thereof "(2)".

On page 29, line 24, strike "(4)" and insert in lieu thereof "(3)".

On page 32, beginning with line 2, strike out all through line 19 on page 33 and insert in lieu thereof the following:

(a) Appropriations.—There is hereby appropriated out of amounts in the general fund of the Treasury attributable to the collections of the Federal individual income tax not otherwise appropriated—

(1) For the period beginning January 1, 1972, and ending June 30, 1972, \$900,000,000.

(2) For the fiscal year beginning July 1, 1972, \$1,950,000,000.

(3) For the fiscal year beginning July 1, 1973, \$2,250,000,000.

(4) For the fiscal year beginning July 1, 1974, \$2,550,000,000.

(5) For the fiscal year beginning July 1, 1975, \$2,850,000,000.

(6) For the period beginning July 1, 1976, and ending December 31, 1976, \$1,575,000,000.

On page 34, lines 9 and 10, strike "in the last sentence of subsection (a)(1) and".

**TABLE COMPARING ALLOCATIONS TO THE SEVERAL STATES AS PROPOSED IN SENATE BILL 3651 AND AS PROPOSED BY AMENDMENT NO. 1312 TO SUCH BILL AS OFFERED BY SENATOR HOWARD H. BAKER, JR.**

Figures are in millions of dollars and represent total distributions to State governments during the year beginning Jan. 1, 1972, and ending Dec. 31, 1972]

Name of State	Senate bill 3651	Amendment No. 1312
Alabama.....	14.9	25.8
Alaska.....	3.5	2.3
Arizona.....	14.0	17.94
Arkansas.....	8.0	14.4
California.....	241.1	204.9
Colorado.....	20.3	20.7
Connecticut.....	21.0	24.8
Delaware.....	7.8	4.7
District of Columbia.....	10.8	6.0
Florida.....	31.9	54.8
Georgia.....	28.3	35.4
Hawaii.....	13.2	8.5
Idaho.....	5.8	6.4
Illinois.....	105.1	97.4
Indiana.....	31.0	39.2
Iowa.....	26.2	27.1
Kansas.....	13.8	18.9
Kentucky.....	19.2	25.8
Louisiana.....	18.4	32.4
Maine.....	5.6	9.6
Maryland.....	50.1	37.1
Massachusetts.....	74.6	54.3
Michigan.....	91.0	78.7
Minnesota.....	51.7	36.5
Mississippi.....	10.1	21.3
Missouri.....	27.9	35.8
Montana.....	6.9	6.8
Nebraska.....	9.7	12.8
Nevada.....	3.7	4.6
New Hampshire.....	3.3	5.6

TABLE COMPARING ALLOCATIONS TO THE SEVERAL STATES AS PROPOSED IN SENATE BILL 3651 AND AS PROPOSED BY AMENDMENT NO. 1312 TO SUCH BILL, AS OFFERED BY SENATOR HOWARD H. BAKER, JR.—Con.

[Figures are in millions of dollars and represent total distributions to State governments during the year beginning Jan. 1, 1972, and ending Dec. 31, 1972]

Name of State	Senate bill 3651	Amendment No. 1312
New Jersey.....	44.7	58.2
New Mexico.....	6.5	9.9
New York.....	317.4	204.6
North Carolina.....	36.3	41.0
North Dakota.....	3.5	5.9
Ohio.....	49.5	74.5
Oklahoma.....	11.4	19.6
Oregon.....	24.8	18.5
Pennsylvania.....	98.4	99.2
Rhode Island.....	7.8	8.0
South Carolina.....	14.3	20.1
South Dakota.....	3.7	6.8
Tennessee.....	14.3	29.5
Texas.....	46.2	83.4
Utah.....	8.8	10.3
Vermont.....	5.7	5.0
Virginia.....	38.3	36.5
Washington.....	20.9	30.2
West Virginia.....	10.0	14.8
Wisconsin.....	65.9	49.5
Wyoming.....	2.2	3.4

The CHAIRMAN. The committee stands adjourned.

(Whereupon, at 11:40 a.m., the hearing recessed, to reconvene subject to the call of the Chair.)

## REVENUE SHARING

THURSDAY, JULY 20, 1972

U.S. SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D.C.*

The committee met, pursuant to recess, at 10:10 a.m., in room 2221, New Senate Office Building, Senator Russell B. Long (chairman) presiding.

Present: Senators Long, Anderson, Talmadge, Hartke, Harris, Ribicoff, Byrd, Jr., of Virginia, Nelson, Bennett, Curtis, Miller, Jordan of Idaho, Fannin, and Hansen.

The CHAIRMAN. Today, the Committee on Finance resumes hearings on H.R. 14370, the revenue sharing legislation. We are pleased to have as our leadoff witnesses today a panel of distinguished Governors representing the National Governors Conference. The Honorable Marvin Mandel, Governor of the State of Maryland, and chairman of the executive committee, will make the statement in chief for the Governors, and all members of the panel will be available to discuss questions concerning this important legislation with the committee.

Hearings on this legislation will continue through Thursday of next week, and we should begin marking up the bill in executive session soon thereafter. Before I recognize Governor Mandel, I would like to state for the record my concern, and I believe a matter of concern for the entire committee and the Congress. I refer to the runaway program of social services under State welfare laws. Today, social services are matched by the Federal Government at a 75 percent rate. Federal expenditures under this program are rising at a phenomenal pace. In fiscal year 1969, this program amounted to \$354 million; in fiscal year 1971, the cost had risen to \$746 million; in 1972, it was approximately \$1.5 billion; and when the committee acted on the social service features of H.R. 1, the welfare reform bill, we understood the 1973 cost to be \$2.2 billion.

But at a meeting called by the Governors' Conference just this Monday, it was revealed that States actually project expenditures of \$4.7 billion for 1973—more than double what we were led to believe would be the case. Now, this \$4.7 billion is very near the \$5.3 billion of revenue sharing provided for in the House bill. We cannot afford to continue the present social services system if we are going to provide \$5.3 billion a year, and more, in revenue sharing funds under the bill before us today.

I hope that in your testimony today, you gentlemen of the Governors, Conference can advise us all how we might deal with the problem of social services. This program originally was estimated to cost \$40

million a year. The expenditure for the next fiscal year would be over 100 times what the estimate was when this program was put into effect in 1962. It is a matter of very serious concern. While I know this Senate, and I think most of us want to help the States with their fiscal problem, we don't want to create insurmountable problems for the Federal Government.

I recognize now Governor Mandel.

### STATEMENT OF HON. MARVIN MANDEL, GOVERNOR, STATE OF MARYLAND

GOVERNOR MANDEL. Mr. Chairman, members of this committee, as chairman of the National Governors' Conference, I am pleased to present the position of the conference on H.R. 14370, "The State and Local Government Fiscal Assistance Act of 1972."

First, however, I would like to take this opportunity to thank each of you for your fine efforts on behalf of the States in the past. The Governors have always found strong support in this committee and from you, Mr. Chairman, in our mutual efforts to solve some of our most pressing domestic problems. You have worked diligently to find solutions to problems with welfare, medicaid and medicare reforms, and intergovernmental taxation. Again, we thank you and appreciate all of your efforts.

And now we are before you again with a matter of utmost importance.

Gentlemen, the Governors consider revenue sharing one of the most critical issues we have ever discussed with this committee. Revenue sharing is a top priority program for Governors, mayors, and county officials throughout our Nation. Truly, we believe revenue sharing is an idea for action whose time has come.

Without hesitation, the National Governors' Conference supports the concept of revenue sharing now before this committee. The Governors have been advocates of this concept since 1965 when the National Governors' Conference Committee on Executive Management and Fiscal Affairs prepared a resolution of support for this concept.

The Governors have labored long and hard to secure House passage of revenue-sharing legislation, and we are encouraged by the strong bipartisan support of every Member of the House leadership, the White House, the mayors, and the county officials, and now 42 Senators who have cosponsored such legislation. We are also encouraged that the candidates for President of the United States have also publicly stated their support of revenue-sharing legislation.

Mr. Chairman, we are especially appreciative of your strong personal encouragement to the Governors in your meetings with our executive committee over the past 2 years.

The issue of revenue sharing has now been a subject of national debate for more than 8 years. The House Ways and Means Committee heard testimony from more than 100 witnesses and spent more than 35 days in executive session considering all aspects of the bill now before this committee.

Mr. Chairman, I have attached to my statement a summary of the current fiscal crisis faced by State and local governments and "Why State and Local Governments Need Revenue Sharing." I will not pre-

sume on your time to read this information, but will ask each Governor present to speak to his own problems and the need for revenue sharing in his State. For example, in 1946 all State and local taxes totaled 31 percent of Federal taxes; today, State and local taxes have risen to 71 percent of Federal taxes. During this period when there have been repeated Federal tax cuts, a majority of State and local governments have had to raise taxes each year.

We recognize the House-passed bill does have opposition. I am sure all components of the bill are not satisfactory to any Governor, mayor, county official, Congressman, or Senator. While the National Governors' Conference supports revenue-sharing legislation, we are aware of the concern of several States over the formula for the distribution of the State funds, particularly that part of the formula which allocates funds based on State income tax collections. Some States have constitutional prohibitions against income taxes. Florida, for example, has many second home property owners. Therefore, taxes other than income are more equitable to the people of Florida.

The National Governors' Conference supports the idea that revenue-sharing funds should not prescribe specific courses of action for the States and localities. We now have such requirements now in more than 1,000 separate Federal aid programs.

Gentlemen, we fully recognize the problem posed in the bill for those States without income taxes or with low income taxes, and we support their concerns. However, our major concern is for this Congress to pass a revenue-sharing bill. Consequently, we urge the Senate Finance Committee to consider all alternative formulas, but without losing sight of the ultimate goal—Senate passage and conference agreement with the House.

This is our ultimate end. In many ways we are in a fight with time rather than ideas. The short number of legislative days remaining for the 92d Congress, the press of unfinished business, and the scheduled recesses all give the Governors a sense of urgency about Senate consideration of the bill.

Mr. Chairman, we are very pleased and encouraged that you opened hearings on H.R. 14370 immediately after House passage. We are here to convey our deep interest in this legislation, and to reaffirm our position that we would like and particularly need revenue sharing passed in this session of the Congress. We also offer our assistance to the committee as you work on revenue-sharing legislation.

(An attachment to Governor Mandel's prepared statement follows:)

#### WHY STATE AND LOCAL GOVERNMENTS NEED REVENUE SHARING

Much has been said about the fiscal crisis facing state and local governments. As far as the States are concerned, over one-third are expected to have *substantial* budget deficits in 1972 unless revenues are raised or expenditures cut, and over two-thirds of the States have either taken or are considering action to increase taxes. The most severe difficulties, however, are taking place in some cities, where climbing expenditure needs are combining with an eroding tax base to produce a problem which cannot be managed solely by local action.

State governments are virtually strapped in a fiscal strait jacket. State aggressiveness on the tax front can hardly be challenged; state taxes have more than tripled since 1958, producing revenue increases in excess of \$31 billion as of 1970. In terms of 1968 dollars, however, more than half of the increase has gone to meet the pressures of inflation. The remainder, interestingly, has covered intergovernmental fiscal outlays—a portion to match federal aid, the remainder allocated as state grants-in-aid to local governments.

## PROGRAMS ARE INTERGOVERNMENTAL

For example, the road system of a State covers primary, secondary and other feeder and local roads. The responsibility for construction and maintenance varies among States—some heavily local, some not. The variance is great, for example, from North Carolina's state road system to the New York state-county-township-village-city network, and there are many gradations between. Some States contribute to public relief expenditures, in other States these are a local responsibility. The degree of administrative control and financial support given to such activities as elementary and secondary education and public health vary widely.

Consider also the interdependence of such state-local programs as public safety, health, housing, environmental management and pollution control. Given the complexity of intergovernmental finance, it is understandable why economists, in projecting expenditures and revenues, treat state and local expenditures as a unit.

Nationwide, 36 percent of all state revenues are annually passed through directly to local governments for local government services. In addition, these state revenues represent to local governments over one-third of their total expenditures.

In 1970, States gave local governments financial assistance in excess of the combined total of federal aid for both state and local governments, not including \$25 billion of state funds spent directly by the state governments. Moreover, of the approximate \$27 billion allocated by States in 1970 for state aid to localities, more than \$2 billion was shared with no strings attached. Forty-seven States have now adopted a form of "general revenue sharing"—flexible, general purpose funds distributed to the local governments.

## THE STATES CANNOT ALONE HANDLE THE STATE-LOCAL FISCAL CRISIS

Federal help is needed. There is, of course, much help now—approximately \$30 billion in grants-in-aid for 1971—but more dollars and more flexibility, as would be obtained under general revenue sharing, are needed. There are interrelated reasons:

(a) *Projections of expenditure.*—The President, in his Budget Message to the Congress, estimated a \$10 billion gap in revenues of state and local governments for 1971, despite the more than \$6 billion of added federal grants-in-aid estimated for this year and the higher state and local taxes. A report, "Counter-budget", prepared by the National Urban Coalition estimates a gap of \$67 billion by 1975. The latter estimate obviously assumes growth in quality of programs and new programs.

Total expenditures of States and localities reached over \$148 billion in 1970. They are projected to exceed \$260 billion by 1976—almost doubling in the seven-year period. Higher education alone will need \$3 billion added funds for teaching, without taking account of additional college plant and the other important functions of those colleges and universities.

The expenditure categories to which that portion of general revenue sharing funds reserved for the States is likely to be put are those in which demands for action are growing—health, mental illness and drug addiction, imported court systems and correctional institutions that do not breed recidivism, higher education, lifetime education opportunities, and natural resources and environmental protection. States are also being asked to assume more responsibility for elementary and secondary education. This program alone will expand tax or other revenue needs by many billions.

For effective attacks on these problems, many resources will be needed, including money.

(b) *State and local governments have already extended themselves to meet financial needs.*—State and local governments increased their general revenues by 145 percent from 1959 to 1969, compared to the federal increase of 116 percent. The States picked up a larger portion of the state-local share—the state increase alone in this period was 172 percent. An AOIR survey covering 1950–1967 showed that less than one-half of the state increase was due to economic growth, and that over one-half was due to legislation to add new taxes or increase rates. Between 1959 and 1969, States took over 400 actions to increase taxes, including thirty-six enactments of new taxes.

While the States have been increasing revenues, their payment of assistance to local government has gradually taken a larger share, rising from 33 percent of total state expenditures in 1959 to 36 percent in 1969. This percentage is con-

stantly growing. Much of the additional taxation imposed by state and local governments has been required merely to hold the real level of public services constant. A new and dependable source of revenue, that automatically responds to the growth of personal income, is needed—general revenue sharing fits the need.

(c) *Tax increases meet substantial taxpayer resistance.*—The taxpayers' "revolt" is here and now. Sixty percent of the bond issues, in dollar volume, placed before the people in 1969 were rejected, nearly matching the worst year in history. (The record year was 1939 when 61 percent of all bonding proposals were rejected.)

Two non-personal income tax States—Washington and South Dakota—proposed income taxes last year. Both efforts were soundly rejected by the voters. More recently, the same voter reaction was evidenced in Connecticut and New Jersey.

The people are fed up with a steady diet of rising taxes at the state and local levels. It appears to be politically impossible for state and local officials to raise taxes fast enough to keep up with rising public demands for governmental services.

Since 1946, federal taxes have remained at a constant percentage of GNP while local taxes have increased 54 percent, and state taxes have increased 95 percent. If during this span of time the federal government had shared its federal income tax revenues with state and local governments, rather than instituting four major tax reductions, many local tax raises would not have been necessary. General revenue sharing, if enacted promptly, should go a long way toward correcting this fiscal imbalance.

(d) *Federal revenues are the major source of assistance to the States and their local units.*—Federal elections—whether at the Presidential or Congressional level—do not often find taxes as an issue. Federal financial assistance does not necessarily depend on an increase in federal taxes; tax decisions are based more on economic than on budgetary factors. State and local governments, on the other hand, must raise taxes for expenditure increases.

Furthermore, federal revenues increase proportionately faster in a growing economy than do state-local taxes. This is because the federal government is able to rely heavily on a strongly progressive income tax, which increases federal receipts more rapidly than the increase in personal income. State income taxes, for competitive reasons, cannot be as progressive, and States also must place much reliance on sales taxes.

#### CONCLUSION

Revenue sharing is needed to meet total state-local requirements. The administration of state-local functions by various levels of government differs among the States; as well as do state practices in sharing their revenues with local units. The fiscal problem is a state-local one, and is not divisible. The strong fiscal efforts made in past years by state and local governments, especially at the state level, have not kept pace with program needs, yet these efforts have been as great as politically feasible. More federal assistance is needed. Yet the *type* of need varies among States and among localities, so the assistance should be granted in the degree of flexibility entailed in a revenue sharing plan.

Governor MANDEL. Mr. Chairman, in the interests of time, and not to presume on your time, we have the Governors assembled here. I would like to, with your concurrence, ask each one of them to just give a very brief statement to the committee and then we will be ready and willing to answer any questions that you may pose to any of the Governors or to all of the Governors. If that has your concurrence, I would like to ask Governor Cahill for a statement.

#### STATEMENT OF HON. WILLIAM T. CAHILL, GOVERNOR, STATE OF NEW JERSEY

Governor CAHILL. Mr. Chairman, members of the committee, in the interest of time I would like to offer at this time a prepared statement for the record and ask you that it be considered as having been read. I am here to publicly urge upon this committee, and the U.S.

Senate, support of the concept of revenue sharing. Our State, as I am sure all of you know, is one of the most urbanized States in the United States and revenue sharing is today an absolute necessity for the survival of the cities of the State of New Jersey.

I have set forth in the statement, Mr. Chairman, reasons that I believe will encourage this committee to work its will on the House bill but in any event, at the very earliest opportunity to present to the entire Senate some form of revenue sharing that the U.S. Senate can approve and that the House can concur with and the President can sign.

Thank you very much, Mr. Chairman.

(Governor Cahill's prepared statement follows:)

PREPARED STATEMENT OF HON. WILLIAM T. CAHILL, GOVERNOR OF NEW JERSEY

Mr. Chairman, the State of New Jersey needs help. The needs are both obvious and urgent. The rising cost of government demands attention for additional sources of financial assistance.

We have all heard it said, "We should practice more economy. If we eliminate inefficiency and corruption, we don't need any more taxes."

As expenditures in every state and in virtually every municipality have risen dramatically in the postwar period, it is only natural for observers to have sought villains on whom to place the blame. Bureaucratic inefficiency and corruption are the candidates usually nominated for the purpose.

Undoubtedly government operations are not perfectly efficient, and the cases of corruption that come to light should not be ignored. However, it is noteworthy that when successful businessmen and seasoned administrators have taken over the operations of government agencies, they have generally been little more successful than their predecessors in stemming the rising costs.

Their failure must be ascribed to the fact that the source of the cost increases lies deeper. The State and municipalities provide public services whose nature prevents the use of automation in their production without a catastrophic deterioration in quality. Teaching machines and visual aids may have increased the effectiveness of our teachers' work, but we are not ready to have our children's education taken out of the hands of the teacher and entrusted exclusively to machines! Patrol cars, two-way radios and other types of equipment help the police, but crime rates are ultimately kept down by the patrolman who pounds the beat as his predecessors did a century ago.

Thus, in many municipal and State-financed activities, automation is virtually out of the question. On the other hand, in industry automation makes possible increases of productivity of some three percent per year, and more. Since about 1800, innovations have increased output per man-hour in industry some twenty times while that in teaching, police patrols, libraries and many other government activities has remained virtually unchanged.

However, wages in the two sectors of the economy have to keep pace with one another. As productivity in manufacturing rises, wage expectations go up correspondingly—they rise more than just enough to make up for the increasing cost of living. That is how rising living standards have been achieved in the United States. Even if we did not want payments to teachers, patrolmen and librarians to keep abreast of those in the remainder of the economy, there is little we could do about it without undermining the services they provide. If their wages are permitted to fall even further behind, it will become harder and harder to get qualified candidates for these professions.

The result is unavoidable. When prices in the private sector, with its growing automation, rise two percent a year, the public sector, to which automation is largely denied, will find its cost rising at an annual rate of perhaps seven percent. And when inflation in the economy brings the general price level up five percent per year, that of the public sector can be expected to grow at an annual rate of 10 percent.

It is noteworthy that precisely the same phenomenon is found in the supply of services in the private sector of the economy. Everyone knows how rapidly medical and legal costs, and the costs of automotive insurance, have been rising. Thus,

despite the motivation for efficiency in private enterprise, in sectors where automation is difficult to employ, cost trends precisely paralleling those in the public sector have proved inevitable. These necessary costs have had to be paid because the public has not been prepared to do without such vital services.

This explanation, then, calls for no scapegoats, no villains. It shows that the rising costs of public services are an unavoidable fact of economic life. They can only be eliminated at the cost of crippling our public services and condemning our civil servants to wages and salaries that fall further and further behind those of the remainder of the community.

State and local governments are struggling through skyrocketing tax increases to meet their obligations. During the last decade, they have increased their revenues principally through increases in sales and property taxes.

State and local support for education has increased 173% since 1960; for welfare 193%; for health and hospitals 130%. State and local taxes have tripled and outstanding debt has doubled during the sixties.

In spite of these increases, many cities such as Newark and several of our states have found themselves on the brink of financial disaster. This has brought the President and members of Congress to the conclusion that an additional means of support is required in the form of what is known as revenue sharing.

The basic idea behind revenue sharing is to strengthen the fiscal capabilities of State and local governments by requiring the national government to share with them a designated portion of the federal personal income tax revenue on a no-strings-attached basis. In essence, revenue sharing would establish the principle that State and local governments should have a guaranteed, but limited, access to the nation's prime power source—the federal personal income.

I call upon you to support this concept because the need for this approach is overwhelming.

Governor MANDEL. Thank you.

Governor Moore of West Virginia.

#### STATEMENT OF HON. ARCH A. MOORE, JR., GOVERNOR, STATE OF WEST VIRGINIA

Governor MOORE. Mr. Chairman, Senators, we are here talking about your States and the cities and communities of your States and essentially, as for the present, their spokesmen. I think we lose sight of the fact that in the overall dialog and discussion and debate of the concept of revenue sharing, the States are occasionally challenged as to whether or not we are doing an adequate job in many areas that are our specific responsibility.

Mr. Chairman, I point out an area in which I am sure the Congress feels that they have done an outstanding job, for example, in the field of education and the support of education and all of the ramifications of this. But a close examination really finds in that particular subject area the States are supporting the educational process in this respect to States at 92 or 93 percent. Whereas we look to the contribution from Federal Government in this vital area, it is a rather insignificant contribution in terms of State effort.

Having said that, I am here with my fellow Governors supporting the basic concept of revenue sharing and the fact that we just draw to your attention these are your States, your cities, and your communities. Without this thoughtful legislative enactment, the cities and the towns and the communities of your States are not going to be able to improve themselves to the standard you might set forth.

Significantly in this particular area I, for one Governor, believe this should have the highest priority of your consideration among all other matters. The concept should have the No. 1 priority and the

consideration of this committee and the Senate for the present. Otherwise there isn't set up a delivery system to bring about the regeneration of the cities, towns, communities, and States that we all represent in various degrees.

Thank you, Mr. Chairman, for this opportunity.  
Governor MANDEL. Mr. Chairman, Governor Kneip.

**STATEMENT OF HON. RICHARD F. KNEIP, GOVERNOR, STATE OF SOUTH DAKOTA**

Governor KNEIP. I, too, have a prepared statement which I would like to submit and make part of the record and within that statement you will find certainly some objections as other Governors have raised in connection with the revenue sharing. But I share what all Governors here think is one important point, that is, whatever differences we might have on formula distribution, we do not want these differences to prevent final passage of revenue-sharing legislation. My State is one of those States which do not have a State income tax annually. We are very concerned about the State income tax part of that formula within the distribution.

One other point I lean heavily on and I think it is worthy of note right now. While we look to a better State-Federal relationship, one particular concern of mine—I am not sure whether the other Governors agree with me on this particular thing—the idea of going directly to the cities and bypassing States, that is a concern to me.

I conclude, as I begin, with the emphasis being made on the fact of revenue sharing with the fact that we do need that help and we would like this committee to bring to the floor of the Senate a bill so we might get on with this thing.

(Governor Kneip's prepared statement follows:)

**PREPARED STATEMENT OF HON. RICHARD F. KNEIP, GOVERNOR OF SOUTH DAKOTA**

Mr. Chairman and members of the committee, thank you for this opportunity to present some thoughts on the "Revenue Sharing" plans currently before you. As you know, I represent a state that is basically rural and small in population, but one that covers a good deal of acreage and produces a large share of agricultural products.

In my state, South Dakota, we face problems which seem endless and merciless: the disappearance of the family farm, disproportionate numbers of older Americans, the flight of our young people out of the state, the struggle to attract new industry to provide a counter balancing factor in our economy and attract young people and capital, and a number of other problems constantly threatening our economy.

Only rarely does the opportunity present itself to affect, on a wholesale basis, these trends and others suffered by other states and localities. The interstate system instituted in the 50's might be one example. "Revenue Sharing" in my judgment will be another.

It is impossible to calculate the future significance of an idea that has so great a potential. I fully and wholeheartedly endorse the general concept of "Revenue Sharing" and see it as a method for strengthening the federal system and reversing some major trends under which we are suffering.

However, it seems that with a tool of such potential at our fingertips, we have failed to give due considerations to the major policy implications it could and should have. For example, in the past few years many have spoken of correcting the shift which has occurred from rural to urban settings. Without a willingness to invest resources in our rural areas however, we are only deluding ourselves. The odds against making such a shift are overwhelming.

Of course, my colleagues have beleaguered and financially strapped cities within their states are not anxious to see a "Revenue Sharing" formula that would leave them out. It was the financially troubled cities that provided the sense of urgency for "Revenue Sharing" and they should not be ignored. I am suggesting here that the formula used to distribute funds assumes that all states and localities are alike except in terms of per capita wealth and population.

We are *not* all alike. We have differing problems and differing characteristics. This "Revenue Sharing" proposal now before you, or for that matter any revenue sharing proposal, will be a determining factor in how effectively we are able to deal with those problems and a determining factor in the role the states will play in the future.

Let me be more specific. The current proposal would distribute monies to the states on the basis of urbanization, population and per capita income. This would produce the following effect. New York with one of the highest per capita incomes (approx. \$4,797) would also receive the highest per capita share (approx. \$35.32) under the current proposal. At the same time Mississippi with one of the lowest per capita incomes and South Dakota which ranks 40th in per capita income would receive slightly more than \$20 per capita. These two states are rural states and it is obvious that rural needs have not been addressed here. I have included some additional examples for your consideration.

State <sup>1</sup>	Ranking (per capita income)	Total amount of current proposal (in millions)	Per capita, current proposal
New York.....	2	\$649.1	\$35.68
California.....	8	610.1	30.50
Delaware.....	11	17.4	29.49
Massachusetts.....	9	179.0	31.47
Wisconsin.....	21	137.0	31.09
Wyoming.....	32	6.1	18.18
North Dakota.....	45	12.0	19.19
Arkansas.....	49	38.4	20.26
Tennessee.....	43	79.3	20.28
Louisiana.....	41	83.2	22.83
Mississippi.....	50	46.0	20.72
South Dakota.....	40	13.5	20.00

<sup>1</sup> Information compiled from figures available from Council of State Governments and 1971 Statistical Abstract, U.S. Census.

By reviewing the few examples that I have presented here, it is not difficult to understand why some feel that categorical grants are a more useful way of addressing the problems that confront them.

The current "Revenue Sharing" proposal also has a penalization clause for lack of a state income tax effort. Gentlemen, this clause is specifically directed towards 10 states which currently do not have a state income tax. They are Connecticut, Florida, Nevada, New Hampshire, New Jersey, Tennessee, Texas, Washington, Wyoming, and my own state, South Dakota.

I can well understand the desire for progressive tax structures. I have spent long hours and considerable energy fighting for one in my own state. But I can also understand that an income tax is not the best alternative for all states. I can also understand that states might feel that it is their prerogative to tax as they see fit without having a carrot or stick hanging over them. Isn't it possible to allow a grace period concerning this provision, or allow states to demonstrate the equality of their present tax system in lieu of instituting an income tax?

In South Dakota we have moved progressively towards a new taxing structure and we are very close to achieving it. It seems that here again the Federal Government is overstepping its rightful role. This provision hardly speaks to the new "federalism" that so many have assured us was the direction in which we were going to move.

The proposal in its present form also provides for aid to be sent directly to cities, by-passing the states. This may be quite acceptable and desired by some states which have huge cities within their boundaries. Not all of us have such situations and again I point out that all states are not alike and a simple formula cannot be applied across the board. This particular provision, I believe, will have a profound affect on our system and in the long run alter significantly the cur-

rent interweaving structure of government in the states. It is difficult for me to understand why such fundamental questions as these are not left to the states to work out with their cities. I cannot perceive how, with these provisions in the act, that this proposal would strengthen Federalism.

In my state, and others with limited resources, we cannot hope to strike out in several different directions at once. We must concentrate on a few avenues which have the most promise for us. In following years when the Revenue Sharing concept is broadened, the decision on how the money is funneled to its destination will prove to be a crucial one.

Finally, "Revenue Sharing" will eventually produce a decision point on the allocation of resources between itself and the categorical grants. Based on the current formulae in the "Revenue Sharing" proposal, I believe a reduction in categorical grant resources is inevitable and would work to our advantage.

I hope that through some of the thoughts that I have presented here one view is coming through. Specifically, the formulae under which the resources in this proposal would be allocated treats the symptom—urban problems—but fails to address the heart of the problem—rural-urban imbalance. The clause concerning income taxes is a veiled threat and threats are no way to advance the partnership implicit in the term "Federalism". Finally, bypassing the states with direct aid to the cities will weaken, not strengthen federalism. The city governments are the creation of the states, and as such their relationship to the federal government should be through the state. This seems a complete contradiction of the idea of government providing opportunities where none exist.

I would propose that the proposal be changed to delineate between rural and urban, and that we admit that in our complex society, a simple formula for all areas of concern is not a viable alternative.

In conclusion, let me re-emphasize the great need for passage of a revenue sharing bill. Amendments in my opinion are necessary, but please don't use amendments as an excuse for inaction. We need a revenue sharing bill.

Governor MANDEL. Governor Ogilvie of Illinois.

#### **STATEMENT OF HON. RICHARD B. OGILVIE, GOVERNOR, STATE OF ILLINOIS**

Governor OGILVIE. Members, I am happy to be here with this committee in supporting revenue sharing. I strongly support the bills pending before your committee. When we consider the way in which the Federal Government runs, this represents a monumental step in the right direction of Federal aid. There is substantial moneys involved in local elections.

I was elected Governor of Illinois because of the reform proposal I made to the people. In taking office I have given strong priority to the cities.

Illinois needs your help. We have taken the first step toward the passage of an income tax. The bills before you would encourage the States to help themselves by making better and more extensive use of our own tax resources. For one thing, we could put a moratorium on property tax. A few weeks ago the Illinois Assembly by a 3 to 5 vote, froze the property tax for 2 years.

Thank you, Mr. Chairman.

Governor MANDEL. Governor Dunn of Tennessee.

#### **STATEMENT OF HON. WINFIELD DUNN, GOVERNOR, STATE OF TENNESSEE**

Governor DUNN. Mr. Chairman, gentlemen of the committee, let me express my appreciation for the privilege of being before you. I also have a statement which I wish to submit. I think we all recognize that the concept of revenue sharing originated in the minds of legisla-

tors and to the basic intention of strengthening our federal system of government. On that basis I wholeheartedly support the concept and very deeply express the desire of the people of Tennessee that revenue sharing be enacted this year.

In my judgment there are several inequities in the funds directed toward the States. This is the \$1.8 million which goes to the States. I think there are inequities in part due to the presence of the State income tax in the provision of these funds. This represents a penalty to the States which do not impose a personal income tax at the State level. It is important that we try to put as much equity as possible into the formula and it is my position that while supporting the whole concept and wanting very much to see it enacted, I would call to your attention what I consider to be a disparity in the hope you will give those considerations some attention perhaps through amendments to what you ultimately proffer. Thank you.

(Governor Dunn's prepared statement follows:)

PREPARED STATEMENT OF HON. WINFIELD DUNN, GOVERNOR OF TENNESSEE

Mr. Chairman, I appreciate the opportunity to appear before this Committee with regard to the State and Local Fiscal Assistance Act of 1972—H.R. 14370. I was afforded, about this time last year, a similar opportunity by the House Ways and Means Committee to discuss this same issue—general revenue sharing. Since that time, the House has passed H.R. 14370. Under the provisions of this legislation, as you well know, my state, Tennessee, ranks 51st among the states and the District of Columbia in per capita dollars from the funds allocated to state governments. My greatest concerns are not that my state ranks 51st in per capita dollars, although I would prefer that not be the case. Instead, I am very concerned that from the funds allocated to the states, Tennessee will receive \$13.76 less per capita than the state with the highest per capita sharing—an amount four times greater than the per capita share for Tennessee, which is \$3.64 (based on actual '70 population). Revenue sharing is intended to revitalize and strengthen the federal system. I am of the opinion that disparities such as these are inconsistent with that intent. I would *not* suggest that these disparities be rectified by altering the funding or the method of allocation of funds for local units of government. Their responsibilities in the federal system, and their needs and problems, are as genuine and certainly as great as those of the states. The inequities inherent in the provisions of the State and Local Fiscal Assistance Act result from the use of state income tax to distribute one-half of the allocation and tax effort the other half, ignoring population as a necessary and reliable factor for the distribution of these funds.

I do not think it is the responsibility of Congress to dictate, by penalty of allocation, a revenue system for the states. To do so will be to fail to recognize the differing Constitutional and economic situations in the various states. In Tennessee we are making every effort to modernize our tax structure within Constitutional bounds and also generate the funds necessary to meet the needs of our citizens. I asked the General Assembly to establish and appropriate funds for a Tax Modernization and Reform Commission. The Commission has been established and its membership is being appointed. It will begin in the very near future to examine in detail the relationship of our state taxing structure and our system of local taxation. Our action in establishing this Commission was not only prompted by recent court decisions concerning education financing but also by the realization that new methods and new ideas need to be employed, perhaps, to structure an improved state-local taxing scheme for Tennessee. During this past year, a Constitutional convention met to make determinations concerning the property tax in our state. As a result, the Constitutional amending process will continue to the ballot box—Tennesseans will vote in our August 3 primary on this Constitutional amendment. We have, incidentally, a Constitutional provision prohibiting the imposition of a personal income tax by the state. While these activities were being conceived and initiated over the past two years, I found it necessary to request the largest tax increase in the state's history. Although the General Assembly did not grant the entire request, the increase which was approved

was still the largest tax increase in the state's history. I mention these as but one example of how one state is working to make the always-difficult decisions necessary to meet its responsibilities.

In your deliberation on the difficult question of establishing a revenue allocation formula for sharing revenues with the states, I am confident that you will give due consideration to the initiatives states have undertaken, to state resources, and to needs.

The Senior Senator from Tennessee, Howard Baker, has introduced an amendment to H.R. 14370. By altering the method of allocating funds to state governments, this amendment provides for the most equitable distribution of these revenue sharing dollars among the states. As I mentioned earlier, the present provisions of the State and Local Fiscal Assistance Act apportion a per capita difference among the states of \$13.76. The Baker amendment, on the other hand, apportions a difference among the states of only \$4.27 per capita. That is a reasonable difference—resulting from the use of population modified by tax effort. I consider the use of tax effort in this allocation formula to be a realistic method of distinguishing those states which are maximizing to the greatest extent their potential revenue effort. The Baker amendment is based in part on population, recognizing that each of the states has the same basic responsibilities to its people.

The amendment introduced by Senators Gurney and Ribicoff, substituting federal income tax collections for the present state income tax collections in H.R. 14370, is more equitable in its per capita range. However, it is still more than twice as large as the \$4.27 per capita difference in the Baker amendment. By using federal income tax collections to allocate one-half of the funds, this amendment discriminates against those states, such as Tennessee, which do not have a high annual average personal income. With an annual per capita income (based on 1970) of just over \$3,000, Tennessee is more than \$800 below the national average and more than \$1,700 below the state with the highest per capita income. Efforts are being made to improve this situation—efforts which this year included the creation of a new state agency for economic development.

In speaking before the House Ways and Means Committee, I supported revenue sharing. I can assure you that position has not changed. The debate has been long and arduous and the need for responsibility sharing in our federal system well-defined. I must admit, however, that the provisions of the House-passed bill relating to the apportionment of funds among the states contain inequities which I consider to be inconsistent with the basic concept of revenue sharing.

Governor MANDEL. Governor Milliken of Michigan.

#### STATEMENT OF HON. WILLIAM G. MILLIKEN, GOVERNOR, STATE OF MICHIGAN

Governor MILLIKEN. Thank you, Mr. Chairman. I want to express my appreciation for the opportunity that we as Governors have to be here today and, Mr. Chairman, I have a formal statement which I would like to introduce into the record but in addition to that formal statement, I simply would like to make several brief comments.

First of all, there is no question that this effort to achieve revenue sharing in this country is supported by every one of the Governors of the United States, both Republican and Democrats, and there is no question that every one of the States is in desperate need for the kind of assistance that would come from the adoption of revenue sharing. But I want to emphasize that not only are the States in dire need but particularly the larger cities, and I am referring particularly to Detroit and many other cities of the country. They are in desperate need for this kind of action from the United States and I am fearful that if this action were not forthcoming, many of these cities would enter a period of crisis in which they would have difficulty.

Second, I want to say that every dollar that would be received by the State officials, under whatever kind of revenue-sharing bill which is

passed, would be subject to the same kind of vigorous, rigorous budget scrutiny that we provide for all of the tax dollars presently raised within the States.

I want to emphasize finally not only is revenue sharing important but it is important and essential from our point of view that it come now, that it come this year. We respectfully urge that your committee and the Senate act on this program this year. Thank you.

(Governor Milliken's prepared statement follows:)

PREPARED STATEMENT OF GOVERNOR WILLIAM G. MILLIKEN

Mr. Chairman, members of the committee, I appreciate the opportunity to be part of the National Governors' Conference panel presenting testimony on general revenue sharing.

I believe that the Senate Finance Committee, in studying the House passed revenue sharing bill, H.R. 14370, is considering the most important and far reaching legislation affecting our federal system. This could lead to the most significant effort ever taken by Congress to enable the states and cities to meet domestic needs of this nation.

For my part, I am not here to plead for a financial handout for Michigan, nor to evade my responsibilities as Governor of Michigan. I am here to petition for a strengthening of the state-federal relationships and building a new perspective for solving this nation's domestic problems in the decades to come.

As it is now, in this decade, the states and cities are facing absolutely devastating budgetary problems caused in large measure by limitations on the resources that are available to meet responsibilities that are their under the federal system. The states and cities share the *burden* and must now more equitably share the *revenue* they help produce.

In my brief presentation before this Committee, I want to touch on four major reasons for enactment of this legislation. This is not a comprehensive list of all the arguments supportive of revenue sharing, as time does not permit that.

First, federal revenue sharing strengthens our federal system of government through a decentralization of decision making. Categorical aid, as justified as it may be in programmatic terms, has the cumulative effect of centralizing decisions in Washington and weakening the federal concept. I am not opposed to categorical grants, but I am opposed to the federal government relying solely on them as the means of aiding state and local governments.

Another reason for federal revenue sharing is that it would provide much needed funds for domestic programs—funds that state and local governments have great difficulty in raising. We all know that state and local governments have a tax base that is much less productive than the federal tax base. Moreover, state government must contend with a factor that is absent at the federal level. We must, as responsible Governors, be concerned with tax competition from our neighboring states if we are to maintain a sound economic and fiscal policy for our states. This necessity of state and local governments to maintain a competitive tax climate often results in an underfinancing of needed public services. Unrestricted federal aid, allocated on the basis of need to state and local governments, would help correct this situation.

Thirdly, in Michigan, the state's need for federal revenue sharing is great, but the need of some of the cities in the state is desperate. Detroit's very financial survival as a livable community requires an influx of federal revenue of at least the magnitude proposed by this legislation. Detroit's situation is the most desperate, but other local units in Michigan are fast approaching it.

The City of Detroit has a tax rate which is 3.7 times the average rate of other local units in the state. Any further substantial increases in Detroit's tax rate to finance needed public services would be counterproductive as this would only hasten the outmigration of middle and upper income individuals and businesses. In the current fiscal year, Michigan will be distributing over \$237 million in unrestricted state aid to local governments which represents over 7% of the state's tax revenues. However, the plight of the cities cannot be met by state action alone; federal assistance is essential.

Finally, under this proposed legislation, Michigan state government would receive an estimated \$90 million in federal assistance. Every dollar received and allotted will be subjected to the same process of tough budget scrutiny that our

present state tax dollars must go through. I am urging that all state and local governments follow the same procedure for these funds that they use for the tax revenue they raise directly.

This committee is being asked to decide whether revenue sharing is in the best national interest. I am convinced that it is in the best national interest, and that we need a re-ordering of our priorities with more emphasis on trying to make our federal system work. I believe the future of our states, of our cities, and of our federal system is at stake.

A Republican President has proposed a Revenue Sharing plan and a Democratic Congress already has modified it. Personally, I am not interested in which leader or which political party gets the credit for whatever federal revenue sharing plan ultimately is adopted. If the plan is right, there will be enough credit to go around. If it is wrong, or if there is no plan, the burden of that failure will fall deservedly on all of us.

Governor MANDEL. Governor Peterson, of New Hampshire.

### STATEMENT OF HON. WALTER PETERSON, GOVERNOR, STATE OF NEW HAMPSHIRE

Governor PETERSON. Thank you very much, Mr. Chairman. Like my colleagues I am most appreciative of the chance to appear before your committee and I do have a statement I would like to have appear in the record.

I have these brief comments. We feel in some instances the House-passed bill does discriminate against certain States. We are a State that does not have a personal State income tax. There is some element of coercion, one might say, in the present legislation that we would hope would be removed and in its place we would suggest consideration of total tax of the State, both local and State, as a more appropriate yardstick and would like to also submit for your consideration that since New Hampshire is the fastest growing State in the New England States that some consideration might also be given to population as a factor so that the legislation finally enacted, hopefully this term, would be more equitable in its final form. But I would like to stress, and it has been stressed before, that notwithstanding the fact that we do feel that certain parts of the bill are not completely equitable, some are of overriding importance and a very real sense of urgency that action could be taken this year.

This sense of urgency is so real and so great that we would be willing certainly to give a great deal in some of these points that we mentioned if we could get action by the Senate this year. We certainly hope you will see it this way. Thank you.

(Governor Peterson's prepared statement follows:)

#### PREPARED STATEMENT OF HON. WALTER PETERSON, GOVERNOR OF NEW HAMPSHIRE

Mr. Chairman and members of the Senate Finance Committee, I welcome this opportunity to appear and offer testimony regarding the revenue sharing legislation now pending before this distinguished Committee.

At the outset, I should like to state categorically that in my view none of the differences of opinion which are likely to be expressed by the several Governors regarding the specific provisions of a revenue sharing bill are of such overriding importance as to justify delay in the timely passage and implementation of revenue sharing. The validity of the concept is almost universally recognized, and the need for the assistance this legislation would provide to state, county and local governments is critical—this is truly a measure whose time has come.

Those provisions of the legislation which address the question of the level and allocation of financial assistance to county and local governments appear to me

to be fair, equitable, and justified as they now are written. I believe that the factors utilized in determining the amounts which are to go to sub-state political jurisdictions are appropriate and the mechanics of getting the financial assistance to them from the Federal level is reasonable given the flexibility provided to state government regarding desired adjustments to meet the unique needs which may exist in individual states.

I am, however, deeply concerned about the inclusion of a state's income tax effort in the formula which determines the amount of assistance which is to go to state governments. In essence, the bills as written tie one-half of a state's allocation to a state personal income tax with no recognition whatever to other tax efforts states may be making to provide for their financial needs.

The National Governors Conference has been on record as fully supporting revenue sharing for some time. That record includes a specific policy position which says funds should be allocated "to the states" based primarily on population adjusted by relative state and local tax effort." That policy position expresses my view precisely.

The total tax burden borne by New Hampshire citizens compares favorably with many other states in terms of demonstrating the determination of New Hampshireites to meet their responsibilities. To penalize them, or the citizens of any other state, because they choose to meet their responsibilities by some means other than an income tax would be an unwarranted intrusion in internal state affairs—affairs which, in fact, affect only that state's citizens.

Moreover, even if every state had equal constitutional authority and equal desire to implement an income tax, heavy reliance upon the level of income tax revenues in determining a state's entitlement to revenue sharing funds would still result in an inequitable distribution among the states. That result would come about because income tax revenues are not simply a function of the rate of the tax, but also a function of the income level of the people subject to the tax.

Thus, a state which has high per capita income could show a higher tax effort and therefore qualify for a higher revenue sharing allocation than a state with a lower per capita income, despite the fact that the rate of the state income tax might be the same—and in total disregard of the fact that the lower per capita income state might have a greater need.

In summary, I believe that a state's allocation should be predicated first on a state's population because in the final analysis, it is people that states are supposed to serve and it is people that are the real measure of the demands placed upon a state government.

Second, I believe that the extent to which a state's citizens are willing to recognize and shoulder the burden of meeting their responsibilities should be given equal weight in determining the entitlement of a state government.

But the manner in which the citizens of a state choose to meet their financial responsibilities is irrelevant. For regardless of the philosophical differences which may exist among reasonable men concerning the "best" way to raise revenues for state and local purposes, that decision is ultimately and appropriately that of the people within each individual state. And whatever that decision may be, people in all states pay federal taxes at the same rates, and all should have an equal call on whatever revenues the Federal Government decides to share.

Governor MANDEL. Governor Hall of Oklahoma.

#### STATEMENT OF HON. DAVID HALL, GOVERNOR, STATE OF OKLAHOMA

Governor HALL. Good morning, members of the committee. I want to thank you for this opportunity to appear before you. I want to echo what the others have said about revenue sharing. I think that we have a unique opportunity now to present our views and hope that the urgency, as Governor Peterson said, is not only reflected in what we say but what we hear from our people at home.

I appreciate the fact that you recognize all the gamut of State problems. I think again your opening statement shows that we recognize the responsibility that this committee has. Let me say we have

had some good arguments before we came before this committee this morning. But we have a unanimous opinion for this purpose. Our next bill in reaching a compromise is great. We ask for direction from your committee. Thank you.

(Governor Hall's prepared statement follows:)

**PREPARED STATEMENT OF HON. DAVID HALL, GOVERNOR OF THE STATE OF OKLAHOMA**

Financing the common needs of people and their governments is a challenge to every public servant.

The revenue-sharing concept, as articulated today, is one of the respected means presented as an answer to the financial crises facing states and local governments.

Other important legislation before Congress certainly will have an impact on how we meet the needs of the people while applying standards of equity to taxation and maintaining fiscal integrity; especially H.R. 1.

The June 13, 1972, Senate Finance Committee staff report was noted with interest and enthusiasm. We embrace the work-fare concepts.

Work-fare would encourage productive participation by a large segment of people who now appear unable to escape the welfare rolls entrapment. By helping these people become self-dependent, greater sums of money would become available for needy mothers of young children, the infirm, aged and blind who are incapable of work. Work-fare could help stem the upward spiral of welfare.

Most Americans have a strong sense of charity. We have responsibility for individuals who are aged or incapacitated. We believe all people have a right to life, liberty and the pursuit of happiness regardless of economic conditions. Likewise, the able-bodied and unencumbered should have full opportunity for gainful and meaningful employment.

This committee has my encouragement to pursue work-fare reasoning. It has fiscal merits. It would benefit recipients. It would be an answer to taxpayers who are tired and angry about growing tax loads.

In reviewing the House-passed version of H.R. 1, my advisors and I see little fiscal relief. Instead, we would expect an increase in costs to the states.

Any additional investment Oklahoma would make in welfare could detract from education, law enforcement, public safety, public and mental health programs and meaningful penal reform.

The committee's stated awareness of the fiscal crisis created by expanding welfare rolls, and the pledge to strengthen states' control of programs, were carefully noted. We endorse the "opposite direction" approach to unfettered rolls' growth, through work-fare and increased federal participation.

The prospect of reducing by 40 percent the cost of Aid to Families with Dependent Children through work-fare would be a credit to the Senate Finance Committee and to Congress. The fiscal benefits to states and the federal government would be great. The savings to taxpayers would be welcomed.

Most important, however, is restoration of the dignity of work and employment opportunity to a forgotten sector of American—the welfare recipient.

Governor MANDEL. Governor McCall of Oregon.

**STATEMENT OF HON. TOM MCCALL, GOVERNOR, STATE OF OREGON**

Governor McCALL. Mr. Chairman and Senators on the committee, as I said to Charley Byerly last night, since I had to go 5,000 miles for this appearance this morning, the Senate wouldn't mind if it had to devote 3 minutes to my presentation.

I do want to make a couple of observations that summarize my feelings. The need for revenue sharing is doubly urgent. Under the *Serana* case, in the quality of education in the State of California, we subscribe to this revenue sharing, as is true in most States is nothing compared to in Oregon. We share in our State \$1½ trillion in State revenue. Because of tax limitation laws and voter distaste for increased property

taxes, Multnomah County commissioners were confronted a few weeks ago with soul-shattering decisions. In this fiscal year, they eliminated 140 jobs, closed 12 branch libraries, and reduced support for law enforcement. The major school district in the county has reduced classroom time a desperate 3 weeks per academic year.

The almost crushing finality was withdrawal of all county support—\$250,000—from one of Oregon's few centers for severely emotionally disturbed children.

This is the kind of fiscal squeezing we cannot countenance. We must make money available at the State and local level because this is where services are provided to people. But we see that the governments closest to the people and the most well structured to serve them have the least capability of raising the revenue required to meet minimal needs.

We have been preempted by the greatest suction pump in the history of taxation: the Federal income tax. Of all the States, Oregon is the most limited in its public revenue potential, for every revenue measure at all levels is subject to referendum and possible veto by the people.

Additionally, the Oregon constitution absolutely prohibits deficit spending.

Yet we have striven to keep pace, and Oregon's tax structure at the State level is built upon the ability-to-pay principle. We support the formula of the act under consideration to reward those States such as Oregon that have adopted a progressive income tax system.

Just in closing with a statement that refers to arguments from many Senators in some appearances here before, we believe that revenue sharing on the Federal level should hold to the same philosophy: Sharing should be a tax priority before allocating dollars on purely Federal programs.

This reordering of Federal priorities may not be acclaimed by Congress. But we should be aware that as the seat of government becomes more remote, we know less and less of the accomplishments and trials of local government.

Yet, to the people, local government is the most visible. I have great hope that this committee will assist local government to also become the most capable. Thank you very much.

(The prepared statement of Governor McCall follows:)

**PREPARED STATEMENT OF HON. TOM MCCALL, GOVERNOR OF OREGON**

Mr. Chairman, members of the committee, ladies and gentlemen, I am Tom McCall, Governor of Oregon. I appear before you today in support of the State and Local Fiscal Assistance Act of 1972 (H.R. 14370).

My state is unique in the Nation, just as the other 49 states are unique. We hold to the constitutional philosophy that we should be free to adopt sometimes differing goals, and meet them in differing ways, so that as a nation we may find and come together on whatever proves to be the most superior.

I often have described my state as a 97,000-square-mile laboratory, developing and testing ideas to improve the quality of life.

The initiative, referendum and recall came from the Oregon laboratory.

This month, Oregon signed an historic agreement with the federal government, making ours the first state in the nation where a state water discharge permit qualifies also as the Federal permit. We estimate that over the years this abolition of the dual permit system will save our cities and industries \$40-million—and at no loss of water quality.

I believe Congress finds it important to preserve the vitality of these 50 laboratories that seek to improve the ways we live, work and play.

This obviously leads to my fervent request that you approve of Federal revenue sharing. None of the states is unique in its need for financial assistance, and the imperative bears hard upon us as we plan how we may achieve justice in financing public education.

You are well aware that some state and federal courts have decreed, in essence, that the dollars spent on education should be determined by educational needs and not by the varying wealth of the individual school districts.

The constitutional questions now are before the United States Supreme Court. But whatever the outcome, I am determined that in the interest of fairness Oregon must achieve a turnaround.

We want to abolish almost all local property taxes for the support of school operating costs. I have proposed a plan in which the state dollars from Federal revenue sharing will be used for the support of public elementary and secondary education.

Yet the dollars from Federal revenue sharing make up the lesser part of the total state contribution that we plan. We expect to raise another \$136-million from state income tax reform and \$49-million through a payroll tax.

We are doing what we can and we are near the mid-stream. Our per capita state and local tax is above the United States average, and our taxes as a percentage of personal income are right at the average. But the stark fact remains that we are at the limit of our capacity at the very same time we also are hearing the mounting clamor for property tax relief.

It is a justified clamor, one that we might meet with the help of the Congress through a sharing with us of the harvest of the greatest suction pump in the history of taxation—the Federal income tax.

Of all the states, Oregon is the most limited in its public revenue potential, for every revenue measure at all levels is subject to referendum and possible veto by the people. We are prohibited by our Constitution from deficit spending.

Still, Oregon's tax system at the state level recognizes the ability-to-pay principle. We support the formula of the Act under consideration to reward progressive income tax states such as Oregon.

I urge that there be no further tinkering with the plumbing. We already have accepted the concession that cuts in half the incentive dollars proposed for states that have made a supreme tax effort. This has reduced our share almost \$10-million.

So let's not upset the formula further on this round.

Let's get the concept established.

Revenue sharing is not a new concept. The Federal government engages in it now through funding of specific items or in bloc grant programs. The difficulty we see with categorical or bloc grants is that the needs and priorities of each state are not the same. Federal revenue sharing would grant the states the versatility they need to combat their individual problems.

Oregon already shares its revenue with local governments. I think it is significant that of the \$60-million annually Oregon would receive under the legislation before you, the entire state share—nearly \$25-million—would be allocated for the further support of local government.

We recognize local government as our No. 1 priority for assistance. Since 1965 the state has provided nearly \$2-billion in direct relief to local government while spending \$4¼-billion for state programs. State aid to local government has increased 80 per cent in the last eight years while funding for state programs has increased only 57 per cent.

We share with cities and counties the state motor vehicle fees, gasoline, cigarette, liquor and racing tax revenues, and the fees from a whole host of other taxing devices. We send one-fourth of our general fund revenue to local school districts. But still it is not enough.

Faced with tax limitation laws and voter distaste for increased property taxes, Multnomah County—Oregon's most populous—was pressed to make soul-shattering decisions. In this fiscal year Multnomah County was required to eliminate 140 jobs, close 12 branch libraries, and reduce support for the County Hospital, the courts and the district attorney. And its major school district has reduced classroom time a desperate three weeks per academic year.

The almost crushing finality was withdrawal of all county support—\$250,000—from one of Oregon's few centers for severely emotionally disturbed children.

This is the kind of fiscal squeezing we cannot countenance. We must make the money available at the state and local level.

Oregon has been a leader in efforts to more efficiently and effectively deliver services to people.

We have established 15 administrative districts in order to set objectives on a regional basis rather than in each of our 36 counties.

We utilize the regional Councils of Governments to coordinate Law Enforcement Assistance programs and funding by the Department of Housing and Urban Development.

We have created local boundary commissions in our most populous areas to coordinate land use planning.

We obtained the free service of two dozen business executives who studied our agencies and showed us how to save millions of dollars by improving and consolidating our operations.

But we are at the end of the rope and must look to the Federal government for assistance. The funds provided to us through revenue sharing are tremendously critical to our programs. It is frankly good government for you to share.

Local governments provide most of the services to people, the states a little less and the Federal government hardly any at all. We are seeing the changes in priorities away from things and toward people.

Yet the governments closest to the people and the most well structured to serve them have the least capability of raising the revenue required to meet even the most minimal of needs.

This is not to say that the Federal government may not establish any priorities. It is only to say that the Federal government is in the position of being able to raise revenue from broad-based taxation that we cannot, for we are in the situation where the voter may directly protest the level of taxation. And he is protesting.

It is therefore appropriate for the Federal government to share its wealth to allow the states and local governments to re-order and meet their priorities, within the Federal guidelines.

I am acquainted with the argument that there is no Federal revenue to share. This could be the case in perpetuity if the Congress looks to the care and feeding of national programs first and provides state and local governments only with leftovers.

Because of our recognition that local government best meets local needs, Oregon pays off the top. The local governments' share of motor vehicle, liquor, cigarette and gasoline tax revenue, as well as other receipts, all is fixed by law. Further we have a long tradition of funding education at not less than 25 percent of need and wish now to more than triple our support.

After these deductions, we then consider what the state government will have left for its own purposes.

The Federal government would do well to adopt the same philosophy. Revenue sharing at the Federal level, as at the state level, should be a tax priority before allocating dollars on purely Federal programs.

This re-ordering of Federal priorities may not be Congress. But we should be aware that as we draw farther from local government we know less of its accomplishments and its trials.

I wish to emphasize that, to the people, local government is the most visible. I have great hope that this committee will assist local government to also become the most capable.

Governor MANDEL. Governor Lucey of Wisconsin.

The CHAIRMAN. Senator Gaylord Nelson sent me a note that he is the chairman of the OEO Conference with the House of Representatives and is unable to be here. He wanted to extend his regrets to you and other Governors.

### STATEMENT OF HON. PATRICK J. LUCEY, GOVERNOR, STATE OF WISCONSIN

Governor LUCEY. Thank you, Senator. I am sure I will have occasion to talk to Senator Nelson before I leave town.

The CHAIRMAN. He is for the measure.

Governor LUCEY. I appreciate the opportunity to speak to you briefly. Like the other Governors I have a prepared statement that I will file for the record.

I think I can concur in most of what Governor McCall has just said because Wisconsin, like Oregon and like New York, Wisconsin is a high tax effort State, a State that relies heavily on the income tax. For that reason I would hope that the formula adopted by the House would be retained. I think for a broader reason I would like to see it retained because I get the impression that the coalition that put this bill in the House was held together about sealing wax and string and I am afraid that any alteration of the formula may deny us the necessary votes to approve the conference version of the bill.

So, with all due respect to the prerogatives and the purpose of the House I would hope that in this instance you would accept the fact that the formula now in the bill already represents substantial compromise and that we would bring out of the Senate, bring onto the floor of the Senate and possibly on the floor of the House a Senate bill that would be as little as possible like the House version.

So, I do want to concur in the general statement of Governor Mandel that I support the principle of the revenue sharing, that if the bill is amended in any way, reasonable way, in the Senate I will continue to support the bill but I would plead with the Senate to forego its prerogatives to the Senate in getting a clean bill out, getting it out as promptly as possible, getting it out before the Republican Convention recess in order that we could have legislation this year.

Many of our cities and towns have budgeted on the expectation that there will be revenue sharing. We have a constitutional prohibition against revenue sharing, so we need this help. Thank you.

(Governor Lucey's prepared statement follows:)

#### PREPARED STATEMENT OF GOVERNOR PATRICK J. LUCEY

Senator Long, members of the Senate Finance Committee and fellow state governors. I appreciate the opportunity to appear here today and ask that my written testimony be submitted into the record.

In my previous public statements on this subject I have stressed the point that while the public services enumerated by this bill are indeed important, it is even more essential that they be provided without imposing any additional cost on the already overburdened property taxpayer. In states where local governments have taken initiatives to provide services in these priority areas, the property taxpayer has borne the brunt of these outlays. In Wisconsin—a state which shares about two-thirds of its revenues with local governments in direct and indirect property tax relief—more than 40% of total state and local revenues are raised by local property taxes. This weighty proportion is more than double the national average.

Because localities of my state have long been generous in the funding of urgently need programs, I believe that part of the local share received under the "State and Local Fiscal Act of 1972" should be available to fund present operating expenses. Such an effort would permit local units of government to maintain existing high levels of service in priority areas, while easing the property taxpayers' burden. I am pleased that our interpretation of the present language of the bill makes such an achievement feasible.

I also strongly support the bill's allocation formula for determination of the state share. Total tax burden indicates the degree of willingness of state and local governments to tax themselves in order to provide adequate levels of service to their citizenry. The degree to which a state relies upon the individual income tax reflects the basic equity of its taxing policies. Only the income tax is generally progressive, reflective of ability to pay, broadly based and responsive to economic growth.

An assessment of relative state revenue efforts by the President's Advisory Commission on Intergovernmental Relations (ACIR) shows that the personal income tax has not been well utilized by the states. The ACIR report notes that the "personal income tax should stand out as the single most important revenue instrument in the state tax system capable of producing close to 25% of the total state-local tax revenue." At the present time, however, the state income tax produces on the average of slightly less than 11% of all state-local tax collections. The ACIR report mentions that only four states closely approximate the 25% income tax effort—Alaska 25.8%, Delaware 27.8%, Hawaii 23.8% and Oregon 25.5%. (The figure for Wisconsin during this period was 21.9%)

This bill provides a unique opportunity for the federal government to influence the establishment and further development of progressive tax systems by the states. If we are to encourage states to rely more heavily on the personal income tax, then certainly that incentive feature should remain a part of the revenue sharing proposal. Greater reliance on this tax would improve the fairness of state and local taxation by permitting a larger share of the tax burden to be adjusted to the size of the family through an exemption system—a criterion typically disregarded by the property tax and violated by the sales tax. It is also important to point out that a more progressive system of state tax policies would diminish the unseemly competition among states for economic growth.

I would also like to go on record as opposing Senate amendments to the bill, such as those offered by Senators Ribicoff and Baker. Amendments will create delays in enacting the bill, delays which as we near the sessions' close, could prevent the measure from timely passage. The amendments themselves run strongly counter to the bill's intent. The local share of the formula has been designed to reward those areas which have demonstrated a willingness to tax themselves in order to provide needed services at optimum levels; the state share must be similarly allocated.

Basing the state share on federal tax liability does not in any manner reflect the state's own tax effort. On the other hand, computing it on the basis of total state and local revenues suffers from two faults. First, in computing the state, as opposed to the local government share, municipal levies ought not to influence the allocation formula in a major way. Second, several states now operate their own revenue sharing programs and thus replace local property taxes. Therefore, including municipal revenues to determine the state's share would understate the state tax effort in such cases, diluting it with local taxes which it helps to offset. Such a proposal would reduce the proportionate allocation to states which utilize their greater tax powers to assist local units of government and to alleviate the property taxpayers burden.

For all of these reasons I would urge prompt passage of HR 14370 without amendment. Such action by the Senate would materially relieve the staggering fiscal problems now confronting state and local units of government across this nation.

Governor MANDEL. Governor Rockefeller of New York.

#### STATEMENT OF HON. NELSON A. ROCKEFELLER, GOVERNOR, STATE OF NEW YORK

Governor ROCKEFELLER. All of us are extremely grateful for this opportunity. I think this meeting is unique in that you see a bipartisan representation of Governors united on one subject and have been since 1965 when we supported revenue sharing as Governors. The Governors and the mayors and county executives for once in history are united in concept and program. I would like to mention that first.

Second, a good deal of the discussion has revolved around the formula for the aids going to the States and there are differences of opinion. Those who have opposed revenue sharing have said that they were opposed to it because those who spent money should raise the money and raise the taxes.

I think this formula comes as close to accomplishing that as possible in that the money going to the States is based on the tax efforts by States and local governments.

Now, the big discussion as you know, Mr. Chairman is revolving around the income tax. I share the feeling with the other two Governors who just spoke last on a 15-percent progressive income tax so naturally we favor this. However, as they have said, were this to be based on State and local taxes, including the income taxes but not excess filing on income tax, we would lose but we would still support the bill because it does give that emphasis of State and local effort.

Now, if I might just briefly, Mr. Chairman, I would like to come to the point you raised in the beginning. I would like to come to the point which I raised in the beginning which is the \$5.3 billion in revenue sharing on the \$4.6 billion or \$5 billion on title IV (A). You put your finger again on a very fundamental question and if I might briefly discuss both parts, first, the \$4.6 billion which is the Federal matching fund on a 75-25 basis and you say the Federal Government would have a hard time absorbing both of these.

I have to say we support both and for this reason. Congress over the years since the depression has enacted a growing number of aid programs which now totals over a thousand categorical grants which require State and local matching funds and have a provision which requires improvement and enrichment of the program.

Therefore, we are forced, if we want to get the State grant funds, to put up additional State dollars and local dollars to enrich your programs. We started out with very high standards in these areas. We have reached the state of having the highest State tax in the country and we can't—they are all in more areas that are of social concern to the people and naturally the Congress wants to be responsive.

These two programs which you mentioned, both are very, very helpful to States because one represents a large matching percentage by the Federal Government and therefore that helps carry the social programs that are on the books.

Now, if a program that is on the books is restricted through the budget processes rather than the formula process, you are creating a very serious situation and I would hope on that the Congress would face the basic issue which is the formula and if you want to change the formula, change that, but don't have a formula which promises these large amounts to States and local governments and then cuts the money back. This is going to create chaos. As far as revenue sharing is concerned, I would say cut the formula here, cut some categorical programs which we are forced politically to match because the constituency says that money is available, why don't I take it.

The problem is we can't get the money to match it. This is the first time the Congress is saying to States and local governments we want to help you without putting a whole series of detailed strings on your efforts. We have gotten a point today that no single level of government is able alone to control its destiny or its programs. We are controlled from above and below the State government. We are all involved. Revenue sharing says here are some funds that within broad guidelines you can use as local government and State government feel is their own best destiny. I think it is an extremely important innova-

tion and the fact that the Governors and mayors are on a bipartisan basis must say something on the local level. It is certainly unique.

We would like to thank you and say that can be a lifesaver for all of us at a critical moment and I just mention, we have a net reduction of 10,000 employees in the State and we have frozen a portion of our programs at last year's levels and we have budgeted revenue sharing in our budgets this year.

Governor MANDEL. Governor Ray wanted to be with us, but cannot be, but wants to give his wholehearted support to this House-passed bill. He would be here if he could.

This completes the testimony of the Governors. We would be happy to answer any questions.

The CHAIRMAN. Let me make this point clear. This committee has recommended that H.R. 1 be amended in a fashion which would provide \$2.4 billion of fiscal relief to the States.

Looking down the road a little bit we propose that 40 percent of those on welfare be moved to workfare where they can be absorbed in jobs. If necessary, the Federal Government will be proposing the jobs. There are thousands of people that could be put to work if we would be willing to pay for it. We would probably have \$2.4 billion of relief on our welfare programs and that is not counting the relief that you could achieve if you do what the State of Oregon has done, making some of these runaway fathers do their duty toward their children.

I think you could probably achieve another billion dollars of savings against your budget. The 2.4 plus the \$5 billion in this bill would be \$7.4 billion of additional revenue flowing to the States and to the local governments, all of which as far as this Senator is concerned I favor.

Now, we are going to have some problems. One of them is a scheduling problem. I think you Governors ought to be thinking about it while you are here in town and talking to your friends and those you expect to help handle your situation. I think you are very wise in saying pass some bill. I think you should be saying pass H.R. 1.

If I were a Governor I think I would be taking that point of view. But H.R. 1 is going to involve a lot of debate. I am confident we can pass it but I suspect there are going to be some charges, accusations and countercharges that will have to be debated. We have heard from some Senators like Senator Byrd that he thought what is involved in H.R. 1 is going to require a lot of time. I think we ought to pass it before the presidential election. But there is something of a problem involved here when you get one bill that generates so much passion. Revenue sharing on the other hand involves one issue where I would say 80 percent is not subject to question. But there is a question whether we ought to go ahead and move this bill on through and pass it before that Republican Convention or whether we ought to insist on putting H.R. 1 out which I don't think can be passed before the Republican Convention.

There is a lot of relief in here under the States. Some States have difficulty in handling their budgets. So, before you go home I would suggest that you let us know and also let your Senators know what we ought to about this problem.

Governor MANDEL. Mr. Chairman, I would like to state a point was mentioned here but I think it ought to be emphasized, the urgency

and why we are here as a group. The situation has become so desperate in so many States that they have already for this fiscal year budgeted this money. It may not be fiscally responsible but they have done it because they had no other place to go. So that their budget for this current fiscal year, starting July 1, includes proposed money from revenue-sharing money and balance their budget for the current fiscal chaos throughout this country.

Baltimore City, in my own State, has budgeted money in revenue sharing to balance their budget. They had no other place to go. We have revenue sharing. Sixty-five percent of all the taxes we collect goes back to the subdivisions to help them, but they were in such bad fiscal condition that they have to take this desperate step of budgeting revenue-sharing money and balance their budget for the current fiscal year and if this program doesn't pass, and that is just one example—we could go about the table and name one city after another—when I say fiscal chaos I mean it because they have no source to go to and we just don't know how to solve that kind of a problem.

The CHAIRMAN. We had President Nixon go before the public during the recess last August and explain to the people that he thought the economic conditions required public controls. At that point representatives of his administration came before our committee and explained in an executive conference that if they could have the family assistance plan on the statute books by December 1, fully law by December 1, that they couldn't mail out the first check under that program for 18 months. So it would be July the year after that before the first check would go out.

There are other things that are more pressing at this moment, they said, particularly the President's tax bill. It is so important to get the economy moving that we want to move that bill immediately. The testimony was that the day they get the family assistance plan it would take 18 months to make out the first check.

Governor MANDEL. Let me make a point there without interrupting you. In a lot of these cities around the country the States pick up most of the cost of the local share of family assistance. That plan if passed is not going to give fiscal relief to a lot of the cities because the State is paying that local share. So that does not give fiscal relief in a number of the areas.

In Baltimore City again, that won't give fiscal relief to Baltimore City because although it gives some fiscal relief to the State we pay the city's share of the family assistance plan already and that doesn't help. They have budgeted revenue sharing funds in their budget and they will not have a balanced budget and they will have budget problems.

The CHAIRMAN. As far as I am concerned we are going to pass both of these bills and I am going to stay here until we do.

Governor HALL. I appreciate the direct approach. I want to say on behalf of Oklahoma and I don't know whether it reflects all the Governors, your concept of work fare is what America needs. Today I reviewed your June 13 committee report. If it takes 18 months to pass it on, I want Oklahoma on the record to say we are all for work fare. This is what the folks at home want. They are tired of welfare and they are ready for something to be done.

The CHAIRMAN. Thank you very much.  
Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman. I recognize the urgency. I am sorry we did not have time to get into the prepared statements. I assume there are many details in those statements indicating the areas in which revenue sharing is particularly needed.

I am also as deeply concerned as the chairman is of what has happened because the States have been able to translate their own programs into social services and greatly increase the Federal share of the welfare program. Since the chairman's statement, I have seen some of the figures, Mr. Chairman, and I am wondering whether we shouldn't investigate the possibility of writing into the revenue sharing bill a requirement that none of these funds may be used to increase social services. Maybe temporarily we could set our minds at rest about the fact that this money might be used to be matched on a 3 for 1 basis by simply writing into the bill provisions that social services may not be increased for a period of time which would give us a chance to take care of H.R. 1.

I noticed a lot of heads nodding along the same line.

Governor MANDEL. I don't think there is any disagreement with that statement.

Governor ROCKEFELLER. Does that include education, social services.

Senator BENNETT. Does it include education in New York? Are you using 75-percent matching funds to increase your education.

Governor ROCKEFELLER. We only get 5 percent of our education costs from Washington.

Senator BENNETT. It is my understanding that it does include those types of social services for which you have been able to transfer welfare funds and we can write it so that we can make that clear, but I think that might be a good amendment.

Governor MILLIKEN. Mr. Chairman, I have no personal objections to that except I would want to express my feeling that I think to the extent the committee and the Senate and the Congress write in a series of restrictions and details into the bill about precise expenditures at the State level, I think the bill begins to move more toward the categorical expenditures.

I recognize the risk and I think it can be a temporary program. We need this whole matter straightened out. But I am looking at a set of figures that amazes me. There is a column in these figures, and I am sure you will be supplied with them, which shows that in one Southern State, it is expected that in one Southern State the percentage rate of increase in the Federal cost of social services between 1971 and 1973 is 42,000 percent. Forty-two thousand percent. Not dollars. And there are a half dozen States whose rate of increase is greater than a thousand percent.

Now, faced with that kind of potential in the situation, I think we could well afford to write some limitation in this bill on at least a temporary basis.

Governor MANDEL. Senator, but if you analyze those figures you will find out, I do believe, that those increases were long mandated by Federal rule and regulation to the States. I don't think it is a matter of choice. It is a matter mandated to us. The rolls have increased and we can't say how this—

The CHAIRMAN. We have just distributed this chart.

(The chart referred to follows:)

**CURRENT OR PROPOSED FEDERAL FUNDING FOR SOCIAL SERVICES, CASH PUBLIC ASSISTANCE, AND REVENUE SHARING COMPARED WITH EXPENDITURES OF STATE GOVERNMENTS**

[Dollars in thousands]

	Federal share of social services					Federal share of cash assistance fiscal year 1973 <sup>a</sup>	Federal revenue sharing under H.R. 14370 (first year) <sup>b</sup>	Direct general expenditures of State governments (fiscal year 1970) <sup>c</sup>
	Fiscal year 1971 <sup>1</sup>	Fiscal year 1972 <sup>1</sup>	Fiscal year 1973 (HEW) <sup>1,2</sup>	Fiscal year 1973 (Governor's Conference) <sup>3</sup>	Percentage increase, 1971 to 1973 [Increase between col. (1) and col. (4)]			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<b>Total.....</b>	<b>\$746,381</b>	<b>\$1,546,756</b>	<b>\$2,158,270</b>	<b>\$4,692,516</b>	<b>529</b>	<b>\$7,104,378</b>	<b>\$5,300,000</b>	<b>\$35,459,300</b>
Alabama.....	6,802	11,667	41,250	144,489	2,024	155,308	80,100	643,500
Alaska.....	1,865	3,990	18,906	19,724	958	6,067	6,600	186,500
Arizona.....	2,830	4,696	6,304	6,700	137	48,775	46,100	303,700
Arkansas.....	2,003	3,533	4,725	18,450	821	98,873	38,400	325,700
California.....	210,823	252,749	272,999	273,000	29	1,024,925	610,800	3,868,200
Colorado.....	11,741	18,993	22,655	29,800	154	72,443	59,400	429,000
Connecticut.....	7,590	8,169	15,829	18,829	148	66,662	72,700	686,100
Delaware.....	2,844	20,000	35,000	46,750	1,544	12,615	17,300	169,800
District of Columbia.....	7,042	9,057	10,056	32,000	354	84,194	26,000	636,000
Florida.....	13,128	94,958	112,611	112,610	758	207,922	150,000	886,300
Georgia.....	12,083	31,311	58,025	222,597	1,742	204,342	103,400	777,400
Hawaii.....	519	1,590	2,059	2,378	358	23,419	25,900	430,500
Idaho.....	1,218	1,633	2,287	3,900	220	17,582	15,400	140,500
Illinois.....	28,276	181,156	147,458	172,500	510	471,158	301,700	1,808,600
Indiana.....	2,516	5,835	6,685	15,000	496	101,626	113,800	690,800
Iowa.....	6,810	9,789	12,809	13,500	98	60,868	67,800	499,300
Kansas.....	5,879	7,414	7,414	8,415	43	60,299	47,800	338,700
Kentucky.....	6,394	12,337	19,361	30,024	370	98,242	71,800	629,200
Louisiana.....	9,296	12,856	16,308	34,875	275	201,897	83,200	778,500
Maine.....	3,563	6,570	7,182	20,000	461	46,595	19,800	228,300

Maryland.....	15,096	18,771	21,820	417,713	2,667	88,481	117,500	663,000
Massachusetts.....	8,375	16,670	19,701	60,000	616	253,512	179,000	1,432,600
Michigan.....	17,621	41,600	85,838	85,900	387	303,927	243,700	1,749,300
Minnesota.....	15,402	20,092	24,111	96,500	527	132,559	114,100	577,900
Mississippi.....	1,098	1,775	14,238	463,572	42,118	97,158	46,000	373,000
Missouri.....	11,948	12,965	16,335	16,335	37	145,575	107,500	766,600
Montana.....	2,115	3,000	3,300	1,028	-51	12,672	16,800	140,300
Nebraska.....	5,809	7,246	12,564	12,600	117	33,678	34,500	195,600
Nevada.....	1,004	1,800	1,980	2,000	99	9,763	12,200	108,600
New Hampshire.....	2,050	2,833	3,033	6,000	193	15,427	13,500	132,500
New Jersey.....	29,958	30,362	38,320	58,300	95	201,740	179,700	856,900
New Mexico.....	3,826	3,655	6,396	47,000	1,128	34,815	22,500	267,900
New York.....	88,627	382,076	618,443	850,000	859	836,123	649,600	2,746,900
North Carolina.....	12,819	19,816	47,100	50,388	293	107,843	113,100	685,500
North Dakota.....	2,465	3,236	3,957	4,957	101	14,103	12,000	152,100
Ohio.....	11,079	18,261	22,515	60,015	442	218,700	227,300	1,292,300
Oklahoma.....	7,520	10,446	11,609	54,004	618	105,949	52,800	624,700
Oregon.....	24,271	20,816	24,907	30,736	27	50,395	60,000	502,700
Pennsylvania.....	36,337	60,884	100,627	264,600	628	381,011	300,900	2,208,000
Rhode Island.....	4,388	5,686	6,248	15,800	260	29,440	25,800	251,400
South Carolina.....	3,592	6,890	14,138	214,138	5,862	50,712	57,800	432,800
South Dakota.....	2,049	2,559	2,929	2,929	43	18,158	13,500	142,000
Tennessee.....	9,949	21,900	43,500	230,212	2,214	117,801	79,300	564,700
Texas.....	12,963	15,196	42,402	178,621	1,278	392,593	248,200	1,607,900
Utah.....	3,123	4,264	5,250	7,214	131	33,000	29,000	245,100
Vermont.....	1,646	2,356	2,599	2,600	58	21,307	11,000	147,400
Virginia.....	10,186	16,206	19,604	31,954	214	109,816	115,600	689,600
Washington.....	31,178	49,460	57,924	74,154	138	83,432	79,100	833,700
West Virginia.....	7,911	6,578	7,871	15,400	95	53,725	36,400	364,800
Wisconsin.....	18,026	40,475	58,500	113,500	530	81,569	137,000	795,200
Wyoming.....	728	579	608	608	-16	5,582	6,100	87,800

<sup>1</sup> Source: Department of HEW.

<sup>2</sup> Based on May 1972 estimates received from the States.

<sup>3</sup> Revised State estimates presented at July 17, 1972 conference of Governors' representatives and State social service administrators.

<sup>4</sup> Source: HEW budget justifications.

<sup>5</sup> Source: H. Rept. 92-1018, p. 3.

<sup>6</sup> Source: Bureau of the Census. Amounts are rounded and exclude capital outlays, payments made to local governments, and insurance trust expenditures.

<sup>7</sup> State did not report new estimate. May estimate (col. 3) used.

The CHAIRMAN. Here is a nice looking fellow, has left the government—he ought to go around and tell the Governors that they should put more money on a one-quarter-three-quarter matching basis—it is one-quarter State, three-quarters Federal, to get money for social services. This sounds good in Louisiana. It sounds a lot better in Mississippi. Here is Mississippi last year—going back to 1971 they were receiving \$1 million of Federal funds for these social services. Next year \$1,700,000 in rough figures. The following year they increase to \$14,238,000. Next year's request is \$463,572,000. Where they found money to match that the—I read the same newspaper that circulates all over Mississippi. I heard many requests for \$100 million in taxes in Mississippi. So that would pay for apparently everything the whole State is doing, everything from garbage collection up to highway construction must be viewed as a social service. The Federal share would be \$463 million. If every State is to follow Mississippi's lead, this is going to have to cost us at least \$30 billion at the Federal level.

Are we going to call every State activity a social service with three-quarters Federal matching or are we going to pass a revenue sharing bill with no strings attached.

Senator BENNETT. There is, in the June issue of the National Journal, an article explaining how this whole process got out of hand and I think as a part of this record it might be well to include it.

The CHAIRMAN. Without objection we will print it at this point. (The article referred to follows:)

[From the National Journal, June 17, 1972]

**WELFARE REPORT/HEW PROGRAM DOUBLES IN SIZE AS OFFICIALS SCRAMBLE  
TO CHECK ITS GROWTH**

(By John K. Iglehart)

State officials have found a rich vein of new federal dollars in an open-ended HEW Department social-services program and are rushing to tap it to help meet rising welfare costs.

The department has no control over the program's chaotic, uncharted growth rate. As a result, social services is HEW's fastest growing program; it has more than doubled in size in the past year to \$1.6 billion and continues to grow.

The program has grown so rapidly that HEW cannot tell in detail how effectively or even precisely for what purpose the money is being spent, or whether the new federal dollars are simply replacing state funds as a sort of ad hoc revenue sharing.

A sense of urgency exists among the Administration's budget analysts about the need to develop ways of coping with the unrestrained expansion of the HEW program, but a sharp division exists within the department over the proper course of attack.

A social service is a form of assistance rendered to recipients of aid to families with dependent children (AFDC) and individuals who qualify for welfare in the aged, blind or disabled adult categories.

The services include child care; assistance in obtaining medical care; family planning; protective services for children and aged individuals in danger of abuse, neglect or exploitation, and alcoholic and drug abuse prevention.

HEW estimates that in fiscal 1972, 664,600 adults and 12 million children will be recipients of social services financed principally by the department.

For the last two years, the Administration has sought a legislative solution which would impose a ceiling on social-services spending. But Congress, responding to the pressure of Governors and state welfare directors, twice has rejected a ceiling.

Without a ceiling, federal expenditures for social services have increased at a rate as dramatic as the rising welfare caseload. In fiscal 1969, for example, HEW distributed \$354 million for social services.

In 1970, the cost rose to \$522 million. In fiscal 1971, it reached \$750 million. The original estimate for fiscal 1972 was \$838 million; the revised estimate is \$1,296 million but that could be as much as \$300 million low.

The Administration requested \$1,241 million in its fiscal 1973 budget, but that estimate already has been overrun by the states' scramble for funds. The current fiscal 1973 estimate is \$2,162 million.

The program's explosive growth is "the biggest fiscal issue facing us right now," said Charles Miller II, deputy assistant HEW secretary (budget). "It is the biggest cloud on our fiscal horizon."

Miller said that the budget office's greatest fear is that because of the rapidly expanding program, HEW will be forced to "sacrifice its budget margin for a questionable form of revenue sharing with the states."

"It appears to have the elements of a boondoggle," he said.

HEW Secretary Elliot I. Richardson tried to establish the department's priorities in its requested spending levels in the fiscal 1973 budget. But much of that work will count for nothing if social-service expenditures continue their upward climb.

Richardson said in an interview: "It's frustrating, indeed exasperating, to sweat over the budget and then see this open-ended matching program absorb funds in a manner unrelated to our attempts to establish priorities. If I knew the services were truly effective, I would not be so concerned."

**Regulations.**—The Administration's House-passed welfare-reform bill (HR 1) imposes a ceiling on social-service expenditures of \$800 million—now a totally unrealistic level—but the department is seeking other remedies, partly because of the uncertainty surrounding the future of HR 1.

HEW is developing new and more restrictive regulations to govern social-service spending. Although the content of the regulations still is at issue within the department, their goal will be to require states to report in detail how they spend their service dollars.

The draft regulations were sent to the states for comment in May. A number of governors and state welfare directors are upset by the prospect that the proposed regulations might restrict the federal largesse.

Because some states have been more aggressive in seizing the open-ended program as a source of new service funds, gross inequities exist in the per-recipient expenditures.

Alaska spends \$1,397 per welfare recipient for social services compared with \$242 in New York, \$237 in Florida, \$35 in Texas and \$7 in Mississippi.

Texas was late in helping itself to the open-ended federal program and the office of Gov. Preston Smith, D, has charged that the proposed regulations would make permanent the existing state-by-state inequities.

Edwin F. Powers, an assistant to Smith, said: "All we're saying is that we want the same opportunity as the other states to develop our social-service programs." Powers said the Governor would actively oppose the regulations.

**Authority.**—HEW's social-services program operates under the legal authority of the Social Security Act (49 Stat 620) and finances a myriad of services on a ratio of 75 percent federal funds to 25 percent state.

Between 1956 and 1967, Congress approved three major amendments to the act which greatly liberalized the definition of social services, expanded the eligible population to include former and potential as well as current welfare recipients, and provided that state welfare agencies could purchase services—through contract at the same 75-25 match rate—from other public or private agencies.

The purchase-of-service provision was approved by Congress in the 1967 social security amendments, but few states other than California and Illinois recognized its potential for funneling new federal dollars to states until 1971.

Following California's lead, Illinois, facing a budget deficit of \$180 million, refashioned its social-service program in 1970 to conform to the 1967 amendments and realized a windfall of \$135 million new federal dollars the first year.

During the year-long negotiations between HEW and Illinois that ultimately led to the massive infusion of new federal dollars, the state hired a private consultant, one of the nation's largest accounting firms and a Washington law firm and used a degree of political influence to develop and press its case.

Asked whether the Republican credentials of Illinois Gov. Richard B. Ogilvie were helpful, Thomas J. Corcoran, director of the state's Washington office, said:

"There's no question about it. We wouldn't have had the access to the White House or to important people in Congress or Richardson (HEW Secretary Elliot I. Richardson) without them."

New York Gov. Nelson A. Rockefeller, R, also through political channels, pleaded the case of his state for more federal money to relieve its financial problems.

The political pressure exerted by Illinois and New York was mainly to persuade HEW to approve the new social-services plans offered by the states. Illinois also needed Richardson to waive an important program requirement.

Now, 27 states are in a similar position, seeking HEW approval of plans that will enable them to share the wealth.

#### PURCHASE OF SERVICE

Congress approved a provision in the 1967 amendments to the Social Security Act which authorizes state welfare agencies to purchase social services from other public and private agencies under an attractive matching arrangement.

Under the act, the federal government is obligated to pay 75 per cent of the cost of the purchased social services. The state or local share is 25 per cent.

States have been able to capitalize on the provision by converting services previously funded entirely by state appropriations into services that can be financed through a 75-25 federal-state matching ratio.

The purchase-of-service amendment was the last three major changes approved by Congress in the 1960s that greatly expanded the federal responsibility to remove welfare recipients from public assistance through a services strategy.

Earlier amendments to the act approved in 1962 and 1965 had expanded the definition of a social service and the population segments eligible for such aid, but few states took advantage of those provisions.

The eligible population segments include former, current and potential welfare recipients. It was the addition of individuals in the potential category that greatly swelled the ranks of the eligibles.

The act defines services in a very broad fashion and states have shown increasing ingenuity in shaping their programs in ways that fit within the definition.

Family services, for example, are defined as those that serve the purpose of "preserving, rehabilitating, reuniting or strengthening the family, and such other services as will assist members of a family to attain or retain capability for the maximum self-support and personal independence."

Congress approved the amendments in the years when the Johnson Administration was waging its "war on poverty" through the Office of Economic Opportunity. The OEO takes a services approach to fighting poverty—give the poor services instead of cash.

*Eligibility.*—A prime reason for the rapid growth of service expenditures is the expansion by Congress of the definition of eligible individuals to include potential welfare recipients.

Many of the social services which states render to their citizens outside of the economic ladder and thus potential recipients of public assistance.

Programs largely state-financed and generally serving individuals with low incomes include alcohol and drug-abuse prevention, aid to the blind, day care for mentally retarded children and adults and delinquency prevention.

Beyond the broadened eligibility requirement, states have been able to maximize their federal social-service funds by using a number of financial sources to provide the 25-per cent matching share.

Possible sources of funding include currently obligated, unmatched state and local funds already being spent by agencies responsible for public welfare, community health mental retardation and day care.

Other sources include nongovernment funds, such as those raised by the United Givers Fund and Community Chest; federal Model Cities funds expended in model neighborhoods and Appalachian Regional Commission funds.

Illinois expanded a Model Cities day-care program in Chicago from \$2.5 million to \$10 million by using the lower figure as the 25 per cent local matching share.

The rapid growth in social-service expenditures has occurred during a period when 20 states have cut welfare payments to recipients of AFDC. From July 1970 to early 1972 the jurisdictions that have cut payments are:

Alabama, California, Delaware, District of Columbia, Georgia, Kansas, Kentucky, Louisiana, Maine, Missouri, Nebraska, New Jersey, New Mexico, New York, Nevada, South Dakota, Utah, Vermont, Washington and Wyoming.

## STATE ACTION

California, through ingenuity and aggressiveness, was the first state to move in on the federal social-service funds.

Much of the initiative originated in California's state legislature where social programs were fashioned to fit within HEW's definition of a service that the federal government would match on the basis of 75-25.

Before creation of Head Start, the federal preschool compensatory education program, California was running a similar statewide program that was 75-per cent funded as a social service.

John G. Veneman, now HEW under secretary and then a California state assemblyman, shepherded through the legislature measures to provide protective services to needy children and adults. The federal government finances 75 per cent of the program.

Thomas C. W. Joe, now an assistant to Veneman and then a consultant to the legislature, was a leading force in shaping social programs in a way that California could receive federal matching funds. "Joe figured out more ways to raid the federal treasury than anyone else," said one official who watched him operate.

In 1970, before other states discovered HEW's open-ended program, an estimated 40 per cent of the federal social-service funds were flowing to California.

Faced with rising welfare costs that had produced a state budget deficit of \$180 million by late 1971, Illinois followed California in reshaping its social-services delivery system to qualify for new federal dollars.

Illinois actually started the year-long process in 1970, before its budget deficit developed as a major financial and political crisis for Ogilvie, but the state moved more aggressively in pursuit of federal funds as its fiscal picture worsened.

Corcoran, director of Illinois' Washington office, said that when the Governor's office looked in early 1970 at the federal dollars flowing back to Illinois, it found it was receiving only one-tenth as many of the social-service dollars as were flowing into California.

"Most times in grant programs the ratio with California is only two-to-one," Corcoran said in an interview. "We began to look into the situation because we were intent, on maximizing the federal dollars available to Illinois."

One of the first places Corcoran checked was the office of Tom Joe. Joe, while working as a consultant to the California State Assembly from 1967 to 1969, gained a reputation as a master at devising ways of drawing additional federal funds into state social-service programs.

Corcoran recalled that Joe described "ways Illinois could refinance its social-service program because he had done it in California."

Working with William C. Copeland, a private consultant recommended to the State of Illinois by Joe's office, Corcoran and state budget officials identified a number of 100-per cent state-financed service programs that they determine were eligible for 75-per cent federal funding.

The state-financed services included foster care, family counseling, day care, and home-making assistance. Illinois also listed as eligible some services aiding individuals in community mental-health centers and individuals departing state penal institutions who needed help to return to society.

*Regional office.*—Illinois worked closely with employees of HEW's Chicago regional office. Donald F. Simpson, regional commissioner of HEW's Social and Rehabilitation Service, prodded Illinois to take advantage of the opportunity to increase federal social-service funds, particularly child care.

Simpson, interviewed in his Chicago office, said he told Illinois: "You can earn \$3 for every \$1 you put up; it won't cost you a nickel. You just have to amend your state plan."

Ogilvie sought to hire Simpson as the Illinois state welfare director under a cooperative federal-state arrangement authorized by the Intergovernmental Cooperation Act of 1968 (82 Stat 1098). But his nomination was withdrawn after HEW General Counsel Wilmot R. Hastings and the Justice Department opined that the appointment raised questions of a conflict of interest.

The role of HEW's regional offices has generated controversy in the department's Washington headquarters. There is a sense in HEW's budget office that some regional SRS commissioners are more attuned to the interests of their constituent states than to HEW.

HEW's 10 regional SRS commissioners are responsible for approving changes in state plans. Thus, they serve a dual function—providing technical assistance to states that are mapping changes in their service plans and then approving the resulting product.

Simpson and Mrs. Virginia M. Smyth, SRS commissioner in the southeastern region with headquarters in Atlanta, are among the most aggressive of the SRS regional commissioners in encouraging states to take advantage of HEW's open-ended service program.

"We have given the states a good bit of leadership," Mrs. Smyth said in a telephone interview. "The regional offices should exert leadership, not just respond to the states."

The impact of Mrs. Smyth's leadership is well reflected in a comparison of the state-by-state expenditures for services. Among the states that have realized the greatest increases in federal service funds are the eight jurisdictions in her region.

*Triggering memo.*—The submission of Illinois' state-plan amendments to HEW produced a dilemma for the department. The department had not defined the limits of purchase arrangements that the states could make and it was thus not sure how to deal with the Illinois proposal.

The department's problem was complicated by the tremendous financial implications posed by the Illinois plan, and the prospect that other states would follow suit if the Illinois plan were approved.

To clear the uncertainty, Stephen P. Simonds, at that time commissioner of HEW's Community Services Administration, issued a memo June 17, 1971, to the field that sought to clarify the purchase policy. Tom Joe wrote the memo.

Adhering to the broad definition of a service as approved by Congress, the memo excluded only two services from eligibility for purchase under the Social Security Act: public education costs of welfare recipients and the financing of institutional care, including the mentally ill.

On the question of refinancing of service programs, the memo said states must "significantly expand" their services rather than simply substitute federal dollars for state funds. But it set down no precise requirement and states have each interpreted it differently.

The clarification memo had the effect of signaling all states that they were eligible for additional federal funding. With the approval of Illinois' state plan, other states geared for an expansion of their service programs.

James A. Bax, commissioner of HEW's Community Service Administration, the agency with responsibility for social services, said in an interview: "The more the feds talk and clarify, the more states develop their social-service programs."

In all, 27 states now are seeking amendments to their social-service plans to enable them to increase the federal funds that flow into their jurisdictions.

Some states already have won approval of plan amendments and are seeking more changes. The states with proposed changes pending are: Vermont, New Hampshire, Massachusetts, New York, Maryland, Virginia, Pennsylvania, North Carolina, Tennessee, Alabama, Georgia, South Carolina, Illinois, Minnesota, Wisconsin, Arkansas, Texas, Kansas, Iowa, Missouri, Nebraska, Colorado, North and South Dakota, Montana, Utah, Wyoming, and the District of Columbia. In addition, Maine and Connecticut have indicated that they will submit plan revisions.

#### POLITICS

Social services have become caught in a web of politics since the Administration sought to impose a ceiling on expenditures for services in 1970 and Congress rejected the proposal.

There has been no distinct pattern to the politics. At times, Republicans at federal- and state-government levels have found their respective interests incompatible. But, on the whole, Republican Governors have fared better before the executive branch than their Democratic counterparts.

In Congress, Democrats have opposed more often an imposition of a services ceiling, but Republicans, particularly those from financially-troubled states, also have cast votes against the Administration's proposal.

In both its fiscal 1971 and fiscal 1972 HEW budget request, the Administration sought but did not get from Congress a spending ceiling of 110 percent of the previous year's expenditures.

Key House figures in defeating the Administration's proposal in 1970 were Reps. Daniel J. Flood, D-Pa., chairman of the House Appropriations Subcommittee on Labor-HEW, and Rep. Robert H. Michel, Ill., the panel's ranking Republican.

Flood and Michel were under strong pressure from Pennsylvania and Illinois state officials to reject the proposed ceiling and they went along.

With no ceiling on the open-ended program, the Administration had to request additional funds for fiscal 1972. The second supplemental appropriations bill (HR 14582; 86 Stat. 163) which cleared the Congress May 18, included \$502.3 million for social services, welfare administration and training.

A small part of the supplemental appropriations (\$14 million a year) will go to finance the addition of 427 new HEW employees to monitor the states' expenditure of funds authorized under the Social Security Act.

The massive supplemental request for social services was not seriously challenged by either the House or Senate, despite the fact that rising welfare expenditures are under attack in many quarters.

One House Appropriations Committee member privately offered a reason: "Congressmen don't look at these funds for social services as part of the welfare boom. They are viewed as fiscal relief for the hard-pressed states."

Further, he said, the Appropriations Committee has become hardened to large increases in welfare funding. "The committee thinks it should be dealt with through authorization legislation, not a simple ceiling in an appropriations bill."

*Republicans active.*—Political pressure also has been exerted on the executive branch in attempts to win HEW approval of state-plan amendments.

Illinois and New York provide the best examples of states where governors have used their party credentials to press for fiscal relief in the form of social-service funds.

In both instances, Ogilvie and Rockefeller have appealed to Secretary Richardson and the White House for assistance.

*Illinois.*—Before Illinois could reap the bulk of its financial windfall by reshaping its services program, Secretary Richardson had to waive a requirement that all funds flow through the state welfare agency.

Before Richardson granted the waiver, he met with Ogilvie to discuss the issue. Illinois' Corcoran, who attended the session in Richardson's office Feb. 1, said: "We came out of that meeting feeling confident that we were going to get the waiver if we could show HEW that the state had developed an adequate system to account for the new federal money."

During the development of the Illinois plan, the state let a number of contracts to Arthur Young and Co., one of the nation's largest public accounting firms, to develop a system of accountability. The contracts total an estimated \$830,000, 75 percent of which the federal government was obligated to pay under the federal-state social-services program.

Illinois also hired Covington & Burling, a Washington law firm, to write a brief arguing the merits of its case for a waiver. The brief was written by Charles A. Miller, a Covington lawyer.

Two weeks after the meeting, Richardson approved the waiver, and Ogilvie announced in a news release issued in Springfield that "the state will receive \$102 million in special federal funds to assist persons at or near the poverty level." He said that the extra funds "will partially meet the anticipated deficiency in public assistance."

One top-ranking HEW official said privately that the political pressure exerted on Richardson to grant the waiver was not the overriding reason why it was granted.

"Simpson (SRS Chicago region commissioner) told the Illinois people that getting a waiver was a matter of routine. The Secretary was coopted by the SRS regional commissioner," he said, "and he had little choice but to grant it."

Massachusetts and Nevada have pending before Richardson—who is required by the law to make the judgment personally—requests for waiver of the single state agency requirement.

Alabama, Georgia and Tennessee may need such waivers before HEW can approve their plans, but these states have not yet asked for such action.

Miller of HEW's budget office recommended to Richardson in a memorandum dated May 26 that the Secretary declare a moratorium on any further approvals of state-plan amendments or single-state agency waivers.

**New York.**—The declaration of such a moratorium would have precluded the recent approval of changes that New York State proposed to HEW in its social-service plan.

Although HEW's New York regional office had the responsibility for approving changes in the state's social-service plan, Rockefeller has pressed Richardson and the White House directly for quick endorsement of the proposal.

Richardson said in an interview: "I've talked to him (Rockefeller) on the telephone once, or possibly twice. He just wanted to assure me that approval of the state plan is important from the state's point of view."

Rockefeller also has conveyed to White House officials his hope that HEW would approve the state plan, Richardson said: "I have been made aware that Rockefeller has expressed at the White House New York's fiscal concerns, but from all I can gather he's told them the same thing he's told me."

"I have not felt any pressure to do any more than the established guidelines and procedures require," the Secretary said.

Rockefeller's office also has taken a political route on occasion when negotiations on the shape of the proposed state plan between New York and HEW's regional office have bogged down.

One HEW regional official involved in the negotiations said privately: "When the governor's office brought political influence to bear, and that was often, the Secretary's office backed us to an extent that I would say was unusual."

He said that the political influence wielded by Rockefeller's office was "neutralized to a great extent" because of the complexities of the welfare regulations and requirements.

The principal route that New York used when taking its problem through a political channel was between Robert R. Douglas, secretary to Gov. Rockefeller, and Jonathan Moore, counselor to the HEW Department and a close Richardson aide.

HEW has tentatively approved New York's plan amendments, but the state must now rewrite the plan to reflect agreements that were worked out in its negotiations with the department.

The negotiations took place over the last three months and proved an exhausting exercise for both sides. But it was particularly difficult for HEW because its negotiators had to cope with conflicting marching orders.

One HEW participant said that the negotiators were under pressure to be politically responsive to Rockefeller and fiscally prudent an almost impossible task given the magnitude of New York's social-service programs.

At almost every turn, New York pressed its case through political channels. One HEW participant said New York brought to bear "an array of pressures that you would not believe." Richardson said New York's negotiators "have been tough bargainers."

Barry L. Van Lare, New York's executive deputy commissioner of social services, and Elmer W. Smith, the regional SRS commissioner in New York, were the principal negotiators.

New York projected in its February estimate to HEW that the state would be billing the department a total of \$441.3 million to cover the federal contribution to service expenditures in fiscal 1972.

In its May estimate, New York revised downward the federal contribution for fiscal 1972 to \$382 million. But as a result of the state-plan amendments approved by HEW the federal commitment will increase to \$618 million in fiscal 1973, New York estimates.

#### REGULATIONS

Approval of the state's service plan was disclosed in New York City June 7. Smith said the federal financing of three-quarters of New York's social services would be retroactive to last Oct. 1.

The bulk of the new federal dollars will finance the following services: day care, foster care, family planning, alcoholic and narcotic addiction control, mental health services and vocational education.

To impose a greater degree of control on its social-services program, HEW's Social and Rehabilitation Service has drafted new regulations that will seek to hold the states more accountable for their service expenditures.

The purpose of the regulations, SRS Administrator John D. Twinn told Richardson in a May 11 memo which accompanied the draft proposal, "is to establish a goal-oriented service program and to put into effect program and fiscal controls."

With one significant exception, the offices on which Richardson depends for counsel in making key welfare policy judgments have approved the draft regulations as written.

But HEW's budget office voiced strong opposition to the draft regulations in a memorandum which Miller sent to Richardson.

Miller described the proposed regulations as "extremely dangerous." He said that with few exceptions the regulations would "perpetuate, and in some instances, accelerate the uncontrolled increase in federal financing of services; further confuse the already chaotic financing of services; create new mandatory services that would commit—without discussion or analysis—hundreds of millions of dollars in federal and state resources; defeat our goal of obtaining rudimentary program and cost data on a systematic basis by mandating such an elaborate structure that the states could not possibly cope with it."

Miller recommended that the draft regulations be significantly altered before they are published in the Federal Register. His recommendations included the purging "of every new or expanded service, e.g., transportation services and home-delivered or congregate meals."

Miller also urged Richardson to bar the following services from those available for partial federal financing:

Vocational rehabilitation services; (He said that HEW has had an explicit policy for three years to rehabilitate recipients of public assistance and such activity should be funded under the authority of the Vocational Rehabilitation Act (82 Stat 297), not the Social Security Act.)

All medical, health and mental-health services, whether "incidental" or not, with the exception of family planning services;

All residential care and subsistence.

Miller concluded his memorandum to Richardson by conceding that his recommendations were "harsh and may ignore important vantage points other than fiscal common sense and integrity."

Obviously referring to the political element that has hung over many of the developments in the social-service program, Miller said: "We leave it to others to take these non-cost factors into account. This is one time, however, that we feel that the weight of both program and financial evidence is on the side of fiscal sanity."

Miller's memo greatly impressed Under Secretary Veneman, who asked SRS to formally respond to the arguments advanced by the budget office. As a result, the proposed regulations were returned to the agency for further work.

*HEW conflict.*—Miller's memorandum reflects the wide schism that has separated HEW's budget office and SRS—the agency responsible for administering social services.

SRS employees who are hooked programmatically to social services have generally looked with favor on state expansion of service programs, believing that the assistance was going to the nation's most impoverished citizens.

James Bax, commissioner of the Community Services Administration, the SRS unit with responsibility over social services, said questions surrounding services expansion have a program side and a budget side "and when they cross we have problems."

But Bax argued that the public funds going to finance social services are far from excessive. There are 14.8 million welfare recipients and \$1.6 billion expended for services to improve their lot, he noted.

"The recent expansion has increased the daily per-person expenditure for services from about 16 cents to 28 cents," Bax said. "That's not even enough for an RC cola and a moon pie."

Bax is the principal architect of the proposal HEW intends to implement in its new regulations that would require states to set goals for recipients who receive services. The plan would take several years to fully implement.

*State reaction.*—HEW's budget office is not the only opponent of the draft regulations developed by Bax. Texas Gov. Smith fears the new rules will bar his state from taking advantage of the open-ended program.

Smith pressed his case with HEW's Veneman at a Washington meeting June 1. That same day he also discussed the issue with members of the Texas congressional delegation, Sen. Russell B. Long, D-La., and Paul H. O'Neill, assistant director (human resources) of the President's Office of Management and Budget.

In his meeting with Veneman, Smith contended that Texas would be denied anywhere from \$100 to \$220 million in federal social-service money because of the new regulations.

He sought a guarantee that Texas would receive the same treatment that had been accorded Illinois. But Veneman granted no such commitment. Smith was defeated in a primary bid for a third term, and, as a lame duck Democrat, he wields strictly limited influence with the Administration.

#### OUTLOOK

The Administration will likely have another fight on its hands when the Senate takes up the question of imposing a spending ceiling in HR 1 on social-service expenditures, although a powerful new ally should strengthen the Executive's case.

Concerned by the "skyrocketing" expenditures for services, the Senate Finance Committee approved June 11 a ceiling of \$1 billion on the program and scaled down the federal matching requirement.

The committee substituted the medicaid matching formula for the current 75-25 ratio. Under medicaid, the federal matching share ranges from 50 to 83 percent, depending on a state's per-capita income. But the Senate panel set a maximum of 75 percent on the federal commitment.

Because the per-capita income of most southern states is generally low, the federal government pays 83 percent of their expenditures for medicaid, a program that finances health care for the poor.

In other words, the change in the matching formula as approved by the Finance Committee would not hurt states like Louisiana, the jurisdiction represented by Sen. Russell B. Long, D, the panel's chairman.

*New York impact.*—The Finance Committee approved an expenditure ceiling on services five days after a June 8 front-page story in *The New York Times* detailed the financial windfall that New York would reap as a result of HEW's approval of its new social service plan. The story was headlined: "U.S. Doubles Welfare Aid to the State and Its Cities."

An aide to Sen. Long said the story had a significant impact on the committee. In explaining the rationale for the ceiling, Long told reporters: "This program was initially estimated to cost \$40 million at the federal level. Under the new agreement with New York, in New York alone the cost would be \$440 million—11 times what the entire program was estimated to cost for one state."

The House approved a ceiling of \$800 million in HR 1, with the exception of child-care and family-planning services, which would continue to be funded on an open-ended basis. The Finance Committee treated these two services in a similar fashion.

Since the House approved HR 1 in June 1971, the expenditure level of HEW's social-service program has spurted to an estimated \$1.6 billion for fiscal 1972, exactly twice the dollar level of the ceiling.

*Ribicoff's plans.*—Sen. Abraham A. Ribicoff, D-Conn., a member of the Finance Committee, plans to move to strike the services ceiling when HR 1 reaches the Senate floor.

A services ceiling is one of the issues under discussion by Ribicoff and HEW as they seek to strike an accord on a compromise social-security, welfare-reform bill. (For a report, see Vol. 5, No. 24, p. 975.)

Geoffrey Peterson, a legislative aide to Ribicoff, said the Senator is willing to accept a ceiling on services, but it would have to be at a level of \$2 billion. However, Ribicoff's preference is no ceiling at all, Peterson said.

The nation's Governors, Democrats and Republicans alike, are certain to join Ribicoff in his drive to keep the program free of a ceiling. The National Governors' Conference adopted a resolution at its June 4-7 meeting in Houston, Tex., opposing the proposed services regulations as too restrictive. The conference has long been on record against a spending ceiling.

In the meantime, HEW Secretary Richardson must resolve the conflict in his department over the service regulations before it can make much progress toward its stated goal—slowing down the unconstrained growth of the social-services program.

Senator GRIFFIN. Mr. Chairman, there is a rollcall vote. Immediately following this rollcall there is going to be a—

The CHAIRMAN. Why don't you—

Senator GRIFFIN. There are two votes in a row.

The CHAIRMAN. Well, some of us can stay until the second round of bells. As soon as we have voted on the second vote I would suggest that everyone who can, return immediately.

Senator BYRD. You will continue the hearing, Mr. Chairman.

The CHAIRMAN. Yes sir. We will complete it. And I want to call on you, Senator Byrd, as soon as we can get back here.

Senator BENNETT. I am through, Senator.

Governor ROCKEFELLER. Mr. Chairman, I think you are making a tremendously important point but I would like to attack it from the point of view of the States. We are under tremendous pressure. I have been attacked by the distinguished mayor of New York City, why hasn't the State gotten more of this money, so as long as you leave a provision on the books where we are entitled to get it and we don't get it, then we are attacked politically at home.

Rather than attacking Mississippi I think we ought to change the Federal legislation that permits us to do it because we are forced to do it. We are told we are niggardly.

Governor MANDEL. We are dealing with two separate, distinct issues and I think the Governors' Conference would be happy to sit down and solve that problem. At the same time we would like to move with revenue sharing which is distinct and separate.

The CHAIRMAN. One thing we all have in common, everyone on this committee has to run for office and if we want to stay in the business we are in, and those of us in this office know that we think if this thing is not brought under control, I think it creates some real severe problems. While we are talking about your problem I would like to talk a little bit about our problem.

Governor MANDEL. We would like to help you and work with you to solve that problem because we recognize it is a problem.

The CHAIRMAN. May I ask this. Could we recess this hearing until 11:30 and start promptly at that time. I think we can reassemble then.

(Recess.)

The CHAIRMAN. The hearing will come to order. The Chair recognizes Senator Curtis from Nebraska.

Senator CURTIS. Mr. Chairman, I shall be brief. I would like permission to ask one question off the record first.

(Off the record discussion.)

Senator CURTIS. Governor McCall, I observe in your comments that you refer to closing of libraries and cutback for schools and lessening law enforcement as being forced upon some city or locality in your State. I am interested in what caused this crisis. Are the taxpayers in that area paying less in taxes now than they have been paying?

Governor MCCALL. No sir; they are paying more, Senator Curtis, than they have ever paid. But they are resisting any—there is no possibility to enact anything without the referendum being very easily applied to it.

Senator CURTIS. I understand that. That is not the point. The point is this. Here is a taxpayer who looks at his tax receipt. The amount he is paying is increasing all the time and then he learns that schools are being cut back. He doesn't have as much law enforcement as he had. Libraries are being closed.

I am asking the question for him, what is happening to the money? If he is paying more and educational funds and law enforcement funds are being cut back, what Government programs are taking the money?

Governor McCALL. That is exactly the situation, Senator. I am not debating that. This is exactly the situation that Governor Mandel described as chaos. In all the other decisions of government where they put it in their budgets it is revenue sharing but the incremental increases which you experience with your budget have hit those budgets locally just as much as they have the local budget.

Senator CURTIS. There must be something here besides just increment to the cost. The taxpayers are paying more, yet it seems to me that police protection and providing schools are probably the first two functions of the local government. Why are they paying more and these things that should have the very top priority are being reduced?

Governor McCALL. I give you an example. To maintain the school system in Portland, school district No. 1 which is in Multnomah, our most populous county, the school district asked the people to pay on a pay-as-you-go basis \$12 million. First they asked for \$14 million and that was defeated. They are having to cut out 22 days. There is an attitude of stop the world, we want to get off. There is a revulsion of feeling on paying more taxes.

Senator CURTIS. I am talking about the fact that taxpayers pay more separate and apart from what may be turned down, but even in spite of that he is paying more, yet his police protection it cut down and education is cut down. Why is that?

Governor McCALL. Because the money they need goes less far each year and they can't get more money. That is just as simple as it is.

Senator CURTIS. It must be something besides the rate of inflation.

Governor MANDEL. Can I inject something? In our State of Maryland we took over the entire cost of construction of schools. The rate of increasing construction is going up 18 percent a year. Now, in our other construction programs, and I might say to you without trying to appear too critical, it used to take us about a week to prepare an application to get a sewage treatment plant built, to prepare an application for the Federal Government. It now takes us 11 months to prepare that application to just apply for the funds because of the rules and regulations that we are tied up with.

In the meantime the cost of construction has gone up 18 percent in a year. That is the application.

It used to take us about 1 year to prepare a plan for a highway and to get it out for bid. Now it takes us 6½ years by the time we can get that approval from the Federal Government to build that highway. That construction cost has gone up 18 percent a year. That is a 108-percent increase in the cost between the time we approve it and get it out for bid because of, again, all of the procedures we have to go through to get this. We are starting to refuse Federal money because it is costing us more money than if we build with our own money.

Governor McCALL. It is a 42-percent increase in the last decade in the inflationary costs for materials and services for State and local government. Forty-two percent increase. That is the kind of figure I want to get for the record.

Senator CURTIS. But I don't think that is the sole factor. How much of your education cost increased if you present that answer in constant dollars?

Governor McCALL. Let me take 1 minute to tell you what we are doing. We are going to take off of the homeowner all the costs of—we are going to increase the take at the State level in income tax, a statewide property tax basis, and a 1-percent payroll tax, at the State level, \$336 million. That is more revenue sharing. So that the homeowner will not have to pack this load. This will cause a readjustment of feeling in other elements of the Government. Part of that we hope could be at the State level, some amount of revenue sharing. We can take it out of revenue sharing but it will reduce the new taxes at the State level that much. So, in other words, we are going to return our \$25 million which would get in revenue sharing at the State level, give it all to local government. For the record, 52 percent to be—52 percent is the inflationary increase in prices on services in the State and local government. This is why the dissatisfaction has arisen.

Senator CURTIS. This is the last call for a vote.

Governor McCALL. I wasn't trying to evade you.

Senator CURTIS. I would appreciate it if every Governor would for the record, even if you have to do it later, state how much these educational costs have gone up in constant dollars, and then I would like to have this information—I was going to direct this to you, Governor Rockefeller, but I think it would be well for everybody to answer for the record. What portion of your State expenditures are used to match Federal programs, and if that could be supplied even at a later time by each of the Governors, I think it would be most helpful.

Governor McCALL. Senator, 35 percent of our general funds goes from the State to the localities. \$250 million.

(The following submission for the record was subsequently received by the committee from the National Governors' Conference.)

NATIONAL GOVERNORS' CONFERENCE,  
Washington, D.C., July 31, 1972.

HON. CARL T. CURTIS,  
U.S. Senate, New Senate Office Building,  
Washington, D.C.

DEAR SENATOR CURTIS: During the Governors' testimony on behalf of H.R. 14370, the revenue sharing bill, you asked the Governors to supply the Committee with information on "What portion of state expenditures are used to match federal programs". The best current figures are the estimates provided by the Office of Management and Budget in their January, 1972, edition of the *Budget in Brief*, Special Analysis P.

OMB estimated that state match requirements for federal aid are slightly above \$1 for every \$2 of federal aid on an across-the-board basis. Estimates for 1973 are \$13-\$16 billion in state funds for an estimated \$40 billion in federal aid. The OMB estimates have been validated in detail by Professors Dell S. Wright and David E. Stephenson both of the University of North Carolina. I have attached a summary of their study which appeared in the *National Civic Review* in December of 1970. Professors Wright and Stephenson on Page 584 conclude that state funds for matching federal programs plus increased state aid for local governments exactly equal the increased state tax revenues for the period 1958 to 1970. Their conclusion is state revenues are all consumed for these two purposes, therefore, leaving very little unallocated and flexible state funds for new state programs.

If you have any further question, I shall be glad to seek more detailed information.

Sincerely,

JAS. L. MARTIN,  
Assistant Director.

[From the *National Civic Review*, December 1970]

**INFLEXIBLE FINANCES—STRONG INTERGOVERNMENTAL SQUEEZE HAS GREATLY RESTRICTED DISCRETIONARY FUNDS AVAILABLE TO STATES**

(By DEIL S. WRIGHT and DAVID E. STEPHENSON<sup>1</sup>)

Popular rhetoric says that state governments have failed to meet their responsibilities. Indeed, such a theme has been a dominant focus for many political scientists who study state and local government. There have been few dissents.

The accelerated pace of governmental activity and policy innovation in the last decade has been offered as further evidence of emasculation at the state capitols. A wave of new national programs accompanied by massive federal expenditures during the Kennedy-Johnson years found that states, more often than not, stranded on the sidelines.

The increasing demand for public services generated by the urban crisis, the position of black Americans, and the discovery of poverty in the early 1960s was directed (for the most part) at the federal level. The states, it was asserted, were simply unwilling or unable to respond to the needs of the citizenry. At the end of the decade the pattern of public policy making seemed to entail the design of grand public programs at the national level. Local governments were given, at times, considerable flexibility in the implementation of those programs; at other times they were given very little discretion.

Again, the state capitols appeared to be relegated to the position of weak if not moribund middlemen. The decision-making process in state government had become increasingly "instrumental" and "facilitative." Innovation was judged either in short supply or non-existent. At worst the states were seen as being without programs, policy direction or a general political constituency. At best they were viewed as administrative helpers, either assisting local programs or carrying out national ones.

What has been the source of this malaise? Theories abound; so do differences of opinion. One aspect of debility at the state level, albeit a most significant one, derives from the financial straits under which state governments operate. Three elements of state finances will be considered here: (1) separation of revenue sources, (2) state tax efforts and (3) intergovernmental fiscal outlays.

Reporting in 1955 the (Kestnbaum) commission on Intergovernmental Relations suggested the desirability of greater separation of tax sources. By separation the commission simply meant the reliance of different levels of government on distinctly different sources of revenue. To a considerable extent, especially at the federal and local levels, this advice has been followed.

More than 90 percent of all income and property taxes are collected by the national and local governments, respectively, according to the U.S. Bureau of the Census. Only in the case of consumption taxes (general and selective sales and excises) is there considerable mixing. State governments collected 54 percent of the \$37.1 billion obtained in 1968 with local governments claiming 6 percent and the national government 40 percent. The primary political and policy implication of these figures is that the main source of revenue for the states is also the one most involved with aspects of tax overlapping and competition. There are other implications that follow from the incidence of these taxes, but these issues need not be treated here.

More important, however, from a revenue-raising standpoint are the economic elasticities of these three main types of taxation. By elasticity we mean the responsiveness of tax revenues to economic growth without changes in the rates. The Advisory Commission on Intergovernmental Relations has estimated the Gross National Product elasticities of the three taxes roughly at: income, 1.5; consumption, 1.0; and property, .7. These coefficients are crude measures of the automatic revenue productivity of the respective taxes. For each 1 percent rise in economic growth (as measured by GNP) there will be a corresponding increase in revenues in proportion to the size of the respective elasticity coefficient.

<sup>1</sup>Dr. Wright is professor of political science and research professor, Institute for Research in Social Science, University of North Carolina at Chapel Hill. Mr. Stephenson is a budget analyst trainee, budget division, North Carolina Department of Administration.

In economic and revenue terms this means that income tax revenues outrun economic growth. Consumption tax revenues barely hold their own and property tax revenues consistently lag behind. In practical terms these abstract coefficients identify hard political choices. If the scope, quality and character of public services is to be increased by the states or their local units from their own resources, either new taxes must be enacted or the rates on existing ones increased. Both courses of action have been followed extensively by the states.

One of the most important responsibilities of any governmental unit is to garner the revenues used to support the public services offered its clientele. Using the concept of tax effort as an indicator of the willingness to meet that responsibility, the states could hardly be accused of delinquency. Tabulation of 1959-1969 data compiled by the ACIR on the six major state tax sources provides some surprising results. During the 11-year period the 50 state legislatures enacted 36 new taxes and increased rates on existing levies on 376 occasions. These 412 tax actions occurred in about 400 legislative sessions in all states. On the average, therefore, every legislative session enacted a tax increase. The actions, by type, are summarized in Table 1 (next page).

TABLE 1.—INCREASE IN STATE TAXES FROM 1959 TO 1969 BY TYPE OF TAX AND TYPE OF TAX ACTION

Type of tax	Number of tax actions, 1959-69		
	New tax enacted	Tax rate increased	Total
Sales.....	12	53	65
Personal income.....	10	40	50
Corporate income.....	7	46	53
Motor fuel.....	—	58	58
Cigarette.....	5	111	116
Alcoholic beverage.....	2	68	70
Total.....	36	376	412

Note: Tabulated from Advisory Commission on Intergovernmental Relations, "State and Local Finances: Significant Features, 1967-70" (Washington, D.C., 1969), p. 58.

The favorite focuses for tax actions were the common vices, smoking and drinking. The 116 cigarette and 70 alcohol tax increases accounted for nearly half of all state tax actions over the decade. The tendency to levy a tax on bad habits has a long and hallowed tradition. The discriminatory character of these "taxes on sin" has been labeled "the whiskey animus."

The other four types of taxes were accorded about equal attention with 50 to 65 actions. Since all states had a motor fuel levy prior to 1959 no new taxes could be enacted. In terms of revenue generated, of course, the sales tax actions were most productive. General sales taxes produced \$3.7 billion in state revenue in 1959 contrasted with \$12.4 billion in 1969. This 235 percent increase over the decade was still not as great as the 290 percent increase recorded in combined individual and corporate income taxes during 1959-1969. State revenues from these two taxes rose from \$2.8 billion at the beginning of the period to \$10.7 billion at the end.

There was considerable variation among the states in terms of number of actions per state. Minnesota led with the passage of 15 increases. Illinois, Maine, New York and Wisconsin followed with 13 increments, and eight states recorded 12 such increases. Only one state, Louisiana, failed to enact an increase for these six taxes. Kentucky, New Hampshire and Oregon made only three upward revisions, while North Carolina and Oklahoma enacted four. There appeared to be no evident association between the number of tax increases per state and any social or regional variables.

Table 2 presents a summary tabulation of the number of states recording different frequencies of tax increases for the six taxes during the 11 years. If a state legislature met annually then any state enacting 10 or more increases would have passed at least one major tax increase every session. Eighteen states fell into this "distinguished" class.

TABLE 2.—Number of States enacting tax increases in 1959-69 for 6 major taxes by frequency of tax increases

Number of tax increases :	Number of States
0 to 3.....	4
4 to 5.....	8
6 to 7.....	10
8 to 9.....	10
10 to 11.....	5
12 to 13.....	12
14 to 15.....	1
Totals .....	50

Tabulated from Advisory Commission on Intergovernmental Relations, *State and Local Finances: Significant Features, 1967-1970* (Washington, D.C.: 1969), p. 58.

There is reason to believe, however, that two variables (one economic and one political) are associated with efforts at tax rate escalation. States with high per capita incomes were more prone to increase taxes. During the period in question the 12 states with the highest per capita incomes had a mean score of 10 total tax actions while the 13 states ranking lowest on per capita incomes showed a mean increase of under seven.

A political variable related to tax increases is state-local relations. We used the categorization of states according to degree of state-local centralization developed by Daniel J. Elazar in *American Federalism: A View from the States*. A positive association appeared between the most locally-oriented states and those most vigorous in raising taxes. States having a tradition of centralism have not been nearly so active. Perhaps the accelerated demand for local services has caused many of the "localistic" states to rely more heavily on centralized financing. Then inelasticity of the property tax base affords some credence to this suggestion.

The results of these numerous tax increases are only partially revealed in the 1959-1969 rise in state tax revenues from \$14.9 billion to \$41.9 billion. The full impact will not be revealed until 1970 figures are disclosed. A conservative estimate would place state tax revenues at \$46 billion. Thus, a net increase in tax revenues of about \$31 billion has accrued to the states in the 1959-1970 period. According to estimates by the ACIR about \$16.5 billion can be traced to legislative action and about \$14.5 billion to economic growth influences.

These estimates are obtained from findings on the cause of growth in state tax revenues. Two factors that affect the rise in tax revenues are: (1) increases in rates and (2) increases in economic activity that generate natural or built-in revenue expansion. The latter force can be referred to simply as economic growth. The former might be termed political choice; it rests on discrete and explicit actions by state political actors to increase taxes. Political choice accounted for 53 percent of the rise in state tax revenues from 1959-1967; economic growth produced the remaining increment. These proportions, when applied to the 1958-1970 increase of \$31 billion, yield the \$16.5 and \$14.5 estimates arrived at above.

The respective roles of economic growth and political choice in explaining state revenue increases are charted in Figure 1. From a point of origin in 1958 the trend lines show the pattern of tax revenue rise for the 50 states. The size of the political choice component is simply a graphic expression of the 400-plus tax increases enacted over the 1959-1969 period. The tax money accumulated via the mechanism of political choice accounts for a substantial portion of the state tax revenue increases. (See next page.)

Billions of Dollars  
(increase over 1958)\*

Billions of Dollars  
(increase over 1958)\*\*

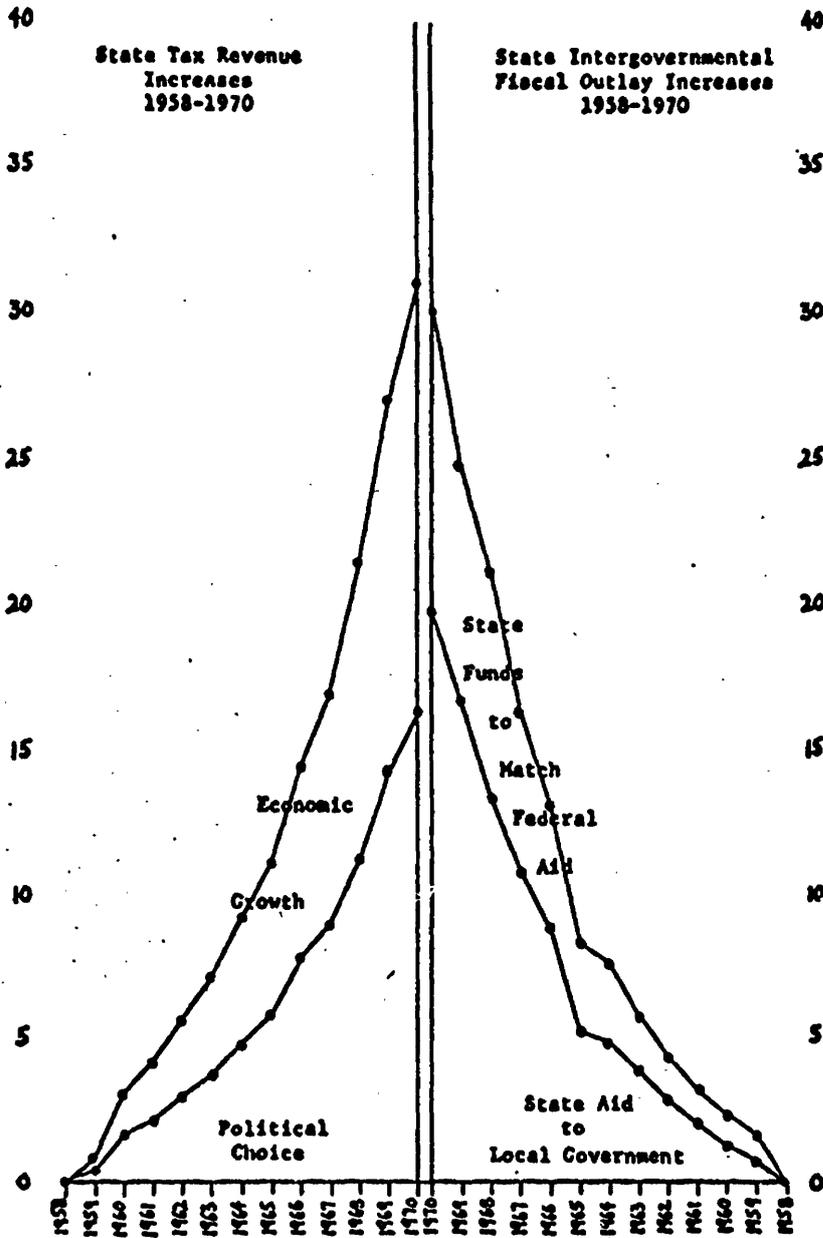


FIGURE 1 TRENDS IN STATE FINANCES

- \* 1958 State Tax Revenues = \$14.9 billion
- 1970 State Tax Revenues = \$45.9 billion (estimate)
- \*\* 1958 State Aid to Local Government = \$8.0 billion
- 1970 State Aid to Local Government = \$28.0 billion (estimate)
- \*\* 1958 State Funds to Match Federal Aid = \$2.5 billion
- 1970 State Funds to Match Federal Aid = \$12.5 billion (estimate)

This aspect of state finance is not lost on governors and legislators. They are painfully aware of the political liabilities engendered by the necessity for continuous tax hikes. Independent confirmation of the importance and agony of political choice comes from a survey of 800 legislators in the 50 states during 1963. Out of the 3,000 important issues indicated by these legislators, more than 20 percent fell in the field of taxation. Nearly three-fourths of the responding legislators mentioned taxation as a major issue, and this, along with education, was the only issue cited by respondents in every state.<sup>2</sup>

The foregoing discussion documents the fact that the states are, so to speak, where the tax action is. An alternate way of demonstrating state aggressiveness in the area of taxation can be noted from an intergovernmental perspective. From 1958 to 1968 the percentage increases in tax revenues were: federal government, 73 percent; state government, 144 percent; local government, 101 percent.

If state governments have made gargantuan efforts in the field of taxation, one is prompted to ask, "Where has all the money gone?" Specifically, since state taxes have tripled from 1958 to 1970, where has the \$31 billion increase gone? Unfortunately, much of it has gone to meet the pressures of inflationary forces at work in the economy.

The wages, salaries and price of goods purchased by state government are subject to even greater inflation than that reflected in the Consumer Price Index (CPI). The implicit price deflator for state-local purchases, a type of cost index for this sector of the economy, increased from 100 in 1958 (base year) to about 160 in 1970. By way of contrast, the CPI, from its base year of 1957-1959=100, stood at approximately 135 in mid-1970. If the \$46 billion in estimated 1970 tax revenues is deflated to 1958 dollars ( $\$46 \text{ billion} \div 1.60$ ) a figure of \$28.750 billion is obtained. This amount is the approximate real or constant dollar level to which state taxes rose in the 12-year period. Inflation, a force ostensibly under the control of the national government, eroded more than half of the current dollar increases in state tax revenues.

The financing vise in which the states find themselves because of price changes was succinctly summarized by former Governor Orville Freeman of Minnesota, a leading "tax-action" state. Speaking to other governors in the summer of 1959, Freeman said:

"\* \* \* consider this irony of the inflation situation. If price levels continue to rise, the figures just quoted indicate that our state budgets will suffer proportionately more than family budgets, business budgets, and Federal budgets. At the same time, if the Federal Reserve System puts on the tight money screws in its efforts to stop inflation . . . the interest rates in our tremendous borrowing program rise sharply. What happens? We are caught either way, or perhaps I should say both ways."<sup>3</sup>

More important than inflationary impacts, however, is an assessment of the disposition of state tax increases by identifying and charting the two major state intergovernmental fiscal outlays. The first is state aid to local governments. The second involves increases in state expenditures necessary to meet the matching requirements for federal aid. The patterns of change in the financial magnitudes for these two components are depicted in the right-hand portion of Figure 1.

State intergovernmental expenditures to local units rose from about \$8 billion in 1958 to \$24.8 billion in 1969. In all probability state aid will exceed \$28.0 billion this year and record an estimated \$20.0 billion increase in this state expenditure sector. (See Figure 1.)

When federal aid matching requirements are recognized, the impact of the other side of the intergovernmental coin on the states is equally revealing. A rough estimate places state matching requirements slightly above \$1 for every \$2 in federal aid on an across-the-board basis. In 1958, therefore, the states had to raise about \$2.5 billion to match the \$4.9 billion in federal aids.

Federal aids for fiscal 1970 are estimated at over \$24 billion. State matching funds would approximate \$12.5 billion. The difference between this figure and the \$2.5 billion for state matching in 1958, or roughly \$10 billion, is the estimated 1958-1970 increase required to meet federal aid matching formulas. When this last figure is added to the \$20 billion in increased state aids, the total of \$30

<sup>2</sup> Wayne L. Francis, *Legislative Issues in the Fifty States: A Comparative Analysis* (Chicago: Rand McNally & Co., 1968), p. 10.

<sup>3</sup> Quoted in Walter W. Heller, *New Dimensions of Political Economy* (Cambridge: Harvard University Press, 1966), p. 129.

billion nearly matches the total 1958-1970 increased state tax revenues. It appears that intergovernmental fiscal demands have consumed almost all the 1958-1970 increase in state tax revenues. The approximate match between state tax increases and intergovernmental fiscal pressures is revealed visually by the left and right portions of Figure 1.

Actually, these figures and the conclusion are slightly overstated because of the double counting of some federal aid funds. An indeterminate amount of federal aid coming to the states is subsequently passed on to local governments and is recorded as state intergovernmental expenditure. It is not possible to arrive at a precise estimate of the duplicate amount, but, whatever the amount, it would represent only the residual sum of money not allocated to intergovernmental commitments by the states.

It seems doubtful that the pass-through would exceed \$5 billion, but this is acknowledged only as a best guess. Even if it were as high as \$7-8 billion, the local and national intergovernmental impacts on the states are tremendous. Of the \$31 billion in taxes raised from 1958-1970, only 25 percent would have been available as flexible funds for state-level, non-intergovernmental purposes. The other 75 percent satisfied intergovernmental fiscal pressures and obligations. It is not surprising, then, that governors and legislators express concern at being the victims of a fiscal straitjacket. Political actors at the state level must sometimes feel as if they are being whipsawed at the bar of intergovernmental justice (or injustice).

This analysis should blunt some of the thoughtless and indiscriminate criticisms of state governments for their unresponsiveness to the search for an optimal level of public services in the United States. In the fiscal and discussion will assist from the attention standpoint. From a policy standpoint public officials are the appropriate points of response to loosen if not cut the Gordian knot binding state finances. The ACIR has set forth a wide-ranging set of proposals for greater state fiscal flexibility. Many urge state action but a few critical ones call for federal targeted to provide flexible funds for the states would be federal revenue sharing.

If, indeed, the states have not kept pace with the burgeoning level of governmental activity, perhaps the fault cannot be placed entirely on the unwillingness of the states to act in progressive, constructive and creative ways. It seems quite legitimate to assume that one prerequisite for innovation (not to mention mere expansion) in the public sector is a substantial amount of flexible financial resources. Such resources appear to have eluded the states for a number of years.

The CHAIRMAN. I am going to ask one or two questions and then I have got to go vote. I hope to keep you here because the other Senators will come back.

This has been suggested and, Governor Mandel, I just throw this possibility out, not as a substitute for the bill but as an addendum to it.

What would be the reaction of the States if we provided in addition to what we have here, that is, the Federal Government would provide a tax credit as we do under the Inheritance Tax Law for some part of what is paid to the States for similar taxes? Suppose we provide, for example, a tax credit of 5 to 10 percent of the income tax that is paid to the Federal Government, if that much money had been paid to the State government. Would that be welcomed by the States? Would you favor that kind of thing? If we did that, that wouldn't give a State any money that had that much income tax but it would tend to bring the other States into line: it would be a very favorable incentive for those States to provide such a tax because it really wouldn't cost the taxpayers anything to do it.

What would your reaction be to that?

Governor MANDEL. Governor Rockefeller.

Governor ROCKEFELLER. Mr. Chairman, I think what you are suggesting is one of a number of very interesting possibilities but un-

fortunately this isn't considered in the House bill and it is a different concept and if we got started on that now, I am afraid we wouldn't get any revenue sharing in any form and maybe we ought to take the revenue sharing first and maybe next year we could examine some of the other possibilities. If we get on this we might never get a bill.

The CHAIRMAN. We are not bound by what the House bill is. It seems to me we have our own suggestions to make if we want to add something to this.

Governor ROCKEFELLER. That is basically what the members of our group have done. I am not going to argue with you, just please vote for the bill.

The CHAIRMAN. Do you want to add something, Governor Millikin?

Governor MILLIKIN. First of all, I want to agree with Governor Rockefeller's comments and make the further observation that it is my understanding that the House did deal with that question and ultimately rejected it, and I think the concern of the committee and my concern is that if the amendment were put on this bill now and got to a conference committee, the House could very well reject it. With time running out again I think our feeling is: the important thing above all is to get a bill that is acceptable to get through the conference committee and be adopted by both Houses this year. My fears are if we move down that road, this would be a disaster.

The CHAIRMAN. I have to go vote. I will be back in about 3 minutes.

Senator HARTKE (now presiding). As I understand, prior to the time Senator Long went to answer this third rollcall, he asked a question, is that correct? He wants to know what the attitude would be of the Governors with regard to the question of adding a tax credit provision to the bill. Who would like to address himself to that question?

Governor OGILVIE. I would take a very negative view of that. I believe Congressman Byrnes was the one that proposed that in the House and it was argued about. I understand it was rejected over there.

The point that Governor Rockefeller made before you came into the room is one that we have to keep in mind. We have come a long way from where this first started a number of years ago to the point where we conceive the possibilities of revenue sharing within the next several months' time and to throw out the House bill and literally start all over in my opinion would result in nothing happening on the immediate basis and all these Governors have indicated that there is a great degree of urgency, that the Congress and Senate and House can act in response to problems of our cities and States and it is an interesting thing to talk about but it has been talked about.

We are now where we are and we hope we can see something substantially along the House bill enacted by the Senate and sent over to the President.

Senator HARTKE. Since I have you with no other competing forces, the question comes to whether you have adopted a philosophical or a strictly monetary approach to revenue sharing. Has there been any discussion among the Governors as to the type of tax philosophy that is going to be adopted? As I understand what you are talking about, you are looking forward to basically assuming no responsibilities above those you have assumed today. I see the philosophy of the present approach as one in which there is no additional responsibility

taken by the States or local governments. What they are looking for is additional funds to be collected by the Federal Government and dispensed to the local and State organizations. Is this a correct assumption?

**Governor MOORE.** I think, Mr. Chairman, the correct response to that question as posed to the Governors is that, no, we don't look upon it in that context at all.

But in the bill which you have before you passed by the House of Representatives there is a combination of interests crossing mayors and municipalities and communities and county officials. If Governors perhaps had not in the interest of moving this legislation along compromised their position somewhat, as it relates to general thrust of revenue sharing and areas of responsibility along with it and the conceptual idea, we sacrificed in terms of compromise to the wishes of the mayors, the wishes of those in county government, the theory being that the greatest need for the moment was an injection of new revenue dollars on a local basis.

Now, we insisted initially as Governors, as a matter of fact, prevailed for a while on the House side that these dollars be structured in such a way that they flow through the Governors on through the mechanism of the State governments, so that we could suggest priorities, priorities of the application of funds, priorities related to tax reform in the States themselves, and meeting generally the commitments to the towns and communities.

We sacrificed that position simply because out of necessity the cities and the counties indicated there was a monetary question for the moment.

Now, when you fit this into the overall part of the equation of discussion and some of the presentations made by Governors here today, it gives emphasis to the fact that their communities and their towns, their cities and counties, are in trouble fiscally and that is I think the constructive reason that Governors collectively have taken the position.

While we would much rather have, as individual Governors, the total authority, the stability of priorities of spending, to see to it that there is some accountability and that it wasn't purely a monetary question involved I think more than anything else is the reason we are right here today, our willingness in coming.

**Governor MANDEL.** Senator, you asked a question based upon the philosophical viewpoint and the reason that most of us don't look upon it as a—all of us have been engaged in subdivision revenue sharing today. We are collecting dollars and returning them to the subdivisions for them to use as they see fit for their problems. So, it is not a new philosophical problem for the States or most of the Governors. We have been engaged in this for years.

**Governor McCALL.** Senator Curtis asked me to tell how much we did engage in in terms of dollars and cents. Out of a general fund budget of \$793 million we returned to the cities and counties \$250 million. Out of an overall budget of \$2.8 billion we returned \$500 million in State funds to the localities. On that basis, revenue sharing by the Federal Government ought to be \$60 billion if they are as generous with the local States and subdivisions. This is what I am going to live and die by. Ahead of every other demand on the Federal Treasury

ahead of poverty, pestilence, ahead of war, ahead of peace, should come this allocation that strengthens and revisualizes and rebalances the Federal system.

Senator HARTKE. Let me preface that. I have a different concept than that adopted here. I have a bill which is based on a philosophy of taxation. I see revenue collection as a corollary to revenue sharing. I have had this problem and have seen it firsthand and I have seen the State government really share revenue to some extent but also to maintain a very tight control over how much a local community can do. Most cities are merely subdivisions of the State and are controlled by the State law and are not given much freedom of operation. By the same token, in most of my conversations I have found that the general overall objection that there is to providing these funds by State and local taxation is that the Federal Government has preempted what they consider the most valuable source of tax revenue; that is, the income tax. Now, if the income tax is so good for the Federal Government, it ought to be just as good for the local government and State government. And I say to you, with all the kindness I can, that with spending the money ought to go the responsibility of taxing. I don't see that in the present concept which is being advocated here except to a limited extent. I see a retention of the present tax structure. I see only a limited requirement that local communities could not take advantage of this bill to reduce their local taxes and permit Uncle Sam to pick up the balance.

Governor MANDEL. I think the bill provides—

Senator HARTKE. Just one more comment and then I am willing to return the question to the Chair.

If that is the concept then I see nothing except tragedy in 4 or 5 years. There is not going to be much defense of a \$30 billion deficit which is feeding the fires of inflation. I am very concerned and I know the Senator from Virginia is very concerned about what we are going to do about the fiscal crisis that faces the Federal Government. Here is an amount of money, \$5 billion or so, that will be added to \$2.2 billion coming out of H.R. 1. You are adding 25 percent to the Federal deficit without putting any corollary taxing responsibilities on those people who are seeking the benefits.

That is my concern. I will have one vote on the committee and I just want you to know that until I can get a satisfactory explanation of revenue without taxation, I am not going to move now or at any time on this concept.

Let me say one other thing since the chairman has returned. I know of no man who has worked harder or no man who knows more about what is going on—be it H.R. 1 or revenue sharing—than does the chairman of this committee. If all of the committee chairmen were as well versed as he is on details the Congress would be in better shape.

Governor MANDEL. I was going to say, Governor Rockefeller—

Governor ROCKEFELLER. Senator Hartke, you were good enough to send me a copy of your thoughts on this subject, so I would like to say I share the great enthusiasm for your concept. Unfortunately all of us here representing the States have to try and compromise with reality and the reality for us is the different point of view among the different States which have wide variations, and its mayors and county ex-

ecutives, and we have been working with the House of Representatives because they are first on the totem pole on the program. So we have been compromising to the maximum possible with the House and the Ways and Means Committee.

What really to me is extraordinary is that there has come to rest a unanimity among all of us with our disparate points of view on the plan and basically this plan says the Federal Government will help State and local governments meet responsibilities which they are not meeting fully now.

Senator HARTKE. Who helps the Federal Government meet its fiscal responsibilities. We borrow money. It is borrowed from the same places. Why can't the States go out and borrow money?

Governor ROCKEFELLER. You are looking at a Governor who is in that position now.

Senator HARTKE. What is the difference in borrowing the money? Why should the Federal Government go out and borrow? We have incurred almost a fourth of the Federal debt within this administration. I am not being critical of the Nixon Administration. You are going to be faced with at least a \$30 billion deficit this year and, when all the accounts are totaled, probably nearer \$40. But you are going to add to that another \$7 billion or \$6½ billion which we must go out and borrow. So what you are saying to the Federal Government is, "you go out and borrow the money because you have preempted the income tax structure."

When I was a mayor I think I owed the responsibility when I spent the money to assume the responsibility of saying what I am going to tax.

Governor MANDEL. I think the essence of your answer is that the local people haven't met that responsibility. Since 1968 through 1972 the Federal Government tax collection has increased 5.2 percent. Local government has increased 11.2 and State government has increased 12.2 percent. At the time your deficit is increasing you are lowering your taxes. We don't have that luxury of being able in the States to decrease our tax efforts and still spend more money. Most of us have to operate on a balanced budget and we have to provide revenues to meet our expenditures, so we don't have the luxury of cutting taxes and increasing spending at the same time. I think that is a problem that has to be faced by the Federal Government. The local people have increased taxes to the point where they have no other place to go. On income tax most of the States have increased. Using our States, we have a State income tax and then the local subdivision gets 50 percent of it that is returned directly to them for their use in any way that they see fit.

Senator HARTKE. Governor, all I can say is that if that is true, then why do they come to the Federal Government and say the Federal Government should assume greater responsibilities in this field: I am not asking for government philosophy as far as spending is concerned. I am talking about a tax philosophy and revenue philosophy. If it is such a good system, why not have a comparable system for the State and local communities. Let them keep it at home. I have no interest in keeping this money, to ever bringing this money to Washington and not sending it back. I see a great deal of value in

letting the local officials collect that money so there is a sharing of taxing responsibilities and a sharing of that income tax base.

Governor MANDEL. I think the officials and the local people have already faced that responsibility to a far greater extent than the Federal Government has.

Governor Rockefeller.

Governor ROCKEFELLER. I think we have to first say the Federal Government has not preempted the income tax. That statement is used but it is not a fact.

Senator HARTKE. Yes.

Governor ROCKEFELLER. Because nobody is stopped from putting an income tax on. We have gone to a 15-percent income tax and perhaps another 2 or 3 percent. There is no problem of putting on an income tax except the people do not want to vote for it. There are many men sitting here representing States where they are barred constitutionally from an income tax, or Governor Cahill, who pushed an income tax and lost it in his legislature. So we are dealing with again the legality. Until we achieve what you are saying, which is that every State has income tax locally but they do not have it.

So we are balkanizing this country into States which do have income tax and States which do not have an income tax. We are attracting the poor from other States who come to us for higher services and the Supreme Court will not let us put on any limitations, so that we are dealing with the reality.

I share your philosophy but how do we achieve it in this world of reality?

Senator HARTKE. I quite agree.

Governor ROCKEFELLER. I agree with what you say. If you provide there will be no revenue-sharing until there is responsibility on the revenue collection by income taxes, we will make it politically viable for a Governor to go ahead and live and for a mayor because if he is faced with the fact he cannot share any Federal revenue until at least he takes a step forward to modernize his own tax revenue collection scheme, then he can do it politically.

Senator HARTKE. I agree with you but I do not think you can get the votes in the Congress of the United States to force States to put on an income tax. Failing that, we have to face the existing reality and I appreciate your desire to cut down these Federal programs. One of the great ways that we could do it would be stop starting new programs and finance ones we have got.

Governor ROCKEFELLER. Let me say I want to thank the chairman for giving me this time.

The CHAIRMAN. Gentlemen, in order to give each Senator a chance to ask questions, I would want to ask that we keep our inquiry within 10-minutes.

Senator Miller, you are next.

Senator MILLER. Thank you, Mr. Chairman.

Governor Mandel and your colleagues, I just have two points I would like to raise. I am troubled by the House bill's formula which includes individual income tax collections of the States because I know some of the States are strapped by their Constitutions. We have an income tax in Iowa. I know some of you have a higher income tax, but why could we not resolve this dilemma by simply having a factor

of State and local taxes? Would that not take care of it, then? If everyone has an income tax, would that not satisfy the problem?

Governor MANDEL. I think some of the Governors have said this could be a solution to this factor.

Senator MILLER. Now, what about another factor; namely, per capita net income? I am sure the Governors have discussed this aspect and my information is that—at one time I know per capita income was a factor in one of these allocation formulas.

Governor ROCKEFELLER. That is in the local—

Governor MANDEL. That is in the local part of the bill.

Senator MILLER. What about the States? The allocation—

Governor ROCKEFELLER. Item 3 in the local—

Senator MILLER. It is item 3 in the—it is States only and not local.

Senator CURTIS. The local is put through by the State, which has to take that into account. But the effects—

Senator MILLER. You are correct. One-third on the basis of population, one-third on the basis of urbanized population, and one-third on the basis of population inversely weighted by per capita income. I take it, that is satisfactory with the Governors' conference.

Now, finally, clear back in 1961 I introduced a revenue-sharing program, but I limited it for educational purposes. There are two aspects of that. One is whether or not the States and the local governments would, if we took the same amount of revenue under the allocation formula, derive an adequate amount of benefit if this were limited to education purposes, and the other is education purposes ought to be included in the high-priorities-purposes list. The high-priorities-purposes list does not include education. It includes public safety, environmental protection, and public transportation and the like, and I would appreciate some comments from the chairman or his associates on this.

Governor MILLIKIN. You say on behalf of all of the Governors here you would like to make a plea for not introducing restrictions of that kind in this legislation. It seems to me the basic philosophy behind general revenue-sharing should be as far as the States are concerned, to allow flexibility which would then enable us to have the most rigorous scrutiny to use those funds in the best way possible. To apply these kinds of restrictions could result in a less efficient expenditure than would be true if we had that flexibility.

Senator MILLER. Well, I am trying to give you flexibility by use of the phrase "for education purposes." Now, how you use it is up to you. But I would be surprised if there is any Governor present who finds that there is adequate money available for education purposes at the State and local level in his State.

Governor LUCEY. Are you preparing to add education to the three categories listed for the local share or are you proposing education for the only share in which the States share?

Senator MILLER. I would like to have comments on either one. My original point was to specify for educational purposes because I know the tremendous increase in educational costs over the last few years.

The question is whether or not that will absorb enough of those costs to take a tremendous load off your backs so that you can provide other services with the money that is saved as a result of that. And the other alternative would be to include education in this list of high

priority items. Governor Milliken, I might point out to you that the House-passed bill does tie your hands, and I would suggest to you as I understand the bill now, your hands are tied and you cannot do it.

Governor LUCEY. I would have no objection to adding "educational" to the three categories. I would agree with Governor Milliken that it would be a disservice to the whole concept if the State's share was earmarked for education. In Wisconsin, whether it is \$6 or \$7 million, all of that money is going to be used in our case to put in the concept advanced by the California Supreme Court in bringing about tax reform. It would not tie our hands any way at all. I think it would be bad public policy to impose that restriction.

Senator MILLER. You want the State's share to be open without any restrictions at all but other than States and local—

Governor LUCEY. I would be delighted to have education added to that list.

Governor McCALL. For your information, we are doing precisely what they are doing in Wisconsin. I am making an effort to raise \$336 million a year in new State taxes to take over the operating costs of the schools. The State does only 21 percent of the primary cost of the education in our State. We have fought for an increase in the income tax, Senator Hartke, and that would raise our position to 100 percent and how much we have in revenue-sharing will reduce the \$336 million by the amount you have given us. It will help us.

Governor OGILVIE. I think this is going to tend to distort the situation. All of these States are not the same. We put in an income tax in 1969. The State of Illinois more than doubled the amount of money we have given to local schools. If we were to have this money to go only to educational use I think we will all admit that you will never meet the needs of education. It is a perfect example of Parkinson's law.

Senator MILLER. Then, to summarize, would it be correct for me to say that the Governors' Conference has agreed they would rather have the factor of State and local tax efforts, period, than to have it split between income tax and other State and local taxes, and that when it comes to the State's share of the revenue sharing they want that to be left open to give them flexibility? When it comes to the high priority items, the pass-through items, to the local governments, they think it would be helpful to have education purposes included?

Governor MANDEL. On the second item we will say, yes. On the first item rather than say we would favor, we would accept.

Governor LUCEY. I would like to consent on the first statement. I would like the \$1.8 million State share as provided for in the House formula with additional discrimination in favor of those States that rely on income tax. And if we do not get that, we still favor the revenue-sharing concept. I think really if the bill were passed in its present form it would do what Senator Hartke wants to do. It would be a great problem to get States who are not relying on the income tax to change the constitution in order to provide a progressive income tax and this would be good for the citizens of the State because we would not be losing our industry to States where they are rewarded by industry for taxing the poor instead of taxing on the ability to pay.

Governor MILLIKEN. May I speak for myself and Michigan when I say you have summarized very well the position which I could fully support even though under that proposal of total tax efforts, State

and local taxes, Michigan would receive some \$3½ million less, if accepting that approach would, in effect, get the support as I believe it does, of all of the Governors on an acceptable basis. So you have summarized a position acceptable to me.

Governor ROCKEFELLER. Senator Miller, I would say exactly what Governor Miliken has said. We would lose money but if it brings everybody together, we accept it.

Governor McCALL. Senator, I would go along grumblingly. The last time they changed it in the House it cost Oregon \$10 million and we are going to be penalized per capita if we use this. But I will take the flak at home and consent to \$18 million reduction in the formula if you guarantee you can get the bill through before the Republican National Convention.

Senator MILLER. Well, Governor, I cannot make that guarantee but I am sure the chairman can.

The CHAIRMAN. Senator Hansen?

Senator HANSEN. Thank you very much, Mr. Chairman.

First of all, let me say how pleased I am with the appearance of you gentlemen here today. I happen to proudly claim membership in your ranks. I think there are at least five members of the Finance Committee who have served as Governors.

If I may be permitted an aside, I would say that we would have more responsible legislators if every Member of the Congress had served in such a situation. [Applause.]

In Wyoming, as is true in many States, we cannot spend more money than we raise and we come to the moment of truth which has a chastening effect in keeping us honest. I wish we were more appreciated. I could say many kind things but I think the concept is sound. I have seen as you have, programs that were less meritorious, less specifically structured to meet a particular problem in a State, adopted by communities, by school districts or by counties simply because the Federal funding share happened to be a little larger.

With respect to the idea of what we spend altogether, I think there is merit in the idea that the total facts should be published. When I was Governor of Wyoming we spent more per capita in education in 1 year than any other State among the 50 and yet we have no income tax. We have plenty of other taxes.

I think you made a very fine contribution. I hope we heed your words of wisdom.

Senator GRIFFIN. Mr. Chairman, we are going to have the honor of having lunch with these gentlemen.

The CHAIRMAN. I would like to ask the Governors to wait a few minutes for Senator Byrd. He has a few questions. Senator Byrd will be right back. Also, I have a letter here from Governor Askew of Florida and a statement from Governor Anderson of Minnesota, and we will print them at this point.

(The material referred to follows:)

STATE OF FLORIDA,  
OFFICE OF GOVERNOR REUBIN O'D. ASKEW.

HON. RUSSELL B. LONG,  
Chairman, Senate Finance Committee, Senate Office Building, Washington, D.C.

DEAR SENATOR LONG: In previous consideration of the State of Florida's position on revenue sharing, I have noted what I consider to be two major faults with the legislation which has been developed.

First and foremost is the method of calculating the amount that would be available to each state. The formula as originally presented would give the richest states a higher modification, the current formula still would unfairly penalize Florida and several other states.

Adoption of the Baker Amendment would cure this fault and considerably improve the bill currently under consideration. Basing the allocation on the total tax effort of each state appears to me to be the most logical method of determining the distribution. This amendment would not only remove the discriminatory use of the State personal income tax effort but also would make the revenue sharing concept more consistent.

The Gurney-Ribicoff Amendment, which has been proposed as an alternate to the Baker Amendment, also would be a significant improvement over the provisions of Senate Bill No. 3651 or the Mills Bill. I do not, however, feel that basing the distribution upon a state's share of Federal personal income taxes is as equitable as the method proposed in the Baker Amendment.

Given the mobility of the population, the Baker amendment consideration of total tax effort would provide a better measure. Florida, for example, must furnish services for tourists and for seasonable residents who do not necessarily originate their Federal income tax payments in Florida.

The other major fault which I find in the bill is the provision which would allow allocations of Federal revenue to be made directly to cities and counties within each state.

One of the principal reasons for revenue sharing is that problems, priorities and even economic structures vary from state to state and from locality to locality. Allocating Federal funds directly to local governments eliminates the possibility of coordination of state and local programs based upon the needs and the efforts of cities and counties. This bypassing of state government also ignores the widely varying pattern of state aid to local governments.

Florida traditionally has allocated more than half of its General Revenue budget for aid to local governments for the operation of schools and to help meet other needs. At my request, the 1972 Legislature also authorized a state revenue sharing program to provide additional funds for local governments and lump sum distribution on a more logical basis.

It is my hope that an amendment to allow state coordination of local funds can be considered in addition to the correction proposed in the method of determining the distribution for each state.

Although Federal revenue sharing is essential in the restoration of mutually beneficial relationships between the Federal government, the several states, and their respective instrumentalities of local government, improvements are necessary to cure the faults in these important areas.

By copy of this letter, I am advising the Florida Congressional delegation and the National Governor's Conference of my concerns and asking that they support the changes needed to provide a more equitable revenue sharing measure.

Sincerely,

REUBIN O'D. ASKEW,  
Governor.

#### STATEMENT OF HON. WENDELL R. ANDERSON, GOVERNOR OF THE STATE OF MINNESOTA

Minnesota needs Federal Revenue Sharing. Minnesota needs revenue sharing for local and state government, not because it has been doing a bad job in tax and fiscal policy, but because it has been doing a good job.

Over the past few years, Minnesota has undertaken an extensive reform of its tax structure. This year's Advisory Commission on Intergovernmental Relations report said, "A cluster of highly innovative 1971 Minnesota actions combined to produce the outstanding fiscal case study of the year. The Minnesota legislature and the governor joined to rewrite the book on State fiscal policy toward local government." The article was entitled "The Minnesota Miracle."

Minnesota has accomplished the following reforms:

1. The state support of education from non-property taxes has increased from 43% in 1970-71 to an estimated 70% for the coming school year, 1972-73. The formula for school support has been drastically reformed to achieve equalization in school expenditures and local school tax rates. The average school property tax fell over 20%.

2. Massive state aid to local government began in 1968 and was increased 30% in 1971. The state now distributes to local non-school units of government \$28 per capita of unrestricted state funds. This aid rises automatically to \$28 per capita in 1972. The formula of aid is adjusted to reward those units who need the aid the most. To illustrate the magnitude of this aid, the City of Minneapolis receives approximately \$16 million this year. This compares with the \$4.8 million to be provided in H.R. 14370. In addition, another \$10 million is distributed to local government from shared taxes.

3. The inequitable personal property tax has been abolished.

4. The state began in 1968 to pay 35% of the property tax bill of every homeowner, up to a \$250 maximum.

5. To insure equity to renters, the state gives renters an income tax credit of up to \$90.

6. Senior Citizens with an income below \$5,000 have a special tax credit whereby the state pays a portion of their property tax. The payment ranges from 90% to 10% of their property tax, depending on their income and their property tax.

7. The Minnesota sales tax completely exempts food, clothing, and all medicines in order to blunt the regressivity of this consumption tax.

8. Of the state's \$2.9 billion biennial budget, more than 60% is directly returned to local schools or municipalities as aid.

9. The average property tax fell 11.5% in Minnesota from 1971 to 1972 as a result of the restructured state tax program. Minnesota may well be the only state where property taxes decreased overall.

10. To avoid the bulkanization of the state tax structure, the state outlawed local sales and income taxes.

In a preceptive comment, Frank Trippet, in *The States: United They Fell*, said this of state taxation in general, "To ascertain the purpose of the state legislature's fiscal behavior it is necessary to recall the *true constituency* it serves. This is not the people. The legislature's true constituency (with the infrequent exception when a single strong leader becomes its true constituency) is composed of that loosely coalesced community of commercial interests enumerated previously, the corporate community of industry, finance, and business—banking, realty, insurance, trucking, rails, liquor, mining (coal and minerals), fuel (oil and gas), sometimes gambling (horses, dogs, jai-alai), power (gas and electric utilities), and farming (when it takes on a corporate personality as in the Florida citrus industry).

"It is this true constituency that the legislature protects with its celebrations of thrift. It protects the true constituency from carrying a reasonable share of the tax load. Anyone acquainted with the promotional literature published by the states to attract industry will be aware that they invariably boast of the light tax burden carried by business and commerce in the state. In addition, certain states offer specific tax forgiveness to incoming businesses. Truth is a rarity in some fields of promotion, but in this the states do not lie; an abundance of scholarly expert research exists as solid corroboration. It is a truism that the history of state taxation is a history of regressive direct personal consumer taxes combined with only slightly progressive income taxes; a persistent reluctance to tax business and industry has been part of that history. It will be useful to keep this commonplace in mind along the way to some deeper understanding of the legislative nature."

Historically, the Legislature and governors in Minnesota have relied on the state income tax and a moderate sales tax exempting food, clothes, and medicines. This policy, coupled with the falling property tax, has avoided the worst features that mar the tax structures of many states.

However, reform is not without its problems. The pressures on local property taxes remain and threaten the successes of the fiscal program. The high state income tax is invidiously compared to states without an income tax and used to attack the reform program by the interests who oppose progressive taxation. The state's tax resources are sorely strained by its need to both maintain its aid to local schools and municipalities at adequate levels and to fund state programs of pollution control and penal decentralization and reform.

To maintain and to perfect Minnesota's tax reforms, we need revenue sharing. Minnesota's local governments need it to meet their pressing needs in law enforcement and pollution control, and to hold the property tax in check. Minnesota state government needs it to maintain its fiscal reforms without increasing the state's already large tax efforts.

In a short run sense, Minnesota state also needs revenue sharing. State tax collections for the fiscal year just ended are \$91 million short of those anticipated by the 1971 Legislature. The estimates are short principally because of federal actions. The national government's wage and price controls, particularly the Phase I freeze, drastically cut into the anticipated growth in wages and prices. The effect was a cut in anticipated income and sales tax revenue. It is rather ironic that slowing inflation presents a fiscal problem to the state. State expenditures are also substantially below estimates and revenue for the current year may meet estimates, but the entire \$91 million loss will not be made up by these factors.

I am aware that amendments have been submitted to H.R. 14370 which will reduce or abolish the tax reform incentive of the bill. Minnesotans were extremely pleased by the provisions of H.R. 14370 which offered incentives to reform the generally poor state tax structures. To now see this incentive removed is a rebuff and affront to those who have succeeded in state tax reform, as has Minnesota, and is a crushing blow to those states which are still seeking tax reform. I do not believe any fair-minded person can sincerely defend the tax structures of states who lack income taxes, who rely on regressive sales taxes and on the most obnoxious tax of all, the property tax.

I can understand that Senators from these states have a legitimate concern that their states are not left out of revenue sharing. However, H.R. 14370 as passed by the House does guarantee them their due. Only one-half of the state share of H.R. 14370 is based on state personal income tax effort, and even here a minimum  $\frac{1}{2}\%$  of the state federal personal income tax liability is guaranteed.

I ask that the proposed amendments to weaken the tax reform incentive of H.R. 14370 be defeated and the bill approved.

Senator BYRD (now presiding). Gentlemen, first I want to apologize to this distinguished group for the many interruptions this morning. The Senate is a rather unpredictable place, I might say. But we appreciate very much all of you coming here today and I think it has been tremendously helpful.

I have kept an open mind on this question. I realize the problems which all of you face. I served 18 years in the Virginia Senate, on the finance committee all of that time, so I know the problems involved with finances.

I think the record should show another side of this picture and I want to emphasize that I am not arguing against the proposal which you favor, but I am concerned about the Federal financial picture.

I want to say frankly, that most of my colleagues do not share this deep concern, so what I am saying is not representative, I do not think, of the entire Senate. But when we consider that the Federal Government ran a Federal funds deficit of \$30 billion in 1971, a \$32 billion Federal deficit in 1972, and the prediction is for \$38 billion in this current fiscal year—in my judgment, it will run around \$45 billion. But taking the administration's own figures that is a \$100 billion deficit in 3 years that the Federal Government will be running.

The interest on the national debt is now \$22.7 billion. Or another way of saying it is that of every personal and corporate income tax dollar paid into the Federal Government, 17 cents goes to pay just the interest on the debt. That is why I have had deep concern as to whether I could support this revenue-sharing proposal.

I made no decision on it but I want to state frankly the concerns that I have in that regard.

Another aspect of it that concerns me was brought out by the distinguished Governor of New Hampshire, and the distinguished Governor of South Dakota in regard to forcing States to go to an income tax. I personally favor an income tax. I think it is the fairest form of

all taxation. I think the Federal graduated income tax is about the fairest tax that you can get. I do not like some of the rates but the tax itself, I think, is a fair tax. Virginia has an income tax. But when we start forcing the States to conform to what we in Washington want done, then I question whether in the long run that is a very healthy proposition.

Senator Bennett mentioned another amendment that he might propose, and which I probably would support, in regard to social services, but again we are dictating to the States from Washington and that is a concern I have in regard to this proposal.

I would like to ask Governor Hall a question in regard to his statement. I notice that in your prepared remarks you say, "We embrace the work-fare concept as developed by the Senate Finance Committee." Is this an editorial "we" or are you speaking for the Governors?

Governor HALL. No. We have at least 15 enterprises in our State. We are raising hothouse tomatoes, we are making charcoal and we are selling it to supermarkets across the country. We are selling black-jack oak across the country. It does not burn very well at home but it is burning well out there in California. These are specifics. We have about 70 or 80 families involved in those enterprises and they are situations which are earning a profit and taking themselves over. That is what we consider work-fare to be and that is why we say we embrace the concept because we have tried it at the local level and we think it works.

Senator BYRD. As I understand it, you approve the work-fare proposals as developed by the Senate.

Governor HALL. Yes, by the staff report on June 13. That is the one I read and wrote this in response to that.

Senator BYRD. I notice in your prepared statement you say, "In reviewing the House passed version of H.R. 1, my advisers and I see little fiscal relief. Instead, we would expect an increase in cost to the States."

Governor HALL. We are apprehensive about that, Senator. We think instead of helping us, the level of our funding is going to be raised to meet the unnecessary social services. In fact, it will strap us more. That is our feeling.

Senator BYRD. So you do not favor H.R. 1 as passed by the House?

Governor HALL. Let us say, as I understand it, I do not favor it. We do not consider ourselves experts but as we read it and understand it, we do not favor that particular version.

Senator BYRD. And you would prefer, as between the two, the work-fare with the proposals developed by the committee?

Governor HALL. Yes, sir; with the C. & W. underlined.

Senator BYRD. Thank you. I understand you have another engagement. I do not want to detain you longer.

Governor MANDEL. Senator, may I just say, since you are coming to a close, I think all of the Governors here today have the same fear, the same feeling that you do, about the Federal situation. We are just as concerned about the Federal fiscal picture as you are because it does have a direct relationship to our situation in our States.

For example, the impounded funds that the States are entitled to and are not receiving because they are impounded because of the fiscal

situation of the Federal Government. We are concerned about it. But in this program that money is in the budget. It has been already included, I think, in the figures that you mentioned. We need it desperately because of the situation that we are in. So that we are fully cognizant of the Federal situation and we are just as concerned and I think I can say that for all the Governors.

We would like to have a balanced budget in the Federal Government because then we would be able to operate more efficiently at the local level. We would know what we are getting when we get it and we could plan for the future and we would like to see a Federal Government with the balanced budget. But the situation right now is so desperate that we need this relief immediately. We are in trouble and I cannot say that to emphatically. Unless something is done and done quickly—

Senator BYRD. I think the States would be helped and the individual citizens would be helped if the Federal Government, as you suggest, would get itself into a balanced budget situation. Unfortunately, we are going the opposite way pretty fast. We are accelerating our deficits. There has never been a 3-year period in the history of this Nation, with the exception of when we were involved in a life and death struggle in a World War II, fighting in both the Pacific and Europe, that we have ever had such deficits as we have had the past 2 years and this current fiscal year, which as I say, in that 3-year period \$100 billion.

I believe that there is no State in the Union in as bad shape financially as is the Federal Government.

Governor MANDEL. Governor Rockefeller would like to respond to that.

Governor ROCKEFELLER. Senator Hartke made a very important point; namely, that those who spend the money should raise it, and States and local governments have been raising money by new taxes across the Nation.

Now, he also made the point that there is a tremendous Federal deficit, and I think in all honesty, Senator, we have to say you have got a Federal deficit because you cut the taxes. I opposed the tax cut by the Federal Government, tried to get the President to veto the bill because I do not see how you could avoid the situation you are in when you keep cutting taxes.

Maybe we have to apply the concept that those who spend the money should raise the taxes in Congress as well and say you should not cut taxes if you are going to spend the money.

Senator BYRD. I agree with you, Governor Rockefeller, and I admit that I am an unorthodox politician. But I voted against the proposal to reduce taxes. It did not seem at all logical for the Federal Government in December to cut taxes by \$15 billion when we were running a deficit of \$30 billion.

Governor MANDEL. And at the same time say we cannot help the States with the revenue-sharing bill because we did this.

Senator BYRD. That is right. That is a good point you made, and every day that goes on, I am glad I voted against that bill.

Governor ROCKEFELLER. Good for you.

Senator BYRD. To reduce taxes by \$15 billion when we are running these huge deficits is not sound fiscally. I want to say I do not believe

there is any State in the Union—and if there is and you have the figures, I would like to get them—in as bad a shape financially as is the Federal Government.

I yield to the distinguished Senator from Wyoming.

Senator HANSEN. Thank you. I have nothing further to say. The Governors have made a significant contribution. I am aware of the fact you have a luncheon schedule this noon hour. I think you have made a good contribution to the ramifications of this revenue-sharing program. Thank you.

Governor MANDEL. Thank you very much.

Senator BYRD. The next witness is the Honorable Rafael Hernandez, president of the Senate, San Juan, Puerto Rico.

**STATEMENT OF HON. RAFAEL HERNANDEZ-COLON, PRESIDENT OF  
THE SENATE, COMMONWEALTH OF PUERTO RICO**

Mr. HERNANDEZ-COLON. Mr. Chairman and members of the committee, it is a pleasure for me to have the opportunity to appear before you to testify with respect to the State and Local Fiscal Assistance Act of 1972.

This act is probably the most important single piece of legislation in the area of fiscal assistance to be approved by the House of Representatives and to come to the attention of the Senate in many years. It is, therefore, a matter of utmost concern to myself and to many other U.S. citizens from Puerto Rico that the provisions of title I of this act, as approved by the House, be applicable to the 50 States of the Union and the District of Columbia, but not to the Commonwealth of Puerto Rico and other non-State jurisdictions under the U.S. flag.

To the best of my knowledge, the question of whether these provisions should be extended to Puerto Rico or to other non-State jurisdictions was never considered in the House of Representatives. As recently revealed, the government of the Commonwealth of Puerto Rico chose not to press the matter because of its belief that, since the Federal Government receives very little revenue from Puerto Rico, the Commonwealth had no right to participate in a Federal revenue-sharing program.

I fail to find any merit in this position. Although the State and Local Fiscal Assistance Act is commonly referred to as the revenue-sharing bill, the two Federal assistance programs provided for in title I of this act definitely do not correspond to the generally accepted concept of revenue sharing such as embodied in the original administration proposal, whereby a given percent of Federal tax collections in each State would be returned to the State. These two programs are revenue-sharing measures only in the sense that any program for the transfer of funds from the Federal to the State and/or local governments—that is, any Federal fiscal assistance program—represents a sharing of Federal revenue. Puerto Rico participates on an equal basis with the States in most Federal assistance programs—certainly, in nearly all of those initiated in recent years—and there is nothing in the two programs provided for in this act to justify that they be an exception.

On the other hand, to deny the citizens of the United States who are residents of Puerto Rico the benefits of the programs provided for

in title I of the State and Local Fiscal Assistance Act of 1972 is, in my opinion, a gross injustice. I urge this committee to correct this wrong. There are compelling considerations in support of this plea.

First, the Commonwealth and local governments in Puerto Rico face financial problems which are considerably more acute than those confronted by their counterparts in the States. This is very clearly shown by the data presented in the table attached to the printed copy of my testimony. Our per capita personal income is still less than 60 percent of that for the poorest State in the Union, Mississippi. For this reason, our per capita tax collections, despite a fairly strenuous tax effort, is about half the average for the States and noticeably below those for the State with the lowest per capital collection figure, South Carolina. This, combined with the fact that Federal transfer payments to Puerto Rico are below the average for the States, results in our having very limited revenues. In fiscal 1969, the latest year for which financial data for the States is available, our per capital State and local general revenues amounted to only 57 percent of the average for the States, and to 81 percent of those for the State with the lowest per capita general revenues, North Carolina.

Limited revenues mean limited expenditures. In fiscal 1969, our per capita State and local general expenditures were 61 percent of the average for the States and even below that for the State with the lowest per capita expenditures figure, South Carolina. Our per capita expenditures for education, health, and other basic government services were also well below the average per capita expenditure for the States and, in many cases, below those for the States which spent the least for each of these services.

I must stress that we face particularly urgent problems in the areas designated as critical in the local government high priority assistance program created under title I of this act. Industrialization, sizable migration from rural to urban areas with the consequent rapid growth of cities and population growth in an area which is 14 times more densely populated than the States, have created severe stresses in the realm of environmental protection, urban transportation, and public protection. Indeed, residents of Puerto Rico have not been spared from the problems which are faced by their fellow citizens in the States.

A second consideration in support of my plea for the extension to Puerto Rico of the provisions of title I of the Fiscal Assistance Act of 1972 is that the citizens of the United States are entitled under the Constitution to equal protection under the law, regardless of where under the U.S. flag they may live. To make the benefits flowing from title I of this act available to residents of States and not to residents of Puerto Rico and other non-State jurisdictions, is to deny equal protection to the latter. Such treatment amounts to discriminating among U.S. citizens solely on the basis of place of residence. I submit this is an arbitrary and unreasonable ground for determining who shall and who shall not receive these benefits. This committee and the Senate of the United States cannot permit this injustice to prevail.

Third, excluding Puerto Rico from the State and Local Fiscal Assistance Act will have an amplified adverse effect on the Commonwealth's opportunities to obtain additional Federal assistance in the

next 5 years. The magnitude of the funds required to implement this act, \$5.3 billion annually for the next 5 years, is such that it will considerably reduce the resources available to fund new Federal aid programs or expand existing ones during this period.

If the act is made into law and Puerto Rico is left out, the Commonwealth will not only fail to participate in these funds, but its chances to make up for this loss by increased participation in other Federal assistance programs, either already established or newly created, will be greatly reduced.

To sum up, I urge the distinguished members of this committee to correct a very serious flaw in the Fiscal Assistance Act of 1972, by extending the provisions of title I of this act to the Commonwealth of Puerto Rico and to other non-State jurisdictions under the U.S. flag. There are powerful considerations to do so in the case of Puerto Rico; and, I believe, they would also hold valid for the other jurisdictions as well. First, Commonwealth and local government in Puerto Rico face financial difficulties which are even more acute than those confronted by their counterparts in the mainland. Second, granting benefits to U.S. citizens living in the States and denying those same benefits to other U.S. citizens, just because they live in other jurisdictions under the U.S. flag, is evidently unjust and represents a gross violation of the latter's constitutional right to equal protection under the law. And third, approval of this act without extending the provisions of title I to Puerto Rico will have an amplified adverse effect on the Commonwealth's changes to obtain additional Federal assistance in the next 5 years.

Thank you.

(A table attached to Mr. Hernandez-Colon's prepared statement follows:)

PER CAPITA STATE AND LOCAL GOVERNMENT FINANCIAL DATA, PUERTO RICO AND THE STATES, FISCAL YEAR 1969

	Puerto Rico	State's average	State with lowest figure	Puerto Rico as a percent of State's average	Puerto Rico as a percent of State with lowest figure
<b>General revenues:</b>					
Total.....	\$322	\$567	\$398 (North Carolina).....	57	81
Taxes, charges, and miscellaneous revenues.....	241	473	\$292 (South Carolina).....	51	82
Federal fiscal assistance.....	81	95	\$62 (New Jersey).....	85	130
<b>General expenditures:</b>					
Total.....	350	578	\$380 (South Carolina).....	16	92
Education.....	95	234	\$174 (miscellaneous).....	41	55
Public welfare.....	128	60	\$20 (Indiana, South Carolina).....	47	140
Health and hospitals.....	166	42	\$19 (South Dakota).....	157	347
Highways.....	14	76	\$44 (South Carolina).....	18	32
Personal income.....	1,285	3,680	\$2,192 (Mississippi).....	35	57

<sup>1</sup> In fiscal 1969, \$24,700,000 were paid to 89,500 cases for an annual average payment of \$276 per case.

<sup>2</sup> State and local government health services care for the 66 percent of the population which is classified as "medically indigent."

Source: Puerto Rico—Commonwealth of Puerto Rico, Bureau of the Budget, Planning Board; United States—Advisory Commission on Intergovernmental Relations, "State-Local Finances and Suggested Legislation," Washington, D.C., December 1970, pp. 34, 35.

Senator BYRD. I thank you, Mr. President. I would like to say I have been to Puerto Rico several times, and it is a very attractive place, and I want to go back there when the weather gets a little colder here. What do you regard as the best season for one to visit Puerto Rico?

Mr. HERNANDEZ-COLON. I think January or February or March are the best months, and we would love to have you down there, Senator.

Senator BYRD. Thank you.

Mr. HERNANDEZ-COLON. We hope that we can greet you personally.

Senator BYRD. Thank you very much.

Senator Hansen?

Senator HANSEN. No questions, Mr. Chairman.

Senator BYRD. Thank you.

The next witness will be the Honorable Benjamin Cole, president of the Puerto Rican Mayors' Association.

**STATEMENT OF HON. BENJAMIN COLE, MAYOR OF THE MUNICIPALITY OF MAYAGUEZ, PUERTO RICO, AND PRESIDENT OF THE PUERTO RICAN MAYORS' ASSOCIATION**

Mr. COLE. Mr. Chairman, distinguished members of the Committee, I bring to you the warmest and deepest greetings of the members of the Puerto Rican Mayors' Association, that I preside over.

It is indeed a great privilege and honor for us to have this opportunity to express our views about this important matter and legislation in which we have built hopes and expectations in our efforts to improve the living conditions of our citizenry. Categorically and unequivocally, provisions must be made in this legislation to provide direct financial assistance to all the municipalities of the Commonwealth of Puerto Rico.

Mr. Chairman, adjusting local governments to present needs and realities is a very complex problem facing American urban cities today. The 20th century has brought many changes in the growth and composition of our populations, their needs, and our local resources. The Commonwealth municipalities have not been an exception to these new trends and urban developments.

Our Commonwealth is presently involved in a two-prong process of growth and development, one which is changing our largest cities, in addition to San Juan, into urban centers, and some of them, such as Mayaguez, Ponce, and Arecibo in the heart of metropolitan areas. And second, one which is changing the remaining municipalities of our Commonwealth, primarily, into "cells of a complex of public and private nonagricultural income and tax producing institutions."

However, this islandwide growth and development has created a series of very complex socioeconomic and community problems which are difficult in proportion to our population growth, their needs, and the lack of adequate public resources at the municipal government level. The needs and demands of our citizenry for more and better municipal services and facilities have increased considerably, while the financial capacity of our municipalities has not grown at par with those needs and demands. This financial deficiency is more significant in Puerto Rico than in the mainland, due to the fact that in the Commonwealth, our municipalities are receiving only about 4-percent return on the

Commonwealth net income, while in the mainland, the municipalities are receiving about an 18-percent return.

Our municipalities are needing financial assistance now to provide adequate environmental protection, public transportation, and public safety services, with a job-creating programmatic design geared to fight the persistent high rate of unemployment besetting our municipalities and to increase and improve municipal services.

This population and industrial growth and transformation requires new and modern sanitation techniques and equipment to serve our growing "suburban dormitory communities"; the disposal of solid waste; the construction of storm and sanitary sewer facilities; the pavement of streets and the extension of municipal waterlines; the installation of waste treatment facilities and the installation of sewage-treatment plants; public protection such as the guarding of public buildings, parks, hospitals, markets, and cemeteries; to provide massive free transportation to our schoolchildren so that private transportation can provide more and better transportation services to the public, depending on public transportation.

Three out of every five Puerto Ricans who have migrated to the mainland seeking employment and better housing opportunities in their efforts to raise the standards of living of their families have come from the southwestern region of Puerto Rico. The living conditions of those who migrated have been dramatically painted during hearings conducted by a House and a Senate subcommittee in the so-called Puerto Rican ghettos in the mainland. Their findings show a high degree of State dependency.

The living conditions of many of our residents in our rural areas have been dramatically painted also by a study conducted by the House Agriculture Committee in 198 isolated communities in 61 of our municipalities, which shows people subsisting on less than \$200 yearly income. The majority of our "structural unemployed" in our urban areas are also composed by these peasants who have migrated to our inner cities looking for better opportunities for their families.

Mr. Chairman, ladies and gentlemen, in my presentation I have spoken and recommended direct financial assistance by the Federal Government to our municipalities under this revenue-sharing plan. This recommendation, I hope, will be taken strongly into consideration by this honorable committee. It is based on the experience of a man who has been a State legislator, a municipal auditor, a U.S. postmaster, a mayor, and the president of a conglomeration of mayors; and as such, I am totally convinced that a program of this nature will not work having the State administrative structure to play the role of an intermediary between the Federal Government and the local governments. Specially, in the Commonwealth where since many services and Federal programs have been centralized in the hands of the Governor, centralization has not worked.

Most urban planners, civic and political leaders have concurred that decentralization of services and programs at the municipal level are the best and most adequate strategies to deal more effectively with the complex socioeconomic problems facing our urban cities today. This is understandable. The mayors are the closest highest elected public officials with the most intimate knowledge of their problems, the most

accessible to their citizenry and the one directly accountable to the citizens of their municipalities.

Therefore, to meet the challenge and needs of today and the future, we must provide adequate and better municipal services and facilities; we must reduce the prevalent distance that exist between government and its citizenry through participatory and representative democracy; and we must create more decentralization of services and programs at the local level geared to prevent further overlapping and duplication of services, thus preventing the waste of public funds; and we must improve our municipal delivery services system.

This, we believe, is the intention and can be done under the provisions of H.R. 14370. For the reasons stated above, I urge the Senate to include the Commonwealth of Puerto Rico as beneficiary of said bill.

Therefore, Mr. Chairman, we look for the intervention of this honorable committee to ascertain that the Commonwealth of Puerto Rico be included in this legislation and that said financial assistance be granted directly to our municipalities. Thank you very much.

Senator BYRD. Thank you, Mayor Cole. I notice that you have had quite a career as State legislator, municipal auditor, U.S. postmaster, mayor, and now you are in your present position in the—what State were you in?

Mr. COLE. In Puerto Rico?

Senator BYRD. In what—

Mayor COLE. Mayaguez, 4½ years.

Senator BYRD. That is a very interesting and varied career you have had.

Mayor COLE. Thank you.

Senator BYRD. Thank you for coming before the committee.

Mayor COLE. Thank you.

Senator BYRD. The next witness is Mr. Dwight Rettie, executive director, National Recreation and Park Association.

#### **STATEMENT OF DWIGHT F. RETTIE, EXECUTIVE DIRECTOR, NATIONAL RECREATION AND PARK ASSOCIATION**

Mr. RETTIE. Thank you, Mr. Chairman. My name is Dwight Rettie. I am executive director of the National Recreation and Park Association. You have a copy of my full testimony, and I will not take this opportunity to read it.

Senator BYRD. The text will be published in the record.

Mr. RETTIE. Thank you very much.

I would like, however, to just highlight three parts of that testimony for the benefit of the committee.

In my remarks, I urge that recreation and park programs be added to the list of high priorities programs that will qualify for Federal assistance under this much-needed legislation. We make this recommendation mindful of the statement that there will be many kinds of public programs at the local government level that are also a high priority in any given instance. We recognize the fact that park and recreation programs have often been given a low priority rating in many communities, but this has changed in recent years, in large part in the wake of changing life styles, and in large part related to the changes in our national picture for the work ethic.

We recently completed a survey of some 47 cities of the United States, all of whom are struggling with the same kind of financial crisis you had described to the committee earlier in testimony this morning.

But among the 47 cities, we heard great pleas for the needs for financial assistance, but only 66 cities have actually found it necessary even under major financial constraints to actually cut back on national park recreation facilities. This signals to us the recognition of the findings of the Kerner Commission some years ago, made shortly after the 1967 riots.

Inadequate park programs caused major civic discontent which led to those disasters. We urge that the committee restore to those park and recreation programs necessary funds to keep them running. We suggest that there are other programs at the local level which would also need from time to time consideration by local officials to meet high priority needs in any particular instance, and we would like to urge the Senate to consider language in this legislation which would permit maximum flexibility to local officials to meet the real needs of their local communities from time to time.

This would perhaps suggest some discretionary funds along the Federal allocation to meet any kind of local needs as may develop, such as the need to meet flood control needs or other kinds of needs in the wake of natural disasters.

Mr. Chairman, we are very strongly in support of the idea behind this legislation, which would recognize the almost universal deepening of the financial plight of local governments. We can offer strong support for the use of the Federal income tax as a fair and equitable means of increasing local resources. Although we are also mindful of the sober realization that revenue sharing is not the long-term remedy for local problems.

We appreciate the opportunity to appear before the committee this morning.

Senator BYRD. Thank you very much.

(Mr. Rettie's prepared statement follows:)

**PREPARED STATEMENT OF DWIGHT F. RETTIE, EXECUTIVE DIRECTOR OF THE NATIONAL RECREATION AND PARK ASSOCIATION BEFORE THE SENATE FINANCE COMMITTEE ON H.R. 14370 "STATE AND LOCAL FISCAL ASSISTANCE ACT OF 1972"**

Mr. Chairman, on behalf of the National Recreation and Park Association, I would like to express our appreciation for the opportunity to appear before you today.

My testimony today reflects the official position of the 17,000-member National Recreation and Park Association—the principle organization representing park, recreation, and leisure interests in the United States.

Mr. Chairman, we strongly support, in principal, revenue sharing that makes use of the Federal Government's taxing authority and methods to return to local governments some share of those revenues to meet the growing demands for local government services.

Support for the idea of revenue sharing was adopted in 1970 by the National Recreation and Park Association Board of Trustees, and was reaffirmed as recently as last May. In addition, the Board and Commission Members Branch of the Association, representing some 6,000 elected and appointed members of park and recreation boards and commissions throughout the United States have also given their strong endorsement to the concept of revenue sharing.

Mr. Chairman, although we can enthusiastically support much that is contained in H.R. 14370, we think it is deficient in one important respect. By excluding park and recreation programs and services from the list of "high-priority

expenditures" under the operation and maintenance category of the legislation (Sec. 102(a)(1)), the Congress would be failing to acknowledge the important place park and recreation programs and services are now afforded at the local government level.

Mr. Chairman, in spite of the fact that some still regard park and recreation programs as frills and luxuries among public services, the fact is these services represent public service programs vitally essential to the well-being of individuals and communities. In a recent NRPA survey of park and recreation departments in forty-seven major American cities, it was shown that although operating under financial constraints which have led to cutbacks in a wide range of municipal services, a substantial majority of the local governments of the cities polled did not, in fact, curtail park and recreation programs and services. This is a clear indication of the value and importance placed on park and recreation departments by most local governments.

Further support for revenue sharing which includes park and recreation programs and services is noted in the following responses to our poll;

Thomas P. Allen, Jr., Deputy Director, Parks and Recreation, Wichita, Kansas: "A revenue sharing program which addresses itself to parks and recreation, if implemented, would help us very much;"

James A. Bruce, Superintendent, Recreation and Park Board, Flint, Michigan: "The city administration is now saying that if revenue sharing becomes a reality this fall, parks and recreation needs will be at the head of the priority list;"

Carl A. Nastri, Director, Parks and Recreation, New Haven, Connecticut: "Revenue sharing appears to be our only salvation since tax revenue has reached a saturation point;"

Dr. George T. Wilson, Assistant Superintendent of Schools, Division of Municipal Recreation and Adult Education, Milwaukee, Wisconsin: "Unless there is recognition by the federal government that municipal park and recreation departments, whose funds come largely from local property tax sources, can receive supplemental funds, programs and services will come to a grinding halt;"

John M. May, General Superintendent, Department of Parks and Recreation, Detroit, Michigan: "Should revenue sharing fail to materialize, this City would be in a catastrophic financial position. Some municipal functions would face elimination or curtailment to an untenable level. Recreation could suffer immeasurably. There could be the prospect of merely operating facilities, foregoing all programming, and even closing facilities. In fact—going out of business."

This manifestation of local priorities should find expression in the legislation before this committee, along with public safety, public transportation and environmental protection. Like most municipal programs, park and recreation departments have experienced increased demand for services and rising costs. This demand has resulted from increased population, greater awareness of public recreation offerings, more leisure time and a growing need for personal fulfillment stemming from repetitive jobs and dehumanized work environments; and from the exhausting strains of trying to move and breathe and find pleasure, individual identity and self-worth in our society.

Hubert F. Stubbs, Director, Parks and Recreation, Columbus, Georgia, noted in our poll, that "the use of park and recreation facilities has increased due to the reduction in working hours in the labor market." Mel M'Gaha, Director, Parks and Recreation, Shreveport, Louisiana, remarked that "As wise use of leisure time increases because of its abundant availability, our responsibilities to the general public are greatly increased. Revenue sharing that includes parks and recreation—young and old and in-between—may be our only answer in the future."

We are a Nation undergoing profound change, but we are only dimly aware of the dimensions and implications of that change. What appears to be happening is the conclusion of our participation in the industrial age, and the start of some new, and yet undetermined, phase of social and economic organization.

We have built the world's first mass-affluent society, even if there are significant numbers of our citizens still excluded from it. In the process of living in affluence, we are no longer pre-occupied by having to obtain the essentials of survival. As a consequence, we have come to question the values of the historic work ethic that has so long afforded Americans their own sense of individuality, their sense of personal achievement, and sense of belonging to a community of other people who are working toward the same ends.

Young Americans, particularly, seem to feel a great sense of frustration that an increasingly impersonal and dehumanized productive process is now the

dominant force in our world of work. Each individual, both blue collar and white, seems to be a part of an increasingly smaller fraction of the production process. No longer can many people find the sense of achievement, the sense of personal satisfaction, that we have so long depended upon to furnish the basis for individual well-being and collectively, the well-being of our communities.

The American of the 1970's enters the work force at a later age, works fewer hours, retires earlier, and lives much longer—all contributing to an expanded opportunity for the constructive use of his discretionary—sometimes called leisure—time.

The malaise on many production lines, manifest in the labor unrest at Lords-town, Ohio and, so dramatically embodied in a recent NBC White Paper called "The Blue Collar Trap", portends a new awareness for Americans of the place that they assign to their recreation and leisure pursuits.

We are only now on the brink, in the United States, in the development of a "leisure ethic" comparable to our historic work ethic and complementing it as a part of our national life and NRPA is helping to define that new leisure ethic.

At present, our society has almost no way of really dealing with this reality. We have been culturally conditioned to the work ethic. As a consequence, there are still too many people who regard park and recreation and leisure programs as simply consumers of time and ways to divert people from trouble or ways to occupy them when they are not working.

How has the Federal Government met the challenge of increased demands for leisure time opportunities? It has typically responded to these people problems with hardware solutions. Land acquisition and major capital development funds are available to state and local governments on a 50% matching basis. These programs, though welcome and important, tend to exacerbate local fiscal problems by failing to provide the assistance needed to operate and maintain them. A number of our members agree on the need for future operation and maintenance funds. For instance, Hans A. Thompson, Superintendent, Parks and Recreation, Seattle, Washington notes:

"The City of Seattle voters in 1968 made a substantial commitment in the form of a twelve-year Capital Improvement Program to increase open space, develop park and recreation facilities, and preserve the good life of the Pacific Northwest by providing for the citizens of future generations with the legacy of parks and open space. This action was taken during a period of rapid economic growth and optimistic projections for the future development of the Northwest. That program is now in its fourth year of implementation, and has caused growth of the park and recreation system at an unprecedented rate. However, in 1969, the economic turndown, heightened by Seattle's dependence upon the aerospace industry and other factors caused an abrupt adjustment to the general tax funds and other resources available for maintenance and operation of these facilities. Additionally, nearly all Federal funds available were limited to those for capital improvements, land acquisition or development, and relied exclusively on local resources for maintenance and operation.

"The situation has become so critical in Seattle that some basic tax reform is needed, central to which is the necessity for Federal assistance in the maintenance and operation of this system." H. S. Lewis, Executive Director, Park Commission, Memphis, Tennessee notes: "Our maintenance, construction and operation personnel complements have not kept pace with our recent area growth. Therefore, we are not able to maintain or operate our facilities on the same level as in the past."

And Douglas S. Tawney, Director, Department of Recreation and Parks, Baltimore, Maryland notes: "The main problem we have to overcome is the great availability of capital improvement money from state and federal grants without supporting maintenance and operating money."

The legislation before this committee could go a long way toward alleviating this situation. It can do so, however, only if Congress makes it clear in the legislation that it is reflecting local priorities by indicating a preference for park and recreation concerns and designating them as "high-priority expenditures."

We believe the language of the bill should be broadened to permit a somewhat wider distribution of resources. If the local recipients feel another area of concern is of as much or greater importance than those matters specifically designated "high-priority expenditures," it should be allowed the flexibility to apply part of the local share to that other priority. This can be accomplished by desig-

nating a specific percentage of each local share as "discretionary funds" for use in any way the local recipient sees fit. For instance, a local community that just suffered a devastating flood might see acquisition of land to prevent further destruction as its most urgent priority.

We wish to call attention also to the special plight of the so-called "special purpose district." While not a general unit of local government, this political entity found in many states is performing valuable governmental functions. It would, however, be excluded from participation in this legislation under current wording. We suggest that some way be found, perhaps by urging cooperative ventures with general units of local government, to include these special districts as eligible recipients. If the true intent of the legislation is to aid state and local governments, special purpose districts, which are integral parts of many local government systems, should not be overlooked.

The way is thus open to the Congress to pass legislation which literally could begin a revolution for positive change in state and local government. As great as its potential is, however, such legislation must not serve as an instrument to unduly promote certain local programs, as worthy as they may be, while at the same time throttling others of equal importance to the well-being of our society. Nationally designated priorities can and should carry great weight; to designate those priorities is a portentous responsibility. We urge this committee, and the Congress, to consider carefully those priorities and to give due consideration in this legislation to the vital role played by our local departments of parks and recreation.

Thank you again, Mr. Chairman, for the opportunity to appear before you. We appreciate your courtesy.

Senator BYRD. If there are no further witnesses, the committee will stand in adjournment until 10 o'clock tomorrow morning.

(Whereupon, at 12:55 p.m., the hearing was recessed, to reconvene at 10 a.m., Friday, July 21, 1972.)

## REVENUE SHARING

FRIDAY, JULY 21, 1972

U.S. SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D.C.*

The committee met, pursuant to recess, at 10:15 a.m., in room 221, New Senate Office Building, Senator Russell B. Long (chairman) presiding.

Present: Senators Long, Hartke, Bennett, Curtis, Jordan of Idaho, Fannin, and Hansen.

The CHAIRMAN. The committee will come to order.

We are pleased to have with us two outstanding Members of the U.S. Senate interested in this subject.

I believe that the two of you have an informal agreement as to which will testify first.

Senator TOWER. I defer to Senator Brock.

The CHAIRMAN. Then on a motion from the Senator from Texas, we recognize the Senator from Tennessee to make his statement first.

We are pleased to hear from you, Senator Brock.

### STATEMENT OF HON. BILL BROCK, A U.S. SENATOR FROM THE STATE OF TENNESSEE

Senator BROCK. Thank you, Mr. Chairman. I would like, if I may, to submit my statement for the record and then summarize briefly.

The CHAIRMAN. We will print it right at this point.

Senator BROCK. I very, very strongly support the concept of revenue sharing, because I think it is a method by which we return the control of tax dollars to those from whence they originate, the taxpayers.

Though I do support the overall objective of this legislation, I have reservations concerning one particular aspect of its provisions. Particularly, I am opposed to section 122 of the bill, which contains a factor in the formula for the distribution of funds to State governments based on State and individual income tax collections. Out of this provision, the amount available to the States for each entitlement period is allocated under two formulas, one based on the relative individual income tax collections of a State, called the income tax share, and the other based on the relative total tax effort of the State, called the combined tax effort share. This provision has as its purpose the forcing of States to adopt individual income taxes or in the cases of small existing income taxes, to greatly increase such taxes.

The constitution in my State of Tennessee prohibits personal income taxes and I do not feel that the vast majority of the citizens of Tennessee want a State income tax.

Incidentally, that is something that is not subject to immediate correction. It takes us—well, the earliest possible time we could revise the constitution of Tennessee under our time-phased amendment process would be 1978. So we would suffer greatly under this bill as proposed.

Other States which have no personal income taxes include Florida, Nevada, Texas, South Dakota, Washington, and Wyoming. Many other States generate only a minor portion of their revenue from personal income taxes. It is my conviction that section 122 would be most unfair to the citizens of most of these States.

It is not because my State would be penalized under this formula that I oppose it. There are broader principles involved. In my own opinion, the people of each State have the right to decide for themselves what State taxes they will impose upon themselves. These provisions of the bill would abrogate that right and I think that is unfair and unwise.

Several amendments have been offered to correct this deficiency. Senators Gurney and Ribicoff have their proposal. The Senator from Tennessee, Senator Baker, my colleague, as he testified on June 29 before you, has an amendment No. 1312 under which the formula would be apportioned among the States on the basis of population modified by tax effort. His amendment has the advantage, I would note, that it would not add any additional amounts to those already appropriated by the House-passed bill, nor would it alter in any way the amount of funds distributed to the local governments or the formula for the distribution of such funds. I wholeheartedly endorse Senator's Baker's amendment.

I think, Mr. Chairman, if I could just make one additional comment, each State is different; each State has its own problems, its own unique political, economic, social makeup, and it is this diversity which is the strength of this Government; it is this diversity which the Constitution recognizes in the federal system and attempts to encourage. Now, if the Federal Government is going to require every State to have, by financial pressure such as the program has, to have the type of taxation that the Federal Government wants, then we inhibit diversity, we try to impose a conformity which is stifling in its nature and which is not responsive to the needs of the States.

Yet the whole concept of our mission is to be responsive to the State's needs within the State, to allow the States to establish their own priorities and to design and develop their own programs in support of the citizenry of that State. So far as I am concerned, section 122 flies in the very face of what we are trying to do in revenue sharing in terms of enhancing local options in the taxpayers' control of his dollar and the taxpayer's control of his own life, his own affairs, and his own community.

I am very grateful for the opportunity to testify in behalf of the bill, but I am very much in opposition to the tax formula.

The CHAIRMAN. Let me just submit one suggestion to you that might help solve this problem about the income tax. In the inheritance tax law, we permit a tax credit for a certain amount that is paid to State governments. Most States levy—in fact, I think every State levies—at least that much in taxes. It works out to about 10 percent. So they collect the 10 percent. Then the other 90 percent is generally collected by the Federal Government.

Now, States are privileged to tax on inheritance more than 10 percent. Most of them do not. It would seem to me, with that precedent might, that it would be well for us to let the taxpayers have a credit, say for about 5 percent of what he has paid in State and local income taxes.

Now, if that were the case, I have no doubt that Tennessee, Texas, other States would take advantage of the opportunity in due course to amend their constitutions if need be or do whatever might be appropriate to pick up that revenue where in the last analysis, it would not be costing the taxpayer anything because he gets the tax credit to that extent.

I mentioned that to the Governor of Tennessee, and while it was the first time he had heard it his off-hand impression was that Tennessee has no objection to that at all, it would be fine as far as they are concerned.

Frankly, I think it would be doing Tennessee a big favor. It would help you raise some money if you need to.

Senator BROCK. Well, we certainly need to raise money, but I don't think that is the way. Here is the problem with that. I don't say it would create any financial stringency for Tennessee, except between 1972 and 1978, we are not allowed to change our constitution. So for 6 years, Tennessee gets the short end of the stick again and I do not think that is right. It seems to me if you are going to have something like that, then give us 6 years in your law to let us meet our constitutional requirements.

The CHAIRMAN. Well, you could have 6 years, Senator. You could have a hundred years if you wanted to take that long, 200, and eternity.

Senator BROCK. But during those 6 years, the people of Tennessee are penalized not by what they do but by what they are prohibited from doing by their own State constitution.

The CHAIRMAN. Would you mind explaining to me why that would be any more inappropriate than a Federal law that says you can have a 10-percent tax credit against inheritance taxes?

Senator BROCK. It will not be inequitable in 1978, but it is inequitable for those 6 years between now and then, because there is nothing that allows us to change our constitution between now and 1978. That is the next effective date on which we can change our constitution.

The CHAIRMAN. Please understand, Senator, it is all right with me if you never change your constitution. I am simply saying if we did it that way—to allow somebody a tax credit for a tax he paid to a State—it would not cost Tennessee anything and if and when Tennessee wanted to levy an income tax, they could pick up that. It would cost your taxpayers anything.

Senator BROCK. I do not know why Washington should give a darn what kind of taxes Tennessee has. I think that is for my people to decide on their own. And I do not think the formula of Washington should be premised on saying "you must have that kind of tax or you lose money." If we are going to have an incentive basis for tax effort, then let's put it on the total tax collected in the State, all taxes. But let's not tell Tennessee you have to have an income tax when we do not want an income tax. That is for the people of our State to decide.

The CHAIRMAN. That is not what I am proposing, either.

Senator BROCK. That is what the House bill suggests.

The CHAIRMAN. But I am not suggesting that.

Senator BROCK. Then we are not as far apart as we started out.

The CHAIRMAN. I am just suggesting something I thought you would enthusiastically favor. I do wish you would think about it for awhile, because you might think it is a good idea.

Senator BROCK. All right.

The CHAIRMAN. Senator Bennett?

Senator BENNETT. Senator Curtis?

Senator CURTIS. I want to make sure I understand this. How would this hurt a State that has no income tax?

Senator BROCK. The formula as it is written in the House bill, section 122, has 50 percent of the allocation based upon individual income taxes in the State. It is called the income tax share.

Senator CURTIS. By that, they are referring to the amount of income taxes collected by the State?

Senator BROCK. Yes, sir; State income taxes only. Our constitution prohibits it. Whereas New York would get \$17.23 per capita, Tennessee would get \$3.53. I submit, sir, that Tennesseans are not all that much more affluent than the State of New York. We need help.

Senator CURTIS. I think they figured that out, too.

Senator BROCK. Yes, they are very good at that.

Senator CURTIS. Is it your understanding of the House bill that for a State, the more they tax and the more they spend, the more they will get?

Senator BROCK. Yes, sir; there is no question about that. It is very clear.

Senator CURTIS. Well, that is what I thought it was.

Senator BROCK. That is not exactly the kind of promise on which I think we should base our federal support.

You know, if I may just submit for your consideration an alternative that has not been, as far as I know, discussed. In Canada, the Federal Government allows a State (Province) to impose a surcharge on the Federal income tax. There is only one tax collection system. There is only one formula for depreciation, for capital gains, and all the rest. There is one national law of income tax and the provinces are allowed to add on to that tax if they see fit and the Government computes and simply automatically collects it. The advantage of that concept is that it makes it a legislative act, mandatory before they can impose that tax on those people. That way, you are tying it in with the legislative responsibility. It is not a bad way of doing it.

Senator CURTIS. The Nebraska income tax is a flat percentage on the Federal income tax.

Senator BROCK. That is exactly what I am talking about.

Senator CURTIS. It used to be 10 percent; now it is 13, I think.

Well, I have other questions about this proposal, too, but I am disturbed about this formula, that the more you tax and the more you spend, the more you get. I am afraid that the Governors are buying it out of desperation.

Senator BROCK. One of the problems, Senator, with the way the thing is designed now that in a State with a higher per capita income than mine, it really requires less effort for an individual in Ohio or New York to pay a dollar in taxes than it does a person in my State,

because our income is lower. Therefore, 1 cash dollar requires greater effort on the part of my taxpayers than it does on someone with a greater income. And that is not recognized the way the bill is drawn.

As a matter of fact, we are getting a double twist on it and as they collect income taxes in New York, they are rewarded because their tax rates are high, their incomes are high, and the Federal Government then is compounding the felony, compounding the disparity between my State and theirs. Now that, to me, just is not right.

Senator CURTIS. I think in my State, I wonder if there is a publication or a source to which a person could go and could ascertain the total taxes paid in that State, because so many of our activities are still locally run.

Senator BROCK. I think we could in my State, but that may just be a little difference.

Senator CURTIS. Our school taxes in my State are primarily local taxes; the State provides a small amount of school aid; otherwise, the cost is borne locally.

The CHAIRMAN. Senator Jordan?

Senator JORDAN. Thank you.

You make a good point, here, Senator, I have a book here, "State Government Finance of 1971," put out by the U.S. Department of Commerce. I looked up your State and it said in 1971, the per capita income was \$3,085. Does that sound about right?

Senator BROCK. Yes, sir.

Senator JORDAN. And your total State and local taxes were \$331.55, or about 14 percent.

Senator BROCK. That is right.

Senator JORDAN. Whereas New York, with a per capita income of \$4,769, taxes more dollarwise, \$514.23, but at a lower percentage, 10-8/10 percent.

Senator BROCK. That is correct. That is really what I am talking about. The people in my part of the country—all over the South, not just Tennessee—are making an inordinate effort to pay for the education of their children, to provide community services, but it is an inordinate effort because our income base is lower. We do not have the resource base on which to impose tax and the taxes we impose are taking a very high percentage of our people's income. We are doing the best job we can and to penalize us, I think, because of that, would be tragic.

Senator JORDAN. How could the formula be changed to make the allocation more equitable?

Senator BROCK. Well, I personally feel that the most equitable allocation would be one which combines simply a per capita formula with one which recognized total tax effort—not just income tax, but every tax we pay. This would allow us to design our own tax structure that best suits the needs of our own communities in our own States. That figure of a total tax effort which you have in that publication, I think, is a far better indication of the willingness of the people of my State to meet their obligations to the community and to the job, than any income tax you can devise.

Senator JORDAN. You make a good point.  
Thank you.

The CHAIRMAN. Senator Hansen?

Senator HANSEN. Senator Brock, because Wyoming and Texas find themselves in the same situation that Tennessee is in, having no income tax, it appears to me that there is great validity in your argument that the total tax effort is a better measure of the willingness of people to support their own governmental effort than any other. In Wyoming, we happen to levy, among other taxes, a sales tax. Some States do not. I can find no reason to think that the income tax is sacrosanct and we should ignore sales tax. I would not want to say to any other State; "impose a sales tax." But I think your point simply is valid in that all of these efforts, taken collectively, should be considered.

One other point you make that impresses me is that there ought to be some way of calculating into the formula the ability of people to make a tax contribution. I do not know how you go about trying to measure that, but I think in States that are largely rurally oriented, you would find per capita income less than it might be found in cities. Maybe I am in error on that.

Senator BROCK. No. I think that is a fair evaluation.

Senator HANSEN. I embrace the concept of revenue sharing, but I think we need to perfect better than has yet been done to date the mechanics by which distribution can be arrived at through a formulation of a plan that will see that we do not say to any State, "you are going to be penalized because you have not been collecting an income tax," or we will ignore the fact that another State does not collect a sales tax or have an ad valorem tax.

We have an ad valorem tax in our State; it is a property tax. And sometimes in the past, I know from personal observation, when a taxpayer got through paying his real property taxes and his personal property taxes, he did not owe any other tax obligation at all. He had spent sometimes more than he received. He was all done. He had taken off the expenses and the other things along with it and he found himself in a negative situation.

What is the situation in Tennessee? Do you have an ad valorem tax, a tax levied on property?

Senator BROCK. Yes, we do. That is, I guess, the largest source of revenue for local government primarily.

Senator HANSEN. This is the main source of revenue, or was, for the support of schools in Wyoming until we took an ever larger share out of our sales tax. I think maybe now, the sales tax may be larger, but I would guess in many counties, the ad valorem tax is by far the most important single source of educational revenue.

Senator BROCK. That is right. I think the essence of what I am saying is that there never has been and never will be a person in Washington who is as sensitive to or responsive to the needs of the people in Wyoming or Tennessee as the collective wisdom of the political leadership of that State and the State legislature. They are trying to do the best they can for their own community and their own State. I think we should leave them that privilege and recognize it, reward those who have been making a fine effort, not penalize them.

The CHAIRMAN. Thank you very much.

(Senator Brock's statement follows:)

PREPARED STATEMENT OF HON. BILL BROCK, A U.S. SENATOR FROM THE STATE OF  
TENNESSEE

Mr. Chairman, I appreciate the opportunity to appear before your Committee to testify on a subject of long-standing interest to me. As early as 1965, when I was a member of the House of Representatives, I introduced H.R. 10896 embodying the revenue sharing principle for education. I was later a sponsor of H.R. 308 in the 91st Congress which would allow the States to share in a percentage of the revenue collected by the federal government and H.R. 13983 to provide for general revenue sharing. On May 30 of this year, I joined my distinguished colleague from Tennessee (Mr. Baker) and other senators in co-sponsoring the State and Local Fiscal Assistance Act of 1972, S. 3651, the bill now being considered by your Committee. I wish to commend my able colleague, Senator Baker, for his action in placing the bill before the Senate and you, Mr. Chairman, for so promptly calling these hearings.

One of the principal reasons that I have supported revenue sharing is that it offers the American people their greatest opportunity to regain control of their government. Revenue sharing will reverse the flow of money to Washington and return control of his tax dollar to the taxpayer. Local and State officials elected by the people know far better than officials in Washington the areas of greatest need. Local elected officials are responsive to the people and I feel that it is essential that Congress return to these officials the responsibility for spending the citizen's tax dollar.

State and local governments are facing an imminent financial crisis and are in need of immediate relief. From 1965 to 1970 state and local expenditures rose by 62 billion, an increase of approximately 70 percent. Indications are that state and local spending will increase tremendously in the 70's. If a financial crisis is to be averted, new sources of revenue must be found.

The problem is that the states and local governments rely heavily on property and sales taxes, which do not respond quickly to rising income. Hence they cannot meet rising expenditure levels without inflating unpopular tax increases. These sources of revenues are regressive; both tax the low income family more heavily than the wealthy. They are to a large extent self-defeating.

In contrast, the federal government relies chiefly on corporate and individual income taxes which, because of their progressive nature, automatically rise more quickly than income. In addition, federal income tax collection methods are more efficient.

Thus, revenue sharing would utilize for the community the resource base of the federal income tax. By sharing this resource with state and local governments, we will return to the people the power for decision and furnish local communities needed revenue.

The State and Local Assistance Act of 1972, H.R. 14370, passed the House on June 22 after extensive public hearings and consideration by the House Committee on Ways and Means. In brief, this bill and its companion bill in the Senate, S. 3651, will provide payments to localities for high-priority expenditures, will encourage the states to supplement their revenue sources, and will authorize federal collection of state individual income taxes.

Although I support the overall objectives of this legislation, I do have reservations concerning some of its provisions.

Specifically, I am opposed to section 122 of the bill which contains a factor in the formula of distribution of funds to state governments based on state and individual income tax collections. Under this provision the amount available to the states for each entitlement period is allocated under two formulas, one based on the relative individual income tax collections of a state (called the income tax share) and the other based on the relative total tax effort of a state (called the combined tax effort share). This provision has as its purpose the forcing of states to adopt individual income taxes or in cases of small existing income taxes, to greatly increase such taxes. The Constitution of my state of Tennessee prohibits personal income taxes and I do not feel that the vast majority of the citizens of Tennessee want a state income tax. Other states which have no personal income taxes include Florida, Nevada, Texas, South Dakota, Washington and Wyoming. Many other states generate only a minor portion of their revenues from personal income taxes. Section 122 would be most unfair to the citizens of these states.

It is not simply because my state would be penalized under this formula that I oppose it. There are broader principles involved. The people of each state have

the right to decide for themselves what state taxes they will impose upon themselves. This provision of the bill would abrogate that right. Such action would be most unfair and unwise.

Several amendments have been offered to correct this deficiency in the bill. Senators Gurney and Ribicoff have authored an amendment which would distribute half of the total state appropriation on the basis of federal individual income tax liabilities attributable to each state rather than upon state personal income tax receipts. This is a much more fair approach than the one taken in section 122 of the bill.

Personally, I prefer the approach offered by Senator Baker when he testified before your Committee on June 29. As you will recall, under his amendment to S. 3651 (No. 1312), the entire appropriation made by section 123 of the bill would be apportioned among the states on the basis of population modified by tax effort. His amendment has the advantage that it would not add any additional amounts to those already appropriated by the House-passed bill nor would it alter in any way the amount of funds distributed to local governments or the formula for the distribution of such funds. I wholeheartedly endorse Senator Baker's amendment.

I have some reservations over the revenue sharing formula in S. 3651 under which specific amounts are allocated for each fiscal year. A preferable arrangement, and true revenue sharing, would provide for the return to the states of a set percentage of the revenue collected under the federal income tax. This was the approach we took in the bills that provided for revenue sharing for education.

In conclusion, Mr. Chairman, I feel that revenue sharing with states and local communities is desperately needed. With the modifications I have indicated I could fully support a revenue sharing bill and I am hopeful that your Committee and the full Senate will act before final adjournment of Congress.

The CHAIRMAN. Next we will hear from Senator John Tower, the senior Senator from Texas.

#### STATEMENT OF HON. JOHN TOWER, A U.S. SENATOR FROM THE STATE OF TEXAS

Senator TOWER. Mr. Chairman, I am pleased to be here to advocate a major change in the House revenue sharing bill which I feel is essential if this major legislation—designed to return at least some governmental power to the people at the State and local level—is not actually to do the reverse and to coerce state action in an area that should clearly be well within a State's jurisdictional prerogative.

That area is, of course, that of State taxation. The House revenue sharing bill provides that of the \$1.8 billion per year to be allocated to State governments, \$0.9 billion be distributed to the States essentially on the basis of their relative State income tax collections. This feature of the bill is designed to reward States with income taxes and to create a substantial economic incentive for the 10 States without income taxes to enact them. In my view, this incentive is almost a Federal directive to the States to enact income taxes, because the needs of the States for money will tend inevitably to push them into enacting income taxes in order to get the revenue sharing bonus, although without the bonus they would prefer to keep their existing tax structures.

My objection to this Federal pressure for the States to enact income taxes is that the power to structure State taxes is so inherent to the concept of State sovereignty that any Federal interference in this process, with certain Federal and interstate concerns excepted, should be considered a most severe blow to the federalism which we have attempted to preserve since our country's beginning. I have no argument with the establishment of Federal laws affecting the State taxa-

tion of Federal property and instrumentalities or setting standards in the area of taxation of citizens of other States, and the like—areas which involve a clear common interest of U.S. citizens and are the type of areas which were meant to be under Federal jurisdiction when the various sovereign States formed a Union to manage their common interests in 1789.

However, I do feel that because there is no more important aspect of State sovereignty than the power to tax, any intrusion of the Federal Government into the area of internal State taxation beyond those limited instances mentioned would represent a serious infringement upon the integrity of State governments.

The offering of special financial incentives to States which structure their tax systems according to a federally desired scheme is, to me, undue interference with their sovereign independence. They should not have to sacrifice their independence in taxation in order to receive their fair share of Federal revenues which their own citizens helped to produce.

Federalism and the maintenance of substantial State sovereignty is important to the long-run welfare of our country and its citizens. It is to everyone's advantage to have 50 independent governmental "laboratories" functioning under our Federal Government, for they can bring about the innovation and experimentation necessary to prevent governmental concepts from growing stale and outdated, and they can bring government much closer to the people than can the Federal Government. The power of a State to tax according to the wishes of its citizens is the most important aspect of State government, and to override this vital and close link between the citizens of a State and their State government with a federally preferred State tax structure is to virtually close out State legislatures from their most important single policy decision, and to relegate the will of State citizens to a remote federalized relationship with their State tax system.

The independence of our State governments should be promoted, not impaired, by Congress. It is always easy to throw problems to the Federal Government when they crop up—it has the money, the bureaucracy, the power of the commerce clause of the Constitution—it seems always to be the easiest solution and the most politically rewarding one for Uncle Sam to take over the problem. But in this 40-year nationalizing process, our State governments have been largely stripped of their resources and their authority to deal with their problems. The whole purpose of revenue sharing is to try to reverse this federalizing process and to give back some of that independence. Certainly this is an inappropriate bill to be attempting to make the States subservient to the will of Congress as regards their internal taxation and at the same time to be trying to give back some of the resources and independence which the Federal Government has usurped over the past few decades. This is an ironic combination of purposes to say the least.

I therefore urge the distinguished members of the Finance Committee to amend the House bill by removing the State income tax provision. In its place I would urge that the committee utilize the companion provision in the bill for allocating the other \$0.9 billion in State funds, which is based on total State tax effort, whatever the nature of the tax system which derived those revenues. This is the fairest means

of allocating this Federal revenue to the States; it will encourage adequate State taxation to meet State needs and therefore to reduce ultimately State dependence on Federal grant programs, and yet will not force any particular tax system upon the States.

Over the past few decades we have watched the States and the local government units become extremely dependent on Congress for the substantial catastrophe which we euphemistically call "grants-in-aid"—which is something like heroin to an addict. Congress has stripped these governments of much of their feasible tax base with its high income, estate, and excise taxes, so that they now have great difficulty in pressing any further taxes on their citizens to pay for vitally needed services, such as police, fire, sanitation, and so on. We need to return some of these resources to the States through revenue sharing and let them begin to solve their own problems. Within a short time I would hope that Congress would actually begin to surrender some of the tax base back to the States, so that even revenue sharing will no longer be necessary.

I have long been a supporter of the revenue sharing concept. State and local government officials in my State need this revenue for vital local services. But without the deletion of the State income tax provision from the bill, I may well have to oppose the bill on the floor. It very seriously violates the sovereignty of our State governments, as it is now written, and it penalizes the citizens of a State like Texas for choosing not to raise their revenue through income taxes. It gives rise to an enormous discrepancy in benefits of the State-share allocation, with first-ranked New York getting \$17.23 per person, and next-to-last-ranked Texas getting only \$4.02 per person. These figures do not include the local government share amounts. The extremes in these benefits can and should be narrowed by eliminating the State income tax incentive provision, and substituting for it the total tax effort provision.

Using this tax formula to allot money to the States, we find that in the lower level of per capita distribution under the bill—in other words, 40 to 51, the last level of the States—40 percent of those are in the last third in per capita income.

Senator HANSEN. May I interrupt? You are including the District of Columbia?

Senator TOWER. Yes, that makes 51 total. The average that would be allocated per capita would be \$8.73. Now, actually, there are only 16 States above that average and only one of those States is in the lower one-third in terms of per capita income. That is the State of Montana. So all of the States except the State of Montana that are in the lower one-third in terms of per capita income will receive below the national average. That strikes me as being singularly unfair. So I am hopeful that the committee will correct what I consider to be an inequity in the House bill.

The CHAIRMAN. Thank you very much, Senator.

Any questions?

Senator BENNETT. Mr. Chairman, I have no questions. These two Senators have talked about the same problem and given us the same information.

Senator TOWER. May I say I associate myself with Senator Brock's testimony.

Senator HANSEN. Senator Tower, your concluding point, I took it, was that based upon need, only one of the 10 lowest per capita income States—

Senator TOWER. One of the lowest one-third.

Senator HANSEN. Would participate in the—

Senator TOWER. That is right, Montana is the only one that would get above the U.S. average. They would get \$9 and some-odd cents. The average is \$8.73. Every one of the lower one-third of all the States in terms of per capita income would get below the national average—all the rest of them.

Senator HANSEN. I have no further questions for the Senator.

The CHAIRMAN. Thank you very much, Senator Tower. We are always very pleased to have you before our committee and have your suggestions.

Senator TOWER. Thank you, Mr. Chairman.

The CHAIRMAN. The next witness is Mr. Jerry Wurf, international president of the American Federation of State, County, and Municipal Employees, AFL-CIO.

Mr. Wurf, we are pleased to have you before our committee again.

**STATEMENT OF JERRY WURF, INTERNATIONAL PRESIDENT, AMERICAN FEDERATION OF STATE, COUNTY & MUNICIPAL EMPLOYEES, AFL-CIO, ACCOMPANIED BY PAUL MINARCHENKO, DIRECTOR OF LEGISLATION; KEITH PROUTY, DIRECTOR, RESEARCH DEPARTMENT; AND JAMES SAVARESE, PUBLIC FINANCE ECONOMIST**

Mr. WURF. I am pleased to be here, Mr. Chairman.

Mr. Chairman, members of the committee, my name is Jerry Wurf. I am president of the American Federation of State, County, and Municipal Employees, AFL-CIO. Accompanying me this morning are Paul Minarchenko, our director of legislation, Keith Prouty, director of our research department, and James Savarese, our public finance economist.

We very much appreciate this opportunity to appear before you on a matter of vital importance to the more than 550,000 State and local government employees who are members of our Union (we represent on a bargaining basis well over a million working public employees) the need for immediate Senate action on revenue sharing legislation, specifically the improvement and adoption of the State and Local Fiscal Assistance Act of 1972.

Let me add, Mr. Chairman, that we welcome your recognition of the urgent need for this legislation—as indicated by these early hearings—and your commitment to act on this bill. We sincerely hope that it will be possible to report and pass this legislation in the next 4 weeks.

Our interest in the State and Local Fiscal Assistance Act is an integral part of our union's involvement in the level of performance, and indeed, the very survival of State and local government. The crucial problem confronting State and local governments, in our judgment, is the disparity between the mounting demand for public services and the ability of these governments to finance them. Since the Federal Government has come to dominate the most efficient and equitable

revenue source—the progressive income tax—State and local governments have tended to resort to sales and property taxes to fund the bulk of their rapidly rising expenditures. As a result, State and local tax structures are not only inequitable because of their regressive character, but also are ineffective revenue mechanisms because of their sluggish response to economic growth.

A key ingredient in any attempt to close the gap between lagging tax yields and the delivery of public services where they are most needed must be an effective system of Federal revenue sharing. In determining the ultimate allocation pattern for Federal funds in a revenue sharing program, two criteria must be considered: funds must be allocated to those jurisdictions faced with the most serious fiscal difficulties, and, at the same time, to those jurisdictions which have the responsibility for providing major components of public services.

Our union strongly supported H.R. 14370 in the House of Representatives, and we urge prompt Senate action on this important legislation.

However, we recognize that this bill is not without fault. In fact, we believe that the Senate must make a number of modifications in the measure to insure the enactment and implementation of a more meaningful program.

For example, the proposed allocation formula for distribution of funds at the local level tends to overlook the needs criterion, while diverting funds to high income suburbs which spend large sums—in absolute terms—on selected public services. This bias—under the guise of rewarding “tax effort”—has resulted in the rewarding of affluent suburbs at the expense of hard-pressed central cities.

Further, since revenue sharing is, in part, a response to the archaic nature of State and local tax systems, it is essential that such a program be used as a catalyst for State and local tax reform. Incentives for change in the present highly regressive tax structures must be built into any viable system of revenue sharing.

It is for these reasons that we advocate a number of amendments to H.R. 14370. We believe that they will greatly improve and strengthen this bill.

The statement, which we have filed for the record, contains a detailed explanation of our position on these matters. In the brief time available to me, I would like to highlight a few of the key points.

#### 1. ALLOCATION TO LOCAL UNITS OF GOVERNMENT

We support the allocation formula of H.R. 14370 for targeting local governments funds to those States in which needs are the most pressing.

However, with regard to the distribution of funds both among county areas and below the county level we urge that a modified version of the alternative allocation method (formula B) now provided for in H.R. 14370 be made the initial mandatory approach.

Specifically, formula B, as it now stands, calls for a weighting of the straight population factor by per capita adjusted taxes. Although this change is desirable, we urge that formula B be geared to per capita adjusted expenditures (excluding education expenses), rather than per capita adjusted taxes.

We believe that per capita expenditure is a more accurate reflection of need—the major criterion to which a revenue sharing program should address itself. The use of taxes, instead of expenditures may, in fact, merely represent the wealth of a community—while demonstrating very little about the quality and type of public services being provided in a given jurisdiction.

The net effect of the change which we propose in the allocation formula among counties and within each county would be an increase in entitlement for major cities. This comes about because the relative expenditure level of large urban areas—the best indication of the level of public services required—is, in most instances, substantially greater than expenditures in the rest of the State. Of course, in circumstances where county governments have responsibility for providing a large number of public services, they would receive a sizable portion of the revenue sharing funds under our proposal.

As a matter of equity we urge that this revised formula B be designated as the mandatory formula for allocation of funds both among county areas and below the county level.

## 2. LOCAL ENTITLEMENT GROWTH FACTOR

We urge the adoption of a growth factor of \$600 million per year in the funds allocated to local units of government. We encourage such an amendment as being consistent with the initial ratio of approximately 2 to 1 between local and State entitlements, under the proposed Federal revenue sharing program.

Such an increase of \$600 million per year, representing an additional cost of \$2.4 billion would maintain the current emphasis of the bill in aiding those jurisdictions which are in the most dire fiscal straits. Unless the aid to local governments keeps pace with that given to State governments, the needs criterion will be violated and, beyond question, our major cities will suffer.

## 3. MAINTENANCE OF EFFORT AT THE LOCAL GOVERNMENT LEVEL

We urge that a proscription be written into section 103 of the bill requiring that units of local government maintain their present level of tax effort, measured on a per capita tax basis weighted by a constant wealth factor, in order to preclude the substitution of Federal funds for funds which would otherwise be raised by the local government—thereby assuring that assistance under the bill augments the present level of services being provided.

Further, we urge that the local units of government maintain their present rate of spending in high priority categories as a percentage of their total expenditures.

In recent months, many public officials have been confusing the idea of tax reform with that of tax relief. Unfortunately, this confusion has been compounded in the current debate regarding revenue sharing. The sharing of Federal funds with State and local units of government has gained support because of the financial inability of certain governments to provide a decent level of public services for their residents. It is a response on the part of the Federal Government, to supplement the level of governmental services which poor jurisdictions need, but cannot afford.

Revenue sharing is not intended as a tax relief measure—its purpose is not to reduce local tax effort, but rather to arrest the deteriorating quality of life in many areas of the country—especially in our major cities.

We are fully aware of the average taxpayer's plea for a more equitable sharing of the tax burden. We sympathize with this concern. We feel that revenue sharing is an appropriate tool to effect reform in our seriously outmoded State and local tax structures.

The inequalities built into these tax systems have been vividly brought to public attention by two recent developments. First, the inability of low-income jurisdictions to provide a decent level of education for their children has been finally recognized in several important judicial decisions, notably in the *Serrano* case in California. Second, the fiscal crisis that has hit our major cities has resulted in cutbacks of vitally needed public services which have affected virtually every citizen.

Our prepared statement contains a full explanation of our views on the need for States to reform their tax structures. Our point here is, very simply, that revenue sharing must serve as a catalyst in instituting such reforms.

#### 4. ALLOCATION OF STATE GOVERNMENT FUNDS

This section is one of the crucial aspects of H.R. 14370. We urge its revision along the following lines. We oppose the separation of the State entitlement into two distinct allocations. Rather, since revenue sharing has become necessary, in good measure, because of outmoded State and local fiscal systems, the funds allocated to the States should be based primarily on each one's willingness to adopt an equitable and efficient structure for raising revenues.

Any State which refuses to alter the regressivity of its tax structure by relying on the current system of property, sales, and excise taxes to finance public services should not be rewarded by a large share of Federal funds. We urge that States be given larger entitlements as they effect restructuring of their tax systems, such as heavier reliance on progressive income taxes, the adoption of statewide property taxes, and the use of tax credits to offset some of the regressivity inherent in general sales taxes.

In order to encourage these reforms in the State tax structures, we urge that the initial State entitlement be based primarily on a State's willingness to adopt a quality personal income tax. Each State would receive an amount equal to 15 percent of its State income tax collections—with no entitlement being permitted to exceed 6 percent of the Federal income tax receipts of any State. A State which does not tax income would receive 1 percent of the Federal income taxes collected within the State. This method of allocating \$1.8 billion would remain in effect for the 5-year duration of the program.

We further urge that the growth factor in the State entitlement of \$300 million per year be allocated on a three-part basis as follows:

One-third to States which adopt personal income taxes with progress rate structures;

One-third to States which adopt general sales taxes that include tax credits or rebates for taxes paid on food and nonprescription drugs;

One-third to States which substitute an equalized statewide property tax for the current local property tax.

Perhaps the most appealing feature of this method of allocating funds to the States is that it takes a more comprehensive view of State tax reform. Other revenue-sharing proposals either contain no incentive for States to reform their tax structures or reward only the adoption of an income tax.

Under our proposal, States are given more flexibility to decide what reforms they feel are most desirable on an individual basis.

Moreover, our proposal does not require the cutoff of funds for a State which is unable to impose an income tax in a specified period of time.

#### 5. NONDISCRIMINATION PROVISION

With respect to the nondiscrimination provisions of H.R. 14370, we believe that this important element of the bill must be strengthened. We share with many civil rights organizations concerns about the realistic and effective enforcement of civil rights statutes under a revenue-sharing program. The concept of revenue sharing must not represent a retreat from the Federal Government's responsibility to insure that Federal funds are not used in a discriminatory manner.

Therefore, we urge the committee to adopt a stronger nondiscrimination provision, one which is applicable to both the several States and their political subdivisions and expressly guarantees the rights of individuals to sue in the Federal district courts in case of violation of title VI.

#### 6. LABOR STANDARDS

The labor standards sections of H.R. 14370, which apply to local government expenditures are weak, and are nonexistent in the case of the State allocation. This situation must be corrected by the inclusion of strong labor protection provisions which are applicable to both the States and their political subdivisions.

Federal revenue sharing is, in our judgment, a concept whose time has come. When State and local governments—particularly those of our major cities—are threatened by fiscal collapse and curtailment of vital public services, it is the responsibility of the Federal Government to assure their fiscal viability. However, we note at the same time that the effectiveness of revenue sharing is limited. It is not a substitute for the current system of categorical Federal grants which provide local governments with both funds and badly needed direction in their disbursement. The Federal Government must maintain and even augment its categorical grants program in order to set spending priorities which have national implications, and to overcome the political difficulties involved in funding such expenditures with local revenues.

Our system of federalism—with various levels of government providing public services whose benefit streams overlap—is dependent on the Federal Government for coordination, guidance, and effecting a proper distribution of tax moneys. Revenue sharing is necessary both to add flexibility to State and local fiscal systems and to give much-needed relief to governments attempting to provide vital public services from a continually eroding tax base.

We greatly appreciate this opportunity to present our views on this vital legislation. We hope you share our belief that this legislation must be improved and enacted without delay.

The CHAIRMAN. Thank you.

Senator Bennett?

Senator BENNETT. I just have one reaction to the testimony and I would like to get it straight.

I understood that the President's purpose in proposing revenue sharing was to give funds to the States without strings so that they could use the funds to apply to their needs as they saw them. As I understand your testimony, you want to use the revenue sharing bill to force States to change their own tax structure, to force States to adopt priorities in expenditures which are in accordance with your ideas—which may be very good. So instead of being a program to provide money to the States "without strings," as I understand your testimony, it is that you want the bill changed to set some very definite strings into it to force the States into a pattern which, good or bad, is a further imposition of Federal power over the States.

Am I unfair in that interpretation?

Mr. WURF. Sir, your premise is not fair. It is not likely that President Nixon and myself would find agreement, as presumptuous a statement as that would be, on the manner in which we would finance the Government of the United States. I am not in agreement with President Nixon and his statements on this matter. I am not in agreement with him on other matters. But I do feel that the revenue-sharing program offers us a golden opportunity to do two things, and I will try to be as brief as possible.

First, it gives us an opportunity to deal with the deterioration of government that is taking place. As a matter of fact, I could say unequivocally, as one who has to deal with local and State officials and with budgets, that rightly or wrongly, wisely or unwisely, that the ability of the Senate to pass a law to provide funds may determine whether local government will or will not exist in many places in this country. That is how dependent they have become on this legislation. But we say that while you are dealing with that emergency problem, while you are dealing with the specific needs, we think this is a splendid opportunity to do something about the lack of responsibility, regardless of where the fault lies, that has accumulated through the years with regard to local tax responsibility.

Senator BENNETT. So the answer to my question is "Yes," you want this bill used to change the pattern of local government taxation. You think it can be improved—maybe it can. But you do disagree as to the function of this bill. Rather than to provide relief to the States which they can use in the way that they think best, you want it to be used as a means of forcing the States to adopt tax programs which, in your judgment—which may be sound—are better than the attitude or the judgment of some State officials. You want this bill to be used as a form of coercion rather than as a manner of giving them more freedom in handling their own tax problems.

Mr. WURF. I might say, Senator, that I have been roundly criticized even within the labor movement for the stand we took when the bill was before the House because we are not putting strings on the man-

ner in which the money should be spent. We feel very strongly that one of the good things about this bill is that the authority, the prerogatives of local government will still be there. What we are dealing with is the financing of the situation.

Senator BENNETT. You are putting strings on the manner in which the money, at the State level, should be raised.

Mr. WURF. We are trying to improve what has become a very difficult and in some places an impossible situation. But we are in nowise trying to tell local taxpayers or State legislatures or city councils what they need to do to administer the government in their localities. We are not trying to interfere with local government. But I think, Senator, that this is an excellent opportunity to bring some reasonableness into the structure.

I was impressed with the remark of Senator Brock where he pointed out that in Canada there is the very carefully tying on of local tax raising onto the Federal structure, that essentially great efforts have been made in most of the free societies in this world not to tax those least able to pay. What we face in America today, in terms of local property taxes and sales taxes, is that the poor pay the most. The statistics that were referred to in the document that I believe Senator Jordan—I may be mistaken—

Senator BENNETT. It was Senator Jordan.

Mr. WURF (continuing). Was quoting, were the percentile figures. What you will find, sir—I do not have the figures here—but what you will find is that it is the people at the lowest level of income who pay the highest percentage of their income into local taxes. Now, the end result is that one can talk about an average income in New York State of \$4,500 a year. But you will make the interesting discovery that a good part of that \$4,500 figure comes from the Rockefellers and others. You will find that salaries and wages in New York State are very low, not much higher than they are in Tennessee for many jobs. Yet the tax burden is very high and if one looks at the comparison that was used here earlier, one gets to feeling that the people in Tennessee are being misused.

Well, I assure you, and I speak as a former resident of New York, the people in New York, who have taken on the burden of a graduated income tax, pay, and most of them work in shops and factories. Their salaries are not much different than the salaries in Tennessee, Louisiana, or Utah.

What I am saying to you is that the statistics are such that the tax burden in America is devastating and the poorer you are, the more devastating it is. The tragedy is that it is a vicious circle.

You have a community which has people who are in low wage categories and you have no progressive income tax. Their needs increase so the need for local assistance increases and the ability to have a tax base to make this local assistance available is impossible.

Senator BENNETT. I have no further questions, Mr. Chairman.

The CHAIRMAN. Senator Fannin?

Senator FANNIN. Thank you, Mr. Chairman.

Mr. Wurf, I do not follow you in many cases, especially when you talk about having one flat formula nationwide. If the people of a particular State happen to operate that State efficiently and do not need to tax their people excessively why should they be penalized?

**Mr. WURF.** Well, sir, I do not want to penalize anybody. I just want to make it possible to change the existing system.

**Senator FANNIN.** You just want to dictate to them what they should have.

**Mr. WURF.** No, sir; I do not dictate to anybody. All I want to do is sit before a democratically constituted House of the Congress of the United States and present my views. That is not dictation, sir, however onerous you may find them. What I am saying is that some of the States and many cities and counties have been concerned about the well-being of those who are rich and powerful, and those who are poor and without power have been deprived of justice. I believe in the Federal system that we have in this Nation. I believe in our system of government. And as a result of that, we are carefully refraining from interfering in the manner and the method which is used to distribute these funds and we are carefully refraining from involving ourselves in anything except one thing. We are saying in effect that if you tax a man who has an income of \$5,000 a year 20 percent and tax a man who has an income of \$50,000 a year 5 percent, there is something wrong with the system. What we are trying to do is get some balance and equity into that system.

**Senator FANNIN.** If what you say exists, I agree with you, but I think you had better read your testimony from the standpoint of some of the statements you have made. But if a specific State decides to tax itself in any method that the people deem desirable, why should we force a change? As Senator Bennett said, would this be dictatorial or democratic?

**Mr. WURF.** What we are saying is that those States that are willing to pass progressive income taxes which put the tax burden on those best able to pay should be rewarded for their effort by receiving a share of the Federal tax moneys that are collected. We are saying those States that do not want to do that and want to put the tax burden where it does not belong should not be rewarded by further having Federal funds flow into those States. That is not a matter of dictates, it is a matter of sound fiscal policy.

**Senator FANNIN.** Well, of course, the Federal revenue sharing is practical because in many cases—in fact, most cases—the Federal Government has preempted the States. So I feel that justifies this revenue sharing to a great extent. But I cannot follow you when you start saying that you are not going to let the people of a State decide. Now, if they were being dictated to by the Governor or by the mayor of a city or by other officials—but if the people of that State desire that tax system, then why should the Federal Government interfere? As long as it is a fair and equitable system, that they consider fair and equitable, why is it that you are going to set a program that they must follow and change their whole tax structure?

There is a great deal of difference—for instance, you mentioned New York. The cost of government in Arizona is far less than it is

**Mr. WURF.** Well, first of all I am not trying to force the people of Arizona into doing anything. If the people in Arizona are pleased with the situation, with the status quo, there is nothing in this legislation that would change anything. All I am saying is that those States which would provide more public service to their people,

that are willing to institute progressive income taxes, should be rewarded.

I would like to add, in terms of the philosophy you raised in talking about a sort of federal dictatorship over local and State governments, the point that it simply is not reasonable—that fundamentally, the very existence of the Senate and the House of the United States means in effect that there are matters in these United States that have to be settled on the Federal level.

In essence, what is being suggested here is that local government is in serious crisis. What is being suggested is that in some instances, States and cities and counties are trying to cope with the crises. In other instances, they are not coping with these crises. In this country, we have rather indecent conditions existing for those who are sick and disabled and old, recreation is not available to young, good schools are not available, and all kinds of problems exist. Now, we are not saying to the people of Arizona, if you are satisfied with the situation the way it is, that you have to change it. But if some other State is willing to see to it that instead of imposing unreasonable sales taxes or unreasonable property taxes on those who are least able to pay and substitute statewide property taxes or progressive income taxes or give tax credits for people who have to pay sales taxes on food and drugs—we are saying that they should be rewarded with this aid. That is all we are saying. We are not in any way trying to impose any dictatorship.

Senator FANNIN. Indirectly, you are.

Mr. WURF. Well, sir, I—

Senator FANNIN. Well, here, Mr. Wurf, the Davis-Bacon Act is one of the prime causes, I think, of inflation in the building industry. Why would you recommend this provision be extended to both State and local government and thereby greatly increase the costs of those governments?

Mr. WURF. For many, many years, I think perhaps more years than I am alive—I do not remember the date of the Davis-Bacon Act, but it is an old law—

Senator FANNIN. I think it was about 1934.

Mr. WURF. Then it is younger than I am. There has been a general feeling in this country that when Federal expenditures are made, certain standards, fair labor standards, be applied. It would seem to me, that that should be encouraged by the Senate. It would seem to me that if we are to have a prosperous Nation, we are not only going to have to hold costs down, but we have to have consumers, available to purchase goods. People who are being exploited or denied decent wages, hours, working conditions, are not good consumers. I suggest to you that the Davis-Bacon Act, the minimum wage laws, and other laws with which you have been in disagreement in the past are the kind of laws that strengthen this country, strengthen not only the labor community, but strengthen the financial and business community as well.

I believe we should have standards of decency in this Nation in terms of what happens to workers. I believe we should have standards of decency in the tax laws. And I think that the whole name of the game is that all the crises and unhappiness that we have, fundamentally, under our system, we make progress.

There is dire gloom hanging over us all the time, but we make progress. The people are better off, business is better off, government has problems but it copes with these problems. I think our system is very good and I really, sir, can't agree with you that there is even a scintilla of evidence that we have any possibility of dictatorship or unreasonableness in our present situation.

Senator FANNIN. Let's stay on the Davis-Bacon Act for a moment. I know your experts will tell you that the Davis-Bacon Act was not originally intended to do what it used to say was intended, to protect local industry, where an outside industry coming in was paying low wages and that is not in existence today. In other words, the real basis for the Davis-Bacon Act has gone by the wayside. It no longer is in existence. Now, why should, for instance, a skilled machinist working in a plant, say, be paid \$3.90 an hour and then here is a son—I have a letter where this machinist was complaining to me. He gets \$3.90 an hour. He is not complaining about getting \$3.90 an hour; he is complaining that his son goes out, takes an unskilled job, laborer, waving a flag, this truck goes this way one time, then the next, then he gets \$5 an hour.

Mr. WURF. I think the father is being grossly underpaid if he is a skilled machinist making \$3.90 an hour and he should see to it that he gets more equity.

Senator FANNIN. But he is in competition with somebody being paid 90 cents an hour in Japan and our jobs are being exported very rapidly.

Mr. WURF. But Senator Fannin, the guys exporting the jobs are not the labor movement. The advocates of Davis-Bacon are not exporting it. General Motors and General Electric, these are the fellows exporting the jobs and bringing the goods back into this country and selling it to Americans.

Now, if these Americans do not have fair wages, they cannot buy this stuff that is produced in Japan and they put a General Electric label on it and a General Motors label on it.

Senator FANNIN. Take the percentage of merchandise coming in from Japan. It is not coming from multinational corporations. Don't say that. Toyota or Datsun or the electronic industry, only a small percentage of it is represented by multinational corporations. I will not buy that at all.

Mr. WURF. Sir, if you can buy me a black and white television set with good American labels that we all recognize made in these United States, somebody has been telling me awfully big lies.

Senator FANNIN. I can tell you just exactly what has been happening over the years. Radios and television sets are manufactured outside the United States. I am working very hard on that problem. But do not say that the labor program has not been to some extent responsible for it because the wages and the productivity in this country have not helped at all. The lower productivity compared with the Japanese—the Japanese in the same period of time, I think from about 1964 up to date, has increased about 100 percent, the productivity ratio. And now I think it compares to 14 percent in this country and wage increases here have just been astronomical, you know that, in comparison with what they have been in other countries.

Senator BENNETT. May I be the devil's advocate? We have two more witnesses. We are far away from revenue sharing. I would appreciate it—

Senator FANNIN. All right. I was not far away from his testimony, but I will say I appreciate your calling that to my attention.

Mr. WURF. I disagree with you, sir, but I do not want to presume on the committee's time.

The CHAIRMAN. Senator Hartke?

Senator HARTKE. Jerry, let me see if I can bring back a little bit of understanding on what we are dealing with. When you deal with the concept of revenue sharing on the Federal level, in essence, what the local governments are saying is that the Federal income tax system provides two things, revenue and equity. And in the final analysis, if we follow the revenue-sharing theory through and all of the advocates here indicate that they are for revenue sharing we ought to go ahead and say that all the revenue ought to be collected by the Federal Government and then redistributed to the State and local governments. Because if a little of the concept is good, then the whole concept is good.

Now, this is not revolutionary. This is the procedure used, generally speaking, by most western European nations in which the tax system is uniform throughout. What they do is go back to their provinces and allocate their budget allowances; so much goes back to the province, so much goes back to the cities.

The difficulty that most of the local communities find at the present time is the practical political difficulty. That is that very few Governors—and if you have authority on the local levels, very few mayors—can successfully weather the political storm of instituting a progressive income tax. That is their problem. And when you present to them even the equity of progressive income tax theory, you also present to them their own political death.

Now, the way out of that is to make it necessary for the local governments to be in a position in which they can have no real chance at Federal revenue sharing without going ahead and instituting the progressive income tax on the local level. That is what I have done in the bill which I have before us, which in essence is primarily what you are talking about. It says very simply that those States and localities that institute progressive income taxes shall be able to participate.

Now, what I am saying to you is, very simply, again—and Senator Fannin is talking about this—the effect of putting \$5 billion into revenue sharing today. What you are really saying is that to the extent that that does go back to local services, you are going to tax on a progressive income tax basis. Now, the source of taxation or the tax collector is really immaterial, whether it is the Federal income tax collector in Washington, D.C., or the Indiana Department of Revenue in Indianapolis. It is the method of taxation and the distribution that are the only two factors that make a difference.

What I am saying to you in essence is that I appreciate what you are saying here, and I quite agree with you. If you are really going to provide for any type of relief on a local level, you have to get away from regressive forms of taxation; not alone on a local level, but on a State and Federal level as well. That is why I am opposed to the present level of social security tax. Many times today we have a social

security tax on low-income people which on an annual basis is higher than their income tax. That is just not fair. It is not right and ought to be corrected.

I just do not understand how people can advocate any form of revenue sharing without at the same time being opposed to regressive taxes. That is what I understand is the substance of your testimony to be.

Mr. WURF. The substance of my testimony, and I thank you for clarifying much of my thinking, dealing with the questions raised by Senator Fannin—all I would like to say, Senator, is there is this dreadful political problem in the States; and I think we would be silly to walk away from it, of dealing with income tax legislation and what has happened to good public officials on both sides with this question. But I do think that it is not politically viable or feasible, to take the taxing authority of the whole Nation and put it in the hands of the Federal Government. I just do not think it is possible. I think that what is offered in the House bill and the recommendations that we have made this morning is the most palatable way possible to deal with chaos that has built up over decades on a local level. They go as far as we think is politically and economically possible at a time when we are in very, very serious trouble.

The condition of some of the large urban areas in which we are involved is so dreadful that they are beyond description. I know that there were Governors lobbying you gentlemen in Washington yesterday. I do not know if they had the courage to tell you that if you read the fine print in the budgets that they have presented to their legislatures that those States will be bankrupt if you do not pass some version of this bill.

Now, I do not know how a State becomes bankrupt. I do not even know if the bankruptcy laws provide for such a problem. But that is the situation. As somebody who goes into State institutions and represents the people who are the employees of these institutions, the prison guards, the correction officers, and others, I am appalled at the conditions which exist.

Senator HARTKE. The mental health institutions.

Mr. WURF. I must say that in spite of the best efforts of responsible public officials—there is no malice or cruelty in these men—the conditions are beyond description. Things have to be done. And there is something happening in our country that is very important. People are no longer willing to quietly sit by and wait for the problem to disappear. There is great turbulence. I am quite certain that we are able to cope with these problems. But we have to deal with them.

My parents can't live—my mother died about a year ago, but my dad can't live on his social security payment and meet the needs in the community that he is in. And I suppose that is true of everybody.

Mental institutions have become warehouses for elderly people. The suburbs that were running away from problems—places like White Plains—are now beginning to develop problems and, with a narrower tax base, unable to do anything. The city of Detroit is in such dire straits, I don't see how they will straighten themselves out even if this bill is passed. The city of New York is in an incredible situation.

Now, you have had a good situation in Indiana, in Indianapolis, but it is getting a little bit stickier each passing day. What I am saying, we have a crisis that has to be dealt with.

Senator Long, I am taking much too much time, and I will be happy to end.

Senator HARTKE. Let me just comment. What bothers me about this plan is that it is so little that it is going to be a paliative. It is like giving an aspirin to a man who has cancer. I know we are going to do it, and I know as well as I am sitting here that it is not going to be the answer and the next demand is going to be for two, three, four times as much. But the thing you are not getting on the other end, and this is what bothers me about this approach, is a solution to these problems you are talking about. You are going to provide some more money. But you are not going to get the desired result. Then you will get the disappointment in the revenue sharing added to the disappointment which already exists. You put those two together and you have a bomb which few people in this country would recognize.

Mr. WURF. Senator, I agree with you. I just want to say my only claim to responsibility in the situation is that as loudly as we have advocated revenue sharing, we have advocated the most dramatic kind of tax reform in terms of the whole structure. We have talked to Members in both Houses about the need. We have gone to the mayors and said to them, you guys have no right to go to the Congress unless you come out forthrightly for serious and important tax reform.

But I am saying to you, that even if everything you say is true, and I suspect it all is, that the situation is so crucial that, nevertheless, I hope we can obtain your vote on behalf of this measure.

The CHAIRMAN. Senator Hansen, you said you have some questions?

Senator HANSEN. I would like to ask, if I may, first, one question of my distinguished colleague from Indiana in order to clarify my own thinking.

I understood you to say essentially that you felt that if any State or lesser governmental unit of government were to impose an income tax, it would be political suicide. Was that essentially your idea?

Senator HARTKE. I said that generally speaking, when local officials try to present a progressive income tax they usually face such a severe revolt that it is the end of their political career. Yes, that is right.

Senator HANSEN. Does that mean that a majority of people do not favor such a tax?

Senator HARTKE. Most people don't favor any kind of tax increase. That is a fact of life. If you can get that taxing authority for the increase of taxes away from the person who is responsible politically, that is all right. But if you think a person can go out here and advocate an increase in taxes and get elected, generally speaking, that is not true.

Senator HANSEN. You happen to be looking at one.

Senator HARTKE. I commend you for it. I think you are a rare exception, and you must have exceedingly good political ability.

Senator HANSEN. May I use this in the campaign?

Senator HARTKE. You certainly may.

Let me say to you I admire you for your courage. If you instituted a progressive income tax—

Senator HANSEN. May I ask you what you think the difference is between a State official and a Representative of that State in the Congress of the United States? Basically, what is the difference?

Senator HARTKE. Basically, it is that—

Senator HANSEN. Should not the Representative in the Congress be as responsive to the wishes of the majority of the people as a State official is?

Senator HARTKE. Certainly. Let me ask you the question. Did you institute a progressive income tax?

Senator HANSEN. I did not say that. I said we raised taxes.

Senator HARTKE. What type of tax?

Senator HANSEN. Sales tax.

Senator HARTKE. Well, you see, I would not be for that.

Senator HANSEN. Maybe not, but I did it.

Senator HARTKE. Let me quickly say to you that even those people who raise sales taxes ordinarily find themselves ordering a political casket.

Senator HANSEN. If the sales tax is as regressive a tax as you say it is, I happen to find it surprising that I was successful in the fall.

Senator HARTKE. Let me say most people do not understand how regressive it is. This is something that the networks would do for the people. If they could come forward and provide a clear, objective understanding of how regressive a sales tax is and how progressive a graduated income tax is by comparison, I think it would be the greatest thing under the sun.

The CHAIRMAN. Gentlemen, could I just ask that we get back to the business before us? I permitted this exchange, but could we get on with this business? We have two good witnesses behind this one.

Senator HARTKE. Can I just say one more thing?

I commend you still for winning an election after raising taxes.

The CHAIRMAN. I will let both of you supplement your statements for the record, but I do think we should go on with the other witnesses to hear what they have to say while we have a good representation. Thank you for your assistance.

Mr. WURF. Thank you, Mr. Chairman.

(Mr. Wurf's prepared statement follows:)

**STATEMENT BY JERRY WURF, PRESIDENT, AMERICAN FEDERATION OF STATE, COUNTY, AND MUNICIPAL EMPLOYEES, AFL-CIO, ON H.R. 14370, THE STATE AND LOCAL FISCAL ASSISTANCE ACT OF 1972**

We submit this statement on behalf of the more than 550,000 State and local government employees who are members of the American Federation of State, County, and Municipal Employees, AFL-CIO. AFSCME is the major union among workers in the public sector; our negotiations directly affect the wages and working conditions of more than 1 million non-Federal public employees. Our concern with the revenue allocations proposed in H.R. 14370 is an integral part of our involvement in the level of performance, and indeed, the very survival of State and local government.

State and local governments do not operate in an economic vacuum. The national resources and energy which have been diverted to the war in Southeast Asia would otherwise have been available for application to America's domestic problems, including the crisis of our central cities. The downturn in economic activity during the last 2 years has had an inevitably depressing effect on revenue yields of both State and local government tax systems. The budgetary impact of both of these factors has heightened the urgency for a recasting of city and State revenue structures, too long delayed in the name of shortrun expediency.

The crucial problem confronting state and local governments, stated in its simplest terms, is the disparity between the mounting demand for public services and the ability of these governments to finance them. Since the Federal government

has come to dominate the most efficient and equitable revenue source—the progressive income tax—state and local governments have tended to resort to sales and property taxes to fund the bulk of their rapidly rising expenditures. As a result, state and local tax structures not only are inequitable because of their regressivity, but also are ineffective revenue mechanisms because of their sluggish response to economic growth.

A key ingredient in any attempt to close the gap between lagging tax yields and the delivery of public services where they are most needed must be an effective system of Federal revenue sharing. In determining the ultimate allocation pattern for Federal funds in a revenue sharing program, two criteria must be considered: funds must be allocated to those jurisdictions faced with the most serious fiscal difficulties, and, at the same time, to those jurisdictions which have the responsibility for providing major components of public services.

Our Union strongly supported H.R. 14870 in the House of Representatives and we urge prompt Senate action on this important legislation.

However, we recognize that this bill is not without fault. In fact, we believe the Senate must make a number of modifications in the measure to ensure the enactment and implementation of a more meaningful program.

For example, the proposed allocation formula for distribution of funds at the local level tends to overlook the needs criterion, while diverting funds to high income suburbs which spend large sums—in absolute terms—on selected public services. This bias—under the guise of rewarding “tax effort”—has resulted in the rewarding of affluent suburbs at the expense of hard-pressed central cities.

Further, since revenue sharing is, in part, a response to the archaic nature of state and local tax systems, it is essential that such a program be used as a catalyst for state and local tax reform. Incentives for change in the present highly regressive tax structures must be built into any viable system of revenue sharing.

It is for these reasons that we advocate the following amendments to H.R. 14870. We believe they will greatly improve and strengthen this bill.

#### *“High-Priority Expenditure” Categories*

AFSCME endorses the concept devised by the House of Representatives in providing guidelines for the use of revenue sharing funds at the local level. We believe that Congress exercises appropriate responsibility in establishing the priorities for maintenance and expansion of municipal services—assuring that those citizen needs will be met, which most frequently are bypassed when budgets are cut.

We urge, however, a broadening of the “high-priority expenditure” categories by the addition of a health category, and by the expansion of public safety to include youth recreation.

#### *Health*

Although health represents the next largest functional expenditure for state and local governments—after education, public transportation, environmental protection, and public safety—health services are frequently one of the first areas cut when a local government is forced to trim its budget. Publicly sponsored health care, both in hospitals and in out-patient clinics, is the primary source of medical services for disadvantaged residents of inner city neighborhoods. Even if a plan for National Health Insurance is adopted by the Congress, such action would in no way resolve the public service problems of the cities which we are raising here, with respect to health.

#### *Youth Recreation*

All too frequently the category of public safety is construed narrowly as dealing solely with apprehending and incarcerating criminals. This is an unfortunate characterization, since it fails to concern itself with the root causes of criminal behavior, particularly those which exist in the modern urban setting. Any effective public safety program must contain positive initiatives to treat the symptoms of crime, and to foster an environment in which criminal behavior is an aberration, rather than a way of life.

One of the most serious public safety problems which confront virtually all of our major cities is the proliferation of youth membership in gangs, which too frequently results in criminal behavior. Unfortunately, one of the most effective methods of harnessing the vigor of these young people into healthy activities—youth recreation—has traditionally been a vulnerable victim of the budget trimmers. Far too often a city’s allocation for recreation programs—geared primarily

to youth—is regarded as an expendable “frill,” only to have such slashes come back to haunt the city in the form of increased demands for police protection from juvenile marauders. Cleveland and Detroit—both states in monumental fiscal binds—are cases in point. Cleveland’s Recreation Department has been virtually wiped out by layoffs—while Detroit has cut back a substantial portion of the part-time and seasonal employees who were the backbone of the city’s youth recreation activities.

We urge that cities be encouraged to augment those services whose prime beneficiaries are the least articulate members of a city’s population—by enlarging the “high-priority expenditure” categories to include both health and youth recreation.

#### *Limit on Capital Expenditures Permitted Under “High-Priority Expenditures”*

We urge that the Senate establish a spending limit on the amount which a local government can utilize for capital expenditures under the three categories provided in the House bill. Our reason, very simply, is that the Congress determines the national goals and allocates funds for high-priority capital purposes under the present categorical grant programs—that such allocations represent critical outlays for which local resources are inadequate—and that excessive diversion of revenue sharing funds to capital purposes may well result in a diminishing of the categorical grant allocations.

We propose a limit of 25 percent of the local government entitlement for capital expenditure purposes.

#### *Allocation to Local Units of Governments*

AFSCME supports the allocation formula developed by the Ways and Means Committee for targeting local government funds to those states in which needs are, in our judgment, the most pressing. As among the many plans considered by the Congress for providing assistance to units of local government, we believe that the factors selected in the formula as set forth in Section 103(a) provide both a desirable and a meaningful distribution of funds.

With regard to the distribution of funds both among county areas and below the county level, AFSCME supports the thrust of the alternative allocation method (Formula B) in place of the initial mandatory approach (Formula A). More specifically, Formula B, as it now stands, calls for a weighting of the crude population criterion by per capita adjusted taxes. Although AFSCME maintains that this change is desirable, we urge that Formula B be geared to per capita adjusted expenditures, (excluding education expenses) rather than per capita adjusted taxes.

We believe that per capita expenditure is a more accurate reflection of need—the major criterion to which a revenue sharing program should address itself. The use of taxes, instead of expenditures, may, in fact, merely represent the wealth of a community—while demonstrating very little about the quality and type of public services being provided in a given jurisdiction. Per capita adjusted expenditure has the distinct advantage of taking into account priorities established through the various Federal categorical grant programs.

The net effect of this change in the allocation formula below the state level would be an increase in entitlement for major cities. This comes about because the relative expenditure level of large urban areas—the best indication of the level of public services required—is, in most instances, substantially greater than that in the rest of the state. Of course, in circumstances where county governments have responsibility for providing a large number of public services, they would receive a sizeable portion of the revenue sharing funds.

As a matter of equity, and in recognition of the burden being borne by big city taxpayers via diminished levels of municipal services, we urge that a revised Formula B be designated as the mandatory formula for allocation of funds both among county areas and below the county level, implemented with the effective date of the bill.

Aside from the compelling need of major cities vis-a-vis surrounding jurisdictions, we suggest that the practicalities of the legislative process at the State level are equally persuasive in calling for the establishment at the outset, as the primary allocative procedure, of a formula which includes per capita expenditures as a substitute for a straight population factor.

Should Formula A prevail, and the distribution within the State take place during the first 18 months of the bill’s operation on this basis, there is little likelihood that the legislators in the State capitol, no matter how enlightened,

are going to risk the hue and cry that would ensue from a reversion to a different formula. Congress may provide the option, but the State legislature would display unheralded political courage, were it to follow through.

#### *Local Entitlement Growth Factor*

AFSCME urges the adoption of a growth factor of \$600 million per year in the funds allocated to local units of government. We encourage such an amendment as being consistent with the initial ratio of approximately 2 to 1 between local and State entitlements under this proposed Federal revenue sharing program.

Such an increase of \$600 million per year would maintain the current emphasis of the bill in aiding those jurisdictions which are in the most dire fiscal straits. Unless the aid to local governments keeps pace with that given to state governments, the needs criterion will be violated and, beyond question, our major cities will suffer.

#### *Reversion of State Authority to Vary Amounts Allocated Among County Areas*

The House bill permits a state to vary the amount allocated among county areas, by shifting the weight of each ingredient in the allocation formula by up to 25 percent downward or 40 percent upward. We oppose such manipulation of the allocation formula for the same reason that we insist on a straight-forward allocating procedure from the inception of the bill—because a shifting in the amount available to a city will have a devastating effect on the local budget-making process. We therefore urge reversion of this portion of the House bill.

#### *Diversion of Local Funds for Areawide Projects*

With regard to the authority now granted to a state to divert a portion (up to 10%) of the local government's entitlement for areawide projects, AFSCME urges the adoption of an amendment which would require the concurrence of all local governments involved in such a plan. In the absence of this kind of requirement, a significant amount of the funds earmarked to local units of government—potentially \$350 million—could be transferred to state control.

Clearly, this effective increase in the states' entitlement would, in all probability, result in a diminished level of vitally-needed public services in our major cities, with a corresponding increase in less critical expenditure areas, such as highway construction.

#### *Limitation on Local Entitlement*

AFSCME objects to the current 50 percent ceiling on distributed funds, which permits local governments to finance up to half of their total expenditures through Federal revenue sharing.

We urge a reduction in this ceiling so that revenue-sharing funds account for no more than 25 percent of a local government's total spending. Any governmental unit which is providing so few public services out of its sources that its total spending doubles as the result of receiving funds under this bill has failed, in our opinion, to demonstrate need or a realistic tax effort.

In either case, large amounts of Federal aid to these governments should not be forthcoming.

#### *Use of Local Entitlement in Categorical Grant Programs*

AFSCME urges that local governments be permitted to use any part of their entitlement for the purpose of matching Federal categorical grants, as long as such funds are used for "high-priority expenditures" which are not open-ended appropriations. The only restriction on this procedure should be that local governments be forced to maintain—out of their own sources—their original level of matching expenditures.

#### *Maintenance of Effort at the Local Government Level*

We urge that a proscription be written into the bill in Section 103 requiring that units of local government maintain their present level of tax effort, measured on a per capita tax basis weighted by a constant wealth factor, in order to preclude the substitution of Federal funds for funds which would otherwise be raised by the local government—thereby assuring that assistance under the bill augments the present level of services being provided.

Further, we urge that the local units of government maintain their present rate of spending in high priority categories, as a percentage of their total expenditures.

In recent months, many public officials have been confusing the idea of tax reform with that of tax relief. Unfortunately, the confusion has been com-

pounded in the current debate regarding revenue sharing. The sharing of Federal funds with state and local units of government has gained support because of the financial inability of certain governments to provide a decent level of public services for their residents. It is a response, on the part of the Federal government, to supplement the level of governmental services which poor jurisdictions need, but cannot afford.

Revenue sharing is *not* intended as a tax relief measure—its purpose is *not* to reduce local tax effort, but rather to arrest the deteriorating quality of life in many areas of the country—especially in our major cities.

AFSCME is fully aware of the average taxpayer's plea for a more equitable sharing of the tax burden. We sympathize with this concern and feel that revenue-sharing is an appropriate tool to effect reform in our bitterly outmoded state and local tax structures.

The inequities built into these tax systems have been brought vividly to public attention by two recent developments. First, the inability of low income jurisdictions to provide a decent level of education for their children has been finally recognized in several important judicial decisions. Second, the fiscal crisis that has hit our major cities has resulted in cutbacks of vitally needed public services which have affected many Americans.

The recent ruling by the California Supreme Court (August 30, 1971) in *Serrano vs. Priest* has far-reaching implications for the financing of public education. If this decision is upheld by the Supreme Court, the current method of financing a large portion of public education through local property taxes will be unconstitutional. According to *Serrano*, "This funding scheme invidiously discriminates against the poor because it makes the quality of a child's education a function of the wealth of his parents and neighbors."

In response to this and other court decisions, AFSCME urges the abandonment of local property taxes as the primary source of funding public education. In its place, we propose the adoption of an evenly-administered, state-wide property tax. A more concise statement of our school financing plan is contained in Appendix A.

Another adverse feature of the current property tax structure is concerned with the heavy burden it places on elderly persons who are living on fixed incomes. Obviously, it is grossly unfair to tax away a substantial part of a retired couple's social security benefits simply because they are home owners. According to the Senate Special Committee on Aging, hundreds of thousands of older Americans are being driven from their homes because of prohibitive property taxes and maintenance costs. At the same time, it is important to ensure that our wealthy senior citizens do not escape paying this tax on their property. Both of these factors are taken into account through the adoption of a Wisconsin "circuit-breaker" clause written into the property tax law. This proposal would provide a uniform system of tax credits or rebates on the property tax liability of elderly persons with low incomes. Thus, as an older couple's income falls—they would be exempted from a continually increasing portion of their property tax liability.

Aside from the school financing issue, it is desirable that state governments initiate several other reforms in their tax structure, an issue which we shall also discuss in our statement on the Allocation of State Government Funds. State governments have tended to rely on the sales tax instead of the income tax as a major source of revenue. Although more reliance has been given to the income tax as a state and local revenue source in recent years, sales taxes still generate over twice as much revenue as state and local income taxes. Since general sales taxes are regressive when compared with income as a base, any change in the tax structure which substitutes progressive income taxes for sales taxes is to be encouraged.

However, as long as the sales tax continues to play an important role in state and local finance, some modifications in the sales tax base are desirable. The progressivity of the sales tax structure can be enhanced by exempting certain items from the base of the tax; for example, non-prepared food and non-prescription drugs. Since these items constitute a disproportionately large share of a low income family's budget, their exemption from the tax is desirable on equity grounds. Sales tax progressivity can be achieved even more effectively by a system of tax credits and rebates for sales taxes paid. This system could involve a flat per capita credit or a credit of the variable vanishing type—depending on the amount of progressivity that is desired.

Finally, it is our hope that state governments follow the example set by the Federal government in recognizing the set of acute fiscal crises that are con-

fronting our major cities. Since the tax base of our local governments has experienced significant erosion in recent years while the demand for urban public services has risen rapidly, it is essential that some form of state revenue sharing be undertaken. Hopefully, the revenues raised in such a program will make much greater use of state income taxes. This permits funds to be raised in the most equitable manner and earmarks them to areas of greatest need. However, in order to ensure equity in such a system, it is essential that the income tax which is implemented be a fair one. Despite our strong support for the principle of state taxation of personal income, the fact is that many state income taxes currently in operation have terribly regressive rate structures—in some cases, the incidence of the income tax being worse than that of a broad-based sales tax.

Any meaningful reform of the state and local government tax structure must include the adoption of a quality income tax. Such a tax must have a reasonably progressive rate structure and must be devoid of loopholes which favor the rich. In order to achieve a fairly high degree of equity in state income tax structures and, at the same time, promote efficiency in income tax collection, it is desirable to "piggyback" the state tax on top of the Federal income tax structure. This would ensure a system of progressive rates and, if universally adopted, would be an excellent new source of state and local revenue.

#### *Allocation of State Government Funds*

AFSCME opposes the separation of the state entitlement into two distinct allocations. Rather, since revenue sharing has become necessary, in good measure, because of outmoded state and local fiscal systems, the funds allocated to the States should be based primarily on each one's willingness to adopt an equitable and efficient structure for raising revenues.

Any state which refuses to alter the regressivity of its tax structure by relying on the current system of property, sales, and excise taxes to finance public services should not be rewarded by a large share of Federal funds. AFSCME urges that states be given larger entitlements as they effect restructuring of their tax systems, such as heavier reliance on progressive income taxes, the adoption of state-wide property taxes, and the use of tax credits to offset some of the regressivity inherent in general sales tax.

In order to encourage these reforms in the state tax structures, AFSCME urges that the initial State entitlement be based primarily on a State's willingness to adopt a quality personal income tax. Each State would receive an amount equal to 15 percent of its state income tax collections—with no entitlement being permitted to exceed 6 percent of the Federal income tax receipts of any state. A state which does not tax income would receive 1 percent of the Federal income taxes collected within the state. This method of allocating \$1.8 billion would remain in effect for the 5-year duration of the program.

AFSCME urges that the growth factor in the State entitlement of \$300 million per year be allocated on a three part basis. First, states which adopt personal income taxes with progressive rate structures will divide  $\frac{1}{3}$  of the growth factor each year. Second, states which adopt general sales taxes that include tax credits or rebates as a method of refunding taxes paid on food and non-prescription drugs will split, on a continuing basis, \$100 million of the growth factor each year. The tax credit would preferably be of the variable-vanishing type—the most progressive form of such credit. Third, states which substitute a state-wide property tax for the current local property tax—a patchwork system filled with inequitable and uneven valuation process—will also share an extra \$100 million per year.

The ultimate allocation of the growth factor—after all the eligible states have been determined—will be based on each states' relative share of the initial \$1.8 billion entitlement. Perhaps the most appealing feature of this method of allocating funds to the states is that it takes a more comprehensive view of state tax reform. Other revenue sharing proposals either contain no incentive for states to reform their tax structures or reward only the adoption of an income tax.

Under our proposal, although states are given more flexibility to decide what reforms they feel are most desirable on an individual basis, the major emphasis still lies in favor of adopting progressive income taxes because, in a sense, this reform is "double-counted." Counted with its  $\frac{1}{3}$  share in the growth factor allocation, the adoption of income taxes permits states to accumulate larger bases upon which to apply the entire three-part growth factor formula.

Finally, our proposal does not require the cut off of funds for a state which is unable to impose an income tax in a specified period of time.

#### *Maintenance of Effort at the State Level*

The maintenance of effort clause in Section 122 (e) is appallingly weak. This requirement merely prohibits states which receive money under Section 122 from reducing their current level of financial aid to the cities from other sources. Since government expenditures at the State and local level have tripled during the past decade, it becomes clear that the maintenance of effort provision in Section 122 is completely ineffective. By simply *not reducing* financial aid to local units of government, the States could still be conforming to the requirements of the bill, by using the shared Federal funds to substitute for their present level of commitments.

AFSOME, therefore, urges that the maintenance of effort requirement be revised to provide that States maintain their present *rate* of assistance to local governments, as a proportion of total State expenditures in each year, given the present demarcation of responsibilities.

Further, we urge that each State maintain its present per capita tax effort, in order to ensure that the shared funds are not used for effecting tax cuts.

#### *State Expenditures Dedicated to Services*

Finally, while recognizing the difficulty of prescribing priorities for State expenditure, we urge that the Congress express its intent that funds under the bill be used for *services*, as against administrative and "overhead" expenditures. Revenue sharing is a response to the inability of state and local governments to continue to provide critical public services. Any use of these funds for reasons other than augmenting the current level of governmental services is a violation of the spirit and intent of this legislation.

#### *Non-Discrimination Provision*

With respect to the non-discrimination provisions of H.R. 14370 (sec. 106), we believe this important element of the bill must be strengthened. As it is now written, section 106 would make Title VI of the Civil Rights Act applicable to activities financed in the whole or in part from funds allocated under the bill. However, the provision refers only to actions which may be taken by the Secretary of the Treasury alone or in concert with the Attorney General. Further, this provision applies only to local governments and not the States.

We share with many civil rights organizations concerns about the realistic and effective enforcement of civil rights statutes under a revenue sharing program. The concept of revenue sharing must *not* represent a retreat from the Federal government's responsibility to insure that federal funds are not used in a discriminatory manner.

It is this reason that we urge the Committee to adopt a stronger non-discrimination provision. This important provision of the bill must be applicable to both the several states and their political subdivisions and expressly guarantee the rights of individuals to sue in the Federal district courts in case of violation of Title VI.

#### *Labor Standards*

The labor standards sections of H.R. 14370 which apply to local government expenditures are weak and non-existent in the case of the state allocation. This situation must be corrected by the inclusion of strong labor protection provisions.

Section 105(7) now provides that persons employed in jobs financed in whole or part out of funds allocated to local units of government be paid wages not lower than the prevailing rates of pay for persons employed in similar jobs by such local government. We urge the strengthening of this provision to insure that such persons be paid wages which shall not be lower than whichever is the highest of (A) the minimum wage which would be applicable to the employee under the Fair Labor Standards Act of 1938, if section 6(a)(1) of such Act applied to the participant and if he were not exempt under section 13 thereof; (B) the State or local minimum wage, for the most nearly comparable covered employment; or (C) the prevailing rates of pay for persons employed in similar public occupations by the same employer and that this provision be applicable to both local units of government and States.

Similarly, we urge that the existing provision concerning Davis-Bacon standards now applicable only to local units of government (sec. 105(6)) be made applicable to the States.

### **District of Columbia**

H.R. 14870 also contains an unwarranted and discriminatory provision with respect to the District of Columbia. Section 141(c) (3) provides that the allocation to the District of Columbia would be reduced by an amount equal to any monies received by the District government as the result of any tax imposed by the District of Columbia on income earned in the District by a non-resident. We urge the Committee to delete this provision.

### **Conclusion**

Federal revenue sharing is, in our judgment, a concept whose time has come. When state and local governments—particularly those of our major cities—are threatened by fiscal collapse and curtailment of vital public services, it is the responsibility of the Federal government to assure their fiscal viability. However, we note at the same time that the effectiveness of revenue sharing is limited. It is not a substitute for the current system of categorical Federal grants which provide local governments with both funds and badly-needed direction in their disbursement. The Federal government must maintain and even augment its categorical grants program in order to set spending priorities which have national implications, and to overcome the political difficulties involved in funding such expenditures with local revenues.

Our system of federalism—with various levels of government providing public services whose benefit streams overlap—is dependent on the Federal government for coordination, guidance, and effecting a proper distribution of tax monies. Revenue sharing is necessary both to add flexibility to state and local fiscal systems, and to give much-needed relief to governments attempting to provide vital public services from a continually eroding tax base.

\* \* \*

We greatly appreciate this opportunity to present our views on this vital legislation. We hope you share our belief that this legislation must be improved and enacted this year.

### **APPENDIX A**

One of the most equitable and effective methods of financing public education is through the adoption of a state-wide property tax with a progressive rate structure. The revenues from this tax would be distributed to each school district (or unit of government responsible for providing education) as a flat per capita grant for each public school student.

If a school district chooses to spend more than the amount of its share of these grants, it may augment this figure by adopting a *local* sales or income tax—preferably one which would be “piggybacked” on top of the *state* sales or income tax. In order to conform to the principle outlined in the *Scrano* decision, the amount of revenue generated for education by either of these local taxes must not be dependent on the wealth of the community. This condition can be satisfied by adopting a “power equalizer” formula which assures that revenues raised in poorer communities for the purpose of supplementing the educational grant would be leveled up to the amount of revenues generated by the wealthiest school district in the state which has adopted the same “piggybacked tax.” The funds to be used for this “leveling up” process would come out of general state revenues.

With the implementation of a progressive state-wide property tax and a system of voluntary “piggybacked” taxes operating with a “power equalizer” formula, two major reforms in school financing are effected. First, the structure used to finance education becomes much more progressive. Second, the amount of money spent on a child's education is based on state as opposed to absolute tax effort.

These reforms would go a long way toward achieving equity in school financing and in providing quality education for all children regardless of wealth.

The CHAIRMAN. Our next witness is Mrs. Cassandra Gatlin of the Greater Akron Community Action Council.

You are recognized for 10 minutes, Mrs. Gatlin.

**STATEMENT OF MRS. CASSANDRA GATLIN, GREATER AKRON  
COMMUNITY ACTION COUNCIL**

Mrs. GATLIN. It will be shorter than 10 minutes.

You see, I did not come here with a speech or a long paper to tell you how my plan would work better than the other plan, because I really do not know. I do not believe any of them will work as they should. But I came to speak in behalf of the people that are the most important. That is the poor. Some of the things that the gentleman said in front of me, I agree with wholeheartedly. As you all know, the rich is getting richer in this country, the poor is getting poorer. We are just going to stop it.

I am not against revenue sharing altogether, because I realize that the States and the cities are in terrible trouble and they do need help. But I am saying this: In doing this, are you not overlooking the little people and have they not been overlooked long enough?

If that comes out, why does it have to always be given to everybody except the people that really need it? I am not against—I read your program that you sent to me—building roads and et cetera, sewage plants and all these kinds of things. But then how many roads can you build and how many sewage plants? Then what are you going to do? When are you going to give the people this kind of money, then you say, do with it what you see best. Suppose he thinks it best to put it out in the suburbs, where it generally will go, where the rich is, and they are going to get all the best streets and et cetera, especially in the city where I live? Where is the poor? We are going to be in the same shape we always have been paying more taxes.

I heard the man talk about the poor paying more taxes and that is true. For instance, last year, my husband and myself together made approximately, oh, maybe \$9,000 a year. Do you know how much tax we paid? We paid \$4,500 tax. Now, some of the big companies and big people in our cities and all around the cities, I am sure that have the large salaries, I doubt they pay that much tax. But we paid \$4,500 out of that little money that we made.

And, sir, the cost of living—you know, they don't have any mercy and say, because you don't make \$50,000 a year, we won't charge you as much. It costs me just as much money to feed myself and my family as it does Mrs. Nixon. If I go to a store and get a steak or get some neck bones or whatever I am going to get, they are going to charge me the same price they charge her.

Now, where is this going to stop? Who thinks about the little people? They give us all kinds of excuses and we are going to do this and we are going to do that, why don't you put me in? But who really thinks about the poor man, who thinks about him?

If the revenue sharing comes into being, this means something is going to have to be cut out, some of the programs we have are going to have to be stopped, because there will not be the money to keep them going. Now, what are we going to do? What is going to happen to us?

Suppose the mayor would say, well, I don't think this is necessary that we have this. You know, we have institutions, and believe me, we have institutions. We do not need them, but we have them. We have institutions, so we do not need this type of program or we do not need

this type of program. What is going to happen to those people? Really looking at them, what is going to happen to the poor man and woman?

Nobody considers us. We make up a large majority of this country. It is supposed to be, and I am sure it is, more poor than there are rich. Or, rather it used to be. Here lately, you begin to wonder. But who is going to think about the man who is not able, don't make the money, can't get hold of the money to carry his responsibility, his share, as the man who has it. Who is really going to think about him?

I am not talking about the mayors and the Governors and what have you. I am sure they are in trouble. But I wonder why. The people moved out of the cities into the suburbs. Why? Because we moved next door to them and they didn't want to live next door to us. So they sold us their homes that they lived in 40 years and they moved out and built new ones. Sure this takes away taxes. I can understand that. I can understand the fact that by not having taxes, they cannot do a lot of things that they would like to do.

We don't get the service. Even if we had the money, we wouldn't get it. Let's not kid ourselves. If you give the money tomorrow, there is just a certain amount of service that is going to be rendered to the poor and that is it. And go out in the suburbs and what have you and they will get all the services, like they always do. Then they will send you a report if you ask for it and they will say, "Well, we are taking care of 50 percent of the poor"—baloney. I know it is false and you do, too. It is not so.

In the city where I live, on the street that I live, I put my life's savings into a hole and you cannot drive a car up there, there are so many chuck holes. But when the whites lived there, it was not that way. And when we call and ask them to do something, they give us all kinds of excuses—we don't have the money and that. But you go out in the suburbs and you find them paving the streets, paving the roads; yet there is no money to do something for us.

If the Federal Government does not take a hand, if the Federal Government does not look at the poor people, then who is going to do it? They say that giving the money to the governments, you are dictating to them, you are dictating to the States. Well, you have to, because if you do not look out for us, then no one else will. If we really had anyone who was interested in people—I am not saying there would not be some trouble, but there would not be as much trouble. They have had the money. What has happened to it? Why does not somebody call them, somebody question, what happened to that money?

I am not fighting them getting some money. I think they need some. But I think we also have a duty to look out for the little people, because we have no one. If you are going to turn your back on us, what do we have left? We might as well give up.

That is all I am saying. I cannot tell you how to issue it out, who should get it, this and that. But I am saying this: It would be nice that certain funds would be allocated, earmarked, however you want it, for the use of poor people in whatever way that the mayor, along with the people—that the Government would see fit.

I see that you said no schools. What is going to happen there to the children for their education?

I think it said roads and sewer plants and highways and et cetera. This is good, because this is progress and we need this. But we also need something else. We need someone to sit down and take a real good look at what is happening in America and do something really constructive about it. And quit saying that there are no poor and if they are, they are poor because they want to be poor. That is not so, sir. That is not true. There are a lot of people that do not want to be, but what can they do? They have no choice. The only person they can look to is the Federal Government and if the Federal Government is going to let us down, then we are lost.

So, gentlemen, as I have said, I do not have a lot to say to you. I do not know what to tell you about what you can do about it and I do not want to take up a lot of time. But I am only saying one thing, please, do not forget the poor.

The CHAIRMAN. Thank you very much for your statement, Mrs. Gatlin.

Do you have any questions?

Senator HANSEN. I have two.

First of all, Mrs. Gatlin, I am very much impressed with what you say. It is my understanding that the District of Columbia anticipates the expenditure of \$3 billion on the subway system presently being built.

Mrs. GATLIN. Right.

Senator HANSEN. Do you favor that type of expenditure?

Mrs. GATLIN. Well, sir, yes, in a way. I am not altogether against it. Again, like I said, if it was \$10 billion, as long as it is going to mean that the poor is going to benefit by it. If it is going to mean that poor people are really going to get some good use, some good jobs, et cetera, out of it, I am not against it. But let it really be for the people, not some group like they generally have, you know, one or two, then say, we don't discriminate. They will have one or two amongst 10,000. This is the way they do it; you know it and I do, too. They will have a group of 500, and have two blacks, two Mexican Americans, what have you. Then when they return the report, they say, we do not discriminate, all of them are making \$8 an hour, \$6 an hour. This is not true.

Senator HANSEN. It is my understanding that the residents within the District are very strongly in favor of the completion of the subway system. I may be in error. Everything I have read, statements by the Mayor, statements by the Representative of the District, the Reverend Mr. Fauntroy, inclines me to believe they support it. I wonder if you, too, support it.

Mrs. GATLIN. As I say, I am not altogether against it, as long as it does that one thing. If they are going to benefit by it, good.

Senator HANSEN. The other question I would like to ask you, and I do not expect you to respond to it now, I understood you to say you and your husband together made about \$9,000 a year?

Mrs. GATLIN. Yes.

Senator HANSEN. And you paid about \$4,500 in taxes?

Mrs. GATLIN. That is right.

Senator HANSEN. Would you submit to the staff of the Finance Committee a breakdown of those taxes. You don't have to do it now; when you can get back home perhaps you could break them down and submit this for the record?

Mrs. GATLIN. I sure will.

Senator HANSEN. I would like to have it. Thank you very much.

(At presstime the information had not been received by the committee.)

The CHAIRMAN. Thank you.

Our next witness is Mr. W. Emerson Rhodes, member of the board of trustees of Delhi Township, Hamilton County, Ohio.

**STATEMENT OF W. EMERSON RHODES, MEMBER, BOARD OF TRUSTEES, DELHI TOWNSHIP, HAMILTON COUNTY, OHIO**

Mr. RHODES. Thank you, Mr. Chairman. If I could preface my remarks by saying here come the affluent suburbs. Only the myth of the affluent suburbs is just that, a myth.

The Federal revenue-sharing legislation (H.R. 14370) under consideration by this distinguished committee includes a distribution formula which implies second-class citizenship through drastically inequitable funding to the governments of over a quarter of a million township residents in Hamilton County, Ohio, including the citizens I represent in Delhi Township.

Although these funds have been specifically earmarked for direct local government services to people, in Hamilton County the municipalities are to be granted over \$20 per capita while the townships will be allocated only \$1.30 per capita.

The following questions serve to dramatize the inequity:

Does the distribution formula mean township residents are entitled to only one-sixteenth the amount and/or quality of services other communities can provide?

Should our firemen and policemen be paid only one-sixteenth the salaries municipalities pay, or should our residents receive only one-sixteenth the public safety protection other communities offer?

Will Hamilton County township residents be allowed to pay only one-sixteenth the Federal income tax schedule rates city residents pay?

These questions are prompted by the provision of the revenue sharing bill which grants our townships one-sixteenth the amount per capita to be allocated to municipalities.

I ask the help of this distinguished committee in correcting these grossly unfair distribution formulas.

We are all aware there are serious problems in heavily urban areas, but there are also many ongoing Federal programs to help solve these problems.

The Federal revenue sharing funds are intended specifically to provide and improve basic services which all citizens must have no matter where they may happen to live.

Contrary to popular opinion, there is no less a need for public safety, environmental improvement, and public transportation in suburban areas including Delhi and Hamilton County's heavily urbanized townships.

Again, I ask the help of this distinguished committee in preparing an equitable revenue sharing bill with distributions based directly on the number of people each community has the responsibility to protect and serve.

Gentlemen, I have made my comments brief. To get right to the point; I would like the record to show that I have been assisted in preparing these comments by my two colleagues on the board, Mr. Gilbert R. Faigle and Mr. Jerome F. Luebbert. Mr. Luebbert and I are Democrats, Mr. Faigle is Republican. I made this brief so I could answer any questions you might have.

Thank you.

The CHAIRMAN. It sounds to me as though your problem might have to do with technical aspects of the bill. I do not think we have any disagreement with you on what the objective must be. I invite you to consult with our staff and maybe the staff of the Joint Committee on Internal Revenue. Maybe your problems can be worked out. If we can, we will be glad to cooperate.

Any questions?

Senator BENNETT. No questions.

Mr. RHODES. If I might add, the bill apparently reflects and magnifies existing inequities in the very archaic tax structure in the state of Ohio. Right now I am paying roughly 85 percent of my tax dollar to the city of Cincinnati for the privilege of working there and the rest to the community in which I live, which protects myself, my family, my property.

Senator BENNETT. The previous witness indicated that in the State of Ohio, a person pays 50 percent of his income in taxes. Do you agree that the tax level in Ohio is that high?

Mr. RHODES. Sir, my income is only slightly higher—our family's income is only slightly higher. I am a stockbroker by profession and things have been pretty grim. I do not pay anywhere that much, sir, right off the top of my head. Our property taxes run about \$400—some dollars a year. We have a new progressive income tax that was instituted, that is an excellent improvement over the past. The problem is we have a very regressive city earnings tax. In Cincinnati, it is the highest in the State. Most of our property tax goes to education. We are running a community of 25,000 people right next door to Cincinnati and it is very competitive to try to pay our policemen a significant amount of money. We spend less to run our community in a year than the cost of one deepwater pool, of which the city of Cincinnati has a number, and they are building more.

Senator BENNETT. I have no further questions.

Senator FANNIN. Mr. Chairman.

Mr. RHODES. I appreciate very much that you have brought this to our attention. I feel as the chairman does, that there must be a technicality involved, because I do not think it is the intent of the House of Representatives, and certainly not our intent, to discriminate to the extent that you have explained here. When you speak of the municipalities and townships, it may be different from State to State as to the designation of these particular entities. I am just wondering if that might be one of the problems involved.

In other words, where we have a county and we have a city in Arizona, I do not think that this discrimination exists under the bill's terminology. But I certainly appreciate your bringing it out and know that the chairman will see that it is investigated thoroughly.

Mr. RHODES. Well, Senator, Mr. Chairman, the suggestion that I make is very simple. But it seems to me, and, of course, I do not have anywhere near the background in government—I have been a public servant for approximately 3 years—this whole thing could be rectified by making these distributions on a per capita basis. If one area has an excellent police department and another areas does not, you are merely driving crime into an area that does not. This is the problem we see in our area everyday.

The CHAIRMAN. Our problem in trying to help you with your situation is a technical one. In other words, apparently the money for that area is being directed to the county and those you represent are citizens of a township and they are also citizens of a county. I take it that your problem is you want more of the money to be sent to the township and less to be sent to the county.

Now, I see you shaking your head that that is not what you have in mind. But I assume that the House bill is based on the theory that in distributing money to the local unit of government, it would be distributed in relation to the amount of money that those local units raise and spend. Now, it may be that if you shifted your formula around somewhat, you could take care of your problem. The first thing you had better do is figure out how it can be done.

In other words, Senator Kerr used to be ranking member of this committee and he used to say, "I am willing to help you but I want you to make it easy for me." You show us how we can help you and we will certainly be willing to consider it.

Senator Hansen?

Senator HANSEN. I do have one question.

Mr. Wurf, who testified earlier, has included in his statement this language:

H.R. 14870 also contains an unwarranted and discriminatory provision with respect to the District of Columbia Section 14(c) (3), which provides that the allocation to the District of Columbia would be reduced by an amount equal to any moneys received by the District Government as the result of any tax imposed by the District of Columbia on income earned in the District by a nonresident. We urge the committee to delete this provision.

What is your position on this statement of Mr. Wurf's?

Mr. RHODES. I think I probably would be opposed to it, Senator, because you see, the city of Cincinnati's earnings tax 40 percent of it is paid by nonresidents. So not only are we prohibited by the State law from helping ourselves through this effective tax, but furthermore, we are contributing to the fact that any municipality where one of our residents works is getting credit for money that is coming out of our community. I think we have a responsibility to help pay some of the needs of the central city; I think it is gross and excessive in my particular area. I realize the problems of putting a bill together across the whole country that is fair and equitable. But this would make a lot of sense.

In fact, the Cincinnati earnings tax may go to 2 percent—no exemptions, no graduations—on everyone. That would make it even worse to us.

I think I would have to be probably opposed to that, Senator.

Any questions, Senator?

The CHAIRMAN. Thank you very much.

That concludes today. The committee will stand in recess until Tuesday, July 25, at 9:30. We are coming in a little early because we would like to accord the mayors a little more time than was originally scheduled for them. The mayors' delegation will be headed by Mayor Moon Landrieu of New Orleans and a number of other distinguished mayors. I will ask that the list of them be put in the record.

The Senator from Arizona will be well advised to be here. I see the mayor of Phoenix will be here. The Senator from Georgia will be well advised to be here. The mayor of Atlanta will be among the group.

The Senator from Michigan might be well advised to be here. I see that the mayor of Detroit will be here.

(The witness list for Tuesday, July 25, 1972, follows:)

### SENATE COMMITTEE ON FINANCE

Public Hearing on Revenue Sharing, H. R. 14370

Tuesday, July 25, 1972

9:30 A. M.

The Honorable Sam Gibbons, United States House of Representatives

The Honorable Moon Landrieu, Mayor of New Orleans, Louisiana, in behalf of the National League of Cities and the United States Conference of Mayors, accompanied by:

The Honorable Sam Massell, Mayor of Atlanta, Georgia  
 The Honorable Louie Welch, Mayor of Houston, Texas  
 The Honorable Lee Alexander, Mayor of Syracuse, New York  
 The Honorable Joseph Alioto, Mayor of San Francisco, California  
 The Honorable Frank W. Burke, Mayor of Louisville, Kentucky  
 The Honorable John Driggs, Mayor of Phoenix, Arizona  
 The Honorable E. J. Garn, Mayor of Salt Lake City, Utah  
 The Honorable Kenneth A. Gibson, Mayor of Newark, New Jersey  
 The Honorable Roman S. Gribbs, Mayor of Detroit, Michigan  
 The Honorable Harry G. Haskell, Mayor of Wilmington, Delaware  
 The Honorable Richard G. Hatcher, Mayor of Gary, Indiana  
 The Honorable Henry Maier, Mayor of Milwaukee, Wisconsin  
 The Honorable Roy Martin, Mayor of Norfolk, Virginia  
 The Honorable Norman Mineta, Mayor of San Jose, California  
 The Honorable William Donald Schaefer, Mayor of Baltimore, Maryland  
 The Honorable Wes Uhlman, Mayor of Seattle, Washington

The Honorable John Conolly, Representative Illinois, President of the National Legislative Conference, accompanied by:

Speaker Herbert Fineman of Pennsylvania  
 Speaker Charles Kurfess of Ohio  
 Representative Elliott Levitas of Georgia  
 Senator Robert Vander Laan of Michigan

Gerald M. Brannon, Independent Consultant

The CHAIRMAN. Well, we stand in recess until Tuesday.  
(Whereupon, at 11:45 a.m., the committee was adjourned until  
Tuesday, July 25, 1972, at 9:30 a.m.)



## REVENUE SHARING

TUESDAY, JULY 25, 1972

U.S. SENATE,  
COMMITTEE ON FINANCE,  
Washington, D.C.

The committee met, pursuant to recess, at 9:30 a.m., in room 2221, New Senate Office Building, Senator Russell B. Long (chairman), presiding.

Present: Senators Long, Anderson, Talmadge, Fulbright, Byrd, Jr., of Virginia, Bennett, Jordan of Idaho, Fannin, Hansen, and Griffin.

The CHAIRMAN. This hearing will come to order.

We are pleased to have with us this morning as the first witness, the Honorable Sam Gibbons, from the House of Representatives, to give us his views on revenue-sharing. Mr. Gibbons, you have given a lot of thought to this matter, and you are recognized to proceed with your statements.

### STATEMENT OF HON. SAM GIBBONS, A REPRESENTATIVE IN CONGRESS FROM THE SIXTH CONGRESSIONAL DISTRICT OF THE STATE OF FLORIDA

Mr. GIBBONS. Thank you, Mr. Chairman. Let me say at the beginning as a House Member I am very hesitant to come over here and preach to the Senate and I hope you will forgive me.

The CHAIRMAN. You will not be the first one.

Mr. GIBBONS. I will try to conserve your time because I know you have some important witnesses this morning, but I am one of the seven members of the Ways and Means Committee who dissented very strongly on this matter—four Democrats and three Republicans who opposed this bill all the way—and I think it's important to keep opposing it. Nonetheless, I do not propose to speak for the other dissenters. I am only speaking for myself.

I can summarize my argument—and Mr. Chairman, I have a statement here for the record if you would like to include it in the record—I can summarize my argument by saying this:

There are four points to my argument. First, we cannot afford revenue-sharing. We do not have the money.

Second, "they" do not need revenue-sharing. When I say "they," I am talking primarily about the States, the States in their relationship to the cities.

Third, even if you throw away my first two arguments, there is another argument. That is, revenue sharing involves a most illogical distribution of this tax fund that the Federal Government must raise, and I will illustrate this with some charts.

And, fourth, it is just not good sound governmental policy to divorce the discipline of having to raise taxes from the spending of tax funds. The pain of having to raise taxes is a pain that all of us suffer who are in elected office, and rightfully so.

Now, I am very aware of the fact that I will be followed by a group of distinguished mayors who can plead very eloquently that they do need the money. But first of all, let us look very briefly at my first argument: that we do not have the money and we cannot afford "revenue sharing."

I would not belabor before this distinguished committee the problem of our Federal deficits. I would only summarize and say that, for a total of 3 years, fiscal 1971 through fiscal 1973, we are going to have the most horrendous non-all-out wartime deficit that we have ever had, about \$100 billion, staring us in the face. I realize that this figure can vary. Indeed, it may well be larger than we now expect.

Now the interest on our national debt is presently consuming about 9 percent of our annual appropriations. It runs to an astronomical figure of 700-some dollars per second—up \$43 a second from last year—and it is certainly going to increase if we enact revenue sharing.

We are about \$28 billion further in debt this year than we were at the same time last year, and for next year, while accurate figures are of course not available at this time as to what the national deficit is going to be, it looks like it is going to be in the neighborhood of \$80 billion—remembering that this figure is disguised by the fact that we are going to have to pay back between \$8 billion and \$10 billion that we have erroneously collected from the taxpayers.

So, there probably has never been a time in the Nation's history when we could least afford revenue sharing so far as the National Government is concerned.

Now, my second premise is that the States do not need it. Now I can hear all the mayors behind me saying, oh, yes, we need it. Sam is wrong. But the cities are primarily creatures of the States. If you examine our Constitution and the State constitutions it is very clear that we have no power at the Federal level to change the powers, duties, functions, and responsibilities of the cities.

Yes, we can give them money or we can withhold money from them or we can put strings on the money we send them, but we cannot change their functions. We cannot change their corporate limits. We cannot really do the things that must be done to change city governments for the better. We can only help or hinder this process; and I think that this bill hinders it.

We have far too much government in the United States. One out of every five people that is gainfully employed is employed by the government, either the Federal, the State, or the local government. There are about 80,000 governmental units within the United States. Thirty-nine thousand of them are general governmental units and this bill that you have before you, this House-passed revenue-sharing bill, gives money to all of those 39,000 general governmental units. In fact, a general governmental unit with 10 or 15 or perhaps 20 people in it can get revenue sharing directly from the Federal Government under this.

I submit that this bill will further fractionalize the ability of the cities and of the States to meet their problems.

We look at the city of Los Angeles and we say that "the city of Los Angeles" is in trouble. Well, the city of Los Angeles is not a city. It is 70-some governmental units all competing for powers, duties, and responsibilities, and none frankly are able to meet the problems of their constituents in the terms of an overall governmental responsibility.

We need to combine government. We need to eliminate governmental units. I have been in government 20 years at the State level and at the national level and I know from my own practical experience, and I am sure you know, that we have far too much government in the United States. We have got to get rid of some of it.

This bill will encourage more and more incorporations of local units that simply are not able to do anything other than raise taxes and pay a mayor and a city council, a few policemen, and a lawyer.

Now, let me elaborate a little on my argument that the States don't need revenue sharing. I have attached to my formal statement a couple of charts that were prepared by the Joint Committee on Internal Revenue Taxation, which serves both your committee and mine. These charts clearly indicate that State and local revenues are expanding very rapidly. They show that if all the States had tried as hard as the 10 States with the greatest revenue effort, the States could have raised an additional \$18 billion in 1969. In 1970 they could have raised an additional \$21 billion. In other words, in 1969 they could have raised more than three times as much as revenue-sharing proposes for the first year and in 1970 they could have raised about four times as much. This capacity of the States to raise additional tax revenues is there and it is growing all the time.

Even if you throw out the first two arguments that I have made, that we do not have the money and, that "they" do not need it, there remains my third argument that I want to present now—that the distribution formula is extremely illogical.

I would ask the young ladies from my staff to please bring forward and display charts 1 and 2 for your benefit. These charts were prepared by my staff, but the figures on which they are based are from the House report, page 3. They were developed by the Joint Committee on Internal Revenue Taxation.

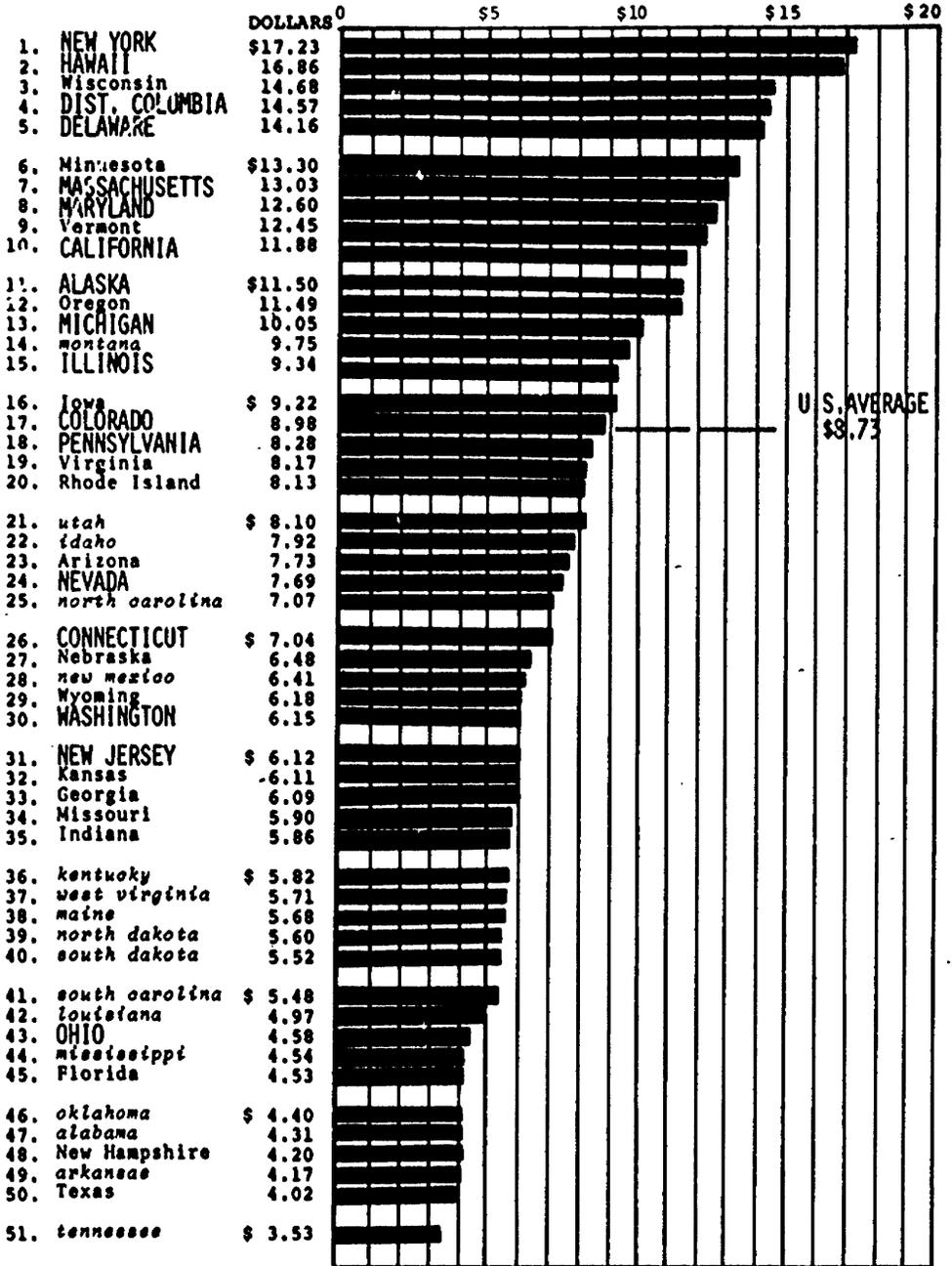
My first chart shows the number of dollars to be given under this House bill to State governments on a per capital basis.

Now, I have asked a number of people to explain to me if they can why the House came up with this formula, which results in such an illogical distribution of funds. I certainly cannot explain it.

You will notice on chart 1 and the same charts are attached to your statement but I could not use them in color there—that the States in red letters are the States with the highest per capita income. The States in green letters are the States in the middle range of per capita income. The States in yellow letters are those with the lowest per capita income. This chart ranks the States by red, green and yellow as far as ability to pay is concerned.

Chart #1.

DOLLARS TO BE GIVEN TO STATE GOVERNMENTS  
ON PER CAPITA BASIS  
(under provisions of H.R. 14370)



The TYPE ranks states by wealth based upon per capita income:

RANKS IN UPPER 1/3  
Ranks in Middle 1/3  
ranks in lower 1/3

This chart has been prepared by Congressman Sam Gibbons. All data contained therein is based upon the most current figures made available by the House Ways and Means Committee. April 26, 1972.

You will notice that New York State, on a State basis, gets about \$17.23 per capita and the State of Tennessee gets \$3.53 per capita. And you will notice the illogical distribution of those funds.

Now, this is just the money that the Governors and the State Legislators would get to spend with no strings attached. I cannot rationalize why the State of New York should get about 43 percent more than its neighbor State of New Jersey, or 39 percent more than the State of Pennsylvania, which is contiguous to it.

There is no reason—there is no logical reason to explain this distribution. You can run through that chart and try to pick out some logic. If you can, I would salute you.

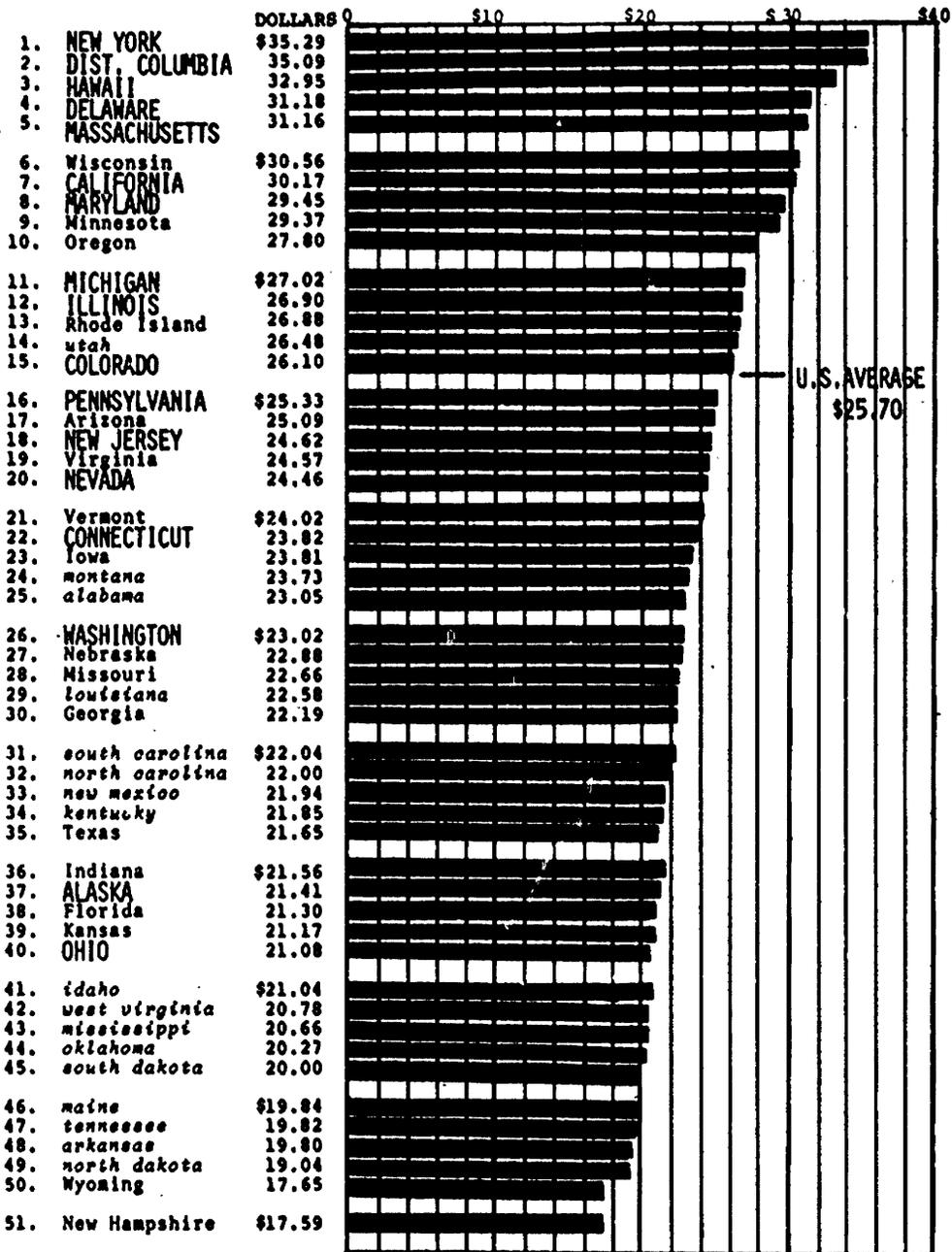
The CHAIRMAN. The logic that does not appeal to me is the State of New York gets three times as much as the State of Louisiana, on a per capita basis. I guess that is on the basis, to he who hath, it shall be given and to he who hath not, it shall be taken away.

Mr. GIBBONS. That is about the way it works out according to this chart, Senator.

Now, chart 2 is not quite so dramatic as far as the illogical distribution of funds is concerned. It shows the money to be given to State governments and local governments combined. But here again, there is an invidious discrimination against many of the States. The State of New York gets about \$35.29 per capita and the State of New Hampshire gets about \$17.59 per capita.

Chart #2.

DOLLARS TO BE GIVEN TO LOCAL AND STATE GOVERNMENTS  
ON PER CAPITA BASIS  
(under provisions of H.R. 14370)



The TYPE ranks states by wealth based upon per capita income:

RANKS IN UPPER 1/3  
RANKS IN MIDDLE 1/3  
RANKS IN LOWER 1/3

This chart has been prepared by Congressman Sam Gibbons. All data contained therein is based upon the most current figures made available by the House Ways and Means Committee. April 26, 1972.

You will notice in this chart as well, the States that are marked in red, the highest per capita income States, get the most and the States with the lowest per capita income as a general rule get the least amount of money. So "them that has, gits."

Senator FULBRIGHT. Nothing new about that, is there?

Mr. GIBBONS. Perhaps not, Senator Fulbright, but it is not a good American principle to follow.

The dissenting views written by the seven of us on the Ways and Means Committee who voted against the bill noted that the committee finally gave up in exhaustion from trying to figure out some sort of mathematical formula to logically distribute this money to 39,000 governmental units, which is what this bill does. It distributes about \$5 to \$5½ billion a year to the States and localities.

The CHAIRMAN. Mr. Gibbons, how do you explain the fact that Arkansas, the second poorest State in the Union—is right down there at the bottom. Was the chairman of the committee absent most of the time that all this was going on? Where was he?

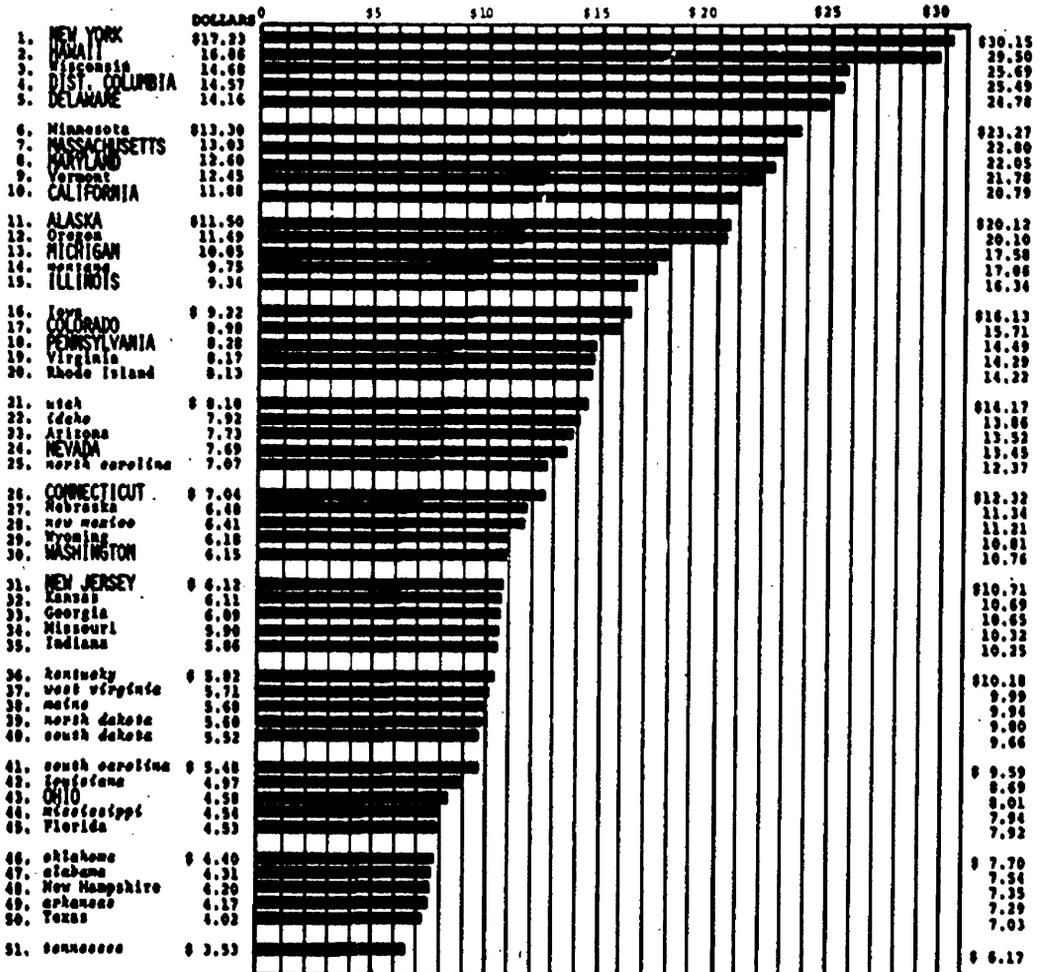
Mr. GIBBONS. Chairman Mills is a very generous man and I think he had better speak for himself on that. He and I obviously disagree about this bill. But there are the facts about the distribution formula.

I should point out that the U.S. average is about \$25.70. This is for the money distributed to both States and localities.

My next two charts, charts 3 and 4, are merely projections of what you saw in charts 1 and 2.

Chart 83.

ESTIMATE PROJECTED TO SHOW DECEMBER 31, 1976  
 RATE OF APPROPRIATIONS TO STATE GOVERNMENTS  
 ON PER CAPITA BASIS  
 (under provisions of H.R. 14376)



The TYPE ranks states by wealth based upon per capita income:

RANKS IN UPPER 1/3  
 RANKS IN MIDDLE 1/3  
 RANKS IN LOWER 1/3

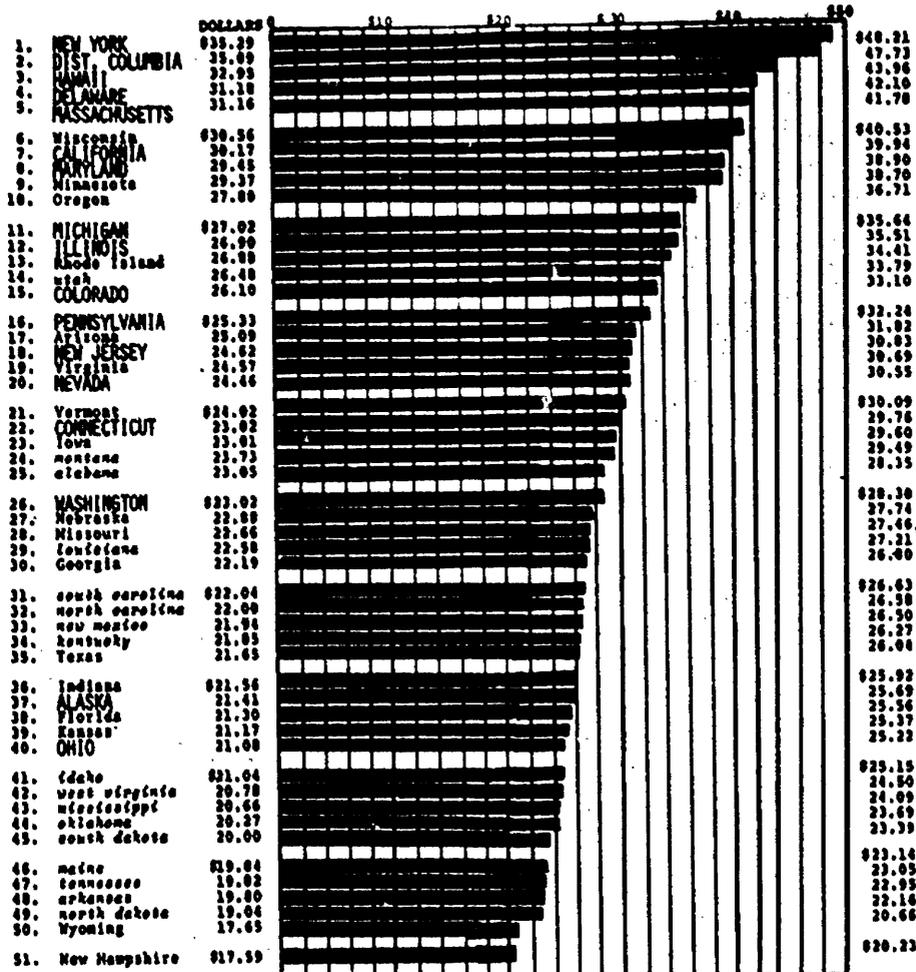
Black bars and figures indicate dollars to be given to State governments in the first year.

Red bars when added to black bars show total estimated rate of expenditures as of December 31, 1976.

This chart has been prepared by Congressman Sam Gibbons. All data contained therein is based upon the most current figures made available by the House Ways and Means Committee. April 26, 1972.

Chart #4.

ESTIMATE PROJECTED TO SHOW DECEMBER 31, 1976 RATE OF APPROPRIATIONS  
TO STATE AND LOCAL GOVERNMENTS ON PER CAPITA BASIS  
(under provisions of H.R. 14376)



The TYPE ranks states by wealth based upon per capita income:

BLACK BARS IN UPPER 1/3  
WHITE BARS IN MIDDLE 1/3  
RED BARS IN LOWER 1/3

Black bars indicate dollars to be given to State and Local governments in the first year.

Red bars when added to black bars show total estimated rate of expenditures as of December 31, 1976.

This chart has been prepared by Congressman Sam Gibbons. All data contained therein is based upon the most current figures made available by the House Ways and Means Committee. April 26, 1972.

In these charts I have tried to show at the end of the fifth year of revenue sharing how much the States would get (Chart 3), and how much State and local governments would get at the end of the fifth year (Chart 4). You have to make some assumptions to do this, but you find that these projections show the same illogical distribution of revenue sharing funds.

Other nations have tried forms of revenue-sharing and have found that—certainly not what we're asking it to do, it did not do much for them. Germany has tried it. The British have tried it. And they did not even have the system of State governments that we have or the problems of diversification that we have.

To summarize, we cannot afford revenue sharing. The States do not need it. They have got the tax resources they need to solve their own problems, if they will. And the charts prepared by the Joint Internal Revenue Taxation Committee clearly show that this is an illogical distribution of money. Really it is hardly possible to distribute this much money equitably from a Federal level, with either a simple mathematical formula or a complicated mathematical formula.

TABLE I.—STATE AND LOCAL GENERAL REVENUE FROM OWN SOURCES BY STATE<sup>1</sup>

State	Personal income calendar year 1969 (millions)	General revenue from own sources fiscal year 1970 (millions)	Revenue effort (col. 2 as a percentage of col. 1) (percent)	General revenue from own sources under the average revenue effort of the 10 States with the highest revenue effort	
				Amount <sup>2</sup> (millions)	Excess over actual (millions)
	(1)	(2)	(3)	(4)	(5)
Wyoming.....	\$1,073	\$213.0	19.85	\$185.7	-\$27.3
North Dakota.....	1,852	340.6	18.39	320.6	-20.0
New Mexico.....	2,879	528.1	18.34	498.4	-29.7
Wisconsin.....	15,376	2,700.5	17.56	2,661.6	-38.9
Hawaii.....	3,060	534.8	17.48	529.7	-5.1
Vermont.....	1,426	248.2	17.41	246.8	-1.4
New York.....	81,384	14,006.3	17.21	14,087.6	81.3
South Dakota.....	1,995	340.9	17.09	345.3	4.4
Alaska.....	1,258	211.9	16.84	217.8	5.9
Arizona.....	5,709	957.2	16.77	988.2	31.0
Nevada.....	2,037	338.7	16.63	352.6	13.9
Mississippi.....	5,234	869.6	16.61	906.0	36.4
California.....	83,408	13,747.6	16.48	14,437.9	690.3
Utah.....	3,152	513.4	16.39	542.1	28.7
Minnesota.....	13,448	2,184.9	16.25	2,327.8	142.9
Louisiana.....	10,413	1,697.8	16.21	1,802.5	114.7
Montana.....	2,172	351.7	16.19	376.0	24.3
Colorado.....	7,569	1,194.6	15.78	1,310.2	115.6
Iowa.....	9,870	1,541.2	15.61	1,708.5	167.3
Washington.....	13,093	2,062.9	15.30	2,266.4	263.5
Oregon.....	7,261	1,108.9	15.27	1,256.9	148.0
Idaho.....	2,120	320.9	15.14	367.0	46.1
Nebraska.....	5,230	783.8	14.99	905.3	121.5
Maryland.....	15,336	2,297.3	15.00	2,654.7	357.4
Delaware.....	2,218	331.0	14.92	383.9	52.9
Maine.....	2,987	442.3	14.81	517.0	74.7
Michigan.....	35,010	5,100.3	14.57	6,080.0	979.7
Massachusetts.....	22,722	3,233.3	14.23	3,933.2	699.9
Kansas.....	8,096	1,141.4	14.18	1,401.4	253.0
Oklahoma.....	7,625	1,176.5	14.14	1,354.5	248.0
Alabama.....	9,116	1,269.9	13.93	1,578.0	308.1
West Virginia.....	4,735	658.7	13.91	819.6	160.9
Florida.....	22,396	3,109.7	13.89	3,878.7	767.0
Kentucky.....	9,202	1,261.5	13.71	1,592.9	331.4
Georgia.....	14,253	1,941.8	13.62	2,467.2	525.4
Illinois.....	47,340	6,270.4	13.25	8,194.6	1,924.2
North Carolina.....	15,030	1,983.8	13.20	2,601.7	617.9
Arkansas.....	4,963	648.8	13.07	859.1	210.3
Pennsylvania.....	43,182	5,612.6	13.00	7,474.8	1,862.2
Rhode Island.....	3,515	456.2	12.98	608.4	152.2
South Carolina.....	7,018	909.5	12.96	1,214.8	305.3
Tennessee.....	11,189	1,442.1	12.89	1,936.8	494.7
Virginia.....	15,441	1,965.2	12.86	2,672.8	687.6
Texas.....	36,458	4,679.0	12.83	6,310.9	1,631.9
Indiana.....	18,868	2,393.2	12.68	3,268.1	872.9
New Jersey.....	30,312	3,787.3	12.49	5,247.0	1,459.7
Connecticut.....	13,784	1,712.9	12.43	2,386.0	673.1
Missouri.....	16,085	1,993.0	12.39	2,784.3	791.3
New Hampshire.....	2,489	303.4	12.19	430.8	127.4
District of Columbia.....	3,768	449.4	11.93	652.2	202.8
Ohio.....	40,145	4,732.5	11.79	6,949.1	2,216.6
Total, 10 States.....	116,012	20,061.5	17.31	20,061.5	.....
Total, 41 States.....	628,470	87,908.0	13.99	108,807.7	20,901.7
Total, 51 States.....	744,479	107,887.5	14.51	128,889.2	20,901.7

<sup>1</sup> Under the fiscal year 1970 actual relationship between revenue and personal income and under the average relationship between revenue and personal income of the 10 States with the highest percentage relationship between revenue and personal income.

<sup>2</sup> Derived by applying to the personal income of each of the States the average revenue effort (17.31 percent) of the 10 States with the highest revenue effort.

<sup>3</sup> Exclusive of \$600,041,805 derived from bonus mineral lease—North Slope; also exclusive of interest on investment of this item.

<sup>4</sup> General revenue from own sources; does not include any Federal contribution or Federal aid.

Note: Details may not add to totals because of rounding.

Source: Compiled and computed by the Staff of the Joint Committee on Internal Revenue Taxation.

TABLE 8.—REVENUE EFFORT OF STATE AND LOCAL GOVERNMENTS, BY STATE, FISCAL YEAR 1969, AND ADDITIONAL REVENUE THAT WOULD BE SECURED BY STATE AND LOCAL GOVERNMENTS IF THE REVENUE EFFORT IN ALL STATES WERE AS GREAT AS THE AVERAGE REVENUE EFFORT OF THE 10 STATES WITH THE HIGHEST REVENUE EFFORT

[Dollar amounts in millions]

State	Personal income calendar year 1968 (1)	General revenue from own sources, fiscal year 1969 (2)	Revenue effort (col. 2 as a percentage of col. 1) (3)	General revenue from own sources under the average revenue efforts of the 10 States with the highest revenue effort	
				Amount <sup>1</sup> (4)	Excess over actual (5)
Wyoming.....	\$1,005	\$195.7	19.47	\$167.6	-\$28.1
North Dakota.....	712	321.7	18.79	285.6	-36.1
New Mexico.....	2,667	472.7	17.72	444.9	-27.8
Hawaii.....	2,705	466.4	17.24	451.2	-15.2
California.....	76,581	12,822.1	16.74	12,773.7	-48.4
New York.....	75,049	12,472.0	16.62	12,518.2	46.2
Arizona.....	5,034	826.2	16.41	839.7	13.5
Alaska.....	1,136	182.7	16.08	189.5	6.8
Nevada.....	1,777	285.4	16.06	296.4	11.0
Minnesota.....	12,185	1,953.8	16.03	2,032.5	78.7
South Dakota.....	1,887	301.8	15.99	314.8	13.0
Idaho.....	1,876	299.0	15.94	312.9	13.9
Wisconsin.....	14,197	2,262.2	15.93	2,368.1	105.9
Louisiana.....	9,814	1,547.1	15.76	1,637.0	89.9
Mississippi.....	4,878	763.4	15.65	813.7	50.3
Colorado.....	6,824	1,052.0	15.42	1,138.2	86.2
Oregon.....	6,660	1,024.9	15.39	1,110.9	86.0
Utah.....	2,885	442.5	15.34	481.2	38.7
Montana.....	2,039	311.9	15.30	340.1	28.2
Washington.....	12,081	1,844.5	15.27	2,015.1	170.6
Vermont.....	1,306	198.4	15.19	217.8	19.4
Iowa.....	9,057	1,351.7	14.92	1,510.7	159.0
Nebraska.....	4,661	693.3	14.87	777.5	84.2
Michigan.....	32,119	4,694.0	14.61	5,357.4	663.4
Oklahoma.....	7,259	1,022.4	14.08	1,210.8	188.4
Florida.....	19,626	2,739.6	13.96	3,273.6	534.0
Delaware.....	2,026	280.7	13.85	337.9	57.2
Kentucky.....	8,516	1,170.8	13.75	1,420.5	249.7
Kansas.....	7,574	1,033.7	13.65	1,263.3	229.6
Massachusetts.....	20,974	2,841.4	13.55	3,498.5	657.1
West Virginia.....	4,451	602.1	13.53	742.4	140.3
Alabama.....	8,316	1,121.8	13.49	1,387.1	265.3
Maryland.....	14,048	1,878.5	13.37	2,343.2	464.7
Georgia.....	12,705	1,684.7	13.26	2,119.2	434.5
Maine.....	2,757	359.4	13.04	459.9	100.5
Virginia.....	14,100	1,796.0	12.74	2,351.9	555.9
Arkansas.....	4,611	584.0	12.67	769.1	185.1
Indiana.....	17,270	2,178.9	12.62	2,890.6	701.7
North Carolina.....	13,642	1,721.4	12.62	2,275.5	554.1
Tennessee.....	10,252	1,283.7	12.52	1,710.0	426.3
Rhode Island.....	3,244	402.7	12.41	541.1	138.4
South Carolina.....	6,341	785.6	12.39	1,057.7	272.1
Texas.....	33,254	4,085.6	12.29	5,546.8	1,461.2
New Jersey.....	28,047	3,403.6	12.14	4,678.2	1,274.6
Pennsylvania.....	40,102	4,738.6	11.82	6,689.0	1,950.4
Missouri.....	15,065	1,758.0	11.67	2,512.8	754.8
New Hampshire.....	2,288	262.6	11.48	381.6	119.0
Ohio.....	37,151	4,195.7	11.29	6,196.8	2,001.1
Illinois.....	43,760	4,897.6	11.19	7,299.2	2,401.6
Connecticut.....	12,611	1,394.4	11.06	2,103.5	709.1
District of Columbia.....	3,580	386.6	10.80	597.1	210.5
Total, 41 States.....	503,854	65,398.8	12.98	84,042.7	18,643.9
Total, top 10 States.....	179,851	29,998.7	16.68	29,998.7	.....
Total, all States.....	683,705	95,397.5	13.95	114,041.4	18,643.9

<sup>1</sup> Derived by applying to the personal income of each of the other States the average revenue effort (16.68 percent) of the 10 States with the highest revenue effort.

<sup>2</sup> General revenue from own sources; does not include any Federal contribution or Federal aid.

Note: Details will not necessarily add to totals because of rounding.

Source: U.S. Department of Commerce, Bureau of the Census, Governmental Finances in 1968-69.

Mr. GIBBONS. Mr. Chairman, I've said about all I came to say. If you have any questions I will be glad to answer them.

The CHAIRMAN. Thank you very much.

Senator BENNETT. I have no questions.

Senator TALMADGE. Mr. Gibbons, in the event the Senate Finance Committee decided to approve revenue-sharing, what would you recommend as a formula to utilize in lieu of what the Ways and Means Committee did? I am impressed tremendously with your argument that the lowest per capita income States get the least and the highest per capital income States get the most under the House bill.

Mr. GIBBONS. Senator Talmadge, I have thought about this for quite a while, and I really don't think I come up with an equitable formula. I am philosophically opposed to revenue sharing. I think it destroys the system of responsibility that we have in this country. I think that if you separate to such a great extent the power to spend from the responsibility for taxing, I think you are just going to have sloppy spending.

But if you had to have a system of distributing this much money, if you just could not come to any other solution than that, I think that I would first give it to the States with some kind of directions for them to make changes in their State governments—the way they deal with their cities—to try to eliminate the useless levels of government that we now have. Hopefully, this might help to bring about some economy and efficiency at the State level of government as far as their dealings with the cities are concerned.

As I said before, the Federal Government just does not have the power to change the corporate charter of a city. We can only kind of help to push the city one way or another. We can only give them money or cut off money but we cannot change their corporate limits. We cannot change the jurisdiction that they have over their people.

I would say: give this money to the people if you must do it by giving it to the States. Perhaps the best way to do it would be on a straight per capita basis. It would be rather fair. It would have a redistributive effect. At least the rich would not continue to get richer and the poor continue to get poorer. That would be about as far as I suggest it ought to go.

I do not see any logical way that you can deal with 39,000 general governmental units in the United States on a mathematical formula basis. There is just no way. You have got to substitute human judgment in there some way because these cities range all the way from wealthy retirement communities in my own State of Florida and in Senator Fannin's State of Arizona to poverty stricken ghettos. There is no rhyme nor reason as to how these 39,000 governmental units stack up.

The CHAIRMAN. Senator Jordan?

Senator JORDAN. I will yield, Mr. Chairman.

The CHAIRMAN. Mr. Fulbright?

Senator FULBRIGHT. Mr. Congressman, I was very impressed by the letters you sent me with its accompanying data. You included a copy of the chart which you have here, and, of course, I do not think many of the county officials in my State are informed about this aspect.

They can see in their set of charts they are going to get \$5,000 or \$10,000 or \$100,000 for their county. They are for it. That is all there is to it. They are going to get that much. And there is a great deal of benefit for them at the county and city levels.

But after looking at your chart I must say I find it very difficult to understand the justice or the efficiency of this kind of distribution.

I am impressed by another factor. For example, in my State we have great need for rural, smalltown water-sewer projects. Congress appropriated in fiscal year 1971 \$100 million. The Government allocated only \$44 million of that. They impounded the rest. In 1972 they appropriated \$100 million. They allocated \$42 million and impounded the \$58 million. In Arkansas there are 181 unfunded applications in this area and they refuse to release the money appropriated and then come in asking for this kind of a bill. I do not see that that makes sense.

Why do they not go on and fund those programs which Congress has authorized and appropriated the money for? They do not. They do not have the nerve to say that people do not need sewer and water projects. They just impound it because they need the money for the *Trident* and for the B-1 and for bombs in Vietnam. That is the only reason I know of that they need that money.

I must say I am very confused. You are on the Ways and Means Committee and some of your policies on that committee confuse me.

Mr. GIBBONS. Well, sir, I read in this morning's newspaper that we were going to be asked by the administration to kill some of those spending bills that are floating around Congress right now. The Chairman of the President's Council of Economic Advisers has apparently just indicated this.

Senator FULBRIGHT. Yes.

Mr. GIBBONS. Now, the administration has not said what bills they would prefer to have killed and I am not suggesting at all that they would like to see this one killed. I would think, though, that until we think this thing through a little more thoroughly than we have, Senator Fulbright, that this is one of the bills that we could "logically postpone." Where are we going to get this \$80 billion that we are prepared to spend here, and everybody admits that is just the beginning, to quote an old radio slogan.

This is one of the things that we could logically postpone, think about—a little more, try to make—a little more workable than we have, and perhaps abandon it altogether. Obviously our economy is in a very tender state right now. If you pass this bill the way the House has passed it, it will pump \$7½ billion into the economy right now, zap, just like that.

Senator FULBRIGHT. You mean printed money, printing press money.

Mr. GIBBONS. Yes, sir. We will have to borrow it but we'll pump it into the economy right now. The bill is retroactive to January 1, 1972. So we pump in the \$2½ billion that is mandated by the retroactive provision—that we have already obligated under this bill—and then another more than \$5 billion for the rest of this year. Then we will really have this economy boiling again, or boiling still, depending upon your point of view.

**Senator FULBRIGHT.** One question. In the analysis by the staff of this committee they comment on the criteria. It says:

The \$3.5 billion appropriated to the localities each year are to be allocated according to three criteria: one, population, (b), the extent of urbanization as measured by population growth, and (c), the extent of poverty in localities (as measured by the relative income level of the residents).

Would you explain to me that section (c), the extent of poverty in the localities as measured by the relative income level of the residents? You wrote this in your committee. What does that mean?

**Mr. GIBBONS.** No, sir. I did not write it. I voted against it. As I understand it, it is just an inverse factor of the income of a community. You are going to find that it is very difficult to get current income figures. We had a hard time getting them. The Census Bureau just did not have them. They were at that time still pulling forth these figures. They had them on tapes somewhere, they said. The poverty factor is just an inverse factor of wealth, but it is only a small factor in this whole formula.

**Senator FULBRIGHT.** But it looks contrary to your chart. This leaves the impression that this is according—the poor get more money but your chart shows the higher per capita States get more money per capita.

**Mr. GIBBONS.** Yes, sir; that is true.

**Senator FULBRIGHT.** What does this mean?

**Mr. GIBBONS.** Well, the poverty factor attempts to account for the wealth of the communities, but it is such a small factor.

Now, there is another defect in this bill as passed by the House. The States' share of money will continue to grow at about \$300 million a year, but the part that the cities have to dip into does not continue to grow. So the States are going to get more and more money to spend all the time and the city governments will continue to dip into the same size pot.

As I say, it is hard to project what is going to happen in 5 years. I attempt to do it in charts 3 and 4. There is a poverty factor in this formula but it has so little influence upon the outcome of this distribution that it is not a significant factor.

**Senator FULBRIGHT.** Well, I do not wish to delay the committee but could you give me the principal argument in favor of this bill and why your committee was persuaded to approve this bill?

**Mr. GIBBONS.** Well, I think their majority report would better state their case than I can. I have to admit that I am prejudiced about the whole thing.

**Senator FULBRIGHT.** I understand, but what do you think was the reason?

**Mr. GIBBONS.** I found many members of the House—not members of the Ways and Means Committee—who said that if they had understood this bill better they would never have gotten so committed to vote for the bill.

But I think that my committee members should speak for themselves on this.

**Senator FULBRIGHT.** Well, you are the only one here representing them. I thought you could interpret it. I do not want you to take the

responsibility for it, but your opinion as to why this has such appeal in view of the fact you think it is so defective.

What is it that seems to have led them to this decision? I do not understand it and I thought maybe you could throw some light on it.

Mr. GIBBONS. Well, Senator, they wrote their opinion in the House report and I would rather not speak for them.

Senator FULBRIGHT. What was the vote in the committee?

Mr. GIBBONS. It was 18 to 7.

Senator FULBRIGHT. Well, all right, thank you.

Mr. GIBBONS. And I think there were more than a few Members of the House who hoped it would die over here. Some even predicted that. But you know how these things go.

Senator FULBRIGHT. Well, there is nobody on the committee here who is running for the Presidency. Maybe it will have a different fate.

Mr. GIBBONS. You know, the House Members have to run every year and House Members are more responsive to election year pressure.

Senator FULBRIGHT. I am glad you said that.

So you admit the Senate does have some role to play, you think, every now and then.

Mr. GIBBONS. Oh, yes, sir. Yes, sir.

Senator FULBRIGHT. Well, thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Fannin?

Senator FANNIN. Thank you, Mr. Chairman.

Congressman Gibbons, you have made some very logical and persuasive arguments on this matter, especially concerning the lack of money.

To apply that to the bills that we have passed here in the Congress I am just as much concerned about those expenditures as I am about the expenditures that would be involved in this instance. Of course, they make some very persuasive arguments for it but I think you are right, that if we would all tighten up it would be far better.

Now, I am vitally concerned if we do have this bill, that we have a fair and equitable distribution of the money. You have brought out the inequities involved. What were the considerations as far as the formula is concerned? Did you take any other formulas into consideration or did you have other arguments?

Mr. GIBBONS. Yes, sir; the staff submitted a lot of different formulas to us.

Senator FANNIN. You mentioned just having it on a per capita basis alone.

Mr. GIBBONS. Well, that was tried. The administration had a formula. It was tried and discarded because it gave more money to the Beverly Hills type of community than it did to the Watts type, as an illustration.

I submit to you, Senator Fannin, that it is just impossible to sit here in Washington and dream up a mathematical formula, no matter how good a mathematician you are, to distribute money logically and equitably to 39,000 governmental units. You just cannot do it. There is no way that you can take into consideration all the variables that come to play in this very diverse country that we have.

And yet I am more against this bill on a philosophical basis than anything else.

Senator FANNIN. I realize that.

Mr. GIBBONS. I think that we have perhaps reached a crossroads in our whole development. Can we compete with the rest of the world? Can we afford this much government? Do we really need this much government? Are we not going to have to fundamentally change our relationship between the Federal Government and the States? Do we not need to think this thing through again? Are we going to continue just incorporating cities and counties and little governmental units? You know, we are 209 million people in this country, with the fastest growing national debt in the world, running out of petroleum and fossil fuels. Perhaps we have had our house party since World War II and now we have got to settle down, tighten our belt, start economizing, start making some national policy that makes more economic sense than what we have been able to make in the last 30 years. Perhaps this is the watershed that we have right here on the table before you now.

Senator FANNIN. With world affairs as they are, fundamentally I think you are saying that you are vitally concerned about what is going to happen to the dollar. Is that one of the things?

Mr. GIBBONS. Yes, sir; I am deeply worried about it.

Senator FANNIN. Thank you very much. I certainly appreciate your presentation.

Mr. GIBBONS. Thank you.

The CHAIRMAN. Senator Byrd.

Senator BYRD. Thank you, Mr. Chairman.

Congressman, I have kept an open mind on this matter. I might say that your testimony today presents some very important arguments in opposition.

Could I get a little better explanation of the amount of money involved in the House-passed bill? You mentioned \$7 billion this year. Now, how did you get that figure?

Mr. GIBBONS. Well, the bill is retroactive to January 1, 1972. Half of this year is already gone, so we would be paying about \$2½ billion, roughly, for the part of the year that has already expired. Then in fiscal 1973, where we are now operating, the 39,000 cities, counties, and States would get another allocation of a little over \$5 billion. This amount increases each year, so by the time we get to December 31, 1976, we will be spending at the rate of a little less than \$6 billion a year. The first year there is a kind of doubleup because of the retroactive effect.

Senator BYRD. Well, in this particular fiscal year you figure it would cost the Federal Treasury \$7 billion?

Mr. GIBBONS. Yes, sir; \$7½ billion.

Senator BYRD. \$7½ billion in fiscal 1973?

Mr. GIBBONS. Yes, this fiscal year, because of the retroactive provision. You ask these mayors about taking out that retroactive effect and I think that some of them will tell you that they have already spent the money.

Senator BYRD. Then, in your statement to the committee you mentioned that the \$30 billion of revenue-sharing which is being proposed will cost \$5.3 billion in interest charges.

Mr. GIBBONS. Yes, sir; in the 5-year period, really the cost of the bill is not \$30 billion. The cost of the bill is about \$35½ billion because the interest, assuming we borrow the money, and realistically we probably are going to have to borrow the money. If we have to borrow the money to pay for this, this will cost another \$5½ billion on a conservative basis, so the total cost of the 5-year program is not \$30 billion but \$35½ billion.

Senator BYRD. After you include the interest charges.

Mr. GIBBONS. After you include the interest charges, yes.

Senator BYRD. Thank you very much.

The CHAIRMAN. Thank you very much.

Mr. GIBBONS. I will leave the charts with you. I will not have any use for them.

The CHAIRMAN. We might have use for them. Thanks very much.

(Mr. Gibbons' prepared statement follows:)

PREPARED STATEMENT OF HON. SAM M. GIBBONS, A REPRESENTATIVE IN CONGRESS  
FROM THE STATE OF FLORIDA

Mr. Chairman and Members of the Committee, I thank you for the opportunity to appear here today.

As a member of the Ways and Means Committee, I've had a great deal of exposure to the "State and Local Fiscal Assistance Act of 1972"—more commonly known as general revenue sharing—and I believe that Congress would be doing the people of this country a great disservice by enacting this proposal. We can't afford it. We don't need it. And it simply doesn't make good governmental sense.

In an election year, it's hard to withstand the kind of pressure that State and local officials have been bringing to bear in support of revenue sharing. Indeed, we all sympathize with the fiscal problems of our States and localities. But their fiscal problems can't hold a candle to those of the Federal Government, and it's very clear to me that we would live to regret enacting "revenue sharing" at this time.

As you know, seven of us on the Ways and Means Committee—Democrats and Republicans alike—voted not to report the revenue sharing bill to the House. Our reasons for doing so are set forth in detail in our dissenting views on the bill. If any of you do not have a copy of the House Committee report, I will be happy to furnish one. However, I also asked to testify before you briefly on the very serious defects of revenue sharing because I think that not nearly enough attention has been given to these defects.

Many of the witnesses who have been appearing before you in support of the revenue sharing bill have glossed over the major defects of the bill, such as its inequitable distribution formula, and have urged you to approve this legislation as rapidly as possible. They have told you that they need this money and they have no other place to go for it. But they have said nothing about where Uncle Sam is going to get the money to finance this give-away.

Our fiscal situation is such that we simply cannot afford to give an additional \$30 billion to State and local governments. We are currently in the midst of the worst sequence of budget deficits in this country's history, apart from those incurred in World War II. Actual and projected budget deficits for fiscal 1971 through fiscal 1973 on a Federal funds basis are now expected to total \$100 billion. And there's quite a good chance that the total will be even more than this.

The Federal funds budget deficit forecast for fiscal 1973 has gone up from \$36.2 billion to \$37.8 billion just since January. \$8-10 billion of overwithholding by the Internal Revenue Service has temporarily improved our deficit situation, but this is all just extra money that we're borrowing from the American taxpayer interest-free. It really doesn't improve our fiscal situation one iota.

Our national debt, subject to limit, is currently more than \$453 billion. That's about \$28 billion greater than it was just a year ago at this time. In fiscal 1973,

the interest on this debt will cost us more than \$22 billion—nearly 9 percent of our total Federal outlays. This year the interest on the debt is running \$719 a second, or \$48 a second greater than last year.

With a fiscal situation like this, how can we accept questionable arguments that we must enact another \$30 billion in spending in the form of revenue sharing?

Since Congress would not be taking any steps to finance revenue sharing at this time, the enactment of revenue sharing would contribute significantly to the national debt. The Joint Committee on the Reduction of Federal Expenditures has estimated that the \$30 billion of revenue sharing which is being proposed will cost us \$5.38 billion in interest charges over the next five years—and has noted that this interest could double after 14 years or by 1991.

Some of the supporters of revenue sharing have called it "an idea whose time has come." Many of us believe that it is an idea whose time is past. When revenue sharing was first proposed in the early 1960s, the Federal Government actually had a budget surplus. However, our Federal fiscal situation in 1972 is vastly different. In our present disastrous fiscal position, the enactment of revenue sharing would inevitably lead to one or more of the following: higher Federal taxes, still larger budget deficits, and a diversion of funds from areas which really have a much higher priority and greater urgency.

We have no revenue to share. It's as simple as that. And our fiscal prospects for the immediate future are not much brighter. Economists at the Brookings Institution have estimated that, even if we achieve full employment by 1975, Federal revenues will fall \$17 billion short of a balanced budget. Yet, according to a Tax Foundation study which was recently cited in the *Wall Street Journal*, projections indicate that State governments will be able to raise \$32.5 billion by 1990. As calculated by this study, this total represents a significant increase over the \$130-plus billion raised by State governments in 1970 and would appear to be more than enough to meet their spending needs.

Mr. Chairman, you yourself have indicated that many States might be able to meet their spending needs completely simply by reforming their property tax systems. Other members of the committee have expressed the belief that not all States and localities have done everything they could to help themselves, and I believe that both of these views deserve serious consideration.

It is my finding that the revenue efforts of States and localities vary widely and that most of these units of government have sufficient fiscal latitude to raise the money they truly need. For your reference I have had two charts reprinted from the Ways and Means Committee report on revenue sharing. One of these (table 8) shows that, if State government efforts in 1969 had equaled those of the 10 States which exercised the greatest efforts to finance their operations, a total of more than \$18 billion in additional dollars could have been raised at the State level. This is more than three times as much as the revenue sharing bill proposes to spend in its first year of operation.

The other chart (table 1) updates the figures to fiscal 1970 to show that States could have raised an additional \$21 billion—four times as much as the first year of revenue sharing—and this ability of the States to raise extra revenue is growing at a rate of at least \$3 billion a year.

The March 1972 issue of "State Government News" published by the Council of State Governments carried a story indicating that no major new taxes were deemed necessary in 1972 by the majority of the 39 Governors who delivered "State of the State" messages to their legislatures. Only four of these Governors requested increases in sales or income taxes in order to balance their proposed budgets.

I ask you: Do stories like this make it sound as though our State and local governments are in fiscal crisis? If any of them are, I submit that the magnitude of their crisis simply cannot be compared to that of the Federal Government.

I think we should remember that this year we are already providing something like \$38.5 billion in Federal categorical assistance to States and localities, even though we are operating with a \$32.2 billion Federal funds deficit.

As you know from our experience with skyrocketing Federal support for State "social services" expenditures under our public assistance program, there is no end to the escalation of State and local demands for more money once a program is approved by Congress. I think you all realize that the \$5 billion tab for the first year of revenue sharing would be only the first step along this

particular spending path. The revenue-sharing bill commits us to give \$30 billion of money we don't have to the States and localities over the next 5 years, to say nothing of the \$5.36 billion in interest on the national debt which this measure will add for just that 5-year period.

State and local officials are saying now that we *must* approve revenue sharing because they have counted on these funds to balance their current budgets. Do you think that there will be any change in this attitude in the coming years?

Where does it all stop? You yourselves have raised the question: How are we going to afford revenue sharing *and* the family assistance program *and* increased expenditures for social services . . . to say nothing about other areas where we *know* we should be investing more Federal tax dollars, such as education?

This is not an idle question. It is a *very* serious question that we *cannot* allow ourselves to brush aside without a serious answer.

I might add that revenue sharing charts an entirely new course in governmental principles—one fraught with great peril. For the first time in our history, State and local governments would be encouraged to become dependent on Federal assistance to meet their general government responsibilities. For the first time in our history, the responsibility for raising revenue would be severed from the responsibility for spending revenue and the discipline of the ballot box would thereby be reduced greatly.

Many of us believe that this new kind of aid to States and localities would perpetuate rather than remedy the financial problems which arise because of inadequacies of these governments. Some local governments, for example, cannot meet their problems because they simply are not viable units. In many cases, the jurisdiction of these governmental units overlap one another and their powers are fragmented to the point where they cannot meet the needs of the people they are supposed to be serving. Revenue sharing would *encourage* rather than discourage this trend toward a proliferation of governmental units.

The focus of public attention has been the rate of growth of the Federal government. However, the fact is that State and local governments have proliferated and have increased their spending at a truly amazing rate.

We now have 80,000 local governmental units in this country, of which something like 39,000 classify as general governments. Under the revenue sharing bill, hamlets with as few as 10 or 15 inhabitants could collect Federal funds, with virtually no strings attached. This is an open invitation for further incorporations in order to share in the revenue sharing bounty. Thus, we would be doing a turnabout and eliminating a great deal of the pressure we have been putting on State and local governments to dispense with unnecessary governmental units and improve governmental organization.

Finally, Mr. Chairman, there is no way to explain the illogical and inequitable distribution formula of the House-passed revenue sharing bill. The Ways and Means Committee spent some time trying to come up with a formula, only to discard each one as unworkable and inequitable. The one finally adopted was more a product of exhaustion and despair than a feeling that the Committee had finally stumbled upon a workable formula.

Under the formula, more funds are given on a per capita basis to the States and areas with the highest per capita income and, paradoxically, less to those with the greatest need. This fact is illustrated in four graphs which I have prepared and would like to submit with my statement.

Many of the witnesses who have voiced support for revenue sharing have led you to believe that they are the ones who are expressing the will of the people. But the voices who oppose revenue sharing—the many Members of the House who voted against the bill, the many taxpayers associations across the country, the AFL-CIO and the Chamber of Commerce—they also believe that they are speaking for the people.

To cite my own experience with the will of the people, the residents of my Congressional District have expressed their disapproval of the revenue sharing bill strongly in their responses to my recent questionnaire and in their personal pleas to me for more responsible taxing and spending policies.

In short, I believe that revenue sharing is an altogether inappropriate and inequitable form of additional Federal aid to the States and localities, especially at this time of *Federal* fiscal crisis—and I urge you to be most critical in your consideration of this proposal.

I also ask you to press the witnesses who appear before you on revenue sharing for better answers to the points I have raised here today than those that were provided by the witnesses who appeared before the House Ways and Means Committee.

Thank you for your time.

The CHAIRMAN. Next we will call the Honorable Mayor Moon Landrieu, mayor of New Orleans, in behalf of the National League of Cities and the U.S. Conference of Mayors, and he is accompanied by very distinguished mayors of the cities of the United States. I will read the list into the record.

The Honorable Sam Massell, mayor of Atlanta, Ga.

The Honorable Louie Welch, mayor of Houston, Tex.

The Honorable Lee Alexander, mayor of Syracuse, N.Y.

The Honorable Joseph Alioto, mayor of San Francisco, Calif.

The Honorable Frank W. Burke, mayor of Louisville, Ky.

The Honorable John Driggs, mayor of Phoenix, Ariz.

The Honorable E. J. Garn, mayor of Salt Lake City, Utah.

The Honorable Kenneth A. Gibson, mayor of Newark, N.J.

The Honorable Roman S. Gribbs, mayor of Detroit, Mich.

The Honorable Harry G. Haskell, mayor of Wilmington, Del.

The Honorable Richard G. Hatcher, mayor of Gary, Ind.

The Honorable Henry Maier, mayor of Milwaukee, Wis.

The Honorable Roy Martin, mayor of Norfolk, Va.

The Honorable Norman Mineta, mayor of San Jose, Calif.

The Honorable William Donald Schaefer, mayor of Baltimore, Md.

The Honorable Wes Uhlman, mayor of Seattle, Wash.

I would like to explain for the benefit of our audience, Mayor Landrieu, that we would have scheduled you and your group to appear here first in order of business and I had originally scheduled the hour of 9:30 to try to be sure that you would not be interrupted any more than necessary by the sessions of the Senate which will be going on while this committee is proceeding. We may be interrupted for some rollcall votes while the hearing is proceeding.

The President very wisely, I think, invited your group to have breakfast with him. If I were running for election I would have invited you to have breakfast with me, and I congratulate him on his political wisdom in inviting this distinguished group to visit with him this morning.

I understand how the White House invitations keep people from the Congress. We will be the second order of business. I have had occasion to enjoy some of that White House food on occasion. I hope it is still as good as it was when I was there.

Senator TALMADGE. Mr. Chairman, may I make a brief comment? It is a pleasure indeed for me to welcome to our committee a valued friend, the distinguished mayor of the city of Atlanta, who is appearing not only in his capacity as mayor of Atlanta but also president of the National League of Cities, Hon. Sam Massell.

The CHAIRMAN. Senator Byrd?

Senator BYRD. Mr. Chairman, may I say I am pleased that the mayor of Norfolk, Mayor Roy Martin, is present today. He has had an outstanding record as mayor of his city. I am pleased to welcome him

to the committee. I am sure my colleagues on the committee will have an opportunity to question him.

The CHAIRMAN. I want to congratulate all the mayors here.

Senator FANNIN. Mr. Chairman, I am very proud to have the privilege of welcoming the mayor of our capital city, Phoenix, Ariz., Mayor Driggs, who has been a very understanding mayor and certainly has been of great help when he was here in the Congress, and I know has performed quite well in his position with the League of Cities and Towns.

Senator BENNETT. Mr. Chairman, I think it is an interesting coincidence that mayors representing the States or cities in the States of most of the members of this committee happen to be present. [Laughter.]

And I would feel very much left out if Mayor Garn of Salt Lake City had not been included. I am delighted he is here, too.

The CHAIRMAN. I am very pleased that the mayors have such good sense as to send a mayor from the great State of Utah.

Senator FULBRIGHT. Mr. Chairman, since everybody has to have a say I am very proud that the mayors of my State and Governor of my State have so handled their business well enough that they do not have to come up here and beg money from a broken Government." [Laughter.]

I am very proud that they did not have to come. They are not here in this capacity.

The CHAIRMAN. Mayor Landrieu, we are very proud of you and the fact that you have been honored by your colleagues. I am calling on you to proceed. I would suggest that we limit ourselves to the 10-minute rule per Senator in the first round of the questions to the mayors and that the mayors be permitted to make their presentation in chief before we ask any questions of them. So we will call on you.

**STATEMENT OF HON. MOON LANDRIEU, MAYOR OF NEW ORLEANS, LA., IN BEHALF OF THE NATIONAL LEAGUE OF CITIES AND THE U.S. CONFERENCE OF MAYORS**

MAYOR LANDRIEU. Thank you very much, Mr. Chairman. We do appreciate the prompt action which this committee has given to this bill immediately after it passed the House of Representatives.

There are assembled here this morning some 15 mayors representing cities from all over the United States, some in the North, some in the South, East, and West. Some of us are Republicans. Most of us are Democrats. But all of us speak for our cities and I think for the people in our cities.

We have two organizations, the U.S. Conference of Mayors and the National League of Cities, which are represented by Mayor Louie Welch and by Mayor Sam Massell of Atlanta, respectively, who will speak directly to the issue from the point of view of the two organizations. We really are a bipartisan group of mayors who have toured this country in the past year and a half talking to the people of America about the problems of their cities, trying to alert them to what we see on the horizon, trying to encourage them to do something to save their cities. We think they are important to save.

All of the cities do not have the same problem and that is why, Mr. Chairman, we impose on you today to let all of us speak very briefly about our individual cities. Some cities are losing population and have decreasing tax bases. Others are growing very rapidly and have the enormous problems that accompany that growth. Some are old cities and some are extremely new. They are very diverse, just as diverse as the country itself is.

The city of New Orleans, for instance, which I think is perhaps not a typical city, nonetheless is typical of the problems occurring in the United States. In the last decade it lost 35,000 people. That is what the census tells us. It does not tell us what the shift in population was, that is, how many people we actually had who went to the suburbs which grew by several hundred thousand people. The metropolitan area, that section of the State right now, represents at least 1,100,000 people and yet the city is smaller by 35,000 people than what it was 10 years ago.

The city typically as other cities provides all of the services for the entire metropolitan area, the zoos, airport, cultural facilities, everything that has to be offered in that area.

Now, we come for help not because we do not have the courage to do it ourselves. We have tried and we have been unable to do so.

Let me tell you the efforts we have made in the past several years, Mr. Chairman. We increased the property tax by 15 percent. We added a 1 cent sales tax for school purposes. We added another one-half cent sales tax for general municipal purposes and then another one-half cent sales tax for general municipal tax purposes.

Then we taxed gas, electricity, and telephones, then increased the sewage rates by 80 percent. Then added 3 more mills property tax. We increased the fines and fees and forfeitures across the board, then we increased the public transit rates 50 percent and are now in hearings once again to increase them again.

We are in hearings to increase the gas and electric rates and, Mr. Chairman, we increased the sewage rates once more 20 percent and now we are in hearing now to increase them once again 38 percent to meet clean water standards imposed on us at the Federal level.

We also increased the water rates and have added a drainage tax to the property tax system. That is what we did at the local level.

Then we participated with the State to add once again another 1 cent sales tax, tobacco tax, alcoholic beverage tax, and an income tax, at least a repeal of the Federal credit on the State income tax.

We asked for but were denied an occupational license tax, increased property tax, a local income tax, and increased paving lien charges, all of that in the last 7 years.

You would think, Mr. Chairman, that that was a substantial effort and that with that kind of effort we would have solved the financial problem or at least bitten into it and yet the projection for my city shows that over the next 5 years we will experience these kinds of deficits.

Next year, \$7 million on an \$80 million budget, a little less than 10 percent. That deficit will grow at the rate of about \$7 to \$8 million a year and by the year 1977, which is just 5 years from now, we will

experience a \$30 million differential between our expenditures and our revenues.

Our bonding capacity for the next 5 years is \$25 million cumulative. The needs of that city according to our planning commission, we are talking about police stations and fire stations, basic gut things that a city must have to survive, is \$500 million and yet we have \$25 million with which to meet those needs.

Basically, the problem is the same in most of the cities of Louisiana. The numbers change but the problems are basically the same.

Some of the arguments against revenue sharing are that, the Federal Government cannot afford it. You yourself have a deficit. We understand that and we are sympathetic. However, there are three levels of government, Federal and State and local, but there is only one class of citizenship in this country and the people are entitled to the services and those services that are being rendered that are closest to the public are being rendered by the local units of government—garbage collection, sanitation services, police and fire protection, things that affect their lives 24 hours a day.

But the fact of the matter is that local government does not have the capacity to provide those basic gut services. And so general revenue sharing provides some relief to the citizens who need these services but who cannot afford to pay any more taxes at the local level because the local governing authorities do not have the capacity or legal authority to tax any further.

Another argument, Mr. Chairman, is that the bill does not distribute the funds on a fair basis, some suggest that the rich get richer and the poor get poorer, and I suggest to you that this is not true. The simple fact is that the poor States as measured by per capita income continue to get subsidized by the richer States under the allocation of \$3.5 billion to local governments. I am referring now particularly to the local government's share. Chart No. 1 shows the net percent gain or loss over the cost to the States of the \$3.5 billion local revenue sharing. To compute this we compared the amount each State receives of the \$3.5 billion local government share to the amount of the individual income tax paid from that State. Quite clearly the poor States do rather well. Thus, Louisiana, a poor State, will receive 30 percent more than it pays in income tax. Utah, another poor State, will receive 39 percent more than it pays into the Treasury. New Mexico will receive 30 percent more, Nebraska 14 percent. In fact, all of the States that rank as wealthy, that is the top one-third, will pay more in terms of Federal individual income taxes to finance this program than they will receive from the \$3.5 billion each year. All of the States in the bottom one-third will receive more than they will pay in. Thus, when viewed on a net basis the allocation to local governments has a substantial redistributive impact.

The distribution of the \$3.5 billion each year puts the funds where the needs are and does so without making the rich, richer, as it alleged.

This is not to suggest the formula in the bill is perfect. It obviously related from a political compromise in the House and we would expect this Finance Committee to examine it closely. In fact, we have

several suggestions on how it might be improved. But the argument that it favors the rich has absolutely no basis in fact.

Gentlemen, I would like to continue but there are 15 men sitting here who would like to tell you about the urban crisis as only they can. We have traveled, as I said, for over a year now speaking in over 15 different cities across the country. What they say impresses me and I am sure they impress you. Sometimes people are tempted to think what is wrong with our cities is the men who are running them. We do not claim perfection or brilliance or omniscience. We are what the system produces, perhaps somewhat better than those who came before us and somewhat less talented than those who will come after us.

The only claim we are making is we are making determined and sincere efforts to deal with what we feel are the domestic issues at our time.

I do not think we can listen to what these men have to say without coming to the conclusion that our Nation's cities are facing a fundamental crisis which can only be resolved by a fundamental change in our Federal fiscal structure. We urge prompt passage of H.R. 14870 as a beginning of this change.

(Mayor Landrieu's prepared statement follows:)

**PREPARED STATEMENT OF HON. MOON LANDRIEU, MAYOR OF NEW ORLEANS, LA., ON BEHALF OF THE NATIONAL LEAGUE OF CITIES AND THE U.S. CONFERENCE OF MAYORS**

On behalf of the National League of Cities and the U.S. Conference of Mayors, I want to express our sincere appreciation for the quick attention that you are giving to the revenue sharing program since it passed the House.

The Mayors before you today will describe to you their predicament—a predicament which typifies almost every major city in the country. On the one hand is the pressing and growing need of people in the cities for more and better municipal services. On the other hand is the decreasing capacity for cities to raise the revenues necessary to meet these demands for services. Taxes have been increased, but in most cities this only allows the maintenance of the present level of services, and in some cities tax increases have only reduced the amount of necessary *cut backs* in employees and services.

The obvious question you might ask is how did American cities get into this predicament? The answers are several. They have driven the plight of American cities to crisis proportions.

Well meaning policies of the federal government have contributed to the situation now facing us.

1. The National Farm policy disinherited millions of farm families, driving masses of them into already crowded cities.

2. The Federal Housing Administration's policies contributed to urban sprawl by subsidizing ten times as many units of housing in the suburbs as in the inner city.

3. The National Highway program further stimulated the suburban exodus, bisecting cities with concrete, subsidizing congestion and pollution, and ignoring the need for urban mass transit.

4. Inflation, the result of Federal fiscal and monetary policies, has been the greatest cause of increased city expenditures. Between 1955 and 1970, prices paid for goods and services by state and local governmental units rose at an average rate of 4.2% compared with 2.7% for the economy as a whole.

State governments have also been a major cause of our plight. Remember, cities are not sovereign entities as are the Federal and state governments, but rather are creatures of their states. States have permitted a deadly combination of restricted annexation and unrestricted incorporation; forced a chaotic and uncontrollable mushrooming of special districts; and imposed severe limitations on municipal taxation and borrowing powers.

With these restrictions and conditions placed upon cities by higher levels of government, cities have over-extended their taxing sources to raise the needed revenue to serve the citizens of America. The litany of increased taxation is a common story that the Mayor before you will repeat—cities have been forced to tax everything that moves or stands still within their borders. If it should stop and move again, it would be taxed again.

In my City of New Orleans the story is all too typical.

Starting in 1968 we have had to increase the local sales tax twice.

We have imposed a garbage collection charge.

We have increased taxes on gas, electricity and water.

We bit the bullet and raised sewerage charges 80% two years ago, raised them 20% in the past year, and now must raise them again in order to meet EPA requirements for secondary treatment facilities.

We have raised fines, fees, and forfeitures across the board.

We have increased public transit fares by 50%.

This is what we've done at the local level. Two years ago the cities of Louisiana, desperate for new revenue, went to the State and supported the Governor's tax package to increase income taxes, cigarette taxes, liquor taxes, and the sales tax in order to fund a desperately needed revenue sharing program for the municipalities of our State.

At the same time we in New Orleans asked the State legislature to give us authority to do more on our own. But in a State-wide referendum our bills were defeated which would have allowed us to increase occupational license taxes, and paving charges, and to increase our local property tax millage for our Water Board, our Levee Board, and City government. Finally, we've tried and failed twice to pass legislation which would allow the levying of a metropolitan earnings tax.

Gentlemen, you are looking at a man who thinks that all this should have gotten us somewhere. But just recently, the Chief Administrative Officer prepared a report at my request which shows that in 1978 my City will be facing over a \$7 million deficit, and that by 1977 the disparity between projected revenues and projected expenditures for *presently existing services* will be over \$80 million. These projections are made without considering any pay raises over this period of time for local city employees. This year my total operating budget is only \$80 million. But while revenues are going up at 2% per year, expenditures are rising at 6 to 8%. In Shreveport, Baton Rouge, Monroe, Lafayette, and Jefferson, the story is the same, only the numbers change.

The fact of the matter is that the cities of my state, and every state, need help—desperately and soon. Revenue sharing will provide that assistance.

Some critics of revenue sharing claim that the Federal government cannot afford it. Our answer to that is that if the Federal government wants to trade us the progressive income tax for the property tax, we will close the deal right now. Most Mayors would even be willing to throw their sales tax into the trade.

Seriously, this argument ignores the fact that the Federal Government has had three major tax reductions in the past decade. Meanwhile, state and local taxes are rising at a rate of \$3 billion a year, bonded municipal indebtedness has tripled since 1955, and combined state and local governments face a staggering gap between revenues and expenditures of \$67 billion by 1975.

The Ways and Means Committee, whose actions on this bill were objective and, by all definitions, fiscally responsible—concluded that the presence of large deficits in the federal budget should in itself not preclude federal aid to state and local governments in view of the vital need for such assistance. To do so, the Committee stated, "would imply that state and local fiscal assistance has a lower priority than all other expenditures". The Committee went on to say that "in view of the pressing financial problems of state and local governments, the new program of federal aid provided by H.R. 14870 represents one of the nation's most vital needs". As a result, the fact that the federal budget is in a large deficit position—as undesirable as that may be—is no more a justification for deferring state and local fiscal assistance than it would be for deferring a large number of other vital needs.

Several opponents to revenue sharing have suggested that the problems of a city can be solved by increasing categorical aid program. We must make it clear that two kinds of poverty exist in the cities: One is the poverty of the people who live in them, the other is the poverty of city governments themselves.

Ninety percent of the federal funds credited to the cities and states come not from HUD but from HEW and are intended to alleviate the poverty of people through welfare benefits, food stamps, medical care payments, and the like.

But these payments do not affect the critical need for basic municipal services such as trash and garbage collection, police and fire protection, repair and cleaning of streets, education, and the whole myriad of municipal services. Hopefully, in the long run, they may reduce the costs of some of these services. But certainly not in the five years covered by the State and Local Fiscal Assistance Act.

Even the HUD programs, by stimulating new services, requiring local matching payments and creating new capital facilities which bring on additional local operating costs, add to the local tax burden.

Another argument is that the bill does not distribute the funds on a "fair" basis. Some suggest that the rich get richer and the poor get poorer. This is not true. The simple fact is that the poorer states, as measured by per capita incomes, continue to get subsidized by the richer states under the allocation of \$3.5 billion to local governments. Chart I shows the net percent gain or loss over cost to the states of \$3.5 billion—local revenue sharing. To compute this, we compared the amount each state receives of the \$3.5 billion local government share to the amount of individual income taxes paid from the state.

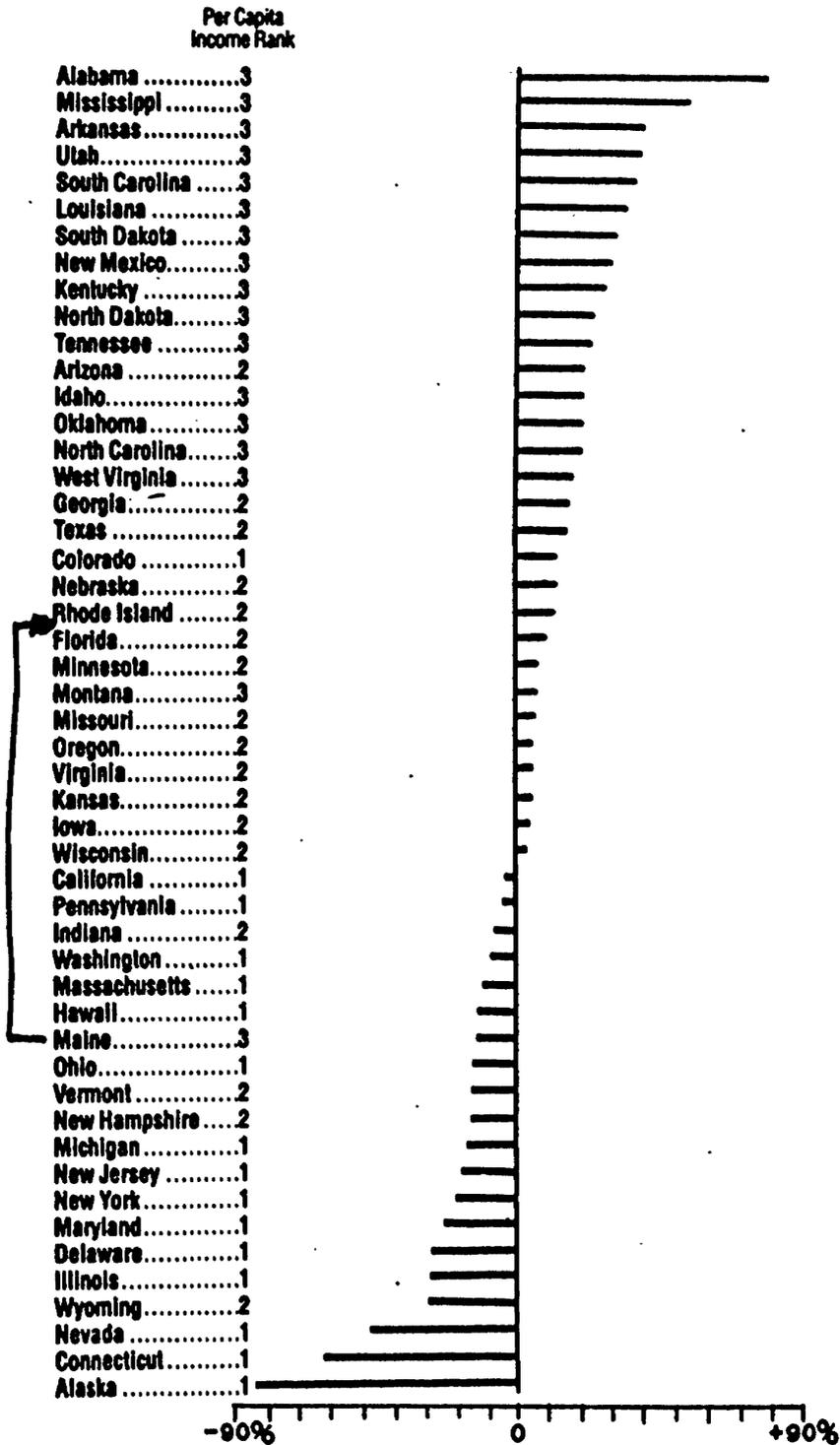
Quite clearly, the poorer states do rather well. Thus, Louisiana, a poor state, will receive 34% more than it pays in income tax. Utah, another poor state, will receive 39% more than it pays into the Treasury. New Mexico will receive 30% more aid, Nebraska 14%. In fact, all of the states ranked as wealthy (the top one-third) will pay in more in terms of federal individual income taxes to finance this program than they will receive from this \$3.5 billion each year. All of the states in the bottom one-third will receive more than they will pay in. Thus, when viewed on a net basis, the allocation to local governments has a substantial redistributive impact. The distribution of \$3.5 billion each year does in good measure put the funds where the need is, and at the same time, when viewed on a net basis, does so without making the rich richer, as is alleged.

This is not to suggest that the formula in the bill is perfect. It obviously resulted from a political compromise in the House, and we would expect this Finance Committee to examine its merits closely. In fact, we have several suggestions on how it might be improved. But the argument that it favors the rich has no basis in fact.

Gentlemen, I would be glad to continue. But there are fifteen men sitting here with me who would like to tell you about the "urban crisis" as only they can know it. We've travelled together for over one year now, speaking in over 15 cities across the country. What they say impresses me, and I'm sure it will impress you.

Sometimes people are tempted to think that what is wrong with our cities is the men who are running them. We do not claim perfection or brilliance or omniscience. We are what the system produces, perhaps somewhat better than those who have come before us and perhaps somewhat less talented than those who will come after us. We only claim that we are making a sincere and determined effort to deal with what we feel are the greatest domestic issues of our time. Gentlemen, I don't think you can listen to what these men have to say without coming to the conclusion that our nation's cities are facing a fundamental fiscal crisis which can only be resolved by fundamental change in our federal fiscal structure. We urge prompt passage of H.R. 14870 as the beginning of this change.

**NET PERCENT GAIN OR LOSS OVER COST TO STATE  
OF \$3.5 BILLION LOCAL REVENUE SHARING IN H.R. 14370**



Mayor LANDRIEU. Mr. Chairman, it is my pleasure to present to you the president of the U.S. Conference of Mayors, Mayor Louis Welch of Houston, Tex.

**STATEMENT OF HON. LOUIE WELCH, MAYOR OF HOUSTON, TEX.;  
PRESIDENT, U.S. CONFERENCE OF MAYORS**

Mayor WELCH. Thank you, Mayor Landrieu.

I regret that Texas is not represented at this table but we are completely surrounded by very friendly neighbors, Oklahoma, Louisiana, New Mexico, and Arkansas.

Mr. Chairman, members of the committee, speaking for the U.S. Conference of Mayors I want to reiterate our appreciation for your early consideration of this historic legislation. My fellow members of the U.S. Conference of Mayors, the mayors of our cities of over 30,000 population, look to your capable and prudent committee for approval of a measure that we consider basic to the survival of our cities.

In supporting H.R. 14370, I would like to make these points:

First, the U.S. Conference of Mayors has advocated general revenue sharing for many years and just last month, we again endorsed the principles in H.R. 14370 at our 40th annual meeting in New Orleans. The mayors of America give revenue sharing the highest priority, and we are reassured that the members of this committee now share our sense of urgency. We trust that the other members of the Senate will as fully appreciate the need for this legislation.

Second, there is broad public support for H.R. 14370, as we saw in the vote in the House. This measure has bipartisan backing, as further evidenced by the full support of both the President and the platform adopted only 2 weeks ago by the Democratic National Convention.

Third, there has been discussion about the fact that the revenue to be shared would be raised at the Federal level but spent at the State and local levels. In addressing this issue, a few matters need to be kept in perspective: In the first place, you who are Members of the Senate and we who are mayors of cities, all represent the people. We are all elected by the people to do the best job we can for them. The President and Members of the Senate and the House who support revenue sharing, in my opinion, are representing the people well by agreeing to share with them revenue that is really owned by neither Federal nor local government. It is owned by the people themselves, and they are entitled to have some of their own resources applied where it is needed most, where they live—at home.

Fourth, a related point. . . . The Federal income tax dominates the revenue field in two basic ways. It takes away nine times as many dollars from the citizens of our largest cities as the Federal Government returns to city governments. And Federal taxes siphon off 10 times as many dollars as we can raise through local taxation in our largest cities.

Fifth, the Federal income tax is highly related to economic activity, while the cities are left holding the bag of the property tax, which responds to inflation, but not to productivity. The result is that our citizens are doubly penalized. Their local taxes go up because prices go up, not because their ability to pay those taxes goes up. Our citizens also are penalized because the ability of our city governments to provide vital services—police and fire protection, waste removal, health care, housing, and so on—our ability to provide these services is going down because prices have been going up faster than our income.

We in city government have been raising our own taxes at the rate of more than a billion dollars a year. We have been going into debt at the rate of more than \$2 billion a year.

Still we cannot draw on the growing wealth and productivity of our own cities. You alone have the machinery for doing that.

As my fellow mayors will now portray to you, gentlemen of the committee, we who have the responsibility for making our cities work well for our people, desperately need the support that revenue raising machinery can provide, the revenue raising machinery of the income tax. We trust that you will do what is wise, and just, and necessary: that is, report H.R. 14370 favorably to the Senate at an early date.

We thank you again for this opportunity to speak to you. I turn the microphone now over to my colleague, the esteemed president of the National League of Cities, the Honorable Sam Massell of Atlanta, and ask your permission to be excused.

#### **STATEMENT OF HON. SAM MASSELL, MAYOR OF ATLANTA, GA., AND PRESIDENT OF THE NATIONAL LEAGUE OF CITIES**

**MAYOR MASSELL.** Chairman Long, and gentlemen of the committee, I am Sam Massell, mayor of the city of Atlanta, Ga., and president of the National League of Cities (NLC), appearing before you in support of S. 3651, the "State and Local Fiscal Assistance Act." I do so in behalf of my own city and in behalf of the 15,000 NLC municipalities ranging in size from a few hundred to several million in population. Thus, when I lobby for the concept of Federal revenue sharing it is for that share of our national taxes urgently needed back home by two-thirds of our country's population!

During the past couple of years the political leadership of our largest cities has earnestly diagrammed the deterioration being caused by fiscal deficiencies of local government. As is well known, the condition is now described as "the urban crisis," which finds major American cities flirting with bankruptcy. This is an accounting matter for the corporate body, but it is much more for the human body—the millions of citizens going without the services the rest of us expect, receive, and use day in and day out!

We realize that many in the Congress are concerned with the Federal deficit, as are we all. But our citizens are more concerned about their immediate future. Who among us believes that the people back

home—or we—could be convinced that holding the line on the Federal deficit is more important than decreasing crime in the streets, enforcing building codes for decent living standards, disposing of raw sewage, collecting garbage, purifying our air and water, providing mobility with mass transit, and alleviating traffic congestion, all of which are provided for under this Fiscal Assistance Act?

Our cities cannot turn their backs on the basic needs—not frills or monuments, we struggle to provide. At the same time, let it be known, we have not turned our backs on the resources now available to us, and the records are replete with examples of local effort taxation to keep our problems and their solutions within the control of our individual municipalities.

I can very well illustrate the political courage city councils have exercised by using Atlanta as one example. Within the last year, we increased our sales tax by over 33 percent in order to finance our public transportation needs, we increased the operating budget property taxes by approximately 40 percent primarily for upgrading of our police department to improve crime control, and we increased water and sewer rates by some 80 percent so we could correct water pollution problems as mandated by the Federal Government.

We could not reasonably be expected to do more, yet this year, as a result of a property reevaluation program, most of the homeowners in Atlanta have been confronted with still further tax increases, and devastatingly so. I wish you had the time to review the letters I have received in the past month which emphasize the desperate and pathetic plight in which many of our lower income—and particularly elderly—citizens find themselves. Unchecked, this will quickly translate into slums, crime, middle-class flight, and all the other familiar consequences. Then the cycle starts all over: further increased need of governmental services followed by further increased taxes to pay for same.

Mind you, this is Atlanta, Ga., I am talking about, one of the healthiest cities in the country, one that the July 24 edition of Time magazine singles out as having “a business climate that is practically unparalleled in the United States for solid growth and sheer bullishness,” so it does not take much imagination for us to realize that if Atlanta has monetary shortcomings, much of the country is indeed in dire need of meaningful outside financial assistance.

NLC recognized urban fiscal problems several years ago and cataloged the cost as being \$10 million per year. The act under consideration proposes little more than one-third this amount for local government; nevertheless, it is highly significant in that it recognizes for the first time that the problems of a mayor are also the problems of a President; and that given adequate resources, the city has the capability of satisfying the expectations of urban America.

I have compiled a list of some 40 items Atlanta could consider as unmet current needs, believed to be eligible for funding under this revenue-sharing proposal.

(The list referred to follows:)

Personnel Estimated cost

	Personnel	Estimated cost
<b>I. Maintenance and operation:</b>		
<b>A. Public safety:</b>		
1. Police Department:		
(a) 2 patrolmen per car.....	280	.....
(b) High crime foot patrol.....	100	.....
(c) Crime prevention:		
(1) Drug abuse (vice squad).....	20	.....
(2) Alcoholic arrest and handling.....	50	.....
(3) Traffic control at dangerous intersections and on high speed expressways.....	45	.....
(4) Stake out program to decrease burglary.....	50	.....
(5) Helicopters to improve surveillance and pursuit.....	30	.....
(d) Airport security to prevent skyjacking and smuggling.....	25	.....
<b>Total</b> .....	<b>600</b>	<b>\$5,400,000</b>
2. Fire department:		
(a) Service for 2 new fire stations to provide additional protection for 2 densely settled neighborhoods.....	40	.....
(b) Fire safety educational teams.....	10	.....
<b>Total</b> .....	<b>50</b>	<b>500,000</b>
3. Building inspection department:		
(a) Development of business maintenance code division.....	12	.....
(b) Housing code inspectors to improve conditions in the inner city.....	32	.....
<b>Total</b> .....	<b>44</b>	<b>396,000</b>
<b>B. Environmental protection: Environmental Protection Agency (new department):</b>		
1. Noise Abatement and Control Division:		
(a) Director to develop programs.....	1	.....
(b) Inspectors to identify violations.....	5	.....
(c) Technicians.....	3	.....
(d) Clerical help.....	4	.....
<b>Total</b> .....	<b>13</b>	<b>120,000</b>
2. Sight Pollution Division (sanitation):		
(a) 4 new teams to improve pickup in high trash areas.....	20	.....
(b) Inspectors to identify violations of sanitary codes.....	10	.....
(c) Operators of new recycling plant.....	30	.....
<b>Total</b> .....	<b>60</b>	<b>475,000</b>
3. Water Pollution Division:		
(a) Water quality inspectors.....	10	.....
(b) New secondary treatment.....	30	.....
(c) Lab technicians to develop, examine, and insure water treatment effectiveness.....	10	.....
<b>Total</b> .....	<b>50</b>	<b>540,000</b>
4. Air Pollution Division:		
(a) Director to develop new programs.....	1	.....
(b) Inspectors and enforcement officials.....	2	.....
(c) Lab technician.....	1	.....
(d) Clerical technicians.....	2	.....
<b>Total</b> .....	<b>6</b>	<b>75,000</b>
<b>C. Public Transportation:</b>		
1. Street maintenance, 4 new teams to improve neighborhood streets and access.....	20	.....
2. 4 additional traffic engineering crews.....	32	.....
<b>Total</b> .....	<b>52</b>	<b>500,000</b>

## Personnel Estimated cost

## I. Maintenance and operation—Continued

D. Public training: Public employee training program to meet the needs of above-mentioned personnel needs and to solve unemployment rate of 6.8 percent in ghetto areas. Must be able to train over 1,000 additional employees.....

Total..... \$4,000,000

E. Implementation of Jacobs personnel study salary increases for employees in public safety, public transportation, and environmental protection.....

Total..... 2,900,000

## II. Capital expenditures:

A. Sewage treatment and collection..... 3,100,000

1. Treatment facilities.....

2. Trunk and relief sewers.....

B. Refuse disposal systems:

1. Recycling plant..... 3,000,000

2. Land fill acquisition to support recycling..... 1,000,000

3. Solid waste transfer stations..... 1,200,000

4. Equipment to operate landfills..... 1,000,000

C. Public transportation:

1. Computerized signalization system for CBD..... 2,000,000

2. Bridge construction..... 1,750,000

3. Street paving..... 750,000

Total I, Maintenance and operation..... 14,216,000

Total II, Capital expenditures..... 13,800,000

Total need..... 28,016,000

\*Current CEP program trains 250 people at cost of \$1,000,000 annually.

Mayor MASSELL. It runs the gamut from return to two-man patrol cars to creation of a special skyjacking security force, from the establishment of an entirely new Agency for Environmental Protection to computerizing of the central business district traffic signalization system. This preliminary laundry list totals needs in excess of \$28 million—almost four times as much as we anticipate under the proposed formula.

We have calculated that Atlanta might expect to receive \$7,701,714 under this program. This will represent just 6.7 percent of our 1972 operating budget and only 2.2 percent of Atlanta's total 1972 budget including capital funds. Under no circumstances then can it be considered a panacea, but it will help to reestablish an attitude of appreciation of government at all levels; it can provide tangible evidence to every citizen that his Government is constantly improving his flow of services.

Early approval of revenue sharing by the Senate will indicate appropriate confidence in the 100,000 elected officials I represent. Through a cooperative partnership, there is no doubt that we can afford to properly finance many of the pressing needs of urban areas. Returning Federal funds to the local level will accrue to your credit and result in simple solvency to the structure of our cities. Thus, I plead with this committee for its support.

Mayor LANDRIEU. Thank you, Mayor Massell.

With the permission of the Chair, each of the mayors will now make a brief statement with respect to his particular city. We will do it in alphabetical order, starting with Lee Alexander, mayor of Syracuse, N.Y.

**STATEMENT OF HON. LEE ALEXANDER, MAYOR OF SYRACUSE, N.Y.**

**MAYOR ALEXANDER.** Thank you, Mr. Chairman.

I am Lee Alexander, mayor of Syracuse, N.Y. I am chairman of the Community Development Committee of the National League of Cities, a member of its board of directors, and a member of the U.S. Conference of Mayors advisory board. I am also a member of the Legislative Action Committee of the U.S. Conference of Mayors.

You gentlemen have my statement, so I will try to capsulize what I have to say in the interests of brevity.

Syracuse is a city of about 200,000, very typical of the northeastern cities of our country, a history of great growth and development and now unfortunately finding itself in a system of decay.

In the last 10 years, our city has doubled its operating budget. We originally had a budget of about \$20 million. That budget is now about \$44 million.

During that same period of time, crime in my city increased by about 250 percent. At the same time, fires in my city increased 95 percent. Of our 70,000 housing units in my city, some 20 percent are substandard.

During this period of time, my revenues have not increased on the property tax base because they remained rather inelastic. Our taxes are at our constitutional limits.

In my city, a homeowner pays about 5 percent of the value of his property in real estate taxes to the city and to the county. That means he pays for the value of his home in taxes on a 20-year period. That is a pretty healthy city when you compare it to cities like Newark, which pays about 10 percent of the value of their property in taxes so that in 10 years a homeowner pays the full value of his property in taxes to the city.

In my first year in office, I had to come up with a million dollars more than I had in the budget because expenditures ran over that amount. Unfortunately, it was necessary for me to increase the water and sewer taxes in my city. I had to cut my payroll 10 percent. I had to eliminate 400 employees from my city, and I only have 2,500 employees, so that is a substantial cut. We also had a cut in the school programs and personnel. In my city, I am the chief fiscal officer for the board of education, and that was very regrettable on my part.

The State legislature mandated further costs on us. It demanded we reduce the firemen's working hours from 48 to 40. I had to hire 50 more firemen, and that cost another half million dollars that I did not have.

Our solid waste base just did not exist any more, so I had to implement a new solid waste disposal program that will triple my costs of relieving the city of garbage. In the city of Syracuse, we pick up 500,000 tons a day.

Unfortunately, as you gentlemen know, cities are magnets for the poor and elderly in the community, and as a result we have to try to meet their needs, which are really a national problem, by trying the use of the property tax base; and as I indicated, our property tax did not increase in 10 years. As a matter of fact, it went from \$420 million to only \$423 million, not much of an increase.

Now, I know you gentlemen are very familiar with these numbers and statistics. You hear so many of them. And I know that unfortunately the American public sometimes becomes numb from hearing us mayors talk about numbers and statistics. It does not mean very much to them. But to us mayors, inadequate housing or inadequate wiring means looking at the charred remains of an infant in a burned-out house. When we talk about obsolete equipment, unfortunately that means seeing a young fire lieutenant dash to his death because of some obsolete firefighting equipment that should have been retired 25 years ago.

When we talk about crime in our cities, unfortunately sometimes that means visiting a hospital, to see a 70-year-old man who has weathered two wars and a depression and brutally beaten by a drug addict on the streets of our city.

I do not think there is any pain not being felt in our city. I do not think there is any more inequity that has not imprinted itself upon the consciousness of the mayors and Senators and Congressmen of our Nation and I, too, am filled with a great feeling of pride when I see what we do with our national feats, have felt proud to see our astronauts sailing among the stars, but there are other feelings just as important as well, the feeling of an aging woman or man living in an inadequate apartment, inadequately lit, inadequately heated, sharing the toilet down the hall with seven other people. Their feelings, I know, are as important to you as they are to us.

So, I concerned myself with the problem of revenue-sharing because with the inelastic property tax we are left with, we have the worst taxes in the Nation. Sales and property taxes simply do not grow. Those who can ill afford to pay those taxes, the elderly and poor get hit the hardest. Nevertheless we mayors of the cities of this Nation are required to educate the children of the Nation, police the streets of the cities of our Nation, provide the public with an adequate police force to keep them safe. We are required to protect the people of our cities in their homes from fire, required to assure they live in decent housing in our country, and we simply cannot do it on the property tax or sales tax.

That is why we come here to ask you to please give us a revenue-sharing bill which will enable us to meet these obligations, our obligations, to the people of our cities by giving us a part of revenue that will grow, by giving us a share of the revenue tax base of the Nation.

Thank you very much.

(Mayor Alexander's prepared statement follows:)

**PREPARED STATEMENT OF HON. LEE ALEXANDER, MAYOR OF SYRACUSE, N.Y. ON BEHALF OF THE NATIONAL LEAGUE OF CITIES, AND THE U.S. CONFERENCE OF MAYORS**

Mr. Chairman, I am Lee Alexander, mayor of Syracuse, N.Y. I am chairman of the Community Development Committee of the National League of Cities, a member of its Board of Directors, and a member of the United States Conference of Mayors Advisory Board. I am also a member of the Legislative Action Committee of the U.S. Conference of Mayors.

My city is a community of nearly 200,000 persons. It is typical of cities in the urban Northeast which have emerged from a past of growth and metropolitanization into a present of distress and decay.

Our distress and decay, of course, are deeply rooted in the social and industrial changes that have been part of our national evolution. Urban areas reflect and amplify the great tensions that characterize a society in transition. And, inevitably, they reflect these tensions in ways that adversely affect the lives of many of their residents.

As a result, the benefits of our great nation are withheld from many. Life in the American city, once synonymous with all the dividends resulting from the investment of our forefathers in national greatness, has now become too often synonymous with despair, pain, and anguish.

No one conversant with modern America is unaware of this fact. Unfortunately, this universal awareness and constant repetition of the fact have served to numb the sensitivity of America to the condition of its cities. Although the fact is undisputed, the sense of urgency seems too often to have been lost in the staggering dimensions of its reality.

I cite my own community as an example. During the past 10 years the cost of operating my city has more than doubled—from \$20 million to \$44 million annually.

Crime during that period has increased some 250 percent.

The number of fires has increased 95 percent.

Of 70,000 housing units, some 20 percent are substandard or badly deteriorated.

A quarter of my city's population is over 55. Thirteen percent is over 65.

When I took office in 1970 I faced an immediate need for nearly a million dollars more than was in the budget for the current fiscal year. And we were, in effect, at the constitutional limit of our tax power for operating costs.

Since then I have been forced to cut back the city payroll by 10 percent—at a time when demands for services continue to increase.

My city's school district has been forced to cut back both programs and personnel at similar levels.

And the pressure mounts. Next year, because of a state mandate regarding firemen's work hours, I must add 50 more firefighters—at a cost of more than a half million dollars.

My bill for solid waste disposal will triple, because my city has no more land-fill space and must invest in a shredding operation.

Cities are magnets for the poor and the elderly—two segments of our society which are most in need of special services, and which are least able to support the services. At the same time, cities find their most affluent citizens leaving for the suburbs.

And the city's basic revenue source, the property tax is at its limit. In many cities, for example, the property tax is at what amounts to a confiscatory level. In my own city, a homeowner pays roughly five per cent a year on the value of his home. In 20 years he has paid the cost of his home. In addition to being unfair, the property tax is too rigid to be effective. The taxes which are effective—those which grow with the expanding economy—are denied to the cities.

Faced with these realities—the lack of revenue, the demands for essential services—the cities must turn to the federal government.

My basic point is that the cities' need for a share of federal revenue is not a search for luxury or a method of reducing local tax effort. It is, simply, a call for help to maintain fiscal balance.

And although we make our point in terms of percentages and tax terminology, to a mayor the problem translates into very human situations, I speak of substandard housing, for example. To me that translates into a child burned to death in an inadequately wired house.

Discussions of crime rates translate into my visit to a hospital where a 70-year-old man lay brutally beaten by a young drug addict.

Discussion of antiquated city equipment means watching a city fireman thrown to his death as a hydraulic support collapses.

We of the cities are left with the responsibility of seeing that these human tragedies are no longer a part of our daily routine. We are left with the responsibility of providing education. We are left with the responsibility of insuring public safety.

We cannot meet these responsibilities with the resources left to us.

We look to the Federal Government for help in surviving.

Thank you.

Mayor LANDRIEU. Next Mayor Joseph Alioto, San Francisco, Calif.

**STATEMENT OF HON. JOSEPH L. ALIOTO, MAYOR OF  
SAN FRANCISCO, CALIF.**

Mayor ALIOTO. Mr. Chairman, distinguished members of the committee, San Francisco has a population of something like 725,000 people. This is a central city for some 5 million people in the San Francisco Bay area. As that central city has to carry on functions for the rest of the communities in our metropolitan area. We do not get reimbursed for these services, we simply take it out of our property tax, and our property tax right now is \$12.73 per hundred.

I do not think we have to demonstrate the desperate need of these cities. I want to make one point. We are really not here as some kind of beggars in the public square. There are two reasons for this. First of all, about 73 percent of the revenue picked up from the Federal Government comes from these big cities. All we want is some money left there or returned to us by these methods.

Second, those cities have been the victims of certain Federal and State policies which dictated that the poor should congregate in the cities, which dictates that the blacks should congregate in the cities. We did not make those policies. Those were made by the Federal Government—policies that relate to housing, policies that relate to transportation.

Just to take one example, mass transit, that is one of the things we are talking about. We took the view in San Francisco, for example, that we did not owe it to that 1.4 person who rides into town in an automobile—that is five automobiles carrying seven people—that we did not owe it to him to convert what we think is a photogenic city into a network of freeways and downtown garages. This is where the freeway revolt started, you remember, in San Francisco. And in connection with that matter, both Federal and State policies result in the situation where \$20 million collected every year in San Francisco in automobile taxes, we use \$10 million of it in San Francisco and \$10 million is turned back for some other place, money generated in San Francisco.

Now, the other side of that coin is that we run a rapid transit system, that we subsidize to the tune of \$20 million a year, every dime of which comes out of the property tax.

There are other programs that you thrust upon us. We do not argue about the merits of the programs. We just argue about the fact that we are made in effect, the magnet for the social problems of our times and we have to assume them.

You decide at the Federal Government on a very liberal immigration policy for Chinese and we approve of that. Those of us who are children of immigrants cannot object to that. But what happens with that? As a result of this Federal policy we get whole families of Chinese from grandfather to grandson coming in to San Francisco who do not speak English. They tend to move into Chinatown, and these intensify our problems of housing, education, and jobs. The Federal Government makes no special provision for that.

There are affirmative action programs that were urged upon us and, as a matter of fact, we started them on the basis of our own initiative, but they are very costly. When you say, for example, that there should

be an affirmative action program in the construction industry, every contractor writes that cost into everything he does for us. We do not argue about the desirability, indeed the necessity, for those affirmative action programs that will tend to bridge this gap and then finally close the gap between the races.

Every time the courts say that all juveniles must have lawyers it means that we have to supply district attorneys, public defenders, and courts and pay for them ourselves. And the Federal Government comes along and says this is under a Federal law, therefore, we are not going to hold you.

Under this bill we are going to get \$14 million, Mr. Chairman, \$14 million. I pointed out just on rapid transit alone, just on that alone we are spending \$20 million of subsidies, of subsidy. We are carrying 500,000 people a day. We think it is important.

In addition to that we built a rapid transit system on a regional basis and 70 percent of our tax dollar is going for that every year to just solve these problems that I say basic Federal and State policies have thrust upon the cities.

Senator Fulbright, we are upset, too, about the impoundment. We tried to do something about it. We come to the Senate to get appropriations increased for urban renewal and housing and then they are impounded at the executive level. We filed a lawsuit. We thought perhaps our constitutional prerogatives were being usurped. Unfortunately, by the time the lawsuit came underway it became moot because the very funds we were talking about were released at a later time. That is a serious question some of us thought could be settled constitutionally.

In the meantime, we desperately need this level of money. We are right at the top level in property taxes.

The most unrepresented American today is the property taxpayer. No question. He is carrying a disproportionate and incredibly inequitable burden of taxes and he needs the relief we are talking about.

I am well aware of the fact we can talk about better formulas until doom's day. I am well aware of the fact there is no formula which is going to be written which in 39,000 situations is going to please everybody and reach a level of perfection. But the formula we are talking about here has been tested through computers and every other suggestion has been made over a long period of time and we are hopeful that this legislation will not bog down on an argument as to whether or not we can make it perfect because I do not think you are ever going to get the perfect allocation.

I think what is important is let us get on with the revolutionary concept, and it is revolutionary in terms of intergovernmental relations but it is right. I think we ought to get on with that concept now and there will be time enough in this national evolution to work out the imperfections which exist in formula or anything else in this bill.

Thank you very much for your attention.

(Mayor Alioto's prepared statement follows:)

PREPARED STATEMENT OF HON. JOSEPH L. ALIOTO, MAYOR, CITY OF SAN FRANCISCO

Mr. Chairman: I welcome the opportunity to join this group of distinguished mayors speaking in support of the State and Local Fiscal Assistance Act of 1972.

The fiscal crisis facing America's cities grows in magnitude with each passing day. Vital programs in transportation, public safety, and environmental protection—the very areas covered by this bill—are straining under the burden of rising costs, greater public demands, and shrinking tax dollars. Many will have to be curtailed unless relief, such as general revenue sharing, is enacted quickly. I want to give you some specific examples from my City.

In San Francisco, reserve funds are being diverted to maintain existing levels of essential functions such as our municipal railway. These services are destined for drastic cutbacks unless revenue sharing can be moved forward promptly.

During the past four years, reserve funds from our municipal water and power revenues have been reassigned to public transportation to permit an adequate level of service to continue in the City. Under normal circumstances, these reserve funds would be maintained for future capital improvements in the City's long range power and water programs. This also means that less revenue will be available to finance maintenance and repair work, in turn causing replacement and reconstruction costs to increase and eventually forcing a greater reliance on bond issue financing.

The City of San Francisco is reaching a limit, like many other cities, beyond which depleted reserves cannot offset rising costs of providing minimum levels of vital municipal services. Our local property tax rate is \$12.73 per \$100 assessed valuation. We are determined to hold at that figure in recognition that the property owner is at the breaking point. We cannot hold the line and still provide the full services demanded by the public without revenue sharing or meaningful tax relief by our State Legislature.

The funds flowing to local communities as part of the measure which has passed the House and is now before this Committee will alleviate only a part of the general crisis we face. For example, San Francisco's Municipal Railway has major additional needs in both capital improvements and operations over the next five years, all vitally important to maintain existing levels of service.

Next year, for example, the total added need over and above current funding is \$17.4 million. Under the present general revenue sharing formula, the San Francisco allocation of funds would be \$14 million annually. Obviously, this entire amount could be devoted just to meeting our mass transportation needs.

But we have tremendous needs in many other areas as well, most notably pollution abatement and public safety. San Francisco is committed to an immediate program of dry weather sewage abatement costing \$200 million over the next five years. This will be followed by a wet weather abatement program, at an estimated cost ranging from \$300 to \$800 million, depending on state clean water requirements.

San Francisco has made significant strides in crime prevention in the past four years. Part of the credit goes to the implementation of innovative programs funded through the Law Enforcement Assistance Administration of the U.S. Justice Department. We want to continue this trend of reducing the crime rate with additional programs in communications, emergency operations and minority recruitment, but they can only be funded with outside assistance.

In closing I would like to touch on an aspect of this bill that is particularly important to the San Francisco area.

A certain amount of the total funds for general revenue sharing—\$1.8 billion—will go directly to the states. Unlike local communities, the states have no restrictions on the use of the funds. I believe there is an important functional level to which some of these state funds should be diverted. That is to the increasing role of regional agencies usually established by state edict. In the San Francisco Bay area, there are twelve such agencies, two of which take about 6% of the annual San Francisco tax dollar. The state should pay more for the support of these regional agencies, and I recommend that Federal guidelines be established to direct a portion of the state general revenue sharing grants to assist regional governments and agencies.

In conclusion, I fully support the general revenue sharing legislation. It is a vital supplement to our efforts to maintain existing levels of essential public services.

Mayor LANDRIEU. The Honorable Frank W. Burke, mayor of Louisville, Ky.

**STATEMENT OF HON. FRANK W. BURKE, MAYOR OF LOUISVILLE,  
KY.**

Mayor BURKE. Mr. Chairman, my name is Frank Burke, I am the mayor of Louisville. I join my fellow mayors here today not only to support the favorable recommendation and eventual passage of legislation providing for revenue sharing among the Federal Government, the State government and the municipal governments of America, but also to thank the chairman and the members of this committee for the role of leadership which they have been willing to assume in meeting what is, I think you may tell, in our opinion, may well be America's most pressing domestic crisis.

By virtue of the fact that, as the chairman pointed out, we were somewhat delayed in arriving here this morning, we were privileged to hear our good friend, Congressman Gibbons from Florida, testify. I was interested, as I know you were, that the Congressman told us that he believed it was his opinion that Members of the House of Representatives are probably more responsive to the people than are other public officials. He did concede to Senator Fulbright that this body has some role to play.

I suppose that when I served in the Congress I might have believed that. But I would only suggest to Congressman Gibbons that there are 15 mayors here today and hundreds of others in the United States who would invite him just to spend a day or two in our cities, in the city halls or on the streets where the people are. It perhaps would contribute to his understanding of the problem to see, touch, and feel the overworked police officer, the understaffed hospital, the closed park, the condemned house, or the hungry child. But I would not emphasize these things because you know them.

The problems of the American city and its suburbs have become one of the most popular subjects of writers in every field of specialization. Regardless of point of view or specialized symptom, the fundamental problem of the governments of urban America has been that by an inexorable process for which the blame can be very widely spread, we, at all levels of government, have permitted the available public revenues not to follow the essential public needs. Through years of international crisis the Federal Government and the State governments have preempted the true sources of revenue and the municipalities and counties have been left with ever-increasing needs and demands and relatively diminishing sources of revenues.

Each of the mayors here today will or has told you some of the things which this starvation of funds has done to their city. May I pinpoint what the passage of Federal revenue sharing would mean to the people of my city in a positive way. I do this not only because of the obvious personal concern that each of us has for his home, but also to demonstrate that in cities neither as large as Chicago nor as small as Wilmington, but in cities of medium size where collectively so many millions of Americans live, the need for these funds to meet essential, daily, fundamental service demands are great. Under the formula, for example, in the bill, H.R. 14870, which has passed the House of Representatives, Louisville would receive just over \$8 mil-

lion on an annual basis. Dividing those funds among operational and capital expenditures, as the formula in the bill requires, we would immediately apply those funds toward some of these projects and many others.

1. We could begin by funding additional personnel for the police and fire departments;

2. We could begin, in the interests of safety, by lighting of the public parks;

3. We need to install an adequate sprinkler system in Louisville General Hospital;

4. We need to invest in air pollution control equipment at the city's incinerator to bring ourselves into compliance with air pollution standards;

5. We need the demolition and/or rehabilitation of substandard housing;

6. We need, as Mayor Alioto so eloquently stated, major street repair, and transit operations;

7. We need renovation so as to make useable our war memorial auditorium and our only outdoor, only publicly-owned amphitheatre; and

8. We need to replace several obsolete fire stations and to build three new fire stations.

I could, as you see, go on and on. These expenditures would exhaust early the \$8 million provided under the House-passed bill, and all of these projects need badly to be undertaken yesterday. I use them solely to demonstrate that the need is present, that the deterioration continues and that the cost of governing our cities outstrips increased revenue potential by more and more every year.

I recognize that each mayor here could and will demonstrate to you the needs in his city and would say only cumulatively that the people of urban America are grateful to you for the recognition of our needs.

Thank you.

Mayor LANDRIEU. Thank you, Mayor Burke.

Next, Mr. Chairman, is Mayor John Driggs of Phoenix, Ariz., one of the fastest growing cities in the world.

#### STATEMENT OF HON. JOHN D. DRIGGS, MAYOR OF PHOENIX, ARIZ.

Mayor DRIGGS. Thank you, Mr. Chairman.

Mr. Chairman, distinguished members of the committee, it is a real privilege for me to address this body.

Phoenix, Ariz., is a city of 670,000 people. It is a newer city, a fast-growing city, but we, like many of the newer cities of this country, while perhaps not caught up in the historical urban crisis of some of the eastern and midwestern cities, nevertheless are seeing dramatically the symptoms beginning to appear. Perhaps if we get action on revenue-sharing, cities like ours will be able to avoid problems before they reach the absolute crisis stage; we will be able to operate more efficiently and more economically.

Some will say that we are here to share a deficit.

I say that the issue goes far beyond the financial condition of a single year. It goes to recognizing that local urban needs come very high on the scale of national priorities—and not just at the tail end of any given year when a deficit may occur at the Federal level.

Mayors have said, and it is true, that local service is perhaps the most important government effect. There are those who say we should raise more revenues at the local level. I say that our options are limited. The cities have been preempted in many tax areas and if all the local governments had all the tax options, perhaps then our revenues could be raised at the local level.

Now, Phoenix was forced 4 years ago to raise a major tax, a luxury tax on cigarettes and liquor. It did it because of a desperate need for revenue, but this has caused tremendous side effects. This same tax is not levied in any of the surrounding communities, so you have a hodge-podge of tax islands developing.

People are impatient in this country for tax simplification. Cities can not be left to their own devices to raise all of the revenue.

A recent Arizona study reported that even if Arizona cities freeze their services at present levels, by 1975 expenditures will have increased 56 percent while revenues will have risen only 42 percent. This would create a \$36.8 million revenue gap in the cities of my State, including nearly an \$18 million deficit in Phoenix alone. By 1980 the study shows revenue is predicted to increase 91 percent compared to an expenditure rise of 171 percent. This would bring about a \$120 million revenue gap in the entire State with \$60 million of that in Phoenix alone.

Now, I came into political service 2½ years ago directly from business. I was in the savings and loan business. I have seen the limitations imposed upon government. It is next to impossible to innovate, to plan ahead, and to operate effectively, efficiently and economically, when all of your energies are devoted to coming up with the bare minimum to meet essential services. There is no room for innovation, no capacity to plan ahead in those areas that would make government more effective and more efficient. We need a more businesslike approach in government.

I found in Phoenix today, in spite of a relatively good financial condition and good bond ratings, we have no program whatsoever in providing sewer maintenance. What does this mean? Simply that we are postponing the day of reckoning. And it will cost much more later on.

I stopped to talk to a sanitation truckdriver, and asked him what his biggest problem was. He said our trucks are broken down too much of the time, because our city does not have an adequate vehicle replacement program. Again a shortage of revenues.

The legislature this year mandated an additional million and a half dollars for an improved police and fire pension program. Fine. That is great. But there is no revenue there to pay for it unless we take away from other priorities.

A smaller city in Arizona has sued the State because this will break their back financially. Their relative cost for this police and fire pension is far greater than ours.

There is the capability, but not the financial capacity to meet these needs.

I have observed great ability on the part of local elected officials. I think that if they have this new infusion of revenue that they will respond in a way that will vastly improve the administration of government at the local level.

This Congress has a most unique opportunity to pass one of the most important pieces of legislation that has ever come before it, that will set a pattern for years to come in a new model of intergovernmental fiscal cooperation. I do not think that this Congress should let this opportunity slip by.

Thank you very much.

(Mayor Driggs' prepared statement follows:)

PREPARED STATEMENT OF HON. JOHN D. DIGGS, MAYOR, PHOENIX, ARIZ.

Many people seem to feel that the financial crisis in cities exists only in a few of the larger and older cities in the northeast—north central part of the United States.

I can assure you this is not the case. I have visited many cities in different parts of our country as a member of the Legislative Action Committee of the U.S. Conference of Mayors. I have seen the older cities in worse shape than Phoenix, but I have also seen in the younger, growing communities the initial symptoms of the very same problems that exist in our older urban areas. With adequate financial resources these younger cities could solve their problems now far more effectively than will be possible if they are allowed to reach the critical stage.

Gentlemen, I submit to you that we have a national problem—no, much more than that, a very real crisis—in cities and towns in the northeast, southwest, far west, middle America; it exists in varying degrees in most of our cities and towns, large and small; in those with declining populations, places with stabilized populations and even those communities with growing populations.

These problems are caused by a simple and widely recognized economic fact. The costs of local governments are rising much more rapidly than revenues from established sources. To further intensify this revenue expenditure gap, there is a trend toward preemption by the state of revenue sources available to municipalities.

I believe there is an inherent flaw in the tax structure and revenue distribution system that currently operates among federal, state and local governments. Public monies are not adequately available to those public officials most immediately concerned with solving our problems. There is clearly a need for a change in the revenue distribution itself. General revenue sharing is the beginning of such a change. It represents recognition of the fact that our current local revenue raising mechanisms are inadequate. It seeks to rectify the inequity and return to local communities some of their own tax dollars so that they can solve their own problems with maximum local initiative. The proposed revenue sharing bill does this in an equitable manner. It also allows for appropriate Federal controls, which is certainly necessary.

On the surface Phoenix is a healthy community, growing rapidly and expanding its geographic and economic base. But despite its rapid population growth and increasing geographic size through annexation; despite the infusion of diverse business enterprises into its economy; despite outstanding bond ratings and a fiscal management reputation unsurpassed in the United States, Phoenix and cities like it are in trouble.

It is becoming increasingly difficult to meet the reasonable demands for services which are justifiably placed upon us by our citizenry. The major cause of these unmet needs is inadequate financial resources. The cost of providing services is increasing at a rate much greater than our revenues. A recent financial study by the State of Arizona reported that even if Arizona cities freeze services at present levels, by 1975 expenditures would have increased 56% while revenues would have risen by only 42%. This would create a \$36.8 million revenue gap in the cities of my State, including nearly an \$18 million deficit in Phoenix alone. By 1980 revenue is predicted to increase by 91%, compared to an expenditure rise by 171%. This would bring about a \$102 million revenue gap in the entire State with \$60 million of that in Phoenix alone.

In balancing our budgets we have found it necessary to cut back several city services; although these cut-backs have not yet involved actual reductions in Phoenix municipal staff. Many programs have in fact been reduced simply because they have not been improved or increased at the rate needed to match our growth. Although it would not show up in our budgets or other financial reports, Phoenix has not been able to undertake much needed programs to meet our critical social and economic challenges. Most important, the lack of financial resources has stifled innovation. We are forced to continue to operate from a defensive position—trying to catch up when we should be moving ahead innovatively and aggressively to properly serve our citizens.

Let me emphasize one point. We are not just saying that cities are having trouble financing new and improved services. My city faces serious financial difficulty just trying to maintain basic services—police, trash collection and the like.

The nature of the urban crisis requires a commitment on the part of every level of government. Ultimately, I believe the Federal government will respond with additional financial assistance in some form. Our concern is that this assistance be provided in realistic amounts and in a manner that will truly help the cities in this nation solve critical urban problems.

We support general revenue sharing—a plan where the Federal government will provide funding to the state and local governments with minimum restrictions on the use of the funds.

We support general revenue sharing over all of the other well-intentioned plans to help ease the financial burdens of the cities. I firmly believe that in Phoenix our city government working in cooperation with our citizens, is able to do the best job in meeting our community needs. I believe that city government is in tune with the needs of the people and is at least as competent as the Federal government.

To those who scoff at our plea and say that dollars will not help us because we have been unable to solve the urban crisis with all of the monies made available to us in the past, I say you are wrong. To those who say the answer does not lie in more federal assistance but in improvements in local government management, I say you are wrong. Competence and professionalism are the rule in local government rather than the exception. We in Phoenix, both the elected officials and citizenry at large are extremely proud of the strong management team in the City of Phoenix. Of course, we are constantly working to improve our governmental organization, but feel that we are one of the best managed cities in the country. Yet we too have the severe urban problems that we all know exist in the cities of our country. Our problems may not yet be of the magnitude of the older cities but they are just as painful to those affected.

I sincerely believe we have the capability but not the financial capacity to deal with these problems. Urban problems are complex. To deal effectively with them, they must be diagnosed and treated as they exist in each local community, and not as they are thought to exist on a uniform national basis by a central bureaucracy in Washington.

We have the unique ability, with the direct assistance of our citizens, to plan and administer the remedy. We just do not have adequate financial resources to produce lasting solutions to our problems.

We are asking therefore, that you give a higher priority to domestic problems by providing additional funds for solving urban problems and that some of this money be in the form of general revenue sharing.

We are not seeking revenue sharing as a panacea to urban ills. State and local governments have been making greater and greater commitments themselves, and will continue to do so. But these efforts are no longer sufficient. Revenue sharing alone is not the answer, but is a vital part of the solution. We also recognize the effectiveness of categorical grants to achieve national objectives. However, we hope that you can recognize their limitations, and realize that alone they are not the answer.

Revenue sharing is not an attempt by local officials to avoid their responsibilities and held accountable for urban problems for a long time. Unfortunately, many of the tools needed to carry out these responsibilities are not available. Revenue sharing would help us to meet our responsibilities.

Revenue sharing is also not a hand out, as some have stated. It is a means to return to local governments, in an effective manner, a portion of the funds collected from local residents through the income tax. I feel this is a much more desirable approach than imposition of local income taxes across the country.

Revenue sharing money will not be wasted. We currently have tight controls over our spending, regardless of source, plus a watchful citizenry, including an independent audit. And we welcome any other audits that the Congress determines to be necessary for revenue sharing funds.

In the final analysis we are asking you to trust the American people to have the ability to work out solutions to their own community problems.

The CHAIRMAN. If I might just interrupt you for just a moment and then I will turn it back over to you, the Senate is at this moment, as evidenced by those three white lights on the clock there, in the process of seeking a live quorum in order to do business. Some of us are going to stay here and miss that quorum call in the event they can achieve a quorum without us but that explains the fact that some of our Senators have had to depart while you were testifying, Mayor Driggs, and we may be called by rollcall votes soon and if that is the case, some of us will have to depart to go vote and we will come back and simply suspend the hearing and ask you to remain here until we get here. That might keep us away from you about 8 or 10 minutes, if that is the case.

In order to move this legislation along as rapidly as possible I scheduled hearings and asked the consent of the Senate to meet while the Senate is in session, which consent was given, but that does not relieve us of our responsibility to vote when they have rollcalls or to help to make a quorum if they cannot get it without us.

Proceed now.

Mayor LANDRIEU. Thank you, Mr. Chairman. We will try to speed up our testimony.

The CHAIRMAN. That is perfectly all right. I am not complaining but I am just pointing out if some of us have to depart, that is the reason.

Mayor LANDRIEU. With your permission, we will deviate from the alphabetical order and ask those at this table to finish before we go to the next table.

Mr. Henry Maier, mayor of the city of Milwaukee and immediate past president of the Conference of Mayors.

**STATEMENT OF HON. HENRY W. MAIER, MAYOR OF MILWAUKEE, WIS., AND IMMEDIATE PAST PRESIDENT OF THE CONFERENCE OF MAYORS**

Mayor MAIER. Thank you, Mr. Chairman.

As I begin this statement, I cannot help but recall that it was a distinguished U.S. Senator, Senator Paul Douglas, who in my opinion really initiated the idea of revenue-sharing. You will recall, Mr. Chairman, that Congress authorized a million dollar study dealing with the ills of the cities, one of the remedies proposed, was revenue-sharing.

Well, in those 4 years since the study was completed the problems have not gone away. As a matter of fact, the National Urban Coalition says in its last report that they have intensified. But, Mr. Chairman, it is certainly a mark of progress that today we are talking seriously about specific legislation to put into effect a form of one of the Douglas Commission's proposals. And the fact of the matter is that today, as other speakers have articulated, our cities are required to solve what are basically national problems with a local property tax.

Mr. Chairman, our cities are overburdened with attempting to pay the cost of education, the cost of poverty, the cost of health, and the cost of police with a tax that was never intended to take on these particular functions, because the property tax was originally a tax that was designed for fire and sewage and garbage. And I might add, Mr. Chairman, without malice or prejudice, that this has been one of the most difficult things that we have had to project to the Members of the Congress of the United States as we have been down here attempting to tell our story; that we are really trying to finance some of the most fundamental matters of social overhead affecting the domestic welfare of the United States of America with a tax that was built for fire and sewage and garbage and now has to carry the cost of education, the cost of police, the cost of health, and all the poverty-linked costs.

In my city, for instance, for just standard housekeeping services, due to the tremendous influx of in-migration, we have had linked to such matters, as fire and police and health an estimated \$31 million of poverty costs. This is exclusive of welfare.

Now, in many respects, Mr. Chairman, the city of Milwaukee is actually better off than many of its sister cities. We have the best credit rating of any city of our class in the United States. It is a AAA rating. But yet at the risk of boring you, let me give you some of the details of what we faced in our last budget period.

We reached a point where every budget period in our city is a period of crisis. Now, our citizens pay the highest property taxes in the State and possibly the second highest rate in the country among cities of our class. In other words, our tax effort, Mr. Chairman, is recognized as one of the greatest tax efforts in the United States. If you live in a house in Milwaukee which is worth \$20,000, which is not a mansion by any means, your property tax bill is \$947, almost \$80 a month.

Now, this, of course, represents a crushing load. Now, our budget problem is also contributed to by the fact that State law, as happens in most States, places a limit on our tax rate for operating expenses and we are at that limit. We have reached a point where our main budgetary decisions focus upon where we must cut back not where we can begin to improve the quality of life in our city.

For example, when we started our 1972 budget hearings we had before us minimum budget requests from our departments for necessary services which were \$30 million higher than the 1971 budget. The budget examining committee, which I chair, cut these requests by \$18 million but we were still faced with a gap of about \$12 million between our budgetary needs and our statutory taxing ability.

Now, to close this gap, we were forced to freeze about \$3.7 million of the departmental appropriations which can only be unfrozen if new revenues are found. We had to shift \$3 million in equipment pur-

chases from our operating budget to our capital budget. We withdrew everything that we had in our tax stabilization fund, which amounted to \$10.3 million.

Now, the purpose of this fund, which is made up of surpluses from previous years, is to enable us to cushion abrupt increases in expenditures. Now we will have no fund to draw from in the year 1973, and I advise you gentlemen this is one of the most conservative fiscal cities in the United States. And again, I say we do this in the face of a AAA rating which will be some day, if we have to continue these practices, in jeopardy.

We shifted \$5.6 million of our capital budget from cash financing to borrowing and this, of course, was no real solution to the problem because it only means higher debt payments in the future.

Now, as a result of these internal housekeeping operations, instead of giving our departments the additional 342 positions which were requested, we decreased their force by 90 positions. Instead of 243 new men that the police department was demanding, we were able to allow for only 15 positions in badly needed areas. Instead of granting the library 17 new positions, we eliminated 18 existing jobs and as a result, our library hours have been curtailed. We cut 93 jobs out of our bureau of sanitation which has affected the frequency of our garbage and trash pickups.

Now, in effect, here is a city with a long reputation for the excellence of its housekeeping services and it is now being forced to merely get by, but you can only get by so long because pretty soon your house starts to fall apart if you do not give it the maintenance it requires. And our contemplated budget situation, Mr. Chairman, is going to be even worse because our initial estimates indicate that we are going to need about \$5 million over our statutory tax limit for operating purposes just to maintain our present line of services without taking into account any form of salary increases. And by State law we are required to bargain with 19 city unions and if their increases this year are within the Pay Board guidelines of 5.5 percent, the cost will be an additional \$5½ million.

So, if I am asked where we would use our share of municipal fiscal assistance, I cannot say that it will be used to increase our services in any way. If we get our share, which is estimated to be about \$8 million for Milwaukee, it is going to have to be used just to help us make ends meet and to keep our head above water.

Now, this is not a very exciting answer to this thing, I know, and it does not paint a very vivid picture of the lasting civic monument in the name of these funds. But the funds are most important, nevertheless—in the same sort of way that oxygen is important to heart patients, to help us survive.

Thank you, Mr. Chairman.

(Mayor Maier's prepared statement follows:)

PREPARED STATEMENT OF HON. HENRY W. MAIER, MAYOR OF MILWAUKEE, WIS.

Mr. Chairman and members of the Committee: Other members of the Mayors' panel are addressing themselves to the positive case for revenue-sharing. I think it might be helpful if I addressed myself to the arguments raised by the opponents of revenue-sharing.

The principle argument we encountered in the House debate, which was put forth most strongly by House Appropriations Committee Chairman Mabon was that State and Local Fiscal Assistance would break the budget, increase the deficit and feed the fires of inflation.

First, this argument creates the false impression that state and local financial assistance is an "add-on" to the budget, whereas it is included in the President's budget.

We mayors find it rather strange, therefore, to hear it said that the item in the budget which provides help for the cities saddles the country with a crushing burden of national debt while the vastly larger appropriations in the budget for defense, aero-space, interstate highways, agriculture, the merchant marine, etc. do not.

I do think it is an ironic coincidence that the \$5 billion-plus which Secretary of Defense Laird estimates will be the additional amount spent in Vietnam between the start of the current North Vietnamese offensive and December 31 of this year is the same amount being requested for state and local fiscal assistance.

A similar argument is that put forward by the Tax Foundation in a recent Wall Street Journal editorial that it is the federal government which suffers the real fiscal crisis, whereas state and local finances are in such good shape that we should be sharing our revenues with poor debt-ridden Uncle Sam.

This argument ignores the fact that the federal government has had three major tax reductions in the past decade, plus a 1971 reduction of \$22 billion. Meanwhile state and local taxes are rising at a rate of \$3 billion a year, the bonded indebtedness of municipal governments has tripled since 1955, and state and local governments face a staggering gap between revenues and expenditures of \$67 billion by 1975.

The best answer to both of these arguments was provided by the House Ways and Means Committee when, after three years of consideration, eight volumes of testimony totaling 1,500 pages, 100 witnesses, 35 days of executive sessions they found: (1.) That there is a fiscal emergency among the cities of America, (2.) That the federal government has a clear responsibility to help state and local governments meet this emergency, and (3.) These needs must be given no lower priority than any other national spending requirements of the federal government.

Other opponents take the position that action by the Congress on State and Local Fiscal Assistance should be coupled with tax reform. Without getting into the merits of whether federal taxes should be increased or reduced, or what form those increases or reductions should take, I do take the position that State and Local Fiscal Assistance is, in itself, a first long step toward far-reaching tax reform.

It is tax reform which recognizes at long last that the local property tax was never intended to pay the cost of alleviating social and economic conditions of national proportions just because the majority of victims of these conditions happen to reside in our cities.

It is tax reform which recognizes at long last that a portion of the revenues collected by the only universal progressive tax must be directed to attack the major problems which face our nation right at their source—in the cities of America where the overwhelming majority of Americans live.

It is also tax reform in the sense that to the extent that revenue-sharing is substituted for state and local taxes that would otherwise be collected to support the same expenditures, the effect would generally be favorable to lower-income groups, since state and local taxes are more regressive, and fall more heavily on low and moderate income groups, than does the federal income tax.

Other opponents take the position that the cities' problems are being solved by the sharply increased amounts of categorical aid programs, and to the extent that they are not, the problems should be solved by increasing the categorical aid programs.

What this argument loses sight of is the fact that there are two kinds of poverty which exist in the cities. One is the poverty of the individuals who live there. The other is the poverty of the city governments themselves.

Ninety percent of the funds credited to the cities and states come not from HUD but HEW and are intended to alleviate the poverty of individuals through welfare benefits, food stamps, medical care, etc. But these payments do not decrease the need for basic municipal services such as trash and garbage collection, police and fire protection, repair and cleaning of streets, education and the

whole myriad of municipal services. Hopefully they may in the long run reduce the costs of some of these services. But certainly not in the five years covered by the state and local fiscal assistance act.

Even the HUD programs, by stimulating new services, requiring local matching payments and creating new capital facilities which bring on additional local operating costs, add to the local tax burden.

As a mayor who is about to begin his budget review process, I can tell you that in recent years the growing number and variety of federal grants-in-aid to state and local governments have greatly complicated the planning and budgeting tasks of those governments. Each federal grant has its own formulas, conditions, and cost-sharing arrangements. As a result, the services and operations of state and local governments have become increasingly contingent on decisions made in Washington. Especially in recent years, the problem has been compounded by uncertainties and delays in the federal budget process. Appropriations for grants-in-aid have frequently been passed by the Congress long after the beginning of the fiscal year to which they pertained.

One result of revenue sharing would be to increase the budgetary control and decision-making power of state and local governments. It would reduce the role of federal bureaucracy and allow state and local officials more freedom to design programs to suit local conditions.

Others contend they are for revenue-sharing in principle but want to amend the bill which passed the House because they feel the formula favors the states, or the cities, or the suburbs, or the counties, or some of the cities, or some of the states. Or they contend that prevailing wage standards may not be enforced by some small municipalities in some section of the country. They are for the bill, but they would like to amend it, make it more perfect, they say.

If the mayors of the big cities were writing a bill which would best serve the interests only of the big cities, we would write a different bill than the one you have before you. But you know, and we know, that a bill serving the interests of one limited segment of our country could not pass the Congress.

The bill you have before you has grown out of prolonged negotiations among the National League of Cities, U.S. Conference of Mayors, National Governors Conference, and National Association of County Officials in the first instance; and then further negotiations between these groups and the National Administration, and finally negotiation among all of these groups, the National Administration and the House Ways and Means Committee. It is the judgment of all of these groups, which is borne out by the overwhelming vote of approval by the House of Representatives, that this is the bill which satisfies the basic interests of all parties concerned which is capable of being enacted this year by the present Congress.

In view of the planned recess for the Republican Convention and the early election-year adjournment hopes of members of Congress, we all know that the only hope we have for a bill reaching the President's desk for signature lies in passage by the Senate of a bill close enough to the House version that it can be easily reconciled in Conference in a minimum amount of time.

Finally, there is the group of opponents who claim that the cities have been crying wolf in their repeated statements over the years that the cities are on the verge of bankruptcy. "What cities have gone bankrupt?" they ask.

Cities don't file in bankruptcy as does a corporation, but any corporation in America would have filed in bankruptcy years ago if they had to operate under the following conditions which apply to the cities:

1. What corporation can survive if soaring debt charges were eating away the cash required to produce its product which in our case is municipal services. Debt which in the case of some cities is being run up to meet current operating costs. The capacity to borrow at all without paying prohibitive interest charges resting solely on the tax exemption of municipal bonds.

2. What corporation could remain in business if it were forced continuously to reduce the quality and quantity of the product it produces—which in our case is municipal services.

3. What corporation could keep out of bankruptcy if it were forced to raise its prices so high it drove its customers into the hands of its competitors—as cities must do when they are forced to raise their taxes so high that they drive their wealthier members into the suburbs.

The cities will have plenty of revenue, the Tax-Foundation claims, if they continue to impose taxes at increasingly confiscatory rates. But we are not Kings who rule by divine right. If we impose confiscatory taxes, the taxpayer has a choice. He can vote with his feet. He can flee to the suburbs. And we are left with those too poor even to flee, or those who are prevented from fleeing by the discriminatory housing practices of the suburbs.

Congress must recognize that State and Local Fiscal Assistance is one of the most pressing needs of the nation, at least on a par with all other spending requirements of America. We urge that you move quickly on a version close enough to the House-passed version that final enactment this year is assured.

Thank you.

Mayor LANDRIEU. The Honorable E. J. Garn, mayor of Salt Lake City, Utah.

#### STATEMENT OF HON. E. J. GARN, MAYOR OF SALT LAKE CITY, UTAH

Mayor GARN. Mr. Chairman, I appreciate the opportunity to appear before you today. I suppose a lot of people feel Salt Lake City has no problems. I constantly hear in comments about how we are a clean, nice city with no problems of the poor and ghettos.

I can echo what the other mayors have said and will say about the crisis of the cities, but in order to be brief, may I just tell you a little bit about the problems in Salt Lake City.

We have doubled our budget in the last 10 years, literally doubled it, and yet have had a decrease in population. People now will ask why do you double your budget when you have a decrease in population? Our population has gone down 7.2 percent but the unincorporated suburbs around us have increased by 50 percent in that same period of time. So we now have a population of 175,000 but we serve a metropolitan population of 537,000.

Some 80,000 people work in Salt Lake City who do not live within the city limits. Our population doubles on an average working day to around 350,000. These additional people who work and use the city for various purposes, help wear out our streets; and they require police and fire protection. Already our budget increases are almost entirely due to the fact that there are thousands of suburbanites who use the city but do not pay their fair share of the city taxes. Consequently, our residents are called upon to provide services far beyond their own population.

We are the heaviest taxed residents in the State of Utah. We have a concentration of minority groups within the city; a concentration of disadvantaged citizens; a concentration of elderly living on fixed incomes. And our major source of revenue is the property tax. Therefore, those who can least afford to pay a property tax are those who are called upon to provide the city services—services that are used by a suburban population of half a million—a population that practically surrounds us.

We have a situation where 68 percent of the crime in the metropolitan area is committed within the limits of Salt Lake City and yet we have only 36 percent of the policemen within that area. A recent community improvement program study shows that 40 percent of all the property within Salt Lake City is below code standards. Forty per-

cent of all of our property within Salt Lake City is tax exempt, due to the fact that we have a concentration of governmental agencies, of church, charitable, and educational institutions within the city.

So we face problems that our 175,000 residents cannot continue to bear. They can not be expected to take on an ever-increasing tax burden to support all of these people who live around them.

We have attempted to go through the legislature and have had the same troubles I suppose most of these mayors can tell you about. State legislatures have not been responsive to the needs of urban America.

Let me give you one example of crime and what additional policemen can do. Through the influx of the PEP program funds last year, we were able to hire 60 additional policemen and the crime rate in the first 6 months of 1972 in Salt Lake City decreased by 14.4 percent, the first time in the last 10 years there has not been a decrease in crime. So we would primarily use revenue sharing money in the area of code enforcement, bringing our housing up to standard, and in the area of law enforcement and fire protection.

The average age of our fire equipment is in excess of 20 years of age. We do not have adequate policemen or firemen in either one of those areas.

Another area that we would need to use this money in is in the area of transportation. Forty percent of our entire capital improvements budget for Salt Lake City in the past 3 years has had to be diverted to subsidize the local transit authority which is really robbing Peter to pay Paul. And this is what we have done in our budgets during the last 4 years, used one-time revenues to balance our budget. In the 1972-73 budget only 85 percent of the revenue is reoccurring.

Each year we are trying to find replacements for 15 percent of our total general fund budget. Each year we have imposed upon us, by other governmental agencies \$1 million of costs that we have no control over that are imposed upon us without funding.

Salt Lake City, although it may look like a lovely city with few problems, and Senator Bennett and I are very proud of it, nevertheless is a city with a severe financial crisis. We do urge your support of this revenue sharing for the cities.

Thank you.

Mr. Landrieu.

(Mayor Garn's prepared statement follows:)

**PREPARED STATEMENT OF E. J. GARN, MAYOR, SALT LAKE CITY, UTAH**

Salt Lake City is unique among many American urban communities, having fashioned an outstanding record of municipal performance and progress at minimum cost while operating on successive economy budgets over the past decade. In its budget for general operations, ranging from \$10 million to \$21 million, in this ten year period:

A. A deficit of over \$2 million resulting from a change in its fiscal year has been absorbed.

B. About 45% of its annual increases in expenditures have been for new services and related costs.

C. Of the increase for normal services, 85% has been spent for adjustments in salaries and wages, necessary to upgrade a very low compensation structure.

D. All of the increases in operating costs, (other than salaries), resulting from inflation have been absorbed, in fact, these expenses have actually been reduced by an average of \$100,000 per year.

E. 48% of its purchases of departmental equipment have been paid for out of voluntary savings.

F. Only \$1,500,000 of new local revenues have been made available to the city, equal only to 7% of the current annual budget.

Continuing demands for new services and unrelenting cost increases have tightened economy budgets to unbearable levels. Our city has operated for the past four years on a series of one-time revenue sources necessary to balance the budget by, "plugging the dike". In its latest budget, self-generated annual recurring revenues cover only 85% of the amount required for operations.

Service areas in which expansion is needed include police and fire forces, still well below the national averages, streets, parks, other public property and improvements and general government costs. There is no local funding for expansion of such services in sight at all.

A highly critical area of the city's financing problems is the composition of its revenue structure. Typical of many middle-sized American communities, revenue sources consist primarily of those characterized by static or slow-growth, such as the property tax. Under Utah law, cities are restricted from access to revenue sources responsive to the forces of economic growth. Two other serious deterrents are: (1) that the impact of inflation on salaries and operating costs has outstripped the growth in our normal revenues, and (2) that such existing revenue sources are now at or above tolerable public limits. Other aggravations include significant losses in revenue from state legislation repealing the property tax on business inventories.

The availability of certain federal categorical grants has helped fund new programs, largely in the social services area. However, they have tended to multiply the city's basic financing problems; they frequently require matching contributions, for which local funding is not readily available, and there is no built-in assurance of their annual continuation. A recent example is the financing of 5% of our city's total general fund budget by funds from the Federal Emergency Employment Act. Unrestricted grants in the form of revenue sharing offer perhaps the only effective solution to this fiscal dilemma.

The characteristic shift in population away from urban areas is likewise experienced in Salt Lake City. The city's population declined 7.2% during the 1960 decade, while the unincorporated area, surrounding our central city, increased 47.8%. The residents in the outer area who work and shop in the central city expect and widely benefit from the high quality municipal services our city is required to provide for a metropolitan population of 557,635 people. Our central city population is 175,885 persons, who largely foot the bill. These population changes have resulted in an exodus from our urban area of the middle-class, taxpaying citizen group, leaving in the core area a concentration of minority groups, elderly citizens, disadvantaged persons and others financially unable to support the required level of urban services. For example, 63% of the crime in our metropolitan area is committed within the boundaries of Salt Lake City. The city police force comprises only 36% of the law enforcement group in the entire metropolitan area. In addition, Salt Lake City has for the past three years spent about 40% of its annual capital improvements budget to subsidize the local transportation system.

Although I totally support the concept of revenue sharing as a much improved method over present federal aids that support specific functions rather than levels or units of government, some 500 specific services rather than the general state-local level of government, I do feel that H.R. 14370, as passed by the House of Representatives, does not respond adequately to the desperate plight of our core cities.

Speaking for Salt Lake City, our residents bear the highest total tax burden in Utah; we have the highest concentration of disadvantaged; the highest concentration of minority groups; the largest concentration of elderly living on fixed incomes; 40% of our property is tax exempt, due to the charitable, educational and governmental institutions in the city, and yet H.R. 14370 provides nearly twice as much revenue for our affluent unincorporated suburbs as it does for the central city with many more serious needs.

Without any consideration of need or tax effort, a simple population distribution would provide double the amount of revenue for Salt Lake City. I feel very strongly that if the critical needs of core cities are to be aided, the formula must include, not only population, but local tax effort and need based on poverty

and recognizing the serious fiscal situation that exists in localities that must provide services to nonresidents (commuters). Salt Lake City's population is doubled every day by those who use the city but do not live within its boundaries.

I cannot emphasize too strongly that the success of revenue sharing depends critically on the ability of Congress to devise a formula that will allocate enough funds to the urban areas where the financial crisis is most severe.

**MAYOR LANDRIEU.** Mr. Chairman, Roman S. Gribbs, mayor of Detroit, Mich.

#### **STATEMENT OF HON. ROMAN S. GRIBBS, MAYOR OF DETROIT, MICH.**

**MAYOR GRIBBS.** Thank you, Mr. Chairman, gentleman of the committee. I will be very brief, not only because the preceding speakers have been convincing; but because the problems of urban America have been sharply defined and their solution lies in the bill that you are considering today.

I believe that it is absolutely vital and critical that aid to local governments be given a prominent place in the list of national priorities. Our city halls have become the amplifiers for the legitimate needs and aspirations of the urban masses. Believe me when I tell you that the volume is loud! The message is clear—we need help, and we need it now!

A quarter century ago, this Nation made a massive commitment to aid the devastated cities of Europe in the \$17 billion Marshall plan. We did so—quite appropriately—so that an entire generation of European children would not be forced to grow up in squalor, filth, and ignorance.

Today, we must make a similar commitment to the current generation of American youngsters.

The other mayors have given you the scope of the commitment necessary in their cities. Let me do the same for Detroit—very briefly.

As you know, we are a city of over 1½ million people, the fifth largest city in the country.

Just to cite one example, our unemployment rate has not been below 10 percent for more than a year, and it was 12 percent in June. This has increased the demand for services and at the same time reduced our ability to provide them.

At various times over the past 2 years I have been forced to cut 3,000 jobs from our city payroll due to lack of funds to finance basic services. That is 12 percent of our total work force. One thousand were layoffs, and 2,000 more were jobs that were not filled when they became vacant through normal retirements and resignations.

This means, of course, that the vital, day-to-day services such as sanitation, public safety, park maintenance, and public health are seriously reduced.

The very simple truth, gentlemen, is that we are today—now—in the midst of financial chaos in the cities of America. And it has been proven time and again that fiscal chaos leads to social chaos.

The urban crisis that you have heard so much about is in large measure the result of that fiscal chaos. Please remember that 70 percent of our Nation is urban.

Gentlemen of the committee, as I said, we are in the midst of fiscal chaos now. We must have your help so that it does not become social chaos.

I urge you to support this legislation and to pass it with the greatest possible dispatch. The people of the American cities depend on you just as the people of Europe's war-torn cities depended on the postwar Congress 25 years ago.

We desperately need the bill now. It will not solve all of our problems but it will at least allow us to survive.

Thank you.

MAYOR LANDRIEU. Harry G. Haskell, mayor of Wilmington, Del.

#### STATEMENT OF HON. HARRY G. HASKELL, MAYOR OF WILMINGTON, DEL.

MAYOR HASKELL. Mr. Chairman, it is a privilege to be with you here this morning, and just so that my more conservative Republican colleagues do not get the wrong idea, occasionally Senator Douglas does do a good thing historically, Henry.

I am here as mayor of a city that has shrunk by 50 percent. I had the National Guard in my streets longer than any other city since the Revolution. I hope we may sound a little emotional about how we feel about revenue sharing as a basic philosophical change in American government. We hope we can gain an understanding from the Congress, and as a former Member of the Congress, I have an understanding of how you want to designate your funds, but as a businessman I would plead with you that it is essential in our Federal system that we find a way to give the funds directly to the local governments. They are the ones who have to administer those funds and we must have confidence in their ability to manage those funds. They must be allowed to set the priorities on a local basis, rather than being constantly restricted to the narrowly defined categorical grants.

We realize that you have to make basic priority designations. What we see in revenue-sharing is a bill that gives to us, who do not have a solid revenue base to manage our cities, funds to solve our problems; it gives us the ability to set our top priorities; and, I have to be perfectly honest, and I think I speak for the rest of my colleagues, the money that you give in revenue-sharing will go into my regular budget. I have to raise and lower taxes to my local people based on what is in my budget, and I am very frugal with that because the lid is on us. It is tough, as all these men have said, to raise these funds.

So we want you to realize that when you create a Federal program and give us the funds in a separate program—we do not have to manage that affair with the same sense of personal selfish interest that we would when you give us these revenue-sharing funds in the general revenue-sharing bill before us.

We think that this step in faith, if you will, by the leadership of the Congress, and supported by the President, and absolutely bipartisan in effort to get sufficient votes and understanding, is vitally necessary for the survival of our cities. We hope that you will support this concept, this chance of giving us the opportunity to judge whether we ought to build a park or whether the money ought to go into education or whether it ought to go into police services.

Each city is a little different. These funds do give us flexibility and you will get more mileage out of these funds than any other funds that the Congress can give the cities of America.

Thank you very much, Mr. Chairman.  
(Mayor Haskell's prepared statement follows:)

PREPARED STATEMENT OF HON. HARRY G. HASKELL, JR., MAYOR OF WILMINGTON, DEL.

Mr. Chairman, Members of the Finance Committee: I am Hal Haskell, Mayor of Wilmington, Delaware. The message we seek to impress upon you here today is that the needs of America's cities must be the highest priority today at all levels of government.

The general revenue sharing measure that you are considering is of paramount importance to every American City, to many of us it means the ability to continue coping with the complex overabundance of problems we face as chief executives.

The President's initiative in seeking general revenue sharing and the coalition of supporting legislators who have worked for three years to make this concept a reality is the greatest hope, a true indication that leaders at the federal level recognize the critical problems being faced in our nation's cities.

Revenue sharing will provide a more adequate amount of monies for the local officials to work with. As scheduled, it will provide these resources at a steady projected rate over the course of several years. And, it will be a step in the direction of allowing local officials to establish their own priorities.

We feel strongly that the vast majority of local governments have the initiative, the perspective . . . the overall management capabilities to use the general revenue sharing monies to the best advantage in their area.

For the problems faced by one City may not be the same as in other cities. One city may have a critical need for improved transportation, another may need to improve its streets, another may face a water supply crisis. By giving the responsibility for spending these new resources to those directly affected—and with the stringent audit control—we can best improve our individual cities.

The staggering rise in costs in operating a City in recent years has put upon our people crippling tax increases. The bonded indebtedness of municipal governments has tripled since 1955. Many of our cities have exhausted every means of taxation and therefore are forced to cut back services, reduce the employee level, place user taxes upon our people.

Well, gentlemen, we as Mayors can tell you quite candidly that we are at the end of our rope. There is nothing left to tax. Our tax base has shrivelled up. We need the assistance that is general revenue sharing and we needed it yesterday.

For three years, representative mayors from the United States Conference of Mayors, the National League of Cities and the Legislative Action Committee have pleaded for passage of the President's revenue sharing measure. We have delivered our message of need and support of the general revenue sharing across the country. We have met with President Nixon, with the leadership of both major parties on several occasions; we have met with congressional delegations, with Wilbur Mills, with you Mr. Chairman, both in your home state and in your office here.

And at every turn we have heard of the concern for America's cities. We have heard of the overwhelming grassroots and political support for general revenue sharing. We have fought and secured votes when the bill appeared in trouble.

Today, we appear here to tell you the day is now upon us. Our cities and their responsible leadership cannot wait any longer. The needs of our people demand our combined efforts if America's cities have any hope of retaining their role in our nation.

General revenue sharing is not the sole answer to the plight of America's cities. It is but one small step on "the way back." But it is the first step—the most critical step—and one that must be made now.

My City of Wilmington, Delaware, does not face the immediate death knell if general revenue sharing does not become a reality. We have been fortunate in the past few years and have managed to change the course of Wilmington. We have reduced property taxes, increased drastically aid to education, improved middle management, attacked with force the housing problem and the menace of drug abuse. We have turned our City around.

But other cities, Newark, New Jersey, Detroit, Michigan, to mention but two of them, are in untenable positions. They are on the brink of bankruptcy and have already suffered deeply by forced reductions in services, in the layoff of City employees.

Ken Gibson and Roman Gribbs are two competent City officials. Talented men, with strength, leadership ability, local support and the courage to lead great cities in these troubled times. But without the resources, no one can do the job.

This is our last stop, gentlemen. General revenue sharing—under whatever name—has cleared the Congress. It waits for your recommendation, your action. Untie our hands. Give us one of the tools to better America's cities. Revenue sharing, if followed up with additional programs geared to urban America, can help us rebuild our cities.

Of course, there is a bright ray of sunshine at the edge of every storm. And perhaps, we the Mayors of America's cities should thank the Congress for taking so long to finally act on the most crucial issue facing this nation, the future of her core cities. Because, through the slowness of Congress—the inaction in the early days following the President's recognition of our problems in the cities—you have strengthened us.

Never before have the Mayors of America's cities banded together so resolutely. We have banded together not as Republicans and Democrats, but as Mayors. We have worked and struggled and fought together without regard to political party, in a true sense of togetherness, in a manner that transcends even the deepest political roots. So the Congress will be hearing more from America's mayors. We are united on behalf of our cities. Do not expect us to play dead: after the passage of general revenue sharing because we've got a long way to go and we're going it together. With the continued support of the President and leading members of Congress in both Houses and from both parties we can win the fight to recreate and redirect the cities of America.

**MAYOR LANDRIEU.** Richard G. Hatcher, mayor of Gary, Ind.

#### **STATEMENT OF HON. RICHARD G. HATCHER, MAYOR OF GARY, IND.**

**MAYOR HATCHER.** Mr. Chairman, members of the committee, I would like to express my appreciation for being here, and I might say that the efforts put forth by the League of Cities to get me here were apparently in vain. My Senator apparently did not—was not able to be here this morning, but I am pleased to join with my fellow mayors in indicating my own very strong support of the legislation before you.

I think it has already been very articulately pointed out that this is not a perfect bill. Without reciting all of the problems that cities are faced with, and problems which constitute a great crisis for every city in this country, I should point out that an appropriation perhaps 10 times that which is contained in this bill would still not be sufficient.

At the very least, I would hope that serious consideration would be given to providing for some reasonable level of funding growth over the 5-year period of this legislation. And I, at the same time, would also applaud the notion of establishing of revenue sharing on an initial 5-year basis. I think that reflects a realization that funding programs on a year-to-year basis makes it very difficult to plan at the local level.

While the elimination of the maintenance of effort stipulation in the House version of this legislation produces the net effect of general unrestricted use of moneys at the local level, I remain convinced that Federal earmarking of moneys is not wise and is in effect not good in

terms of the concept of local establishment of priorities. I share fully the concerns, and this is extremely important to me, Mr. Chairman, the concerns of many with respect to this bill relating to the basic constitutional safeguards affecting the use of the funds. I am hopeful that those constitutional safeguards will be vigorously enforced if this bill is, in fact, passed. With funds contemplated to go to more than 38,000 separate governmental units, the monitoring mechanism needs to be substantial. I feel strongly that efforts must be made to assure that the distribution of funds under revenue sharing is such that the money goes to those communities in the greatest need.

I recognize the validity of partially attaching distribution to State and local taxing efforts, and I have no particular quarrel with the urbanization factor except that it potentially has some unfortunate ramifications in terms of substantial moneys going to communities not in need.

If revenue sharing is not designed to be of special assistance to the have-nots among our Nation's communities, it seems to me that it is not a worthwhile concept. I hope that is not the case and that this committee will strive to develop this legislation accordingly.

Finally, while it is not involved in the legislation under consideration, I would hope that steps could be taken shortly to effect some of the consolidation measures embodied in the various proposals on special revenue sharing. Providing local communities with bloc grants for use within broad areas of programs would, I am certain, allow for a more effective utilization of those moneys.

This legislation that is currently before you will provide the city of Gary, Ind., with approximately \$21½ million for the current fiscal year. I would like to identify very quickly certain priority needs, and attempt to show what we would hope to accomplish with these funds.

Crime control represents an area of great need in our community, as I am sure in many others. Recognizing this, we commissioned an extensive survey of our police department more than a year ago by the International Association of Chiefs of Police. That study was just completed a few months ago, and what has evolved is a plan for a major reorganization of our police department, coupled with recommendations for substantial capital expenditures in the area of physical facilities, vehicles, and other equipment. The additional cost entailed to bringing the department's vehicular capability to an adequate level will run in excess of \$400,000. The increased costs required to engage additional personnel to adequately staff the police department is estimated to run about \$475,000 per year.

Now, I would just point out that this comes at a very important point in our city's history. We are in the throes of what has been described by the media as a drug war. We have had 13 people shot down on the streets of Gary in the last 6 months. That war is going to continue unless we are able to take effective law enforcement steps to curtail it and terminate it.

We cannot do this without the help of additional funds to increase the size of our department as well as its effectiveness.

Similarly, we are faced with huge expenditures in the area of waste disposal; and in order to implement a more effective solid waste disposal system and eliminate some of the serious health problems we are

encountering currently, the city of Gary will be faced with a capital expenditure of somewhere between \$500,000 and \$750,000 for the installation of a shredding process.

Our neighboring city of Hammond, Ind., has already had its landfill closed by the State because of defects in the operation of that dump. We are now presently trying to be a good neighbor to the city of Hammond and allowing them to dump in our landfill. The State is now threatening to close our landfill unless we take certain steps to improve it. Without this additional money, that is precisely what will happen, and, in effect, two cities are going to suffer.

Our city has adopted a 20-year, \$160 million master plan for a storm and sanitary sewer system which entails separation of storm and sanitary systems in many instances, as well as improvement and expansion of our treatment facilities. Unless we can find a new source of moneys to finance this, we will have to proceed at a snail's pace in an area which is critical to our environment and to our health.

Our city also faces critical needs in the area of transportation. We are currently in the process of assuming ownership of the local transit company, having provided it with a partial subsidy for the last 2 years, but we have been able to identify a need somewhere between \$200,000 and \$300,000 annually just to enable the elderly and low-income persons to reach their places of employment, shopping areas, community services, and other amenities.

Another area of high priority is the establishment of a Human Resources Administration to more effectively plan, administer, and evaluate both physical development and human resource activities and services. This is critical, I might say, Mr. Chairman, if for no other reason than to protect the sizable Federal investment in Gary over the past 5 years, and that will cost another half million dollars.

Finally, we vitally need to develop a fiscal and economic development capability in our community. This could be done with a relatively small investment, but again, it is a vital area which, in the absence of a new source of moneys for local use, will frankly be shunted aside for more immediately pressing needs.

U.S. Steel is our major employer. U.S. Steel is in the process of automation, and that process, of course, results in the loss of jobs. We must develop more diversified industry in order to pick up the slack in those areas.

So, in just those areas, and I have not touched upon the critical area of health, where the city of Gary has expenses which would average out to in excess of \$12 million annually even by extending several projects over a number of years, and there are other areas to be considered, of course, but I have attempted to give you the idea of the magnitude and nature of our needs and the ways in which perhaps we would utilize revenue-sharing moneys.

In summary, I can say I strongly support this legislation because it offers some improvements to the plight of my city, particularly, and cities in general. I give my strong endorsement to this legislation, even though the funding level needs to be raised, and even though the equal opportunities provision lacks the strength which would truly guarantee equality of treatment.

I would simply say, however, that this legislation represents a very important first step, and it seems to me that if we are able to make this first step, we will be able to refine the legislation in later years. Right now the need is to move on this legislation. Thank you.

Mayor LANDRIEU. Thank you, Mr. Mayor.

The Honorable Roy Martin, mayor of Norfolk, Va.

#### STATEMENT OF HON. ROY B. MARTIN, JR., MAYOR OF NORFOLK, VA.

Mayor MARTIN. Thank you, Mr. Chairman. I am here today, not only as mayor of Virginia's largest city, but also as vice president of the U.S. Conference of Mayors.

I might say, gentlemen, that I have been active in the work of the conference for a number of years. I do not know of any problem that has come before the municipal leaders of this country that has unified us more than this revenue-sharing legislation. I certainly think that what my colleagues have said here this morning has been very pointed in terms of the great needs that we, the mayors of America's cities, need your help.

I would like to point out just a few things with regard to my city. We find that while the costs of providing city and municipal services are increasing at the rate of 8 percent a year, the growth in our existing sources of revenue is only 3 percent a year. This 5-percent difference of revenue and expenditure growth means that the city government each year is faced with the unhappy choice of either limiting existing municipal services, despite the fact that the need and demand is for more and not fewer services, or increase tax rates to pay the difference.

I do not need to tell you that Norfolk, like every other city, is attempting to use every available outside source of revenue to the fullest, especially Federal grants and State assistance. But the Federal grants are categorical and often are not addressed to the specific local problem we are attempting to solve, and the State government is finding itself in the same revenue-expenditure dilemma that we have, and State legislators are increasingly reluctant to increase taxes to satisfy demands that are municipal in nature.

Thus, we are left with the real estate property tax as the city government's only means of increasing revenue, and study after study has shown that the property tax is a regressive and inequitable tax based on the outdated principle that property is wealth, instead of the 20th century concept that wealth is measured by the turnover of money. In Norfolk, we have sought State permission to tax the turnover of money through a local income tax for several years. We are apparently no closer to that goal today than we were when we started our campaign some years ago.

Recognizing our financial dilemma and losing hope of getting massive State assistance in the form we need it, the city of Norfolk within the last year has reorganized the Finance Department to obtain better internal control of funds, maximum collection of existing revenue, and better allocation of scarce revenue; has established a research team to conduct management analysis to insure that we are getting the most

services from every tax dollar we spend; and, most recently, has established a goals task force to begin the arduous task of cataloging our needs for the foreseeable future, determining the relative priorities of these needs, and deciding what we can afford to do within the limits of our budget. The preliminary findings of the task force indicate nine major program areas in which additional services will be necessary, including such vital areas as citizen safety and justice, environmental health, community development and planning.

We have just gone to the State to ask them to provide us a payroll piggyback tax to give us a supplement to the State sales tax, but to no avail.

Providing a quality education for all of our children; improving our water, sewer, and garbage disposal systems to protect the environment; making our streets safe from crime: these are things that we as a city government eagerly want to do, and our citizens want us to do. But I must tell you that these are some things we must do: The Federal courts have imposed on Norfolk a pupil-assignment plan that requires extensive cross-busing at the expense of the city government, which presently does not own or operate schoolbuses; while at the same time, the private transit company operating in Norfolk has served notice that it is going out of business. Since the city cannot afford to be without this service to those who rely on buses for their livelihood, health needs, and other vital needs, the city government must provide it. Within the next year, the city government must provide the answers to these transportation problems, which arose through no fault of the city government.

I should emphasize, gentlemen, that there are certain things the Federal Government is making us do. In my city as of this September, we will have massive cross-busing of schoolchildren. It will mean over 25,000 schoolchildren will have to be bused in the city of Norfolk. We have never had a yellow bus system. Those students who had to use transportation to go to high schools and to a limited degree to junior high schools have done this with the public transit system. Not only are we confronted with the problem of establishing a massive bus system for our school system, but we have been notified by the Virginia Transit Co., which is our privately owned transit system, that they are discontinuing operation in the city of Norfolk.

In my city, transportation alone is confronting us with a problem that will certainly take many, many of these dollars we hope you will allocate to us.

I think you ought to know that in the preparation of the city operating budget for fiscal year 1972-73, city department heads were directed to request no new programs or positions, except when the provision of a new service could generate a revenue to offset the cost, and to keep additional costs for existing services to a minimum. Despite this caveat, the departmental requests total \$134 million.

So, gentlemen, I can only emphasize what has been said here before, that this legislation is necessary if we are going to survive in the American cities; and certainly, as was said earlier, it may not be the perfect legislation, but it is a step in the right direction, and I, as mayor of the largest city in Virginia, think I can speak for the mayors

of Virginia when I say to you, please, we need your help, and hopefully it will be moved through the Senate just as quickly as possible. Thank you.

Mayor LANDRIEU. Next, Norm Mineta, mayor of San Jose, Calif.

**STATEMENT OF HON. NORMAN Y. MINETA, MAYOR OF SAN JOSE, CALIF.**

Mayor MINETA. Thank you, Mr. Chairman, Mayor Landrieu.

Mr. Chairman and distinguished members of the committee, for over a year now, the mayors of our Nation's cities have been appealing to the Congress for revenue sharing. We have asked for Federal relief on the grounds that we cannot provide even a minimum level of service out of local revenue sources. We recognize that the Federal Government has had three major tax reductions in the past decade, but in the meantime, State and local taxes are rising at a rate of \$3 million a year, and bonded and municipal indebtedness has tripled since 1955, and combined State and local governments face a staggering gap between revenues and expenditures of \$67 billion by 1975.

Congressional committees have heard mayor after mayor outline reductions in essential services, cuts in employment, and deterioration of the capital stock of the city through necessary cuts in maintenance. You have also heard dire predictions that the situation will get progressively worse as the crisis cuts we make today result in compounded problems for the near and distant future of our cities.

For cities like San Jose, this disturbing situation needs to be viewed in the framework of enormous growth. San Jose has been growing at the rate of 25,000 people a year. The city's population now is about 510,000. Thus, in the past 10 years, the city's population has doubled. Predictions for the future indicate continued rapid growth. Thus, in a city like San Jose, experiencing burgeoning population growth, the relative impact of cuts in programs and services is far greater than the amounts that the cuts themselves would indicate.

In order to anticipate and meet minimum future needs, we have looked ahead 8 years and estimated our capital improvement needs to 1980. We find that in the priority areas identified in the bill that you are now considering, we will require \$27 million for public safety including such items as police training facilities, fire stations and new fire equipment, emergency communication facilities and equipment, and storm sewers.

In environmental protection, we need \$80 million for improvement of our sewage disposal system. An additional \$6 million will be needed for solid waste disposal and noise pollution control.

To keep pace in transportation needs, street widening, bridges, culverts and underpasses, street surfacing, interchanges, and signalization will require \$48 million. In addition, the establishment of a public transportation system, which we do not presently have, will take a yet to be determined amount, which will probably run into the millions. Also, county expressways and State freeways are incomplete in San Jose. Hundreds of millions of dollars will be needed just to complete the basic system deemed essential.

As I indicated, these figures cover minimum needs in the priority areas identified in the pending bill. San Jose has other capital needs for neighborhood improvement, libraries, parks, and municipal buildings that total \$175 million.

Therefore, we estimate, at this time, that our capital needs over the next 8 years will run in the neighborhood of \$326 million.

The above figures, of course, do not include expanded operating costs associated with these capital improvements. For this, we will need an additional \$20 million over the next 8 years.

Needless to say, the \$5 million a year that we anticipate under revenue sharing will fall far short of meeting these needs.

Moreover, efforts to increase local taxes and pass local bond issues hold little promise for relief. The California constitution requires a two-thirds majority for passage of local bond issues.

Working against these difficult odds, we have been able to secure approval of only \$66 million in property tax supported general obligation bonds over the past 8 years. During this same period voters rejected another \$66 million, but these rejections represented, in most cases, an unfavorable vote by less than 50 percent of the voters.

Our latest effort to gain approval of a \$33 million bond issue in 1970 failed by a "No" vote of about 40 percent of the eligible voters.

Voter rejection of increased property tax rates, on the other hand, has been resounding. Another revenue effort, to raise property tax rates by a maximum of 22.5 cents per \$100 of assessed value, was defeated by the voters 4 to 1. This measure would have raised the tax rate 16 percent to a maximum rate of \$1.62½ per \$100 of assessed value. The existing \$1.40 tax rate limit is imposed by the city charter, which requires a simple majority vote for amendment.

We have endeavored to be creative in our search for new revenue sources. A 5-percent tax was imposed on all utility services, yielding \$4.9 million in 1970-71. We have instituted a new property transfer tax and revised our previous residential construction tax to include all construction, but these funds of approximately \$3 million, are earmarked for support in the immediate area of the new construction that produces the tax. Conceivably, there are other revenue sources, but we have reduced the field to raising fees for permits, licenses, and swimming pool use. I need not describe the enthusiasm with which these measures are received. And furthermore, yields from these additional sources are more than consumed by inflation.

The above statistics are presented to dramatize the situation faced by the cities. San Jose is fortunate in that we are still able to raise some money locally. We are not as destitute as many of the cities represented here today.

However, the fact remains that, even in San Jose, the revenue gap is widening. Mayors know that the Federal Government is not in the position to supply sufficient funds to completely close this gap. Mayors also know that the Federal Government expects, and rightly so, that cities will spend limited Federal funds wisely.

I want the committee to know that many cities are developing a process for strategic programming of already available Federal funds, in order to spend revenue-sharing funds in the most effective manner.

Many cities are also taking steps to efficiently manage Federal grant funds through monitoring and evaluation.

In San Jose we have recently completed our second annual arrangement proposal which will be submitted to the Department of Housing and Urban Development (HUD) after city council approval. The annual arrangement process, which is an outstanding example of Federal initiative in coordinating planning, allowed the city to develop a strategy for the most effective use of HUD funds available to the city during the coming fiscal year.

Mr. Chairman, I will submit a copy of our 1972 annual arrangement proposal for the record.

(CLERK'S NOTE: The document referred to was made a part of the official files of the committee.)

Mayor MINETA. Briefly, the annual arrangement is a process in which the city identifies long- and short-range goals, develops a strategy for meeting those objectives, and then plans programs on a priority basis for implementing that strategy. City staff, private citizens, and other community representatives developed criteria for evaluating each program proposed for the available funds and then ranked each program as to its potential for meeting one or more of the stated objectives.

Through this process, we feel that we are presenting HUD with a proposal that will make the maximum use of scarce Federal and local resources.

Our experience with the annual arrangement will be utilized in programming general revenue-sharing funds which are being considered by your committee. Our staff has already begun thinking through methods of adapting this process to this new revenue source, and while I cannot, at this time, describe to you in detail the process we will employ, I can say without hesitation that the general revenue-sharing funds made available to San Jose will be strategically programmed along the lines of the annual arrangement process to achieve major city objectives within the framework of limited resources.

San Jose has also established grant management procedures to insure that all Federal funds we have received and those we receive in the future will be monitored and evaluated to assure effective use of resources.

(The procedures referred to follow. Hearing continues on page 297.)

City of San Jose, California

**TRANSMITTAL SHEET  
ADMINISTRATIVE MANUAL**

**INSTRUCTION:** 1. Remove superseded instructions and insert Manual copy (white) of new instructions as indicated below.  
 2. Read information copy (blue) and route to those in your supervision concerned with this procedure.  
 3. Direct any questions and requests for additional copies to:  
 INTERGOVERNMENTAL AFFAIRS OFFICE, Health Building, Room 109 Ext 4892

REMOVE			ADD		
#	Title	Page	#	Title	Page
	New Section		116	Grant-Assisted Project Administration	1 - 14 (Eff. 8/1/72)

This new Administrative Manual Section provides instruction to all departments concerned with federal or state grant-assisted projects both in the application for and administration of a project and in the control of project funds.

Franklin D. Knofler  
Acting City Manager

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City of San Jose

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Grant-assisted Project Administration

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**116.1 Purpose**

To effect a procedure for the initiation of community projects to be financially assisted with state or federal grants or contracts, and to provide for their administrative coordination at the intergovernmental interface.

This document identifies the Office of Intergovernmental Affairs' role in the essential administrative coordination within the City of San Jose and with other agencies during the life-cycle of all state-federal grant-or contract-assisted projects. It describes the procedure to be followed in processing grant and contract applications, in maintaining project records, and in reporting project progress, status, and plans.

To help ensure comparability of information, standardization of terminology and data interchange procedures are necessary. The following definitions apply to specific words and phrases used in this document. The procedure is deliberately general to avoid conflict with specific provisions of individual project administration requirements.

**116.2 Definitions**

- a. **Assistance:** resources provided by the state or federal government, in the form of contracts or grants-in-aid, to support (in whole or in part) a specific project or program.
- b. **Intergovernmental Affairs (IGA):** the City agency charged with responsibility for initiating and maintaining an administrative relationship between the project-administering departments and the City Manager, and between the City of San Jose and the grantor agency on state-and federally-assisted projects.
- c. **Grantor agency:** the state or federal agency (e.g. CCCJ, RMP, DOL, DOT, HUD, HEW, OEO) which provides assistance.
- d. **Grantee:** the City of San Jose.
- e. **Administering department (or operating agency):** the Department charged with primary responsibility for preparing the application for assistance and for managing the grant project and funds.
- f. **Departmental liaison:** the individual charged with direct responsibility for coordinating and controlling assisted projects in the administering department (operating agency). Designated by administrative department head.
- g. **Project life-cycle:** the period beginning with approval of project initiation by the intended administering department head, and terminating with final audit by the grantor agency.
- h. **A-95:** Federal Office of Management and Budget Circular A-95, which mandates a procedure for grant application. Also, the form (Notification of Intent to File an Application) prescribed in that circular.

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i. Environmental Impact Statement (EIS): A document describing the probable or potential ecological, economic, and social impact of a proposed project. Required by grantor agencies.

j. CCIC: Citizens Community Improvement Committee

### 116.3 General Policy

A department considering initiation of an assistance application (grant or contract) should contact the Director, IGA in the City Manager's Department. IGA is responsible for coordination of all City-connected grants and is the first point of contact in regard to inter-departmental cooperation, and application procedures. While most of the associated paperwork is completed at the department level, it is essential that it be filtered through the IGA coordinator who will ensure its completeness, propriety and compatibility with similar programs.

The coordinator will provide the administering department with a signoff sheet which must be processed by the departmental liaison to ensure that, among other things:

- a. Any necessary matching funds or in-kind services are available and have not been encumbered for another purpose;
- b. the Finance Department (Grants Section) is made aware of the grant at its inception so that it will design proper procedures for financial accounting; miscellaneous receivable accounts are established for potential incoming funds (see Sec. 235);
- c. reporting formats and schedules are established;
- d. the Executive Policy Group and all key personnel who will be involved with the grant are made aware of its ramifications;
- e. the City Auditor may advise the administrator of audit requirements;
- f. that IGA requirements for A-95 (Evaluation, review and coordination of Federal and federally-assisted programs and projects) have been complied with (See Appendix A);
- g. an Environmental Impact Statement (EIS) or negative declaration statement is attached to the A-95 form. The department initiating the project is responsible for checking with the funding agency to determine whether the EIS is required.

### 116.4 Procedures

#### 116.41 Project Initiation

This procedure applies only after a department head approves initiation of a specific assisted project. The department head or a designated representative shall assume responsibility (as department liaison)

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for compliance with these procedures throughout the project life-cycle.  
The procedure for initiating a project follows:

RESPONSIBILITYACTION

Department liaison

1. Fill in Form A-95 (appendix A) in accordance with instructions printed on its reverse. (Blank forms may be obtained from IGA)
2. Prepare the Environmental Impact Statement (EIS), if required, or negative declaration.
3. Enter on Form 110-201 (Coordination Sheet Appendix B)
  - a. name of the grantor agency (e.g. HUD, LEAA, HEW)
  - b. amount of grant funding requested
  - c. amount of funding by the City of San Jose
  - d. total project cost
  - e. name of the initiating department
  - f. signature of department head
  - g. date of initiation approval
4. Coordinate with designated organizations and obtain sign-offs (see 116.411)
5. Deliver completed forms to IGA

Director, IGA

6. Examine and review Form A-95 (and attachments, e.g., EIS) coordination sheet.
7. Prepare a project control card and enter the project in IGA's tracking system. This control card will contain, as a minimum, the following:
  - a. purpose and scope of the grant and the responsible Federal agency
  - b. designation of the grantee department or grant manager
  - c. funding arrangements and Fund limitations.
  - d. an outline of allowable costs under the provision of the grants including a citation of program legislation which contains explicit restrictions on the reimbursement of particular costs
  - e. an outline of City Support services outside the grantee department which are necessary to the successful conduct of grant programs to be claimed as direct costs under the provisions of OMB circular A-87 which describes allowable cost allocation procedures.

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8. Instruct the department liaison in the procedure for accomplishing required interdepartmental coordination.
9. Arrange a coordination and review meeting (See 116.412 below)
10. Sign the coordination sheet to indicate review completion, and transmit to City Manager.

**116.411 Interdepartmental Coordination**

Interdepartmental coordination is of two types, administrative and operational. Administrative coordination assures that all City action agencies are apprised of the pending grant application and have the opportunity to consider and assess its potential administrative, legal, and financial impacts on the City. Operational coordination provides for the interchange of information among agencies and departments with operational interest in the functional area addressed by the project.

Administrative action agencies are listed on the coordination sheet. Coordination with each and all of these departments is mandatory. Since each application will differ, the department liaison must meet with the IGA Director to establish specific procedures for each project. All applications require completion of the Coordination Sheet and A.95, however. The department liaison will be required to obtain a signature on form 110-201, Project Coordination Sheet, for each office contacted. The signature indicates awareness of the project's existence and of the signer's role in its administration. Coordination need not follow the departmental sequence indicated on Form 110-201, but must include all indicated departments. The signature of the Director, IGA, is the last to be obtained and indicates to the City Manager that all necessary areas have been covered.

IGA may arrange and chair a coordination meeting as a substitute or supplement for the above procedure to expedite or simplify application processing, when requested by the project initiator, or when such action appears warranted.

Action agency representatives and the department liaison will exchange information pertinent to the proposed project, as follows:

<u>(1) Budget Responsibility</u>	<u>Information</u>
Department liaison	Matching fund requirement, anticipated source of City

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		share (General Fund, trust funds, etc.), and budget provision.
Budget		Availability of funds, budget procedures.
(2) <u>Finance (Grants Section)</u>		
Department liaison		Explanation of factors used in calculating cash and in-kind contribution by City, proposed procedures for financial accounting.
Finance		Correction or modification of cost estimates, specification of accounting procedures and reporting requirements.
(3) <u>Attorney</u>		
Department liaison		Intent to file application, expected date of application, known time constraints.
Attorney		Pertinent legal factors, procedures, processing time requirement.
(4) <u>City Auditor</u>		
Department Liaison		Report, audit, and record requirements specified by grantor; departmental procedures for compliance.
City Auditor		City audit requirements and practices.
(5) <u>Contract Compliance</u>		
Department Liaison		Contractual provisions identified in grant description.
Contract Compliance		Implications and procedures pertinent to application preparation and processing.
(6) <u>Personnel</u>		
Department Liaison		Number, classification, and

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assignment of personnel to be added or affected by the project, potential impact on departmental supervisory and support workload.

**Personnel**

Correction or modification of manpower estimating factors; applicability of procedures, regulations, and statutes.

(7) Property Management

## Department Liaison

Space and equipment requirements and provision for their coverage.

## Property Management

Correction of assumptions or factors used in estimating. Identification of applicable procedures.

(8) IGA Coordination

## Department Liaison

Modification to A-95 due to information obtained in coordination cycle.

## IGA Director

Provide responses and comments from operating agencies (from A-95 circulation). Discuss procedures for application preparation and processing.

IGA Director will arrange and chair a meeting between the department liaison and responding operating agencies for the purpose of discussing and resolving issues prior to policy and program review (below).

116.412 Policy and Program Review

IGA will forward the completed A-95 form and coordination sheet, with appropriate memoranda, to the City Manager, who will convene a meeting of a proposal review committee. This committee will meet, as called, to screen proposals for policy and program concurrence, and to evaluate their feasibility, program and budget impacts, and priorities.

The review committee will consist of the following department heads and members of the Manager's staff:

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Assistant City Manager, Budget Officer  
Assistant City Manager, Community Development  
Director, Intergovernmental Affairs  
Finance Director  
Personnel Director

The department head responsible for the proposed grant application will be invited to participate in the screening and evaluation. The review committee will

1. Indicate those proposal modifications, if any, required to conform with City Policy, plans, programs and priorities;
2. Advise the applicant of its proposed disposition of the proposal;
3. Transmit to the City Manager its recommendation for proposal approval, disapproval, or deferral.

Upon approval by the City Manager, IGA will initiate local and intergovernmental coordination and review, as described below.

#### 116.413 Local Community Coordination

Local coordination affords the applicant an opportunity to obtain community suggestions and support, potentially useful in the preparation and development of the formal grant application.

IGA is responsible for transmitting copies of the A-95 to CCIC, and other community agencies, institutions, and organizations with probable interest in the proposed project, with an invitation to comment (Form 110-202 Appendix C). IGA will transmit comments to the applicant, arrange meetings between the applicant and interested respondents, and attempt to resolve conflicts at the local level.

#### 116.42 Application Processing

Normally, a formal application is prepared only after the project initiation procedure has been followed, in order that the concept and scope might be assessed in terms of the information gained during review and coordination, thereby increasing the probability of application acceptance and project funding. The procedure is intended to facilitate and economize the process, and not to impede or delay it.

Requests for exception, to meet grantor agency deadlines, are to be addressed to the Director, IGA, and approved by the City Manager.

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Applications will be processed in accordance with the following procedure:

<u>Responsibility</u>	<u>Action</u>
Department Liaison	1. Prepare a brief description of the proposed project, its pre-application history, program and budget impacts, and other pertinent factors, for the Manager's review and disposition.
	2. Deliver application, with all documentation required by the grantor agency, to Director, IGA
IGA	3. Record pertinent data on the project record.
	4. Review the application for compliance with grantor administrative requirements (EIS, cost-sharing provision, etc.)
	5. Deliver application to City Attorney, with a request for preparation of appropriate resolution.
Attorney	6. Provide an application-processing and resolution preparation time estimate.
	7. Prepare resolution.
IGA	8. Request inclusion of application consideration on Council Agenda.
	9. Notify department liaison of actions and status.
	10. Update project record.

Following Council Action, IGA will update the project record to indicate the resolution number or other action. If rejected, the application will be returned to the department liaison. If accepted, IGA will transmit the application in accordance with grantor procedures.

IGA will review the application documentation for completeness and procedural compliance prior to its transmittal to the grantor.

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**116.43 Disposition Notification**

Upon advice of application disposition (grant approval, disapproval, or deferment), IGA will notify the Council, Mayor, Manager, and affected departments; assist the recipient department in the processing of the grant contract and the associated resolution (with City Attorney); and ensure that the item is placed on the Council Agenda for contract execution approval.

**116.44 Record Keeping**

IGA will deliver copies of the approved assistance contract to the Budget Supervisor and Director of Finance.

The Finance Department is responsible for all financial record keeping for the grant projects, including:

- a. procedures
- b. official financial records and books
- c. preparation of the financial part of reports to granting agencies

All questions in the area of financial accounting, procedures and reports must be directed to Finance Department.

~~IGA is responsible for monitoring grant-assisted projects and for establishing and maintaining those records required to provide informational support to the City Manager (and, through him, to the Mayor and City Council).~~

**116.5 Reports****116.51 Report Schedule**

Reporting requirements vary according to the type and source of assistance. IGA in cooperation with the administering department, will establish a schedule of reports appropriate to each project. Contractual provisions will normally dictate grantor agency reporting requirements. The financial portion of all reports to external agencies will be prepared by the Finance Department, to insure agreement with accounting records.

**116.52 Address**

All project reports to the City Council and to external agencies shall be prepared by the administering department for the signature of the City Manager, and forwarded to IGA for processing.

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**116.53** City Council

IGA will transmit a copy of each City Manager-approved A-95 (Intent to File Application for Federal Assistance) to City Council, to inform Council of pending applications, and will keep the Council informed of project status as applications are processed.

Quarterly, IGA will prepare and submit to the City Council, through the City Manager, a consolidated report summarizing the status of all assisted projects, and including the following information pertinent to each project (as a minimum).

- a. Grantor agency
- b. Program under which the project was initiated
- c. Total amount of financial assistance to be received
- d. City share (matching funds)
- e. Amount of assistance funds received during the report period
- f. Total amount of funds received to date
- g. City department and individual administering the project
- h. Amount of moneys budgeted and disbursed to date (Federal, State, and City cash and in-kind)
- i. Relation of actual and planned progress toward objectives
- j. Percentage completion
- k. Expected completion date
- l. Explanation of variances between plans and progress

To insure proper control, the Finance Department will prepare the Financial section of this report and trace all receipts to the accounting records. The City Auditor will perform periodic tests of revenue and expenditures, frequency and extent to be determined by the City Auditor.

**116.6** Control of Incoming Funds

The Director of Finance is designated to receive all grant monies incoming to the City. Each grantor agency should be requested to mail all checks to Room No. 217 City Hall. If incoming funds should be mis-sent by the grantor agency directly to the department involved or to the City Managery, they must be immediately transmitted to the Director of Finance after annotation to indicate the project to which applicable. A copy of the voucher or receivable record will be sent to IGA by the Director of Finance.

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**116.7 Conflict Resolution**

Conflict between these and other procedures should be identified by the administering department and brought to the attention of the Director, Intergovernmental Affairs. IGA will assist the parties in conflict through the appeals and resolution process.

**116.8 Technical Support**

IGA will provide technical support to departmental liaison and project managers throughout the project life cycle. This support will include cooperation and assistance in the preparation and observation of itemized procedures for the administration of each grant, the training of grant-project managers, and the operation and maintenance of a project tracking system.

**NOTICE OF INTENT TO FILE APPLICATION**  
CIRCULAR 4-90 CLEARINGHOUSE NOTIFICATION

STATE OF CALIFORNIA  
SEE INSTRUCTIONS ON REVERSE SIDE!  
STATE CLEARINGHOUSE I.D. NUMBER (1-8)

CARD TYPE (V)

Notify Both

Metropolitan Clearinghouse  
Association of Bay Area Governments  
Claremont Hotel, Berkeley, Ca 94705

State Clearinghouse  
Office of Intergovernmental Management  
Office of the Lieutenant Governor  
1400 10th Street, Sacramento, Ca 95814

01	Sponsor (12-00)		Division (60-70)											
02	Project Title (12-71)													
03	Address (12-60)		City (40-00)	County (61-70) Zip Code (15-99)										
04	Contact Person (12-00)		Area Code (40-00)	Phone (40-00) Ext. (50-00)										
05	PROJECT DESCRIPTION OF NATURE, PURPOSE, AND BENEFICIARIES													
06	(12-71)													
07	(12-71)													
08	(12-71)													
09	(12-71)													
10	(12-71)													
11	Project Location City (12-60)		Project Location County (60-70)											
12	FEDERAL FUNDS		MATCHING FUNDS		OTHER NON-FEDERAL FUNDS (12-30)	TOTAL FUNDS (12-60)								
	Regular (12-10)	Other (12-10)	State (12-10)	Local (12-10)										
13	Type of Other Federal Funds** (12-40)			Type of Other Non-Federal Funds (12-70)										
14	Funding Agency Program Title (12-71)				Federal Catalog Number									
15	Funding Agency Name (12-40)				Sub-Agency (40-70)									
16	Congressional District		Assembly District		Senate District		Statewide Project	Countywide Project						
	02-103	04-103	06-173	08-101	08-011	02-031	04-031	06-037	08-030	08-011	02-031	Yes (04)	No (06)	Yes (06)
17	Type of Sponsor (Check only one)				Type of Action				IS STATE PLAN REQUIRED?	IS PROJECT UNDER A-95 JURISDICTION?				
	STATE <input type="checkbox"/>	CITY <input type="checkbox"/>	COMMUNITY ACTION <input type="checkbox"/>	SUPPLEMENTAL GRANT <input type="checkbox"/>	CONTINUATION <input type="checkbox"/>				Yes (04)	No (06)	Yes (06)	No (07)		
				IF DEVIATION TO AN EXISTING PROGRAM										
				DOLLAR AMOUNTS				DURATION IN TIME						
				INCREASE DECREASE CANCELLATION INCREASE DECREASE				INCREASE DECREASE						
				Yes (04) No (06)				Yes (06) No (07)						
IS ENVIRONMENTAL IMPACT STATEMENT REQUIRED? <input type="checkbox"/> Yes (08) <input type="checkbox"/> No (04)				IF YES, Attach Following If Available				NOTE: IF NOT ATTACHED C15 OR REG. DEL. MUST BE SUBMITTED FOR REVIEW 30 DAYS PRIOR TO APPLICATION SUBMITTAL				FORM 308 APPROVED <input type="checkbox"/> Yes <input type="checkbox"/> No		
				EIS <input type="checkbox"/> Negative Declaration <input type="checkbox"/> No (01)										

When do you expect to file the completed application? \_\_\_\_\_

List local, countywide, Regional, State or Federal Agencies with which coordination has been established.





CITY OF SAN JOSE  
CALIFORNIA

Intergovernmental Affairs  
151 West Mission, Room 109  
San Jose, California 95110  
Tel: 277-4000 Ext 4892

Gentlemen:

Subject: Invitation to Comment on Proposed Project

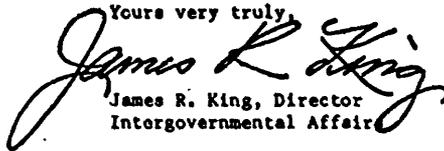
Under the City's procedure for area-wide review of specific project applications, the City Manager has assigned the Director of Intergovernmental Affairs responsibility for notifying local groups and agencies with probable or potential interest, and for soliciting their comments relative to the proposed project.

Attached is a copy of an Intent to File an Application of potential interest to your organization or agency. Your comment is invited.

Please check the appropriate space below, add any pertinent comment, and return this form to me not later than

Thank you.

Yours very truly,



James R. King, Director  
Intergovernmental Affairs

JRK:RLJ:N

- No Comment
- General Support
- Interested, comments will follow within 10 days
- Interested, comments attached
- Interested, wish to discuss with the applicant

Form 110-202

Date

Signature and Title

San Jose's grant management procedures, which were developed with the assistance of a HUD model cities planned variation grant, require all city departments to file notification of intent to submit Federal grant applications with our Office of Intergovernmental Affairs.

This office in turn circulates the intent-to-file notification to all affected departments and community agencies and citizens groups, and convenes a top level grants review committee to discuss the proposed projects. The mayor and city council set the policies and priorities for projects in this coordination process so that all grant proposals are consistent with overall city objectives and meet our criteria for maximizing the use of limited local State and Federal resources. We feel that this process will foster better programming by giving the city council, mayor and top management an opportunity for input at the outset of a program proposed for Federal funding.

The grant management process will also give us the capability of tracking all programs from initiation to completion. Based on this information, we will be able to continuously evaluate our projects in terms of their effectiveness in meeting city objectives and resolve on a timely basis those issues when they arise.

Mr. Chairman, some 60 cities are now engaged in the annual arrangement process and 20 cities are developing grant management techniques with HUD model cities planned variation assistance.

I tell you all of this because I want the committee to be confident in the fact that most cities are taking steps in the direction of improved grant and program management, and as a result their capacity to assure the strategic use of the revenue-sharing funds is enhanced.

As I have indicated, many of San Jose's critical needs are not in the priority areas identified in the bill. I have also pointed out that we do not expect the revenue gap to be entirely closed either in or outside the identified priority areas. I am confident, however, that within the framework of the pending legislation the cities will have the flexibility to program general revenue-sharing funds through a locally derived strategy for allocating scarce resources among at least, the high priority areas identified in this legislation, and you can be assured that Federal resources will be employed in the most effective manner possible.

I am confident that such a plan can and will be developed in San Jose. I am also confident that all cities can, and must, move in this direction.

Thank you, Mr. Chairman.

**MAYOR LANDRIEU.** Mr. Chairman, we have two speakers remaining. Mayor William Donald Schaefer of Baltimore, Mayor Wes Uhlman of Seattle, Wash.

#### **STATEMENT OF HON. WILLIAM DONALD SCHAEFER, MAYOR OF BALTIMORE, MD.**

**MAYOR SCHAEFER.** Thank you, Mr. Chairman. If you do not mind, I will deviate from the prepared statement that I have in the interests of time and just say that as far as Baltimore is concerned, I could repeat every problem that every other mayor has suggested and I have it in Baltimore City.

The budget that was recently given to me called for a 20-percent increase in our local property tax. When it was given to me it was \$1.04 above the previous year, which made it even less competitive with our country.

As far as taxes are concerned, we have invoked every nuisance tax that is available to us. There are no more taxes that we can put on the people in the city of Baltimore. When I say that, it is in a way humorous but there is not any other tax other than the property tax and we just cannot put any more property tax on.

Now, let me go into the practical aspects. In recent years our population has changed so that we now have 25 percent of the Maryland population. But 75 percent of the population in our city is comprised of welfare clients, the poor, the elderly, and the indigent. They do not pay taxes. They cannot. So the remaining taxpayers are really burdened.

I have a very important decision to make very soon. If this measure is not passed, as chief executive of Baltimore City I am faced with the necessity of making drastic cuts in the municipal expenditures in order to keep within the budget that our council passed. I think that is very clear, when I say that it will be necessary to let go a number of policemen, firemen, health officials, and employees in all areas of our city. So this bill, as far as the city of Baltimore is concerned, is a vital bill and I ask that you give it every consideration and pass it as soon as possible. I have got a deadline of September 1.

Thank you.

(Mayor Schaefer's prepared statement follows:)

PREPARED STATEMENT OF HON. WILLIAM DONALD SCHAEFER, MAYOR OF  
BALTIMORE, MD.

Mr. Chairman, Senators, I am William Donald Schaefer, Mayor of Baltimore City. Thank you for the chance to speak about revenue sharing. Others have testified about revenue sharing as a concept. They have presented an impressive case for passage of HR 14370. Prompt enactment of the revenue sharing measure before you in the bill's present form is of great importance to the citizens of Baltimore. If the Senate should fail to enact revenue sharing, the citizens of Baltimore will face prompt reduction in services as a consequence.

This spring, the Director of Finance presented a budget to me and to the Board of Estimates that represented a property tax rate increase of \$1.14 per one hundred dollars assessed valuation, a 20% increase from the City of Baltimore's fiscal 1972 property tax rate of \$5.34 per one hundred dollars.

Median family income in Baltimore, according to the 1970 census, is about \$8,800 per year. This Baltimore City family probably lives in a row house worth about \$10,000. From their \$700 per month gross income, they pay a tax rate which is \$2.01 more per \$100 than their wealthy suburban neighbors pay. And we are not sparing with other taxes. There is a State sales tax and income tax. The City has a commercial-use utilities tax. There is a City hotel tax and admissions tax. We charge for business and occupational licenses and for any encroachment of public right-of-way. Every special permit (coin-operated amusement machines, sidewalk vendors, horse drawn vehicles) carries its charge.

The State of Maryland does not permit Baltimore City to levy an earnings tax on income earned in the City by suburban residents. At present, Baltimore City has no unutilized taxing authority. The City is imposing all those taxes permitted by the Maryland legislature, at rates generally higher than the prevailing rates in surrounding suburban counties. Our property tax rate is the highest rate levied by any jurisdiction in the State of Maryland, and among the highest rates levied in the country.

It is often stated by critics of local government that City problems are primarily administrative and organizational, that better management is required. Critics often allege that:

1. *Local government is badly organized, fragmented and inefficient.*—Baltimore City is well-managed and reasonably efficient in its operations. The City provides all of the local government services (City, county, state, special districts and schools) under a unified system of administration. Compared to other areas of the country, the Baltimore Standard Metropolitan Statistical Area (SMSA) is surprisingly non-fragmented. Baltimore provides many of the services supplied by State government elsewhere in Maryland. The City gains the obvious advantages of such integration. At our size (906,000), Baltimore benefits from substantial economies of scale.

2. *Local governments are often accused of being poor money managers.*—Baltimore City's leadership has a long history of fiscal responsibility. City leadership in my memory has not hesitated to impose that level of taxation required to finance a high and necessary level of quality public services. The private market place's evaluation of our debt structure attests to Baltimore City's fiscal responsibility. The ratio of general debt to assessed valuation in Baltimore City is 7.54% (\$238.4 million to \$3.116 billion). The average life of this debt is 9.4 years; the average interest rate is 3.77%. Baltimore City's record of financial responsibility has earned bond ratings of "A" by Moodys and Standard and Poors. No major East Coast City has a higher municipal bond rating.

3. *Local assessment policies are often criticized as being arbitrary and inequitable.*—Assessments in Maryland are performed by professional career assessors. Surveys prove a high level of completeness and equity in our assessments. Compared to the major suburban counties in Maryland, Baltimore City properties tend to be assessed at a substantially higher assessed to market value than the prevailing ratio in these "wealthier counties".

Major reasons for our cost spiral are inflation and built-in costs, balanced by a static economic base, and accompanied by a change in the composition of our population requiring increased intensity and variety of services. A minimal 3% salary increase was effective for part of fiscal 1972; there will be twelve months' cost in fiscal 1973. Another 3% increase this year is equivalent to a 35 cents rise in property taxes. City paid employees health insurance costs have gone up. Salary-connected costs such as Social Security have gone up automatically. Overall compensation for Baltimore City employees has not kept pace with compensation of public employees provided by State and Federal governments in recent years. Debt service is inflexible. State-mandated local costs of indigent medical care are beyond our control. The fact that Baltimore City has less than 23% of Maryland's population and 75% of its welfare case load requires the City to finance a range of physical, social and economic services not necessary in wealthier suburban counties.

Faced with these cost pressures and a strained capacity for local revenue, there are few alternatives available to Baltimore. The Director of Finance's recommended budget was technically sound. It insured that local programs could function at existing fiscal 1972 program levels, with little expansion and no improvement in quality. Technically sound or not, a 20% property tax rate increase was deemed unacceptable and an unreasonable burden. We trimmed \$7,525,000 out of the recommended operating budget.

City Council admitted that the Board of Estimates had "pruned the recommended budget effectively", but cut another \$12.5 million because in their judgment the required property tax increase was still unreasonable. They knew that we had done a thorough job but the Council felt that still more had to be done. They made one concession, however: the Council said that if revenue sharing becomes law, they were willing to restore enough of the budget cuts to at least maintain the integrity of City operations at their fiscal 1972 level. The net effect of their actions is that the Baltimore City Council has included revenue sharing in this year's budget, the budget now in effect. In the absence of prompt passage of this bill before you, I must begin dismantling City services.

Frankly, I am not pleased to be in this position. The City is now very dependent on your action. The taxpayer pressure which brings us to this position is indeed great. Like most cities, State law and the City Charter require us to pass a balanced budget. City services must continue. Our tax rate cannot be allowed to rise to more unacceptable levels. As a way to soften the blow of drastic service cuts, the Council anticipated revenue sharing.

Our final budget, after all its cutting, and including revenue sharing, required a 4% increase in property taxes just to maintain fiscal 1972 levels of service. After the property tax increase, the City was still required to eliminate more than 1,000 positions from the 1973 budget. I have instituted a hiring and promotion freeze in City government. We have curtailed all new capital expenditures; we are not replacing equipment; I have instituted a general austerity program.

While the picture is grim, Baltimore is not a dead City nor a dying one. Baltimore is a vital moving City. Though we are going through a time of great difficulty, we will survive.

This much is plain: we have exceeded our fiscal capacity to provide vital services. Yet, somehow those services must continue. We have to look outside the City for support. By passing HR 14370, you will assist Baltimore City and other cities in maintaining a necessary level of services.

You will receive recommendations from some local interests to eliminate from the bill the concept of "high priority expenditures categories". While I am most sympathetic with this point of view, I am reluctant to endorse any suggestion which would have the effect of delaying favorable action on this measure at the earliest time.

In summary, we are near the breaking point in our tax-versus-services dilemma. We do not hesitate to impose taxes and, yet, even as local taxes are increased, we must curtail certain services.

I recommend strongly that you pass the revenue sharing measure immediately. Thank you again for the opportunity to appear and speak.

#### **STATEMENT OF HON. WES UHLMAN, MAYOR OF SEATTLE, WASH.**

Mayor UHLMAN. Thank you very much, Mr. Chairman, members of the committee. Having served for some 11 years in the State legislature and having had to sit through many of these hearings, I commiserate with you and thus I will also rely upon the filing of my formal statement in the record and will very briefly say just this.

First of all, Seattle is a very young city. We have not experienced the substantial blight and decay that many of the eastern cities, many of the older cities have experienced. Certainly, Seattle is not going to hell in a hand basket.

We, however, may have many of the same problems that the other mayors have related to you. We have one very serious problem that none of them have, to the extent that we have. The Boeing Co., 21½ years ago, employed 108,000 people. They now employ about 36,000 people. You can imagine what that kind of an impact would have on the economy of an area such as ours.

Of course, what this has really meant, then, is that we now have actually less dollars coming in in tax revenues than we had 2 years ago. What has this meant to us? Well, it has meant the same kind of things you have heard from the other mayors. We have had to cut back our library services, public transportation has had to be cut back. There are 60 vacancies in our fire department. We have 100 vacancies in our Seattle Police Department. And interestingly enough, a recent survey showed us that we have 47 bridges in our city that are unsafe and unsound. The cost to repair those bridges will be approximately \$67 million. Interestingly enough, we can get money from the Federal Government once the bridge falls down but we cannot get it until the bridge does fall down. We cannot get it to repair the bridge before it falls down.

Of course, our revenue sharing share in the bill before you is about \$10.6 million. That is less than one-sixth of the amount of repair for

those bridges alone. That is just one need out of many, many that exist in our city.

We have turned to the State legislature and there we have met a deaf ear. The cities of the State of Washington, the cities of the country, really are the neglected children of the State legislatures. Mr. Moynihan once said when he visited Seattle a couple of years ago that if any city can actually be saved it is the city of Seattle, because of its unique life style, because of the topography and geography, and its history and its resources, and certainly it is within our grasp to save a city like Seattle despite the very seriously impacted economic problems of our area.

This is the major tool before you today to help us save our cities and we urge you to act upon it with the most immediate deliberation possible.

I would like to thank all of you who are here as members of this committee for your patience in hearing us, hearing us recite our litany of woes. I would particularly like to thank you, Mr. Chairman, for your leadership. We met, as you may recall, some months ago where you expressed your interest, your desire to provide the leadership in the Senate to pass this legislation. We in the city of Seattle know about that, appreciate that, and I think I can speak for all the mayors across the country, that the people who live within the cities, more importantly than just the mayors, are thanking you personally and members of your committee for your leadership on this bill.

(Mayor Uhlman's prepared statement follows:)

PREPARED STATEMENT OF HON. WES UHLMAN, MAYOR, SEATTLE, WASH.

Seattle is a unique city. Our environment, our setting, and the variety of life styles available to our residents are unmatched by any other city in this nation.

But Seattle is typical in the problems which we face. They are exactly the same as those plaguing New York or Cleveland or Detroit. Perhaps our problems are not quite so severe. We are not as large as many other cities, and are relatively young. We recently celebrated our one hundredth birthday, ranking us as a mere youth compared to the older urban centers of the east and midwest.

But Seattle shares with every other city in the nation a fundamental problem, the root of all our evils. It is a lack of funds.

You are probably most familiar with Seattle because of our unemployment problem. For over two years we have had one of the highest unemployment rates in the country. Currently over eleven percent of our work force is jobless. Many of them are members of groups with special employment problems, such as blacks, chicanos, Asian-Americans, those under 25 and those over 50, and returning Vietnam veterans. The special training, counseling, placement programs, and other services which they require constitute an added burden to a city administration already struggling to meet the more traditional demands of an urban populace.

Just when city government in Seattle is expected to do the most, our income is actually decreasing. Drastic cutbacks in aerospace programs forced local industries to lay off close to a hundred thousand people. The millions of dollars which these technicians and engineers contributed each year to our local economy and to our local taxes is gone. Other businesses, in turn, have been forced to close or reduce their work force. The result is an upward spiral of unemployment and related problems, and a downward spiral of revenues collected by our city. Last year, as local unemployment peaked, as welfare recipients reached an all-time high, as thousands and thousands of our residents were forced to turn to food stamps and commodities for basic sustenance, the budget of the City of Seattle had to be cut by over four million dollars.

The impact of this on the quality of life in Seattle has been felt by all our residents.

Library services have been curtailed.

The maintenance of our parks has declined. The number of life guards at our beaches has been reduced. We have had to defer opening our swimming pools.

At a time when the clamor is heard for public transportation, the fare boxes on our busses supply only half the money we need to operate a good mass transit system. Cuts in services and higher taxes must make up the difference.

Roads once kept smooth and well paved are now cratered with chuckholes. Recreational programs for our youth have been cancelled.

Even basic public safety is threatened.

Our Fire Department has earned for our city the highest rating in the nation. At the same time, its innovative emergency medical care program has been studied and imitated by departments from every corner of our land. Yet at this moment, over a million dollars of replacement equipment ordered by the Fire Department and desperately needed, cannot be purchased. A fire station has been closed. And over sixty vacancies in the Fire Department go unfilled while able young men walk the streets in search of jobs. All this because we don't have the money we need.

The Seattle Police Department is the only police department in a major American city to have achieved a reduction in serious crime over the past two years. Today about a hundred vacancies exist in our Police Department. Our precinct stations built in the nineteenth century have so deteriorated they cannot be repaired. On one floor of one station, forty-three men must use one unsanitary toilet facility. We can get federal money to buy these men all the newest radio equipment made, but we cannot get a cent to fix the plumbing of a police station so that our police can have a decent bathroom to use.

And forty-seven bridges used by automobile traffic in the city of Seattle have been found unsound and unsafe. These bridges were magnanimously donated to us by the state, the county, and the railroads. But it has been estimated that it would take sixty-seven million dollars to return them to minimal standards, and we do not have the money. If and when they collapse, we can get federal funds to build new bridges. Until then, we just hold our breath.

We often hear that if our cities are to survive, they must attract the middle and upper income residents who can contribute the most in terms of our development. How attractive will Seattle be with inferior police and fire protection? With dangerous and dilapidated parks? With second rate roads and a third rate library? With bridges that no one dares drive across? Seattle residents are proud of our city—today. But how long will it be before Seattle, like several other great cities, is abandoned to those who cannot afford to leave?

Existing methods of financing our operations are not able to meet rising demands for services, and rising costs of existing services. The City of Seattle is almost totally dependent upon the State of Washington for our revenues. The State, in turn, relies heavily upon two of the most unfair and regressive taxes used today: the sales tax and the property tax.

These taxes have been utilized to their limits. For us to raise them any further in our city would be to drive out forever the middle class homeowner, the businessman, and the corporations and industries. A resident of our state pays an average of forty percent of his income in one form of taxes or another. Tax reform is desperately needed, and we welcome the provisions of the revenue sharing bill which encourage reform. But it must be remembered that the cities of poorer states have as many needs as the cities of wealthier states. Only the federal government has the resources, the tax structures, the flexibility, and the magnitude to perform the kind of tax reform that is necessary.

Seattle contributes in excess of a half a billion dollars each year to the federal government in income taxes alone. We are now asking that a small portion of that money be returned to us to save us from financial starvation. The \$10.8 million which we would receive under HR 14970 will not be a panacea for us. It will not trigger any dramatic transformations. Seattle cannot become Shangri-La on ten million dollars a year. That is less than a sixth of the money we need to repair our bridges alone.

What this money *will* do is to enable us to survive at minimal levels without further decreasing services to our citizens. We may even be able to rise above the bare essentials and in some cases actually display the creativity, diversity, and progressive thinking which comprise the key to the future of urban America.

Seattle is an exciting city. It is a clean and beautiful city. It is a city of many lifestyles living in harmony and friendship. I firmly believe that it is the closest thing to a truly great city in America today. But Seattle is in danger of falling to the decay and destruction which stalk every city in this country. Some people say that some are beyond help. But it is *not* too late to save Seattle. We have survived thus far because of our own efforts and through the irreplaceable federal programs which we now receive. If we are to survive, and even to become an example for the rest of urban America, we must have revenue sharing also. And we must have it now.

**Mayor LANDRIEU.** Mr. Chairman, that concludes our direct presentation. I think you can see that the mayors who are represented here today represent all areas of the country, small cities and large. There is a common thread that ran throughout the testimony. But the problems are not exactly the same, not in Atlanta or Milwaukee or in Seattle or in Baltimore. Each mayor is faced with a slightly different problem and different priorities, different needs. This is why general revenue-sharing is so attractive to us. Not only is the need there but it gives us the flexibility to apply the money where the need is in our local community.

Mr. Chairman, we are very happy to respond to any questions which you may have.

**The CHAIRMAN.** Mr. Mayor, first, let me congratulate you and your colleagues on a series of truly eloquent, logical and persuasive statements. As you know, I had discussed this matter with your committee on earlier occasions and I indicated to them that as far as this Senator was concerned, if the House would send us the bill it would not die in the Senate if it were within my power to see that the bill was moved right along.

We scheduled hearings on this bill the same day the House passed the bill so we are helping as much as we can.

I think the Governors helped to break the ice for you by trying to get some understanding with the Senate leadership—Mr. Mansfield and Mr. Scott, and Mr. Griffin and Mr. Byrd—that this matter would be scheduled as soon as the committee could make it available and the Senate could arrange it. So those matters have been cleared up.

And further, if some of you would like to supplement your statements, if you will provide it for us, we will have this printed in the record in connection with this hearing in which your statements, and any statement you might want to add of other mayors around the country who, by virtue of limitation of time could not be heard at this hearing.

(Additional statements of mayors follow. Hearing continues on page 306.)

**PREPARED STATEMENT OF MAYOR RICHARD J. DALEY**

Chairman Russell B. Long, I'd like to express my appreciation to the Senate Finance Committee for this opportunity to testify on behalf of H.R. 14370, the State and Local Assistance Act of 1972, and urge its expedient passage.

The recommendations of the U.S. Conference of Mayors and the National League of Cities to strengthen this bill have been submitted to this committee and they have my full support.

This legislation recognizes the tremendous changes and the increasingly growing responsibility of local government. Twenty-five years ago cities were primarily responsible for housekeeping services, for police, fire, water, prevention of contagious diseases, building codes and for those matters relating to them. Today,

however, cities are faced with a complex range of problems of a different order of magnitude and of a different intensity directly involving the personal lives of people. Cities are concerned with health care, welfare, equal opportunity employment, manpower training, education, day-care services, poverty, family services and the like.

These services involve individuals, homes and neighborhoods all with a great variety of particular local needs which cannot be administered by nationwide or statewide regulations or inflexible administration. Priorities differ from neighborhood and it is local government which, under the direct influence of its residents, can best evaluate and determine what programs should get the greatest emphasis. It is only local government which has the know-how, the coordination, and the understanding to meet these imperative needs.

Certainly the programs of public safety, environmental protection and public transportation given priority by the bill are of greatest importance. But I urge the committee to give the deepest consideration to the recommendation to allow greater freedom to local communities to spend funds only limited by state law and municipal charter authority.

I also urge the committee to give favorable consideration to the other basic recommendations: that the amount of entitlement be related to the local tax effort as now is proposed for the states, the elimination of the provision which allows the state to augment its existing regional programs at the expense of the local government's share; and that there should be an effort to exempt from the provisions of this bill, municipalities which are now non-viable because of size. There also should be a three-year period before recognizing new incorporations.

These amendments are important and will make a good bill better. H.R. 14370 represents a significant break-through in financing state and local bodies in an effort to permit them to meet the challenges of our urban society.

Many new constitutions are being written across the country granting to municipalities broader home rule authority. This legislation is in keeping with that philosophy of home rule for municipalities and has the advantage of meeting problems where the problems exist. The advantage of this legislation also is that it removes layers of bureaucracy and speeds up the entire process of getting programs into operation and carrying them out efficiently.

Similarly, the bill represents a tremendous contribution to continuity and planning for no longer will a city be dependent upon appropriations each year by Congress but will have the assurance of being able to carry out plans on a continuous basis.

There is nearly universal recognition that the central cities are vital to the future of our nation. With the passage of this long-needed legislation a giant step will be taken toward the rebuilding and renewal of the cities of America.

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OFFICE OF THE MAYOR,  
New York N.Y., July 28, 1972.

Hon. RUSSELL B. LONG,  
Chairman, Finance Committee, U. S. Senate,  
New Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: I appreciate this opportunity to present the position of the City of New York in favor of a national revenue sharing program and the State and Local Fiscal Assistance Act of 1972.

For years, we Mayors have supported a national revenue sharing program, because we recognize revenue sharing as an affirmation that America, at long last, is prepared to deal with its legacy to its cities—the unsolved problems of poverty, racial tensions, and urban decay.

The cities of America need revenue sharing. And New York City needs it as much as or more than any other great city. We have just completed the budget process for the fiscal year which began this month. This is a tight budget, enabling us to maintain vital services in New York City by only the barest margin. It will not allow any of the many new programs, new facilities, and new thrusts that we so desperately need to improve city services and enhance the cultural rewards and simpler pleasures of urban life.

We must do more than merely maintain our cities. They must do more than just survive. They must flourish—and they can, as soon as we understand their plight and act upon it. In the two hundred years since our founding, America

has changed from a rural, agricultural society to a highly urbanized nation. At the signing of the Constitution, our population was under four million, and only five percent of our people lived in urban areas. Today, with 200 million people, three-fourths live in urban areas. In 1789, there were only six cities with more than 8,000 people. Today, there are 25 cities with over 500,000 people each, and another 344 cities with populations between 50,000 and 500,000.

Our cities have done more than just grow. They have also received the burden of our nation's neglect and discrimination. During the past 20 years, nearly two million middle class New Yorkers have moved to the suburbs, and two million poor have replaced them. But New York City's total population has increased by less than one percent during that period.

This exchange has drastically reduced our tax base, and dramatically increased public demands for social services. Thus, one out of every six New Yorkers receives public assistance—more than 1.3 million people. Forty-five percent of our public school students fail to complete their high school education. Five hundred thousand people are on waiting lists for public housing projects, where an equal number already live. After fixed costs, almost 90% of our city tax levy pays for six basic service areas—welfare, education, health, police, fire, and sanitation.

New York City is doing a great deal to help itself. We have levied a host of new taxes and revenue measures on ourselves to meet the rising costs of vital services. But in New York, as in most cities, there is a study average 15 percent increase in costs, compared to a mere five percent increase in revenues.

In the last six years, we have imposed a city income tax, a tax on commuters who work in New York, a stock transfer tax, a tar and nicotine tax on cigarettes, and a leaded gas tax. We have steadily increased those taxes where possible, and imposed increases in the real estate tax to the limit allowed by our state constitution, in court and mortgage fees, in the vault tax, and in the business tax, and have extended the unincorporated business tax to professionals. We have proposed, but as yet been unsuccessful in obtaining, certain other desirable taxes and increases, such as an auto use tax, a tax on non-reusable non-recyclable containers, and increases in the city beer and liquor taxes.

In 1961, our General Fund, containing all city taxes apart from the property tax, yielded less than \$800 million. This year, the anticipated yield is over \$2.7 billion, reflecting the addition of new taxes and substantial increases in all taxes over the past decade. In 1961, that General Fund produced 43 percent of city revenues; it now produces 54 percent.

And city taxes have grown much faster than the personal incomes of city residents. While personal incomes grew an average 5.4 percent per year during the decade, city tax revenues have grown by 9 percent, or by \$1.67 for every additional one dollar of income earned by New Yorkers.

This represents an extraordinary effort by city dwellers to meet their own costs and a large share of many other costs imposed by national problems over which they have almost no control. In fact, the citizens of all of New York State are taxing themselves more than any others to meet these costs; the State-local tax burden in New York State is the highest in the nation. For the latest year for which figures are available, fiscal year 1970, Americans paid an average of \$25 in taxes to State and local governments. For New Yorkers, however, per capita State and local taxes amounted to \$652. And this was prior to the additional City and State taxes imposed in the last two years.

We do not plead for charity or look for a hand-out. We simply seek the return of more of our own money to our own cities where the problems are. We seek assistance based on desperate need, proven effort, and demonstrated ability to manage our own affairs. Revenue sharing would mean, for the first time, flexible federal resources for vital city services.

Sincerely yours,

JOHN V. LINDSAY, *Mayor*.

OFFICE OF THE MAYOR,  
Los Angeles, Calif., July 14, 1972.

HON. RUSSELL B. LONG,  
*Chairman, Finance Committee, U.S. Senate, Washington, D.C.*

DEAR SENATOR LONG: The purpose of this letter is to request your active support of revenue sharing measures soon to be under consideration by the Senate Finance Committee.

The cities of our nation need funds, and the sources from which we derive these funds are already over-taxed. We see revenue sharing as a means of assisting cities to continue to provide needed services without increasing the burden on the local taxpayer.

During consideration of the Proposed Los Angeles City Budget for 1972-73, I was made more aware than ever of the increasingly difficult problem our cities face of providing needed services with existing revenues. It has taxed the ingenuity of our City Government in recent years to balance inflation-influenced budgets just to maintain the City's sound financial condition. There have been a number of very worthwhile projects and programs which I have kept out of the budget simply because of the scarcity of available funds. Should funds become available from revenue sharing, it would then be possible to go ahead with some of these needed, but deferred, public services and facilities.

Here in Los Angeles we do not see revenue sharing as a growing dependency of local government on the Federal Government, leading to weakness of the former, as some critics of revenue sharing are saying. On the contrary, we see it as an apportioning, however modest, of the citizens' income taxes among the several jurisdictions they support, thus raising the fiscal vitality of localities and states. Our Federal system will be strengthened in the process.

Your active support of revenue sharing will be appreciated.

Very truly yours,

SAM YORTY, Mayor.

The CHAIRMAN. Now, I do want to ask about one particular matter, Mayor, because to me it is a very important thing. I recall when we put into effect a revenue-sharing proposal at the State level in Louisiana—I was connected with State government at that time—there was some local governing group who used some of this money in a very low priority way. I know because I was campaigning for office, having advocated the taxes to pay for the revenue-sharing plan, and it was difficult to defend the fact that in some communities a mayor would give himself a pay raise rather than providing for lights or sidewalks or something that would meet with greater approval of the public. Sometimes some politicians might think as between a high priority item and a low priority item they might spend the money on the low priority item because they could persuade the public to vote to let them have the money for the higher priority one.

Now, it appears to me, and I would just like to ask you if you think it would defeat the purposes of this bill, that we would give you complete freedom to spend this money, however, the mayors think it ought to be spent in those cities provided that you submit it to the people and let them vote on whether they are willing to let you spend it for that purpose.

Do you object to that as far as New Orleans is concerned, and how do the other mayors feel about it?

MAYOR LANDRIEU. Mr. Chairman, I think that would be an unworkable provision, although idealistically in a pure sense. If you put every issue to the public, it sounds good, but it does not work as a practical matter.

For instance, in New Orleans alone it costs us about a quarter million dollars to hold an election. As you know, being a Democrat from Louisiana, we have got an election every month. So the cost of it is very difficult. In addition to that, we are now spending \$80 million out of our general funds. That is not counting the port operation, is not counting the airport, does not account for the specialized boards and commissions who have their own accounts. And we have to account for \$80 million.

I doubt, Senator, by giving the city of New Orleans another \$12 million it is going to make me any more or less prudent than I am now.

In addition to that, most cities are faced with enormous deficits. The money is not going to be lying there to be used on some program that is not needed, some low priority item. All of the money that we receive in the city of New Orleans is going to cover a budgetary gap that we are experiencing next year and will experience each year thereafter. This money will carry me for 1 year.

I cannot, of course, speak for all of the 38,000 units of government that will receive this money. There are abuses presently existing in the operations of some of those governments as there is at the Federal level, and I suppose that there will be some abuses arising out of this program. But I do not think those abuses can be cured by tying the hands of the local elected officials and requiring them to submit the expenditure to local referendum. If anything, the cities today need greater authority in their governing bodies and in the hands of the mayor. Most Federal programs today are directed at returning authority to the mayor rather than eliminating authority.

Now, I think though it may have some appeal from a philosophical standpoint, Mr. Chairman, that it would make it an unworkable bill. Perhaps some of the other mayors—

The CHAIRMAN. May I just analyze your answer for a moment before we have any further comment on that. In the first place, you can submit it when you have another election. You can submit it in November, for example, when they are voting on the President or any other time when the people are voting on something else. That would not require a separate election.

Now, furthermore—

MAYOR LANDRIEU. May I comment on that?

The CHAIRMAN. I am aware of the situation. So are you. And we have had situations such as in my hometown where they wanted to build a municipal auditorium. The people did not too much disagree with the idea that perhaps they needed one, but they did not like the idea of buying a whole lot of land when the city had a lot of vacant land standing around in the city's name. So they voted it down.

Now, it would be all right with me to go ahead and build the auditorium but if that is a bond issue, it has been voted down. Would it not be fair enough that the public be given a second chance to express themselves as to whether they think having voted this down that we ought to go ahead and spend our money on it?

MAYOR LANDRIEU. Mr. Chairman, there is a distinct difference between the submission of a capital project to the voters and an operating project. Most of this money on the operating side is going to find its way into literally hundreds of departments of government.

Now, in New Orleans we have 13 departments plus a multitude of boards and commissions that perform various daily services. I think you are asking an impossibility of the public to respond to an operating budget determination by ballot. Perhaps there is some validity in what you say about a capital program but let me give the other side of the coin.

Through your efforts and the efforts of the congressional delegation the Federal Government is going to build a \$27.5 million court com-

plex very close to city hall and we are very grateful for that project, but the people are not going to vote on whether they want it or not. You decided here in Washington, I think rightly so, that it was a proper expenditure of money to house our courts. I do not know why a different principle should apply, why then the local government officials should have to submit, for instance, a million dollar outlay to the public where they are not increasing the taxes.

We submit bond issues to the public because we are bonding future generations. We are indebting future generations and there ought to be some public safeguard on that. We do not have to submit to the public where we are using current funds to build a capital project but only where we are borrowing and are going to pay back over a period of 30 years.

If you did not have that safeguard, then an incumbent mayor, incumbent city council, could borrow to the full capacity, depriving future generations of any bonding capacity whatsoever. So I do see a distinction, Mr. Chairman, and I really think what we are asking in general revenue sharing is to place some confidence in the mayors and the governing authorities and the city councils across the United States who have to submit themselves to the public, who are looked at perhaps with even greater scrutiny than those at the State and Federal level are looked at, and who have to respond to the public.

We think we can spend the money wisely. We know the need is there and we do not object to having our action reviewed by the public because indeed, it is. We do not object to having it reviewed by any mechanism that this Congress wants to set. But I do think that it would be an impractical matter in terms of the utilization of the funds to require referendum every time you spend a dollar.

**MAYOR ALEXANDER.** May I just add to that, please, Mr. Chairman? As mayors we also function as executives of our city and are called upon to administer the day-to-day decisions that affect our city. Unfortunately, many people—I know that this is not shared by the Senators here—think that mayors have unlimited power in that respect. Of course, we do not, as you know. The power of spending is sharply controlled by the council and also by the climate of opinion in the community.

One of the unfortunate problems of putting such a measure up for vote is that it would throw it up for grabs among private and special interest groups in the community and subject it to the political world rather than to the established government in the city, for whatever period of time, 2 years or 4 years, and the staggered terms of the councilmen, lends some continuity to government in our cities and I would find in my own community that the gap between needs and revenues is so great that there would be very little in terms of options open to mayors.

For example, in terms of providing funds for 30 policemen that would be phased out when the FEA funds run out, I have no alternatives. I have to find a half million dollars almost immediately.

In terms of paving some 130 miles of streets of my city which presently are unpaved in this day and age, out of a total of 400 miles of roads, I have very little option on where I want to spend money. My

sewers are so obsolete and decayed that they are a threat to the health and sanitation of the community.

As far as raising my salary, I do not have that privilege. I think the people in Louisiana have a very unusual situation because in most of our cities by law the mayor cannot raise his own salary.

I think, sir, you would find that we are under control in our responsibility because our decisions are examined day-by-day, minute-by-minute. We are always on the hotline. We are always on the front line. The newspaper people live in our city halls, and that is good. I do not criticize that. I think that is excellent.

Mayor MAIER. I do.

Mayor ALEXANDER. This is the kind of control, Mr. Chairman I think you will find, will insure you and guarantee to you that the funds that would be coming to our cities would be spent much as you would spend them yourself if you were in the unfortunate position of being a mayor today.

The CHAIRMAN. I do not regard it as an unfortunate thing but I say frankly, I once struggled with the problem of trying to get mayors to take their revenue money and spend it in a way the public would approve and it took some doing and in some cases we were not at all successful in even doing that. So it would seem to me that the kind of thing you are outlining here, you have no difficulty in gaining public support for this.

Mayor ALEXANDER. How long was your experience, Mr. Chairman?

The CHAIRMAN. That has been quite a while back, about 25 years ago.

Mayor ALEXANDER. Things have radically changed in the last 10 years. Those options are no longer available to mayors, the ability to make decisions in those areas, with the luxury of a decade ago. Today we do not have that privilege of making that kind of decision. Our police negotiate with us under State laws. We have to give them more money. Our firemen negotiate with us. They get inflation increases. We do not have the money to pay those increases.

The CHAIRMAN. I am not so sure I am so far out of date with that. It is subsequent to my day in State service. Our State legislature proceeded to vote an across-the-board pay raise for school teachers without the revenue to pay for it.

Mayor ALEXANDER. I am sure you are not out of date, sir. I am sure of that.

The CHAIRMAN. And it is easy enough just to go vote every school-teacher a big raise. It is all right with me to raise the school teachers. I just think that the public should have the opportunity to pass on it and say that is what we want our money spent for?

Mayor ALIOTO. Let me say first of all, the general notion of submitting anything you have in mind to a plebiscite is a good notion. Our ballots, as a matter of fact, are getting longer and longer each year even with respect to policy determinations, but I would like to point out this practical difficulty.

In California in even years we have two elections a year, one in June, one in November. In other years we have just one election. So we are speaking now of utilizing this money in connection with budget

periods which do not overlap an election period. Our budget deadline happens to be September this year. It simply does not overlap an election period.

Furthermore, Mr. Chairman, we are already, in San Francisco, for example, presiding over a budget of \$600 million. So another \$14 million, you know, is simply not that much of an extravagance.

The other thing is that at this time the question is am I to fire a policeman, a fireman, teachers, sanitation workers, or cut down on my transit schedule, at a time when this is the problem I am trying to solve. You have limited us already to public safety, environment and transportation, so the judgment almost makes itself. To have that judgment by plebiscite is simply going to delay the situation, I think, beyond any practical means of dealing with it.

In normal circumstances I would agree with the general philosophy.

The CHAIRMAN. I think I understand your position with regard to that. I have not at all agreed to the conditions in the House bill. Frankly, it appealed to me more to think in terms of leaving it completely within the discretion of the cities to spend their money however the people of the cities thought it should be spent and let the mayors and their city councils suggest how it should be spent. I have made my position clear.

I will call on Senator Bennett.

Senator BENNETT. In view of this last discussion I have a question for which I think I have no answer. I will address it to any of the mayors here who thinks he can give an affirmative answer to the question.

Is there any mayor who feels that if this money comes to him, any of the taxes he is now levying will be reduced?

Mayor UHLMAN. Mr. Chairman, I would be happy to try to answer that. As a matter of fact, as I mentioned earlier, we actually have fewer tax revenue collections in our city than we had in the State 2 years ago because of the very substantial aerospace decline in our area.

Certainly, we are not unique in Seattle in that the crush is really on us. We do not have the luxury of reducing taxes. I do not know of any mayor or any city official that I have spoken to regarding revenue sharing, and I have spoken to many, who even anticipates the possibility and availability of that option being open to him.

I can certainly assure you that we are not going to be in a position to lower any taxes. As a matter of fact, again, how are we going to meet the other \$57 million of bridge repair work? Certainly not by lowering taxes. We probably are going to have to look at other tax sources in addition to this very needed, very vital source of revenue sharing.

Senator BENNETT. I think for the record we need to get that picture in here. Mayor Alioto?

Mayor ALIOTO. I just want to say, so we will have a very candid and fair answer, there are some literally desperation taxes that we have all been forced to enact that are incredibly inequitable. One, for example, I mentioned is the 25-percent tax on parking fees in San Francisco just because we desperately had to raise a certain amount of money and now we are finding that that has an adverse effect in terms of business, downtown business revenue sharing would permit us, for example, to adjust, as we are already beginning to do in anticipation of this, to

adjust that down to an equitable level like 10 percent. So you might find where we have had these desperate nuisance taxes there might be amelioration of those very unfair and inequitable things, but aside from that we would simply hold the line and not reduce.

Senator BENNETT. I would like to call on my own mayor.

Mayor GARN. In our budget that we just passed commencing July 1, we faced a \$2 million deficit.

What we did on our own property taxes, we increased the levy 4 mills and decreased the sinking fund 4 mills, leaving the total property tax the same. We had an excess for 1 year which will not reoccur next July. Our \$1,765,000 revenue-sharing amount will just barely replace what we did to meet this year's budget without any additional pay increases which we have to negotiate next July. So there is no possible way we, in Salt Lake City, could reduce the mill levy or any tax as a result of revenue sharing. We need it just to break even next year.

Mayor GRIBBS. Mayor Gribbs from Detroit, Senator. I think the point is a very important point. We cannot even entertain the luxury of even thinking of it. What I am fighting for here, asking you to support this bill, and most of the mayors of the country, is to allow us to avoid further lay-offs and further cutbacks. In my brief comments I indicated in the last 2 years I have cut my personnel by 3,000 people. If we do not get Federal revenue sharing this year with retroactivity, I am going to be forced to lay off hundreds upon hundreds more.

Now, it is bad enough to lay a person off but it also means that we will not provide those vital services that are ongoing now, as austere as our program is. So we are just asking Congress to fill that gap that grows and grows to avoid further cutbacks and further layoffs.

Mayor LANDRIEU. Senator, I think you raised an extremely important point and I personally do not know of any city with which I have been associated with which would be in a position to reduce their taxes because of revenue sharing. However, you do find many cities in a rather peculiar position because of the competitive nature of their particular location.

For instance, Mayor Ken Gibson of Newark, is not here but his city relies solely on a property tax. It is so astronomical that it is hard for one to visualize it without having it told to you in graphic terms.

If you own a \$20,000 house in Newark, a house that has a market value of \$20,000, your yearly tax is \$1,950. Now, I want you to think of the impact of that. If you own a \$20,000 house your yearly tax is \$1,950.

Now, if Newark borders on a community that has a property tax one-half of that it is quite apparent any new homes will not be built in Newark. It adds to the exodus from that city.

Our city does not have anywhere near that amount of property tax but we do have a 6-percent sales tax on which we rely. But consider our plight. Our neighboring parishes pay virtually no property tax. We are paying on a \$20,000 home perhaps \$240 to \$250 in property tax. That has an unquestionable impact on where new homes are built. If you offer a young couple a home in an adjoining parish with the same

quality house, maybe even a little bigger lot, for \$30 a month cheaper the home industry shifts that way.

We are at a 6-percent sales tax and surrounding counties, as you would recall, are at 5- and 4-percent sales tax. They have attractive shopping centers. A 1-percent differential makes a significant difference in where the sales take place, particularly on heavy consumer items.

Now, I do not find it inconceivable that a mayor in using it as a strategy would want to adjust his tax base to meet the competition of adjoining parishes and you may find some situations somewhere in the country where that would be absolutely essential but not in order to save the money but rather to adjust their competitive position. I cannot speak for all 38,000 units of government. I can tell you that the major cities in the country are not in a position to do all that I would like to do.

Senator BENNETT. The general tenor of your testimony here this morning is you all have so many unfilled needs that this money will not only disappear soon, but still will not fill your needs. It was against that background that I wanted to ask my question. So, even the mayors facing the problem that you describe of inequitable tax burdens would have a hard choice as to whether or not they are going to hire more policemen or reduce the tax rates.

Mayor ALEXANDER. Senator, in the city of Syracuse we collect \$44 million in real property taxes and as the chief fiscal officer I allocate \$17 million of that to the county of Onondaga, \$15 million goes for the schools, board of education. It leaves me with \$12 million to run the city. I get about \$13 million from the sales tax, which totals about \$25 million, and I depend on any kind of revenue I can lay my hands on. I doubled the water taxes, put on a sewer use tax, hit some of the tax-exempt institutions at least to get some part payments for services rendered to them, and every year I can expect the cost of operating the city as it was in the past 10 years before I became mayor, to double.

So, somehow I have to find some increase in revenue to meet the next increment of expenditures and, of course, as the mayors pointed out, the wage increases we have to pay are not luxury wage increases but are wage increases which are necessary to enable our employees, our firemen, and policemen, to maintain a decent standard of living, and I do not pay our policemen or firemen anything like they get in New York City. Firemen in my city get about \$9,000 a year. It is good pay but it is nothing compared to the \$16,000, \$17,000 a sanitation worker gets in the city of New York, which is just 250 miles away from us.

So we are very frugal, very careful, very conservative with our dollars, but yet each and every year we have to give more money to our employees. We have to pay more money in terms of inflation to buy the pencils, books, groceries that we have to buy for our schools and we cannot get it from our property tax base without actually confiscating that property. There are so many elderly people living in the cities that cannot afford the real property taxes. They are going to lose their homes even if the States permitted us to raise our real property taxes, which the State does not do.

**Mayor HASKELL.** Mr. Chairman, we in our city have 70 percent of our tax base on property taxes. As a result of the work we have done we have dropped it down to about 40 percent, just in round figures. I have put on a 1½ percent wage tax to get the funds to do what we have done to really move this city, which we happen to have been able to do. Even after the reduction from 70 percent of our budget to 40 percent in our budget, that actually did not drop the property tax. We are still on a 5-4 basis where our property taxes are higher than the county, which forces people again to leave the city, which leaves us again with the poor people in our city, which leaves us again with less of a tax base. The same thing with Don Schaefer over here in Baltimore. We have 30 percent of our people on welfare that simply do not contribute. Actually, we will need it to prevent from laying off policemen, firemen, and that sort of thing.

**Mayor MAIER.** Mr. Chairman, I would just like to make a brief statement for the record. We can reduce only in the sense of a small incremental relief. We will have \$30 million of minimum demands again this year and in the fields in which we are allowed to spend—and I as one mayor, can tell you that we have a broad latitude, we have \$22 million currently in relief funds, \$10 million in the fire field, \$4 million in street sanitation—all of this can be absorbed within the \$8 million our city would get, but we would reduce only in the sense that we would be getting some incremental relief which takes a little, a small bit of the pressure off the property base, but only in that sense would we be able to reduce.

**Senator BENNETT.** That answers my question.

**The CHAIRMAN.** Senator Jordan.

**Senator JORDAN.** Thank you, Mr. Chairman.

Collectively you have made a very strong case for the needs of the cities. I have tried to follow a common thread, as someone said here, of what your needs are and what your limitations are and it seems to me that it is a very difficult situation. One common thread is that the Federal Government has preempted the sources of revenues and one mayor said that about 70 percent of the people in the country live in the cities and 73 percent of the Federal taxes are collected in the cities, et cetera.

Of course, the Federal Government has not any money that we do not get from the States and cities. I hope none of you are of the opinion, the notion, that we ought to just send money back to the municipalities and the cities and add it to the Federal debt. If anyone is of that notion, hold up your hand.

I do not believe that any of you are.

The only other alternative, then, is to go back to the cities and to the States and collect the money:

Now, you have spoken about your priorities, every city being different in its needs, and we recognize that. That is why it is so very difficult to write a formula for distribution at the Federal level that takes into account all of those differences among your cities' needs. So I am going to propose here for your discussion an alternative. What would be wrong with using the Federal income tax as a vehicle for the cities

to levy a percent of the Federal income tax for their own use? This tax would be collected by the Federal Government and to be left in your cities. You would have complete authority, then, concerning what priorities you would want to use. You would have absolute control over your own destinies. What is wrong with doing something like that? You speak about wanting more authority for the mayors. This would give you 100-percent authority. What is wrong with that?

**MAYOR LANDRIEU.** May I try first? First of all, I would be very happy to have that authority as a mayor, in addition to revenue-sharing. We have sought this from the State. We have been to the legislature three times asking the right to impose an earnings tax within my city but have been denied that right. I petitioned the Governor to let us piggyback on to the State income tax, desperately, because we need it. But that would not solve the problem that my city is facing. It would give me money to forestall disaster but you would still be taxing those who do not have in order to assist those who have.

Let me recite briefly something about the facts of that. Our population is 45-percent black, 55-percent white. It is 35,000 less than we had 40 years ago. The population of my city is poorer today and older than it was 10 years ago. Middle America has moved to the suburbs.

Now, the poor people in my city, those who are growing poor, today are providing every service for the entire metropolitan area. We provide the only airport. We provide the only zoo, the only art museum, the only auditoriums, only sites for universities, with one exception the only site for all the hospitals, all of which are tax-free.

I could run the entire litany of services and of cultural things that cities provide for this country and really they are the base and they are the repositories of all the great thought and culture that is in this country. We provide that, Senator, for some 1,100,000 people with a population that is shrinking and growing poorer and older.

Now, are we prepared to do our own thing and provide our own services? Yes, we are. And I read a litany of taxes I think that would stagger most of you and I voted for every one of those taxes. Strangely enough, I am still here. God knows why I am still in public office after having voted for them but I did because the necessity was there, but how much further can we tax now the people of the city of New Orleans without the suburban areas being taxed similarly? Can we now impose another piggyback income tax on the poor who live in the city while the suburban areas, who are not nearly in the need that we are because their physical plant is not as old, because they are still experiencing a growth in their population, because they are not providing the services which they can so freely use in the city of New Orleans—

**Senator JORDAN.** If the mayor would yield, I was using figures supplied by a mayor which indicated that 73 percent of the Federal tax collections come from the cities.

**MAYOR LANDRIEU.** I do not question that figure because the population is moving to the urban areas. I do not know whether that applies directly to the cities themselves or to the urban areas. I think it probably applies to the urban areas.

Now, in the city of New Orleans, Senator, we are at a 6 percent sales tax. The two adjacent counties, some 500,000 to 600,000 people, are at a 5 percent sales tax. We pay what is perhaps a reasonable, if not the highest amount of property tax in the State, the surrounding counties pay virtually zero in property tax. We tax the telephones and the gas and the electricity. We tax automobiles that the surrounding counties do not. And the net result of increasing taxes only in the cities is to drive more people into the suburbs to avoid taxes, to avoid the high crime rates, and they still use the facilities of the city.

The attractive thing about the Federal taxing power is that you are not competitive domestically with anyone. You may be competitive, the county is competitive with foreign countries. But people cannot move as easy just across a parish line as they can as we get our taxation out of balance with others.

Now, your point is extremely well taken because what you point to is the formula and the formula obviously is a compromise.

We want a bill. We would say to you in all candor that the money is needed in the cities and in the major cities, but we know as a practical political matter that you cannot pass through Congress a bill that only gives money to the cities and ignores the other communities and indeed, the States. The State has far greater taxing authority than we do.

I cannot raise another cent of taxes in the city of New Orleans legally. I have no authority to increase the property tax. We are at our ultimate constitutional limit. I cannot impose another sales tax because we do not have legislative authority and if I did, to go to a 7 percent sales tax while our competitors are at 5, it would mean we sell nothing in the city of New Orleans. I have no authority to impose an income tax. So I have no basis of taxation left.

Mayor MARTIN. Senator, further along the line of what Mayor Landrieu has said, we in Virginia are in the same position. We have not been able to get the Virginia Legislature to give us permission to put on additional taxes, payroll taxes, piggyback taxes of any type. To give a direct answer to your question, I think to consider changing the overall formula, anything of that type at this stage of the game, we would not see any revenue-sharing bill come out of Congress in this session.

I think what we have tried to say here today is that the cities of America are in desperate need and this is not the most perfect formula, not the most perfect bill, but it is a bill, something we have all been working for, looking to you for years. And I certainly would hope we would not consider a drastic change in the formula or anything at that stage because we have come a long way down the road and this is no time to turn back.

Senator JORDAN. I do not want to take up any more of the committee's time. If any of you want to write to the chairman expressing your views on the question I propounded, please do. I would like to see your reaction, but I will not take any more time now. I have used all the time allotted to me.

Mayor ALIOTO. Very shortly, Senator, the California cities are prohibited from using an income tax.

Senator JORDAN. If you were permitted to ride piggyback on the Federal—

Mayor ALIOTO. We are not given the right to income taxes for our cities. We would love for our cities to get credit for our State and local taxes. There is no practical possibility of achieving that because at the State level the political facts of life are that the suburban voters and suburban type voters in the city and rural voters simply outnumber the city people.

Mayor ALEXANDER. Control of the legislature is in the State.

Mayor LANDRIEU. If I may just elaborate a moment, one of the important things about revenue-sharing is that it does try to redistribute the revenue of the Federal Government to those areas that desperately need it and if the formula does not have that, as Mayor Hatcher pointed out, if it does not give back to cities such as Gary, Ind., and Newark and Detroit, New Orleans, cities that are old, historic, cities losing population and money, then perhaps the bill ought not be passed.

We think that the formula is reasonable. It is a compromise and we need it because we understand that you cannot pass a bill without putting together the necessary votes.

The CHAIRMAN. Senator Fannin.

Senator FANNIN. The last statement I would just like to comment on. You say you think the formula is inequitable?

Mayor LANDRIEU. The formula is acceptable to the U.S. Conference and the National League of Cities.

Senator FANNIN. With the variation of \$17.23 for New York and \$3.53 for Tennessee, that is for the dollars, the State government, and for the local and State government, \$35.29 down to \$17.59, this is still satisfactory?

Mayor LANDRIEU. Yes, sir, it is.

Mayor ALEXANDER. It is satisfactory only, if I may interrupt, Senator, because it at least returns to those municipalities, those States, more money to the poorer States, more money than they pay in, and it returns to the richer States less money than they pay in taxes to the U.S. Government. The richer States are not getting back as much as they pay in. They are getting back less. And the poorer States are getting more than they pay in. In that sense we think it is equitable. We are sure there will be a more sophisticated and more perfect formula. I wonder if the state of the art at the present time would enable us to develop and design such a formula. We only say it is equitable for that reason; Mr. Senator.

Senator FANNIN. We are very privileged to have all of you before us here today and that is why I want to bring out some of these questions where we should look for changes that would make the legislation more palatable. I know some of the members of the committee are not satisfied with the formula. Certainly, I hope that you have sympathy for the problems we face in the deficit that we are suffering at the present time and that this will add to this deficit. Inflationary trends have been coming about over the years, and when one of the mayors said that the competitive position was important to them from the standpoint of their surrounding areas, so is the competitive position to this country because it affects every one of our cities and we are losing jobs, as all

of you know, into the hundreds of thousands and this is something that we have to look to from the standpoint of what the future holds.

Just one question about the position you are in now. Some of the Governors that we had the privilege of hearing a few days ago stated within some of the budgets of the cities you have included revenue-sharing funds expected from this legislation. Is that true with any of the mayors here today?

MAYOR UHLMAN. Mr. Chairman, I will respond to that and I would like to make a point on your last question also, if I may, at the same time.

First of all, we have not budgeted moneys that do not yet exist for us. We do not intend to do so. I learned many, many years ago at home that you do not spend money unless you get it. So we have not budgeted it.

I know other mayors have felt the crunch so desperately that they have anticipated, and I certainly commiserate with them.

I would like to make this one point, if I might, regarding your last question on the equity of the formula. We, in the State of Washington, are one of 13 States in the country that do not have an income tax. We do not have an income tax because there is a constitutional prohibition. We have gone to the public for a vote, a plebiscite, on a number of occasions and on each occasion as might have been expected, as just happened recently in New Jersey, the public has not felt that an income tax was a proper method of taxation in our State.

Well, why should we in the cities be penalized because, on many occasions the failure of the State legislature to ever refer it to the people. In the last three legislative sessions in the State of Washington the legislature refused to even put it on the ballot so the public might have an opportunity to vote. We—the cities—are literally the stepchildren of the State. In this last legislative session I could not even get a hearing on my proposal for a city income or wage tax which would have met the constitutional prohibition.

So, consequently, we are now in the position of saying, yes, this may not be the best formula in the world. It is not perfection that certainly was born in heaven but it is the best we have got and our need is right now. Perhaps we can change it, perhaps adjust it, perhaps improve it in subsequent sessions of the Congress. But, unless we get it now we are in deep, dire trouble, not next year but this year.

MAYOR ALIOTO. Senator, there is a good deal of anticipation of this revenue, but we have not put it in our budget, we were not that presumptuous. There are a number of us who are on a pay-as-you-go basis without any deficit budget. We simply have to at a certain time get enough taxes to cover every expenditure we have. A number of us right now realize that, if we do not get this revenue sharing, there is going to be a hiring freeze on policemen, on firemen, on jailkeepers. We know there is going to be a hiring freeze. So in that sense we better get this or we are faced with a hiring freeze.

In this sense we have anticipated revenue sharing, you see. Not in a presumptuous manner.

SENATOR FANNIN. I understand. The reason I did bring it out is because some of the Governors did refer to it on that basis—

Mayor SCHAEFER. I would like to answer honestly. I did not anticipate revenue sharing in the budget that we prepared for the city council. The city council reduced the budget over the expenditures to the extent of \$10½ million.

When I alluded to September 1, because of the council action, we start laying off policemen, firemen, health department, teachers, in order for me to be able to comply with the budget that the council gave me.

So as one mayor I can tell you if it is not in the budget, on September 1, we start further reductions.

When I am talking about further reductions, we have already stopped increasing police, fire, and health. We have laid off over 1,500 people from our previous budget.

Now, next year we are going to lay off another thousand. If revenue sharing is enacted or it is not, here we are still going to reduce the budget. We are going to continually try to cut the budget.

Senator FANNIN. I understand the tremendous problems you have. Here in Washington we spend money we do not have and you cannot. Fortunately, I say you cannot—I say from that standpoint. I have offered legislation that would make it impractical for the Federal Government to spend money they do not have and we would face up to our problem but that is neither here nor there.

Mayor Alioto, you referred to federally required programs, like affirmative action programs, that became a burden to you or are at the present time a burden to you. Are the programs assisted by the Federal legal aid services? In other words, do you get assistance from the Federal legal aid services under affirmative action programs?

Mayor ALIOTO. No, Senator. There are many mandated services, directly or indirectly, by both Federal and State Governments that the cities just have to pick up. There are many in which we do get—

Senator FANNIN. You referred to the affirmative action programs I thought as being quite costly.

Mayor ALIOTO. In this sense, for example. First of all, we have recognized the importance of affirmative action programs. The city has been a leader in the attempt to break down racial antagonisms because we think that is important to the solution of all of the other problems. But in affirmative action programs, for example, in the construction industry, contractors write in the additional cost of having to train a great number of workers. We think the overall benefits are so important that that has to be done but again I point out, insofar as those bids are higher on city construction, we are forced to go again to that property taxpayer who is burdened just up to his eyes now.

Senator FANNIN. Mayor Alioto, in this legislation it provides the State and municipalities would come under the Davis-Bacon Act. Will that not still add to your costs when you talk about construction costs?

Senator BENNETT. San Francisco is one of the tightest union towns in the United States, and I am sure they are already covered by rates at least equal to the Davis-Bacon or higher.

Mayor ALIOTO. The Senator is correct in terms of high-cost cities. I happen to have a very, very high cost city because labor unions were recognized at the turn of the century in San Francisco at the time they were being indicted everywhere else in the country.

We do not object to that and do not think that is necessarily a bad thing. I am simply pointing out that the justification for having Federal funds is that both the Federal Government and the State government mandate a number of programs, all of which are worthy and we happen to agree with, but all of which kind of make the property taxpayers the succor of last resort. This is the way it works out.

Senator FANNIN. I am not speaking about the city of San Francisco. I am speaking of the United States and all the States and I think this will work a great burden in many areas of the country because this applies to unionized and nonunionized contractors, so I still say that is a very serious consideration from the standpoint of the mayors of the cities of this country.

Mayor ALIOTO. In the overall picture we think the benefits far outweigh the burdens.

Mayor UHLMAN. By State law in the State of Washington we have a little Davis-Bacon. I think many States across the Nation have enacted similar legislation, particularly in the North.

Senator FANNIN. Many States do not have and it has resulted in \$30 billion Government projects last year. It is estimated this cost about an additional \$5 billion.

Thank you, Mr. Chairman.

Senator BYRD. (now presiding). This has been very useful.

Senator BENNETT. Do you want to recognize Senator Griffin?

Senator BYRD. I had not planned to stop yet.

Senator BENNETT. Excuse me. I thought you were winding it up.

Senator BYRD. I will be glad to recognize Senator Griffin.

Senator BENNETT. When you said, "very useful," that sounds to me as though you are going to say thank you very much, goodbye. I apologize.

Senator BYRD. That is all right. I think this has been a useful and helpful hearing. Certainly, it has to me. It has dramatized the plight of the cities.

Last week a group of Governors dramatized the plight of the States and I am already well aware of the plight of the Federal Government in the financial area. So it leads me to believe that this country is facing a grave financial crisis.

I have kept an open mind on this legislation. I like the flexibility of it, mentioned by the mayor of New Orleans and others. I think that is a very desirable feature.

I think you have been frank with the committee and I think we should be frank with you—the part that concerns me is the fiscal situation facing the Federal Government.

Now, I want to say at the same time that most of my colleagues do not share my deep concern. But I am very deeply concerned about the Federal Government's financial position.

Let's look at the immediate 3-year period—for fiscal 1971, the Federal funds deficit was \$30 billion. For fiscal 1972, which ended this past June, it was \$32 billion. This year it has been estimated by the administration to be \$38 billion. In my judgment, it will run \$45 billion. But in any case, in this 3-year period the Federal funds deficit of the Federal Government will exceed \$100 billion.

Now, if we can assume that the Federal Government can continually run these deficits and no one has to pay them, then I guess there is not too much cause for concern. But I do not take that view.

Some help could be had if it would be possible to eliminate other programs. And at hearings before this committee I put that question to the Budget Directors. But neither Budget Director, the one who just went out or the one who just came in, will make any recommendations for eliminating other programs. So this program is a new program which will be added on top of the present programs and, as I say, I have kept an open mind on it, but I am deeply concerned about the financial condition of our Government and that causes me to hesitate and to have reservations about any new programs which will further add to the great deficits that this Government has.

The only way we can finance such a program or any program is either to increase taxes or to further increase the deficits which in itself is a hidden tax because it leads to inflation.

I recognize and sympathize with the plight of the States and the cities. I served for 18 years in the Virginia Senate. I served all of that time on the finance committee of the senate, and I got to know pretty well the problems facing State governments and local governments.

I recognize that you have a grave problem. And you are here in your capacity as mayors and to meet your responsibilities. We on this side of the table, as I see it, also have a responsibility insofar as the handling of the Federal tax dollars is concerned.

I prepared—not for this hearing, but some time ago—a table on deficits in Federal funds and interest on the national debt, 1954–73 inclusive. It shows that in only 3 of those 20 years has the Federal Government ever had a balanced budget and that goes back to 1960, which is 13 years ago.

I ask unanimous consent that this table be inserted in the record at this point.

(The table submitted by Senator Byrd follows:)

DEFICITS IN FEDERAL FUNDS AND INTEREST ON THE NATIONAL DEBT, 1954 TO 1973, INCLUSIVE

(In billions of dollars)

	Receipts	Outlays	Surplus (+) or deficit (-)	Debt interest		Receipts	Outlays	Surplus (+) or deficit (-)	Debt interest
1954.....	62.8	65.9	-3.1	6.4	1966.....	101.4	106.5	-5.1	12.0
1955.....	58.1	62.3	-4.2	6.4	1967.....	111.8	126.8	-15.0	13.4
1956.....	65.4	63.8	+1.6	6.8	1968.....	114.7	143.1	-28.4	14.6
1957.....	68.8	67.1	+1.7	7.2	1969.....	143.3	148.8	-5.5	16.6
1958.....	66.6	69.7	-3.1	7.6	1970.....	143.2	156.3	-13.1	19.3
1959.....	65.8	77.0	-11.2	7.6	1971.....	133.7	163.7	-30.0	20.8
1960.....	75.7	74.9	+ .8	9.2	1972 <sup>1</sup> .....	147.1	179.3	-32.2	21.2
1961.....	75.2	79.3	-4.1	9.0	1973 <sup>1</sup> .....	152.6	190.4	-37.8	22.3
1962.....	79.7	86.6	-6.9	9.1					
1963.....	83.6	90.1	-6.5	9.9					
1964.....	87.2	95.8	-8.6	10.7	20-year total.....	1,927.6	2,142.2	214.6	241.5
1965.....	90.9	94.8	-3.9	11.4					

<sup>1</sup> Estimated figures.

Source: Office of Management and Budget and Treasury Department.

Senator BYRD. Could I ask this question? What percent, if you can speak generally, what percent of the cost of local government in cities would go for welfare purposes?

Mayor ALEXANDER. Most of the cities, Senator, such as Syracuse, do not have the burden of welfare, it being a county function.

I, for one, respect your views on the fiscal debt of this Nation. I think it is a very important issue. I would hope and respectfully request that in this concern for the fiscal debt of the Nation, aid to the cities not be punished or aid to the States not be punished because there is such a great need. So often I hear mayors say as I have said, that we have had to reduce the number of people employed by our cities, sometimes to some minds that may seem to be laudable, but when it means denying some of the people of our cities adequate police protection on our streets it really carries home the point of our need for additional aid.

There are other areas, I am sure, where the budget perhaps should be trimmed. I am not an expert on this. I think you are better informed, I know you are better informed than I am on that subject, but when you weigh this bill, sir, I fervently hope that this concern does not result in punishing the cities or the States because our need is very real and very urgent.

Mayor HASKELL. In the city of New York, a city of 8 million, that is one city that does carry a big load on welfare.

Senator BYRD. I was interested in the intermediate cities, so to speak, which most of you—

Mayor LANDRIEU. I do not think any other city here other than those in New York State—I hope I am not mistaken—carry—

Mayor MARTIN. We do not have overlapping county or city governments, so the city is authorizing a \$130 million budget and we have close to \$22 million in welfare.

Mayor ALIOTO. We pay 25 percent of our total welfare costs from local property taxes and that comes to approximately 15 percent of our city budget.

Senator BYRD. This is a little off the subject but it bears on it a way. The House of Representatives has passed H.R. 1, the so-called Welfare Reform Act, and this committee is working on that now and has been for some time.

What that would do is to double the number of persons on public assistance.

I wonder if any of you would care to comment on H.R. 1. One of the Governors last week came out in strong opposition to it. He said it would be very detrimental to his State.

Mayor LANDRIEU. Senator, I would not care to venture a statement on behalf of the State of Louisiana. From the standpoint of the city of New Orleans it does not give or take away \$1 from the city government. I might say, however, there is obviously need for the reform of the welfare system. I am not smart enough to do that. I hope my Senator is doing right but it has no—

Senator BYRD. He is doing a good job.

Mayor LANDRIEU (continuing). Has no impact on the financial status of a vast number of cities. It does affect very dramatically the States.

Mayor GARN. Senator Byrd, I think it has been made clear by other mayors that the fiscal needs of the cities—most of them will not be helped by welfare reform or the passage or not the passage of H.R. 1. Salt Lake City would still have the same burden regardless of what happens to welfare reform because it is a county and State function.

Just briefly in response to your general comments about the Federal deficit, Senator Bennett knows very well that our political philosophy is very much the same. We are both conservative Republicans. I am in the minority of my fellow mayors here and I am here pleading for revenue sharing, which may sound incongruous as a fiscal conservative. But I have often stated to my own people in the city that it is a matter of priorities, that what we have seen and what I see is a tremendous growth of State and Federal Government, leaving us at the bottom of this little tunnel, and we are dealing in basic necessities.

I have often said there are a lot of services at the State and Federal levels that could cease tomorrow and the only way people would know about it is if they read about it in the paper because it does not affect our daily lives. But if tomorrow morning in Salt Lake City people get up and turn on their shower and no water comes out, they know about it. If the police and fire departments do not respond and their garbage is not picked up, Mayor Garn is going to hear about it.

So I think we have a great lack, underfunding of basic necessities that are not discretionary that must be provided by government.

I think the answer to the Federal Government is to get out of some of the luxury items, what I as a mayor consider as luxury items, and establish priorities and fund the necessities of government first—we are in the infantry—before we do some of the things that may be nice to have but just are not that important.

Senator BYRD. I agree with you.

Senator Griffin?

Senator GRIFFIN. Mr. Chairman, I want to join in welcoming Mayor Landrieu and his colleagues, and particularly the mayor of Detroit, Mayor Gribbs, where I know we have serious problems, where the need for revenue sharing I think is probably as serious as anywhere.

I want to indicate that I support the bill that is before the committee and will do everything I can to see that this legislation becomes law in this session. I think that we stand on the threshold of achieving a major breakthrough. However, I want to kind of perhaps caution you and indicate some of these problems of strategy that we have here in the Senate.

I do not have any questions but just a few observations.

The chairman of the committee, Senator Long, has already indicated that as far as the committee is concerned, this has a high priority and will be reported to the floor, and last night the majority floor leader, Senator Mansfield, was asked by the minority leader about the schedule and Senator Mansfield stated on the record that following the disposition of the Defense Procurement Act, which is now the pending business of the Senate, we will then go to the SALT agreements which need ratification, and following that the revenue-sharing legislation will be taken up in the Senate.

I do not think there is any question that one of the big problems will be that some who may not openly oppose this legislation may seek

to amend it to death, and there will be efforts not only to change the formula and perhaps some change in the formula will have a great appeal and might be justified from the standpoint of some.

I would hope that there would be—that we could hold the formula as nearly as possible. There will be efforts made to tack on some very appealing portions of H.R. 1 to this measure and, if that should happen to succeed, the whole debate on welfare reform will be opened up and will take over from the debate on revenue sharing.

You have been pretty successful I think in your strategy up to now and I just want to indicate that I think there is a lot of work to do still in terms of getting this legislation through.

Then, having said that, I want to indicate my support. I would want to share and indicate the concern that Senator Byrd from Virginia has registered about where we are going and what this means in terms of the Federal Government in the future.

I think a lot of us are concerned that when we vote this \$5.3 billion, of which I guess the cities are going to get something like \$3.5 billion, we wonder what you are going to be in here asking for next year, and are we getting ourselves up as just a whipping boy from here on in as far as your problems are concerned?

When are we going to start phasing out or folding in some of these categorical grant programs?

One of the mayors—one of the Governors in here last week said there are a thousand different Federal categorical aid items. I do not think anybody here really knows the exact number, but there are an awful lot. I think a lot of people in the Congress and around the country would support an extension of this particular concept if we could see some progress in folding in or doing away with these categorical aid programs.

I think we are going to need your help if that is going to realistically come about and I would think, once the concept is established, that the Conference of Mayors would help with that kind of a tough problem, help us identify and give us support on the programs that can be folded in.

I was reading a story in the paper the other day about some criticism about some students who were sent under an OEO grant from New Jersey overseas. It happened that this particular student exchange program was administered by some people in Ann Arbor and it is a very excellent student exchange program. But the criticism was that some of the students who had gone and benefited from this were not the poverty class, either, and the explanation as I understood it in the paper, and I am not sure whether it was accurate or not, was that this particular OEO program was running up against the end of the fiscal year and they had so many millions left and if they did not spend it right away, they would have to send it back to Washington, so they approved very hurriedly this particular program for student exchange.

I wonder how many categorical aid programs are administered on that basis. Without being critical of any particular one, I just wonder how many are administered on that basis and how much money is wasted and how much more money you could have for the problems that are demanding attention if we could phase out some of those

categorical programs and make that same amount of money which would not increase the budget, which would not increase the deficit, available to you.

I do not know if anybody wants to respond.

Mayor LANDRIEU. Yes; I will be happy to.

I think, Senator, most of the categorical programs have been very effectively used. There is some abuse and I suppose those at the local level have to take some responsibility for it. But I think oftentimes the departments of the Federal Government impose certain time restrictions that are unrealistic on local units and then penalize the local units the following year if they have not spent all of their money.

This is an unfortunate cycle. I do not know where you break that cycle. I think it is not a rarity, but I do not think it happens as often as one would be led to believe by the account, which seems to highlight the defects of a program rather than the good that they do.

We feel very keenly that there are many Federal programs that we would prefer to have the money in order to spend it as we would like to, the flexibility under general revenue sharing.

As a matter of fact, many of the cities are in such deplorable condition financially that we cannot even put up the match.

Now, if you want to see where the disparity of the money is and where it is needed in many Federal programs where the match is 66 percent, in some instances 75 percent, the local government, even though the services are going to be rendered there, cannot put up 25 percent to match the Federal Government's 75 percent, and in some instances cannot put up a 10-percent match to get 90 percent Federal dollars, as desperately as we need the money. That is, we cannot even match 1 for 9 of the Federal Government.

Senator, I know that we have to be permitted a certain provincialism. We are mayors. We look at things in a rather narrow view. No one should have a broader view than the U.S. Senate. We have the security of the country in your hands, and the Federal deficit is unquestionably your concern, but that deficit is going to occur whether it is at the Federal level, and that is merely in my judgment a misnomer, or whether it is at the local level.

The fact of the matter is, as I counted up the taxes I myself have supported and voted for, and some of them extremely significant tax, like a 1-cent sales tax and then another one and then another one, you are increasing taxes at the rate of 100 percent when you do that. If you have a 1-cent sales tax and you add another one, that is a 100-percent increase, and then another 1 percent is a 50-percent increase. While we did that, the Federal Government reduced taxes three times. The debt at the city level is rising. It is not because we are entering new programs.

We used to pick up garbage five times a week. Every day your garbage got picked up in my city 20 years ago. Today we are doing it three times a week and we are charging the taxpayer the charge to pick it up and pretty soon it will be twice a week, then once a week, and then we will not pick it up at all.

The question I think the Senate has to answer is, what are the priorities of the country? Outside of national defense and the na-

tional security, I think if you ask the people of this country what they are most interested in, they will tell you safety in their homes. Crime is troubling them. And yet we are hiring fewer police officers than we did before and crime is increasing.

As for sanitation, there are things we were inclined to take for granted. Fresh water. The Federal Government is imposing restrictions on water. We are polluting the Gulf of Mexico, the Mississippi River. We have to some way meet that. Whether the local or Federal Government meets it, the people of the United States are going to have to pay for it.

We do not have the capacity to pay for it. There is no earthly way for the local government to continue to meet these.

What is happening to our national policy is this: that you began a national program of highways to zip people out of the cities and you create a situation in which people move to suburban areas. You develop an FHA housing program, VA housing program, every type of program imaginable. You encourage people to live in new homes in the suburbs rather than put the money in the center city and then at both the State and Federal levels new guidelines are imposed.

As Mayor Alioto says, the court says now every defendant, if you spend 1 day in jail or have the threat of 7 days in jail, has to have a lawyer.

How do we respond to that edict of the highest Federal court? How do we respond to the clean water edicts of the Federal Government and the State government? We simply cannot.

Now, that debt is going to accrue. It is either going to accrue at the Federal level or it is going to accrue at the local level, and it is disastrous to see what the debt is doing to local government. No longer do they have the borrowing power, no longer can they put police vehicles on the street, and incinerators are now obsolete, and yet we do not have any sanitary land fills.

It sounds like a rambling discourse, but it all pieces together to say the people of the United States pay the ultimate bill.

Where is the priority?

I tell you that there is no greater priority than in what is happening at the local level. If you ever want to go through something with some of the mayors here, go through a sanitation strike for 1 week. Let the garbage pile up on the street for just 1 week and watch the reaction of the citizens. Or if you want to really be dramatic, as we were plagued with a strike of the water boards, with no drinking water, let the toilets back up for 1 day and find out what your wife says about it. It is something we take for granted, but it is happening in local governments.

Police strikes are not unheard of today in the United States, but they were unheard of years ago. Firemen strikes are not unheard of. Sanitation strikes are just everyday occurrences in the municipal governments throughout the United States.

Senator GRIFFIN. Mayor Landrieu, since your eloquent statement was in response to something I said there, I want to go back and ask whether or not we can count on the mayors to help us in the future to identify some of these thousand Federal categorical aid programs

which are now burdening you in terms of trying to provide matching support so that we can expand this revenue sharing concept by making that money available to you, in addition to the money that is coming through this bill.

Mayor LANDRIEU. Yes, but you have to be realistic and give us an option.

Senator GRIFFIN. We are trying to be realistic, too.

Mayor LANDRIEU. The reason I say that, and I do not want to be unresponsive, you are to give us an option. If the Federal Government is going to offer me as the mayor of New Orleans the responsibility of a grant to deal with alcoholics, \$3 million. I will take that grant and I will try to use it because there is a need in my community to be met.

If you give me the option, do you want this \$3 million used in alcoholism or do you want to place it in the police or sanitation departments, I think without hesitation I will say give it to me and I will put it here.

If you offer me the \$3 million without option, I will take it, not because it is there to be spent but because there is a need to deal with alcoholism in my community. Those options you are going to find the mayors responding and saying, we prefer to have more money here than over here. But even with all the categorical grants you are giving us now, and even if we get Federal revenue sharing, that is not going to meet the needs of the cities, and to say we are going to relax the pressure and say we have solved our problem, that would be misleading.

Our revenues are growing at the rate of 2 percent a year, the expenditures at the rate of 8. Those are not new programs, but it is just inflation, unionizing white collar users, making up for deterioration of public buildings that have not been kept up over a period of years because you can hide that sort of thing in the city. You do not replace the equipment, do not paint the buildings, do not do the interior maintenance, so 8 percent a year.

The expenditures to do next year what we are doing this year costs 8 percent more and I am only going to get 2 percent revenues, and you heard the other mayors say the same.

So it is not the end of a yardstick. It is a never-ending cycle.

But I will say this, that of all the units of government that have the greatest capacity to raise the money, it is the Federal Government. You have less competition and you have the most efficient collecting mechanism.

We are not trying to shift our burden, we are simply saying to you that we do not have any capacity left, do not have any mechanism. The machinery is broken down and you have to find some way to help us.

Mayor GARN. Senator Griffin, I will respond quickly.

I for one, speaking as mayor of Salt Lake City, would be very happy to help you any way I can to do away with categorical grants and replace them with decisionmaking power at our level. I am so sick and tired, particularly of OEO in Salt Lake, which is not only usurping authority that I have to answer to the voters of Salt Lake City on, but in many cases undermining local government; working

against us, organizing citizens on how they can undermine us. So I, speaking alone, could not agree more with your statement, let's get the power back to the elected representatives of the citizens.

I would like to see the category for that amount of money placed in the general category.

Senator GRIFFIN. One of the great difficulties we have up here, there is an awful lot of money I think being wasted because of the fact that we are setting priorities here in Washington that should be set at your level—

Mayor GARN. We have got—

Senator GRIFFIN (continuing). In terms of how the money should be spent.

Mayor GARN. We have thousands of dollars in OEO salaries in Salt Lake City that could be used in the city, absorbed in our budget.

Senator GRIFFIN. Thank you, Mr. Chairman.

The CHAIRMAN (now presiding). Senator Nelson.

Senator NELSON. I did not get here in time to hear Congressman Gibbons' testimony as I had another appointment, but I read his testimony yesterday. I cannot vouch for his statistics, but I assume they are accurate.

He made the point that if the other 40 States in the Nation made a revenue effort equivalent to that of the top 10 States that would produce an additional \$18 billion of revenue a year—about three and a half times what is included in this bill.

If he is correct in that, I wonder about the responsibility of the States to make a stronger revenue effort.

What is your comment on that?

Mayor LANDRIEU. Senator, our figures show exactly the reverse insofar as the allocations to the local units of government are concerned. His figures may be correct with respect to the State allocations, but they should not be confused with the local allocations.

Senator NELSON. I interpreted him to be saying that if the other 40 States made an effort to raise revenues equivalent to the effort made by the top 10 States, that would produce another \$18 billion a year.

Mayor LANDRIEU. Produce \$18 billion for the States?

Senator NELSON. Yes.

Mayor LANDRIEU. Through local sources?

Senator BENNETT. Yes.

Senator NELSON. Well—

Senator BENNETT. Through local sources.

Mayor LANDRIEU. I have no reason to question his figures nor any reason to substantiate them. States have far greater taxing power and other alternatives that cities and local units of the government do not.

I am not here saying, therefore, exclude States from the formula because you cannot pass a revenue-sharing bill, I take it, without the aid of the States.

Senator NELSON. I do not think that is the point he was making. The point he was making was that the States could greatly increase their revenue effort. The States already do a great deal of revenue sharing.

In my State, which is a very high income tax State, 60 percent of the personal income tax is returned to the local governments—50 percent to the locality where the taxpayer lives, and 10 percent to the county; 40 percent is retained by the State. So 60 percent is already a revenue-sharing matter within the State of Wisconsin.

Then add to that a very substantial school aid program—money raised through the income tax and then sent back to the communities to help with the school system.

The point I am making is that if Congressman Gibbons is correct, the other 40 States could produce \$18 billion if they made the effort equivalent to that of the top 10 States. Should we not be designing a program that encouraged, or required State governments to make a stronger effort?

Mayor LANDRIEU. Senator, I wish you would and I would certainly support any efforts you make in that regard, but I have little reason to believe that that money raised at the State level would find its way back into the cities.

The fact is, history shows that just the reverse has been true, that the cities, in the States now, have produced most of the dollars going into the State treasury. That money has been redistricted to other local governments not in those metropolitan areas.

I would be delighted as the mayor of the city of New Orleans to keep all the money generated in the city in the city. That has never happened and that is why we are on the verge of bankruptcy. That has not happened in any other cities of the country. The legislation is controlled by suburban rural legislators now. Before they were controlled basically by the rural areas of the State.

Now that we have had a one-man, one-vote rule, the population has shifted a bit, but it has not shifted to the cities. It has shifted to a combine between the rural and suburban legislators and while we have fared a little bit better in the last two legislative sessions in Baton Rouge, because of the peculiarities that have existed, the history has been we have been penalized and we always hoped at each legislative session that we would come out with our scalps, not with anything of a positive nature for the cities.

Mayor ALIOTO. This bill does have as one of the criteria tax effort. I know you can argue about that and say it still does not reach these 40 States in the same way you have reached 10 States, but if we get ourselves into a political squabble between the 10 States with a great tax effort and 40 States that do not have that tax effort, we are afraid, sitting on this side of the table, we are never going to have a bill. We recognize certain imperfections in the bill, but that is natural.

Our main concern now, very frankly, is a calendar concern. I want to mention this in the light of your question because there is great merit in what you say, but I do not think it is the final answer because we are trying to reach that problem with one-third of the standards based on tax effort.

You know, there is going to be an adjournment here for the Republican Convention, an adjournment for the election, and if we get off too far from what this bill is—I am not indicating that nobody has a right to amend anything—we are going to lose this whole thing.

Those of us on this side of the table think the subject matter is not just a sense of urgency, but a sense of emergency. While there is great merit in what you say, I think we are trying to reach it in this bill. We would be hopeful that a calendar would be met where we could move this bill along.

I am very afraid that perhaps an inquiry such as yours may result in it being lost entirely.

Senator NELSON. Well, let me say that I think the mayors, the conference of mayors, and particularly the mayors who appear here today, have done a superb job in the past year of telling the Congress and the Nation about the serious plight that the cities are in. Certainly, I view it as serious. There is no disagreement on that.

The mayors' jobs are the most difficult political elective positions now any place in the United States. That was not true a quarter of a century ago, but it is true now, I think. I sympathize with the mayors and am concerned about the problem of the cities, but it does bother me to launch into a program of revenue sharing unless it is designed in such a way as to do the most good in the places where it is needed.

I used to support revenue sharing much more strongly. I used to have fewer reservations about it than I have now. I have been supporting it since I was Governor of the State of Wisconsin. In fact, I introduced legislation back in 1968 or 1969 to set up a panel to study the whole matter on the assumption that we would not do anything about it until the war was over anyway. But that resolution was not passed.

But if Mr. Gibbons is correct, there are many States that are not really making the effort they ought to make.

Also, in every State there are great disparities in the tax load borne by the various communities. There are communities which should not get a single dollar from any place else because their property tax is low and they have all the services they need. We have communities in our State that do not have taxes at the local level for anything other than school purposes because the shared tax dollar coming back pays for police and garbage collection and even for the cost of the life-guards at the beach. Although they do not need any more money, they will get some under this proposal. On the other hand, there is a desperate need in Mayor Maier's city. But if you look at the formula for sharing among the cities, you will find out that a lot of cities in the State are receiving funds even though they do not need it nearly as badly as, say, Milwaukee.

Go ahead, Mayor.

Mayor MAIER. I will just say, Senator, I do not think you would find many arguments among the mayors about the tax effort idea related to the income tax, and that is where the relationship is.

Judging from the uphill fight we have had to get this far on this incremental bill which does have some measure of income tax, perhaps not enough, just enough to maybe enable us to get it through the Congress, because every place we ran into efforts in the House in the lobbying effort was where they were going to have to take the income tax efforts. This is where we fared the worst.

If the Congressman has a proposal he could pass in this Congress the next 10 years to get the rest of those States into the act, fine, we will be able to testify for him all the next 10 years because it will take him that much time to get the votes behind him to accomplish that.

We realize it is the only feasible way we can figure out to try to get something through this Congress.

Mayor ALEXANDER. While 90 percent perfect, we would much rather have a 100 percent per bill, but we will take the 90 percent per bill because we so desperately need it.

Senator NELSON. I would be more enthusiastic if I thought it was 90 percent per.

Mayor ALEXANDER. Give us 89.

The CHAIRMAN. Gentlemen, you made a very fine presentation.

The hour is now 1:18. So I would suggest that we stand in recess, then until 3 o'clock. We have some remaining witnesses to hear and we will hear them at that time.

Mayor ALEXANDER. Thank you.

Mayor ALIOTO. Thank you very much.

The CHAIRMAN. Thank you very much for a very fine presentation. (Whereupon, at 1:19 p.m., the committee recessed, to reconvene at 3 p.m., the same day.)

#### AFTERNOON SESSION

Senator TALMADGE. The committee will please come to order.

The next witness is the Honorable John Conolly, Representative of the State of Illinois, who is president of the National Legislative Conference, accompanied by Speaker Herbert Fineman of the State of Pennsylvania, Speaker Charles Kurfess of the State of Ohio, Representative Elliott Levitas of the State of Georgia, Senator Robert Vander Laan of Michigan, and it gives me a great deal of pleasure personally to welcome to the committee an old friend of many years standing and one of the most distinguished members of the Georgia legislature, Mr. Elliott Levitas.

Mr. Conolly, you may proceed as you see fit, sir.

#### STATEMENT OF HON. JOHN CONOLLY, PRESIDENT, NATIONAL LEGISLATIVE CONFERENCE, ACCOMPANIED BY SPEAKER HERBERT FINEMAN OF PENNSYLVANIA; SPEAKER CHARLES KURFESS OF OHIO; REPRESENTATIVE ELLIOTT LEVITAS OF GEORGIA

Mr. FINEMAN. My name is Herbert Fineman. Mr. Conolly is not here yet, and I am pleased to be here, sir.

Senator TALMADGE. Mr. Speaker, we are delighted to have you.

Mr. FINEMAN. Fine, thank you. I am pleased to be here both in my capacity as speaker of the Pennsylvania House of Representatives and as chairman of the Federal-State Relations Committee of the Executive Committee of the National Conference of State Legislative Leaders. I have a rather brief oral presentation to make.

Senator TALMADGE. Without objection we will insert your full statement in the record, Mr. Speaker, and you may summarize it orally as you see fit.

Mr. FINEMAN. Thank you, sir. I want to say at the outset that in both capacities of which I appear here today, I very warmly endorse the legislation as it passed the U.S. House of Representatives, and while I am not in complete agreement with all of the provisions of the legislation, I do know that the funds that would be provided by this landmark concept of revenue sharing are critically needed both by our States and by our local communities, and I say to you that I would much prefer to have funds provided by an imperfect vehicle than to have no funds at all.

I think that there are certain indisputable and unassailable facts bearing on the continued fiscal integrity of our local and State governments which have given birth to the concept of revenue sharing. For one, expenditures for essential services have consistently outpaced revenues and this has created in all classes of local government escalating levels of indebtedness.

These spiraling costs spring, of course, both from the ever-increasing demand for vital domestic services and from the progressively accelerating costs of the delivery of those municipal services, and this is particularly true since 1967.

I see President Conolly has joined us.

Local governments are plagued by the failure of revenues to keep pace with costs. A stagnant economy as well as a regressive tax structure with limited capacity account for the latter situation. These self-same difficulties have affected State governments and, consequently, the capacity of State governments to assist local governments is rapidly becoming more limited.

Now, some critics of this revenue sharing legislation have predicated their opposition on the belief that States and municipalities have not done enough to help themselves. I want to say to you that the facts do not support this posture.

States have increased major tax rates more than 300 times over the last decade. My longer statement provides some fiscal information of some interest about my own State of Pennsylvania. And to quickly summarize that data, that data will show that local tax effort has increased substantially in Pennsylvania during the 1965-69 period, that expenditures have nevertheless outpaced the increase in these revenues, and that the net outstanding debt of local municipalities has been accelerating during that same period of time.

With regard to the revenue and expenditure picture of State government, the Commonwealth of Pennsylvania has raised its taxes at an awesome pace over the last 10 years. General fund revenues, which are raised by business taxes, consumer taxes and now by a personal income tax, which we have been levying for the first time in our history since January of this year, have increased approximately 225 percent from \$1.1 billion in 1963 to almost \$3.7 billion in the current year, and that is an average increase in taxes of almost 25 percent a year.

Now, this tremendous increase in tax revenues took place while the population of Pennsylvania was growing over the same period of time by a little over 4 percent. The per capita tax increase soared from \$98 in 1963 to \$307 in 1972, which is an increase of 413 percent.

I think these are telling figures.

Now, let me say just a few words in response to those who argue against revenue sharing on the basis that the Federal Government has no real revenues to share.

I have two responses. First, if the revenue situation of the Federal Government is bad as that it presents a deficit picture, just consider the even deeper plight of the States and localities who do not have available to them the same revenue-raising tools, effective revenue-raising tools that the Federal Government has available to itself.

Secondly and more basic is the fact that the intense fiscal problems of local government are with us, they cannot be swept away or ignored and they will not go away by themselves and they have to be resolved if we are going to prevent the irrevocable decay of our local communities, and I say to you it is simply a matter of priorities.

The Federal Government must decide to which critical problems it will apply its resources and I respectfully submit that there is no more critical national problem than the financial soundness of our States and our cities. Who can validly argue that a tottering local government situation does not imperil the federal system of government itself?

Now, as I stated earlier, I am not totally satisfied with the present form of the bill. For instance, local government expenditures are limited to certain high priority objectives—public safety, environmental and sanitary protection, and public transportation.

However, what seems to me to be the highest of priorities: namely, educational costs, has been omitted as a subject for assistance and none of the Federal funds to be provided can be devoted to the most critical need; namely, financing the cost of education.

I say to you that in light of recent decisions, court decisions, attacking the raising of educational tax dollars by means of local real property taxes, which incidentally account for 95 percent of the local tax revenue for educational purposes, this would appear to be a glaring omission.

I am also somewhat disappointed by the fact this is not a permanent program and that it is limited to a 5-year period because I don't envision the fiscal problems of State and local governments to be transitory in nature but rather I see them necessitating the continued assistance of a Federal Government much beyond the period of time for which assistance is provided in this revenue-raising bill.

I also believe the piggyback provisions in title II of the bill are unduly burdensome and while that is most advantageous to the States to have the Federal Government collect and administer State individual income taxes, this section of the bill practically requires State income tax laws to be junior editions of the Federal income tax law, and by requiring States to thus conform their individual income tax law to the Federal income tax laws the State must, therefore, accept the same tax shelters that the Federal Government provides, the same adjusted gross income, the same itemized deductions, so that in addition to depriving the States of the tax decisionmaking process, every change in the Federal tax law will necessitate thereafter a comparable change in the State income tax law.

But even with these objections I want to strongly reiterate my firm support of this measure as it passed the House.

I think that the financial problems of State and local government are just too severe to allow these levels of government to go it alone and I want to urge this Senate committee as quickly and as expeditiously as possible to attend to the business of favorably getting this measure out and on the floor for a vote.

I thank you, Senator, for allowing me the privilege to appear before this distinguished body today.

Senator TALMADGE. Honored to have you, sir.

President Conolly.

Mr. CONOLLY. Yes, sir; Mr. Chairman.

Senator BENNETT. May I, before he talks?

Senator TALMADGE. Would you yield, please, Mr. Conolly?

Senator BENNETT. May I raise two questions to Mr. Fineman.

I think you inadvertently said earlier that the tax burden in your State had multiplied 300 times. You mean 300 percent?

Mr. FINEMAN. 300 percent.

Senator BENNETT. You didn't mean 300 times?

Mr. FINEMAN. That is right.

Senator BENNETT. When you are referring to title II of the bill, I hope you realize this is permissive, it is not mandatory.

Mr. FINEMAN. No; I am fully cognizant of that. The point I was making is this. I think it is a great boon to the States to have the Federal Government administer and collect their taxes for them. Not only is it great economical measure, not only will it save a great deal of tax dollars for the States, but it is a great assist to the individual taxpayers who are also plagued by the multiplicity of forms that they have to follow, but I say to you that the way the requirements are set up for States who want to get into this picture is a particularly onerous and burdensome procedures so that in effect it is going to negate many States or most States taking advantage of this.

Senator BENNETT. As I listened to your testimony I had the impression you felt that this was a mandatory rather than a permissive feature.

Mr. FINEMAN. No; I understand that it is a purely voluntary situation, it comes into play only after five States representing at least 5 percent of all income tax returns that are filed want to get into the act that it comes into force.

Senator BENNETT. Then it only involves those States that choose to take advantage of the service?

Mr. FINEMAN. That is correct, I fully understand that.

(The prepared statement of Mr. Fineman follows:

**PREPARED STATEMENT OF SPEAKER HERBERT FINEMAN, SPEAKER OF THE PENNSYLVANIA HOUSE OF REPRESENTATIVES TESTIFYING ON BEHALF OF THE FEDERAL-STATE RELATIONS COMMITTEE OF THE EXECUTIVE COMMITTEE ON THE NATIONAL CONFERENCE OF STATE LEGISLATIVE LEADERS**

Chairman Long and members of the Senate Finance Committee. My name is Herbert Fineman, and I am privileged to testify today on the proposed State and Local Fiscal Assistance Act of 1972 in both my capacity as Chairman of the Federal-State Relations Committee of the Executive Committee of the National Conference of State Legislative Leaders and as Speaker of the Pennsylvania House of Representatives.

At the outset, let me state that in both such capacities, I warmly endorse this legislation as it passed the United States House of Representatives. While I am not in complete agreement with all of the provisions of this legislation, I do know that the funds that will be provided by means of the concept of revenue-sharing are critically needed by both our states and municipalities, and I would much prefer to have the funds provided by an imperfect bill than to have no funds at all.

Certain indisputable and unassailable facts bearing on the continued fiscal integrity of our local and state governments have given birth to the concept of revenue-sharing. Essential expenditures have consistently outpaced revenues, creating in all classes of local government escalating levels of indebtedness. This springs from both the ever increasing demand for vital domestic services and from the progressively accelerating cost of delivery of those municipal services, particularly since 1967. In addition, local governments are plagued by the failure of revenues to keep pace with cost. A stagnant economy, as well as regressive tax structures with limited capacity, account for the latter situation.

These self-same difficulties have effected state government and, consequently, their capacity to assist local governments is becoming increasingly more limited.

Some critics of this revenue-sharing legislation have predicated their opposition on the belief that states and municipalities have not done enough to help them. The facts do not support such a posture, and I would like to give you some fiscal information about my own state of Pennsylvania.

I can assure you that although the data I will make reference to is specifically applicable to my own state, it is characteristic of the circumstances that exist in almost all of our states. The data used covers the years 1965 through 1969 and is to be found in a study that was conducted by the Pennsylvania Department of Community Affairs. If the age of the data has an effect at all on its validity, I would say that it plays down the acuteness of the actual problem as it exists today. The fact is that the situation has intensified and worsened since 1969.

Let me just briefly spell out some of the statistical history of expenditures in Pennsylvania showing the dramatic increase that has taken place.

*Counties.*—In 1968, the revenues of Pennsylvania's sixty-seven counties totaled \$335 million which was a 59% increase over their revenues in 1965. During that same period there was a 49% increase in the expenditures of those counties, from \$218.9 million in 1965 to \$367.3 million in 1969. You will note that the percentage of expenditure increase for counties was somewhat less than their percentage of increase of revenue. This is the only level of local government in which this occurs. All others have shown a greater percentage increase in expenditures over revenues. The net outstanding debt for Pennsylvania counties in 1969 was \$285.6 million, a 39 percent increase from the \$205.2 million debt in 1965.

*Cities.*—For Pennsylvania cities, except Philadelphia, revenues increased by 36 percent from \$171.5 million in 1965 to \$232.4 million in 1969. During this same period of time expenditures increased by 42 percent, from \$175.2 million to \$249.4 million. Also, during this period there was a 22 percent increase in the net outstanding debt so that in 1969 the debt totaled \$140.6 million. Philadelphia had increased its revenues by 83 percent from \$314.6 million in 1965 to \$574.3 million in 1969.

*Boroughs.*—Pennsylvania boroughs increased their revenues by 36 percent from 1965 to 1969, *i.e.* from \$184.3 million to \$182.9 million. During this period they increased their expenditures by 41 percent, from \$134 million to \$189.6 million. This same period witnessed an increase in the net outstanding debt of 42 percent for a total of \$45.1 million in 1969.

*Townships, first class.*—The first class townships in Pennsylvania increased their revenues by 58% from 1965 to 1969, *i.e.* from \$52.4 million to \$81.1 million. During this period their expenditures increased by 69 percent, from \$50.4 million to \$85.4 million. Their net outstanding debt increased by 76 percent for a total of \$87.4 million in 1969.

*Townships, second class.*—Townships of the second class increased their revenues by 51 percent from 1965 to 1969, *i.e.* \$71.2 million to \$107.4 million. During this period their expenditures increased by 53 percent, from \$70.5 million to \$108.2 million.

*State government.*—With regard to the revenue and expenditures picture of state government, we see that the Commonwealth of Pennsylvania has raised its taxes by a considerable amount over the last ten years. General Fund revenues,

which are raised by business taxes, consumer taxes and personal income taxes, have increased approximately 225% from 1.1 billion dollars in 1963 to almost 3.7 billion dollars in 1972. This tremendous increase in revenues took place while the population of Pennsylvania grew by only 4.2%. The per capita tax increase soared from \$98 in 1963 to \$307 in 1972, an increase of 213%.

Additionally, motor license fees and gasoline taxes have been substantially increased and the revenue yield has climbed from 320 million dollars in 1963 to 602 million dollars in 1972.

During this same period of increased state effort, the Federal per capita tax has risen at a much lesser rate, and in recent years, the rate of increase of Federal per capita taxes has been considerably decreasing.

These are telling figures as to state and local expenditures and tax effort:

Let me say a few words in response to those critics of revenue-sharing who have argued that the Federal Government has no real revenues to share. Mr. Chairman, I have two responses:

First, if the revenue situation of the Federal government is bad in that it presents a deficit picture, just consider the even deeper plight of the states and localities who do not have the revenue raising tools that are as effective as those available to the Federal Government.

Secondly, and more basic, is the fact that the fiscal problems of local governments are present and will not go away, and they must be solved if we are to prevent the irreversible decay of our local communities. It is simply a matter of priorities. The Federal Government must decide to which critical problems it will apply its resources. I respectfully submit that there is no more critical national problem than the financial soundness of our cities and states. Who can validly argue that a tottering local governmental situation does not imperil our Federal system.

To a large extent, many of our state and local problems are of an interstate nature. As a resident of Philadelphia, I can assure you that Philadelphia's problems have an impact on neighboring states. Delaware and New Jersey residents work and shop in Philadelphia; they use our streets and sanitary facilities, our police protection, etc. A metropolitan area such as Philadelphia on the border of the State is in fact an interstate municipality, and as such, should have assistance from the Federal Government in solving its problems.

As I stated earlier, I am not fully satisfied with the present form of the bill. For instance, local government expenditures are limited to certain high priority objectives—public safety, environmental and sanitary protection and public transportation. However, what seems to me to be the highest of priorities—namely, educational costs—has been omitted as a subject for assistance, and none of the Federal funds to be provided can be included in the formula for apportionment among municipalities. In light of recent court decisions attacking the raising of educational tax dollars by means of local real property taxes, this would appear to be a glaring omission.

I am also somewhat disappointed by the fact that this is not a permanent program and that it is limited to only a 5-year period. I am not envisioning the fiscal problems of local and state governments to be transitory in nature, but rather, I see them as necessitating the continued assistance of the Federal government much beyond the period of time provided for in this measure.

I also believe the "piggyback" provisions in Title II of the bill are not very realistic. While it would be quite a boon to the states to have the Federal government administer and pay the cost of state income tax collections, this section practically requires state income tax laws to be junior editions of the Federal Income Tax Code. For all practical purposes this effectively negates any state from availing itself of the cost-saving procedures provided by this bill.

But even with these objections, I reiterate my support for the State and Local Fiscal Assistance Act of 1972 and urge its prompt passage by the Senate. We state leaders have more than just a monetary interest in endorsing the concept of revenue-sharing. Federal domestic assistance in the form of specific categorical programs, while, of course, welcomed, have helped create a fiscal rigidity inside state and local governments and often do not provide for the most pressing exigencies. We believe that the revenue-sharing concept will help relieve us of this rigidity and allow greater flexibility in spending these funds.

There are indeed very positive and innovative aspects of this bill that I definitely endorse. I think the flexibility in the bill that would permit the states after July 1, 1972, to revise the formulas for apportionment of funds to localities

is most desirable. I also endorse the provisions of the bill allowing for states' shares to be escalated as they reform their own tax structures.

In summary, gentlemen, the financial problems of state and local governments are too severe for them to go it alone. I solicit your support for this cooperative system of assistance.

Mr. Chairman, I again thank you for this opportunity to testify before this committee.

Senator BENNETT. Thank you, Mr. Chairman.

Senator TALMADGE. Thank you, Senator.

President Conolly?

Mr. CONOLLY. Mr. Chairman, I apologize for being late to this hearing. I fell victim to some of the problems the mayors alluded to today, of transportation across the cities, so I apologize for being late.

Senator TALMADGE. Mr. Conolly, if you desire you may insert your full statement in the record and summarize it as you see fit.

Mr. CONOLLY. Thank you very much, Mr. Chairman. I will be very brief and would like to submit a statement in closing my remarks.

As president of the National Legislative Conference and a State representative from Illinois I am pleased to be part of this distinguished panel of State legislators here today to testify on revenue sharing. These legislators have a distinguished record of accomplishments at the State level. They represent years of public service and have a thorough knowledge of the problems of State government.

Perhaps the most single important problem State governments face today is raising adequate funds to meet the spiraling cost of governmental services demanded by State residents. At the same time many State legislators feel that the tax rate in their State has reached the economic and political saturation point.

Revenue sharing will provide State and local governments with vitally needed new moneys to ease this financial plight. There are many other important substantive arguments supporting the need for revenue sharing.

Over \$40 billion is now coming into State and local governments in Federal aid each year. This money is vital and most of the programs are good ones, yet many problems have arisen from that aid. The overlapping of Washington agencies administering these Federal programs and the difficulty in tailoring national programs to varying State and local needs have become significant problems. In turn, that maze of programs has generated thousands of special purpose districts with no real representation from the taxpayers and no role for the State and local government officials. In addition, the sheer physical burden of the constant matching from the State level has created unnecessary antagonisms to the new Federal programs at State and local level.

I believe the States are ready to take new initiatives. They are ready to lead instead of follow. The old saying about what is good for Louisiana may not be good for California is, as many cliches often prove to be, true. State legislators know the problems of their constituents. They are anxious to be given the opportunity to initiate and

to enact innovative programs geared to their particular State. Revenue sharing would give them the opportunity to do just that.

The National Legislative Conference strongly supports the concept of general revenue sharing that is needed and is needed now.

Many States have already included funds from revenue sharing in their State budgets. All States are counting heavily on the infusion of new programs promised by revenue sharing. In short, it is imperative that revenue sharing pass during this session of Congress.

I realize the committee is confronted by many competing demands for new Federal programs. However, in my opinion this legislation is one of the most important bills Congress has considered in recent years.

Time is short. There are but a few weeks remaining in the 92d Congress and much remains to be done.

I ask you today to give special priority to the prompt passage of revenue sharing. This concept has been discussed long enough. The time for action is now.

In closing, we are pleased and encouraged that you have quickly begun hearings on revenue sharing after House passage. We stand ready to help and assist this committee in any way we can to secure immediate passage of revenue sharing.

Mr. Chairman, I request that the attached proposed policy position of the National Legislative Conference on general revenue sharing be incorporated as part of my statement. This position has been recommended by the National Legislative Conferences in Intergovernmental Relations Committee and will be submitted for approval to the NLC annual meeting next week in your State.

I also request the written statement of Speaker Richard A. Pettigrew of Florida and also the statement of Speaker Charles Kurfess of Ohio, who have been unable to be here with us this afternoon, be inserted in the printed record.

Senator Long, I look forward to seeing you next week in New Orleans and hope that you will have good news for us and for all of the State legislatures in the Nation with a good affirmative committee report. I thank you very much.

(The material referred to follows. Hearing continues on page 342.)

#### REPORT OF THE TASK FORCE ON GOVERNMENT OPERATIONS

*General Revenue Sharing.*<sup>1</sup>—The National Legislative Conference has consistently supported the principle that the federal government should share a portion of its revenues with the States. The Intergovernmental Relations Committee of the National Legislative Conference reiterates its strong support for this important concept.

The Committee urges immediate passage by the House of the general revenue sharing bill approved by the Ways and Means Committee, H.R. 14370. We further urge the earliest possible consideration of this legislation by the Senate Finance Committee and the full Senate. Final passage of revenue sharing legislation in the present Congress is absolutely imperative.

<sup>1</sup> Policy position recommended by the Government Operations Task Force that will be submitted for final approval to the annual meeting of the National Legislative Conference August 8, 1972.

PREPARED STATEMENT OF HON. RICHARD A. PETTIGREW, SPEAKER, FLORIDA  
HOUSE OF REPRESENTATIVES

H.R. 14870, which has passed the House and is before you today, is basically a progressive step in the right direction. However, it merits further scrutiny in two major areas.

First, the bill will provide \$3.5 billion in Federal aid to local governments and \$1.8 billion to State Governments. The portion earmarked for the states is to be distributed under an equally weighted, two factor formula. One-half of state funds is to be distributed solely on the basis of state personal income tax collections and the remaining \$900 million will be allocated on the basis of state and local tax effort, relative to the efforts of other states and communities. Under this plan. Since Florida has no income tax, we will be denied equitable treatment with respect to the allocation of at least one-half of the states' share of revenue sharing funds. Hence, because the citizens of Florida do not desire a personal income tax, we find ourselves discriminated against to the extent that we will lose \$10 million under this proposal.

Figures from the House Ways and Means Committee indicate Florida will receive \$31.9 million in state funds and \$118.1 million in funds for local governments. This sum will yield \$4.53 for each Florida resident as compared with \$17.23 for each resident of New York and as further compared to the national average of \$8.78 per capita. Thus, Florida ranks 45th for per capita income to be received under the Mills bill—a startling fact since my state is in the middle one-third of the states based on per capita income.

I feel the above figures elucidate a problem with the bill which can be worked out by this committee through the amendatory process. I would suggest to you that the state share should be determined entirely on relative total state and local government tax effort, with the personal income tax being only one component of measuring such effort. The emphasis placed on the personal income tax by this bill seems predicated on an assumption that such a tax is the panacea for uniform state and local tax reform. I would suggest to you that it is a valuable tool for some states to reform their regressive tax systems, but it is not the tool, nor necessarily the best reform instrument for all states. In my own state, we have just completed a massive tax reform program which I will stack against efforts in any other state or the Federal Government. We have knocked out special interests exemptions in the ad valorem area and have made more uniform the application of our state sales tax. We have relieved consumers of regressive levies totalling over \$50 million in only a two year period.

We enacted a state tax on corporate profits and fought off strong efforts by special interests to carve out preferential loopholes in this tax. We closed loopholes in our greenbelt law and enacted a severance tax on phosphates. We also granted senior citizens \$12 million in relief by increasing our homestead exemption for ad valorem school taxes. No other state can point to such dramatic reform and it was accomplished without resort to a personal income tax. Reform can be accomplished in other ways and I would urge you to reject language in this bill which places undue reliance on the personal income tax and thereby penalizes reform minded states which have not chosen to enact such a tax.

Next, let me emphasize my concern with any bill that will pass federal funds directly to cities and thereby by-pass the state level. Such a plan will ultimately work to the severe disadvantage of local government. I say this partly due to the pervasive influence of the state in local fiscal matters. In Florida, we have just enacted a state-local government revenue sharing program that will pass between \$150-\$175 million back to cities and counties. All total, it is estimated that the state provides approximately one billion dollars a year in assistance to localities in the form of direct assistance or share taxes.

In another vitally important area, many states are now enacting comprehensive state planning legislation. Such legislation recognizes that domestic problems do not adhere to traditional governmental boundaries, but spill over into, and impact on, a number of communities. Legislation enacted in Florida this past session requires a new state division of planning to develop a comprehensive state plan which will form the basis for agency programs as well as the budget. For the first time we will be able to comprehend the extent of our needs as well as the nature of available resources. Clearly the state cannot accomplish this task on its own and cities and counties are provided a significant role in helping develop this plan, under the supervision of the state. Similar cooperative legislation was

enacted in Florida to tackle land and water management problems in a comprehensive manner.

Moreover, the Florida Legislature recently created a local government study commission to analyze local government structure and services with a view toward eliminating over-lapping responsibilities and duplicative costs and to develop a program for meaningful state-local governmental relationships.

Every state has a number of such examples. And in virtually every state, it is the legislature that must address the policy questions relating to additional sources of local revenue, as well as legislation relating to basic local governmental powers; State governments are beginning to fulfill their responsibilities to their localities. Direct federal-local revenue sharing will inhibit this development by effectively removing the state from involvement in major policy areas affecting distribution of substantial sums of money to cities and counties. It is just not realistic then to expect the state to continue to be as responsive when subsequent policy questions arise involving local government revenue and powers. Such state legislation will be far more difficult to achieve, as a practical matter, if the state is by-passed in revenue sharing and denied involvement in significant aspects of local fiscal affairs.

Rather than further separating the concerns of the cities from those of the state, revenue sharing should encourage a melding of these interests. Although the problems of urban areas are often considered city problems, we must learn to recognize them as state and area-wide concerns, for these issues far exceed the limited and fragmented governmental jurisdictions of most cities. In contrast, state government has the power to encourage, guide, and prod local governments to do more, to do it more effectively, and to act in a manner consistent with local conditions. To often, existing programs aimed at urban citizens are programs over which city officials have little direct control. For example, welfare is administered by counties and the state; our children are educated in schools administered by school districts; health needs are cared for by county health departments with state and federal participation; employment and job retraining is generally dealt with by state departments of employment; redevelopment and urban renewal is usually within the jurisdiction of autonomous redevelopment agencies; and public housing is supervised by quasi-independent local housing authorities.

The point is that cities, alone, are not now, and never can be, directly responsible for most of the rehabilitative programs directed at curing our urban ills. It is, therefore, unrealistic for the proponents of direct federal-city revenue sharing to expect established institutional patterns to change suddenly and for our already over-extended municipal governments to assume new responsibilities.

Rather than reinforcing outmoded governmental institutions, revenue sharing should provide a potent vehicle for a comprehensive, federal-state-local attack on our urban ills. States and state legislatures, in particular, must play significant roles in this effort if government is to be properly responsive to the needs of our urban areas.

For these reasons, I sincerely hope that this committee will reject any short-sighted legislation that would deny state government a meaningful role in revenue sharing.

Thank you very much.

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PREPARED STATEMENT OF HON. CHARLES F. KURFESS, SPEAKER, OHIO HOUSE  
OF REPRESENTATIVES

I. INTRODUCTION

Mr. Chairman and Members of the Committee, I am Charles Kurfess, Speaker of the Ohio House of Representatives, a member of the Executive Committee of the National Conference of State Legislative Leaders, and a member of the Intergovernmental Relations Committee of the National Legislative Conference. Earlier this year I was privileged to offer my views to this committee regarding the issue of welfare reform. Today I have been extended the opportunity to express my support for general revenue sharing—a subject which is even more vital to the states' ability to provide needed services to its citizens.

I would begin by emphasizing my appreciation for the House passing the precedent-setting revenue sharing bill, H.R. 14370, earlier this summer. While I am not overly enamored with this form of revenue sharing, being more sym-

pathetic to the tax credit approach personally, I join many other state and local officials who are willing to accept this approach because the needs of our constituents are so great.

While I recognize that we are too far down the road to alter the basic thrust of revenue sharing now, the purpose of this testimony is to suggest improvements in the House-passed version of the bill as well as to indicate briefly the factors which convince me that revenue sharing is the correct and appropriate policy to adopt at this time.

## II. CORRECTNESS OF A FEDERAL REVENUE-SHARING APPROACH

Little doubt should exist that both the magnitude of domestic problems and the consciousness that they exist have substantially increased in the past decade. The resulting increased demand for public services rightly falls most heavily on state and local governments which have the primary responsibility for providing them.

In the attempt to meet these needs, elected officials at the state level alone have "bitten the bullet" hundreds of times in the past decade to enact new taxes or raise existing ones. Ohio, of course, has recently enacted a graduated state-wide personal and corporate income tax. Unfortunately, the great reliance of the Federal government on the progressive income tax places practical limits on the availability of income taxes as a meaningful revenue source to the states. The states, therefore, have had to rely heavily on less productive and responsive tax sources. Between 1950 and 1967 according to the ACIR, 53% of the increase in state funds was attributed to legislative enactments and 47% is attributed to natural economic growth. The Federal government, of course, enjoys a far different situation when income tax receipts increase approximately \$10 billion annually in response to normal economic growth.

With state tax structures which do not produce increased revenue at the same rate as the Nation's economic growth and expansion, with the past history of numerous tax increases, with general voter opposition to new tax levies, with the requirement of voter approval in many instances, and with the increased problems in our society, states and localities are finding it increasingly difficult to provide adequate levels of service.

One answer to the shortage of funds at the state and local level is general unrestricted Federal revenue sharing. While this proposal has been greeted with great enthusiasm by those at the state and local level, we are cognizant of certain objections to the concept of revenue sharing. There appears to be an often-implicit, if not directly-stated, Congressional fear that state legislatures and agencies and city administrations are not responsible enough or adept enough at handling these Federal funds without that Congressional or bureaucratic supervision. Closely related to this objection is the belief that the government which has the authority to spend the public's money should assume responsibility for its raising.

It is a reasonable expectation that a governmental body which assumes responsibility for raising revenue should be very concerned about the manner in which the funds are expended. Legislators in all levels of government have the responsibility to be careful stewards of the public's money. At the same time however, we must remember that it is the public's money we are spending, no matter at which level of government it is collected. Many of the states have recognized that the principle of stewardship can be reached through general revenue sharing with their local government. In Ohio, for instance, the state government reserves an amount equal to over five percent of its general revenue fund to the generally unrestricted use of local governments. This is in addition to the hundreds of millions the state has provided local governments in the areas of education and welfare. Only recently we also have committed Ohio to share the growth in its tax sources with local governments. Across the country, state assistance to localities has almost tripled in the decade of the sixties.

The expansion of this concept to the Federal Government would seem to be justified since the states originally approved the Federal use of the progressive income tax through Amendment XVI of the United States Constitution, and since the states and localities are and will continue to be responsible members of the Federal system. The legislatures of the major states which represent the vast majority of United States citizens are quite responsible and achieve as much or more per tax dollar in behalf of their constituents as does the United States Congress.

As officials of governmental units that are closer to the unique problems arising in the states, we of the states and localities have the understanding and a greater opportunity to give personal attention to their proposed solutions.

Congress cannot continue to preempt the legislatures of the fifty states, and the city councils of major cities of the Nation, without weakening our Federal system.

At a time when every effort is being made to renew local responsibility under the New Federalism, it would seem highly proper for the Congress to adopt a Revenue Sharing program.

### III. SUGGESTIONS FOR IMPROVEMENT IN THE HOUSE PASSED REVENUE SHARING BILL

Although many facets of H.R. 14370 before you today deserve discussion, I will confine my remarks to four main areas of concern.

The bill in its present form would require distribution of federal revenue sharing funds to both states and localities for a period retroactive to January 1, 1972. This provision, besides being especially helpful to those state and local governments who face the severest financial pinch, is one indication of the good faith of Congress in its difficulty and delay in agreeing upon the form and principle of the bill. We would encourage the committee to retain this important feature of the bill.

A second feature of the bill which is not as prudent in my opinion is the relatively low percentage of the funds going to the states as opposed to local governments. In the bill passed by the House the states would receive approximately one-third of general revenue sharing funds. This figure compares with the one-half allocated to states under the plan proposed by President Nixon. While I can well understand the concerns of Congress for the problems of our urban communities, state government responsibilities, including the ones to help solve our urban problems, are at least equally as great and should be recognized by this committee. Education, welfare, environmental protection and housing are among the areas that the states have or are assuming leadership roles especially in financing.

A third feature of the bill that deserves special attention is the distribution formula among states.

It is understandable that there be a desire to provide for a degree of equalization in the distribution of the shared funds to the states. I suggest that this can be accomplished through distribution by population. I would urge very careful examination of the use of "tax effort" in a distribution formula. I question whether a measure of tax dollars raised by any governmental unit is necessarily reflective of the problems it faces or the degree of responsiveness to the problems. To equate efforts and needs solely with taxes raised ignores alternate methods and roles the states may take in resolving problems they face and most certainly ignores effectiveness of the efforts put forth.

In fact, one can rather readily imagine two hypothetical governmental units equal in all respects of wealth, needs, and services rendered, but one levying substantially more taxes in order to accomplish the same end. For such a unit to recognize additional shared revenue because of a "tax effort" would have the effect of subsidizing inefficiency.

Despite what this committee and Congress decide to do about these first three concerns, it is very important that the third concern is considered. This concern relates to the pass-through provisions. We have mentioned the significant and increasing financial commitments that states are making to localities. In order for the states to properly appropriate these funds and to gain the maximum benefit from the infusion of federal funds, the revenue sharing monies for localities must be closely coordinated with the states' own efforts and fiscal allocations. State legislatures must have more discretion in allocating these funds between political subdivisions and programs.

Each state is different and the needs of the metropolitan areas within each of the states can best be met by close coordination with state programs and capabilities. We cannot assume that the financial abilities and degree of need is identical in cities of comparable size.

Giving the state more discretion in pass-through monies will also help solve another related problem. Many localities across the country are plagued with wasteful duplication of services. Some fifty municipalities are located in Cuyahoga County in Ohio for instance. The pass-through formula would guarantee federally shared revenue to each of these suburbs obstructing efforts the states and regions may be making to encourage a framework for more effective and efficient delivery of services.

I recognize that the bill provides some state latitude in requiring up to 10% of local funds be spent for area-wide projects if matching state funds are provided. This provision is totally inadequate.

I hope these suggestions will be helpful to you in your deliberations. I am certain that you will have many suggestions from competing groups. While I am cognizant that this committee has a real challenge in improving the bill, faced with these competing demands, we will not accept this disagreement as a legitimate excuse for Congressional inaction on this most important concept of revenue sharing.

The CHAIRMAN. All right. Representative Elliott Levitas of Georgia, I believe, will be next.

Mr. LEVITAS. Thank you, Mr. Chairman.

First, I want to thank our distinguished senior Senator for his kind words of introduction. We are as proud of his service here in Washington as we were of his service as Governor of our State. I appreciate your remarks.

The CHAIRMAN. We are proud of his service on this committee as well. He has been a good Senator.

Senator HANSEN. You speak for both sides of the aisle when you say that, Mr. Chairman.

Mr. LEVITAS. I would like, if I may request permission, that the prepared remarks which I have submitted be made a part of the record and permit me, if I may, to depart from them and just make a few observations on these comments and others that I have heard today.

The CHAIRMAN. All right.

Mr. LEVITAS. First, let me say that I am not one of those who has been a proponent of Federal revenue sharing from the inception of its concept. Indeed I was opposed to it for many years. I have changed my mind, which I candidly admit, but I have changed my mind, I believe, because I have had first of all, an opportunity to reexamine some facts.

Secondly, because of new circumstances that exist. And I have reflected on my earlier opposition to the principle, Mr. Chairman, and I think it arose from three basic reasons which I have heard expressed by members of this committee, by Members of Congress, and by members of the public.

The first reason is that there is a latent fear that State and local officials somehow or other would not use this money wisely or would not use it as wisely perhaps as congressional legislators might use it.

Secondly, that the States and local governments would rely upon the Federal tax program in Congress to raise revenue rather than doing the job at home and, finally, that there was really not a need for revenue sharing.

However, after observing the facts and events of the last decade, during half of which I have served as an elected State official, I am now convinced that for the most part State and local elected officials are at least as sensitive and knowledgeable about the needs and priorities of their constituencies as Federal officials and that State and local governments have taxed almost to the maximum their available sources, that the Federal revenue system is a more equitable and efficient one and that the existing need for a program of general revenue sharing is critical.

I am concerned, as members of your committee are concerned, about the problem of budgetary deficit at the Federal level. We in Georgia are constitutionally prevented from budgetary deficit financing. I am pleased that we are. I think it gives us fiscal responsibility.

But that is not the issue before this committee. The issue before this committee, as others have said, including my colleagues today, is not whether there should or should not be a Federal deficit budget but what are the priorities in the Federal budget? And aside from national defense I suppose there is no priority which is as high as the problems that beset our local governments and our State governments today.

I think it is significant that the mayor of our capitol city was also a witness, Mayor Massell, and that I am a witness today.

This is in fact a coincidence. I represent a suburb and constituency that you have heard about. I live in an unincorporated area of a bedroom suburb of Atlanta. Part of my constituency lies within the city of Atlanta, part of it is a small town, a county seat, about 24,000, the city of Decatur, Ga., but for the most part my constituents live in an unincorporated bedroom suburb of Atlanta, and yet I have found both as an elected official from this constituency and as chairman of our community affairs committee in the House of Representatives of Georgia that the problems which beset local governments today aren't so much determined by whether you live in an urban area or a suburban area or a rural area, but are determined by the nature of the problem, and frequently there is a commonality of concern and a commonality of problems in all these three economic or social areas. And it is for that reason that I am particularly cognizant of the problems that are addressed by revenue sharing.

There has been a substantial effort by State and local governments in the last decade to impose the type of taxes they are capable of imposing. You have heard the cities. I am not going to recite them again here.

In Georgia, I might point out, that since 1964, fiscal 1964 through fiscal 1970, State taxes increased by over 90 percent and local taxes by over 92 percent, with 89 percent of all local revenues being derived exclusively from the property tax.

The taxes which are as a practical matter available to States and local government tend to be regressive in nature. They tend to be the sales tax and the property tax, both of which are highly regressive, as compared to the income tax which is, relatively speaking, a more equitable tax. But because of the Federal involvement to such a dramatic extent in this area, many State and local governments are for this reason precluded from doing too much in the area of additional income taxation.

The cooperative effect between State and local governments, as some of the mayors said earlier today, may leave something to be desired, and certainly this is an area of concern both to us as State legislators and to you as Members of Congress. But in our State of Georgia, just this past year, we have made available from our State legislature a 1-percent sales tax for the financing of public transportation in the Metropolitan Atlanta area.

Now, we had this as a State legislature because the need existed in the field of transportation and it existed for our most populous city. But one of the results of this is going to be, I predict, that it will be more difficult for the legislators who represent the Metropolitan Atlanta area to vote for increased general sales taxes for the State needs and the State needs exist in addition to the needs that pertain to local governments.

So, there is a limit. Because the merchants and the businessmen in the areas where you are making available, as we do in Georgia, these additional local taxes, find themselves at a competitive disadvantage with the merchants and businessmen in communities that don't desire to avail themselves of this form of revenue.

A great deal was heard this morning, Mr. Chairman, from our mayors about the needs of the cities and those of us in the State legislature are very cognizant of these needs, but I think a word should also be said about the needs of our rural communities.

One thing that we who live in suburban-urban areas have come to realize, and Senator Talmadge is certainly well aware of this because of his particular interest in this field, is the need for a balanced development so that we won't have a continuing flight to the cities where the problems are not left behind in the rural areas. What we need is the establishment of a viable economic and social condition in our rural communities as well as in our urban centers and the impact of revenue sharing for these rural communities to permit them to evolve a balanced development will be of great assistance to those of us in the suburban and urban areas.

As my prepared statement points out, we in Georgia, which has become in the last decade an urbanized State, more than 50 percent of our population now lives in urban areas, we recognize today more clearly than ever before the need for an establishment of a balanced development both in rural and in urban areas.

Finally, I think that the critical needs of the mayors, of the county commissioners and of the State governments have been well documented, but I think that we really are addressing ourselves to the continued viability of a federal system.

The Congressman who addressed you earlier today said we ought to reexamine the whole game. Perhaps we should reexamine the whole game, Mr. Chairman, but in so doing I think it is important to keep in mind the one contribution this Nation has made to political history is the concept of federalism. That the elected representatives closest to the people really are better able and best equipped to make the types of decisions that confront this Nation. We are trying to govern a continent. We are trying to govern a population of more than 200 million people and do it as democratically as possible, do it as responsibly as possible, and this is federalism and I think that the fiscal ability to respond to the needs of the people lies at the heart of the continued viability of federalism and that is what this revenue-sharing proposal is about.

I urge your favorable consideration, Mr. Chairman.  
(Mr. Levitas' prepared statement follows:)

**PREPARED STATEMENT OF REPRESENTATIVE ELLIOTT H. LEVITAS, GEORGIA HOUSE OF REPRESENTATIVES, CHAIRMAN, COMMITTEE ON STATE PLANNING AND COMMUNITY AFFAIRS**

Mr. Chairman, if a change of mind or a modification of position is to be condemned as inconsistency, then I must plead guilty on the subject of Federal Revenue Sharing. On the other hand, if a change of position on an issue of public importance results from a consideration of new facts or from changed circumstances, then I think such a change is not only justified but required.

For many years I was opposed to the principle that the federal government should engage in the practice of a general sharing of its revenue with state and local governments except on the basis of categorical programs. I suppose the reason for my earlier views resulted from a fear that the states and local governments would not use the money wisely, would rely on the federal tax program and Congress to raise revenue rather than doing the job themselves, and a suspicion that the need for such revenue sharing did not exist. Today, however, after observing the facts and events of the last decade, I am convinced that, for the most part, state and local officials are at least as sensitive and responsive to the true needs of their constituency as are federal officials, that state and local governments have taxed, almost to the limit, all their available sources, that the federal revenue system is a more equitable and efficient one, and that the need for federal revenue sharing is critical.

Indeed, I am convinced that the continued fiscal viability of our federal system, and of strong and responsive local government, may well rest upon the passage of a federal revenue sharing program such as that proposed by the State-Local Fiscal Assistance Act of 1972.

My duties as Chairman of the Committee on State Planning and Community Affairs of the Georgia House of Representatives have demonstrated to me, from the vantage point of state government, the highly complex and costly problems of our rural and urban communities. More importantly, however, my recent experiences as a public official have taught me that the problems of either urban areas or rural areas can only be solved if there is a national and state commitment towards the development of a balanced growth policy and the requisite public investment strategy to accomplish this policy.

Many members of this Committee, as former state officials yourselves, should also be aware of the fiscal needs and revenue imbalance of the local and state governments of this Nation. By way of example from my own State of Georgia, we learned in the Georgia Tax Revision Study Commission Report of 1969 that there was a projected gap of \$102.3 million for the fiscal year 1972 between the expected revenues of state and local government and the projected cost of public services. When projected ahead to the fiscal year 1977, the Commission report estimated that the gap between state and local revenues and the cost of services would amount to \$557 million, or an increase in the gap over only a five year period of 500%! Now, the figures \$102.3 million or \$557 million may not sound like a great deal of money to members of Congress who appropriate in figures far beyond this amount, but in a state where the total budget has only reached a billion dollars annually in the last year, these sums, and the increasing rate at which the gap is being created, assumes frightening proportions.

At the same time, the efforts by state and local governments in Georgia have not been laggard. In the five years between fiscal 1964 and fiscal 1970, state taxes increased in Georgia by over 90% and local taxes by over 92% with about 89% of all local revenues being derived exclusively from property taxes.

From these few statistics, as undramatic as figures may be, you can easily see the pressures upon the tax structure of the local governments of my state and on the state government itself.

However important these statistics are, the greatest potential contained within this legislation now before you is providing state and local governments with the opportunity and fiscal capacity to attack problems common both to rural and urban areas, and to develop and implement a balanced growth policy between urban and rural areas and by use of multi-jurisdictional approaches within and among the various states.

During your review of this bill, I draw your attention, in particular, to the high priority expenditure categories, the provision for state establishment by law of priorities within categories, development of local government high priority

expenditure plans, and the opportunity for the use of funds made available to state governments under this act to be channeled with performance standards as part of the local matching share in many of the existing federal grant-in-aid programs.

Through these provisions, and others contained in the Act, it is possible for the states and local governments to create a program of balanced public capital investment and services which will serve the following goals as no other proposals have done:

1. Provide local governments in many of our rural areas with the fiscal capacity to implement a community development plan, developed through the cooperative efforts of local governments and their multi-jurisdictional area-wide planning and development districts. Such a plan could be adopted by the member local governments under guidance of the state. To facilitate the implementation of the plan, the state could offer its assistance, by use of its allocation under this Act, to be used on a matching basis with the local government allocations, to raise the required local matching share of the federal grant-in-aid programs, when the project or service is area-wide in nature, scope or administration. At present, there are no less than 27 federal aid programs, and many under active consideration, to improve the opportunities and quality of life in rural areas through community development efforts. However, without the fiscal capacity and a cooperative effort on the part of local and state governments, on a regional scale, these existing and future programs may well remain unused and ineffective.

2. Secondly, this bill before you gives the needed relief to many of our urban local governments, so that they can now make the effort to improve the quality of public services rather than just attempting to maintain the existing level of public services. The areas of greatest public demand and also greatest expense are those very areas of high priority identified by the bill: Recreating a safe and healthy environment and making our urban centers safer and happier places.

3. Availability of funds for multi-jurisdictional purposes such as Georgia's 18 Area Planning and Development Commissions will promote the most efficient solution to many problems of rural and urban areas which do not stop at city or county lines, such as crime, pollution and traffic congestion.

Upon examination of the high priority expenditure categories, as outlined in the bill, one immediately sees the commonality of priorities between rural and urban areas. Recent legislation before this Congress sought to address the problems of inadequate police and fire protection, recreation programs, health services, solid waste management, sewage disposal, and public transportation facilities in rural areas. These inadequacies are the basic underlying reasons why young men and women choose to leave rural America. If the appropriate state and local governments are provided with the fiscal capacity to make a cooperative attack on these problems, then, and only then, will the job opportunities and amenities be restored to our rural areas, encouraging their development.

These same high priority expenditure categories require urgent attention of the states and urban local governments. Demands are constantly being placed on our nation's mayors and governors to address these same needs in urban areas but they differ from the needs of rural areas only in their context.

These three potential expenditure strategies, as allowed by this bill on the part of the state and local governments, are complementary to one another in that they seek to promote a balance between the opportunities, public services, and the quality of life of urban and rural areas. Under this Act it would be possible that many of our national goals can be met; that is, solution of the many urban problems requiring immediate attention and revitalization and development of our rural areas to avert a potentially more serious crisis than now presently existing.

Thus, as I have stated, not only does the need exist which federal revenue sharing can answer, but even more exciting, there exists the opportunity for meaningful improvement of the quality of life in our Nation in a revitalized federal system and through the decisions and actions of governments closest to the people affected.

Why—it has been asked—should federal tax moneys be used for this purpose, and I suppose the answer is merely that the question is one of priorities and commitment. The federal tax system, which is essentially an equitable income tax responsive to economic growth, has, for the most part, occupied a major area

of revenue potential. On the other hand, state and local taxes generally are derived from non-growth-related taxes which are usually regressive in nature, plus the fact that the recent rapid increases in state and local taxes, both in rate of increase and amount, has stimulated a problem of local and interstate tax competition. In short, the revenue system of the federal government is better equipped, at the present time, and under present conditions, to make available the financial resources necessary to accomplish the goals I have discussed with you earlier.

I conclude, then, with a plea both of critical need and of challenging opportunity. The time has come for Congress to act swiftly and favorably in approving a program of federal revenue sharing that can breathe new and better life into our federal system, into our local governments, and which can provide the better society which we all desire for ourselves, our families, and our fellow Americans.

The CHAIRMAN. Thank you very much. Is Speaker Kurfess here?

Mr. CONOLLY. He had to return to Ohio. I submitted a copy of his prepared statement.

The CHAIRMAN. How about Senator Robert Vander Laan, is he here?

Mr. CONOLLY. He is unable to be here.

The CHAIRMAN. That completes the statements of your group, then, I take it?

Mr. CONOLLY. Right.

Senator TALMADGE. I want to congratulate all of you on very fine statements, gentlemen. I would like to ask one question, perhaps to President Conolly.

I am perfectly aware of the problems of the States and local political subdivisions. I served as Governor of Georgia before I came to the U.S. Senate, and I am thoroughly familiar with them.

In the past 43 years, we have had an unbalanced budget on the Federal level 37 times. The Federal budget has been balanced only six times in the last 43 years. The speaker of the house of Pennsylvania, Mr. Fineman, stated his tax collections are increasing at the rate of about 25 percent a year. Mr. Levitas, I believe, stated that Georgians had increased some 90 percent in the past 8 years. Our tax collections now at all levels of government—local, State, and Federal—are about one-third of our total gross national product. If taxation continues at the rate it has been going in recent years, before very long it will be 100 percent of our gross national product.

My question is this: How much more can government at all levels—local, State, and Federal—continue to expand?

Mr. CONOLLY. I think you as elected officials and members of the committee, and we as elected officials, are getting more and more aware that we are getting to the end, and how far we can increase this I do not have the answer. But I think revenue sharing is one positive step in slowing down the cost of administration of financing and delivery of services to the people.

We have seen cities. I would have to research them out to see how much more it costs for a dollar to be expended at the Federal level as it does at the local level—going through Washington and coming back and being administered from Washington versus the local area.

I think the mayors demonstrated this morning that they are willing to administer and feel they can do it better if they have the funds at the local level.

SENATOR TALMADGE. I fully share the view that local government is just as efficient and in most instances more efficient than a government far removed from the people. It has been my experience with government that the further you get that government removed from the people, the less responsive it is to their needs.

I wonder sometimes if it would not be a wiser course of action, rather than this revenue sharing, abolish all categorical grant-in-aid programs and then allocate those funds or a portion of them to the States and local governments to spend as they see fit?

I was impressed with the statement of Speaker Fineman when he said the problems of Louisiana may not always be the same as the problems of California, and I know that to be true. I believe then the States and local governments should be able to utilize their funds in the direction that they themselves consider their highest priority and their greatest need, rather than what Congress said was the highest priority and greatest need. Would you comment on that?

MR. CONOLLY. Well, I would have to join in sincere agreement. Speaking for most all of the 7,716 State legislators we have throughout the Nation, I know this is basically their feeling. They are frustrated constantly by the special categorical grants that have to be administered, that bypass the State and go directly to local governments. They are constantly frustrated because they do not have the control over those and seeing them not applied properly or what they feel are the needs of the local area. I am confident that this is one issue, consolidation of revenue sharing; and also to go further than revenue sharing, consolidation of the various categorical grants—broad grants in certain fields—if the Congress so determines, but I am sure that you will get agreement among, for the first time, get agreement among State legislators throughout the Nation that this is the way to go.

SENATOR TALMADGE. The grant-in-aid programs have grown like Topsy. When I came to the Senate a little more than 15 years ago, I do not think they amounted to but \$5 or \$6 billion a year. What is it now?

MR. FINEMAN. \$30 billion.

MR. CONOLLY. My figure is \$40 billion.

SENATOR TALMADGE. I thought it was greater than that, about \$44 billion. It has grown from \$5 billion to \$44 billion in a little more than 15 years time, and every time the Federal Government passes one of these programs, the States are required to match the Federal dollars. You may not be so enthusiastic about the program, but the members of the State legislature, say, well, if we put up 50 cents, we can get at least 50 cents of Federal money. You figure you are getting a dollar of Federal money for 50 cents of your own, so you jump in and match it as quickly as you can.

Just recently we have discovered a horrendous program we started here 4 or 5 years ago; we refer to it as the spigot, in my office. It is the social service program. We passed a program about 5 years ago estimated to cost \$40 million a year. The State governments can get 75

cents in Federal money for every quarter they spend for social service. In New York, they have put alcoholics and addicts on welfare. The other States have discovered that spigot, and it is estimated to cost \$4½ billion next year, while the original estimate was \$40 million.

Thank you, Mr. Chairman. No further questions.

Senator HANSEN. I have no questions.

Mr. LEVITAS. May I comment on that?

Senator TALMADGE. Yes.

Mr. LEVITAS. Senator, what you say is illustrated every day when you are passing on the State budget. We found out, I give you a classic example, this past February that one of the matters or items included in the Governor's budget could not be implemented, and, therefore, we were going to lapse, I think it was, half a million dollars. So a group got together, primarily urban legislators, and looked down the shopping list—the shopping list being available Federal programs—and we tried to find the Federal program that would generate the most money with this half a million dollars that we had left over at the State, and sure enough we were able to find one, because the argument was that we could take this half million dollars and turn it in, just by an act of the general assembly, into about \$2 million. We would certainly want to be able to take credit for that with our constituents, and we were able to do it. But I should say this. There will be a continuing need for categorical grants. I think and I hope that this need will lessen. I think one of the reasons that the need will lessen is that as our State legislatures are becoming more representative of the people as a result of reapportionment, that the fear on the part of many people that the States would not treat the public fairly is being dissipated.

I think responsibility lies upon our shoulders, Senator, as State legislators to show that we have the integrity and courage and the ability to respond, and once we have established our credence and our credibility with the public to use wisely and in the proper places money of the type we were talking about today, I think that the need for categorical grants and many of the programs which have been inefficient and counterproductive will diminish. So I think that this program, while it may appear to be just another expenditure of Federal money, may ultimately lead to a more conservative fiscal program by placing more reliance upon our State legislators.

Senator TALMADGE. Thank you.

Senator BENNETT. May I have a word?

At this point I have been concerned, and I am sure the Chairman has, that this general revenue-sharing program, without strings, might provide matching funds to finance more categorical grants. It was not intended for that purpose. It was intended to replace them.

What would you say if we attempted to write into the bill some kind of language which would take away from the State any part of its grant of its revenue sharing that was used to fund the matching share of another Federal grant?

Mr. FINEMAN. I am under the impression that the bill already contains such a proscription.

Senator BENNETT. The staff tells me it refers only to local governments, and that even there it is not really effective.

Mr. CONOLLY. I was going to say I can see no opposition from the State legislators. I think that an accountant could figure out how to get around it so it would not appear. I think it might be ineffective. I think you see abuses constantly.

We ran across a million dollars being spent for the Governor's mansion at one of our State universities; and when we raised the question to the university, they said, well, that is not State funds. They are building a project on the State campus, and we said, where did the money come from, and they said, that is override, the profit we make on the Federal grants. So, we make that profit administering Federal grants, so we decided we will use it to build a president's mansion, a million dollars, and that we should have no say-so in that because that was not our money and so forth. The accountants can turn it around anyway.

Mr. FINEMAN. I would see no objection to that.

The CHAIRMAN. It has been directed to our attention that even the part of that that is theoretically effective, does not preclude a State from spending the revenue-sharing money for something that does not obtain Federal aid.

Suppose you, the State, spend your revenue-sharing money for garbage collection that does not have any Federal aid at the present time. By so doing, you then free the money you were spending for garbage collection to do something else. For example, you can use that to match on social services. That dollar gets you three of matching. So that dollar is worth \$4. Money is fungible. So it is a distinction without a difference when you do not preclude the diverting of moneys from other purposes. Some of us on this committee feel, more and more, we would get more efficient use of Federal dollars to, say, a State or city, as the case may be, here are  $x$  numbers of dollars for a purpose, welfare or whatever you want to use it for, now, that is your share, and if you need it, go ahead and use it. If you can save anything, that is also yours. At least that encourages them to be economical.

Mr. CONOLLY. I think that you, the committee, and the Members of the Congress have to have faith in the type of people you saw here as mayors today, and I think they are representatives of the elected officials throughout the Nation. I think there has been a change in the type of representation, as was alluded here earlier. Some smart ones went on to the Congress and U.S. Senate, and the ones that remained have been basically reapportioned out, and I think we have a change in the legislature.

In our house of 177 members, in 10 years, I am now 34th in seniority, which under two reapportionments show there has been a tremendous turnover. I am one of the old members of my house. I think this is common throughout the Nation that the body of the man who has become more of a professional legislator, an educated legislator, a more energetic individual, is now meeting the needs and paying more attention to how the money is being spent. The executive branch is not doing it all by themselves any more. Some Governors are upset that the legislators are looking over their shoulders. But I think in the long run it is going to serve the constituency much better.

The CHAIRMAN. Thank you very much, gentlemen.

Is Mr. Gerard Brannon here?

We are pleased to have you, and you may proceed.

**STATEMENT OF GERARD M. BRANNON, INDEPENDENT  
CONSULTANT**

Mr. BRANNON. Thank you, Mr. Chairman. I am pleased to have this opportunity to testify on revenue sharing.

For the record, I am research professor at Georgetown and an economic consultant. I am appearing in my own behalf.

Senator BENNET. Were you not once a member of the staff?

Mr. BRANNON. I was a long time ago with the joint committee staff, later the Ways and Means Committee; and then the Treasury.

Senator BENNETT. I would remember you if your hair had not grown quite so long.

Mr. BRANNON. I want to talk about the only one basic problem in revenue sharing and suggest a way of dealing with it.

I am impressed with the argument that revenue sharing as provided in H.R. 14370, violates a sound principle of associating the taxing power and the spending power. This principle is not so relevant to specific grants-in-aid, since these can be associated with national benefits; that is, benefits that go to people outside of the State spending the money. If we did not have Federal grants-in-aid, State spending programs would be designed without much regard for the interests of out-of-State people who do not vote in the State.

When the Federal Government gives more or less free money for the State to spend as it sees fit, there is value in requiring the person who calls the tune to also pay the piper.

Still, the ability of the Federal Government to raise income taxes is a valuable asset that could be put to the service of State and local governments. I think a compromise is needed. My proposal would be to provide for revenue sharing along the lines of H.R. 14370, but with the following changes:

1. The quantity of money to be distributed as general revenue sharing should be fixed as some percentage of the Federal individual income tax, say, 5 percent.

2. Whether this money is to be distributed to States and localities in any year would be conditional. The distribution would occur for a calendar year if—prior to July 1, of the preceding calendar year—State legislators in States whose representation in the House of Representatives constituted a majority of that House had voted for the distribution to be made.

3. The distribution does not get the requisite votes in the House of Representatives, the Federal income tax will be lowered by this 5 percent.

4. If the distribution does get the requisite vote, then it will go into effect in all States, whether or not a particular State voted for it. The advantage of the richer States in voting for this is that it will be a tax increase that applies in all States so there will be no aggravation of the problems of interstate tax competition. We are putting the Federal income tax at the disposal of the States but in effect, they have to pull the trigger.

In this way I think we can use the democratic process to apply the acid test, do the contemplated level of expenditures justify more taxes? This is an important test that should not be thrown away.

This is really the substance of my proposal.

It is obviously consistent with many variations in detail and I will not go into any long discussion of them here, but I will mention two things.

I am not sure whether the revenue-sharing money should be a 5-percent addition to the present tax rates or a designated 5 percent of the present tax rates. If the latter, then a failure to get the necessary votes for revenue sharing would mean a tax reduction from present levels. The issue here is the same as in the recent exchange between the authors of the Brookings study on budget programs (who suggested that we will need tax increases to finance prospective programs) and the White House spokesman (who said that this was not the case). If the Brookings group is right that we need more money for revenue sharing, you would do well to associate it with a 5-percent increase in tax. If the White House is right that present taxes will cover expenditures, including revenue sharing, then if State legislatures vote revenue-sharing down, existing taxes should be reduced 5 percent. Based on my limited study of these things, I am inclined to the Brookings view, but I have not done enough work to pose as an expert on this.

One other implication of my proposal is that revenue sharing should start in 1974, at the earliest, with the voting procedures taking place in 1973. I believe there is an argument that many States and localities have assumed that revenue sharing would go into effect in 1973, and that it is certainly not possible to change the rules now.

Again I do not know what the true case is, I have not done research to say how valid this assumption is. It does seem to me that assumption of something the Senate has not voted on is improper, but if you are inclined to accept this assumption, it would be possible to enact general revenue sharing as it is in the House bill for 1973, and to provide this voting procedure to start in 1974.

Thank you.

The CHAIRMAN. Thank you very much.

Senator TALMADGE. Your proposition is that each State would get 5 percent of the income tax collected in that State, I take it?

Mr. BRANNON. Not necessarily. It could very well be the percentage that they would get under the bill, either distribution formula consistent with this voting.

Senator TALMADGE. Total allocation would be 5 percent of the gross income tax collected?

Mr. BRANNON. Yes, sir.

Senator TALMADGE. And Congress could apportion it as we see fit?

Mr. BRANNON. Yes, sir.

Senator BENNETT. I have two questions. What do you do with a State whose legislature does not meet every year?

Mr. BRANNON. They could vote earlier and their vote could control the next 2 years.

Senator BENNETT. You would give them a 2-year vote?

Mr. BRANNON. Yes, sir.

Senator BENNETT. When you talk about the income tax are you talking about personal or corporate or both?

Mr. BRANNON. The personal.

Senator BENNETT. Personal income tax.

The CHAIRMAN. Well, thank you very much.

That concludes the witnesses for today. We will meet again at 9:30. (Whereupon, at 3:50 p.m., the hearing was recessed, to reconvene at 9:30 a.m., Wednesday, July 26, 1972.)



## REVENUE SHARING

WEDNESDAY, JULY 26, 1972

U.S. SENATE,  
COMMITTEE ON FINANCE,  
*Washington, D.C.*

The committee met, pursuant to recess, at 9:45 a.m., in room 2221, New Senate Office Building, Senator Russell B. Long (chairman), presiding.

Present: Senators Long, Anderson, Byrd of Virginia, Bennett, Jordan of Idaho, Fannin, and Hansen.

The CHAIRMAN. The hearing will come to order.

We are pleased to have Hon. Lee Metcalf, U.S. Senator from Montana, as our first witness today. Senator, we are very happy to welcome you back among committee surroundings. We miss you on this committee but we know you do a fine job and we will appreciate your statement.

### STATEMENT OF HON. LEE METCALF, A U.S. SENATOR FROM THE STATE OF MONTANA

Senator METCALF. Thank you, Mr. Chairman, very much.

Mr. Chairman, thank you for your courtesy in giving me an opportunity to speak in behalf of my amendment. The amendment is No. 1357 and is a printed amendment that has been introduced on the Senate floor to H.R. 14370, the Revenue-Sharing Act.

Mr. Chairman, tribal governments, since the passage of the Wheeler-Howard Act, have been acknowledged as quasi-municipal corporations and have participated in State and local, as well as Federal level, governmental activities.

Congress has recognized the governmental responsibilities of these Indian tribal governments by providing for their eligibility, along with other local governments, in a wide variety of Federal programs, including the Economic Opportunity Act, 42 U.S.C., Section 2790(f), the Public Works and Economic Development Act, 42 U.S.C., Section 3131, the Omnibus Crime Control and Safe Streets Act, 42 U.S.C., Section 378(d), the Juvenile Delinquency Prevention and Control Act, 42 U.S.C., Section 3890, the Emergency Employment Act of 1971, 42 U.S.C., Section 4873, and the Lead-Based Poisoning Prevention Act, 42 U.S.C., Section 4841(2)(c).

The Revenue Sharing Act as approved by the House of Representatives would authorize Federal payments to counties and other local government units across the Nation, but not to Indian tribes. My amend-

ment would authorize allocation and payment to Indian tribes totaling 25/100ths of 1 percent of the total amount appropriated under subtitles A and B, or \$12.9 million, based on the reservation population of 488,000 Indians. The one-quarter of 1 percent is a very close approximation of the ratio of Indians to the entire population. The actual one is some .24 plus.

The proposed amendment authorizes the Secretary of the Treasury to make the allocations among tribes in accordance with regulations that he would issue and that would generally reflect the policies embodied in subtitles A and B of the bill. This would allow the Secretary to modify the criteria for making allocations—for example, urbanized population which are irrelevant to reservation Indians.

This amendment would give Indian tribes a fair share of the Federal financial assistance that is extended to every other local government in the United States by the bill.

Mr. Chairman, of the categories contemplated to be assisted by the bill, there are several that are crucial to the economic growth of Indian reservations. Streets and roads, public transportation, sewage disposal systems, and pollution abatement are now unattainable for our first Americans who live on trust lands.

Reservation roads defy travel, even in good weather, and have been a major deterrent to business and industry and, therefore, a major factor in an unemployment rate that is now estimated to be 40 percent.

Alan Sorkin, in the 1971 study, "American Indians and Federal Aid," published by the Brookings Institute, states at pages 82 and 83:

The first obstacle confronting a businessman interested in locating on an Indian reservation is the totally inadequate transportation system . . . There are only 1,400 miles of bituminous paved roads and 1,800 miles of gravel-surfaced roads on reservations . . . In fact, the condition of reservations roads is comparable to that found in underdeveloped regions of the world.

Obstacles to progress are not limited to the Indians' lack of good roads. The inadequacy of tribal financial resources to meet tribal governmental responsibilities and the pressing needs of Indian reservation communities have been thoroughly documented. See, for example, Federal and State Indian Reservations, An EDA Handbook, January 1971.

On many reservations where the State lacks criminal jurisdiction, including some 96,000 square miles—19 times the size of Connecticut—Indian tribal government is the only local government responsible for maintaining law and order. While tribes receive some financial assistance from the Bureau of Indian Affairs, the fiscal year 1972 appropriation for reservation law and order was only \$7,729,000, of which only \$1,336,000 were made available to tribes to run tribal law enforcement programs. The Bureau has officially recognized that existing law enforcement programs on Indian reservations "do not begin to meet the current needs and demands for such services." Congressional Record, February 28, 1969, S-2105.

The amendment includes a share of the funds provided for in subtitle B, as well as subtitle A funds, in recognition of the fact that Indian tribes on most of the larger reservations exercise the usual functions of State, as well as of county and municipal, governments.

A revenue-sharing bill which ignores the needs of Indian tribes would violate the long-standing national policy—embodied in numerous statutes and countless court decisions—of recognizing and encouraging Indian tribal government.

In addition, the failure to include Indian tribes in revenue sharing would deny the special and historic responsibilities which the United States has assumed for the well-being of tribal Indians.

Finally, Mr. Chairman, by providing a fair share of Federal revenue sharing for Indian tribes, the Congress will encourage the operation of governmental activities on Indian reservations by local institutions responsible to the Indian people themselves.

The CHAIRMAN. Thank you very much, Senator. We will certainly consider carefully your suggestions.

Any questions, gentlemen?

Senator BENNETT. I have no questions. I think I would want to join the Senator from Montana in his determination to try and develop a solution to the problem. I do not have a copy of the amendment before me. I will study it before we finally act.

The thing that pops into my mind at the moment is whether or not these funds should go through the States to the Indian tribes or whether the money should go to the Indian Bureau and then to the Indian tribes. In other words, the mechanical process of getting the money to the people involved.

How does your amendment get the money to the people?

Senator METCALF. My amendment merely—I will read the amendment, Mr. Chairman.

25/100ths of one percent of the total amount appropriated for amounts under Subtitles A and B shall be set aside for allocation to Indian tribes that perform governmental functions. The Secretary shall make allocations among tribes which will generally reflect the policies embodied in Subtitles A and B.

Senator BENNETT. So you do not care—you do not care how you allocate money as long as they get it?

Senator METCALF. I would hope the Secretary of the Treasury working with the Secretary of the Interior and Bureau of Indian Affairs, would put it down through the States rather than a direct grant. But if it were a direct grant, as I am proposing that we do in H.R. 1 for welfare, it would still have to go through some governmental agencies, but if it were allocated in a State such as Montana, and I suspect Utah is very similar, a setaside for a tribal organization would take care of the allocation.

Senator BENNETT. Thank you.

Senator JORDAN. I have one question. Senator would this apply only to reservation Indians?

Senator METCALF. Yes, sir; reservation Indians. I made it to apply to reservation Indians, Senator Jordon, because under the Wheeler-Howard Act where reservation Indians have a regular tribal organization, they perform a governmental function. There would not be a way to apply it to the Indians who do not have a tribal government.

Senator JORDON. How about Aleuts?

Senator METCALF. Well, some of the Alaskan Natives do have what is the same as tribal governmental activity in those Native villages and I

certainly would hope they would be eligible. If the Aleuts that are in Seattle or in Anchorage, they would not be eligible any more than the people in Spokane, Minneapolis.

Senator JORDAN. What about the Alaskan Natives on reservations.

Senator METCALF. The Natives who are under the Wheeler-Howard Act and have an elected tribal government, would come into this provision.

Senator JORDAN. I think it is a good amendment. I think it belongs in this bill. Thank you.

Senator METCALF. Thank you very much.

The CHAIRMAN. Senator, I want to ask you about one item. It may be an erroneous impression but I was informed that—you might want to take a pencil and write it down—there are 480,000 Indians on reservations and we are spending about a billion dollars on Indian programs but most of it is consumed by administrative costs. It is said that there are 16,000 employees in the Bureau of Indian Affairs and 12,000 employees in other Federal agencies who are responsible for various programs affecting Indians. It is contended if we just distribute this \$1 billion among the Indians this would work out to \$8,000 for a family of four. That might sound like a pretty good alternative. How does it sound to you?

Senator METCALF. Mr. Chairman, ever since I have been in Congress, 20 years now, there have been programs to terminate some of the Federal Government's activities in relation to the Indians. Instead I have advocated we terminate the BIA. There are many areas where we can perform the same functions for the Indians that we can perform for the non-Indian population living right next door. We do it in the Public Health Service. We are beginning to do it in the Agricultural Extension Service. It is not fair to say we do all these things for the Indians when we do the same thing for the non-Indian population in the same area.

For instance, in the Extension Service we provide an agricultural policy of helping the farmers through the Extension Service. But in Indians we make that a part of the general Indian appropriation. We have an Indian Forestry Service which is required to handle Indian forestry administration. For non-Indians, we have the National Forest Service. Another example, as I have already stated, is law and order. At every level of government we appropriate money for law and order, but we have a special appropriation for Indian tribes who themselves contribute to law and order. But we do not add up all of the appropriations for the National Forest Service, the Public Health Service, the Agricultural Extension Service, the Federal Bureau of Investigation and other Federal agencies and say we should eliminate these services and divide the money among the people of the United States. It is unfair to add up the Indian appropriations which are specialized appropriations, and say that they should be divided among the Indian people and the services eliminated.

No one would say, we should eliminate the Public Health Service and give the few dollars that it would provide among the population of America. Nobody would say we should eliminate our Agriculture Department, but if there is any agency in Government that is over-

staffed and underworked it is the BIA. And this is one way to return to tribal government the activities that we expect the tribes to do.

The CHAIRMAN. Thank you very much, Senator. We will certainly take a look at this.

Senator METCALF. Thank you very much.

The CHAIRMAN. Our next witness is Hon. James L Buckley, the U.S. Senator from New York. We are glad to have you here today, Your State will receive a lot of benefits from this bill and also pays as much as any State in the Union.

**STATEMENT OF HON. JAMES L. BUCKLEY, A U.S. SENATOR FROM  
THE STATE OF NEW YORK**

Senator BUCKLEY. Thank you very much. I am very grateful for the opportunity of setting out my thoughts on the State and Local Fiscal Assistance Act of 1972 now being considered by your committee.

In the interest of time I will skip a few sentences of my prepared statement. I hope curiosity will cause a few of you to look at the omissions.

There is an old saying in the legal profession that hard cases make bad law. I think the same may also be said of legislation designed to meet emergencies.

H.R. 14370 has been designated in substantial measure to meet the very financial crises which threaten State and local governments across the country. I know that in my own State of New York, a number of our county and municipal governments are on the verge of financial collapse, not because they have been improvident, but because they have had obligations mandated to them which have grown for more rapidly than the tax bases available to them for the financing of these obligations.

A major contributor to the problem, as Governor Rockefeller pointed out in his testimony last week, has been the explosion of Federal categorical grant programs which distort local priorities and bleed off their revenues. This has introduced major dislocations into State and local planning and it has led to the imposition of ever heavier tax burdens on their citizens. The whole situation has been brought to a head in the last few years because of steadily rising costs and the increased demands and lagging revenues resulting from the recent recession.

I believe heroic measures are clearly justified—but we need to make sure that the specific measures adopted will not result in fundamental changes in our governmental institutions which will do major and continuing harm long after the current crises have been resolved. It is my fear that the "general revenue sharing" concept incorporated in H.R. 14370 will have the inevitable effect of institutionalizing a new approach to State and local financing in which there are a number of inherent dangers.

The first of these is that it will divorce the responsibility for the collection of revenues to be shared from the responsibility for their expenditure. Experience and logic suggest that the greatest inducement to the prudent expenditure of public funds is to require those

who spend them to justify to the public the taxes that are required to finance the expenditures.

It can be argued that this legislation is only of a 5-year duration, and that the money which it will distribute represent so small a proportion of total State and local budgets that my concern is more theoretical than practical. I would answer by saying that we would be naive if we thought that it would be politically possible, after 5 years, to abandon the program. Too many State and local officials would lobby against a return to a system which would require them once again to justify the full burden of State and local taxes required to finance their programs. Nor can we assume that there will be other than increasing pressures for even larger Federal contributions so as to spare the officials from the necessity of having to find new revenues with which to finance ever more ambitious programs.

The second objection to general revenue sharing is related to the first. We are faced with a crisis because, over the past decade, governmental expenditures at the State and local levels have grown at an average rate of 17 percent per year, while their source of tax revenues have been growing at a far slower rate. As a result, many jurisdictions—especially those largely dependent on property taxes—have virtually reached the limits of their ability to tax. By this I mean their tax rates have reached the upper limits of the willingness of the taxpayers to pay as well as the limits imposed by the practical fact that they are beginning to cause productive citizens and businesses to move elsewhere.

It seems to me that, at least in the longer range, the solution to this dilemma is not to find new, external sources of revenues with which to finance this extraordinary growth of State and local expenditures, but to find ways of curbing it. If we open the Federal Treasury for the financing of State and local governments, we may bring them temporary relief but we will merely postpone the time when they will be required to make the hardheaded cost- and program-cutting decisions which are needed to bring the growth in their expenditures into some sort of balance with the growth of the economy.

Ordinary citizens can bring effective pressures to bear at the State and local levels. There is little they can do, as a practical matter, to force economies at the national level. These pressures have been brought to bear in a most effective way in my own State. As a result of a minor tax rebellion and the voting down of various bond proposals, stringent measures have been taken in New York in the last 2 years to cut expenses, to reexamine and tighten programs, and to lighten public payrolls. The savings to date have been significant; and in the process, the administration of a number of programs—notably welfare—has been improved. I seriously question whether all of these reforms could have been achieved had H.R. 14370 been enacted 2 years ago.

A third objection to general revenue sharing has to do with its corrosive effect on the Federal-State relationship. The Federal Government has already intruded far too deeply on State and local responsibilities through the proliferation of categorical grant programs. These have had the effect, in too many areas, of converting State and local governments into mere administrative agents for Federal programs.

This is why I so strongly endorse the administration's special revenue sharing proposals.

General revenue sharing, however, will have the effect of increasing the dependence of State and local governments on Washington rather than diminishing it. These governmental units will come to plan their budgets around the expectation of a steady and, I believe, ever-increasing flow of funds from the Federal Treasury. Yet, Congress will have the continuing power to interrupt that flow or to introduce restrictions on the uses to which the funds can be put. In fact, the House bill has already taken the first step in the direction of control by designating that moneys distributed to some 39,000 localities can only be used for "high priority expenditures" as Congress, and not the localities, defines those priorities. Ultimately, this could lead to great instability in State and local financing, and to an ever more rigid Federal control over them.

Finally, H.R. 14370 will help prolong the dangerous myth that moneys handed out by Washington to the States and localities originate somewhere else than in the pockets of their citizens. The adoption of this bill will not lighten the overall tax burden on our citizens. To the extent that the progress will be financed out of Federal borrowing, the full impact may be deferred, but it will catch up with the taxpayers with compound interest. General revenue sharing may well have the effect of providing some measure of relief from excessive property taxes. But this is something which does not require Federal intervention to accomplish.

There is no doubt but that in many States there is a serious mismatch between local services required and the tax base available to support them. By the same token, there is no major source of income, other than import duties, which is not also available to State governments. This suggests that given the time and the will, internal adjustments can be made within each State to achieve the most equitable distribution of the taxation required to meet governmental needs within the State.

I said at the outset that States and localities across the Nation are caught up in a financial emergency, and that I believe heroic measures are in order to help tide them over this period of crisis. What, then, would I propose as an alternative to H.R. 14370?

Last year, I proposed legislation which would accomplish the basic objective of providing State and local governments with an emergency source of revenue, but on a basis which I felt to be consistent with sound fiscal policy and the maintenance of the political integrity of the federal system. I have described the bill, S. 1577, as "Revenue Shifting." This bill would achieve the objective of getting \$5 billion into the hands of State and local governments by reducing Federal tax receipts by \$5 billion, while authorizing the Internal Revenue Service to collect on behalf of each State the savings in Federal income taxes which are realized by its citizens. The legislation also authorizes each State to direct the IRS to collect from its residents on its behalf, more or less than is provided for in the amount to be collected in its capacity as agent for each State. Thus, each State retains ultimate responsibility for the amount of the taxes which are collected from its citizens for State and local purposes.

The net effect of this legislation would be to shift \$5 billion from the Federal Government to the States in a manner which will make it clear to each taxpayer how much he is paying to his State and local governments for State and local purposes. Under this alternative proposal, the Federal Government will not be sharing its revenues with the States. Rather, it will be sharing its personal tax base and its tax collecting facilities. I would like to introduce as exhibits to my testimony, a copy of S. 1577 together with a more detailed description of the mechanics and effects of my "Revenue Shifting" proposal, which I used as the basis for testimony before the House Ways and Means Committee in June of last year.

I was interested to note that the House bill incorporates provisions which will authorize the Federal collection of State individual income taxes in a manner somewhat comparable to my own suggestion, although the House provision would not become operative until 1974. This suggests that if your committee were to accept my basic "Revenue Shifting" approach and to add to it the requirement that the States distribute the taxes collected on their behalf in accordance with the "pass through" provision of H.R. 14370, the basic emergency objectives of the bill would be met in a manner consistent with the House legislation, but without sacrifice to the direct accountability for taxation which is so essential to responsible government.

If your committee cannot see its way clear to adopt the revenue shifting approach, then I would urge you at the very least to limit the general revenue sharing aspects of H.R. 14370 to 2 years. This would provide the States with time within which to amend their laws to insure that no unit of government has a tax base which is inadequate to finance the responsibilities which are assigned to it by State law. This would make it clear that the general revenue sharing legislation adopted by the Congress is of a short-term, emergency nature designed to do nothing more than to tide the States and localities over their current crisis for a long enough period to permit them to get their fiscal houses in order.

Thank you, Mr. Chairman.

The CHAIRMAN. Would you mind just giving me a concrete example of how this revenue shifting proposal of yours would work? I have been working on proposals similar to it because the thought appeals to me.

Senator BUCKLEY. It is a system, Mr. Chairman, which frankly, I borrowed from Canada. It is a system that is now in effect in determining the tax collections of the Provinces.

What I would propose—and, of course, this begs the question as to whether or not the Federal Government can spare the \$5 billion, which revenue sharing would distribute—is that the personal income tax rate be reduced by a sufficient percentage to reduce Federal collections by \$5 billion.

At the same time the legislation would authorize the Internal Revenue Service to collect, as the agent for the States, that same \$5 billion in savings realized by the citizens of each State. The State legislatures could then say no, that they do not want any of this money, in which case their citizens could realize a 5-percent reduction in income taxes. Or, they could say, please collect the additional 5

percent for us. In effect, the convenience of the Federal income tax facility would be made available to the States.

The Federal tax form would say that so much is collected for the Federal Government and so much collected by virtue of State action for the States. In other words, the citizen would know that the tax bite that he is paying was authorized and directed by his State officials. Therefore, he would hold them accountable for the amount of money he is paying in taxes.

The CHAIRMAN. I have been thinking about a similar approach. But the way I was thinking of it was simply to say everybody is entitled to let us say a tax credit of 5 percent of whatever you pay the Federal Government. You can make it any percentage you want. It is the principle I am thinking of. And now when you do that, any State that does not have an income tax, let us say, would find that their taxpayers were paying the same thing but they were not getting the benefit of it. That would then mean if the State wanted to levy an income tax it would pick up that amount that they could gain for their government by simply taxing their citizens that amount and the citizens would lose nothing. It would mean a temporary windfall advantage to citizens in States that have income taxes. But in the long run as we work on these tax reform works and as Treasury overhauls and makes their studies and we tighten up on the loose ends and loosen up on the tight ends, it would all catch up on itself in the final result.

Now, if a State like Tennessee wanted it that way, we could say, well, if you do not have an income tax for  $x$  number of years, we will just collect whatever benefits citizens of your State. In view of the fact that we are collecting more from your citizens than from other citizens, we will pay that amount over to you, but in a few years if you do not want to take advantage of the tax credit, you will just have to lose the benefits you are receiving.

So they would be very foolish not to levy a tax to continue to pick up, for their State revenues they would be receiving. Frankly, I find your thought about revenue shifting would be really more responsible from the Federal point of view than to have to go in more and more for revenue sharing. You know, it is more responsible for local government to have to raise money from its citizens for a program than for us to put the taxes on and pass it on to them.

Senator BUCKLEY. I am glad to hear you say that. That is my fear, that it will institutionally open access to the Treasury. The pressures will be to increase and increase the Federal distribution. Then it will become that much more difficult for citizens in various localities to bring pressure to bear to hold down expenditures.

The CHAIRMAN. That is the reason I said yesterday we should let the people vote on how they are going to use this revenue-sharing money. In Louisiana, we had a bad experience of very unwise sharing of some of the State revenue sharing—from State to city and county—and I thought we might prevent that type of thing from happening if the local governments had to submit the spending proposals to the people for a vote. I hate to tell you because that idea went over like a lead balloon. They did not want to have to submit it to the people.

Any further questions?

Senator BENNETT. I have no questions.

Senator JORDAN. I think you have got a very fine idea here. I subscribe fully to your philosophy. Especially when you say the chief danger is that this bill will divorce the responsibility for the collection of revenues to be shared from the responsibility for their expenditure.

Yesterday I suggested to the mayors when they were here that they consider using the device of an income tax as the vehicle and the IRS as the collection agency. The cities and the States could get on the income tax piggyback. Let them levy a percentage of the tax and assume the responsibility of facing their constituents and justifying the percentage of the Federal income tax that they wish to have. Then they would have absolutely free and unrestrained authority to spend it in any way they could justify to their citizens. But there was not very much enthusiasm among the mayors. They said they might like some piggyback arrangement, but they would like revenue sharing, too.

I think we have got to tie the two together. I think general revenue sharing at \$5 billion the first year will be \$30 billion before the decade is out. Once you open the door, I think there is no shutting it.

Senator BUCKLEY. I think, too, Senator Jordan, we would be fooling ourselves if we think the money would continue at the \$30 billion without any strings attached. I think the Congress would inevitably start telling the States all over again what to do.

Senator JORDAN. I agree. Thank you.

The CHAIRMAN. Senator Byrd.

Senator BYRD. Thank you, Mr. Chairman.

I think the able Senator from New York has presented a very interesting proposal and one which should have careful consideration. I like his approach. I was not able to be here for all of his testimony, but in reading the summary description, Senator Buckley, the plan, I think, has a lot to commend it.

The purpose of the revenue-shifting proposal, as I understand it, is to assure that ultimate responsibility for raising tax funds and for spending them rests with the same political units, and as you point out, it accomplishes the same end as general-revenue sharing in that it provides for immediate increase in funds available to the States without increasing the cost to the taxpayer, and, at the same time, without increasing the Federal deficit. I think that would be a correct assumption, would it not?

Senator BUCKLEY. Correct, yes.

Senator BYRD. I have kept an open mind on revenue sharing. My concern has been and is that we are increasingly overspending the Federal revenue. In the past fiscal year, we ended with a Federal funds deficit of \$32 billion. The estimate is that the current fiscal year will end with a deficit of \$38 billion. In my judgment, it will be \$45 billion. We ended fiscal 1971 with a \$30 billion deficit. So in a 3-year period, the Federal Government has accumulated deficits of more than \$100 billion. So, I am concerned about starting a new program, and this revenue sharing is a new program which would either add further to the Government deficit or require an increase in taxes.

I think that the Senator from New York has presented a proposal that has a great deal of merit. I do not want to commit myself to every detail until I have had a chance to study it more fully, but it seems to me to have a great deal of merit, and I want to commend the Senator from New York for coming before the committee this morning with this proposal.

Senator BENNETT. Senator, listening to that last discussion, it seems to me that this affects the Federal deficit in just the same way as the committee bill does.

Senator BUCKLEY. That is right.

Senator BENNETT. It does not change the Federal deficit.

Senator BUCKLEY. That is right.

Senator BENNETT. It is a question of the shifting of the method of collecting and distributing.

Senator BUCKLEY. Correct.

Senator BENNETT. Thank you.

Senator BUCKLEY. Thank you, Mr. Chairman.

(The prepared statement and material referred to previously, follow:)

PREPARED STATEMENT OF JAMES L. BUCKLEY, A U.S. SENATOR FROM THE STATE OF NEW YORK

Mr. Chairman, I am most grateful for the opportunity to present my thoughts on the State and Local Fiscal Assistance Act of 1972 which is now before your Committee.

There is an old saying in the legal profession that hard cases make bad law. I think the same may also be said if legislation designed to meet emergencies.

H.R. 14370 has been designed in substantial measure to meet the very real financial crises which threaten state and local governments across the country. I know that in my own state of New York, a number of our county and municipal governments are on the verge of financial collapse, not because they have been improvident, but because they have had obligations mandated to them which have grown far more rapidly than the tax bases available to them for the financing of these obligations.

A major contributor to the problem, as Governor Rockefeller pointed out in his testimony last week, has been the explosion of Federal categorical grant programs which distort local priorities and bleed off their revenues. This has introduced major dislocations into state and local planning and it has led to the imposition of ever heavier tax on their citizens. The whole situation has been brought to a head in the last few years because of steadily rising costs and the increased demands and lagging revenues resulting from the recent recession.

I believe heroic measures are clearly justified—but we need to make sure that the specific measures adopted will not result in fundamental changes in our governmental institutions which will do major and continuing harm long after the current crises have been resolved. It is my fear that the "General Revenue Sharing" concept incorporated in H.R. 14370 will have the inevitable effect of institutionalizing a new approach to state and local financing in which there are a number of inherent dangers.

The first of these is that it will divorce the responsibility for the collection of revenues to be shared from the responsibility for their expenditure. Experience and logic suggest that the greatest inducement to the prudent expenditure of public funds is to require those who spend them to justify to the public the taxes that are required to finance the expenditures.

It can be argued that this legislation is only of a five year duration, and that the monies which it will distribute represent so small a proportion of total state and local budgets that my concern is more theoretical than practical. I would answer by saying that we would be naive if we thought that it would be politically possible, after five years, to abandon the program. Too many state and local officials would lobby against a return to a system which would require them

once again to justify the full burden of state and local taxes required to finance their programs. Nor can we assume that there will be other than increasing pressures for ever larger federal contributions so as to spare the officials from the necessity of having to find new revenues with which to finance ever more ambitious programs.

The second objection to general revenue sharing is related to the first. We are faced with a crisis because, over the past decade, governmental expenditures at the state and local levels have grown at an average rate of 17 per cent per year, while their sources of tax revenues have been growing at a far slower rate. As a result, many jurisdictions—especially those largely dependent on property taxes—have virtually reached the limits of their ability to tax. By this I mean their tax rates have reached the upper limits of the willingness of the taxpayers to pay as well as the limits imposed by the practical fact that they are beginning to cause productive citizens and businesses to move elsewhere.

It seems to me, that at least in the longer range, the solution to this dilemma is not to find new, external sources of revenues with which to finance this extraordinary growth of state and local expenditures, but to find ways of curbing it. If we open the federal treasury for the financing of state and local governments, we may bring them temporary relief but we will merely postpone the time when they will be required to make the hard-headed cost and program cutting decisions which are needed to bring the growth in their expenditures into some sort of balance with the growth of the economy.

Ordinary citizens can bring effective pressures to bear at the state and local levels. There is little they can do, as a practical matter, to force economies at the national level. These pressures have been brought to bear in a most effective way in my own state. As a result of a minor tax rebellion and the voting down of various bond proposals, stringent measures have been taken in New York in the last two years to cut expenses, to re-examine and tighten programs, and to lighten public payrolls. The savings to date have been significant and in the process, the administration of a number of programs—notably welfare—has been improved. I seriously question whether all of these reforms could have been achieved had H.R. 14370 been enacted two years ago.

As President Jackson observed in his 1833 message vetoing a revenue sharing proposal, "I am quite sure that the intelligent people of our several states will be satisfied, on a little reflection, that it is neither wise nor safe to release the members of their local legislatures from the responsibility of levying the taxes necessary to support their state governments and vest it in Congress, over most of whose members they have no control."

A third objection to general revenue sharing has to do with its corrosive effect on the federal-state relationship. The federal government has already intruded far too deeply on state and local responsibilities through the proliferation of categorical grant programs. These have had the effect, in too many areas, of converting state and local governments into mere administrative agents for federal programs. This is why I so strongly endorse the Administration's special revenue sharing proposals.

General Revenue Sharing, however, will have the effect of increasing the dependence of state and local governments on Washington rather than diminishing it. These governmental units will come to plan their budgets around the expectation of a steady and, I believe, ever-increasing flow of funds from the federal treasury. Yet Congress will have the continuing power to interrupt that flow or to introduce restrictions on the uses to which the funds can be put. In fact, the House bill has already taken the first step in the direction of control by designating that monies distributed to some 39,000 localities can only be used for "high-priority expenditures" as Congress, and not the localities, defines those priorities. Ultimately, this could lead to great instability in state and local financing, and to an ever more rigid federal control over them.

Finally, H.R. 14370 will help prolong the dangerous myth that monies handed out by Washington to the states and localities originates somewhere else than in the pockets of their citizens. The adoption of this bill will not lighten the overall tax burden on our citizens. To the extent that the program will be financed out of federal borrowing, the full impact may be deferred, but it will catch up with the taxpayers with compound interest. General Revenue Sharing may well have the effect of providing some measure of relief from excessive property taxes. But this is something which does not require federal intervention to accomplish.

There is no doubt but that in many states there is a serious mismatch between local services required and the tax base available to support them. By the same token, there is no major source of income, other than import duties, which is not also available to state governments. This suggests that given the time and the will, internal adjustments can be made within each state to achieve the most equitable distribution of the taxation required to meet governmental needs within the state.

I said at the outset that states and localities across the nation are caught up in a financial emergency, and that I believe heroic measures are in order to help tide them over this period of crisis. What, then, would I propose as an alternative to H.R. 14370?

Last year, I proposed legislation which would accomplish the basic objective of providing state and local governments with an emergency source of revenue, but on a basis which I felt to be consistent with sound fiscal policy and the maintenance of the political integrity of the Federal system. I have described the bill, S. 1577, as "Revenue Shifting." This bill would achieve the objective of getting \$5 billion into the hands of state and local governments by reducing Federal tax receipts by \$5 billion, while authorizing the Internal Revenue Service to collect on behalf of each state the savings in Federal income taxes which are realized by its citizens. The legislation also authorizes each state to direct the IRS to collect from its residents on its behalf, more or less than is provided for in the amount to be collected in its capacity as agent for each state. Thus each state retains ultimate responsibility for the amount of the taxes which are collected from its citizens for state and local purposes.

The net effect of this legislation is to shift \$5 billion from the Federal Government to the states in a manner which will make it clear to each taxpayer how much he is paying to his state and local governments for state and local purposes. Under this alternative proposal, the Federal government will not be sharing its revenues with the state. Rather it will be sharing its personal tax base and its tax collecting facilities with state and local governments. I would like to introduce as exhibits to my testimony, a copy of S. 1577 together with a more detailed description of the mechanics and effects of my "Revenue Shifting" proposal which I used as the basis for testimony before the House Ways and Means Committee in June of last year.

I was interested to note that the House bill incorporates provisions which will authorize the federal collection of state individual income taxes in a manner somewhat comparable to my own suggestion, although the House provision would not become operative until 1974. This suggests that if your committee were to accept my basic "Revenue Shifting" approach and to add to it the requirement that the state distribute the taxes collected on their behalf in accordance with the "pass through" provision of H.R. 14370, the basic emergency objectives of the bill would be met in a manner consistent with the House legislation, but without sacrifice to the direct accountability for taxation which is so essential to responsible government.

If your committee cannot see its way clear to adopt the "Revenue Shifting" approach, then I would urge you at the very least to limit the general revenue sharing aspects of H.R. 14370 to two years. This would provide the states with time within which to amend their laws to insure that no unit of government has a tax base which is inadequate to finance the responsibilities which are assigned to it by state law. This would make it clear that the general revenue sharing legislation adopted by the Congress is of a short-term, emergency nature designed to do nothing more than to tide the state and localities over their current crisis for a long enough period to permit them to get their fiscal houses in order.

92<sup>d</sup> CONGRESS  
1<sup>st</sup> Session

# S. 1577

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## IN THE SENATE OF THE UNITED STATES

APRIL 20, 1971

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

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## A BILL

To provide for the shifting to the States of Federal income tax collections from individuals.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*  
3       That (a) part IV of subchapter A of chapter 1 of the Inter-  
4       nal Revenue Code of 1954 (relating to credits against tax)  
5       is amended by adding at the end of subpart A of such  
6       part IV the following new section:

7       "SEC. 41. CREDIT FOR TAXES TO BE SHIFTED TO THE  
8               STATES.

9       “(a) GENERAL RULE.—In the case of an individual,  
10       there shall be allowed as a credit against the tax imposed by

II

1 this chapter for the taxable year an amount equal to 5.64  
2 percent of the taxpayer's basic income tax.

3       “(b) BASIC INCOME TAX.—For purposes of this sec-  
4 tion, the term ‘basic income tax’ means the tax imposed by  
5 section 1, 3, or 1201 (b) for the taxable year, reduced by  
6 the sum of the credits allowable under—

7           “(1) section 33 (relating to foreign tax credit),

8           “(2) section 37 (relating to retirement income),

9       and

10          “(3) section 38 (relating to investment credit).

11       “(c) EXCEPTION.—The credit provided by subsection  
12 (a) shall not be allowed to an individual for a taxable year  
13 for which he is a nonresident of the United States for the  
14 entire taxable year.”

15       (b) The amendment made by subsection (a) shall  
16 apply to taxable years beginning after December 31, 1971.

17 **SEC. 2 SHIFTING OF TAX COLLECTIONS TO THE STATES.**

18       Subtitle A of the Internal Revenue Code of 1954 is  
19 amended by adding at the end thereof the following new  
20 chapter:

21 **“CHAPTER 7—SHIFTING OF INCOME TAX**  
22 **COLLECTIONS TO THE STATES**

23 **“SEC. 1601. ADDITIONAL TAX TO BE PAID OVER TO**  
24 **STATES.**

25       “(a) IMPOSITION FOR YEARS BEGINNING BEFORE  
26 JANUARY 1, 1973.—In addition to other taxes, there shall

1 be imposed for the taxable years beginning after December  
2 31, 1971, and before January 1, 1973, on the income of  
3 every individual who is a resident of any State during the  
4 taxable year, a tax equal to 5.64 percent of the taxpayer's  
5 basic income tax for the taxable year. If any part of the  
6 basic income tax is allocable to a State which has requested  
7 that a different rate than 5.64 percent be applied, then the  
8 tax on the portion of the basic income tax allocable to such  
9 State shall be computed at such different rate. Such request  
10 for a different rate of tax shall be recognized only if made  
11 by the legislature of a State with the concurrence of the  
12 Governor of such State and notification of the desired rate is  
13 transmitted to the Secretary before the beginning of the  
14 taxable years to which it is to apply.

15       “(b) IMPOSITION FOR YEARS BEGINNING AFTER DE-  
16 CEMBER 31, 1972.—In addition to other taxes, there shall  
17 be imposed for any taxable year beginning after Decem-  
18 ber 31, 1972, on the income of every individual who is a  
19 resident of any State, at the rate requested by such State,  
20 a tax on the basic income tax of such individual for such  
21 taxable year. Such request for the rate of tax to be imposed  
22 shall be recognized only if made by the legislature of a  
23 State with the concurrence of the Governor of such State and  
24 notification of the desired rate is transmitted to the Secretary  
25 before the beginning of the taxable years to which it is to  
26 apply.

## 4

1       “(c) BASIC INCOME TAX.—For purposes of this chap-  
2       ter the term ‘basic income tax’ has the meaning given to  
3       such term by section 41 (b).

4       “(d) ALLOCATION.—The Secretary or his delegate  
5       shall prescribe regulations setting forth the manner in which  
6       the basic income tax of an individual is to be allocated to any  
7       State, except that—

8               “(1) in the case of earned income (as defined in  
9               section 911 (b)) which is attributable to services per-  
10              formed outside of the State of the taxpayer’s residence,  
11              at least one-half of the basic income tax attributable to  
12              such earned income shall be allocated to the State of  
13              such residence, and

14             “(2) any portion of the basic income tax which  
15             is attributable to—

16               “(A) dividends, interest, or royalties, or

17               “(B) income from sources outside the United  
18               States,

19             shall be allocated to the State of the taxpayer’s residence.

20       “(e) RESIDENCE.—If an individual is a resident of more  
21       than one State during a taxable year, he shall be treated for  
22       purposes of this section as a resident only of the State in  
23       which he resided during such year for the longer period of  
24       time.

25       “(f) ASSESSMENT.—The additional tax imposed by

1 this section shall be assessed and collected in the manner  
2 prescribed in this title with respect to the tax imposed by  
3 chapter 1.

4 **"SEC. 1602. PAYMENT TO THE STATES.**

5 "As soon as feasible after the close of each calendar  
6 quarter, the Secretary or his delegate shall make an estimate  
7 with respect to each State of the amount collected during the  
8 calendar quarter under section 1601 on basic income taxes  
9 allocable to such State, and the Secretary shall pay over to  
10 such State the estimated amount for the use and benefit of  
11 such State. Proper adjustments shall be made to amounts  
12 subsequently paid over to each State to the extent prior  
13 estimates were in excess of or were less than the amount  
14 actually collected under section 1601 on the basic income  
15 taxes allocated to such State.

16 **"SEC. 1603. NONDEDUCTIBILITY OF TAXES IN COMPUT-**  
17 **ING TAXABLE INCOME.**

18 "(a) The tax imposed by section 1601 to the extent  
19 the rate does not exceed 5.64 percent shall not be allowed  
20 as a deduction to the taxpayer in computing taxable income  
21 under chapter 1. To the extent the rate of tax imposed by  
22 section 1601 with respect to any State exceeds 5.64 percent,  
23 it shall be deductible in the same manner and to the same  
24 extent as a State income tax of the type referred to in section  
25 164.

1       “(b) If any of the tax imposed on an individual under  
2 section 1601 for a taxable year is computed at a rate less  
3 than 5.64 percent, then any income taxes paid by such  
4 individual to such State for such taxable year shall be dis-  
5 allowed as a deduction in computing taxable income under  
6 chapter 1 in the amount by which the tax under section  
7 1601 for such taxable year was reduced by the request  
8 of such State for a rate lower than 5.64 percent.

9       “SEC. 1604. SEPARATE DESIGNATION ON INCOME TAX  
10                               RETURN.

11       “Any tax imposed under section 1601 with respect to  
12 any State and collected by the Secretary or his delegate  
13 shall be shown on the same return as the tax imposed by  
14 section 1 or section 3 with respect to a taxpayer, but shall  
15 be shown separately on such return and clearly designated  
16 as a tax collected for a State and not for the United States.”

## "REVENUE SHIFTING" ALTERNATIVE TO GENERAL REVENUE SHARING

## SUMMARY DESCRIPTION

*Concept*

The alternative herein proposed substitutes a *shifting* of income tax revenues to the state for the contemplated sharing of federal revenues with the state. The purpose of the "revenue shifting" proposal is to insure that ultimate responsibility for raising tax funds and for spending them rests with the same political unit. It accomplishes the same ends as general revenue sharing, in that it provides for an immediate increase in funds available to the states without increasing the cost to the taxpayer.

Conceptually, this involves a sharing by the Federal government of its personal income tax base and tax collecting facilities with the states. The revenues to be shifted to the state are to be collected on their behalf, and are subject to increase or decrease at the direction of the states.

*Mechanism*

Revenue shifting can be placed in effect through legislation which would accomplish the following:

(1) Federal personal income tax rates would be reduced by a percentage ("X" per cent) which would reduce the estimated revenue to be collected for use by the Federal government for Federal purposes ("the Federal tax collection") by the amount which is to be shifted to the states (e.g., \$5 billion.)

(2) Simultaneously with the collection of the reduced amount of personal income taxes for the Federal government and subject to the rights reserved to the state in (3) below, IRS would be directed to collect as *agent* for each state an additional amount computed as a percentage ("Y" per cent) of the Federal tax collection; "Y" being the percentage calculated to result in the collection on behalf of the states of the aggregate revenues which are to be shifted to the states.

(3) Each state would be authorized to direct IRS to collect, on its behalf, from its residents a larger or smaller percentage. Absent specific instructions to the contrary, IRS would collect the amount stipulated in (2) above.

*Illustration*

A hypothetical illustration may be helpful. Assume that the Federal government currently collects \$100 billion in personal income taxes from the residents of the fifty states, and that it is desired to shift \$5 billion of these revenues to the states to be used for state and local purposes. Federal personal income tax rates are reduced by 5 percent, with the result that Federal government revenues are reduced by the \$5 billion which IRS is directed to collect on behalf of the states.

Assume further that the residents of State "Z" currently pay \$10 billion out of the \$100 billion in personal income taxes which are collected by the Federal government. Under the revenue shifting concept, Federal tax collections from residents of State "Z" would be reduced to \$9.5 billion. At the same time, IRS would automatically collect an additional \$500 million on behalf of State "Z" unless the legislature of State "Z" gives specific instructions to the contrary.

## DISCUSSION

*A. Some arguments advanced in favor of administration's proposal*

1. State and local governments are experiencing a fiscal crisis in part as a result of the fact that the traditional state and local government tax bases (sales and property taxes) have not expanded as rapidly as the expenditures they are required to finance. The plight of the states encourages shifting responsibilities to Washington, at the expense of local initiative. Therefore, an alternative source of funds for these governments is required.

2. The Federal government has preempted the most attractive tax base (91 per cent of income tax collections in the United States are collected by the Federal government), and has done so in a highly efficient manner. By relating revenues to be shared to personal income, the revenue sharing proposal provides state and local governments with a source of revenue whose growth potential is more closely correlated with the growth of the economy than that of the traditional state and local sources of revenues.

3. The Federal government can (a) relieve the current fiscal crisis at the state and local levels, (b) stem the impulse to concentrate still more power in Washington, and (c) allow the state and local governments to share in the income tax base through the Administration's general revenue sharing mechanism.

#### *B. Weakness of the administration's proposal*

1. The Administration proposal divides the responsibility for the collection of revenues and for their expenditure. A taxing authority ought to be directly accountable for the proper and efficient use of the tax revenues collected. This is a fundamental principle of responsibility which ought not to be waived lightly.

2. The Federal structure presupposes the authority and self-sufficiency of the states with regard to those areas of responsibility which belong to them. To the extent to which the states become dependent on the Federal government for an important source of revenue they lose their independence of potential Federal regulation.

3. The Administration proposal will tend to limit the zeal with which state and local officials will try to limit expenditures. Once the revenue sharing precedent has been set, pressures will inevitably grow to pass on the Federal government an ever larger share of the cost of state and local government.

4. The Administration's proposal does least for the states with the greatest need for alternative sources of tax revenue (e.g., California, Michigan, New York, Pennsylvania, etc.) because the tax system will return proportionately more to the poorer states than they contribute to Federal revenues. In other words, the more urbanized states will be required to continue to subsidize expenditures by states which in many cases are making a smaller tax effort, and which, because of their less industrialized-urbanized character, have fewer demands for state and local services of the kind now threatening to bankrupt their more "affluent" neighbors.

5. The Administration's proposal disguises the true cost to the taxpayers of their state and local governments because of the persistent delusion that funds dispensed by Washington originate in somebody else's pockets.

#### *C. "Revenue shifting" as an alternative*

The basic concept of the alternative herein proposed ("revenue shifting") has been adapted from the system now in effect in Canada for the division of personal income tax collections between the Dominion and the provincial governments. It involves a substitution of a sharing of the Federal personal income tax base and collection facilities for a sharing of the Federal government's revenues. Its effect is to shift to the states a portion of the personal income taxes now collected by the Federal government.

The revenue shifting concept, which can accomplish the main objectives of the Administration's proposal while avoiding its weaknesses, requires legislation which will

(1) effect an across-the-board reduction in Federal personal income tax rates of "X" percent, "X" being the percentage required to reduce estimated collections for Federal use by the amount of the revenue which is to be shifted to the states;

(2) direct the Internal Revenue Service to collect on behalf of each state from its residents an additional amount equivalent to "Y" per cent of the Federal tax collection, "Y" being the percentage required to equal the amount of revenue to be shifted to the states.

(3) authorize each state to direct the IRS to reduce, increase or eliminate the amount of the state share to be collected on its behalf;

(4) require that tax returns for the Federal and state tax collections be made on a single or joint form in which it is clearly indicated which portion of an individual's tax is being raised on behalf of the Federal government and which on behalf of the state.

#### *D. Illustration of "revenue shifting" mechanics*

The overall objective of the Administration's proposal is to increase state and local revenues by \$5 billion without increasing the existing burden on taxpayers. The revenue shifting proposal can achieve this objective in the manner described below, based on the Tax Foundation's estimate that the Federal government will collect \$93.7 billion in personal income taxes in FY 1972.

1. Federal personal income tax rates are reduced by 5.34 percent thereby reducing the personal income tax yield by \$5 billion. This will reduce the total Federal personal income tax collections to \$88.7 billion nationally.

2. In addition to the personal income taxes which it is to collect for the federal government, the IRS is directed to collect on behalf of each state (unless such state otherwise directs) an additional increment which in the aggregate would result in the distribution to the states of \$5 billion. Based on this illustration, this would mean that IRS would collect an increment of 5.6 percent above the amount collected on behalf of the Federal government.

3. Assuming no state *specifically* directs otherwise, the collection of this 5.6 per cent increment above the personal income taxes collected by the IRS for the purposes of the Federal government would result in a distribution to the states of \$5 billion.

4. Under this proposal, an individual state would be able to authorize the IRS to collect more or less than the 5.6 percent increment from its residents. Thus a state which elected not to have IRS collect any taxes on its behalf could, in effect, provide a 5.34 percent tax cut for its residents. On the other hand, another state which is particularly hard pressed for revenue could elect to authorize the IRS to collect more than the increment as an alternative to increasing its sales tax, for example.

*E. Advantages of the "revenue shifting" alternative*

1. Because the states have the power to direct IRS to increase, reduce or eliminate the amount to be collected on their behalf, they retain full responsibility for and authority over the taxation of their citizens for state and local needs. No precedent is set for Federal "ball-outs" for states which may have overextended themselves.

2. Because the personal income tax form filed with the Internal Revenue Service will specify how much of the tax is being collected for the Federal government and how much for the state, the taxpayer is spared the illusion that money transferred by IRS to his state is somehow Washington's money and not his money.

3. The states are enabled to share to a greater extent in what has been the Federal government's personal income tax base; and, in addition, they are provided with the convenience and economy of utilizing the existing Federal tax collection machinery.

4. The revenue shifting proposal avoids making the states dependent on the Federal government for another substantial source of income, and therefore avoids the danger of ultimate Federal dictation. Once the plan is in operation, its cost to the Federal government will be negligible, amounting as it will to just the cost of transferring to each state the amount collected on its behalf. Thus the system, once established, would not be endangered by future Congressional economies.

5. It eliminates the invisible subsidies which, under the Revenue Sharing proposals, are paid to some, often "low tax effort" states at the expense of the more urban, industrialized states which are currently experiencing the most critical need for funds.

The CHAIRMAN. Senator Hartke wanted to make a statement during today's session and we are pleased to hear from him at this time.

Please proceed.

**STATEMENT OF HON. VANCE HARTKE, U.S. SENATOR FROM THE STATE OF INDIANA**

Senator HARTKE. It is clear that the extraordinary fiscal problems now faced by too many of our State and local governments will not be solved without additional assistance from the Federal Government. In an attempt to help the States and localities help themselves, I have introduced for appropriate reference, legislation designed to encourage the better use of the State and local income tax device and to substantially lighten the welfare cost burden.

Entitled the Revenue Adjustment Act of 1971, it would help the States and localities meet their vital responsibilities in the following specific ways:

First, it would furnish an incentive to make fuller use of the indi-

vidual income tax by allowing taxpayers to write off 50 percent of their combined State and local income taxes against their Federal income tax liability.

Second, it would require the speedy federalization of welfare programs now authorized under the Social Security Act, and pending such federalization, would increase the Federal share of the cost of these programs.

Third, it would permit the collection of State and local income taxes by the Internal Revenue Service upon the request of the authorized representative of a State or locality.

Although it is clear that a large and growing number of State and local governments are in desperate need of Federal aid, it is also clear that too few of these governments have done everything they can to help themselves. The fact that 13 States do not yet levy a personal income tax, and that in the majority of others the tax rate is negligibly small, does not speak well for the resourcefulness of the States. While understandable that the prospect of instituting a new tax or raising the rates of an old one does not ordinarily generate great enthusiasm among elected lawmakers, it is nevertheless incongruous that the vast revenue potential of the personal income tax remains untapped in most States while, at the same time, the Governors lobby feverishly on behalf of revenue sharing.

Having said this, I should emphasize that some of the demands being made upon the States and localities cannot, and should not be answered by any government other than the national. Most importantly, it must be recognized that the problem of providing adequate levels of public assistance to the needy is national in origin and is susceptible of solution only at the Federal level. Today, the cost to State and local governments of their public assistance programs is almost \$8 billion and increasing dramatically.

Disturbed that the States and localities have not more fully faced up to their revenue-raising responsibilities, but aware that the problem of welfare should not be viewed as other than a national responsibility, I have introduced legislation which I think fairly apportions responsibility for change between the Federal and State and local governments.

#### TAX CREDITS

Title I of the Revenue Adjustment Act would allow taxpayers to take a credit against their Federal income tax liability in an amount equal to 50 percent of their combined State and local income taxes. This credit would be in addition to the Federal deduction for State and local tax which is already allowed.

In practice, this 50-percent credit would enable a taxpayer who owed \$1,200 to the Federal Government and \$200 in State and local income taxes, to subtract \$100 of that \$200 amount from his Federal tax for a total of \$1,100.

It is anticipated that such a credit would act as a very powerful incentive to the States and cities to make better use of the personal income tax. As things are now, it is often contended by State and local officials that the enormous efficiency of the Federal personal income tax has made it difficult for other levels of government to develop their own income tax levies. They point out that the Federal income tax is progressive and very responsive to economic growth, and so brings in increasing amounts of income each year, whereas the tax structure at

the State and local levels is largely regressive and inelastic. Allowing that this contention is basically correct, the purpose of tax credits is to enable the States and localities to compete more effectively with the Federal Government for potential revenue. As noted above, a taxpayer would be permitted to write off 50 percent of his State and local income tax liability against his Federal income tax liability. The only limitation placed on the value of this credit is that it may not exceed 19 percent of the taxpayer's Federal income tax liability. A table prepared by the staff of the Joint Committee on Internal Revenue Taxation indicates that the tax credit concept has great potential for relief if the States and localities are only willing to place increased reliance upon the individual income tax as a revenue-raising device. Columns 4 and 5 of that table show that the potential benefit to the States and localities under a 50 percent credit is more than \$24 billion, or almost five times the benefit promised under the President's general revenue-sharing proposal.

Clearly, the States and localities are furnished a powerful incentive to raise—or in the case of those 13 States mentioned above, institute—their personal income taxes to a level which will take full advantage of the credit without placing the entire burden of increased taxation on the shoulders of the taxpayer. In that regard, it should be carefully noted that under this proposal a taxpayer may take both a credit and a deduction against his State and local income taxes. Presently, the deduction saves the average taxpayer—with earnings between \$8,000 and \$12,000—approximately 25 cents on every dollar he pays in State and local income taxes. By allowing this same taxpayer to take both a 50-percent credit and a deduction, the saving to him is 70 cents on every dollar he pays to the State and local governments in income taxes.

#### INCREASING THE FEDERAL SHARE ON WELFARE COSTS

Title II of the Revenue Adjustment Act declares it to be the policy of the Congress that at the earliest practicable date there should be developed and considered by the Congress a national program for the provision of aid to the needy; and pending the enactment of this program, that the Federal share of public expenditures for welfare programs be increased to 90 percent. Column 6 of the Joint Committee's table indicates that this increase in the Federal share would result in an immediate savings to the States and localities of more than \$2 billion. Under the proposal, those large urban States with the greatest welfare cost loads would benefit the most since they currently receive proportionally less from the Federal Government than do most small rural States.

The absolute importance of acting quickly to relieve the States and localities of what has become an oppressive and unfair burden, is underscored by the provision in title II which provides that the Secretary of Health, Education, and Welfare shall formulate and submit to the Congress a plan for the complete federalization of welfare no later than January 1, 1972, and that the increase in the federally financed share of welfare costs to 90 percent shall not extend beyond January 1, 1973. This latter provision is designed to insure that Congress and the President will act quickly on a program for federalization of the welfare system; for if no legislation is agreed upon by the end of 1972, the Federal share of welfare costs will revert back to the level presently maintained.

## FEDERAL COLLECTION OF STATE AND LOCAL INCOME TAXES

In recent years, States have increasingly tended to conform their income taxes to the Federal model. Title III of the act capitalizes on this tendency and would permit the Federal Government and the representatives of State and local governments to enter into agreements giving the Federal Internal Revenue Service responsibility for collecting State and local income taxes. The benefits of such a system are twofold: First, it would immediately relieve the States and localities of the administrative costs involved in collecting income tax revenue—estimated at \$200 million currently for all jurisdictions—and, second, it would cut down dramatically on the rate of noncompliance with State and local income tax laws, thereby generating additional State and local revenue without any increase in tax rates. Although it is impossible to say with any real accuracy what the percentage rate of noncompliance with State and local income tax laws is in this country, it has been conservatively estimated that upward of \$1 billion in additional revenue would be collected if the Federal Government and not the States were doing the job.

## A SCENARIO FOR STATE AND LOCAL GOVERNMENT

I believe firmly that the Revenue Adjustment Act of 1971 is a reasonable way to help the States and localities meet their rightful responsibilities while largely relieving them of the unfair burden of welfare costs.

If the States and localities were fully to respond to the incentives contained in titles I and II of this legislation, and if the Federal share of welfare costs is increased to 90 percent, the benefit to them would be in excess of \$27 billion; a sum sufficient to meet the problems of State and local government for a very long time.

The basic thrust of this proposal is to give State and local governments the opportunity to broaden, and thereby strengthen, their own tax structures in answer to the increased demand for public services. It accomplishes this objective without giving Federal funds to the State and local governments on a "no strings attached" or block-grant basis. Nor does it contemplate any radical reduction in the number of federally administered grants-in-aid programs. While it is indisputable that there are shortcomings in the administration of many grants-in-aid programs, it is my feeling that the grant-in-aid concept is still the best one available for quickly targeting and solving problems of national importance. For that reason, while I would certainly favor an exhaustive review of all grants-in-aid programs with the objective of consolidating and rationalizing whenever possible, I cannot support a program such as the revenue sharing proposal advanced by the administration which contemplates their eventual elimination.

It is estimated that this legislation will produce \$15 billion in new revenue for the States during its first year of operation. In its third year, more than \$25 billion in new revenue will be generated. It, in short, is both more generous and more effective in its operation than is the administration's revenue sharing proposal.

Thank you very much.

(A table referred to by Senator Hartke follows:)

THE IMPACT ON STATE AND LOCAL GOVERNMENTS OF (a) GENERAL REVENUE SHARING AND (b) INCOME TAX CREDITS<sup>1</sup> COUPLED WITH AN EXPANDED FEDERAL ROLE IN PUBLIC ASSISTANCE

[In thousands of dollars]

State	Estimated Federal individual income tax liability, calendar year 1970 <sup>2</sup>	State individual income tax collections, fiscal year 1970 <sup>3</sup>	State income tax revenue under 50 percent credit proposal <sup>4</sup>	Gain to States under 50 percent tax credit proposal <sup>5</sup>	Local income tax revenue under 50 percent tax credit proposal <sup>6</sup>	Additional Federal expenditures for public assistance with Federal share at 90 percent <sup>7</sup>	Col. (4) plus col. (5) plus col. (6) <sup>8</sup>	General revenue sharing 1st full year under President's program <sup>9</sup>
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Alabama.....	853,549	85,081	204,852	119,771	119,497	18,031	257,299	82,089
Alaska.....	122,667	32,455	29,440	0	17,173	3,524	20,697	8,590
Arizona.....	633,499	64,974	152,040	87,066	88,690	4,368	180,124	51,395
Arkansas.....	438,210	42,548	105,170	62,622	61,349	9,993	133,964	43,028
California.....	9,434,493	1,150,604	2,264,278	1,113,674	1,320,829	511,683	2,946,186	590,219
Colorado.....	851,441	129,097	204,346	75,249	119,202	22,318	216,769	60,116
Connecticut.....	1,130,568	4,916	511,336	506,420	296,280	34,625	839,325	59,237
Delaware.....	272,448	68,486	65,388	0	38,143	2,775	40,918	13,411
District of Columbia.....	351,549	83,044	84,372	1,328	49,217	9,080	59,625	22,915
Florida.....	2,906,022	0	697,445	694,445	406,843	18,935	1,123,223	167,438
Georgia.....	1,405,578	184,943	337,339	152,396	196,781	16,556	365,733	107,519
Hawaii.....	348,517	105,019	83,644	0	48,792	7,589	56,381	23,453
Idaho.....	201,127	36,662	48,270	11,608	28,158	2,837	42,603	20,077
Illinois.....	6,270,292	575,601	1,504,870	929,269	877,841	125,352	1,932,462	219,760
Indiana.....	2,120,799	216,384	508,992	292,608	296,912	32,046	621,566	115,772
Iowa.....	995,037	112,746	238,809	126,063	139,305	23,860	289,228	74,488
Kansas.....	834,170	78,423	200,201	121,778	116,784	18,054	256,616	54,230
Kentucky.....	840,236	121,423	201,657	80,234	117,633	13,202	211,069	78,194
Louisiana.....	1,023,247	47,993	245,579	197,586	143,255	22,150	362,991	101,465
Maine.....	331,556	18,885	79,573	60,688	46,418	5,356	112,462	22,885
Maryland.....	2,099,087	413,366	503,781	90,415	293,872	25,870	410,157	92,664
Massachusetts.....	2,921,553	517,952	781,173	183,221	409,017	106,028	698,266	136,160
Michigan.....	3,948,210	415,345	947,090	531,745	552,469	84,065	1,168,279	229,149
Minnesota.....	1,349,636	345,733	323,913	0	188,949	25,161	214,110	107,791
Mississippi.....	416,949	44,162	100,068	55,906	58,373	5,930	120,209	61,295
Missouri.....	1,795,417	129,654	430,900	301,246	261,358	29,069	581,673	96,432
Montana.....	176,183	38,871	42,284	3,413	24,666	2,486	30,545	18,786
Nebraska.....	487,410	44,444	116,978	72,534	68,237	8,839	149,610	38,992
Nevada.....	308,176	0	73,482	73,482	42,865	1,483	117,830	13,868
New Hampshire.....	295,206	3,462	70,849	67,387	41,329	3,352	112,068	14,958
New Jersey.....	3,992,783	17,643	958,268	940,625	558,990	121,083	1,620,698	153,773

New Mexico.....	279,486	35,730	67,077	31,347	39,128	4,482	74,957	31,814
New York.....	10,704,081	2,506,435	2,568,979	62,544	1,498,571	411,519	1,972,634	534,083
North Carolina.....	1,498,247	270,945	358,579	88,634	209,755	21,372	319,761	13,288
North Dakota.....	130,604	15,379	31,345	15,966	18,285	2,310	36,561	20,502
Ohio.....	4,948,710	0	1,187,690	1,187,690	682,819	55,035	1,935,544	212,535
Oklahoma.....	781,367	50,516	187,528	137,012	109,391	21,779	268,182	63,683
Oregon.....	791,099	213,053	199,264	0	110,754	16,580	127,394	56,860
Pennsylvania.....	5,094,214	0	1,222,611	1,222,611	713,190	113,783	2,049,584	246,210
Rhode Island.....	406,366	18,644	97,528	78,884	56,891	11,159	146,934	20,823
South Carolina.....	653,023	95,392	158,726	16,328	91,423	2,623	155,374	56,701
South Dakota.....	156,360	0	37,526	37,526	21,890	3,197	62,613	18,826
Tennessee.....	1,235,344	12,113	296,483	284,370	172,948	13,239	470,557	86,809
Texas.....	4,361,088	0	1,046,661	1,046,661	610,552	43,404	1,700,617	243,034
Utah.....	318,884	61,335	76,532	15,197	44,644	5,424	65,265	28,704
Vermont.....	176,419	43,668	43,341	0	24,699	3,641	28,340	11,942
Virginia.....	1,738,262	282,769	417,183	134,414	243,357	15,856	393,627	104,608
Washington.....	1,537,580	0	369,019	369,019	215,261	36,728	621,008	91,958
West Virginia.....	508,138	40,061	121,953	81,892	71,139	5,842	158,873	41,685
Wisconsin.....	1,707,296	489,944	409,751	0	239,021	25,752	264,773	124,370
Wyoming.....	113,117	0	27,148	27,148	15,836	1,281	44,265	11,436
Other.....	230,698	0	55,368	0	32,298	11,884	0	0
<b>Total.....</b>	<b>87,521,998</b>	<b>9,265,906</b>	<b>21,005,279</b>	<b>11,838,022</b>	<b>12,253,079</b>	<b>2,142,579</b>	<b>26,189,489</b>	<b>5,000,000</b>

<sup>1</sup> Under the proposal there would be a credit against the Federal individual income tax equal to 50 percent of State and local income taxes paid but not to exceed, in the case of the credit for State individual income taxes, 12 percent of the Federal individual income tax and, in the case of the credit for local individual income taxes, 7 percent of the Federal individual income tax. The credit, when added to the taxpayer's State and local individual income tax deduction benefit, would not exceed the amount of State and local individual income taxes paid.

<sup>2</sup> Estimated by the staff of the Joint Committee on Internal Revenue Taxation. The State-by-State data on which these estimates are based on data compiled from Federal individual income tax returns by the Internal Revenue Service (Statistics of Income) and reflect taxpayer State of residence except for those cases in which the taxpayer filed his return in the wrong place. The reasons why returns are filed in districts or regions other than those in which the taxpayer resides are as follows: (1) filing with former district office or regional service center after moving to a new area; (2) filing from place of business rather than place of residence; (3) filing from tax lawyer's or accountant's place of business in another State; (4) filing with a place other than residence because of misunderstanding of instructions on where to file.

<sup>3</sup> State Tax Collections in 1970, GF No. 1, Bureau of the Census.

<sup>4</sup> 24 percent of the estimated Federal individual income tax in column (1). This is the minimum State income tax which would bring into play the maximum allowable credit under the proposal: 12 percent of the Federal individual income tax. Under this proposal, which combines the deduction for income tax paid with a 50 percent credit, there would be a strong incentive for States, in

need of greater revenues, to enact individual income taxes which would exceed 24 percent of the Federal individual income tax, even though the limitation of the credit would remain at 12 percent of the Federal individual income tax.

<sup>5</sup> Col. (3) minus col. (2). Those figures represent the minimum additional State income tax over the fiscal year 1970 tax which would take full advantage of the 12 percent of Federal income tax limitation. Under the proposal, the incentive would be strong for States, in need of additional revenues, to exceed these additions.

<sup>6</sup> 14 percent of the estimated Federal individual income tax in col. (1). This is the minimum local income tax which would bring into play the maximum allowable credit under the proposal: 7 percent of the Federal individual income tax. See the last sentence in footnote 4.

<sup>7</sup> Included public assistance programs are: Old age assistance, aid to the blind, aid to the permanently and totally disabled, aid to families with dependent children, and payments to intermediate care facilities.

<sup>8</sup> To the extent to which States do not employ individual income taxes as high as 24 percent of the Federal individual income tax and local governments now have individual income taxes and do not employ individual income taxes as high as 14 percent of the Federal individual income tax, to that extent do the figures in this column overstate the additional resources made available to the State and local governments under the proposal for individual income tax credits and 90 percent Federal sharing in the indicated public assistance programs.

The CHAIRMAN. It is a real honor to have the benefit of the views of the Senator from Nebraska, the Honorable Roman Hruska. Senator, we're glad to have you with us today.

**STATEMENT OF HON. ROMAN L. HRUSKA, A U.S. SENATOR FROM  
THE STATE OF NEBRASKA**

Senator HRUSKA. Thank you Mr. Chairman. Mr. Chairman and members of the committee, I appreciate the opportunity to appear before your committee to discuss H.R. 14370, the State and Local Fiscal Assistance Act of 1972, as passed by the other body.

My comments will be confined to the potential impact of the bill in its present form on an act in which I have a special interest—namely, the Omnibus Crime Control and Safe Streets Act of 1968. The act is administered by the Law Enforcement Assistance Administration.

For the convenience of the committee, I have had prepared an analysis which discusses sections of the bill together with the reasoning for such provisions by the House Committee on Ways and Means and the impact of that section on the Safe Streets Act. In some cases I have proposed possible language substitution or needed clarification.

I believe the committee and its staff will find this material self-explanatory. Three major provisions of the proposed State and Local Fiscal Assistance Act should be highlighted as they relate to the LEAA program.

Section 102 defines public safety to include law enforcement. However, it is not clear what the term "law enforcement" entails under the provisions of this bill. In the Omnibus Crime Control Act "law enforcement" includes courts, corrections, juvenile delinquency, and drug control activities. It is suggested that a comparable definition of law enforcement be provided.

Section 101 provides that units of local governments may not use the funds which they receive under this act as matching funds for other Federal programs. Permitting the use of these funds to meet matching requirements in high priority programs would achieve better coordination with other Federal funding programs and give greater attention to the congressional mandates for funding other high priority areas. Since the House-passed bill apparently allows States to use these funds for matching purposes, local governments should be given equal consideration.

Section 105 provides for coordination. This section gives the Governor an opportunity for review and comment. It seeks to assure that high priority areas will in fact be addressed. Attention should be given to the various types of coordination which should be expected to take place to see that comprehensive criminal justice planning results under the Safe Streets Act are used to the maximum extent and that contraproductive efforts were minimized.

In addition, Mr. Chairman, on the last page of the material I have submitted several miscellaneous questions which should be addressed by the committee. These questions go beyond the application of H.R. 14370 to the Safe Streets Act but in my judgment need to be considered in order to allow effective administration of the program and to insure compliance with congressional intent. Mr. Chairman,

I would be pleased to respond to any questions that you or other members of the committee have.

The CHAIRMAN. Thank you Senator. We will print your attachments at this point in the record.

(Attachments referred to follow :)

POTENTIAL IMPACT OF H.R. 14370, STATE AND LOCAL FISCAL ASSISTANCE ACT OF 1972, ON THE SAFE STREETS ACT

Section	Reason for the provision	Impact or suggested need for alteration	Possible language substitution or needed clarification
<p>Sec. 101—Payments to local Governments: P. 2, beginning line 22—"A unit of local government may not treat funds it receives under this subtitle as a contribution made for non-Federal funds for purposes of any formula provided by a law of the United States under which non-Federal funds must be made available in order to receive Federal funds."</p>	<p>To be sure that this program does not create increased obligations under other Federal programs.</p>	<p>An acknowledged difficulty at the local level of government is the requirement of many Federal programs for match provisions. Competition for matching funds in high-priority areas as well as other areas of Federal funding is very keen and presents great difficulties to the local units of government. Permitting the use of these funds to meet matching requirements in high-priority programs, would achieve 2 purposes: (1) the congressional mandates of the other Federal "high priority" programs would be better achieved; and (2) coordination between the revenue-sharing language and the other Federal programs would be enhanced by an amendment to this provision. It is not expected that increased obligations would be incurred under other Federal programs since other Federal program funds are generally limited by annual congressional appropriations. 1 additional point should be made. In Federal programs which allow "in-kind" or "soft" match to be made in lieu of cash, a difficulty is sure to arise when local governments seek to apply services purchased with Federal funds under this bill as fulfilling match requirements under current Federal programs in these high-priority areas. Under the current provisions of this bill, such services purchased with Federal funds seem not to be allowed. However, when these Federal funds for high-priority areas are used for general local purposes and become commingled with local funds it will be impossible to distinguish a local dollar from a Federal dollar and therefore impossible to enforce the prohibition against using services purchased with Federal funds as "in-kind" match</p>	<p>The following language could be added to provide that these funds may be used to match LEAA funds. Similar language, for (specifically) other "high priority" Federal programs may also be desirable. To amend the State and local Fiscal Assistance Act of 1972: Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 101 is amended by inserting at the end thereof the following new sentence: "Provided however funds received under this subtitle may be used by units of general local government or combination of such units to provide the non-Federal share of grants, including the requirement of money appropriated in the aggregate under the Omnibus Crime Control and Safe Streets Act of 1968, as amended, 84 Stat. 1881."</p>

Sec. 102—High Priority Expenditures: P. 3 beginning line 4—(a) in general. For purposes of this subtitle, the term "high priority expenditures" means only—

- (1) Maintenance and operating expenses for—
- (2) Public safety (including law enforcement, fire protection, and building code enforcement).

Sec. 102—"The term high priority expenditures" includes—beginning line 17—(C) Public Transportation (including transit systems and street construction)."

Sec. 102—High Priority Expenditures: Beginning line 19—(b) Establishment of further priorities.—If a State regularly spends (out of its own sources) more on any category of items falling within any subparagraph set forth in subsec. (a) than the total amount regularly spent (out of their own sources) by all units of local government located in such State on such category, then such State may by law provide that, for purposes of this subtitle, such category of items shall be excluded from the items which may be taken into account under subsec. (a) with respect to units of local government located in such State.

Sec. 103—Amount of Entitlement of Each Local Government: P. 5, beginning line 13. Other units of local government (as generally described). (See sec. 103(f) definitions.)

Federal support should underwrite local expenditures in areas of national priority, and in those cases where the State regularly expends more in a particular category than all local governments combined, States have a right to restrict local government expenditure. One of these areas of national priority is public safety.

Federal fiscal support for high priority local expenditures is proposed in the area of public transportation.

To add a potential restriction on local high-priority items in those cases where the State's involvement is so great that it regularly spends more on such items than local governments spend.

Standard definition-----

However, the current definition of public safety (p. 18, House report) as a high-priority area raises a question about the meaning of the terms "law enforcement" and "police protection." Do they include local expenditures for courts and corrections as well? There also are areas of high national priority within the meaning of "law enforcement" as defined in sec. 601(a) of the Safe Streets Act and within the exercise of the police power. A restricted definition (limited to the "police" area of law enforcement) would have upsetting consequences to planning for improvement to the State/local criminal justice system. In addition, other bills pending in Congress provide funding for victims of crime, widows of police officers and insurance for police officers. Are these intended to be included?

A large number of bills are currently pending in Congress for street-lighting projects. Would these projects be fundable under this provision?

If the State chooses to include a category of expenditure because local governments spend less than 50 percent of all funds in that category, then some local governments will be penalized. They will not be able to improve services in a high-priority area on their own, and they cannot be assured that the State itself will improve services in this high-priority area. Currently, LEAA could define 6 States in this area if "law enforcement" is defined consistent with the Safe Streets Act. Additional impact may result from different definitions of high priority categories; i.e., police only or some other combination of "public safety" items.

Sec. 601(d) of the Safe Streets Act includes some Indian tribes which perform functions of a local governmental nature and can thus receive "local available" Safe Streets Act funds. With this exception the definitions are consistent with the Census Bureau data provided to LEAA in the employment and expenditure survey.

Clarification is necessary. The definition of "law enforcement" should be the same as the definition in the Safe Streets Act.

Clarification is needed to verify use (or nonuse) of these funds for street lighting which seems to be an area of increasing need and concern

We cannot recommend a solution at present, but this matter does deserve further consideration.

A similar provision may or may not be desirable.

POTENTIAL IMPACT OF H.R. 14370, STATE AND LOCAL FISCAL ASSISTANCE ACT OF 1972, ON THE SAFE STREETS ACT—Continued

Section	Reason for the provision	Impact or suggested need for alteration	Possible language substitution or needed clarification
<p>Sec. 103(d)—Special Allocation Rules: item 4, p. 10, line (4). Use for areawide projects—(A) Permitted in "2 or more contiguous counties."                      Sec. 105—General Provisions: (a) Assurance of local government high priority expenditures plans. P. 20, beginning line 10—"In order to qualify . . . a local government must establish . . . after an opportunity for review and comment by the Governor . . . that it will use amounts . . . only for high-priority expenditures and that it will so use such amounts during such reasonable period . . ."</p>	<p>The State priority may be greater than that of one or more local units priority when viewed in combination.                      Minimum assurance of attention to priority areas.</p>	<p>This is most consistent with the Safe Streets Act mandate. It may be desirable to extend the authority to interstate arrangements of the same nature.                      This provision has the potential to yield the best results in the State and local governments efforts to coordinate and integrate revenue-sharing funds into State and local priorities as well as other Federal program priorities. In sec. 101 comment was made relative to the use of these funds to match other Federal programs of a high-priority nature. Integrating this provision with the permissive use of revenue sharing-funds as match for other Federal programs would appear to go a long way toward achieving these results. In addition, it will become necessary to develop further coordination with Safe Streets Act planning efforts at the State, regional, and local levels. The Safe Streets Act and the need for usefulness of comprehensive planning and a coordinated approach to solving crime problems by the various elements of the criminal justice systems is a must.</p>	<p>The potential for specific authority in the interstate area should be considered.                      The Governors, through the State planning agency, must be involved in this review process. Additionally, involvement should be considered so that regional and local plans will not be destroyed by the influx of funds in an uncoordinated fashion. Other possibilities could include separate State planning machinery, involvement of LEAA, or a proper involvement of the local government machinery. Priorities may involve supplementation of funding areas closely related to LEAA funding but prohibited by specific provisions of the act, i.e., salary limitations.</p>
<p>Sec. 122—Amount of Entitlement of each State: (e) State must maintain effort. (2) Adjustment where State assumes responsibility for category of expenditures. Beginning line 15—"If the State establishes to the satisfaction of the Secretary that since June 30, 1972, it has assumed responsibility for a category of expenditures which (before July 1, 1972) was the responsibility of local governments located in such State, then the aggregate amount taken into account under paragraph (1)(B) shall be reduced to the extent that increased State spending (out of its own source) for such category has replaced corresponding amounts which for the 1-year period beginning July 1, 1971, it transferred to units of local government.</p>	<p>The provision of Federal funds to local units of government should not provide an excuse for State government to reduce their current level of financial aid to local units. Therefore the bill provides that States must maintain at least their current level of support to local units of government. To be consistent, the State which has provided funds to local units in the past is not penalized and can keep the revenue-sharing funds at the State level.</p>	<p>This appears to apply to the "built-in" provisions of sec. 303(2) of the Safe Streets Act.</p>	<p>Clarification is needed relative to the interaction of this provision.</p>
<p>No provision-----</p>		<p>State level use of revenue sharing as match for State agencies is not authorized or prohibited. It would also be useful to permit use of revenue-sharing funds as State level match for the same reasons as at the local levels.</p>	<p>A new provision under subtitle B would be needed: "Payments made to States under this subtitle may be used to provide the non-Federal share required of grants, including the requirement for appropriated funds, under the Omnibus Crime Control and Safe Streets Act of 1968, as amended."</p>

MISCELLANEOUS QUESTIONS WHICH MAY NEED TO BE ADDRESSED

1. Are other Federal statutes such as the National Environmental Policy Act, the Historic Site Preservation Act, the Relocation Assistance Act and the Clean Air Act, applicable to these funds?
2. Are general OMB Circulars such as A-87, A-95, A-85, A-102 applicable to these funds?
3. What financial provisions are to be made to assist the States in assuming the substantial audit responsibilities?
4. What financial provisions for Technical Assistance of the Secretary of Treasury to the States exist?
5. What other Federal Acts or regulations are to apply to funds used for construction, e.g., EEO?
6. What authority will Treasury have to enter into Inter-Agency agreements?
7. What subpoena powers exist?
8. What criminal penalties will exist for willful fund misuse?
9. What administrative provisions are needed for the Treasury Department, e.g., supergrade positions, consultants, etc.?
10. Are requirements for reporting and access to records applicable to sub-contract recipients of revenue sharing funds?
11. What authorities does the Secretary of Treasury have to delegate responsibilities?
12. What recourse do State or local agencies have when dissatisfied?
13. What provisions have been made for reallocation of funds (when necessary)?
14. Is clarification necessary on investment of funds in Treasury Bills or Notes?

The CHAIRMAN. The next witness then, will be Mr. Roland Bixler, president of J. B. T. Instruments Corp. of New Haven, representing the National Association of Manufacturers; accompanied by Mr. C. Raymond Cahoon and Mr. Edward A. Sprague.

We are pleased to have you here today, Mr. Bixler.

**STATEMENT OF ROLAND BIXLER, PRESIDENT OF J. B. T. INSTRUMENTS CORP., REPRESENTING THE NATIONAL ASSOCIATION OF MANUFACTURERS, ACCOMPANIED BY C. RAYMOND CAHOON, SENIOR TAX PLANNING ASSOCIATE, MOBIL OIL CORP., NEW YORK; AND EDWARD SPRAGUE, VICE PRESIDENT, NATIONAL ASSOCIATION OF MANUFACTURERS**

The CHAIRMAN. We are pleased to have a former president of your organization among our members on this committee. He does a great job for the country. I do not know whether you and he agree on what you are getting ready to say here today, but he has graduated to statesmanship here now. He is no longer running for office and he is determined to save the country even if it is not popular.

Mr. BIXLER. We hope we can help him.

Mr. Chairman, and members of the Committee on Finance, I am Roland Bixler, president of J. B. T. Instruments Corp., a manufacturer of electronic components with about 250 employees. We are located in New Haven, Conn.

My appearance is in behalf of the National Association of Manufacturers, as a member of its committee on taxation and the chairman of the State taxation of the interstate commerce subcommittee. Previously, I served as a director of NAM.

On my right is Mr. Cahoon, senior tax consultant of Mobil Oil Corp.; and my left, Edward A. Sprague, vice president, Government Finance Department of NAM.

We are pleased to have the opportunity to present the NAM's view on H.R. 14370. I have a full statement with me which I hope can be included in the record.

For more than 5 years, we have been studying various proposals for general revenue sharing, and the problems to which it is directed. After each consideration, we have found the principle faulty in concept and practice. Although the version now embodied in H.R. 14370, the State and Local Fiscal Assistance Act of 1972, includes some new safeguards and improvements, they do not dispel our fundamental objections.

#### FISCAL CONSIDERATIONS

The report of the Ways and Means Committee on H.R. 14370 suggests that the case for this form of revenue sharing is made, first and foremost, on the basis of the "fiscal crisis" of the localities, reflecting limited tax bases, the increase in urbanization, reluctance to raise taxes that will lead to loss of population or business, and inflation. The problem of the States is seen primarily as one of reluctance to make more extensive use of their own tax resources. The States are particularly urged to turn more frequently to the income tax as a revenue source.

Although the critical state of Federal finances is recognized in the report, the proponents of H.R. 14370, apparently believe there is no reason to defer or preclude this new expenditure program. Because the program was included in the budgets for fiscal 1972 and 1973, it is not seen as adding to the potential deficits. Essentially, the argument for general revenue sharing involves an attempt to shift part of the cost of public services from one level of government to another. However, shifting costs does not eliminate them any more than shifting funds from the Federal Treasury to those of States and localities increases total resources. During the debate the whole "fiscal dividend-fiscal mismatch" concept form which general revenue sharing is derived has lost much of what cogency it may once have had.

That State and local governments face ever-increasing fiscal crises has become almost axiomatic in the post-World War II period by virtue of uncritical repetition. Yet, the fact remains that they have been able to raise very substantial additional revenues. Although it is generally assumed that imposing new taxes and raising existing rates is politically risky, particularly at the State and local levels, 21 of the 41 State legislatures meeting this year have tax proposals totaling \$7 billion in added revenue before them. Indeed the fiscal "mismatch" or "imbalance" shows signs of reversing. The Tax Foundation, Inc., now projects that, as a result of tax increases, State and local governments will raise \$323.5 billion in taxes in 1980 as against \$130.8 in 1970—or an increase of almost 274 percent—sufficient to meet estimated expenditure increases. On the other hand, the Brookings Institution projects a Federal revenue deficit of \$17 billion in 1975, even with full employment.

Underlying a great deal of the discussion of "fiscal mismatch" is the domination of the income tax field by the Federal Government. While the structure of the Federal tax system appears to give all the advantage to Federal receipts in keeping up with economic growth, in fact, there have been substantial Federal tax reductions in recent

years. Federal taxes were reduced in 1964, 1965, 1969, and again in 1971. These reductions have eased the way for State-local tax increases. When the Federal Government releases some of its revenue, there is indeed a "trickle-down" effect—the States and localities can and have picked up substantial new revenues as a result. Furthermore, the States and localities have by no means neglected the income tax. Although the sum they raise is, of course, still small in proportion to Federal revenue from this source, it now amounts to approximately \$12 billion—no insignificant sum.

The most obvious trend in State-local spending in the last decade has been the expansion of employment costs. Wages and salaries have been a rapidly growing portion of State-local spending. Between 1959 and 1969, employment at the State-local level increased by 55 percent—more than twice as rapidly as the Federal level. The rate of increase in total wage and salary costs of State-local governments was even more marked—160 percent. Average annual earnings increased considerably more rapidly in the public sector from 1959 to 1969, than in the private sector.

Low productivity is certainly a problem, as it is in most service industries. Most important, however, is the question of whether there has really been the need to increase the number of employees to present levels and whether spending demands are confused with spending needs. This is not only a matter of productivity but also one of the management and organization of government operations. If requests for increased personnel are not subjected to critical examination, there is a built-in factor raising employment costs.

Available evidence strongly suggests that a significant part of the upsurge in State-local spending trends represents deliberate decisions to expand the scope of services and reward employees in a more generous manner. It is also apparent that population growth and other factors over which State and local governments have little or no control have not been as important in determining this spending trend. The funds provided by H.R. 14370 could well reinforce this discretionary growth. Literally by encouraging the State and local authorities to pass the buck to the Federal Government. This is our basic objection to separating taxing and spending powers which H.R. 14370 would do.

The "fiscal dividend" which was to have provided the financial basis for revenue sharing has been completely dissipated. The fiscal dividend-fiscal mismatch argument—even if it once seemed to have some validity—now appears to have been outdated by developments during the years of debate. Therefore, it seems to us unwise to enter into commitments for at least \$5 billion a year on the basis of assumptions that may be no longer valid.

The House of Representatives, although authorizing the funds, did introduce some safeguards and improvements over the concept of "no strings" revenue sharing. The most important of these, in our view, are:

- (1) The specifying of dollar amounts instead of assigning a given share of Federal tax collections to this program.
- (2) The 5-year limitation on revenue-shared money.
- (3) The guidelines for use on the funds so that the level of government providing them would retain some control over how they the spent.

If it is the will of the Congress to enact this program, we urge you to make these further fiscal improvements:

(1) Bring the effective date forward from January 1 to July 1, 1972. In addition to specifying dollar amounts for each of the years, authorize a 5-year program but appropriate the funds in steps for the 5 years; for the first 2 years; for the second 2 years; for the final year. If this were done early in the year before the funds became available, it would give the recipients time to make their own fiscal plans.

Specifically in relation to the allocation of funds to the States under H.R. 14370, a problem arises because of the use of State income taxes in the fund-allocation formula. Although nonincome tax States would receive some funds, the influence of the Federal Government would be exerted in favor of adoption of this tax in the name of self-help. This makes very evident both the dependence of the States on the largesse of the Federal Government and the club the Federal Government wields through any grant structure.

The provision for "piggybacking"—Federal collection of State income taxes—is designed to reduce the cost of administrations by encouraging the standardization of State income tax laws if five or more States, accounting for at least 5 percent of the taxpayers in the United States, request it. This will require that a participating State's individual income tax base must closely conform to the Federal income tax base. According to earlier estimates, this could save the States approximately \$1 billion in the first year's application alone.

If applied on a wide scale, this provision would tend to raise the progression of the Federal-State personal income tax structure. At present, most State income taxes are either flat rate or only mildly graduated. But obviously, this measure would encourage States to adopt a stated percentage of the Federal income tax liability as their own rate structure. While the NAM has not taken a position on Federal collection of State income taxes, we question whether it is the intention of Congress to increase the tax graduation in this particular legislation through "back door" means.

#### INTERSTATE TAXATION

Revenue-sharing legislation in general, and Federal collection of State taxes in particular, raise again a related question of a much older and more protracted problem—State and local taxation of interstate commerce. In fact, this subject has been before Congress since the 1950's. Exhaustive studies have been made and the House, by wide margins, twice has passed bills that would set minimum standards for taxing multistate businesses and grant some relief from the maze of complicated State and local tax requirements. To date the Senate has not acted.

The burden on business in seeking to comply with the array of different State and local regulations and procedures is staggering, as the number of jurisdictions taxing companies engaged in interstate commerce is literally exploding. There are 46 sets of corporate income tax laws and 46 sales and use tax laws at the State level—not to mention the numerous other laws of general applicability such as gross receipts tax laws, stock laws, et cetera.

Prior to 1945, only New York City and New Orleans imposed a local sales tax. By 1971, more than 3,500 local governments, including

approximately 3,000 municipalities and 500 counties, levied sales taxes. So we have gone from two to 3,500 in that period of time.

The problem is especially critical for small- and moderate-sized firms. By definition their business operations are modest and thus their relationship to most States is slight. Yet, the myriad jurisdictional rules of the various States reach and entangle these businesses in such a variety of ways that these firms are often forced by cost or unsuitability of the records to noncomply and thus to risk a buildup of liability that can threaten their existence. The difficulties facing all firms doing interstate business are pointed out by this quote from the recommendations of the House Special Subcommittee on State Taxation of Interstate Commerce, published in 1965:

"With respect to all of the taxes considered in this report, the threshold question facing the interstate company is whether or not its activities within a State are sufficient to make it taxable by that State. For each kind of tax, there is a broad range of activities for which liability is asserted by some States and not others. In many cases, the determination of whether or not liability exists is difficult, if not impossible. \* \* \* When the problem of determining whether there is liability is reviewed in terms of the cumulative effect of all four types of taxes, the variety and complexity is greatly increased. Not only do jurisdictional standards differ among the States, but they are also nonuniform for different taxes within a single State."

Despite much prodding, the States have not been able or willing to cooperate in setting sensible jurisdictional and apportionment standards on their own. The result is a serious threat to the flow of commerce of the 50 States.

We ask you now to consider the issue as a pertinent part of your deliberations on revenue sharing. Please take into account:

(1) If the Federal Government is to share its tax revenues, which depend so greatly on interstate commerce, with lower tax jurisdictions, it is incumbent on the Federal Government to require not only that these funds be spent in a responsible manner, but that the recipients of such aid show responsibility in their jurisdictional reach and apportionment procedures for taxing interstate commerce.

(2) If the Federal Government is to provide for collection of State income taxes and require participating States to conform their tax bases with the Federal income tax, there is all the more reason to require the States to use common standards for taxing interstate business.

(3) Most of the past resistance to Federal interstate tax legislation has been the fears of revenue loss expressed by the States. Although not well documented, any such "losses" would be de minimus compared to the financial benefits (at least \$5 billion per annum) that general revenue sharing would bring to States and localities.

The NAM's own interest in the field of State taxation of interstate commerce dates back many years. In addition to participating in litigation in the early 1950's, the association was also involved in the discussions leading to the passage of Public Law 86-272 in 1959 and in the studies and hearings conducted last decade by the House Select Subcommittee on State Taxation of Interstate Commerce. Members and staff of the association have discussed the subject at length, statements have been hammered out in policy sessions, and testimony has been presented to the Congress on several occasions.

Throughout this period, the NAM has consistently urged that the problems concerning State taxation of interstate commerce can be solved by enactment of a limited bill establishing Federal jurisdictional standards for all types of State taxes levied on interstate commerce.

Specifically, the business community has favored the jurisdictional rule and other standards contained in S. 317 introduced by Senator Ribicoff of this committee, and Senator Mathias.

However, we are not insisting on any one particular piece of legislation. As a matter of fact, as a result of recent efforts at compromise in order to get some movement on the problem after these many years, there is gathering support in the business community for a measure that would fall short of S. 317. This would set certain jurisdictional and apportionment standards but would allay revenue loss fears of the States by preserving certain court decisions regarding collection of sales and use taxes. A registration procedure would be established to protect businesses selling in interstate commerce from liability for payment or collection of taxes in States where they have no business location.

We feel that this type of measurement would go a long way toward solving the interstate tax problem and could receive widespread support as a middle-ground position on this important aspect of revenue sharing.

We hope that this concept can be put into legislative form very shortly.

Thank you.

The CHAIRMAN. Thank you very much, Mr. Bixler.

Senator FANNIN?

Senator FANNIN. Thank you, Mr. Chairman.

Mr. Bixler, is it my understanding that you recommended higher State taxes.

Mr. BIXLER. No. We feel simply that the present legislation would have the effect of putting the pressure on the remaining States and cites to establish income taxes that would be using the same base and the same progressivity that there is in the Federal structure, whereas now they tend more to be a flat rate or at least a very low rate.

Senator FANNIN. I know the mayors announced yesterday they were—in many of the States they were prohibited from having local income taxes. I did not know whether you were referring to that or not.

Mr. BIXLER. No, I was not. As a matter of fact, as a citizen of Connecticut, we do not have a State income tax currently, so we are still back among those—

Senator FANNIN. Or city income taxes, either?

Mr. BIXLER. Right.

Senator FANNIN. The factor of the competitive situation with the other counties—you spoke about the interstate factors—how much of a problem is it for the members of your association as far as our tax structure compares with the other industrial nations of the world? How much problem do we have to compete with as far as tax structure is concerned? Is it a factual situation?

Mr. BIXLER. Are you referring, Senator, to our ability to compete in markets abroad?

Senator FANNIN. Yes, and also the standpoint of competing in our own local markets.

Mr. BIXLER. Let me take the latter. Competing in our own markets is a real problem because with 3,500 potential sales and use taxes, for example, to be collected by a company, many of our companies, at least companies of our size, do not even have records to know what we sell by States, by cities and by counties and the like, and the administrative burden would be tremendous.

The reason we do not keep those records is because we deal in market territories. All the records are kept on that kind of a basis instead of any other way. And I know, for example, again in Connecticut, our State Association of Manufacturers has found that the biggest response ever had from its members was regarding the matter of trying to participate in interstate commerce and comply with all the various kinds of tax regulations there are because there are insufficient guidelines.

It is not a desire to avoid payment of those taxes but it is the complex structure that is involved there.

Senator FANNIN. Do you feel the formula that is set out in the House bill is equitable, for instance, to your State?

Mr. BIXLER. Now, here I have to speak personally.

Senator FANNIN. Yes. You mentioned inadequate, so that is why I am making it a personal question.

Mr. BIXLER. No, I do not. We would lose \$16 million in revenue as a State because we do not have a State income tax. I feel, instead, the legislation should look only at the States and localities raising a fair proportion of governmental expenses. In other words, the State of Connecticut produces substantially a higher percentage of gross income of its citizens by tax now without a State income tax than the average of all States, and yet we are going to be penalized if this legislation is adopted because we do not have a State income tax.

Senator FANNIN. I understand that. Now, taking it to the standpoint of the association, have your people studied this formula as compared to any other formula that might have been under consideration or that you might recommend?

Mr. BIXLER. I think it is a fair statement, is it not, Mr. Sprague, that we do not have a position on that?

Mr. SPRAGUE. Senator, we have not taken positions specifically on some of the alternatives, such as the tax credit plans or the shifting plan that Senator Buckley mentioned. We have put a lot of emphasis on the special revenue-sharing alternatives as a general alternative to general revenue sharing, if you will, the bloc grant approach.

Senator FANNIN. In any of your materials that you furnished today, do you have that set out?

Mr. SPRAGUE. Yes.

Senator FANNIN. Fine, thank you.

Mr. SPRAGUE. Thank you, Senator.

The CHAIRMAN. Senator Byrd?

Senator BYRD. Thank you, Mr. Chairman.

Mr. Bixler, I think your statement is a very thorough and well documented one. I find it interesting and useful.

Let me ask you to elaborate a little more, if you will, on your assertion that one of NAM's chief objections to the general revenue-sharing

concept is that it increases the dependence of States and localities on the Federal Government. Would you comment a little bit more on that?

Mr. BIXLER. Yes. When we see local and State budgets already anticipating revenue sharing as an income item for the current year, and the like, and yet this produces moneys for which there is not some responsibility, that is, they only have the jurisdiction to spend, but not to raise the money—we think it can lead to a good deal of irresponsibility.

Again, to be personal about it, I have been for the last several years the moderator of a New England town meeting in the town of Woodbridge, Conn., and there we have to present all the budgets and look the fellow taxpayers right in the eye and tell them how much it is going to cost.

It is amazing how much you can do without or how efficient you can be if you know who is going to pay the money coming out of the taxpayers in that town. It seems the further we get from the place that it is spent to the place where the money is raised the easier it is to have slippage and also to have other kinds of handling costs.

Now, we also have found that in a good many instances these Federal moneys are regarded as kind of found money and, to take an example, the teachers or the firemen or policemen, or somebody else, really say, well, that is almost our money. You had not counted on that before. You will not have any trouble now in transferring that money to us.

That is the kind of thing.

Senator BYRD. So you feel rather than making the States more independent of the Federal Government, actually what revenue sharing would do would be to make the States more dependent on the Government.

Mr. BIXLER. Correct.

Senator BYRD. Let me ask you another question which does not relate direct to your testimony today as it relates to another piece of very important legislation which is before this committee. I am not clear as the position of the National Association of Manufacturers in regard to H.R. 1, the social security, medicare, welfare proposal as passed by the House of Representatives.

Mr. BIXLER. The reason I smiled, Senator Byrd, is that I bet on the way over today that the question could come up and I am very glad to have Mr. Sprague, the staff vice president of the government finance department to tell about the policy position on H.R. 1.

Senator BENNETT. Did anybody take your bet?

Mr. BIXLER. No.

Mr. SPRAGUE. Well, Senator, we have felt right along that the administration was on the right track when they proposed the basic Welfare Reform Act in 1969 in terms of trying to at least do something about the present system. We have had some reservations as the measure has progressed along, or has not progressed. We tried to document those to some extent in a letter to Senator Long, the chairman, and I believe that was made available to the rest of the committee, a couple of months ago in which we recommended that the program be subjected to some rigorous testing over a 2-year period.

before making a solid commitment to the particular formula in H.R. 1. And that is our basic position at the present time.

Senator BYRD. Does the NAM approve the principle of a guaranteed annual income?

Mr. SPRAGUE. No, sir, we do not believe we have.

Senator BYRD. Well, that is a basic part of the legislation.

Mr. SPRAGUE. Our people have looked at it over the years, have wrestled with this question all along, and we still feel that the basic concept in H.R. 1 and allied programs is really not guaranteed income, although—

Senator BYRD. What is it if it is not guaranteed income?

Mr. SPRAGUE. It is basically, I think, what the administration supporters say it is. It is a work-related assistance program. Whether it will actually work or not is what we have the present reservations about.

Senator BYRD. But you do not favor the concept of a guaranteed annual income. Is that correct?

Mr. SPRAGUE. That is correct.

Senator BYRD. But the bill calls for—

Mr. SPRAGUE. It is a different interpretation.

Senator BYRD. What do you mean by a different interpretation? You do not deny the bill calls for it, do you?

Mr. SPRAGUE. I do not believe the bill as proposed was stated as a guaranteed annual income.

Senator BYRD. It was not stated but you can read the bill and read the words in the bill, and read what it does.

Mr. SPRAGUE. I would concede many people consider it as a guaranteed annual income.

Senator BYRD. I am still confused. Does NAM favor or oppose H.R. 1 as passed by the House and now before this committee?

Mr. SPRAGUE. We believe it should be subjected, the welfare part, title IV, should be subjected to a testing procedure over the next 2 years.

Senator BYRD. You are aware that if H.R. 1 is passed by the Congress as approved by the House of Representatives, the number of welfare recipients will, as a practical matter, be doubled.

Mr. SPRAGUE. We are aware that those conclusions have been drawn about the bill, yes.

Senator BYRD. I have always had a very high regard for the National Association of Manufacturers. I think it is a splendid organization but I was very much concerned when I was informed that NAM had endorsed H.R. 1 with a guaranteed annual income and a proposal that would double the number of welfare recipients. I am glad to know today, at least I gather today, that NAM has reviewed or reappraised its position, should we say, and does not now endorse H.R. 1. Is that correct?

Mr. SPRAGUE. Well, not in its present legislative form, no, sir.

Senator BYRD. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Bennett?

Senator BENNETT. I do not have any questions.

The CHAIRMAN. Since you brought this welfare matter up, I, too, want to ask about it. You are aware of the fact that as it stands today,

thanks to the court decisions and magnificent suggestion of the poverty lawyer courts, there is a guaranteed annual income now in all situations where a fellow makes himself unavailable, either he does not marry the mother or he maintains the image of not being available to help support the family. In those situations the family is eligible for welfare, in some cases at a pretty high figure. You are aware of that? If a man is the father of three children, looking at the housing benefits plus the rest of it, they get \$5,600 in a State like New York, provided that he maintains the image of being unavailable to support that family.

As long as he denies paternity, they get the \$5,600. He can live right in the same house with them, under the same roof, enjoy the benefits of it. Are you aware of that?

Mr. SPRAGUE. Senator, yes, I think our people are aware of that. That, of course, is one of the important considerations that led us to try and develop a position on welfare reform and why we thought the administration was on the right track in terms of proposing the basic reform in 1969, just because of those types of situations that you have outlined.

The CHAIRMAN. Now, the President used language in describing his proposal that made me think I was going to be for it until I read the bill. You might have changed your views as I did once if you read the bill. If in that family there is a single child beneath the age of six, nobody is even required to register. Look at our experience under the work incentive program, which had work requirements every bit as rigid as the present suggestion. We have not been able to put 2 percent of those people to work, of those required to register, and that is about all that their budget estimates have estimated they are going to put to work. Are you aware of that?

Mr. SPRAGUE. Yes, and I am also aware there are many programs of the work incentive type over the years in terms of the States actually implementing some of the opportunities in the program. Whether the program to begin with was a viable one I am not prepared to say.

The CHAIRMAN. Well, it looks to us like that program would guarantee for a mother with three children a guaranteed subsidy of \$2,400. For any male inclined to take advantage of it—for not accepting the responsibility of admitting they are his own children and for declining to accept the responsibility of contributing to their support—H.R. 1 is a subsidy for not marrying, for remaining single, a subsidy on illegitimacy, an incentive to teach children to lie about the identity of their father from the day they are born.

We felt that it would be far better, instead of paying out \$10 billion in subsidies for people to deny paternity, to deny they know who their father is, to deny marrying the mother of their children, let's turn it around. Take any figure the administration makes available, \$5 billion, \$10 billion, any figure. Let us just pay that to subsidize them to do the honorable thing rather than subsidize them for doing the dishonorable thing. What is the point of view of the NAM on that?

Mr. SPRAGUE. I do not think we could quarrel with that direction at all, Senator. Whatever type of reform in this area is eventually decided upon, if we are going to get a handle on it, we would strongly

urge effective procedures to prevent the abuses that are obvious in the present system.

The CHAIRMAN. When the President made his speech at Williamsburg, they issued a whole bunch of quotes stressing the desirability of somebody working for what he expects to get from society and as far as I am concerned, I would like to have every one of those quotes in our committee reports. That is a bible as far as I am concerned, on what I would like to see done. If the bill did that I would be voting for it but it seems to me as though, insofar as it fails to do that, we would like to make good that shortcoming. We suggested a workfare program and tried to tailor it to cost exactly the same number of dollars as a guaranteed wage for not working. What position have your people taken on workfare? That is what we define our approach as being.

Mr. SPRAGUE. On the specific program the Senate Finance Committee has adopted?

The CHAIRMAN. Yes.

Mr. SPRAGUE. We looked at it and we concluded we could not support the program on the basis as it was outlined, mainly on the mechanics of the program.

The CHAIRMAN. Well, now the day we announced our position, two Cabinet members, the Secretary of HEW, and the Secretary of Labor had a press statement that said our program would cost twice as much as theirs. We had tailored it to cost close to the same thing. But we looked at their studies and we hired the man who was their best actuary who left to go into private enterprise where he found it more rewarding, and we found the cost of their program understated by about \$2 or \$3 billion and they had the cost of ours overstated by about \$3 billion and when you take that into account, it costs the same thing. One costs the same as the other. The difference was we would be paying the money to subsidize people for taking jobs. Some of it we would do by a tax advantage to the employer which would not benefit him. It would really benefit the employee by creating a job. And then we would do other parts of it by a tax advantage to the employee. On the rest of it we would finance the direct payment where we relate it to the work. Then you would get something added to it rather than providing the incentive not to work.

What is wrong with that approach? I thought you people would be for it.

Mr. SPRAGUE. Senator, our decision was not directed at the cost estimates themselves. Our people looked at it and thought the tie-ins with the employer and recipient population, welfare proposition, just did not seem to jell together in terms of making a viable program. I do not have the underlying data and the argumentation with me today but I would be glad to try to develop it further in a statement.

The CHAIRMAN. I think that your people ought to develop some communication between those who represent the National Association of Manufacturers and those who serve on the Committee on Finance as well as the Committee on Ways and Means. It is enormously important to your members.

Mr. SPRAGUE. Obviously.

The CHAIRMAN. And I know there is communication between others. We have the good fortune to have on our committee here, as I mentioned before, a man who was formerly a president of your

organization, also one of the outstanding members of the Mormon Church, a group which believes that there is merit to honest labor. It would seem to me it would be easy enough to communicate your thinking and for us to communicate with you. I do not come from an NAM background. I come from an old-fashioned populist background myself but I, too, have been led to believe there is merit to honest endeavor.

The kind of populism that I was brought up in was led to believe that, generally speaking, people were poor because they were not receiving the full advantage of their honest endeavor and that is all we are trying to bring about conditions to make work a more attractive alternative to welfare. I would think your people ought to be supporting that as compared to supporting something where you're guaranteeing somebody billions of dollars of cash advantages for not working, for refusing to admit paternity of their children, for doing the kind of thing I would not think society wanted them to do.

Mr. BIXLER. May I just say, Senator Long, I am sure Mr. Sprague does not want to give the impression that we are uninterested in encouraging people to be trained to work, because that is the very core of what we believe. I personally happen to have been the first metropolitan chairman for the New Haven area of the National Alliance of Businessmen to hire the hard-core unemployed and disadvantaged, and thanks to having a very good staff, we came out on this pretty well and as an employer I have seen some of this also where we have made and are making conscientious effort to take people who have been on welfare and get them into a work situation, not only from an economic standpoint but from the standpoint of their own well-being. They cannot really be full self-respecting members of society until they are engaged in that.

So your suggestion about some more communication is certainly a good one but I would not want the impression to be left that we do not think that, for those people who are able to work, and, of course, there are many, many on welfare who physically are not ever able to work, but those who can, certainly should be encouraged to do so.

The CHAIRMAN. You see, we do not have any difference of opinion here if you want to help somebody who is disabled. But we are talking about those who are able to work and my proposition to anybody in your organization. I say, look, why don't you people see if you cannot put these people to work doing something and let us know what it is going to take. If for some reason those people are poorly trained and it is a better buy for you to hire somebody else, would you mind explaining just what it would take to offset that so you could afford to put them to work, because I am satisfied that in the last analysis those businesses you represent and those whom you employ who are going to have to pay for these people being idle, and I would think it would be far better—as burdens go—it would be a far lesser burden on you and your members and those who work for your members to find a place for a million and a half people, let us say, in the work force than it would be to assume the burden of supporting all those people in idleness. If you once get them in the work force I think that they are going to find it attractive to move on up instead of demanding higher and higher welfare payments for doing nothing.

Mr. BIXLER. I concur.

Senator BENNETT. Mr. Chairman, reference has been made to me a number of times. I had an experience in the NAM now 23 or 24 years back. I am going to say a harsh thing. You live in an ivory tower. You have made no attempt to find out what we were doing on this whole welfare thing. You sit in your ivory tower and do not talk to us and now you are stuck with your condemnation.

I am amazed with the Washington office that there is no better communication in an area that is so important to the businessmen of America as this thing, and I think one of the weaknesses your internal organization is set up to meet as a task force. You discuss the problems from your own internal point of view without really finding out what is going on in the Congress, and so you find yourself stuck with an inevitable contradiction. And then having taken a position, because you are a bureaucracy, too, you are not in a position to change the position that you have taken officially, or you do not like to change it.

I think that experience in H.R. 1 is a perfect example of the weakness of the fact that you live in a different world and there has not been enough communication. I am glad the chairman has made that point, because we are here all the time and we have a staff and I can say as a former president of NAM and as a member of this committee, that no representative of NAM ever called on me to discuss this problem. All I get is the letter denouncing the attitude of the committee. I think it is tragic. I think it is more tragic for you than it is for us.

Mr. SPRAGUE. Senator, I will have to plead guilty as far as the specific charge on the lack of communication in this area. I think it is well taken and we have not made anywhere near a sufficient effort.

However, we have changed our position in this area and in other areas. So I think our internal structure in itself perhaps is not so much at fault as just a breakdown in this particular case in handling this particular problem.

The CHAIRMAN. Might I urge you in the future that we all profit by this experience. In the future you try to find out what we are doing up here and why. We certainly are willing to tell you and we hope you will communicate that to your members. We are very anxious to know what they think about it. We want to be understood just like we want to understand you.

Senator BENNETT. I want to say one other thing. Mr. Sprague says, "we changed our position." That was not communicated to us either, except in this statement today, which is inconsequential.

Mr. SPRAGUE. We did communicate with the——

The CHAIRMAN. We did receive a letter, Senator Bennett.

Senator BENNETT. I do not remember receiving any such letter. Maybe you sent it to the chairman and the staff.

Mr. SPRAGUE. We sent it to the chairman and the entire membership of the Finance Committee.

(Clerks Note: The letter referred to follows:)

NATIONAL ASSOCIATION OF MANUFACTURERS,  
Washington, D.C., April 27, 1972.

HON. RUSSELL B. LONG,  
Chairman, Committee on Finance,  
Washington, D.C.

DEAR MR. CHAIRMAN: In your consideration of H.R. 1, the Social Security Amendments of 1971, we encourage you to support Amendment No. 1077. Introduced by Senator Roth, to subject Title IV, Family Programs, to a rigorous two-year testing procedure before any firm commitment to make it effective at the national level.

The NAM consistently has supported the principles of welfare reform proposed by the President in 1969, and subsequently embodied in H.R. 16311 and H.R. 1. We still support these principles of work incentive and more uniform standards of assistance as the most feasible means of welfare reform that have been advanced in Congress. In fact, in important respects relating to the administration of public assistance, we think H.R. 1 is an improvement over its predecessor, H.R. 16311.

However, welfare reform, overdue as it is, must be viewed in the overall political and fiscal context. Quite explicit in the introduction of the Administration's proposal was the assumption that less emphasis would be placed on other federal programs that channel various social welfare services to the population. The "income strategy" was to replace emphasis on model cities, federally funded anti-poverty programs, food stamps, etc. However, we see no evidence that Congress is willing to accept this income strategy as a substitution for other programs. Rather it is looking at welfare reform legislation as an addition to existing social welfare type programs, many of which are expanding very rapidly on their own.

Furthermore, the fiscal outlook over the next few years has deteriorated to the extent that any new program initiative—particularly one involving substantial expenditures as under Title IV of H.R. 1, not to mention the breathtaking cost scope of some proposed amendments to Title IV—must be viewed with great caution. The very size of current budget deficits, which no amount of full-employment budget rhetoric can disguise, the virtual disappearance of the "fiscal dividend," the seemingly unfettered growth of the so-called "uncontrollable" elements and unfunded liabilities in the federal budget, combine to present a most gloomy view of the government's ability to control its own growth.

These factors cannot be ignored in the consideration of H.R. 1. While the policy committee of our Association which has subjected the welfare reform issue to close scrutiny concluded that the long-term result of Title IV would be beneficial, a more extensive testing of various work incentive plans under properly controlled circumstances obviously could provide a higher degree of certainty, one way or another.

Sincerely,

W. P. GULLANDER.

The CHAIRMAN. That is perhaps my fault. Maybe I should have communicated. I know it was directed to my attention. I believe I did bring it up in executive session, Senator, but it merely suggests that you preferred a test for 2 years. But I would say in the future you ought to do better on this. We will try to do better but I think it is just a lesson that nobody should have to learn twice, I would think.

Thank you very much.

Senator BYRD. Mr. Chairman, could I make just a comment? I think it is significant that you made clear that you have changed your position on H.R. 1. There is no doubt about that. You have changed your position. You just said that to Senator Bennett.

I assume, then, that you feel that this committee was wise, this committee was wise in disregarding the advice that it got from NAM in the past and refusing to pass this bill as it has consistently refused to pass this bill for 3 years now. You concur in that?

Mr. SPRAGUE. In its present form, yes.

Senator BYRD. In its present form. That is what we are talking about. The way it came from the House of Representatives.

One additional comment I might bring out to the chairman of the committee—the talk that I heard around the Congress after NAM did endorse this proposal several year ago, whenever it was, and that comment was this, that if the businessmen of this country, the corporations of this country, are so anxious to have everyone guaranteed an income and want to double the number of people on welfare, then it will be much easier for the Congress to substantially increase corporate taxes.

So I think the NAM wants to be a little careful before it comes down here and advocates new spending programs because the first place that the Congress is going to look is to the corporations themselves.

Senator FANNIN. Mr. Chairman, would the Senator yield?

Senator BYRD. I yield.

Senator FANNIN. I would just ask the one question. There was a bulletin that came out condemning the workfare program. Have you subsequently sent out a bulletin explaining your changed position in this regard? On the front page of one of your bulletins this program was condemned, the workfare program was condemned.

Mr. SPRAGUE. That is right.

Senator FANNIN. Have you subsequently sent out a bulletin to your members changing your position in this regard?

Mr. SPRAGUE. No, not that I—

Senator FANNIN. Do you not think it is in order?

Mr. SPRAGUE. I think it is entirely in order to go back and look over the mechanics of the workfare proposal and we should be doing that all the time, yes.

Senator FANNIN. Well, but your members assume now, as I understand it, that you oppose the workfare program unless you have notified them differently.

Mr. SPRAGUE. What we have suggested is that the H.R. 1 provisions be subjected to testing. So we are not simply opposed to workfare but we have said we would at this point like to see a further testing of the whole concept of the provisions in H.R. 1 on allied plans on a more rigorous basis than has been done today. That is our present position now.

Senator FANNIN. I do not mean to criticize what you are saying, but you are not answering my question. You did condemn the workfare program on the front page of an NAM bulletin that went out to all your members.

Mr. SPRAGUE. I would not deny that.

Senator FANNIN. Is it not in order that you now correct that impression that you gave, that you were condemning it, if you have changed your position?

Mr. SPRAGUE. No; we have not changed our position on the workfare proposal. I did not mean to imply that.

Senator FANNIN. Then, you still condemn the workfare program.

Mr. SPRAGUE. We have not specifically changed our position on the workfare program. We found problems with the mechanics of it.

Now, I would see as a result of your inquiry is today a very good reason for rejecting it, our committee people.

The CHAIRMAN. For your benefit, here are two Cabinet members who undertook to convince the American public what we were suggesting would cost twice as much as what the administration is recommending. We were convinced that that was wrong. We hired the man who had been their best actuary to check it out.

Mr. SPRAGUE. Mr. Meyers.

The CHAIRMAN. Yes, and found it was wrong. Some of your people are hiring him these days, by the way, to get estimates. We found out it was wrong and pointed out it was wrong and pointed out why. We found some of their estimates to be as much as 100 times off.

For example, their estimate on the Ribicoff amendment for social services was to cost \$40 million. It is estimated next year to cost \$4½ billion. That is the estimate they have given us and so—here was a man who had been a responsible actuary who told them to begin with that the family assistance plan would cost them \$2 billion more than they estimated. So we hired the same man. Their program had been drastically underestimated, hoping to sell it, which they consistently do when they are trying to sell a program. Then proceeded to say that what we were suggesting—and what we were trying to do was take the same amount of money as to be responsible fiscally from the administration's point of view and spend it paying people to work rather than paying them not to work—and they proceeded to overestimate the cost of ours by several billion dollars. So we got what we regard as a responsible estimate, that the two plans would cost about the same thing. And just to be sure that they would cost about the same thing we further tailored our proposal to make them cost about the same, but it is not the first cost your members ought to be worried about. It is the ultimate cost, the down-the-line cost.

All you have got to do is take the family assistance programs and change that from \$2,400 to \$6,500 and that gives you the McGovern bill and that costs \$72 billion, all of which is to be taken from your members and people who work for your members. The difference between our workfare program and that program is you cannot protect our program beyond the minimum wage. As these people get there, they drop off the guaranteed work program. So having worked out something that backfired against the kind of thing that your people ought to be worried about, then your people come out and condemn what we do, which you should have been supporting, and did that without ever making an effort to understand what we are doing here. You just took that press release—they sold it to your people over TV. They went down and talked to the President at the White House about it but they could not sell it to him. We cannot stop it at \$2,400 and you can't estimate it at that level either. You have got to project it ahead to make it \$3,900 or \$4,000. Incidentally, the whole thing was not thought up by Richard Nixon, or by Mr. Richardson down there, was not thought up by this fellow, the Secretary of Labor, Mr. Hodgson. The whole scheme was thought up before Richard Nixon ever became President of the United States. They took it down there to the White House and the Democratic President said "If I recommended that kind of thing to the Democratic Congress they would run me out of town." Then they proceed to tell Nixon this is something that could only become law with a Republican in the White House. He did not understand what that meant. If you could get a Republican President to recommend this fool thing the public would think it was something different than what it was.

Senator BYRD. They even got the NAM to recommend it.  
(Laughter.)

The CHAIRMAN. Get it recommended by the Republican administration and the NAM. Thank the Lord you have the Senate Finance Committee to save you from your own folly.

Senator BYRD. Mr. Chairman, can I ask this? You have not consulted with or advised with or attempted to work with the Senate Finance Committee. Who have you worked with? How much time

do your people spend with HEW, because you parrot the HEW line on a lot of this stuff.

Mr. SPRAGUE. We have had some contact with the HEW people, but I would not say we parrot their line. We have a different position right now.

Senator BYRD. So you consulted with the HEW but not with the Senate Finance Committee. Your statements sort of indicated that and I wanted to get it on the record.

Senator FANNIN. Mr. Bixler, I do not feel we have a right to try to write your bulletins. Evidently the HEW or somebody helped in writing that particular one. I do not know what happened. But is it not your intention through your bulletin to properly inform your members, to intelligently and factually inform your members?

Mr. SPRAGUE. That is the objective.

Senator FANNIN. Certainly, it is none of my business but I would think you would feel an obligation to correct the impression that you gave your members.

Mr. BIXLER. Mr. Chairman, could I ask one other question? Perhaps it is a brash one. But does the part of the presentation which says that ground rules for State taxation of interstate commerce—it might well be considered a part of revenue sharing—does that find any response with you or the committee?

The CHAIRMAN. Oh, yes. You brought it up and we will certainly consider that. I made note of it. It is a good point. Frankly, I am hoping that we can do something about that in this session. I doubt that we can, but I am going to try to at least hold a hearing on it before this session is over with and start moving something along that line. It is something that has to be done.

Mr. BIXLER. Mr. Cahoon is an expert. Let us save him for that occasion.

Fine. Thank you very much, gentlemen.

(Mr. Bixler's prepared statement and a letter subsequently received by the committee follows:)

#### PREPARED STATEMENT OF ROLAND M. BIXLER

Mr. Chairman and Members of the Committee on Finance: My name is Roland M. Bixler. I am President of J-B-T Instruments, Inc., New Haven, Connecticut.

I appear here on behalf of the National Association of Manufacturers as a member of its Committee on Taxation and Chairman of the State Taxation of Interstate Commerce Subcommittee. Previously I have served as a Director of the Association. I am accompanied by C. Raymond Cahoon, Senior Tax Planning Associate, Mobil Oil Corporation, who has chaired an NAM task force in this area, and Edward A. Sprague, Vice President, Government Finance Department, of the NAM. We are pleased for the opportunity to present the NAM's views on H.R. 14370.

For more than five years we have been studying various proposals for general revenue sharing—and the problems to which it is directed. After each consideration, we have found the principle faulty in concept and practice. Although the version now embodied in H.R. 14370, The State and Local Fiscal Assistance Act of 1972, includes some new safeguards and improvements, they do not dispel our fundamental objections.

#### FISCAL CONSIDERATIONS

The Report of the Ways and Means Committee on H.R. 14370 suggests that the case for this form of revenue sharing is made, first and foremost, on the basis of the "fiscal crisis" of the localities, reflecting limited tax bases, the increase in

urbanization, reluctance to raise taxes that will lead to loss of population or business, and inflation. The problem of the states is seen primarily as one of reluctance to make more extensive use of their own tax resources. The states are particularly urged to turn more frequently to the income tax as a revenue source.

Although the critical state of federal finances is recognized in the Report, the proponents of H.R. 14370 apparently believe there is no reason to defer or preclude this new expenditure program. Because the program was included in the Budgets for fiscal 1972 and 1973, it is not seen as "adding" to the potential deficits. Essentially, the argument for general revenue sharing involves an attempt to shift part of the cost of public services from one level of government to another. However, shifting costs does not eliminate them any more than shifting funds from the federal treasury to those of states and localities increases total resources. In the meantime, the whole "fiscal dividend-fiscal mismatch" concept from which general revenue sharing is derived has lost much of what cogency it may once have had.

That state and local governments face ever-increasing fiscal crises has become almost axiomatic in the post-World War II period by virtue of uncritical repetition. Yet the fact remains that they have been able to raise very substantial additional revenues. Although it is generally assumed that imposing new taxes and raising existing rates is politically risky, particularly at the state and local levels, 21 of the 41 state legislatures meeting this year have tax proposals totaling \$7 billion in added revenue before them. Indeed, the fiscal "mismatch" or "imbalance" shows signs of reversing. The Tax Foundation, Inc. now projects that, as a result of tax increases, state and local governments will raise \$323.5 billion in taxes in 1980 as against \$130.8 in 1970—sufficient to meet estimated expenditure increases. On the other hand, the Brookings Institution projects a federal revenue deficit of \$17 billion in 1975, even with full employment.

Underlying a great deal of the discussion of "fiscal mismatch" is the domination of the income tax field by the federal government. While the structure of the federal tax system appears to give all the advantage to federal receipts in keeping up with economic growth, in fact there have been substantial federal tax reductions in recent years. Federal taxes were reduced in 1964, 1965, 1969 and 1971. These reductions have eased the way for state-local tax increases. When the federal government releases some of its revenue, there is indeed a "trickle-down" effect—the states and localities can and have picked up substantial new revenues as a result. Furthermore, the states and localities have by no means neglected the income tax. Although the sum they raise is, of course, still small in proportion to federal revenue from this source, it now amounts to approximately \$12 billion—no insignificant sum.

The most obvious trend in state-local spending in the last decade has been the expansion of employment costs. Wages and salaries have been a rapidly growing portion of state-local spending. Between 1959 and 1969, employment at the state-local level increased by 55 percent—more than twice as rapidly as at the federal level. The rate of increase in total wage and salary costs of state-local governments was even more marked—160 percent. Average annual earnings increased considerably more rapidly in the public sector from 1959 to 1969 than in the private sector.

Low productivity is certainly a problem, as it is in most service industries. Most important, however, is the question of whether there has really been the need to increase the number of employees to present levels and whether spending demands are confused with spending needs. This is not only a matter of productivity but also one of the management and organization of government operations. If requests for increased personnel are not subjected to critical examination, there is a built-in factor raising employment costs.

Available evidence strongly suggests that a significant part of the upsurge in state-local spending trends represents deliberate decisions to expand the scope of services and reward employees in a much more generous manner. It is also apparent that population growth and other factors over which state-local governments have little or no control have not been as important in determining this spending trend. The funds provided by H.R. 14370 could well re-enforce this discretionary growth.

One early argument for revenue sharing was that it would encourage the search for new approaches to problem solving. However, it has been clear since the late 1950's that the state and local authorities, who are the most vociferous proponents of this plan, are much more interested in the financial aspects than in seeking innovative solutions to pressing problems. With the main argument now "this is how much we need" rather than "this is what we want to do,"

provision of these additional funds could merely transfer to the federal taxpayer and the federal treasury the burden of paying for local ambitions and extravagances.

The "fiscal dividend" which was to have provided the financial basis for revenue sharing has been completely dissipated. The fiscal dividend-fiscal mismatch argument—even if it once seemed to have some validity—now appears to have been outdated by developments during the years of debate. It seems to us unwise to enter into commitments for at least \$5 billion a year on the basis of assumptions that may be no longer valid.

The House of Representatives, although authorizing the funds, did introduce some safeguards and improvements over the concept of "no strings" revenue sharing. The most important of these, in our view, are:

(1) The specifying of dollar amounts instead of assigning a given share of federal tax collections to this program.

(2) The five-year limitation.

(3) The guidelines for use of the funds so that the level of government providing them would retain some control over how they are spent.

If it is the will of the Congress to enact this program, we urge you to make these further fiscal improvements:

(1) Bring the effective date forward from January 1 to July 1, 1972.

(2) Improve the fiscal control even more than the House of Representatives has done by specifying dollar amounts for each of the years. This could be done by authorizing a five-year program but appropriating funds in three steps: for the first two years; for the second two years; for the final year. If this were done early in the year before the funds became available, it would give the recipients time to make their own fiscal plans.

#### THE FEDERAL SYSTEM AND FEDERAL COLLECTION OF STATE TAXES

One of NAM's chief objections to the general revenue sharing concept has been that it increases dependence of the states and localities on the federal government by separating the taxing and spending powers. By specifying guidelines for how the funds are to be used, the authors of H.R. 14370 attempt to meet this objection. However, the specificity of both the spending guidelines and the distribution of funds within a state makes this not too different from another layer of categorical grants. Our preference is still for block grants of "special" revenue sharing which would relieve the states and localities of the need to process requests for and administer many narrow and small categorical programs without adding a new layer of federal aid.

Specifically in relation to the allocation of funds to the states under H.R. 14370, a problem arises because of the use of state income taxes in the fund-allocation formula. Although non-income tax states would receive some funds, the influence of the federal government would be exerted in favor of adoption of this tax in the name of self-help. This makes very evident both the dependence of the states on the largess of the federal government and the club the federal government wields through any grant structure.

The provision for "piggybacking"—federal collection of state income taxes—is designed to reduce the cost of administration by encouraging the standardization of state income tax laws if five or more states, accounting for at least 5 percent of the taxpayers in the U.S., request it. This will require that a participating state's individual income tax base must closely conform to the federal income tax base. According to earlier estimates, this could save the states approximately \$1 billion in the first year's application alone.

If applied on a wide scale, this provision would tend to raise the progression of the federal-state personal income tax structure. At present, most state income taxes are either flat rate or only mildly progressive. But obviously, this measure would encourage states to adopt a stated percentage of the federal income tax liability as their own rate structure. While the NAM has not taken a position on federal collection of state income taxes, we question whether it is the intention of Congress to increase the tax progression in this particular legislation through "back-door" means.

#### INTERSTATE TAXATION

Revenue sharing legislation in general, and federal collection of state taxes in particular, raise again the question of a much older and more protracted problem—state and local taxation of interstate commerce. In fact, this subject has been before Congress since the 1950's—long before we had even heard of

the "fiscal crisis" in state and local finance. Exhaustive studies have been made and the House, by wide margins, twice has passed bills that would set minimum standards for taxing multistate businesses and grant some relief from the maze of complicated state and local tax requirements. Unfortunately, the Senate has not acted.

The burden on business in seeking to comply with the array of different state and local regulations and procedures is staggering, as the number of jurisdictions taxing companies engaged in interstate commerce is literally exploding. There are 46 sets of corporate income tax laws and 46 sales and use tax laws in effect at the state level—not to mention the numerous other laws of general applicability such as gross receipts tax laws, capital stock laws, etc.

Prior to 1945, only New York City and New Orleans imposed a local sales tax. By 1971, more than 3,500 local governments, including approximately 3,000 municipalities and 500 counties, levied sales taxes.

The problem is especially critical for small and moderate-sized firms. By definition their business operations are modest and thus their relationship to most states is slight. Yet, the myriad jurisdictional rules of the various states reach and grab at these businesses in such a variety of ways that these firms are often forced by cost alone to non-comply and thus to risk a build-up of liability that can threaten their existence. The difficulties facing all firms doing interstate business are pointed out by this quote from the Recommendations of the House Special Subcommittee on State Taxation and Interstate Commerce, published in 1965:

With respect to all of the taxes considered in this report, the threshold question facing the interstate company is whether or not its activities within a State are sufficient to make it taxable by that State. For each kind of tax, there is a broad range of activities for which liability is asserted by some States and not by others. In many cases, the determination of whether or not liability exists is difficult, if not impossible . . . When the problem of determining whether there is liability is reviewed in terms of the cumulative effect of all four types of taxes, the variety and complexity is greatly increased. Not only do jurisdictional standards differ among the States, but they are also nonuniform for different taxes within a single State.

Despite much prodding, the states have not been able or willing to cooperate in setting sensible jurisdictional and apportionment standards on their own. The result is a serious threat to our "common market" of the 50 states.

We ask you now to consider the issue as a pertinent part of your deliberations on revenue sharing. You should consider that:

(1) If the federal government is to share its tax revenues, which depend so greatly on interstate commerce, with lower tax jurisdictions, it is incumbent on the federal government to require not only that these funds be spent in a responsible manner, but that the recipients of such aid show responsibility in their jurisdictional reach and apportionment procedures for taxing interstate commerce.

(2) If the federal government is to provide for collection of state income taxes and require participating states to conform their tax bases with the federal income tax, there is all the more reason to require the states to use common standards for taxing interstate business.

(3) Most of the past resistance to federal interstate tax legislation has been the fears of revenue loss expressed by the states. Although not well documented, any such "losses" would be de minimus compared to the financial benefits (at least \$5 billion per annum) that general revenue sharing would bring to states and localities.

The NAM's own interest in the field of state taxation of interstate commerce dates back many years. In addition to participating in litigation in the early 1950's, the Association was also involved in the discussions leading to the passage of P.L. 86-272 in 1959 and in the studies and hearings conducted last decade by the House Select Subcommittee on State Taxation of Interstate Commerce. Members and staff of the Association have discussed the subject at length, statements have been hammered out in policy sessions, and testimony has been presented to the Congress on several occasions.

Throughout this period, the NAM has consistently urged that the problems concerning state taxation of interstate commerce can be solved by enactment of a limited bill establishing federal jurisdictional standards for all types of state taxes levied on interstate commerce.

Therefore, we strongly urge you to take action on the interstate taxation issue. Specifically, the business community has favored the jurisdictional rule and other standards contained in S. 317 introduced by Senators Ribicoff and Mathias.

However, we are not insisting on any one particular piece of legislation. As a matter of fact, as a result of recent efforts at compromise in order to get some movement on the problem after these many years, there is gathering support in the business community for a measure that would fall short of S. 317. This would set certain jurisdictional and apportionment standards but would allay revenue loss fears of the states by preserving certain court decisions regarding collection of sales and use taxes. A registration procedure would be established to protect businesses selling in interstate commerce from liability for payment or collection of taxes in states where they have no business location.

We feel that this type of measure would go a long way toward solving the interstate tax problem and could receive widespread support as a middle ground position.

NATIONAL ASSOCIATION OF MANUFACTURERS,  
Washington, D.C., July 26, 1972.

Hon. RUSSELL B. LONG,  
Chairman, Committee on Finance, Washington, D.C.

DEAR MR. CHAIRMAN: While we did not expect to become involved in a discussion of welfare reform this morning, it is always good to clear the air on an important subject. We are in full agreement with you on the importance of the various welfare proposals to the business community, particularly with regard to employment, government costs, and the general economic well-being of the nation.

I think there has been a little misunderstanding as to the Association's position on welfare reform. As regards H.R. 1, our letter of April 27, 1972, indicated our view that Title IV of H.R. 1 be subjected to a rigorous two-year testing period before the Congress makes any commitment to put it into effect on a permanent basis. This is still our position on Title IV of H.R. 1.

Our initial criticism of the "workfare" substitute was based on the only information available to us at that time which indicated, among other things, that the cost of the proposal would be double that of Title IV of H.R. 1. Now that you have made available to use the Finance Committee print, "Analysis of Cost of Committee Bill," of June 12, 1972, we are in a position to make an objective analysis of the Committee substitute as compared with Title IV of H.R. 1. When completed, it will be made available to you and the Committee on Finance. It will also be sent to the appropriate NAM Policy Committee with a view to their meeting and giving it early consideration.

Again, let me express my appreciation for the time you spent with me and my associates this morning.

Sincerely,

W. P. GULLANDER, *President.*

The CHAIRMAN. The next witness will be Mr. Eugene Rinta, executive director, Council of State Chambers of Commerce.

#### STATEMENT OF EUGENE F. RINTA, EXECUTIVE DIRECTOR OF THE COUNCIL OF STATE CHAMBERS OF COMMERCE

Mr. RINTA. For the record, my name is Eugene F. Rinta and I am the executive director of the Council of State Chambers of Commerce. I appear here today on behalf of the Federal finance committee of the council and the member State chambers of the council listed at the end of my statement as having endorsed the position taken.

The Federal finance committee of the council has considered the question of sharing Federal revenues with the State and local governments on a number of occasions dating back to 1967. While the form, dollar size, and political sponsorship of the general revenue-sharing proposals introduced in Congress during these years have varied, the basic principle has remained the same. That is, the annual distribu-

tion to the States of a portion of Federal Treasury receipts by use of backdoor legislative funding rather than by annual appropriation action of Congress.

Our committee concluded in 1968 that general revenue sharing would be an unwise use of Federal tax and borrowing resources and should be opposed. At the same time, however, we announced our support for the substitution of broad block-grants for numerous existing categorical grants, which is the essence of the President's special revenue-sharing proposals.

In subsequent considerations of the general revenue-sharing issue, including the President's 1971 proposals and the House-approved H.R. 14370, our committee found no compelling reason to change its position.

Now, to save time I just point out on pages 2, 3, and 4 of my statement—I review briefly the why of revenue sharing and the major differences between the President's proposal and the House-approved bill.

Then on 4, 5, and 6 I cite several reasons why we believe this legislation should not be approved. We cited most of these in our presentations to the Ways and Means Committee last year and all of them are discussed in the bipartisan dissenting views accompanying the committee report on the House bill. Accordingly, I shall limit my oral testimony on these particular criticisms of the bill to two matters which we believe deserve further comment.

They are the growing uncontrollability of the Federal budget and the adverse fiscal position of the Government.

The Ways and Means Committee report maintains that, because the bill provides for specific dollar amounts of appropriations each year rather than a percentage of Federal revenues, "it means that the Federal Government is not adding a new uncontrollable expenditure category" to the budget. This is true only in a very narrow sense. As a practical matter the revenue sharing provided by the bill would add over \$5 billion uncontrollable outlays to the budget for each of the next 5 years as would the administration bill.

Appropriations provided by the bill are "permanent" in character, just as are the annual appropriations for interest on the public debt. As such, they are not subject to consideration by the Appropriations Committees of the House and Senate. As recently as April 24, 1972, the present Director of the Office of Management and Budget, Caspar W. Weinberger, has repeatedly expressed considerable concern about the growing portion of the budget which is uncontrollable. In a speech in Sacramento, Calif., he said:

The extent to which we have so completely and quickly committed our resources so far in advance is disturbing indeed. It is closely related to another problem which has been getting more serious in recent years. This is the growing proportion of the budget over which we have no option at all about whether to fund it, the uncontrollable outlays I mentioned a moment ago . . .

In the 1973 budget approximately \$175 billion of the \$248 billion recommended in outlays by the President were uncontrollable. That is, over 70 percent of the total expenditures could not be avoided except by changes in basic law or cancelling valid contracts . . . The result is that newly perceived problems cannot be met with as generous funding as perhaps they deserve, while some old programs whose effectiveness is being sharply questioned still command a large share of our resources; another result is a loss of control over fiscal policy.

In view of the growing uncontrollability of the Federal budget and the fiscal control problems this causes, we urge that if revenue sharing is to be enacted, the funding should be on an annual or, at most, on a biennial basis subject to the normal appropriations process.

No Federal revenues to share—As we see it, the fiscal record of the Federal Government in recent years is hardly favorable enough to warrant embarking on a new program of \$5 to \$6 billion, and possibly far larger, annual handouts to the State and local governments in the years ahead. Unified budget deficits in the 5 years from 1968 through 1972 total approximately \$73 billion and, although the administration's latest estimates place the 1973 deficit at \$27 billion, the 1973 deficit figure is likely to be near \$37 billion for a 6-year total of about \$110 billion. Moreover, \$85 billion of that total is the result of fiscal operations in just the last 3 years of this period.

Even worse, the Federal funds accounts (excluding the dedicated trust funds), through which revenue sharing would be financed, show far larger deficits than do the unified budget accounts. It is, of course, these deficits that determine the size of the increases in the public debt. During the 6 years through 1973 the Federal funds deficits will total some \$150 billion, and of that amount over \$100 billion will be incurred in the 3 years 1971 through 1973.

Further sizable deficits are probable in the next several years, too, unless expenditures are tightly restrained or taxes are increased. Just 1 year ago budget projections to 1976 assumed that under conditions of full employment there would in 1976 be favorable margin of \$30 billion between the increase in revenues and the increase in expenditures; that is, if no new spending legislation beyond the proposals in the 1972 budget were enacted. Now, in the 1973 budget document, that projected \$30 billion margin by 1976 has been reduced to only \$5 billion, in part because of the 1971 tax reductions but primarily because of more rapid spending growth than had been projected. With less than full employment that small 1976 margin would quickly disappear. Even with full employment, new spending legislation will certainly consume that margin and much more.

We urge, therefore, that if the Senate decides to approve legislation similar to that voted by the House in H.R. 14370, the legislation include a tight ceiling on 1973 expenditures as recommended by the President early this year. His proposal called for a ceiling of \$246.3 billion with no exceptions for uncontrollable outlays. Based on the official current estimate of 1973 outlays, the proposed ceiling would presumably be \$250 billion. To the extent that expenditures would exceed \$250 billion except for the legislated ceiling, and we feel they certainly would, it would be up to the President and the Congress to reduce lower priority spending.

Now, I would like to comment briefly on the effects of two features of the House bill on State taxes.

Two features of H.R. 14370, which were not in the President's proposal, would tend to force the State tax systems into ever closer conformity with the Federal. Both features would use financial inducements to accomplish the stated objectives.

The committee's report on the bill clearly stated the objective of encouraging States to make greater use of individual income taxes.

The means for doing so is the formula for allocation of State revenue sharing funds to the respective States. It would penalize States which make little or no use of individual income taxes as a revenue source and, conversely, would reward the high income tax States by a relatively greater allocation of revenue sharing funds. This provision would create a substantial inducement for States to do what they otherwise would not consider to be in the best interests of the State and its citizens. It illustrates how H.R. 14370 would make the States increasingly dependent on Congress, not only for money but for direction as well. To this we cannot subscribe.

In addition to the pressure on the States to raise more of their revenues from individual income taxes, another feature of the bill would tend to force States into conformity with Federal law on individual income taxes. This is the provision for Federal collection of State individual income taxes. While it is an optional provision, there would be the inducement to a State of being relieved of administrative costs for this tax and at least a one-shot gain in revenues, estimated at \$1 billion nationwide. In return, participating States would have to conform their tax law, except for rates, closely with the Federal law. In fact, the proposal would invite States to adopt flat percentages of Federal tax liability as the simplest form of piggybacking and thus apply the Federal rate progression to their own income tax.

Our committee on State taxation has considered this Federal collection proposal and concluded that it should be opposed. It so concluded because the proposal could force many States into an unwise subordination of their own tax policy determination to that of Congress, although it is a tax area in which Congress has no responsibility.

#### STATE TAXATION OF INTERSTATE COMMERCE

There is, however, an area of State taxation over which the Congress does have some responsibility and in which it has acted in the past. This area involves State taxation of interstate business and its effects on interstate commerce.

In 1959 the Congress enacted Public Law 86-272, setting a standard for jurisdiction of State to tax income from interstate business transactions. But it was then recognized that many problems remained. After exhaustive studies by a special subcommittee of the House Judiciary Committee, the House twice passed bills setting minimum standards for State and local taxation of interstate business. Many States opposed these House-approved bills on the ground of possible revenue loss, particularly with respect to sales and use taxes. Business generally supported these bills even though recognizing that they were of limited application, having been designed primarily to relieve the administrative and compliance burdens of small business.

An interstate taxation bill with broader coverage but otherwise similar to the House-approved bills was introduced in the 91st and 92d Congresses by Senator Ribicoff. It, too, has been opposed by many State tax administrators. So, in order to arrive at a reasonably satisfactory resolution of the issue, considerable efforts have been made by our committee on State taxation in cooperation with other business groups to develop proposed legislation that will best protect the legitimate interests of the taxpayer, the tax collector, and the public.

We urge the Finance Committee to hold hearings on this important issue at an early date. We shall be pleased to present our views and we offer to you any technical assistance the committee may desire.

Thank you.

Senator BENNETT. No questions.

Senator JORDAN. No questions.

Senator FANNIN. Mr. Rinta, you state that this bill would force many States into an unwise subordination of their own tax policy. Perhaps the provision would further draw the distinction between State and Federal Governments. Would this not be contrary to the intent of this bill, to make the States more independent?

Mr. RINTA. Well, it would seem to me it would make them more dependent. It would—to the extent that States agree to the Federal collection procedure and there would be financial incentives to do so, their tax policy with respect to individual income taxes would be determined by Congress.

Senator FANNIN. Thank you. With regard to your remarks on interstate taxation, are you familiar, and if so, could you comment on the bill introduced by Senator Magnuson, which attempts to arrive at a fair solution to the diverse views on interstate taxation?

Mr. RINTA. I am not entirely familiar with the bill. I really feel, however, that there are provisions in that legislation which we could support but there are some others which we do not feel would be acceptable.

Senator FANNIN. I see. Thank you very much.

Senator ANDERSON (now presiding). Thank you.

Mr. Parks.

#### STATEMENT OF PAUL PARKS ON BEHALF OF AMERICANS FOR DEMOCRATIC ACTION

Mr. PARKS. Mr. Chairman, thank you for giving me the opportunity to speak on behalf of Americans for Democratic Action on H.R. 14370.

I am the administrator of the Model Cities program in Boston and have served in this capacity for the last 4 years. My perspective, therefore, is to present the interests of the core city and specifically the interests of inner city residents, many of whom are low-income blacks and Spanish-speaking people.

Many local communities have reached the end of their fiscal resources to support the normal and basic functions of local government. Public services have begun to deteriorate seriously, and further breakdown of those services is inevitable unless a significantly greater volume of financial aid is made available from the productive and progressive Federal tax system.

Therefore, ADA supports the concept of revenue sharing based on local need, provided that adequate safeguards against discrimination and abuse are incorporated in the legislation.

The need for fiscal assistance is by no means uniform. The crisis is most acute in central cities that have concentrations of poor families whose taxpaying ability is severely limited and whose needs for public services is especially great. There is no crisis at all in the richer suburban communities. The suburbs contribute to the crisis of the

central cities, in fact, by drawing upon city services while contributing little or nothing to the maintenance of those services.

Therefore, ADA would have great difficulty with a bill that distributes money to the States as well as to needy local governments. It is local, not State, government that faces fiscal crisis. Every State has substantial unused revenue raising capacity; few have truly progressive State income taxes and corporate tax structures that levy a fair share of taxation upon those most able to pay. Furthermore, if payments to the States are intended to be ultimately distributed to local governments, one of the consequences is that the administrative cost incurred by the States must come out of the funds that should be distributed to the local cities and towns.

An additional fault in this bill is that it distributes funds to all local governments without attempting to relate the distribution to need. County governments that in some parts of the country have become archaic and unresponsive to community concerns in rich suburbs would join in revenue sharing with poor central cities and rural depressed areas.

#### DISTRIBUTION FORMULA

If Congress insists that the money is to be distributed by the State—we believe mistakenly—we are particularly concerned about the distribution formula. Under the proposed bill, distribution among county areas is on the basis of population, urban population and per capita income, and among cities and towns in a county, on the basis of population and per capita income.

From the standpoint of the inner city, this ignores three very important factors:

(1) Higher governmental costs in the city: for example, teachers' salaries due to higher costs of living;

(2) Nonschool services costs are substantially greater in cities than in suburbs because of the use of city services by commuters; the existence of higher social costs in the welfare and health areas; the existence of older and substandard public facilities and housing resulting in higher capital costs and more costly inspection and enforcement of building codes. In school areas, costs are higher because of the need for additional programs for enrichment, large numbers of children with learning disabilities, and children taking English as a second language.

(3) Further, there is a lower tax base in central cities because of the existence of tax-exempt properties.

All these discrepancies exist even though most cities have taxed their property owners at higher rates than suburban and rural communities.

For the distribution to be equitable it must take into account the above factors. ADA believes that the statutory formula must be adjusted. We recommend that the amount distributed to each city and town should be on the basis of population weighted inversely by income and then adjusted by cost-of-living factor, and further adjusted for need based on actual local expenditures.

If county areas are to be used in the distribution formula, the definition of urbanized population should be redefined. In the present

version, "urbanized population means the population of any area consisting of a central city or cities of 50,000 or more inhabitants and of the surrounding closely settled territory of such city or cities which is treated as an urbanized area by the Bureau of Census for general statistical purposes." Does it not follow from this definition that all of a metropolitan area including the central city and suburbs would contain urbanized population?

As a result of the three factors used for distribution of funds to county areas, the first two, population and urban population, do not weight the formula to the benefit of the core cities. Many core cities have small relative population, but contain a concentration of problems.

Even the optional factor of using tax effort in place of population for distribution of funds to cities and towns is not effective in solving the problems of the inner cities. First, it depends upon election by the State. Second, tax effort will govern the distribution of funds coming to the county area on the basis of population. In the case of cities where the county is almost coterminous with the city, a further distribution in the county area on the basis of tax effort makes little change in how funds are distributed.

Third, even if we overcame the county problem, tax effort measured by per capita adjusted tax—exploding school tax—leaves out a second most important factor—per capita income. Obviously, the tax effort is much greater in a city where per capita income is low as compared to a suburb that raises the same level of per capita taxes.

A safety valve provided in the proposed bill puts a ceiling on all cities or towns under 100,000 in population measured by the lowest per capita taxes in any city over 100,000. If this provision accomplishes our objective it would be highly accidental.

#### ANTIDISCRIMINATION

ADA believes that the antidiscrimination sections of the bill are inadequate. The bill, as presently drafted, gives persons the right to go to court if the city has practiced discrimination in the expenditure of its funds, but permits the city to continue spending funds until the court has acted.

We feel that this does not offer the essential positive protection needed to guarantee to all persons their full civil rights. We suggest that the Secretary be authorized and indeed instructed to promptly investigate complaints of discrimination. Further, he should be required to withhold funds until the matter is finally remedied if he finds that discrimination did in fact take place. Furthermore, similar provisions should apply to the State.

#### STATE FUNDS

While ADA opposes revenue sharing for States, if Congress insists on such legislation we strongly recommend additional safeguards. As a further protection and incentive toward progress, revenue sharing for the States should be based upon the following conditions: First, an income tax system at least as progressive as the Federal must be adopted by each State. Second, existing formulas for the distribution

of State funds to local cities and towns should be changed so that distributions are made on the same basis that ADA has recommended for the distribution of Federal revenue sharing to the cities.

#### CONCLUSION

We are agreed that the need in our cities is great—even desperate. We are agreed that we must use the great Federal revenue producing system as the only available means to meet the need. However, unless we modify the proposed legislation—H.R. 14370—as suggested in my testimony, I believe we will both fail to meet the need and will permit to continue the discriminatory practices still so prevalent in American life. It is ADA's firm position that not 1 cent of public moneys should be allocated or spent unless strong prohibitions on discriminations are part and parcel of the law. Otherwise those who need the assistance the most—the poor whites, blacks, and Spanish speaking—will once again be deprived and denied.

On the other hand, revenue-sharing legislation, properly drafted, can open new doors and roads to meeting the pressing problems of all Americans.

I thank you.

Senator ANDERSON. Any questions?

Senator JORDAN. No questions.

Senator FANNIN. No questions.

Senator ANDERSON. Thank you very much.

Mr. Field.

#### STATEMENT OF THOMAS F. FIELD, EXECUTIVE DIRECTOR, TAXATION WITH REPRESENTATION

Mr. FIELD. Good morning. Mr. Chairman and members of the Committee on Finance, I wish to thank you for this opportunity to present testimony regarding the State and Local Fiscal Assistance Act of 1972.

As you know, the goal of Taxation with Representation, the organization which I represent, is to encourage public-spirited tax professionals to speak out in the public interest—and to assist them in doing so by attending on their behalf to the many small chores involved in presenting testimony. We do not take organizational stands. We concentrate, instead, on helping public-spirited tax professionals express their own views on Federal tax questions. Our purpose is to serve Congress and the public by bringing into tax debates the voices of skilled tax professionals who have no ax to grind.

Today we wish to present to this committee a statement by Murray Drabkin, Esq. Mr. Drabkin received his A.B. degree from Hamilton College in 1950 and his LL.B. from Harvard Law School in 1953. Mr. Drabkin has served as counsel to the House Committee on the Judiciary, chief counsel to the House Special Subcommittee on State Taxation of Interstate Commerce, and as a consultant on taxation to Federal, State, and local government bodies. He is a member of the tax committee of the New York Chamber of Commerce and the National Committee of Taxation with Representation, and has served as a member of the advisory council of the Tax Institute of America.

In addition, we wish to present a statement by Dr. Ray D. Whitman of the Bureau of Business and Economic Research at the University of Maryland. Dr. Whitman devoted 3 years of intensive study to revenue-sharing proposals while preparing his doctoral dissertation, which is entitled "Revenue Sharing and the Cities." Since receiving his doctorate in economics from Columbia University, he has studied State and local fiscal affairs as a member of the Maryland Governor's Study Commission on the State Tax Structure. He is presently developing an economic model of the Maryland economy and is making an analysis of Canadian experience in connection with grants by Federal authorities to provincial governments.

As you will see, Mr. Drabkin's statement opposes revenue sharing, while Dr. Whitman's statement favors it. This illustrates our group's reluctance to take organizational stands and our willingness to present several statements on important tax issues, each expressing a different opinion in the steps that would promote the public interest.

Mr. Chairman, I respectfully request that Mr. Drabkin's and Dr. Whitman's statements regarding H.R. 14370 be placed in the committee's hearing record at the conclusion of this statement.

Senator ANDERSON. Without objection, that will be done.

Mr. FIELD. In addition, with the committee's permission, I would like to read at this point the brief summaries of their statements that have been prepared by Mr. Drabkin and Dr. Whitman.

I will start, Mr. Chairman, with the summary prepared by Mr. Drabkin.

These now are his words:

I believe that enactment of revenue sharing would be a mistake of major magnitude. There are four principal reasons for this view: (1) my concern over separating the spending and taxing functions; (2) my lack of confidence in the administrative performance of State and local governments; (3) the demonstrated inability of State and local governments to resist excessive pension and other demands; and (4) the failure of State and local governments to exhaust their own sources of revenue.

Having said all this, the fact remains that many States and cities are now in desperate condition. I conclude, therefore, that the Federal Government should provide additional assistance by assuming the burden of welfare costs, by enacting limited Federal tax credits for taxes paid to State and local governments, and by assisting in the collection of State personal income taxes. In addition, I urge Congress to reduce the revenue leakage in the State taxation of interstate business by passing uniform interstate tax rules.

That concludes the summary of Mr. Drabkin's statement.

I would like to conclude by reading the summary of Dr. Whitman's statement. I quote again:

I favor revenue sharing as a means of financing the continued growth of our State and local governments. Revenue sharing would have beneficial effects on the tax burden distribution among income classes and would not have significant adverse effects on the economy. In addition, revenue sharing presents the Federal Government with a unique opportunity to encourage an urgently-needed restructuring of State and local government.

Revenue sharing is superior to tax credit proposals because it gives the Federal Government more control over the distribution of funds among the States and because it makes possible the distribution of funds to localities and other jurisdictions below the State level. Federal assumption of welfare and education costs and increased Federal funding of existing grants-in-aid programs would provide less fiscal relief per dollar than would revenue sharing, since part of the money appropriated for these programs is used to achieve Federal objectives which are not shared by the States and localities.

Mr. Chairman, that concludes our presentation.

Thank you very much.

Senator ANDERSON. Thank you.

(The prepared statements of Mr. Drabkin and Dr. Whitman submitted by Mr. Field follow:)

#### BIOGRAPHICAL NOTE ON MURRAY DRABKIN

Murray Drabkin is a Washington attorney with extensive experience in the field of state and local taxation.

Mr. Drabkin received his A.B. degree from Hamilton College in 1950 and his LL.B. from Harvard Law School in 1953. He is a member of the New York and District of Columbia Bar.

Mr. Drabkin has served as counsel to the House Committee on the Judiciary, Chief Counsel to the House Special Subcommittee on State Taxation of Interstate Commerce, and as a consultant on taxation to the federal, state, and local governments. He is a member of the Tax Committee of the New York Chamber of Commerce and the National Committee of Taxation with Representation. He has also served as a member of the Advisory Council of the Tax Institute of America.

#### SUMMARY OF STATEMENT

I believe that enactment of revenue sharing would be a mistake of major magnitude. There are four principal reasons for this view: (1) my concern over separating the spending and taxing functions, (2) my lack of confidence in the administrative performance of state and local governments, (3) the demonstrated inability of state and local governments to resist excessive pension and other demands, and (4) the failure of state and local governments to exhaust their own sources of revenue.

Having said all this, the fact remains that many states and cities are now in desperate condition. I conclude, therefore, that the Federal government should provide additional assistance by assuming the burden of welfare costs, by enacting limited Federal tax credits for taxes paid to state and local governments, and by assisting in the collection of state personal income taxes. In addition, I urge Congress to reduce the revenue leakage in the state taxation of interstate business by passing uniform interstate tax rules.

#### DISCLAIMER

The views presented in this statement are solely the author's. They should not be construed as representing the views of any firm or group with which he is associated.

#### ADDRESS AND TELEPHONE DATA

Further information regarding the views expressed in this statement can be obtained by writing to Mr. Drabkin at 710 Ring Building, Washington, D.C. 20036. Alternatively, he can be reached by telephone during business hours at (202) FEderal 8-2100.

#### PREPARED STATEMENT OF MURRAY DRABKIN, Esq.

#### INTRODUCTION

Mr. Chairman, members of the Committee on Finance, I appreciate this opportunity to present this statement on the problem of revenue sharing. Rather than directing my remarks at the specific bills before you, I should like to comment more generally on the basic concepts involved.

Although this is not a courtroom, the lawyer's habit of qualifying the witness persists. I have spent most of my professional life in government—first as counsel with the House Committee on the Judiciary, then as chief counsel to its Special Subcommittee which made a four-year, nationwide study of state taxation in the United States. Subsequently, I have served as a consultant to federal, state, and local government on state and local taxation. I also have some familiarity with these matters as a lawyer in private practice. In short, what I have to say is based on rather extensive experience with government at the federal, state, and local levels.

This Committee and the country have heard much over the past few years about the desperate need of the states and cities for additional revenues. Inflation, rising expectations, deteriorating facilities, a new militancy among government employees and run-away welfare costs, have resulted in expenditure budgets which grow at the rate of 12 to 15% a year while revenues grow at the rate of only 5 to 8%. All of this is true. The question before the Committee is what can or should the federal government do about it.

The Committee has before it a number of proposals. One of these, which is not the subject of this morning's hearing, represents a major response to the needs of our urban areas, in particular. I am referring, of course, to the reorganization and federalization of much of the welfare system that is now pending before the Committee. Any reasonable scheme shifting the bulk of the welfare burden to the federal government will be of enormous assistance to the states and localities.

Of more immediate concern, however, are the bills which you are now considering to provide additional funds either through revenue sharing or tax credits.

#### OPPOSITION TO REVENUE SHARING

I believe that the enactment of revenue sharing would be a mistake of major magnitude. It would be a king-sized license to squander. This is not a conventional view outside of Washington today, and accordingly I should like to take a few moments to explain my position.

At the outset, let me say that I do not base my opposition on the condition of the federal budget. If revenue sharing were in fact the best way to meet the fiscal problems of state and local government in this country, I think Congress would do what had to be done—it would find the money even if it meant raising federal taxes.

But revenue sharing is not the best answer. Indeed it is the wrong answer.

#### SEPARATION OF TAXING AND SPENDING

First, there is considerable wisdom in the concern over separating the burden of raising money from the joy of spending it. Governments are in the last analysis made up of people and there is a perfectly understandable tendency for people who don't have to raise the money to be just a little careless about how they spend it. And this happens with distressing regularity. I have seen programs initiated simply because federal money was available—programs which never should have been started and never would have been started if the money had to come out of local taxes. There is a myth that federal money is free money; increase the amount of federal money through revenue sharing and you will simply increase the dimensions of this myth.

#### QUALITY OF STATE AND LOCAL GOVERNMENT

The second reason for my opposing revenue sharing is the quality of state and local government in the United States today. For too many years, federal service has been the first choice of those interested in government careers. There are major exceptions, of course, and I have encountered at the state and local levels of government men and women of great ability and devotion. But by and large state and local governments are not nearly as well run as the federal government. In this regard, it has always seemed somewhat ironic to me to read statements by local officials blaming their problems on the red tape of federal programs alongside reports of widespread scandals in the use of federal monies by their agencies. This kind of performance in programs subject to federal supervision and regulation hardly affords much ground for confidence in the use of large amounts of totally unrestricted funds.

#### INABILITY TO RESIST EXCESSIVE DEMANDS

My third reason for opposing revenue sharing is the demonstrated inability of state and local governments to resist excessive demands.

Let us consider the area of employee relations, which today is becoming one of the real testing grounds of government in this country. At a time when many government services are perhaps at the worst level in history, I can think of at least one major jurisdiction with a 30 hour summer work week.

At a time when its resources are strained past the breaking point, at least one major city has agreed to pension plans far beyond anything provided by

the federal government or by private industry. It provides pensions for its employeess, most of them on a practically noncontributory basis, with the amount of the pension determined on the basis of the employeess's earnings in his last year of service, including all overtime. In addition, it has become an administrative practice to give first priority in the assignment of overtime to employeess in their last year of service. As a result, it is not at all uncommon for city employeess to retire in their early 40's at a pension approximating their full salary at the time of their retirement.

Why should the rest of the people of this country be required to contribute through revenue sharing to support a pension system which is so far beyond anything which they are willing to provide for their own government personnel?

Fortunately, there are signs that resistance to these kinds of demands is hardening. However, the reason for resistance is simply that the well has run dry.

#### FAILURE TO UTILIZE REVENUE SOURCES

My fourth reason for opposing revenue sharing is the failure of states and localities to utilize fully their own revenue sources. Again, this is a generalization. There are states and cities which have come fairly close to exhausting their own revenue sources; but in many cases they have not. Let me give you some examples.

1. There are about 10 states which have yet to enact personal income taxes.

2. The major source of local revenues is the property tax. Characteristically, the tax is poorly administered with resulting substantial losses of revenues. But even more costly is the fact that almost every property tax in the country is shot through with exemptions. For example, why should a veteran or an elderly person be relieved of a portion of his property tax irrespective of his financial condition? Why should private schools pay nothing for the community services which they receive?

3. Then there is the chaotic situation with respect to the taxation of interstate business. Over the years this has evolved into a condition whereby the states forego the collection of substantial amounts of taxes from locally-based companies in exchange for the assertion of liabilities against out-of-state companies—liabilities which as a practical matter they often fail to collect. The main purpose of this exercise is to reduce the tax bill of the locally-based company. The reason for doing this is the cutthroat competition to attract industry. Yet when the Congress offered the states an opportunity to bring some order out of this chaos through the adoption of uniform rules, the states fought the proposal tooth and nail. There is no way of knowing how much revenue is lost by the states through this and other forms of tax competition, but it must run into a great many millions of dollars each year.

#### SUMMARY OF REASONS FOR OPPOSING REVENUE SHARING

These then are my reasons for opposing the enactment revenue sharing:

- (1) concern over separating the spending and taxing functions;
- (2) a lack of confidence in the administrative performance of state and local governments;
- (3) the demonstrated inability of state and local governments to resist excessive demands; and
- (4) finally, the failure of state and local governments to exhaust their own sources of revenue.

#### PROPOSALS FOR FEDERAL ASSISTANCE

Having said all of this, the fact remains that many states and cities are now in desperate condition. Even if I am correct in saying that at least some portion of their salvation lies within their own power, it is unrealistic to believe that they will achieve it soon. I would conclude, therefore, that the Federal Government should provide additional assistance along the following lines:

1. Assumption by the Federal Government of welfare costs under a program designed to break the existing welfare-cycle.

2. Enactment of limited tax credits for income taxes paid to state and local governments. This approach has the great advantage of requiring the governmental unit which is spending the money to raise the money. While the federal government might bear some or all of the additional cost, the increase would have to be justified to the taxpayer and his representatives through the normal political process. I believe that this will provide at least some safeguard against the

kind of unrestrained spending of someone else's money which would result from revenue sharing.

3. Collection by the federal government of state personal income taxes I would suggest that this be offered as a service by the federal government to any state which has a tax that piggybacks on the federal. This would help, in two ways: it would relieve the states of the administrative costs, and it would also, I am confident, result in the collection of more revenue.

4. Finally, I would urge that Congress act to reduce the revenue leakage in the taxation of interstate businesses through the passage of uniform rules.

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#### BIOGRAPHICAL NOTE ON RAY D. WHITMAN

Ray D. Whitman is an Assistant Professor in Economics and a Research Associate in the Bureau of Business and Economic Research at the University of Maryland. He received his B.S. degree from Columbia University in 1964, graduating Magna Cum Laude. At Columbia he was elected to Phi Beta Kappa. He received his Ph.D. in economics from Columbia during the past year. His doctoral dissertation was entitled "Revenue Sharing and the Cities."

During 1970, Dr. Whitman served as a staff member on the Maryland Governor's Study Commission on the State Tax Structure. He is presently developing an economic model of the government sector in Maryland and is making an analysis of Canadian experience with general purpose grants by Federal authorities to provincial governments.

#### SUMMARY OF STATEMENT

I favor revenue sharing as a means of financing the continued growth of our state and local governments. Revenue sharing would have beneficial effects on the tax burden distribution among income classes and would not have significant adverse effects on the economy. In addition, revenue sharing presents the Federal government with a unique opportunity to encourage an urgently needed restructuring of state and local government.

Revenue sharing is superior to tax credit proposals because it gives the Federal government more control over the distribution of funds among the states and because it makes possible the distribution of funds to localities and our jurisdictions below the state level. Federal assumption of welfare and education costs and increased Federal funding of existing grants-in-aid programs would provide less fiscal relief per dollar than would revenue sharing, since part of the money appropriated for these programs is used to achieve Federal objectives which are not shared by the states and localities.

#### DISCLAIMER

The following statement is solely the responsibility of the author. It should not be construed as representing the views of his employer or of any groups with which he is associated.

#### ADDRESS AND TELEPHONE DATA

Further information regarding the views expressed in this statement can be obtained by writing to Dr. Whitman at the Bureau of Business and Economic Research, College of Business and Public Administration, College Park, Maryland 20742. Alternatively, he can be reached by telephone during business hours at (301) 454-2303.

#### PREPARED STATEMENT OF RAY D. WHITMAN

#### INTRODUCTION AND SUMMARY

I favor revenue sharing as a means of financing the continued growth of our state and local governments, because it would have a minimum of adverse economic effects and because it would have desirable effects on the distribution of the burden of taxation among income classes. Revenue sharing is superior to tax credit proposals because it gives the federal government more control than would a tax credit over the distribution of funds to localities.

My expertise on revenue sharing grows out of three years' intensive study of the subject during the course of writing my doctoral dissertation at Columbia University. Though the dissertation was addressed to the problem of revenue sharing and the cities, my treatment of the subject was very broad, and included a careful study of the functions and effects of all forms of grants, including revenue sharing.

#### ARGUMENTS FOR REVENUE SHARING

##### *Financing Expenditure Growth of States and Localities*

Revenue sharing provides an excellent means of financing the growing expenditures of our states and localities. I have little doubt that state and local expenditures will continue to grow more rapidly than will state and local revenues at constant tax rates. Without some form of federal assistance, states and localities will have to increase taxes and charges.

If the experience of the past two decades provides any indication, sales and property taxes will provide the bulk of the new revenues. Only a small percentage of the state and local revenue growth in this period was derived from the income tax. Higher sales and property taxes would not be undesirable in some jurisdictions where rates have been relatively low until the present. But sales taxes at rates approaching 6 or 7 percent and property taxes in excess of 2½ or 3 percent of market value cannot help but have adverse economic effects. In addition, the distribution of the burden of these taxes among income classes is commonly regarded as less desirable than that of a personal income tax with progressive rates.

##### *Federal Income Tax Credit as an Alternative*

Fewer than one quarter of the states utilize the income tax to anywhere near its potential. Nothing bars the states from making more extensive use of the income tax except political resistance and, in some cases, restrictions in state constitutions that would be difficult to remove. Most experts on the subject believe that both resistance and constitutional restrictions would melt quickly away if a federal credit for state income taxes paid were established. For this reason, the federal income tax credit is a leading alternative to revenue sharing as a means of providing fiscal support for the states and localities.

I regard the tax credit as a policy of considerable merit. However, in two important respects it is a less flexible tool than revenue sharing. First, it is possible with revenue sharing to establish in the legislation an equitable distribution of funds among the states. The tax credit would benefit states in proportion to their state income tax payments and would thus favor states with high and progressive rates, generally the high income states. Second, with revenue sharing it is possible to channel funds directly to the localities, something which would not be feasible under the tax credit. If it is important for political or any other reasons to assure urban areas a certain minimum share of the total, the tax credit would not do the job.

The tax credit has an additional feature which is repugnant to some observers, namely its coercive nature. An effective credit would virtually force every state to adopt an income tax. Is so coercive a measure consistent with the principles of our federalism? I personally do not find this particular use of federal fiscal power objectionable, because I find the income tax so desirable a revenue source that it merits nationwide adoption at the state level. The bill before you provides the states with an incentive to rely more heavily on the personal income tax. I commend this feature of H.R. 14370 to you. Perhaps for federal collection of state income taxes adds a further incentive for heavier use of this source.

##### *Other Alternatives to Revenue Sharing*

There are other means besides revenue sharing and the tax credit of providing states and localities with fiscal relief, namely federal takeover of activities now provided in whole or in part by states and localities (e.g., welfare), enactment of new grant-in-aid programs (e.g., additional aid to education), and increased funding of existing grant-in-aid programs. These alternatives provide less fiscal relief per dollar budgeted than do revenue sharing and the tax credit because some part of the funds are used in achieving federal objectives not shared by the states and localities.

If federal funds are limited and if federal objectives are judged more important than provision of fiscal relief to states and localities, then some com-

bination of these alternatives should be chosen over revenue sharing or the tax credit. I make no attempt to judge the relative importance of federal objectives and fiscal relief for states and localities. But I question the notion that federal resources are so very limited that \$5 or \$10 billion cannot be found for revenue sharing. Did not the Congress in its 1969 tax reform reduce projected 1975 revenues by \$8 billion? If provision of fiscal relief for the states and localities would be highly desirable for the reasons outlined above and if existing federal funds are pre-empted by higher priority programs, could not the Congress increase federal taxes in order to fund a revenue sharing program? I find a federal tax increase far more attractive than the hodge-podge of revenue measures with which the states and localities would doubtless meet their fiscal difficulties in the absence of revenue sharing or a tax credit.

#### *Revenue Sharing and the Restructuring of Local Government*

The National Commission on Urban Problems concluded that major improvements in the structure of urban government are urgently needed, and it recommended that the federal government use its influence to stimulate these improvements. I am convinced that efforts at restructuring local government are not only worthwhile, but essential for the continued vitality of our federalism. However, I am not a student of local political arrangements, and I make no claims at having achieved more than an elementary knowledge of the area. Let me, then, comment on this proposal as a student of the problem of fiscal disparities in metropolitan areas and as a student of the federal grant system.

At present, residents of the affluent sections of many metropolitan areas pay through their local taxes only a small share of the costs of providing social services to the poor. A disproportionate share of these costs is borne by the residents of the central cities and those suburban jurisdictions in which the poor mainly reside. Most economists regard this situation as inequitable, and in this I concur. Residents of affluent sections are strongly motivated by self-interest to oppose any new political structure in which the costs of providing social services to the poor are spread more evenly among the area's residents. A federal revenue sharing plan which reduced the advantage to residents of affluent sections of resisting a new political structure would greatly enhance the prospects for the reform and restructuring of local government. A plan which compensates governments responsible for a disproportionate share of the area's poor for the additional fiscal burdens they bear would have this effect. The clause in HR-14370 requiring distribution of funds among municipalities in inverse relation to per capita income would improve the relative position of the central cities and poor suburbs. Thus, this plan should improve the chances for the restructuring of local government in urban areas.

The restructuring of old institutions is always exceedingly difficult to bring about, and restructuring of local government in urban areas is no exception. A revenue sharing plan with one important condition—that efforts at restructuring local government be inflated—could only enhance the prospects for change. Such a provision is not included in the present bill. It was an integral part of the revenue sharing proposal of Senator Humphrey and Representative Reuss. I commend the provisions of the Humphrey-Reuss proposal to your attention. Federal incentives for local government restructuring through revenue sharing have received two major criticisms: that it would be impossible to design effective incentives and that they would constitute a serious threat to the essential freedom of the states. I will have to leave it to the experts in political science and law to advise whether effective conditions can be devised. Let me comment on the second criticism.

I regard inaction as presenting as serious a risk to the continued vigor and independence of state and local governments as federal involvement in state and local affairs. Imposition of this condition would be costless to the federal government. Compliance would be irresistible to the states, though not without cost. The long-run benefits to society in increased efficiency of local government in urban areas could well exceed the costs to the states many times over. This is a time when the capacity to American democracy to revitalize itself through institutional change is being tested as never before. The Congress has in revenue sharing a unique opportunity to assist in the process of adapting our institutions to the requirements of a modern, post-industrial state.

## CONCLUSION

The national concern for the fiscal difficulties of state and local governments and the clamor for revenue sharing provide the federal government with a unique opportunity to strengthen the federal system. Revenue sharing should be adopted in a form which will encourage an urgently needed restructuring of state and local government.

Senator ANDERSON. We will recess until 10 o'clock tomorrow morning.

(Whereupon, at 11 :45 a.m., the hearing was recessed, to reconvene at 10 a.m., Thursday, July 27, 1972.)

## REVENUE SHARING

THURSDAY, JULY 27, 1972

U.S. SENATE,  
COMMITTEE ON FINANCE,  
Washington, D.C.

The committee met, pursuant to recess, at 10:07 a.m., in room 2221, New Senate Office Building, Senator Russell B. Long (chairman), presiding.

Present: Senators Long, Anderson, Hartke, Ribicoff, Byrd of Virginia, Nelson, Bennett, Jordan of Idaho, Fannin, and Hansen.

The CHAIRMAN. We will have other Senators in the room in the next moment or two as we proceed. I will call the hearing to order and we are pleased to have Senator Edward J. Gurney, U.S. Senator from Florida, as our first witness this morning.

### **STATEMENT OF HON. EDWARD J. GURNEY, A U.S. SENATOR FROM THE STATE OF FLORIDA, ACCOMPANIED BY GEORGE BEAL, PROFESSIONAL STAFF MEMBER**

Senator GURNEY. Thank you, Mr. Chairman. I appreciate the opportunity to appear here today to testify on the State and Local Fiscal Assistance Act of 1972, commonly known as the General Revenue Sharing Act.

This legislation is badly needed by our State and local governments. Previous witnesses before this committee have represented to you first hand the critical needs of city, county and State governments. It certainly would be repetitious for me to repeat the story of substandard roads, inadequate pollution control, dangerous health hazards and other problem areas which have been brought to your attention in the past several weeks of hearings.

A brief look at some State and local financial statistics is sufficient to see that these problems are not due to indifference by local and State governments or to an unwillingness to increase the tax burden at State and local levels.

In the 1960's, State and local expenditures increased from 46.3 percent of national expenditures for government goods and services to 54.8 percent. They now approach 60 percent. In an effort to cope with this rise in demands, local and State taxes have been raised drastically, to the point where they are often almost confiscatory. Yet, local governments are still unable to provide adequate services to the public.

Part of this problem is due to the disproportionate increase in the cost of local governmental services, much of which has been due to the unavoidable, but not unwarranted, increase in Government labor costs.

A more basic cause, however, is that State and local revenue sources are not as elastic in their response to the rising level of our economy as is the Federal income tax structure. In our expanding economy, Federal revenues increase proportionately much faster than do State and local taxes. Therefore, due to the nature of revenue resources, and to the changing demands on such resources, it would seem desirable to return to State and local governments a portion of the taxes paid by their citizens to the Federal Government.

Equal in importance with these financial needs is the desirability of providing for State and local control over the expenditure of public funds. A major goal of revenue sharing should be to bring control over the expenditure of public funds back to a level nearer the people who pay the taxes and receive the services. General revenue sharing should and can accomplish this.

My personal support of the general revenue sharing concept, which dates back to my service in the House of Representatives, is based primarily on these two factors—the need to provide local tax relief, and the desirability of restoring fiscal strength, vigor and control to our State and local governments. I have accordingly supported and cosponsored all of the administration's original proposals for both general and special revenue sharing and I hope to eventually be able to support and vote for the measure which is now before this committee.

There are, of course, some parts of this complex piece of legislation about which I have serious questions. Most of these relate to the distribution formula devised by the House Committee on Ways and Means.

First, I question the failure to allocate a sufficient share of local funds to rural areas, on the apparent assumption that governmental services are either less needed or less expensive in those areas. I would hope that the committee will examine this assumption carefully, and modify the distribution formula as seems necessary.

Second, I question the limitations forced on local governments by the requirement that operating expenditures be made in specified "high priority" areas, such as public safety, environmental protection and public transportation, and that capital expenditures be made only for sewage and refuse systems or for public transportation. Local governments should have the freedom to decide priorities, to determine whether other needs, often critical needs such as parks and recreation areas, should not be met first.

But, while I question these and other aspects of the distribution formulas, I do not oppose the general distribution criteria worked out by the House Committee on Ways and Means, because I realize that they are the result of tedious hours of study and compromise by well-informed and well-intentioned men representing diverse opinions and viewpoints.

What I do oppose, however, is that aspect of the distribution formula which allocates \$900 million among the States on the basis of their collections of State personal income taxes. This provision serves no purpose other than to apply the leverage of the Federal tax dollar to virtually force all States to adopt State personal income taxes.

This provision presupposes that a State personal income tax is a more equitable form of tax for every State, and that it is proper for the Federal Government to determine what tax structure is best for all States.

The economic structures of our States vary so widely that no single tax is best for every State. For instance, Nevada relies heavily on gambling taxes for its revenue. Should Congress tell Nevada to remove its gambling taxes so that its citizens can pay a State personal income tax? In Florida, we have some rather affluent part-time residents who own second homes in Florida, yet maintain their legal residences in other States. For Florida to become dependent on a State personal income tax would be to give these affluent citizens a free ride on Florida's State and local services. I mean by that that other taxes they now pay would be commensurately lower or would not be commensurately increased if Florida had a State income tax.

On the other hand, we also have the highest per capita population of elderly persons of any State in the Union, many of whom retired to Florida on small budgets, depending upon our constitutional prohibition of an income tax: Should Florida violate its commitment to these people?

Nevada and Florida are but two examples of the 10 States whose citizens have decided that a State income tax is not the most equitable or desirable method of producing State revenues. I think they illustrate adequately the fallacy of applying socioeconomic theories nationwide without carefully examining their effect under varying local conditions.

Even if all variations among the States were to suddenly disappear, it would still be wrong for Congress, in my view, to use the Federal tax dollar as an inducement to State governments to pass State personal income taxes which their citizens would otherwise oppose. Such a tactic would be contrary to the basic premise of general revenue sharing, which is to increase the fiscal and decisionmaking independence of State and local governments. It also would violate the very nature of our Federal form of government, which is based upon a delicate balance between national centralization and State sovereignty.

As you know, Senator Ribicoff and I, together with Senators Bentzen, Bible, Cannon, Cotton, McIntyre, Tower, and Weicker, have introduced an amendment (Amendment 1215), which would remove from S. 3651 the bias against States with little or no State personal income taxes. Senator Baker has also introduced a similar amendment (Amendment 1312), which would correct this aspect of the distribution formula. While I obviously have a preference between these two amendments, I could support S. 3651 as amended by either of these proposals.

In drafting the Gurney-Ribicoff amendment, the income tax bias was removed from the distribution formula by modifying as little as possible the basic compromise arrived at in the House. For instance, the \$900 million allocated to State governments on the basis of total tax effort was not disturbed, nor was the indirect reliance on taxable personal income in allocating the second \$900 million to State governments. The only difference is the decision to base the allocation of the second \$900 million for State governments on Federal personal income tax collections within the respective States, rather than on collections of State personal income taxes—a change which utilizes the Federal income tax as a nationally standardized measure of taxable income, rather than the widely varying State personal income taxes.

Hopefully, this will promote the expeditious approval of this legislation by the Senate and then by the conference committee.

I have attached a flow chart which illustrates the effect of my amendment on the distribution of funds under the House formula. As you can see, the only change is to that portion of the allocation formula which would tend to unduly encourage States to adopt State personal income taxes.

(The chart referred to is attached.)

Senator GURNEY. Also attached is a table showing the allocation to each State of the \$900 million affected by this amendment, as compared to its allocation under the House formula.

(The table referred to follows:)

ALLOCATION AMONG STATES OF \$900,000,000 PORTION OF GENERAL REVENUE SHARING BASED ON TAXABLE INCOMES WITHIN EACH STATE

(In thousands of dollars)

State and Senators	Allocation under House formula	Allocation under Gurney amendment
Alabama—Sparkman (D.) <sup>1</sup> , Allen (D.) <sup>1</sup>	7,395	9,414
Alaska—Stevens (R.), Gravel (D.)	2,452	1,558
Arizona—Fannin (R.) <sup>1,2</sup> , Goldwater (R.) <sup>1</sup>	5,596	6,505
Arkansas—McClellan (D.) <sup>1</sup> , Fulbright (D.) <sup>1,2</sup>	3,954	4,710
California—Cranston (D.), Tunney (D.)	110,257	97,496
Colorado—Allott (R.), Dominick (R.)	10,710	8,658
Connecticut—Ribicoff (D.) <sup>1,2,3</sup> , Weicker (R.) <sup>1,2</sup>	7,362	21,388
Delaware—Boggs (R.), Roth (R.)	5,464	3,073
Florida—Gurney (R.) <sup>1,2</sup> , Chiles (D.) <sup>1,2</sup>	10,777	27,491
Georgia—Talmadge (D.) <sup>1,2</sup> , Gambrell (D.) <sup>1</sup>	15,869	16,083
Hawaii—Fong (R.), Inouye (D.)	7,782	3,625
Idaho—Church (D.), Jordan (R.) <sup>2</sup>	3,292	2,026
Illinois—Percy (R.) <sup>1</sup> , Stevenson (D.) <sup>1</sup>	50,675	63,615
Indiana—Hartke (D.) <sup>1,2</sup> , Bayh (D.) <sup>1</sup>	14,999	22,606
Iowa—Miller (R.) <sup>2</sup> , Hughes (D.)	1,828	10,275
Kansas—Pearson (R.) <sup>1</sup> , Dole (R.) <sup>1</sup>	5,362	8,311
Kentucky—Cooper (R.), Cook (R.)	10,366	9,710
Louisiana—Ellender (D.) <sup>2</sup> , Long (D.) <sup>2,3</sup>	6,111	10,921
Maine—Smith (R.), Muskie (D.) <sup>2</sup>	1,505	3,276
Maryland—Mathias (R.), Beall (R.)	30,101	21,226
Massachusetts—Kennedy (D.), Brooke (R.)	44,310	29,418
Michigan—Hart (D.), Griffin (R.) <sup>2</sup>	49,702	45,232
Minnesota—Mondale (D.), Humphrey (D.)	33,689	14,827
Mississippi—Eastland (D.) <sup>2</sup> , Stennis (D.) <sup>2</sup>	2,948	4,216
Missouri—Symington (D.) <sup>2</sup> , Eagleton (D.) <sup>2</sup>	14,044	19,179
Montana—Mansfield (D.), Metcalf (D.) <sup>2</sup>	3,876	2,300
Nebraska—Hruska (R.) <sup>2</sup> , Curtis (R.) <sup>2,3</sup>	4,044	5,502
Nevada—Bible (D.) <sup>2</sup> , Cannon (D.) <sup>2</sup>	1,072	3,141
New Hampshire—Cotton (R.) <sup>2,3</sup> , McIntyre (D.) <sup>2,3</sup>	-1,222	2,934
New Jersey—Case (R.) <sup>2,3</sup> , Williams (D.)	15,436	40,432
New Mexico—Anderson (D.) <sup>2,3</sup> , Montoya (D.) <sup>2</sup>	2,551	2,878
New York—Javits (R.), Buckley (R.)	165,218	101,967
North Carolina—Ervin (D.), Jordan (D.)	21,918	15,627
North Dakota—Young (R.) <sup>2</sup> , Burdick (D.) <sup>2</sup>	971	1,622
Ohio—Saxbe (R.) <sup>1</sup> , Taft (R.) <sup>1</sup>	20,340	51,715
Oklahoma—Harris (D.) <sup>1,2</sup> , Bellmon (R.) <sup>1</sup>	4,651	8,414
Oregon—Hatfield (R.), Packwood (R.)	16,446	8,541
Pennsylvania—Scott (R.) <sup>1</sup> , Schweiker (R.) <sup>1</sup>	53,159	53,806
Rhode Island—Pastore (D.), Pell (D.)	4,040	4,035
South Carolina—Thurmond (R.), Hollings (D.)	8,132	6,851
South Dakota—Mundt (R.) <sup>1,2</sup> , McGovern (D.) <sup>1,2</sup>	667	1,693
Tennessee—Baker (R.) <sup>1,2</sup> , Brock (R.) <sup>1,2</sup>	4,977	12,749
Texas—Tower (R.) <sup>1,2</sup> , Bentsen (D.) <sup>1,2</sup>	16,558	43,138
Utah—Bennett (R.) <sup>2</sup> , Moss (D.)	4,469	3,120
Vermont—Aiken (R.), Stafford (R.)	3,028	1,154
Virginia—Byrd (I.) <sup>2</sup> , Spong (D.)	24,337	68,738
Washington—Magnuson (D.) <sup>1,2</sup> , Jackson (D.) <sup>1,2</sup>	5,567	1,0435
West Virginia—Randolph (D.) <sup>2</sup> , Byrd (D.) <sup>1</sup>	4,936	5,524
Wisconsin—Proxmire (D.), Nelson (D.) <sup>2</sup>	37,090	17,705
Wyoming—McGee (D.) <sup>1,2</sup> , Hansen (R.) <sup>1,2,3</sup>	509	1,229

<sup>1</sup> Members from States which gain under Gurney amendment.

<sup>2</sup> Members of Senate Finance Committee.

<sup>3</sup> Members from States with no State income tax.

Senator GURNEY. Finally, I would like to submit for the record copies of the scores of official resolutions and communications which I have received from local governments in Florida concerning this legislation.

(Clerk's note: The resolutions and communications referred to by Senator Gurney appear as appendix A to this hearing. See p. 483.)

Senator GURNEY. As you can see, a whole lot of our State and local governments in Florida think very little of this distribution formula that is in the bill now.

It is significant that the great majority of these local governments, although aware that local government shares of general revenue-sharing funds are unaffected by the Gurney-Ribicoff amendment, still went to great lengths to support its adoption as a method of discouraging promotion of a State income tax in Florida. Certainly these towns, cities, and counties reflect the widespread opposition by the citizens of Florida to a State personal income tax, even though such opposition may endanger the passage of a general revenue-sharing bill itself.

Mr. Chairman, with these arguments in mind, I urge the committee to amend this legislation so as to remove the bias encouraging nationwide State personal income taxes, and to favorably report this much-needed legislation as expeditiously as possible.

That concludes my formal statement. Let me summarize two very important points here.

When the committee examines what my amendment will do to the various amounts of money that go to the States, it will find that the States of some members of the committee will benefit from my amendment and some will not. That may make it a little difficult for some of the committee members, perhaps, to vote for my amendment, although in some cases the loss to the committee member's State really is relatively little.

But I point out to the conscience of the committee members that if the formula in the House Ways and Means Committee bill helps your State more than my amendment, it does so by taking away money from States like mine that do not have a State personal income tax, or that have a State personal income tax which produces a rather small amount of revenue.

The other point I want to make, and I could not be more sincere on this point, is that there is no question but that the House Ways and Means Committee put this formula in the bill to actually force States like mine, and there are 10 of them, to enact a State personal income tax. It is also designed to force those States which have a low State personal income tax, and there are a great many that do, to raise that tax much higher than it presently is.

I do not think the Federal Government has any business at all telling States what they ought to do about their State income taxes—or any other taxes, as far as that is concerned. That is each State's business. If it can manage its fiscal affairs responsibly enough so that it does not require certain taxes and requires a lower tax, then that is a good thing and we ought to commend it for so doing. We should not put a great big stick and club in this bill and say, "You are not going to get money from us unless you enact another tax or unless you put it up much higher." And that is precisely what this bill does.

This bill has another important feature that is understood by one who is considering this legislation. This is only the beginning. If we enact this revenue-sharing bill, we are going to establish a principle that is going to increase over the years. It will double. The next time we have it before us it will triple. It will be four or five times as much. There is no question about that.

Now, if that is the case, then what that is going to mean, if this formula is retained, is that every time we increase this appropriation we are going to be forcing the States back home to either enact a personal income tax, if they do not do it after this bill, or else raise their personal income taxes. And I think that is a terrible mistake. As a matter of fact, I think we could point out many examples of grants we have made over the years that have later proved entirely unwise.

We have held a carrot out to the State governments and said, "Look, if you earmark some money for this project you will get this great big hunk of money from the Federal Government." Many States and local governments have done that, and they have gotten themselves in all kinds of trouble for having done that. I think it is time we stop that. I thought that is what we were doing when we proposed a general revenue-sharing act. I thought we were giving money back to the States and giving it with as few reins as possible, so the States themselves can do the job. Yet, with this distribution formula, and the most important part of what this bill provides, we are telling the States they have got to enact a State personal income tax, or they will not get the money that other States will get.

That is why I violently oppose the formula in the bill and I hope we can have sense enough to take it out.

The CHAIRMAN. Thank you very much, Senator.

Senator Byrd?

Senator BYRD. Senator Gurney, you say in your statement:

This provision presupposes a State personal income tax is a more equitable form of tax for every State, and that it is proper for the Federal Government to determine what tax structure is best for all the States.

As to the first part of that sentence, I happen to feel that a graduated income tax is the fairest form of taxation. I do not like the rates applied by the Federal Government but I think it is a fair tax.

But the second part of that statement, that it is proper for the Federal Government to determine what tax structure is best for all States, I agree with you a hundred percent. I do not think the Federal Government should go into the States and say what type of tax structure a State should have. We are getting very far afield when we do that.

We have gone too far afield in many of these questions anyway, trying to dictate what the States should do. If we tell the States what kind of tax structure they have to have it seems to me that is a very dangerous new position for this Congress to take.

So, I am very sympathetic to the view that you express. Although Virginia has an income tax, and I personally feel that income tax is, perhaps, the fairest formula of taxation.

Senator GURNEY. I appreciate those comments, Senator Byrd, and I know there are differences of opinion among those of us here in the Senate as well as other people on whether a personal income tax, graduated, as you put it, is the best form of taxation or not.

I would point out this. In the case of a State like Florida, perhaps we should have enacted one long ago. I do not hold to that. I am simply saying that possibly we should have. I do not think we should have but I do think that if we put a State personal income tax on the books now you can be darn well sure that every penny of it is going to be spent by the politicians who want to ladle out the money, with very little reduction in other State taxes.

So as far as Florida is concerned, since we did not elect to go this route some years ago and have had a constitutional amendment against a personal income tax for many, many years, I, for one, believe that it is just as well we keep it out now. I think that is one a method of fiscal control in Florida on the amount of money we spend.

Senator BYRD. You have another sentence here that I would like to mention: that the economic structures of our States vary so widely that no single tax is best for every State. It seems to me that is a very logical statement. What might be best for Virginia or Florida might not be best for Nevada or Louisiana or Washington State. I think we do have a very complex nation here, 50 different States, all sorts of different problems.

I think what you say is correct, that no single tax necessarily is best for every State. I like your testimony.

Senator GURNEY. I appreciate that, Senator.

The CHAIRMAN. Senator Ribicoff?

Senator RIBICOFF. Thank you, Mr. Chairman.

I commend you, Senator, for the hard work you have done in devising this formula. My colleague from Connecticut and I have joined you as cosponsors.

Mr. Chairman, I will be introducing the Gurney-Ribicoff-Weicker proposal in executive session. I agree that we in Congress who talk so much about States' rights have an obligation to leave the States alone as to what tax formula they will adopt.

Now, in my own State of Connecticut, we have been faced with the necessity of raising taxes. It has been a very, very controversial issue that has involved the people of Connecticut, the legislature, and the Governor of our State. In the end the State of Connecticut adopted the highest sales tax in the country, 7 percent.

Now, many people believe that a sales tax is a regressive tax. However, the people of Connecticut and their legislature and their Governor after long debate, decided this is how they wanted to finance their affairs.

If that is the case, I do not see what right the Congress of the United States has to tell the people of Connecticut what type of taxation to impose upon their people. And it is certainly unfair to a State like Connecticut, as Senator Weicker points out in his proposed testimony that ranks 21st from the top in per capita State tax collections, when you consider State and local revenue, Connecticut is eighth from the top in the ratio of local taxes to local revenue, 41st in the percent of total revenue coming from Washington.

We in Connecticut are glad to pay more than our normal share into the Federal Treasury. It will be wrong to short change States like Connecticut and Florida, which do not have a State income tax.

I would hope that after full discussion in the committee we could see our way to adopting the proposal made by Senator Gurney.

Senator GURNEY. I want to thank you, Senator Ribicoff. I was most pleased to have cosponsorship of you and Senator Weicker, too, from Connecticut.

You made one point that I would like to amplify. That is that it is, I think, up to the citizens of the State to decide how they are going to be taxed. In Florida, just last year, we revised our constitutional prohibition against income taxes by adopting a corporate income tax amendment.

This was put to a vote of the people, a referendum of the people. They decided they wanted to go that route. It may well be that in future years we will do the same thing as far as the State personal income tax is concerned.

The point of the matter is that it seems to me that it is up to the citizens of the State of Florida and not the House Ways and Means Committee to tell us how we are going to tax our people. This is the point that I make.

There is no question that this bill not only penalizes, but outrageously penalizes, those States that do not have a State personal income tax and those States that have a low one.

My recollection is that Connecticut does have a State personal income tax but that it is a low one. Is that correct? Or are you one of the ten that do not?

Senator WEICKER. Capital gains

Senator GURNEY. But there are States that do have State income taxes that are also penalized under this bill because the House Ways and Means Committee says, "All right, you have got a State personal income tax but you ought to up it a good deal if you want to get your fair share out of this bill."

That is totally wrong. We should not get ourselves in that posture.

Senator BYRD. Mr. Chairman, could I make one brief comment? I think I should say that I do not want my comments on this particular provision of the House bill which I oppose, to be construed as a commitment to a new formula that might be presented because I have not read the new formula and I want to study it before making a commitment on it.

Senator GURNEY. I understand that, Senator Byrd, and as I pointed out in my testimony, there is at least one other major amendment proposed by Senator Baker. It is a somewhat different formula, although he has submitted his amendment for precisely the same reason I have. That is to oppose this so-called State personal income tax provision of the bill.

Senator BYRD. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Anderson?

Senator Bennett?

Senator BENNETT. Mr. Chairman, I have listened to this with a great deal of interest, representing a small State with a very low tax base.

Senator Gurney and Senator Ribicoff, you might be interested to know that the Federal Government owns 75 percent of the land of the State of Utah, so that our opportunity to develop tax resources available to other States is just not there. And so, we have a stiff State personal income tax.

If the Gurney-Ribicoff amendment were adopted, one-third of our revenue sharing would be reduced while your revenue sharing would be increased from 2½ to 3 times.

Now, these are conditions that we have got to face. My own feeling is that the committee will change the formula from the House bill, but I will oppose it going all the way over to the complete elimination of credit for the burden of personal income tax that the people of Utah have had to impose upon themselves because the Federal Government owns so much of our land that we do not have an adequate tax base.

So, I can understand the problem. I can understand the problem of developing any formula that grows out of the disparity. I hope the committee can come up with a formula that will make a fair allocation but I do not think we can do it by striking out in effect, any credit for the personal income tax.

Senator RIBICOFF. If the Senator will yield, there are two factors involved.

First, there is the general proposition, which my distinguished colleague from Virginia has seen, that we should not tell the States how to tax their citizens.

I appreciate the problem the Senator from Utah has. If the burden on Utah is the large interest of the Federal Government in Utah, then maybe there should be a formula by States such as Utah to be reimbursed for the burden that they have to supply to Federal installations.

Senator BENNETT. It is not Federal installations, Senator Ribicoff. It is the fact that three quarters of the land area belongs to the Federal Government. Much of it is desert. Much of it is—its only value is potential tourism, which is a long way down the road.

We just do not have the tax base that you have in Connecticut where I am sure every acre is subject to State taxes. Except—

Senator RIBICOFF. And local taxes, which are high. But I think we get down to a basic philosophical point, does the Congress have the right to impose its philosophy upon the States as to what a State's tax structure should be?

Now, maybe we can figure out what is a fair method for revenue sharing but I think we are going to have to find whether we here in Congress should impose our philosophy of what a State tax structure should be. I think this is a problem for us to consider. Then we can discuss the question of fairness to all the States.

Senator BENNETT. Is there not the same problem if you turn the coin over and say you are going to panelize those States that have used income taxes and is not Congress then influencing the decision of the States? There are two sides to that coin.

Senator RIBICOFF. No. Each State can make its own determination. We do not know what will happen in the development of Florida. Senator Weicker and I cannot judge what will happen to the State of Connecticut as the years pass by and they have to meet the burdens of running the State of Connecticut. But the State of Connecticut, the State of Florida, the State of Utah, have to make their own decisions as to how they should tax their people and what method should be used.

The CHAIRMAN. Well, here is a thought I have been exploring a little bit and I throw it out to see what you think of it.

You are aware of the fact that we have permitted every State—in effect, we have an inheritance tax law. A tax credit of 20 percent of whatever the Federal tax is is a credit for the benefit of the State government. And so all States, even those that levy no other inheritance tax, at least do pick up that 20 percent. They would be foolish not to. So they take advantage of the fact that the Federal tax—high inheritance tax—they just pick up the 20 percent that the Federal law permits, a tax credit against the Federal tax, so the taxpayer is assuming the State just collects that 20 percent. He is no worse off than he would be if the State had no inheritance tax.

It occurs to me that it might be well to apply the same procedure, just pick a percentage off hand starting at, we will say, 5 percent of the amount of income tax that the Federal Government collects, which would be a credit, if they pay back to the State governments, and then especially if you say it does not go into effect immediately, goes into effect a few years down the road, I would think in due course every State would arrange to pick up that advantage.

Now, that would not cost the taxpayers anything because they are paying that much anyway. A State that does not have an income tax would get no immediate benefit but I assume that it would be to their advantage to pick up that difference where as far as the funds, as far as the taxpayers are concerned, there would be no tax at all.

Would that have any appeal to you as a substitute for this House proposal?

Senator GURNEY. Mr. Chairman, I am familiar with the inheritance tax provision. I recall from a practice of the tax law, that what we need to do was file a copy of the Federal inheritance tax with the State taxing authority, together with the check of 20 percent, as you pointed out. I think we did that. And if that is what you mean, I do not know that I would have any objection to that.

For a State like Florida I think what you are saying is that the Federal Government would give back 5 percent of the Federal income tax to the State, providing the State sets up legislation that can take advantage of that. I do not know that that would pose a problem. It might pose a problem in Florida in that there is a constitutional prohibition against an income tax and we might have to have a referendum—that is the only way we can change our Constitution—in order to enact a law to take advantage of that system.

That would present a little problem, but as far as the theory is concerned, I do not know that I would object to it.

The CHAIRMAN. It seems to me if you just make it a Federal law, say the Federal law goes into effect next year and there is no particular point in Florida losing that money, if we do not pick it up here in Florida the United States is going to collect that money anyhow, so why do we not just take advantage of it and gear our tax to that percentage of Federal tax that is available to us.

Senator GURNEY. That certainly would be a clean way to view revenue sharing but I know that there is going to be some opposition from a great many Members of Congress who have the idea that those States—well, let us call them poor States as opposed to rich States, and there are States like that—that those poor States ought to receive perhaps more than others.

I am not saying that I agree with that principle but I am saying a lot do and you are going to find, I think, a lot of resistance against that formula from some Senators who think that those States who are better able to pay revenues ought to get less than those who are not able to produce so much revenue. That is the only objection I could find to your thought.

The CHAIRMAN. We could even say that we would—I think we could work it out constitutionally where the Federal Government could even go ahead and collect, keep records of the amount of taxes we are collecting, because a State does not have an income tax, and simply pay that amount to the States. Say, well, having done this, this fact that you do not have such a tax is in effect a windfall to us and we will just pay it back out to the State.

Senator GURNEY. That would be a better way to handling it in a State like mine, which has a constitutional prohibition.

The CHAIRMAN. That would not force you to say here we are giving you a tax break, by virtue of having no income tax. That being the case insofar as we have a record of it we are going to give Florida what Florida would have had if you had an income tax to take full advantage of the tax credit and no more and in that way, Florida would have some benefit of it. At the same time, if the people never did want to pass an income tax they would not have a problem. Here is the tax credit available that—if you do not want to pass an income tax we will not—it will not cost you anything. We will just give you what you are losing by the fact that you do not.

Senator GURNEY. That would do it.

Senator RIBICOFF. Are you contemplating, Mr. Chairman, in your mind, as I am turning over your thought, that you take the formula as now exists and add to that what the State would receive if they had a State income tax as an additional amount that goes to the State on top of the formula?

The CHAIRMAN. No. I was just saying in terms of just leaving out what the House had about income tax, leave it out, just strike it, and in our bill we would simply say we would have revenue sharing on however this committee wants to do it. I would think it would have something to do with population. Whatever formula this committee wants would be the formula we would agree to, and then—and a simple way to distribute it, not having anything to do with income tax. Then say in addition, 2 or 3 years from this date there would be a tax credit of  $\sigma$  amount.

Offhand, I would say, just for lack of a better figure, I would say 5 percent, of whatever the taxpayer paid in income tax to State governments. And I think it would be constitutional and workable to say if a State has no income tax, whatever the Federal Government makes by virtue of the fact that that State has no income tax, and, therefore, the taxpayers take no tax credit for tax they do not pay, that we just pay that to that particular State.

So that in effect, the only immediate beneficiaries would be States that do not have an income tax, but it would tend to the extent of a low income tax to put all States on about the same basis. It would tend to equate—it would be very similar to a provision now in the law where on inheritance taxes every State is permitted to have—every taxpayer

is permitted to have a 20-percent tax credit for what he has paid the States, and every State in the Union takes advantage of it.

Senator RIBICOFF. I am just wondering, Mr. Chairman, when, is it your intention we meet for markup?

The CHAIRMAN. As soon as the staff can be ready. I think the administration wants to communicate to some of us on the committee some additional thoughts they had since the House passed their bill. I do not know what those thoughts are. I do not want to tell you and the others what they are thinking. But as soon as the staff can have their work ready, and I hope to know before the day is out, and the administration can communicate to us any additional thoughts they have had since the House acted and then whatever we have learned from the hearings we held, that we will meet immediately.

Senator RIBICOFF. My thought would be, Mr. Chairman, if you would instruct our capable staff to draw up the differences in the many possible approaches, such as the one you have mentioned. To a great extent, all of us are going to look at how does this affect our States.

The CHAIRMAN. Of course.

Senator RIBICOFF. If we could have the different suggestions you have made, the Gurney-Baker approach, the House approach, on a chart to look at when we reach our markup period, it would be very helpful to us when we start to mark up the bill.

The CHAIRMAN. Well, when we mark the bill up, I hope we will have available to us the best talents of the Joint Committee staff as well as the Finance Committee staff. At the present time, the House Committee on Ways and Means is working on a bill to try to do equity as between single people and married people on their income tax, a very complicated problem, and much of the Joint Committee staff is tied up over there. I hope that we will have available to us both staffs. The Joint Committee staff did a lot of work up in the House Ways and Means Committee. We need their expertise when we meet on this side.

Senator GURNEY. Mr. Chairman, may I make two other comments? I would like to reply to Senator Bennett's observation about how his State is penalized because there are so many public lands. I would feel, as Senator Ribicoff does, that the Federal Government does have some kind of an obligation if it owns a vast percentage of the lands of a State and pays no revenue into the State.

I think we should make some compensation for that. I think the theory is a good deal like the impact aid that we have to schools. I know this has been much discussed and is somewhat controversial, but in a State like Florida, which has a good many Federal installations, there is literally no other way we could have financed our schools than to have some help from the Federal Government. We had a great influx of students from the space program workers and other military installations. Perhaps now is the time, through this new tax bill, to take a look at the problem of Nevada as well as some of the other Western States that have large public land holdings. The other point—

The CHAIRMAN. Before you get into that, I would remind you that some of us who once served on that Interior Committee have a lot more knowledge of what is being done in those States than perhaps you have. I would suggest we refer that to that committee. We have got all we can handle in this committee.

Senator GURNEY. That may be true. I just wanted to express sympathy for Senator Bennett's plight.

The other point I do want to make is an important one. In the other distribution formulas here, such as Senator Baker's, the tax efforts of a State other than the Federal income tax are taken into account. All I say to that is that I think the committee ought to examine that and really see whether we want to go that route.

After all, what are we doing here? What we are really doing is giving back part of the Federal income taxes that Uncle Sam gets from the States back to the States.

Of course, I know there are some other revenues in the Federal Government, too, but they are minor compared with the amounts of money that we raise through the Federal income tax. What my formula does is give back the Federal income tax, and the formula is based on the amount each State gives. If a States makes a better effort in sending taxes to the Federal Government, as Connecticut has, and Senator Ribicoff has pointed out, that is taken into consideration under my formula, and that State will get back their fair share of what they send to Washington.

After all, is that not what we are trying to do here in this revenue sharing? I think it is. I think the bill ought to be confined to that.

Now, we have all other kinds of grant programs. We have got so many we cannot count them. We do not even know what they are. They cover all kinds of other things, but it seems to me in this new tax venture we are going into an entirely new concept of taxation, and tax revenues, and tax sharing. It seems to me we ought to base revenue sharing on what we raise in the States by the way of the Federal income tax. We ought to give back a portion of that. And that is exactly what my formula does. I think it is a fair one; I think that is generally what people think we are trying to do here.

The CHAIRMAN. Thank you very much, Senator. You have made a very fine statement, and you can be sure that with Senator Ribicoff as a cosponsor, this matter will be very well presented in executive session to the full committee when we meet.

In my judgment, there is no Senator in the Senate who has any greater capacity to explain logically, and clearly, and persuasively any legislative proposal than your ally in this area, Senator Ribicoff.

Senator GURNEY. I could not agree more.

Senator RIBICOFF. Thank you very much. I wish I were running this year. [Laughter.]

Senator GURNEY. Thank you, Mr. Chairman.

The CHAIRMAN. When we close the doors, you will have a very able advocate to carry on.

Senator GURNEY. Thank you, Mr. Chairman and members of the committee.

The CHAIRMAN. We will next hear from Senator Weicker. Senator, we are pleased to have you before us.

#### STATEMENT OF HON. LOWELL P. WEICKER, JR., A U.S. SENATOR FROM THE STATE OF CONNECTICUT

Senator WEICKER. Thank you, Mr. Chairman, very much. I concur with all your comments to my colleague. Fortunately, I do not have to run against him. Other people have tried and have not succeeded too well over the years.

Mr. Chairman, I appreciate the opportunity to appear before you this morning. The legislation under consideration is of transcendent importance to bringing Government fiscal power back home.

No one need belabor, particularly in this place, the fact that empire building in Washington has made cynics of an entire Nation.

When President Nixon first proposed the concept of revenue sharing, he signaled that his administration was determined to disperse the power concentration in Washington. The problems we face today are too humanly complex, too individualistic, to be left to a giant bureaucracy out of sight, out of earshot for most Americans.

This past decade has produced a remarkable social upheaval that has many root causes. But one underlying force is a powerful urge to simplify life and strengthen the identity of the individual.

I speak not of the extremists or the miscellaneous alienated who take the easy route of dropout or copout, or indulge in bizarre rituals against the establishment. I am speaking of an entire society aroused to protect their environment—improving the quality of life, pulling down false idols, and substituting more personal, human values. This revenue-sharing proposal, then, should be an important opportunity to further such directions.

There is, however, a traffic flaw in the legislation as it has evolved through the House. As written by the House Ways and Means Committee, this bill, which professes to give hegemony to States and local communities, in fact contains a provision that detracts from such a transfer of responsibility.

That is the provision which bases the distribution of \$900 million among the States on the basis of State income tax collections. No matter how you describe it, that constitutes fiscal fakery by a Federal Government forcing States to pass a State income tax or increase the rates of existing State income taxes.

This hooker in the bill not only undermines the principal aim of the measure but smells too much of the old Washington pulling the strings of lesser echelons of government.

It is an unacceptable concept from every standpoint.

The Federal Government has no right to "stick" or "carrot" a State into enacting a State tax on personal income.

To whip States into a herd of subservient clients is not my business nor should it be yours.

My own State of Connecticut has no general, personal income tax. We do have, however, taxes on business and on personal capital gains and dividends, which account for a very substantial part of total State revenues.

Now, this fiscal structure is no accident. The people of Connecticut have spoken out loud and clear on the subject. Never has a public attitude been more unmistakably articulated. An abortive income tax bill passed by the last session of the general assembly had to be withdrawn because of thundering opposition from the populace.

In short, men and women of both political parties have decided, for numerous reasons germane to this particular State, that an income tax is not the proper way to raise revenue in Connecticut at this time.

When and if the people of Connecticut, not Washington, and their directly elected Representatives decide the State should have an in-

come tax, then it will enact one. Connecticut has never lionized the status quo. But progress for us has usually meant doing socially what no one has dared with fiscal habits that others have forgotten.

And so I am before your committee to specifically oppose legislation that gives \$72 million to a Connecticut without an income tax and \$86 million to a Connecticut with an income tax. Candidly, our taxpayers cannot be had for \$14 million. Principles and human goals are what move Connecticut.

What is the justification for a central government theory that seems to hold that an income tax is absolutely essential in every State and that a State without one is ignoring its responsibilities?

This is plain, unadulterated nonsense, and the Connecticut story makes the facts abundantly clear.

Connecticut ranks No. 21 from the top in per capita State tax collections. But when you consider all State and local revenues combined, then Connecticut is eighth from the top in the ratio of local taxes to total revenue. And it is 41st in the percentage of total revenue coming to Connecticut from Washington.

Historically, Connecticut has believed in financing each level of government from its own resources. We rely far less than most States on State and Federal aid to local governments. But this in no way suggests Connecticut citizens are shirking their responsibility. On the contrary, the people of my State pay the highest per capita taxes to Washington in the entire country. And we are at the very bottom of the pile when it comes to Federal dollars given back to the State.

The absence of a State income tax, it is obvious, hardly reflects any escape of taxpayer responsibility in Connecticut. The figures show we pay in more and get back less than other States. There is no basis, in law, logic, or custom, which should make a State income tax a mandatory requirement for getting a fair share in the revenue-sharing program.

Those who are afflicted with the State income tax fetish usually expound a corollary incantation that a sales tax, by definition, is inequitable.

Well, again, let us look at the Connecticut example. First, about 10 percent of total State and local revenues come from the sales tax. Second, by exempting such items as children's clothing and food from the sales tax, our State has removed many of the so-called inequities which social theorists find objectionable in a sales tax.

Lastly, passage of an income tax will not eliminate the sale tax. It might reduce it—for a time.

I made that point when I spoke today, Mr. Chairman, that really what bothers me is we are going to get \$14 million extra this year but if we enact that income tax we are going to live with that forever. As Senator Gurney has just testified, he is proposing an amendment to the revenue sharing proposal now before you which would eliminate the ludicrous and totally unconscionable provision which would virtually force a State to pass a State income tax.

Instead of allocating \$900 million on the basis of State income tax collections, Senator Gurney would use a formula based on Federal income tax collections in each State.

I think this makes sense. The citizens of all States pay income taxes to Washington. If we want to base part of the distribution on income tax effort, this is the basis that should be used.

I sincerely believe we are dealing here with a question far larger than the mere mechanics of determining amounts of money to be returned to the States. There is a healthy, rising movement of interest and involvement in local and State government, something desperately needed. More and more, people are beginning to believe they can, as individuals, have some say in shaping their own affairs. In revenue sharing, we have devised a concept which will, in a meaningful way, make that expectation more of a reality. States and local communities can and must take on ever-increasing responsibility.

I urge you and your committee, Mr. Chairman, not to destroy this hope, this incentive, by pretending to extend that opportunity while in reality denying it.

We can either inspire new hope and involvement in grassroots government or reaffirm what I call our Potomac conceit.

Revenue sharing, gentlemen, not revenue stringing.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Senator Ribicoff. I might just commend my colleague. The colloquy we had with Senator Gurney covers the situation for my part and I have no further comments to make except to commend my colleague for his testimony.

The CHAIRMAN. Senator Bennett?

Senator BENNETT. I just have one comment, to reiterate the old western observation that it all depends on whose ox is gored.

Senator RIBICOFF. That is correct, and there is no question that to protect our States' interests as Senators we are going to take that into account and that is why my hope is that our distinguished and able chairman will put our staff to work pronto to try to work out a fair formula for all of us in the U.S. Senate and the Nation between now and the markup period.

Senator WEICKER. Well, to just comment on that for a minute, our ox is already being gored by the Federal Government. This is not going to relieve Connecticut of its payment of funds into the Federal Treasury. We will continue to rank as the highest State in the Nation—

Senator BENNETT. You occupy that position because you are fortunate enough to have people of high incomes that pay income taxes on those rates. I come from a State where our people have low incomes and where we just have a lower tax base. I can understand why people with high incomes move into Connecticut out of New York. It is very obvious.

Senator WEICKER. Of course, Senator Bennett, I respect you speaking for your State but, of course, my State is a combination of many types of people. It is not just people moving from New York. It has heavy manufacturing, and a skilled and diverse labor force in addition to its rural aspects.

All I am saying to you is that we pay an enormous amount of taxes to the Federal Government and nobody is complaining about it. Senator Gurney's proposal is not going to reduce that one iota. We will continue to pay this amount of money.

All I am saying is that I do not particularly care to be told what to do as far as our fiscal policy within the State of Connecticut is concerned.

May I suggest if you suffer difficulties insofar as the land owned by the Federal Government, I, having been a State legislator and working in Connecticut, where this situation occurred vis-a-vis State-owned land within the State, there were grants in lieu of taxes paid. Maybe that is our obligation.

What I do not think is fair is the internal fiscal policies of a State being dictated by the Federal Government. Insofar as payment of moneys to Washington is concerned, we are glad to pay. We feel we are getting more than our money's worth in Connecticut. So that is not going to be changed by this bill.

Senator BENNETT. Of course, Congress has had 125 years since the people first moved into Utah to consider some relief on the basis of the fact that they own three-quarters of our land, but nobody considers it. Rather, the congressional representatives from Eastern States, spurred on by the ecologists and the conservationists, insist on tying more and more of our land up into wilderness areas.

Just last night I had a telephone call from a woman in Utah who was ordered yesterday to close her mine down because it was conflicting with some provision of the Park Service. And this is the thing we face all the time. We are being squeezed more and more into a position where we cannot—we find it more and more difficult.

Now, I do not have the figures before me but I think you will find that in terms of local tax burden on its people, Utah rates very high. We have to in order to operate the State.

Senator WEICKER. Well, all I say, Senator, I have always been a great admirer of the personal habits, fiscal, spiritual, in every way of the people of the State of Utah and I would rather rely on their judgment on fiscal matters within their own State than the judgment of the Federal Government in Washington. So you and I are not different in that respect at all.

Senator BENNETT. But in terms of how you apply this formula, we are either benefited or damaged by your particular philosophy.

Senator WEICKER. I would hope something could evolve from the committee that would not damage Utah to the benefit of Connecticut. That is not what either my colleague or I are looking for. All we want to see is justice done insofar as States like Connecticut are concerned, in being able to maintain their own fiscal affairs.

Senator BENNETT. That is why I say I think the final formula which will emerge will probably contain some elements of credit for income tax. I would oppose eliminating the income tax completely from the picture. I am not hanging out for the House formula but I will oppose any attempt to eliminate the State income tax completely from the picture.

The CHAIRMAN. Thank you very much, Senator.

Senator WEICKER. Thank you very much, Mr. Chairman.

The CHAIRMAN. Now, the next witness will be Judge George Lehr, county executive of Jackson County, Mo., chairman of the Committee on Taxation and Finance of the National Association of Counties, accompanied by Louis Mills and Bernard Hillenbrand, also officers of that association.

We are pleased to have you, Judge Lehr. We would like you to proceed with your statement.

**STATEMENT OF JUDGE GEORGE LEHR, COUNTY EXECUTIVE, JACKSON COUNTY, MO., CHAIRMAN OF THE COMMITTEE ON TAXATION AND FINANCE, NATIONAL ASSOCIATION OF COUNTIES; ACCOMPANIED BY LOUIS MILLS, COUNTY EXECUTIVE, ORANGE COUNTY, N.Y.; RALPH TABOR, DIRECTOR OF FEDERAL AFFAIRS, NACO; AND LARRY NAAKE, LEGISLATIVE REPRESENTATIVE, NACO**

Judge LEHR. Senator, Mr. Chairman, and distinguished members of the Senate Finance Committee, my name is George Lehr. I am presiding judge and elected county executive of Jackson County. I might add, I am proudest of that because that is the position our No. 1 citizen, Harry Truman, held prior to the time he came to the U.S. Senate, and I might report his health is improving and is very excellent at this time and he is back home.

I am also the chairman of the National Association of Counties' Taxation and Finance Steering Committee.

With me today, to make the joint presentation, is Mr. Louis Mills, the elected county executive of Orange County, N.Y., and NACO's chairman for revenue sharing.

Also we are joined by Ralph Tabor, director of Federal affairs, of NACO; and Larry Naake, the legislative representative of NACO.

We are here today representing the National Association of Counties and the 3,068 counties throughout the United States in support of H.R. 14370, the State and Local Fiscal Assistance Act of 1972.

First, we would like to extend to you our sincere gratitude for your prompt action in starting public hearings on this vitally important issue so soon after the U.S. House of Representatives acted on the measure. We especially want to thank the chairman who has, on two separate occasions before our NACO Council of Elected County Executives, indicated his support for general revenue sharing and his intention to bring the measure to a conclusion in the Senate. The 3,000 delegates to our recent annual convention here in Washington, D.C., support us in this gratitude, as indicated by the attached resolution adopted during the meeting.

(The resolution follows:)

**RESOLUTION REGARDING GENERAL REVENUE SHARING**

Whereas, the states, counties, and cities throughout the United States are in desperate fiscal need and require immediate assistance from the more broadly based federal revenue system; and

Whereas, the more progressive federal individual income tax would provide relief to the more regressive property and sales taxes used at the state and local level; and

Whereas, the United States House of Representatives has recognized these facts, has acted positively on H.R. 14370, the "State and Local Fiscal Assistance Act of 1972," and has sent his General Revenue Sharing legislation to the United States Senate; and

Whereas, Senator Russell Long (D-La.), Chairman of the powerful Senate Finance Committee, indicated to county and city officials that he would expedite action on General Revenue Sharing as soon as the House acts; and

Whereas, more than 50 United States Senators have co-sponsored bipartisan legislation identical to H.R. 14370, Now therefore be it

*Resolved*, That the National Association of Counties assembled at their Annual Convention on June 27, 1972 in Washington, D.C., express its confidence and optimism that the Chairman and Members of the Senate Finance Committee will hold immediate hearings on General Revenue Sharing and will report a meaningful and comprehensive fiscal relief program to the Senate floor in the very near future; and be it further

*Resolved*, That the National Association of Counties strongly urges every member of the United States Senate to vote "yes" on a meaningful General Revenue Sharing measure when it reaches the floor of the Senate.

Judge LEHR. We would also like to impress upon you once again our strong support for this legislation. We sincerely hope that you will act immediately on the measure and report it, if possible, to the full Senate before the August 18 recess for the Republican National Convention. We feel this legislation is desperately needed. Time is now of the essence if we are to solve the immediate fiscal crisis facing our counties and cities throughout the United States.

As each day passes, the extremely serious crisis facing counties and our cities becomes more and more apparent. This plight is fact. It can be documented. Nationally, State and local expenditures have risen from \$12.9 billion in 1946 to over \$118 billion in 1969 and an estimated \$130 billion in 1971. The trends indicate that the expenditures reached over \$230 billion in 1970 and \$360 billion by 1980—an amount that could very easily exceed the Federal budget. These gross figures are impressive, but are not as impressive as specific crises facing counties and cities around the country. Just 2 days ago you heard from some 15 mayors about specific problems in their jurisdictions. These "horror stories" are just as horrendous in many of our counties throughout the United States.

These crimes do not exist in our local communities because of increases in what are thought to be traditional county services. They exist because of the rapid increases in new functions that counties have had to assume and have willingly assumed during the last two decades. Such services as health, welfare, drug abuse, urban redevelopment, urban housing, land use planning, air and water pollution control, and park and recreation programs have been eagerly embraced by counties throughout the United States. Expenditures on all of our many program functions total over \$18 billion per year. We do have an attachment with more breakdown.

(The attachment follows:)

# THE AMERICAN COUNTY TODAY

## Functions - Expenditures - Revenues

WHAT COUNTIES DO!				WHERE COUNTIES GET THEIR REVENUE!			
Function	(Millions of Dollars)		% Increase	Revenue Source	(Millions of Dollars)		% Increase
	1961-62 Expenditures	Est. 1969-70 Expenditures*			1961-62 Revenues	Est. 1969-70 Revenues*	
Public Welfare	\$1,865	\$3,208	72%	Intergovernmental Revenue	\$3,276	\$6,061	85%
Education	1,373	2,801	104	General Revenue From			
Highways	1,561	2,232	43	Own Sources:			
Hospitals	942	1,498	59	Property Taxes	3,879	6,051	56
Health	193	380	97	Other Taxes	271	556	105
Police Protection	303	545	80	Current Charges	824	1,590	93
Fire Protection	38	78	105	Interest Earnings	52	156	200
Sewerage	92	124	35	Special Assessments	40	65	64
Parks and Recreation	123	251	104	Sale of Property	11	33	200
Natural Resources	226	314	39	Other	133	271	104
Correction	205	349	70	Utility Revenue	46	94	105
Libraries	59	130	120	Liquor Store Revenue	71	116	63
Financial Admin.	268	399	49	Employee-Retirement Rev.	92	167	81
General Control	553	890	61	Sub-Total	\$8,694	\$15,215	75%
General Public Bldg.	247	398	61	Total For Consolidated			
Interest on Debt	159	286	80	City-Counties	N/A	2,673**	
Other	484	1,104	128	TOTAL		\$17,888	
Utility Expenditure	69	157	128				
Liquor Stores	61	93	53				
Employee Retirement	60	121	102				
Sub-Total	\$8,879	\$15,449	74%				
Totals For Consolidated							
City-Counties	N/A	2,686**					
TOTAL		\$18,135					

\*Based on 5 year straight line projection.

\*\*Based on 3 year projections.

Judge LEHR. This is the overriding reason why we need fiscal assistance now—to solve the fiscal problems arising from our willingness to assume the responsibilities accorded us—and sometimes in fact, mandated upon us—by Federal and State governments and to meet the demands of our local citizens. However, we have not been able to meet these responsibilities fully with our limited access to a regressive and inelastic revenue source; namely, the local property tax.

I feel, as a former collector of property taxes of over \$100 million a year, that it is safer to say that the property tax probably least meets man's ability to pay, least measures man's ability to pay. Yet, we have this as our primary source of revenue.

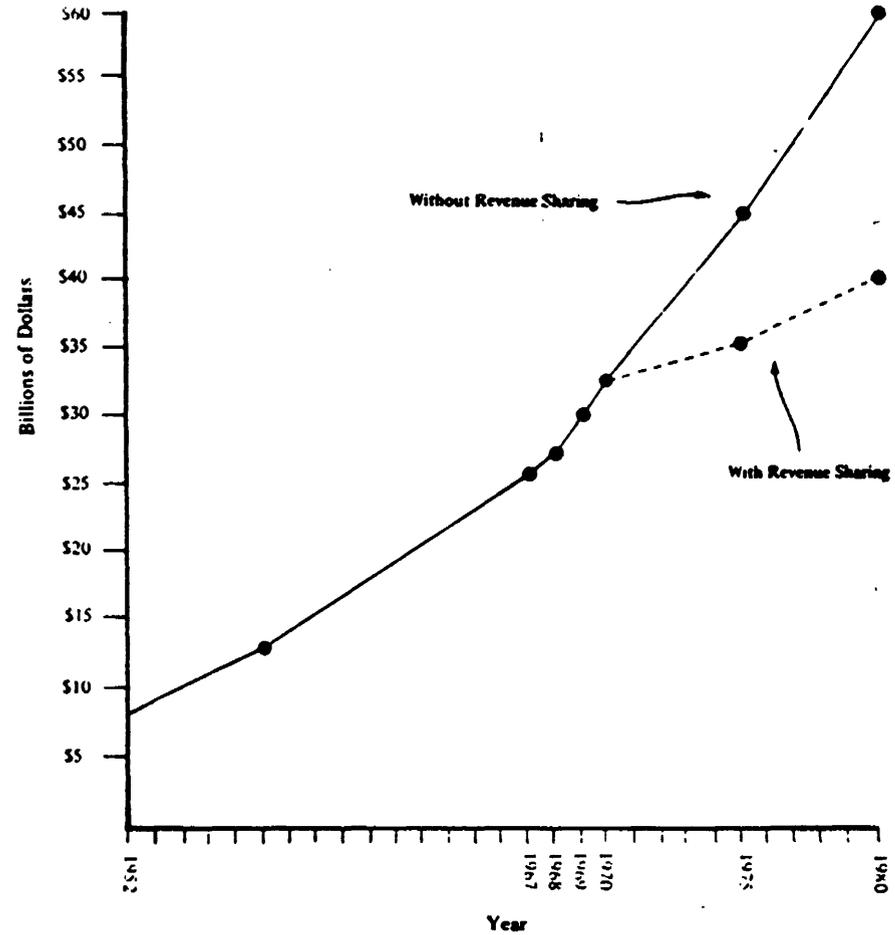
We have all seen studies showing that the local property tax is regressive and that it hits hardest upon those in our society who are least able to bear the burden. But, from the local government fiscal point of view it is also an inelastic tax source. It does not grow at the same rate as the economy. In fact, studies have shown that it grows only 95 percent as fast as the economy. This means that not only do we have to raise property tax rates to meet increased service requirements, but also to catch up with inflation and the economy. The Federal income tax, as you are more aware than we, grows at a much faster rate than the economy.

Local levies of this inelastic property tax have grown from about \$8.2 billion in 1952 to an estimated \$32.5 billion in 1971. Without revenue sharing, we can most likely anticipate that it will grow to about \$45 billion by 1975 and an unbelievable \$60 billion by 1980. I think you have to take into consideration in some homes people are paying as high as 10 percent of the current market value in property taxes right now and if we project these figures it is almost inconceivable that property taxes can continue to increase at this rate.

Even though general revenue sharing will not reverse or completely stop the growth of property tax increases, it will reduce this rate of increase significantly. I would also like to direct your attention to attachment 3, which illustrates the potential property tax growth, with and without general revenue sharing.

(The attachment follows:)

**How Revenue Sharing  
Will Help Curb  
The Rising Property Tax**



Future Projected Property Tax Levies:  
With Revenue Sharing: - - - - -  
Without Revenue Sharing: \_\_\_\_\_

**Judge LEHR.** We must also remember that local officials throughout the Nation have been and are taking the political heat when they are forced to and do raise their property tax rates each year. We are willing to take this heat. But we also need your help via the Federal personal income tax, which has had the luxury of being reduced to various degrees four times in recent history.

Even with this tremendous fiscal crisis faced by counties and cities the growth in the property tax, county officials around the United States seem adamant in their opposition to an ever-growing number of specific, categorical grant-in-aid programs. We are just not able to secure the Federal funds that may or may not be available in an efficient and timely manner. I do not think there is any county elected official that would not trust the judgments of Congress in determining what categorical grant programs would be applicable on a local level. The fact is we do not feel it is the judgments of Congress that make these categorical programs available. In our case in Kansas City it is most often some bureaucrat in Fort Worth, Tex., who really does not have a knowledge of what is happening in Kansas City and what is needed in Kansas City. We feel we have a greater knowledge to expend these funds and channel them into the most needed areas.

We strongly believe that it is time to put a lid on the number of these specific programs, over 500 at present by some counts and over 600 by others and to provide future assistance to State and local governments in a much more general nature. We can cite many examples of the redtape and waste in the present grant-in-aid system which we will not take your time here today. I am sure that each of you have had similar experiences when you have acted on behalf of your constituents to expedite a grant request or mitigate the redtape that has engulfed Federal-State relations. But the point is that we must stop and take a look toward reforming what we now have. At the same time, however, we must continue to help our States, counties, and cities with additional aid through general revenue sharing.

We also believe that H.R. 14370 goes a long way towards achieving this goal. However, we have a number of suggestions which we believe will improve this bill and make it more meaningful and give it more flexibility in decisionmaking authority at the local level.

Ideally, counties would like to see all restrictions on local spending contained in the House bill removed. Only in this way can we really achieve the local flexibility necessary to set and carry out priorities that vary so much from community to community. If the U.S. Congress is really serious about reversing the centralization of power, and in providing a more meaningful role for its citizens in decision-making, then we believe that the restrictions in H.R. 14370 are completely unwarranted. State and local officials can be trusted. We have to answer to the voters and taxpayers each and every day through the local media. We certainly have to answer at election time to the voters who send you to Congress.

However, if Congress finds it necessary to place some restrictions on local expenditures of these funds, we strongly urge that, as a minimum your committee expand the list of "high priority expenditure items" beyond those in the present legislation. As you know, the categories for which funds may be spent under H.R. 14370, include public safety (law enforcement, fire protection, and building inspection), environmental

protection, and public transportation. We would strongly recommend that the list of items for operating and maintenance expenditures be expanded to include public health, recreation, and fiscal administration; that the term "law enforcement" be changed to "criminal justice," so that it will include such public functions as corrections, courts, rehabilitation, et cetera, as well as police protection; that the list of items for capital expenditures be expanded to include the purchase of open space lands; and that local governments be allowed to use the funds to match other Federal grant-in-aid programs.

As defined now, the list of high priority expenditure items would greatly restrict the use of funds by many of our county governments throughout the United States. Many of our counties may be able to expend the funds on only one or two items which are on the list. This would have the effect of making it a little more than a grant-in-aid program for a specific function. It would not allow the flexibility needed for counties to spend the funds on those services which are the highest priorities in their communities. It would have the effect of thwarting the will of the Congress in making sure that the funds are expended for high priority purposes.

It so happens in our particular county, Jackson County, we have adequate funding in the area of police protection at this time because of special levies that have been provided.

It also so happens we have a deplorable jail condition, I mean a deplorable jail condition. We can compete with the worst jails in the country when it comes to talking about problems in jail. We are beginning to try to solve this problem, but, for instance, if general revenue sharing came we would want to put some of this money into the jail problem.

It so happens the way we understand it, that it could be put into law enforcement where we do not need money but could not be put into a corrections facility where we greatly need money. We have a—programs are generally inadequately funded. There are special levies that in some cases are adequate and if it so happened that these special levies were providing the services needed in an area that revenue-sharing money were available, but not needed, I am afraid you would find some tax levies cut and revenue-sharing money replacing these tax levy cuts.

I do not think this is the intention and I think this would be disastrous if we ever got into a situation like this where anyone using revenue sharing could cut local taxes. If we are in a financial crisis I do not think it would be fair to ask the Federal Government to send us a check and then use it to cut local taxes.

I think by restricting it to specific categories this is, in fact, what could happen because as this was used in a specific category, if there was a specific levy for this, I think there would be a tendency to cut that particular levy.

We sincerely hope that you will remove all restrictions in the bill and permit local governments to expend the funds for any legitimate purpose allowed under State laws and in a nondiscriminatory fashion. The bill now provides this flexibility to State governments with respect to the expenditure of their \$1.8 billion share. However, at a minimum we hope you will expand the categories as we have suggested above.

There have been a number of witnesses before your committee who have made suggestions for either minor or drastic changes in the formula for distributing the \$3.5 billion to local governments. Obviously, we have seen that here this morning. We hope that you will ignore these suggestions. As you have probably discovered, and the Ways and Means Committee certainly knows, it is very, very difficult to devise a perfect national formula for distribution of funds that will take into account the many different local circumstances around the country. Given this inherent problem, H.R. 14370, we believe, comes as close as possible to devising such a formula. It is by no means perfect, but we feel it is a good formula. Certainly, if it can be improved on, our main concern is to get revenue sharing and in some form that is acceptable and is effective. It also has the added advantage of providing flexibility in that it allows State governments to change the ingredients of the formula where local needs dictate. The bill provides that after June 30, 1973, a State may provide that the straight population portion of the county and city shares of the funds may be adjusted for per capita revenue effort, excluding educational revenues. Also after that date, a State may change the three-part formula for allocation of funds among counties, providing that each third of the formula may be adjusted by a State within a range of 25 percent minimum to 40 percent maximum.

We urge you to retain the formula as it is contained in H.R. 14370

As is apparent from our testimony, we believe that the goal of general revenue sharing is an obvious one. We believe that our arguments in support of general revenue sharing are valid. We commend this program to you for positive action and strongly urge you to act quickly so that these funds may reach our States, counties, and cities who so desperately need them.

Thank you.

I now would like to present Mr. Mills, if that is proper at this time.

Mr. MILLS. Mr. Chairman, Senator Bennett, Senator Fannin, I join Judge Lehr in thanking you for allowing us to appear here this morning and particularly, Senator Long, for meeting with us for dinner once and breakfast on another occasion. Maybe we can make it a lunch and finish it out somewhere along the line.

The CHAIRMAN. Next time let me be the host.

Mr. MILLS. You can understand in my case that I am glad to be here. I start making up our Orange County budget this month and we are over 99 percent of our taxing limits right now with an estimated deficit facing us of \$2½ million next year.

I will not take up your valuable time, gentlemen, by discussing the details of this bill. I agree with Judge Lehr in the comments that he has made. I would rather take just a moment and touch on two or three items to indicate to you the problems that the counties face today and why this need for revenue sharing is so great for us.

Not only have our county budget skyrocketed. In my case, Orange County, N.Y., our budget in 3 years has gone from \$36 to \$54 million and we are a county of about a quarter of a million people, but even more significant to our taxpayers in Orange County, the percentage of total money raised by the real estate tax has increased from 29 percent in 1968 to 44 percent in 1972. And for those elected county officials who are endeavoring to meet genuine human needs of an ever-

more complex society and who must defend their programs before the electorate, and we do that as you gentlemen do, this trend toward a larger reliance on the inequitable real property tax is both devastatingly bad politics and progressively unfair to property owners.

Yet, experts at all levels of government concur in stating that governmental problem solving occurs best in many instances at the regional or at the county or at a consolidated county-city level. Certainly, Federal and State programs and plans are geared increasingly in this direction, and local municipal leaders are turning every day to the counties to solve problems no longer manageable at the city or town level.

I know, and I am sure George Lehr will agree with me, I receive local delegations almost every day asking me to head up problems at the county level which have grown out of hand at the town or city level. To be specific, our county government is right today currently entering or studying countywide reappraisal, planning and zoning, conservation, recreation, planning for housing programs, police services, solid waste disposal, reservoir land banking, sewer system planning, and a wide variety of health, mental health, and environmental control programs.

Virtually none of these programs existed at the county level 5 years ago. Yet, our county governments, unlike the Federal Government, are severely limited in their taxing powers and in some of the highest costing areas, particularly welfare or the court system, we have, in effect, no control over the rate of their expenditures.

Incidentally, I would like to point out that so many people in this country and so much of the news media seem not to recognize that these are county problems rather than local government problems, that we carry in essence the welfare load in the Nation for the delivery of these services.

Finally, all of us in government who are conscientious about our responsibilities view with concern the increasing welfare rolls, as I know you do, the lengthening court calendars, and the overflow jail occupancies which Judge Lehr mentioned. It is axiomatic to point out that the best and most economical way to solve these problems is not through greater doles, more crackdowns, and larger detention facilities. Rather, government must find long-term solutions in the areas of day care centers, halfway houses, job training and work release programs, health care and mental health centers, better housing and recreation facilities, migrant assistance programs, for example, in my own county and a host of other innovations that take patience, money, and local government guidance.

Gentlemen, we have come a million miles from the old county courthouse gang days in county government. Our department heads are professional public administrators, our staffs are experienced and dedicated, our operations are modern and increasingly computerized. But, we cannot perform the whole gamut of public services which we are called upon to perform and which our present day society requires on a real property tax base.

In behalf of my fellow county executives across the Nation, I urge the passage, as the judge does, this summer of a general Federal revenue-sharing bill.

Thank you very much, Mr. Chairman.

The CHAIRMAN. You are very welcome.  
 Senator Nelson, do you have any questions—

Senator NELSON. No.

The CHAIRMAN (continuing). To ask these famous gentlemen?  
 Senator Fannin?

Senator FANNIN. No questions.

The CHAIRMAN. Let me just ask one question that occurs to me.

Suppose in a substitute for the House formula for the local governments we just said we will look at how much these local governments collect in taxes for themselves, raised by their own tax efforts, and simply distribute whatever money is available within that State to those governmental units on that basis.

Now, obviously, that would provide incentive for those people to levy taxes on themselves for governmental services if they think it is desirable. How would that appeal to your group? I mean, if we want to—

Mr. MILLS. Possibly Mr. Tabor, speaking for NACO, would have a better nationwide view of that than I would as one county executive.

Mr. TABOR. Mr. Chairman, as you know, in the House bill right now, the way the counties are receiving the funds is substantially what you are suggesting here. Other parts of the formula are coming in when we are—first of all, dividing money among the States but then more importantly, dividing the money among municipalities in the counties.

I think that our position is that we have spent a long time in trying to come up with a formula which we could get the States and counties and cities to agree on and we have reached this and in trying to work with the Ways and Means Committee and Joint Internal Revenue Committee staff, we feel that this formula is not a perfect formula but it is probably the best one that we can reach agreement on.

We have to take into consideration, I think, Mr. Chairman, the fact that we do have different tax bases in different parts of the country. We have higher and lower numbers of poor people and we also, I think, have got to take into special consideration some of the particular strains that are felt in some of our cities in dense urban areas.

All of these are factors that we tried to crank into this formula that has been developed in this bill. If we just took it on a straight tax effort I suppose a lot of the counties would not fare that much worse or that much better. But that would not maybe meet the larger problems that we have in local governments.

The CHAIRMAN. I think you ought to be well aware of the fact that some of us, and I am certainly one of them, said I will vote for a revenue-sharing bill. Now, having said that, we reserve the right to vote for whatever formula appeals to us the most, and I have no doubt we are going to pass the bill, but I am also convinced that when the House Ways and Means Committee, which is composed on a population basis, proceeded to pass their bill, they did it in a way that they thought would appeal to the House as the House is constituted, and when they sent it to the Senate, we are constituted on a different basis and it stands to reason we are going to legislate the way we think the Senate would like for us to legislate, and we are a Senate committee. We are not an instrument of the House of Representatives.

I know as far as this Senator is concerned, I am going to try to vote to report a bill out there that I think would appeal to the Senate and

I know how the House Ways and Means Committee does business over there. I trade with them from time to time myself, especially at the time we get to conference, and they have a way of doing business by saying, here is what we have in mind and if you fellows will support this, we will report this measure out. If you do not support it, we will just see you some other time. We just have other things to do. Come back when you are ready to tell us you support it or what you would suggest.

And that is all fine for those people to do business in that fashion over there, but we do not like that "take it or leave it" approach. At least, we feel that they have a right to speak for themselves and to make some commitments on that side but we do not feel we are committed to that procedure over here.

Mr. TABOR. The only thing I could add to that, this is the first time this question has been proposed to us, this specific issue, and I think we really could not answer that all by ourselves. We would have to be discussing this with the State governments and with the city governments because we have tried to work together all the way through on this legislation.

Maybe Judge Lehr wants to add something to that.

Judge LEHR. Mr. Chairman, speaking for one county with about 700,000 constituents, I would say that I would certainly support anything which required a continued local income effort and a continued—I would hate to see any county under any conditions use this as an excuse to decrease taxes locally. I think that would be a mistake and I do not think that would be the intention of the bill.

Income effort, I think, from a local—I would certainly support any provisions that would require income effort from a local county or community standpoint, speaking for myself and one county.

Mr. MILLS. I would, too, Senator. As far as our county is concerned, I would be very happy to do that but I have the same fear that Ralph does, that I think you have to be cautious about getting an upset situation with all kinds of municipalities across the Nation.

The CHAIRMAN. Thank you very much, gentlemen. We appreciate your fine testimony here today.

Now, our next witness will be Mr. Andrew J. Biemiller, director, department of legislation, American Federation of Labor and the Congress of Industrial Organizations.

Mr. Biemiller, we are pleased to welcome you back before our committee. I am sorry to report that we did not have as much success in supporting a measure that you advocated yesterday that I would have hoped for. I hope the committee will have better luck this time.

**STATEMENT OF ANDREW J. BIEMILLER, DIRECTOR, DEPARTMENT OF LEGISLATION, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS, ACCOMPANIED BY NATHANIEL GOLDFINGER, DIRECTOR, RESEARCH DEPARTMENT, AND ARNOLD CANTOR, ECONOMIST, RESEARCH DEPARTMENT**

Mr. BIEMILLER. Thank you very much, Mr. Chairman. I share your grief over the vote of yesterday.

The CHAIRMAN. We made a noble effort but we did not have enough votes when they called the roll.

Mr. BIEMILLER. As you stated, I am appearing on behalf of the AFL-CIO. I am accompanied by Mr. Nathaniel Goldfinger, director of our research department, and by Mr. Arnold Cantor, who is an economist in our research department.

I have filed a statement which I will summarize before the committee and assume that the statement as filed will be entered in the record, including the appendages.

Mr. Chairman, the American labor movement's concern for sharply increased investments in the Nation's public facilities and services has been a long one and a consistent one.

We have long advocated increasing the quantity and quality of these investments at all levels. There is no question in our minds that if such improvements are to occur, the Federal Government's role must be expanded substantially—directly and through intergovernmental aids.

Unfortunately, it is our judgment that the State and Local Fiscal Assistance Act of 1972 (H.R. 14370), in its present form, will be a cruel disappointment to its advocates. It will fall far short of its intended goals and set a dangerous precedent—a precedent which potentially could hamper the Nation's ability to provide the public investments needed to improve the quality of life in America.

Federal intergovernmental assistance or revenue sharing—is nothing new. The first Federal aid programs date back to the Articles of Confederation of the 1780's, and today Federal aids account for over one-fifth of the revenue of the State and local governments. Over the past decade the amount of nationally collected revenues shared with the States and localities underwent a fivefold rise—from \$8 billion in 1962, to an estimated \$39 billion for the fiscal year just ended. A decade ago the States and localities relied upon the Federal Government for 11 percent of their income compared to today's 21 percent.

Yet, despite this remarkable response, an even greater Federal commitment is required. Financially strapped State and local governments need more help and the Nation generally is suffering the consequences of backlogs, shortages, and cutbacks in public investments.

This bill does not address itself to increasing investments in public facilities and services or improving their quality, effectiveness, and distribution. It will do little to stem the budgetary crisis faced by many States and virtually every large city.

The main feature of this bill is the establishment of a new delivery system for Federal tax receipts—a delivery system which departs substantially from the existing system of Federal grants-in-aid. Presently funds flow to the States and localities for specific purposes geared to serve the Nation's interest. The aid programs are established by Congress through the normal process of legislation, authorization, and appropriation. The purposes of the programs are spelled out and they must meet the test of aiding in the provision of a public facility or service that is in the national interest. The Government receiving the funds must use the money for the purpose specified and must meet performance conditions, such as civil rights and labor standards.

Under this bill \$29.5 billion in Federal money would be channeled to the States and localities over a 5-year period. The funds would flow automatically regardless of the Federal Government's financial position since the appropriations committees would be completely by-

passed; 60 percent of these funds, or \$17.5 billion, would be dispensed to some 39,000 local governments, and the States would be entitled to \$12 billion.

The local share of the funds would be subjected to broadly defined so-called high priority program categories such as environmental control. Yet, there is little in the bill to prevent a community from merely substituting Federal money for current outlays made from their own funds.

As to the \$12 billion State share, there is not even the pretense of an attempt at congressional oversight, Federal control, or standards of performance. The State share is totally no-string attached.

The result is, there can be no assurance that this bill would increase investments on these "high priority" public outlays. And they potentially could lead to tax reductions—reductions which might well be appropriate for certain communities but should not be underwritten by Federal funds collected from other taxpayers in other communities.

What is more, the labor standards provisions in the local funds are weak and likely to prove unenforceable; no standards apply at all to the State share. Civil rights guarantees are likely to prove difficult, if not impossible to enforce, since the Federal aid would be commingled with other State funds. Further, there is no protection against funds being used to encourage industry to move from one location to another.

The AFL-CIO position on no-strings revenue sharing has been stated time and again through convention resolution, executive council statements, and legislative testimony. This past November by unanimous convention action, the AFL-CIO reaffirmed its opposition to no-strings aid.

It was the convention's view that:

\* \* \* the Nation's interests will not be served through no-strings-attached delivery systems for Federal aids which are not tailored to specific program needs, developed in line with national goals and priorities, subject to congressional scrutiny, and conducted under Federal standards of performance.

Thus, Mr. Chairman, it is our view that nationally collected tax dollars must be used in the national interest. We are opposed to any change in the delivery system for Federal aid that does not meet this criterion.

Our major objections to H.R. 14370 and suggestions for strengthening the bill are as follows:

1. The legislation completely bypasses the appropriations committees. This, in our view, represents a hazardous tampering with the legislative process and is particularly onerous in a program such as this; for not only will the uses of the funds be essentially devoid of Federal control, so will the amount of the funds. For 5 years there will be no opportunity for congressional review nor will there be any opportunity to weigh the funding of H.R. 14370 against other demands upon the Federal budget.

We recognize the need for the State and local governments to have an assurance that aid money called for in the substantive legislation will be forthcoming. Such assurances can be granted without sabotaging the existing appropriations process by forward funding of 1 or perhaps 2 years.

2. Local governments would receive two-thirds of the funds in the first year of the program but their relative share would decrease in

each subsequent year, falling to only 55 percent in the fifth year. The State share, which is totally without program requirements or labor standards, would be increased each year.

In recent years the States have exhibited a greater responsiveness to their local governments. Nevertheless, the role of the State capitols still leaves much to be desired and Federal aids must emphasize the needs of the cities—particularly the Nation's larger urban areas.

3. The "high priority" local government expenditure categories are so broadly defined that, apart from education and welfare, few functions could be excluded. The categories should be spelled out in greater detail and the bill should insure that the aid results in net increases in public facilities.

Similarly, the States should be required to place their share of the aid into escrow funds. Outlays from these funds should be limited to specific categories of expenditures. Reports should be required and the Secretary of the Treasury and the Comptroller General should have the right to review the operations of the funds.

4. The labor standard sections that apply to local government expenditures are weak and would be difficult, if not impossible, to enforce. The State share has no labor protection provisions whatsoever. The legislation should include adequate language applying to both the State and the local share, which would assure that rights of workers are protected. Strong antipiracy language should be included. Our suggestions for language which would assure such protections is appended to the full statement.

5. The income tax incentive is much too weak. It is our view that if the States are to help themselves in closing the gap between public needs and resources, they must look to progressive income taxes. Thus, the State share of the funds should be entirely conditioned upon income tax effort as was the case in the original revenue sharing bill (H.R. 11950), introduced by Mr. Mills. The House bill cuts the income tax incentive in half and, even within the half, States without income taxes would receive a share of the funds.

Mr. Chairman, even if our objections were met, this bill in our judgment, would still represent at best a stopgap measure which promises infinitely more than it will deliver. Moreover, we feel that this legislation will not add one Federal penny to the money available to the States and localities. It will merely be a substitute for the full funding of existing aid programs. And it could block or slow down new or expanded grant-in-aid programs that would effectively meet the multiplying needs for virtually every type of public investment—from sewer systems and waste-treatment facilities to urban mass transit, education, health care, public safety, libraries, roads and airports.

The AFL-CIO's lack of enthusiasm for this bill is not based on negativism. There is no question in our minds that the Federal Government's role in helping the States and localities must be strengthened. We believe strongly in the federal system. We have faith in its ability and we would like the system preserved and strengthened. At the same time, we are painfully aware of the problem facing our Nation.

To us, particularly in this era of severe Federal budgetary restraints, every effort must be made to get the most out of each available Federal dollar to improve the quality of American life. Complex arithmetic formulas are at best haphazard substitutes for selective and

specific programs to help target groups of people and to meet top priority national needs.

We believe there are far better alternatives than those offered in the legislation before this committee. We have detailed these alternatives in the full text of our statement. Briefly, we feel that the first order of priorities should be the full funding of existing Federal grant-in-aid programs, a sharp change in the disastrous economic policies of this administration, Federal takeover of a greater share of the costs of education and welfare, tax reform at all levels of government and speedy enactment of a program of national health security.

In addition, existing categorical aid programs should be reviewed to increase their efficiency, and new financing methods such as a Federal urban bank should be explored. And the States themselves must launch on a program of government modernization.

In conclusion, it is the AFL-CIO's firm belief that the best interests of the States, the cities, and the citizens will not be made through the State and Local Fiscal Assistance Act, in its present form.

We have outlined what we believe to be the major weaknesses of the bill. If it is the will of the Congress to enact legislation such as this we urge that at a minimum these weaknesses be corrected. Nevertheless, we still believe that grant-in-aid programs with Federal standards, Federal guidelines, and Federal review have served our Nation well and the Federal Government should meet its responsibility to all Americans through programs that are developed by the Congress, enacted by the Congress, funded by the Congress, and reviewed by the Congress. "No-strings revenue sharing" may be an attractive sounding concept, but we in the AFL-CIO are convinced that it is not the best approach to the multitude of national problems. There are many excellent Federal programs now on the law books. There are well defined concepts and procedures that are available to State and local governments to help meet their needs and assure that national interests and priorities are maintained.

We in the AFL-CIO will work with all governments—State, local, and Federal—to help bring about solutions to these problems through the proposals we have offered today.

The CHAIRMAN. Thank you very much.

Senator Nelson?

Senator NELSON. I will pass for the moment.

The CHAIRMAN. Senator Fannin?

Senator FANNIN. Thank you, Mr. Chairman.

Mr. Biemiller, we have heard from mayors and Governors in the past few days and they have stated before us that they would be forced to dismiss many employees if these funds were not forthcoming. In other words, you say it would not be of any assistance to them. You practically say that in your statement. They have stated that some categorical grants programs which you seem to favor have worked national hardships on the States because of the stipulations that they must furnish a certain percentage of the money, and without having the opportunity of determining their priorities.

Are you basically saying that you do not favor general revenue sharing but favor categorical grants?

Mr. BIEMILLER. That is the position we have maintained for many years.

Senator FANNIN. Well, what is your position, then, from the standpoint—

Mr. BIEMILLER. I may add—

Senator FANNIN (continuing). From the standpoint of the testimony of the mayors and Governors that they will be forced to dismiss many employees if these funds are not forthcoming?

Mr. BIEMILLER. I might add that we have also been hearing from the mayors and the Governors in extenso, as you might well imagine. I am disturbed because some of the mayors and Governors will tell you off the record that they intend to reduce taxes at the local level if this bill passes. It is not just a question of their claims that they are going to have to lay off people, but I suspect that in many cases the local officials are looking upon this legislation as a way of reducing property taxes in their areas. And this is something that we would absolutely be opposed to.

We think that at an absolute minimum you have got to, as the chairman was suggesting a little while ago, write in a maintenance of efforts provision that really has some teeth in it if you are going to pass this legislation.

Senator FANNIN. I agree on the maintenance of efforts but I understand you advocate we have a progressive income tax and that if I am not wrong, your people have stated that they feel that the property tax is inequitable in many instances.

Mr. BIEMILLER. That is correct. We have urged the provision that was in the original Mills bills, which would have stimulated the enactment of progressive income taxes, which we regard as a far fairer form of taxation. But at the same time, I do not believe that we should permit Federal funds to be used willy-nilly to reduce local taxes and that is one of the things that we fear is going to happen.

Senator FANNIN. Well, your statement willy-nilly is not in conformity with what some of the mayors and Governors stated. They did admit in some instances that where there were unfair taxes being applied, that they would in some cases use these funds to try to alleviate this problem that has been a hardship on the people in a particular locality or State. So would that not be a legitimate utilization of the money?

Mr. BIEMILLER. I do not doubt the good faith of many mayors and Governors who have been making such statements, but we believe that those problems should be handled at their local level. We believe firmly that the revenues of the various groups should be raised and then supervised fully by those that are raising the funds.

Senator FANNIN. Well, in my opinion, the primary purpose of revenue sharing is to strengthen our Federal system. I know you stated you want to strengthen the Federal system. The Federal Government has in two instances—I will just relate them to you—heard the distinction between Federal and State Governments. No. 1, the preemption of the source of tax funds by our Federal tax program, and number 2, offer grants-in-aid programs with matching funds which I stated earlier many times do not have high priority in the States but because of the basis upon which the requirements must be met, they do work hardships on the particular locality or the State. To solve the problem we must get funds at State and local levels without Fed-

eral direction and control of spending. Otherwise we are not going to help them solve those problems.

Mr. BIEMILLER. That is where we differ in our approach to this question.

Senator FANNIN. Well, you will admit that the needs are not uniform throughout the United States as far as that is concerned, will you not? The needs are not uniform. There is not the same need perhaps in New York that there is in, say, some small community in Arizona, to take my own State.

Mr. BIEMILLER. I think the loudest protest that we have had has come from New York City in terms of lack of funds.

Senator FANNIN. That is right, and I know it, and it has not been—this is what I say. Some States and localities are losing population. Others are adding population very rapidly and have different problems, so that is one of the reasons that I think we have considered revenue sharing, is that it does give some priority to the needs of the community as determined by the people themselves, and after all, they are the ones that pay the Federal taxes, they are the ones that pay the State and local taxes.

Mr. GOLDFINGER. But the absence of any strings, as we see it, removes any kind of congressional oversight, and these are some of the difficulties as we look at the problem, some of the real basic difficulties with the general revenue-sharing approach.

We certainly have a good deal of sympathy, and we understand the plight of the States and local governments. We are in support and have supported Federal financial assistance to the States and local governments, but not in the form of general revenue sharing.

Senator FANNIN. Well, let me just give you an example. Better than 70 percent of our State is either owned or controlled by the Federal Government; 27.7 percent is owned by the Indians, Indian people of our State. Now, we have a far different problem in taking care of these constituents, the Indian people, and those that are involved in Federal land or Federal facilities, than do most of the States of the Nation. We do have specific problems that can be assisted by the general revenue-sharing bill program.

Now, would you not favor that procedure being followed, where there is a priority there that must be met?

Mr. GOLDFINGER. Well, we think that it is the function of Congress to establish national priorities for the use of Federal funds.

Senator FANNIN. Well, the money is all coming from the same pot. Do you not agree with that?

Mr. GOLDFINGER. Well, the money is coming from the same pot in the sense that it is coming from the citizenry, that is true, sir.

Senator FANNIN. That is right. That is the only way.

Mr. GOLDFINGER. However, it comes in different forms and different ways. The money collected by the Federal tax structure is based upon the Federal tax code and the whole Federal tax system, which is enacted by Congress.

Senator FANNIN. That is right.

Mr. GOLDFINGER. And we feel that in the sense of preserving this 3-tier Federal system that we have in this country, it is necessary for the Congress and for the Federal Government to have an oversight

function on the funds that are spent, because these are Federal tax receipts which will be handed out to the States and local governments.

Senator FANNIN. The Federal-State system.

Mr. GOLDFINGER. Yes.

Senator FANNIN. You would not say it is just a Federal system. It is a Federal-State system and the Federal Government in my feeling, has preempted the source of revenue from the States and in passing back some of the money to the States, it certainly should be considered that they have a say in how those funds are going to be expended. That is the whole idea of this program, but you do not agree with that.

Mr. GOLDFINGER. No. We differ with you, sir, on the mechanism, on the machinery, on the delivery system.

Senator FANNIN. But you are still willing to utilize this, this particular bill, and in your statement, you are still willing to utilize this to impose upon the States legislation, labor legislation, that would otherwise not be imposed.

Mr. BIEMILLER. We are asking to do exactly the same thing that Congress has done in many, many grants. We have always put certain restrictions on the categorical grants.

Senator FANNIN. On Davis-Bacon.

Mr. BIEMILLER. On Davis-Bacon and minimum wages, anti-pirating.

Senator FANNIN. As far as Davis-Bacon at the local levels and at the State levels, on all of your categorical grants programs you have not imposed these restrictions.

Mr. BIEMILLER. There are very few that do not have Davis-Bacon in them.

Senator FANNIN. I think there are quite a number that do not utilize this procedure.

Mr. BIEMILLER. There was a recent hearing in the Banking and Currency Committee in which the proposal was up to withdraw Davis-Bacon and this administration appeared in opposition to withdrawing the Davis-Bacon provisions.

Senator FANNIN. This Senator certainly did not. I am not going to argue that point. But I just feel you want to utilize the provisions of this bill to bring about what will assist you but you are very much opposed to giving the States the privilege of making these decisions. That is—States and localities.

Thank you.

The CHAIRMAN. Senator Hartke, do you want to ask any questions?

Senator HARTKE. I would just like to say, Mr. Biemiller, that I quite agree with you, that unfortunately as much as I am convinced that this bill is probably going to pass, that it is going to be a great disappointment, not alone to the recipients, not alone to the Congress, but a great disappointment to everyone who really thinks that some type of meaningful revenue sharing is a necessity and should be developed. It is not a question of the concept of revenue sharing that is bad.

Mr. BIEMILLER. Correct.

Senator HARTKE. It is just the fact that this is not the proper approach to the subject and I am glad you brought it to the attention of the committee.

If I told you I thought at this moment that you had much chance of defeating the bill I think I would be misleading you.

**Mr. BIEMILLER.** Well, Senator, you recognize very well what our basic position is and I might just add one point that is mentioned in our statement, but I want to emphasize it. We are well aware that many of the existing categorical grants could stand some review and some shifts in certain aspects of the way in which the funds are distributed. I believe this committee is in the middle of working on one of those problems at the moment. We are not saying that these categorical grants in their present form are perfect but what we say is we prefer that approach to that of general revenue sharing.

**Senator HARTKE.** Let me just point out again, I cannot understand, and I know you pointed out, why the Congress is so intent on relieving itself of any obligation to be sure that the taxes which the Federal Government collects are not going to be used for the benefit of its people. The whole idea of the appropriations process is the idea that you review how you are going to spend the taxpayers' money. For those people here who have objected to backdoor financing this is an extreme version of backdoor financing. It is something which has never even been thought about before.

I think that the people quite honestly can find fault with some of the so-called specific grants programs. On the other hand, many of the mayors and the Governors who have complained about the fact that the Federal Government has been the major participating factor in creating their financial chaos do not recognize the facts of life.

That is not the true situation at all. Hospitals have been built out across the Nation. These communities needed hospitals and if the Federal Government had not come in with matching programs they would not have had them.

The airport facilities which they need they would not have had. The sewage disposal plants they would not have had.

In the early sixties, the rural development of water supplies and sewage treatment plants was of great help to many communities. The programs of the EDA, the Economic Development Act, helped to bring jobs to people. I am a former mayor and I understand the problems of local financing. But for the mayors and Governors to complain that the Federal Government has helped to underwrite only part of their expenses since 1933 and then come in and complain that this help has been the cause of their own financial difficulties is outrageous. They are just not facing up to the facts of life.

One of these mayors criticized me very severely because I said I am not in favor of a no-strings-attached program, and that is what this is. We would not think of doing this with any department of the Federal Government. We would not think of putting through a no-strings-attached program and say we will just give the Department of Defense \$5 billion, give the Department of HEW, \$5 billion. It would be preposterous. It would be voted down and would not get a vote in the Senate or House, and yet I think this measure is going to get a vote simply because the public relations have been so good, because it is named revenue sharing. You are going to have another one of these public relations legislative acts, and the people are not going to benefit. The budget deficit will be bigger, and the problems will be more extreme.

**Mr. BIEMILLER.** You state our position very eloquently, Senator.  
The **CHAIRMAN.** Senator Anderson?

Senator ANDERSON. You used the term "delivery system," and your associate used the same term. What do you mean by "delivery system"?

Mr. BIEMILLER. The means by which Federal tax moneys are returned to the States and the cities. The present delivery system is that of categorical grants with congressional regulations outlining what can and cannot be done with the money. The proposal that is before you would at least as far as the States are concerned, give them complete carte blanche to use the money in any way they wanted to and in terms of the cities, for all practical purposes, it would do the same thing.

Senator ANDERSON. Delivery system is not important? Too important?

Mr. BIEMILLER. Pardon me?

Senator ANDERSON. I wonder if the delivery system is very important to you.

Mr. BIEMILLER. Yes. This is exactly our objection, is the no-strings concept. We think that the categorical system is infinitely preferable.

The CHAIRMAN. Thank you very much, Mr. Biemiller. Always good to see you and your fine organization represented up here.

Mr. BIEMILLER. Thank you.

(Prepared statement with attachment follows:)

**PREPARED STATEMENT OF ANDREW J. BIEMILLER, DIRECTOR, DEPARTMENT OF  
LEGISLATION, AFL-CIO**

The American labor movement's concern for sharply increased investments in the nation's public facilities and services has been a long one and a consistent one.

On countless occasions we have advocated increasing the quantity and quality of our nation's investments and improving the distribution of their benefits—as well as their costs—between the states and localities and America's economic groups.

Moreover, there is no question in our minds that, if such improvements are to occur, the federal government's role must be expanded substantially both directly and through intergovernmental aids.

Unfortunately, it is our judgment that the State and Local Fiscal Assistance Act of 1972 (H.R. 14370), in its present form, will be a cruel disappointment to its advocates. It will fall far short of its intended goals and set a dangerous precedent—a precedent which potentially could hamper the nation's ability to provide the resources needed to permit our three-level system of government to meet the requirements of a growing and increasingly urban population, and to improve the quality of life in America.

Federal intergovernmental assistance—or revenue sharing—is nothing new. It has been part of the American system of government since its very beginning. The first federal aid programs date back to the Articles of Confederation of the 1780s, and today over one-fourth of the federal revenues available for domestic use is shared with the states and localities. These federal aids account for over one-fifth of the revenue of the state and local governments. Moreover, during the past decade the amount of nationally collected tax receipts shared with the states and localities underwent a five-fold increase rising from \$8 billion in 1962 to an estimated \$39 billion for the fiscal year just ended. A decade ago the states and localities relied upon the federal government for 11% of their income compared to today's 21%.

Yet, despite the remarkable federal response to the needs of the states, and localities the rapid social and economic changes the nation has been undergoing demand an even greater federal commitment. Financially strapped state and local governments need more help in their efforts to meet their public obligations, and the nation generally is suffering the consequences of backlogs, shortages, and cutbacks in public facilities and services.

The bill before this Committee does not address itself to the critically important issue of increasing investments in public facilities and services or improving their quality, effectiveness and distribution. It will do little in terms of stemming

the budgetary crises faced by many states and virtually every metropolitan area of the nation.

In our judgment the main feature of this bill is the establishment of a new delivery system for federally collected tax dollars. Such delivery system departs substantially from the existing system of grants-in-aid whereby the federal government provides funds to the states and localities in accordance with specific purposes or "categories" geared to serve the nation's interest. The aid program under the present system are established by Congress through the normal process of legislation, authorization and appropriation. The purposes of the programs are spelled out by Congress and, since they are established through the checks and balances of the legislative process, the aid programs must meet the test of aiding in the provision of a public facility or service that is in the national interest and in accordance with national priorities. The state or local government receiving the funds must use the money for the purpose specified by Congress and must agree to certain performance conditions such as civil rights and labor standards.

Under this bill \$5.3 billion in federal money would be channeled to the states and localities in the first full year. Over the bill's five-year life a total of \$20.5 billion would be spent. The funds would flow automatically regardless of the federal government's financial position since the appropriations committees would be completely by-passed. Sixty percent of these funds or \$17.5 billion would be dispensed to some 39,000 local governments and the states would be entitled to \$12 billion.

The local share of the funds would be subjected to broadly defined so-called "high priority" program categories such as public safety or environmental control. Yet there is little in the bill to prevent a local community from merely substituting federal money for current outlays made from their own funds on such programs.

As to the \$12 billion state share of the funds there is not even the pretense of an attempt at congressional oversight, federal control, or standards of performance. The state share is totally on a no-string-attached basis.

Of course, the result is there is no assurance that the aids granted under this bill would in fact increase investments on these "high priority" public outlays. And they potentially could result in tax reductions—reductions which might well be appropriate for certain communities, but should not be underwritten by federal tax dollars collected from other taxpayers in other communities.

What is more the labor standards provisions on the local funds are weak and likely to prove unenforceable and no standards apply at all to the state share of the funds. Civil Rights guarantees are also likely to prove difficult if not impossible to enforce since the federal aid would be commingled with other state funds. There is no protection against funds being used to encourage plant and industry piracy from one location to another.

The AFL-CIO position on no-strings revenue sharing has been stated time and again through convention action, executive council statement, and legislative testimony.

This past November by unanimous Convention action the AFL-CIO reaffirmed its opposition to no-strings aid. The convention noted that "the federal government can best meet its responsibilities to the state and local governments and to all Americans through taxing and spending policies that are developed by Congress, enacted by Congress, funded by Congress and reviewed by Congress."

It was the convention's view that "... the nation's interests will not be served through no-strings-attached delivery systems for federal aids, which are not tailored to specific program needs, developed in line with national goals and priorities, subject to congressional scrutiny, and conducted under federal standards of performance."

Thus, Mr. Chairman, it is our view that nationally collected tax dollars must be used in the national interest. We are opposed to any change in the delivery system for federal aid that does not meet this criterion.

Our major objections to H.R. 14370 and suggestions for strengthening the bill are as follows:

1. The legislation completely bypasses the appropriations committees. This in our view represents a hazardous tampering with the legislative process generally, and is particularly onerous in a program such as this. Not only will the uses of the funds be essentially devoid of federal control, the amount will also be beyond the control of the congress. For five years there will be no opportunity for congressional review of the program nor will there be any opportunity to weigh and balance the funding of H.R. 14370 against other demands upon the federal budget.

We recognize that there is a need for the state and local governments to have an assurance that aid money called for in the substantive legislation will be forthcoming. However, such assurances can be granted without sabotaging the existing appropriations process by forward funding of one or perhaps two years.

2. Although local governments would receive two-thirds of the funds in the first year of the five-year program, their relative share would decrease in each subsequent year, falling to only 55 percent of the funds in the fifth year. The state share, which is totally without functional strings program requirements or labor standards, would be increased each year.

Although in recent years the states have been exhibiting a greater degree of responsiveness to the needs of their local governments, the role of the state capitols still leaves much to be desired. Thus we feel that any program of federal aid should emphasize the needs of the cities—particularly the nation's larger urban areas.

3. The "high priority" local government expenditure categories are so broadly defined that, apart from education and welfare, few functions could be excluded. We feel that these categories should be spelled out in greater detail and that the bill should ensure that the federal aid results in net increases in public facilities or services.

Similarly, the states should be required to place their share of the aid into escrow funds. Outlays from these funds should be limited to specific categories of expenditures. The states should be required to submit reports and the Secretary of the Treasury and the Comptroller General should have the right to examine and review the operations of these funds.

4. The labor standard sections that apply to local government expenditures are weak and would be difficult if not impossible to enforce. The state share has no labor protection provisions whatsoever. The legislation should include adequate language applying to both the state and the local share which would assure that rights of workers are protected. We have appended to our statement language which, in our view, would assure such protections. (See Appendix A.)

5. The incentive for the states to enact or increase their reliance upon income taxes is much too weak. It is our view that a good part of the state and local fiscal crisis stems from the failure of these governments to adopt tax structures that are fair and just and respond to the growing needs for public outlays. To be fair and productive, a tax structure must be based on ability-to-pay, on income. Consequently, if the states and localities are to begin to close the gap between public-service needs and available resources, they must increase their reliance upon truly progressive income taxes. Thus, the state share of the funds should be entirely conditioned upon income tax effort as was the case in the original revenue sharing bill (H.R. 11950) introduced by Mr. Mills. The House passed bill cuts the income tax incentive in half and even within that half states with no income taxes would receive a share of the funds for the entire five years.

Mr. Chairman, even if our objections were met, this bill, in our judgment would still represent at best a stopgap measure which promises infinitely more than it will deliver. Moreover, we feel that enactment of this legislation will not add one federal penny to the money available to the states and localities. It will merely be a substitute for the full funding of existing aid programs. And it could potentially block or slow down the needed expansion of grant-in-aid programs and the development of new ones that would effectively meet the nation's multiplying needs for virtually every type of public investment—from sewer systems and waste-treatment facilities to urban mass transit, education, health care, public safety, libraries, roads and airports.

The AFL-CIO's lack of enthusiasm for this bill is not based on negativism. There is no question in our minds that the federal government's role in helping the states and localities meet their public obligations must be strengthened. We believe strongly in the federal system. It has made us the greatest nation on earth. We have faith in its ability to serve its citizens and we would like to see the system preserved and strengthened. At the same time we are painfully aware of the problems facing our nation—problems that are in large measure due to the severe backlogs and shortages in public investments. We believe there are far better alternatives to the solution of these problems than those offered in the legislation before this committee.

To us, particularly in this era of severe federal budgetary restraints, every effort must be made to get the most out of each federal dollar that can be set aside to meet priority national needs, such as education, training, health, pollution control, public assistance, urban transportation and improve the quality of Ameri-

can life. Complex arithmetic formulas are poor substitutes for selective and specific programs to help target groups of people and to meet top priority national needs.

The federal government can help the states and localities by improving the present aid delivery system, sharply increasing grants, fully funding the programs that are already in operation, and releasing those grant-in-aid funds that have already been authorized and appropriated but the Administration refuses to spend.

Thus, the AFL-CIO urges:

**1. Full funding of existing federal grant-in-aid programs**

A study made by the Advisory Commission Intergovernmental Relations demonstrated that if the gap between grant authorizations and appropriations between 1966 and 1970 had not widened, an additional \$8 billion in federal aid would have flowed to the states and localities in 1970. Though more up-to-date information is not available it can be estimated safely that today this gap is in the neighborhood of \$10 billion annually—almost double the amount of funds provided in H.R. 14370.

In addition, according to the latest figures released by the Office of Management and Budget, the White House has "frozen" some \$11 billion in funds already committed by the Congress. Dozens of specific federal programs ranging from urban mass transit to Appalachia have been shortchanged because appropriated funds have been withheld after the Congress specifically directed the money be spent and the President had signed the bills into law. Thus, the Administration is sitting on billions of dollars of aid that could be dispensed immediately to assist state and local governments in meeting their needs.

And, of course, the President's callous use of his veto power over legislation such as health care, aid to education, child development and the like has further hamstrung the fiscal capabilities of the state and local governments.

**2. Federal stimulative policies to boost sales, production and employment**

The most crucial factor affecting state and local budgets as well as the budgets of American working men and women, is the sluggishness and stagnation that has pervaded the nation's economy as a result of this Administration's disastrous economic policies. These economic policies have been denying jobs to five million workers and the burdens placed upon state and local governments due to inflation, recession and high interest rates dwarf the benefits of no-strings revenue sharing proposals.

According to the Joint Economic Committee, the high levels of unemployment cost the state and local governments \$7 billion in 1971 tax revenue. And, this estimate does not include the added burden on state and local government treasuries resulting from high interest rates, inflation and increased outlays necessary for public assistance and unemployment compensation. Including these items would probably drive the revenue loss up to an amount in excess of \$10 billion.

**3. Federal takeover of a greater share of the costs of welfare**

If, for example, the amendments on welfare reform to H.R. 1, as submitted by Senator Ribicoff, were to become law, the states and localities would receive an estimated \$3.8 billion in this fiscal year.

**4. Federal takeover of a greater share of the costs of education**

In 1970 \$37.5 billion was spent on local schools and only 10% of these expenditures were underpinned by federal grants-in-aid.

**5. A careful review of present federal categorical grants**

Such a review should aim at consolidating overlapping grants, increasing their efficiency, examining matching fund formulas, and making it easier for state and local officials to be aware of and obtain the federal aids available to them.

However, the purposes, performance standards and requirements of the programs must be safeguarded in any consolidating and streamlining of grant programs.

**6. The unfinished business of tax reform must be undertaken at all levels of government**

The great reliance of the states and localities on unfair and unproductive tax structures has contributed substantially to their failure to meet their public needs. Tax policies such as the enactment of the Administration sponsored business tax giveaways of the Revenue Act of 1971 and the conspicuous lack of action on tax reform has placed billions of dollars beyond the reach of the federal

government. Dollars that could have been used to fund programs to help state and localities promote tax justice as well as add a badly needed boost to the confidence of the American people in the ability of their government to tax and spend in the public interest.

#### **7. Modernization of state and local governments**

For some states, constitutional reform is most needed; for others, tax reform; still others might require shifts in responsibilities between the state and local governments. In some states, for example, virtually all costs of elementary and secondary education are borne by local governments. The state share in 1970, ranged from only 2.7 percent in New Hampshire to 85.8 percent in Hawaii. For the U.S. as a whole, local governments revenue finance over half the cost of elementary and secondary education. Similarly, in some states local funds are used for up to one-third of public welfare costs while in others the state pays the full state share.

A study of consolidation of inefficient local government units—particularly school districts—should be pursued. Many of the 81,000 local spending and taxing units of government present an obstacle to raising and using public funds efficiently. This proliferation of local governments has led to difficulties in enforcing and collecting local taxes and to high tax-administration costs. Many localities are too small to raise the revenue needed for public facilities and services. Jurisdictions determined by historic or geographic accidents—or overt attempts to “zone” out the poor—are not responsive to modern economic and social needs. Many others represent boundary lines that are obsolete and do not reflect present economic realities.

#### **8. New financing methods**

Institutions, such as a federal Urban Bank, should be explored to provide states and localities easier access to long-term, low-interest loans for the construction of public housing, urban transit systems, and other community facilities.

#### **9. Finally, in our view the most critically important public service measure is now before the Congress—a program of National Health Security**

The absence in this nation of a program of quality and efficiency in the delivery of medical care to all U.S. citizens is America's most glaring and grievous public service failure. What is more, a National Health Security program would relieve the states and local governments of at least \$3 billion of costs they currently incur under Medicaid, health insurance coverage for their own employees, and the service provided to low-income persons through city and county hospitals.

In conclusion, it is the AFL-CIO's firm belief that the best interests of the states, the cities and the citizens will not be met through enactment of the State and Local Fiscal Assistance Act in its present form.

We have outlined what we believe to be the major weaknesses of the bill. And if it is the will of the Congress to enact legislation such as this we urge that at minimum these weaknesses be corrected. Nevertheless, we still believe that Federal grant-in-aid programs with federal standards, federal guidelines, and federal review have served our nation well and the Federal government should meet its responsibility to all Americans through programs that are developed by Congress, enacted by Congress, funded by Congress and reviewed by Congress. “No-strings revenue sharing” may be an attractive sounding concept. But we in the AFL-CIO are convinced that it is not the best approach to the multitude of national problems that our federal system must cope with. There are many excellent federal programs now on the law books. There are well defined concepts and procedures that are available to state and local governments to help meet their needs and assure that national interests and priorities are maintained.

We in the AFL-CIO will work with all governments—state, local and federal—to help bring about solutions to these problems through the proposals we have offered today.

### **APPENDIX A**

#### **LABOR STANDARDS AND PROTECTIONS**

##### **DAVIS-BACON**

#### **Section 105 (a) (6)**

That all laborers and mechanics employed by contractors or subcontractors in the performance of work on construction financed in whole or in part out of funds established under this Act will be paid wages at rates not less than those

prevailing on similar construction in the locality as determined by the Secretary of Labor in accordance with the Davis-Bacon Act, as amended (40 U.S.C. 276a-276a5), and that with respect to the labor standards specified in this paragraph the Secretary of Labor shall act in accordance with Reorganization Plan Numbered 14 of 1950 (15 F.R. 3176; 64 Stat. 1267) and section 2 of the Act of June 13, 1934, as amended (40 U.S.C. 276c).

#### PREVAILING WAGE

##### *Section 105 (a) (7)*

Persons employed in jobs financed in whole or in part under this Act shall be paid wages which shall not be lower than whichever is the highest of (A) the minimum wage which would be applicable to the employee under the Fair Labor Standards Act of 1938, if section 6(a)(1) of such Act applied to the participant and if he were not exempt under Section 13 thereof, (B) the State or local minimum wage for the most nearly comparable covered employment, or (C) the prevailing rates of pay for persons employed in similar public occupations by the same employer.

In order to qualify for any payment under this subtitle for the entitlement period beginning on January 1, 1972, and ending on June 30, 1972, a local government must establish to the satisfaction of the Secretary that it will use such payment only for high-priority expenditures and will comply with such other requirements, consistent with the preceding sentence, as may be established by the Secretary.

#### MASS TRANSIT

In order to assure compliance with existing labor protection provisions contained in the Urban Mass Transportation Act of 1964, as amended and other similar public transportation programs in public transportation projects financed or assisted under H.R. 14370, the Revenue Sharing Bill, it is suggested that the following additional paragraph be inserted in section 105(a) following paragraph (7) thereof:

"(8) that any program financed in whole or in part out of funds provided for under this Act for which federal grants or assistance are authorized or provided under section 3(e)(4) of the Urban Mass Transportation Act of 1964, as amended shall comply with all the terms and conditions which would apply if such program were financed or assisted pursuant to such section. Suits to enforce any right, benefit or interest hereunder may be brought in any United States District Court having jurisdiction of the parties, without respect to the amount in controversy or without regard to the citizenship of the parties, and such court shall have jurisdiction to grant such relief as may be appropriate."

#### ANTIPIRACY

In order to assure compliance with existing anti piracy provisions contained in the Economic Development Act of 1965, it is suggested that the following language be inserted in H.R. 14370 as Section 145:

"Any program financed in whole or in part out of funds provided for under this Act for which federal grants or assistance are authorized or provided under Section 202 (b) (1) of the Economic Development Act of 1965 shall comply with all the terms and conditions which would apply if such program were financed or assisted pursuant to such section. Suits to enforce any right, benefit or interest hereunder may be brought in any United States District Court having jurisdiction of the parties, without respect to the amount in controversy or without regard to the citizenship of the parties, and such court shall have jurisdiction to grant such relief as may be appropriate."

The CHAIRMAN. Now, the next witness will be Mr. Walker Winter, chairman of the Taxation Committee; and Mr. Ivan C. Elmer, committee executive of the Community and Urban Affairs Committee of the U.S. Chamber of Commerce; accompanied by Mr. Robert R. Stateham, taxation and finance manager.

**STATEMENT OF WALKER WINTER, CHAIRMAN OF THE TAXATION COMMITTEE, CHAMBER OF COMMERCE OF THE UNITED STATES, ACCOMPANIED BY IVAN C. ELMER, COMMITTEE EXECUTIVE OF THE COMMUNITY AND URBAN AFFAIRS COMMITTEE OF THE CHAMBER OF COMMERCE OF THE UNITED STATES**

Mr. WINTER. Thank you very much, Mr. Chairman. I might comment the last time I had the privilege of following a spokesman of the AFL-CIO, we were testifying on the DISC proposal. I am glad to see at least on the general no-strings revenue sharing our views are much closer.

Mr. Chairman, for the record, my name is Walker Winter. I am a member of the board of directors of the Chamber of Commerce of the United States and chairman of its taxation committee. I am also a partner in the Chicago law firm of Ross, Hardies, O'Keefe, Babock and Parsons. As you mentioned, I am accompanied by Robert R. Statham, taxation and finance manager of the national chamber; and by Ivan C. Elmer, committee executive of the chamber's community and urban affairs committee.

In the light of some of the questions that developed yesterday, Mr. Chairman, I have asked Mr. William McHenry, manager of economic security of the chamber's staff, responsible for H.R. 1, also to sit here with me. In this connection, if it is in order, I would like to submit a brief statement for the record regarding the position of the chamber on welfare legislation, which was submitted to our board of directors by our special committee on welfare programs and income maintenance, of which I am a member. It was discussed in detail and adopted by unanimous vote of the board of directors of the chamber at its meeting on June 22, 1972. I do not believe there has been an opportunity to submit it to this committee. So if I may, I would like to submit this document for the record.

The CHAIRMAN. We will print it in the record.

Mr. WINTER. Thank you, sir.<sup>1</sup>

Mr. Elmer is going to present the views of the chamber with regard to the appropriations part of the bill, H.R. 14370. That is our support for the bloc grants contained in title I(a) of the bill. I will confine my comments to the other portions.

Mr. Chairman, the national chamber is opposed to the method used to distribute the State supplements in title I, subchapter (b), of H.R. 14370. We believe these amounts should be distributed to the States on the same basis as the distributions to local governments. The method used for distribution to the States constitutes general revenue sharing to which we are opposed. In addition, the bill penalizes the States for not adopting or making substantial use of individual income taxes. We believe the Federal Government should not tell the States what taxing systems they should use, but should leave that decision to their respective legislatures.

<sup>1</sup> See p. 471.

We support the piggyback provision in the bill, whereby the States can contract on a purely optional basis with the Federal Government for the collection of their State individual income taxes, provided it remains optional with the States to enter and withdraw from such a contract at any time.

Mr. Chairman, I just want to summarize my statement but I would like to have the entire statement included.

The CHAIRMAN. It will be, gentleman.

Mr. WINTER. As to the general revenue sharing, the moneys to be distributed to the States under this bill would be provided on a no-strings-attached basis. Under such circumstances, the Federal Government would be substituting the national taxing machinery for the States' taxing machinery. Congress would be merely relieving the States from having to collect taxes locally. This distribution of money to the States, in effect, constitutes general revenue sharing, to which we are opposed. In our testimony last year before the Ways and Means Committee and in our statement to the Subcommittee on Intergovernmental Relations of the Senate Committee on Government Operations, we set forth our reasons for opposing general revenue sharing, and they are the same now as they were then.

First of all, we believe general revenue sharing will result in increased Federal taxes. This proposal is being made in the face of the largest Federal deficit since the end of World War II. The latest administration forecast is for a \$34-billion deficit for fiscal 1973, and there is a possibility it could go much higher. Revenue sharing is a misnomer. There is obviously none to share.

There have been no reductions proposed in other forms of State aid to release committed funds for this purpose. The moneys to be distributed under this bill to the States in the form of general revenue sharing will have to come either from additional taxes or from additional deficit financing.

Second, it is our view that general revenue sharing, if adopted, would destroy the fiscal responsibility of the State governments. Raising taxes is both unpopular and unpleasant. But it places the responsibility on State officials to justify to their constituents that the money is needed, and it places pressure on State officials to spend the money raised both prudently and efficiently. General revenue sharing, such as provided in this bill for State governments, would divorce taxation from expenditures, and in our view, weaken the already too-weak constraints on spending by governmental bodies.

Third, general revenue sharing would result in increased Federal control of State governments. While there are those who contend general revenue sharing will preserve the autonomy of the States, we believe, it is far more likely that at a later date such funds will be withheld from the States to force them to submit to federally determined objectives. This is already apparent from the requirement of the bill that the States make use of individual income taxes in order to get a full distribution of funds. If funds can be withheld from those States not making substantial use of individual income taxes, what is to preclude a future Congress from attaching other controls to future distributions?

It is our view that the States should continue to raise their own taxes. General revenue sharing is purely and simply the replacement of the

Federal taxing system for State and/or local taxation. Once revenue sharing starts, it is bound to be increased until the States are fully dependent on the Federal Government for their tax collections.

We recognize that there are instances in which the Federal Government must provide funds at the national level to State and local governments to obtain their assistance in achieving specific appropriate national goals. This is not a matter of replacing taxes from the Federal level for those at the State and local level. It is a matter of Congress attempting to achieve a specific national goal—such as better national highways or higher educational standards where local resources are inadequate—with the assistance of State and local governments. There are only two ways of being assured that such a specific goal will be attained through distributions to State and local governments—through the use of categorical grants-in-aid or bloc grants. As has been indicated, we prefer the use of bloc grants. In the case of general revenue sharing, the only goal is to distribute Federal tax moneys so State and local governments do not have to raise it locally—and for the reasons just set forth, we are opposed to this type of distribution to the States.

In addition to its opposition to the general revenue-sharing provisions in the legislation, the chamber is also opposed to the allocation of funds to the States on the basis of their individual income tax efforts.

The States should continue to be free to determine their own taxing systems without interference from the Federal Government. If the Federal Government is to coerce the States into greater reliance on income taxes—what is to stop the Federal Government from setting requirements for increasing the rates of property and sales taxes, or requiring all States to adopt any number of taxes which their legislatures have so far preferred not to adopt? We believe it to be a bad precedent for the Federal Government to begin telling the States which kind of taxes they should use.

And why single out State individual income taxes? Is the State individual income tax more fair than other types of State taxes? A recent public opinion poll by the Advisory Commission on Intergovernmental Relations suggests that the public does not think so. The poll indicates that the public is of the opinion that the State sales tax is more fair than the State individual income tax, and would prefer an increase in sales taxes to increases in State individual income taxes.

I might inject my own personal philosophy. Obviously, you have to have a mix—and I am not suggesting the contrary.

As to the constitutional question we do not think the chamber is necessarily the body to suggest the constitutional question. Perhaps the American Bar Association is the more appropriate group.

We also believe, though, that there may be a constitutional question involved as to whether the Federal Government can coerce the States into changing a segment of their general taxing systems. We would like to call the attention of the committee to our belief in this connection, that there may be a question and we urge that the committee give his further consideration.

Now, as to Federal collection of State individual income taxes. Title II of H.R. 14370 offers State governments the option of making agreements with the Federal Government for the collection of their State

individual income taxes. This is referred to as "piggybacking." The national chamber supports this provision, provided it is optional with the States both to enter and to withdraw from such agreement at any time.

Mr. Chairman, in concluding my summary of our testimony I would like to say that, (1), the national chamber is opposed to the method used in this legislation to allocate funds to the States, and believes the distributions to the States should be made along the lines provided for the distributions of local governments.

(2) The chamber is opposed to using Federal incentives to encourage the States to adopt or modify their income taxes.

(3) The chamber supports giving the States the option of contracting with the Federal Government for the collection of their individual income taxes.

(Mr. Winter's prepared statement and a statement referred to previously follows:)

#### PREPARED STATEMENT OF WALKER WINTER

My name is Walker Winter. I am a member of the Board of Directors of the Chamber of Commerce of the United States and Chairman of its Taxation Committee. I am also a partner in the Chicago law firm of Ross, Hardies, O'Keefe, Balcock and Parsons. I am accompanied by Robert R. Statham, Taxation and Finance Manager of the National Chamber, and by Ivan C. Elmer, Committee Executive of the Chamber's Urban and Community Affairs Committee.

Mr. Elmer will present the views of the National Chamber with regard to the appropriation provisions of H.R. 14370, and I will present the views of the Chamber with regard to the other provisions of the bill.

#### SUMMARY OF CHAMBER'S POSITION

H.R. 14370, as passed by the House on June 22nd, provides for a five-year appropriation of over \$29.5 billion to state and local governments. Distribution to state local governments for 1972 would be \$5.3 billion. Of this \$5.3 billion, local governments would share \$3.5 billion for specified "high-priority" expenditures, and the states would share \$1.8 billion to use in any manner they pleased. About half the amount each state receives, under this bill, is based on the individual income tax effort of the state. The balance is based on the general revenue effort of the state. The bill also provides for the optional federal collection of state individual income taxes.

Mr. Chairman, the National Chamber is opposed to the method used to distribute the state supplements in H.R. 14370. We believe these amounts should be distributed to the states on the same basis as the distribution to local governments. The method used for distribution to the states constitutes general revenue sharing to which we are opposed. In addition, the bill penalizes the states for not adopting or making substantial use of individual income taxes. We believe the Federal Government should not tell the states what taxing systems they should use, but should leave that decision to their respective legislatures.

We support the "piggyback" provision in the bill, whereby the states can contract on a purely optional basis with the Federal Government for the collection of their state individual income taxes, provided it remains optional with the states to enter and withdraw from such a contract at any time.

#### GENERAL REVENUE SHARING

The monies to be distributed to the states under this bill would be provided on a "no-strings attached" basis. Under such circumstances, the Federal Government would be substituting the national taxing machinery for the states' taxing machinery. Congress would be merely relieving the states from having to collect taxes locally. This distribution of money to the states, in effect, constitutes general revenue sharing, to which we are opposed. In our testimony last year before

the Ways and Means Committee and in our statement to the Subcommittee on Intergovernmental Relations of the Senate Committee on Government Operations, we set forth our reasons for opposing general revenue sharing, and they are the same now as they were then.

First of all, we believe general revenue sharing will result in increased federal taxes. This proposal is being made in the face of the largest federal deficit since the end of World War II. The latest Administration forecast is for a \$34 billion deficit for fiscal 1973, and there is a possibility it could go much higher. Revenue sharing is a misnomer. There is obviously none to share.

There have been no reductions proposed in other forms of state aid to release committed funds for this purpose. The monies to be distributed under this bill to the states in the form of general revenue sharing will have to come either from additional taxes or from additional deficit financing.

Secondly, it is our view that general revenue sharing, if adopted, would destroy the fiscal responsibility of the state governments. Raising taxes is both unpopular and unpleasant. But it places the responsibility on state officials to justify to their constituents that the money is needed, and it places pressures on state officials to spend the money raised both prudently and efficiently. General revenue sharing, such as provided in this bill for state governments, would divorce taxation from expenditures, and thereby weaken the already too-weak constraints on spending by governmental bodies.

Third, general revenue sharing would result in increased federal control of state governments. While there are those who contend general revenue sharing will preserve the autonomy of the states, it is far more likely that at a later date such funds will be withheld from the states to force them to submit to federally determined objectives. This is already apparent from the requirement of the bill that the states make use of individual income taxes in order to get a full distribution of funds. If funds can be withheld from those states not making substantial use of individual income taxes, what is to preclude a future Congress from attaching other controls to future distributions?

It is our view that the states should continue to raise their own taxes. General revenue sharing is purely and simply the replacement of the federal taxing system for state and/or local taxation. Once revenue sharing starts, it is bound to be increased until the states are fully dependent on the Federal Government for their tax collections.

We recognize that there are instances in which the Federal Government must provide funds at the national level to state and local governments to obtain their assistance in achieving specific appropriate national goals. This is not a matter of replacing taxes from the federal level for those at the state and local level. It is a matter of Congress attempting to achieve a specific national goal—such as better national highways or higher educational standards where local resources are inadequate—with the assistance of state and local governments. There are only two ways of being assured that such a specific goal will be attained through distributions to state and local governments—through the use of categorical grants-in-aid or block grants. As has been indicated, we prefer the use of block grants. In the case of general revenue sharing, the only goal is to distribute federal tax monies so state and local governments do not have to raise it locally—and for the reasons just set forth, we are opposed to this type of distribution to the states.

#### STATE INDIVIDUAL INCOME TAX INCENTIVES

In addition to its opposition to the general revenue sharing provisions in the legislation, the Chamber is also opposed to the allocation of funds to the states on the basis of their individual income tax efforts.

The bill provides that about half of the distributions to a state would be based on its total state and local tax effort. The balance of the distribution is based on individual income taxes collected by the state. If there is little or no individual income tax collected in a particular state, that state would receive only a minimum payment under this part of the formula. Thus, the states would be forced to make greater use of state individual income taxes in order to receive their full share of the distribution of monies under this bill. Those without individual income taxes would be coerced into adopting them. Those with low income tax rates would be inclined to increase them. And it is doubtful that any state would consider repeal of its income taxes.

The states should continue to be free to determine their own taxing systems without interference from the Federal Government. If the Federal Government is to coerce the states into greater reliance on income taxes—what is to stop the Federal Government from setting requirements for increasing the rates of property and sales taxes, or requiring all states to adopt any number of taxes which their legislatures have so far preferred not to adopt? We believe it to be a bad precedent for the Federal Government to begin telling the states which kind of taxes they should use.

And why single out state individual income taxes? Is the state individual income tax more fair than others types of state taxes? A recent public opinion poll by the Advisory Commission on Intergovernmental Relations suggests that the public does not think so. The poll indicates that the public is of the opinion that the state sales tax is more fair than the state individual income tax, and would prefer an increase in sales to increases in state individual income taxes. As was stated in the report of the Commission:

The State sales tax proved to be the most popular way to raise additional revenues for the State governments. When asked "Suppose your State government must raise taxes substantially, which of these do you think would be the best way to do it—State income tax, State sales tax or State property tax?", the national response was:

	<i>Percent of total U.S. public</i>
1. State income tax.....	25
2. State sales tax.....	46
3. State property tax.....	14
4. Other.....	5
5. Don't know.....	10

#### POSSIBILITY OF A CONSTITUTIONAL QUESTION

We also believe there may be a constitutional question involved as to whether the Federal Government can coerce the states into changing a segment of their general taxing system. This is not a matter of matching funds for the achievement of a specific national goal—but the requirement that the states change their general taxing systems to place a greater emphasis on individual income taxes or forgo receiving federal revenue. We wish to call to the attention of the Committee our belief that there may be a constitutional question involved, and we urge the Committee to give this matter further consideration.

#### FEDERAL COLLECTION OF STATE INDIVIDUAL INCOME TAXES

Title II of H.R. 14370 offers state governments the option of making agreements with the Federal Government for the collection of their state individual income taxes. This is referred to as "piggybacking." The National Chamber supports this provision provided it is optional with the states both to enter and to withdraw from such agreements at any time.

Presently, valuations for state and local property taxes in some states are being made by private companies. In those cases, contracts are being made with private firms to assist in carrying out a part of the taxing responsibilities of the state and local governments. We see no reason why the states should not be given the option to make contracts with the Federal Government for the collection of their state individual income taxes, as long as it is optional and as long as the states can withdraw upon reasonable notice from such an arrangement.

Therefore, Mr. Chairman, the National Chamber urges that this provision in the legislation be adopted.

#### *Conclusion*

In concluding my part of the testimony, Mr. Chairman, I would like to say in summary that:

1. The National Chamber is opposed to the method used in this legislation to allocate funds to the states, and believes the distributions to the states should be made along the lines provided for the distributions to local governments.

2. The Chamber is opposed to using federal incentives to encourage the states to adopt or modify their income taxes.

3. The Chamber supports giving the states the option of contracting with the Federal Government for the collection of their individual income taxes.

STATEMENT SUBMITTED BY WALKER WINTER, CHAIRMAN OF THE TAXATION COMMITTEE, U.S. CHAMBER OF COMMERCE

WELFARE LEGISLATION: TESTING ALTERNATIVE APPROACHES

On May 19 and 31, 1972 an ad hoc group, composed of members of the Chamber's Special Committee on Welfare and personnel from Temple University, met at Speakman Hall, Temple University to consider the welfare "reform" issue. Those present were: Dr. Rocco Carzo, Dr. Richard Leone, Dr. Saul Lechner, Prof. Alfred Tella, Dr. Seymour Wolfbein and Mr. William McHenry, National Chamber staff.

The purpose of these discussions was to consider how society can develop an effective approach to reduction in the AFDC rolls in terms of legislative proposals now before the U.S. Senate. Within this context, the group considered what action should be taken which would enable the Congress to make the best judgment among different alternatives.

The most significant finding that emerged from these discussions is that no one really knows which legislative proposal represents the most effective approach to the AFDC welfare problem. Therefore, before the Congress makes a large and perhaps an irrevocable commitment of resources, it is imperative that several proposals be thoroughly field tested and evaluated.

The Special Committee on Welfare Programs and Income Maintenance carefully reviewed this report at its meeting on June 7, 1972, and unanimously endorsed the recommendations contained herein.

LEGISLATIVE HISTORY AND SUMMARY OF PROPOSALS

For more than 3 years Congress has been considering various proposals to "reform" the nation's welfare system—chiefly, the Aid to Families with Dependent Children program (AFDC). Most students of the welfare issue, including Administration spokesmen, many academicians, and members of Congress, perceive the problem as the tremendous growth in the number of families dependent on AFDC and the consequent growth in costs.

*H.R. 1*

On June 22, 1971, the House of Representatives approved H.R. 1, the Social Security-Welfare bill, which included the Administration's Family Assistance Plan (FAP) and Opportunities for Families program (OFF).

H.R. 1 would provide a minimum annual federal income to all eligible families (with children) ranging from \$1,600 for a family of two up to \$3,600 for a family of eight or more. The eligible group includes those receiving AFDC, as well as employed family heads ("working poor") who have low earnings in relation to family size. According to HEW estimates about 4 million families—involving 21 million individuals—would be eligible for welfare in Fiscal year 1978.

Employable persons would be required to register with the U.S. Department of Labor. A refusal to register or accept work or training would result in a loss of assistance for the family head but not to the children and spouse. As an "incentive to work" the proposal would disregard the first \$60 of monthly earnings (\$720 per year) plus 1/2 of the remainder.

On April 28, 1972 the Finance Committee rejected, by a 10 to 8 vote, a variation of FAP-OFF proposed by Senator Abraham Ribicoff (D-Conn.). The plan would provide a minimum income of \$3,000 a year for a family of four, with gradual increases to \$5,150 by FY 1977. According to Senate Finance Committee estimates about 85 million persons would be eligible for welfare in Fiscal year 1978 at an annual federal cost of \$11.3 billion. The comparative figures for Fiscal year 1977 are 65 million persons and \$8.2 billion.

*Guaranteed job opportunity*

The Finance Committee approved, by a 10 to 4 vote, Senator Russell Long's Guaranteed Job Opportunity program. Under the proposal, roughly 5 1/4 million families—including "employable" AFDC adults and the "working poor"—would be eligible for various kinds of governmental assistance: public service employment, wage subsidies, a "work bonus"—and possibly a children's allowance if this is approved by the Finance Committee.

The Long proposal would separate the existing AFDC program—involving 2.9 million families in November 1971—into two groups—employables and unemployables. The employables would no longer be eligible for welfare.

Employable families would consist of those headed by able-bodied fathers and those headed by mothers with no children under age 6. An estimated 40 percent of the AFDC caseload—or 1.2 million families—would be considered employable under this guideline. About 4.0 million “working poor” would be eligible to participate in the Guaranteed Job Opportunity program and receive various kinds of governmental assistance.

The unemployable group of 1.8 million families would continue to receive AFDC, although they could volunteer to participate in the employment program.

Employables who refused to accept a job would not receive a payment of any kind. For those who “volunteered” to participate in the program, three kinds of employment opportunities would be available:

*unsubsidized jobs* paying at least the federal minimum wage (\$1.60 an hour currently, and \$2.00 an hour under legislation passed by the House) in private enterprise, government or non-profit private agencies.

*subsidized jobs* in private or public employment which are not covered under the federal minimum wage law. The subsidy, which would be paid to the worker, would equal 75 percent of the difference between jobs paying \$1.20 up to \$1.60 an hour—or \$1.50 up to \$2.00 an hour under proposed legislation.

*federally-funded jobs* paying \$1.20 an hour (\$1.50 an hour under proposed legislation). No subsidy is paid for these types of jobs.

The finance Committee proposal also includes a “work bonus” payment for low-income workers. The bonus would be equal to 10 percent of a family’s earnings (husband and/or wife) up to \$4,000 a year. When annual earnings exceed \$4,000 the “work bonus” gets progressively smaller and phases out at \$5,000 a year.

Finally, the Finance Committee has under consideration—but has not approved—a proposal involving payment of allowances to children born no later than June 30, 1973. The full allowance would be payable to families with 5 or more persons and annual earnings of \$3,600 or less (\$300 per month). The monthly allowances would equal \$25 for the fifth family member, \$15 for the sixth family member, and \$10 for each additional member. For earnings in excess of \$3,600, the monthly payment would be reduced \$1 for each \$2 of earnings.

All costs of the proposed employment program would be paid by the federal government. The residual AFDC program for “unemployables” would continue to be financed on a cost-sharing basis by the federal government and the states.

#### *Pilot testing*

A third proposal pending before the Finance Committee calls for pilot testing of a program before implementation. This amendment, introduced by Senator William Roth (R-Del.), would authorize a 2-year test of the Family Assistance Plan with its uniform minimum benefits and the “workfare” provisions contained therein. The Administration would be required to design several tests of both the welfare and workfare provisions and implement these tests in representative demographic areas. At the end of two years, separate evaluations and reports would be submitted to Congress by the Comptroller General and the Department of Health, Education, and Welfare, from which the Congress would have an invaluable ledger to enact more permanent legislation. With a few changes this amendment might be easily expanded to require pilot testing of the newly-conceived Guaranteed Job Opportunity plan and the National Chamber’s recommendations.

#### RECOMMENDATIONS

It was the consensus of the group that action should be taken in three areas. First, more welfare recipients should be placed in jobs by improving existing institutional arrangements for employability development. Second, a computer simulation study of alternative welfare systems should be planned and carried out. Third, Congress should authorize a well-financed program of field testing and evaluation of various welfare proposals before enacting any permanent legislation.

#### *Employability development*

Several members pointed out that the U.S. Department of Labor and the Employment Service have not done an effective job in getting welfare recipients into jobs. The Work Incentive Program (WIN), enacted by Congress in 1967, was cited as evidence of the Department’s poor “track record.”

Dr. Leshner stated that despite the mediocre performance, much greater emphasis on "employability development"—job finding and placement, skill training and counseling—can pay dividends.

Performance can be improved through the following actions:

(1) Employment Service personnel must be better trained. To do an effective job, the staff must have a good understanding of welfare, its relationship to other programs in the community and, most importantly, a thorough knowledge of the market demand for workers.

(2) More employment opportunities would open-up if the Employment Service did a better job of correcting poor behavioral patterns of this group. "Good" work habits can be fostered through intensive job orientation sessions and post-placement counseling.

(3) More welfare recipients can be employed if the Employment Service puts much greater emphasis on job placements. Reassignment of the most experienced staff to this group would be one way to increase job placements.

#### *Computer simulation of welfare systems*

Despite the widespread attention given to current welfare problems and the multiplicity of proposals for reform, there has been, up to now, almost no attempt to look at either the existing public assistance program or proposed alternatives as total operating systems. Thus, there remains a lack of systematic understanding of how alternative welfare systems would operate and how their operations relate to various aspects of economic and social behavior, and impinge upon various sectors of the economy and society.

The construction and operation of "computer simulation models" of alternative welfare systems can fill an important gap in our understanding of welfare processes and provide an important input to the formulation of welfare policies. Simulations of the welfare process would provide vital information about the nature and the effects of the real or proposed system, and serve as a testing ground or early warning device prior to legislative enactment.

Field experimentation and computer simulation are complementary techniques, each having different advantages and limitations. Field experimentation is subject to "Hawthorne" effects<sup>1</sup> while computer simulation is not. Computer simulation is cheaper and can be done in a reasonably short time. Simulation can handle a larger number of variables and lines of investigation, including some (such as birth-rate effects) that are difficult to test in the field. This type of analysis can better predict the long-term effects of welfare plans, whereas field experimentation may mainly reflect short-term effects. The major advantage of field experimentation is that it is a truer representation of the real world. As research progresses on both fronts, each technique can provide information to the other.

Computer simulation models can be designed to reproduce the chain of events, the interrelationships and feedbacks, that determine the effects of welfare reform on society. Computer models of welfare can replicate alternative reform systems mathematically. Such an effort involves bringing together various technical experts—e.g., economists, operation research specialists, psychologists, sociologists, management men—for these purposes: conceptualizing the workings of the system to be analyzed, identifying the relevant features of the system to be included, determining the lines of causation and the nature of interactions and feedbacks among the chosen variables, specifying functional relationships, and programming and operating the completed models. The models will necessarily draw on existing empirical knowledge and theory, and will require assumptions about human behavior where existing knowledge is lacking. The goal of the simulated system will be to predict the impact of welfare reforms on such variables as labor force participation, family income, family organization, fertility, and crime.

It would probably take 6 months of preliminary investigation to define the limits of such an undertaking, and another 6 months before some initial results will be forthcoming.

#### *Field testing*

There are very little data for Congress or the public to evaluate the potential consequences on motivation and work incentives of proposals to provide a guaranteed income to those now on welfare, as well as to millions of other low-

<sup>1</sup> Different behavior because the recipients are part of an experiment.

income families. Moreover, there is no evidence available to appraise the effects of the Guaranteed Job Opportunity program. No one really knows whether FAP, Guaranteed Job Opportunity, the Chamber's recommendations, or some other plan will solve the AFDC welfare problem.

We think it is absolutely essential for Congress to authorize a carefully designed and thorough program of field testing of at least three proposals before enacting any legislation on a permanent basis. The purpose of such an experiment would be to provide members of Congress with the factual information they need in order to choose the best solution to the AFDC problem.

The field tests should be designed to meet the following conditions:

(1) *Objective*: to determine which welfare reform proposal will lead to a long-run reduction in AFDC caseloads and costs. The ultimate goal should be to minimize dependency by getting as many recipients as possible off the welfare rolls and into self-supporting employment on a permanent basis.

(2) *Conducted in a fair and impartial manner*: To eliminate any possibility of "bias," no test should be conducted by personnel who have a previous or current proprietary interest in the problem or in any one solution, or by those who will have any responsibility for program administration. Each test should be monitored by the General Accounting Office.

(3) *Measuring Effectiveness*: To measure the effectiveness of each field test, there should be a minimum of at least one "treatment group" and one "control group" in each geographical area. Both groups should have similar characteristics, e.g., in terms of age, sex, color, number of children, earnings levels, educational backgrounds, etc. Moreover, the "treatment group" and "control group" should be representative of the covered population in the proposed legislative solution.

(4) *Duration*: The test should operate long enough so that one can be fairly certain that the results are valid and not distortions caused by the newness of the program. This suggests that each test should run for at least two and possibly three years.

(5) *Results*: should be reported at regular intervals—such as every six months—and fed back into the program. This enables one to take account of additional effects and to take corrective action.

(6) *Funding*: Congress should authorize enough money and resources to carry out several full-scale tests in different areas of the country. Enough data should be produced so that the results are significant to provide guidance for public policy purposes.

(7) *Planning*: There should be sufficient lead-time to plan and structure the tests—preferably nine to twelve months.

(8) *Sampling Techniques*: The tests should be conducted on a sample basis in different labor market areas—both urban and rural. The various labor market areas should include some with relatively low unemployment, with a high and stable demand for the services of labor, as well as other areas with relatively high unemployment.

In each area, the sample should be representative and reliable.

(9) *Findings and Recommendations*: Congress should receive a written report from both the Comptroller General and the agencies or contractors who are conducting the operations. This report should include a cost-benefit appraisal of each of the alternatives tested, and recommendations on which plan offers the most effective solution for reducing AFDC caseloads and costs.

(10) *Maintaining Congressional Responsibility and Control*: Congress should contract directly with the agencies or organizations carrying out the field tests. Legislation authorizing the tests should *not* require *automatic* implementation of any plan before Congress evaluates the results. Any such requirement would imply advance acceptance and prejudice the case against any other test plans under consideration.

The CHAIRMAN. Mr. Ivan Elmer.

Mr. ELMER. Thank you, Mr. Chairman.

For the record, my name is Ivan C. Elmer and I am committee executive of the Community and Urban Affairs Committee of the National Chamber.

My statement, which has been filed with you, deals with grant features of the legislation and at this time I want only to offer brief highlights.

The National Chamber supports additional bloc grants to States and localities in the form contained in title I(A) of this bill, although we believe substantial amendment is needed in the grant provisions.

All grant programs to State and local governments should meet certain criteria of purpose, responsibility, and responsiveness to needs. These criteria, in our opinion, are as follows:

(1) A broad national goal or goals, the achievement of which depends upon joint action by several levels of government, should be clearly defined in each program.

(2) Significant incentives should be provided State and local units of government to improve their own administrative abilities and to provide for their own needs.

(3) Local governments should be assured a fair portion of Federal funds provided.

(4) Recipients of Federal program funds should be required to account to the Federal Government for their use of the funds.

(5) Appropriations for any fiscal year should be consistent with sound fiscal policies.

(6) All programs should provide for periodic congressional review of results.

Those are our criteria. We have suggested in our written testimony how each of them might be met. Mr. Winter has touched on some of these suggested changes but in addition, a bill meeting the criteria I have just listed should contain the following basic features.

It should separate appropriations for authorization and provide year-in-advance funding within a 5-year authorization to permit good planning and management.

It should require regular review by Congress and the full use of the normal appropriations procedures.

It should contain additional national priority purposes for which funds may be spent so that local and State governments may stay within the stated purposes and yet have improved flexibility in allocating new funds to actual local priorities.

Thank you.

The CHAIRMAN. Any questions, gentlemen?

Thank you very much for a very fine presentation, gentlemen.

Mr. WINTER. Thank you, Mr. Chairman.

(Mr. Elmer's prepared statement follows:)

PREPARED STATEMENT OF IVAN C. ELMER FOR THE CHAMBER OF COMMERCE OF THE UNITED STATES

My name is Ivan C. Elmer. I am Committee Executive, Community and Urban Affairs Committee, of the Chamber of Commerce of the United States.

The National Chamber supports additional block grants to states and localities in the form contained in Title I.A of this bill, but believes substantial amendment will be needed to make this legislation more responsible and responsive.

I would like to explore the grant features of this bill in more detail.

The Federal Government can play a legitimate role in financing programs to meet urban needs where national interest is clear. However, Federal financial aid should not become a substitute for the predominant responsibility of state and local governments to provide for their own needs.

Federal aid programs have grown rapidly in number and volume during recent years, becoming a significant factor in state and local spending decisions; they are cluttered and complicated, often warping the process of decision making itself. In many cases, Federal dollars are used to paper over flaws at lower levels

of government when only reforms at those levels can achieve goals desired by their citizens.

Improvements in the form and pattern of Federal aid should be made at every opportunity. Grant programs to state and local governments should be consolidated, simplified, coordinated and, wherever possible, terminated.

All programs should meet certain criteria of purpose, responsibility and responsiveness to needs. I will list the criteria and comment on the degree to which the bill now before you meets those criteria.

*1. A broad national goal, the achievement of which depends upon joint action by several levels of government, should be clearly defined in each program*

This bill sets forth no clear national goals as the basis of assisting state governments; rather, it establishes three broad purposes for which local governments may disburse grant monies.

Those broad purposes should be increased in number and applied to state grants as well. We can all agree that the three purposes specified under this bill are worthy. Public safety, environmental protection and public transportation would carry high priority in most communities. Each of these purposes, however, is the object of massive new funds through other actions being taken by this Congress. At the same time, there is widespread need among localities to deal with critical local problems that are not classed as "priority" under this bill.

Education is an example. Rising demands and expectations, coupled with judicial and other challenges to traditional methods of financing education, create great pressures on local and state governments. Health care is the subject of rising public awareness. Open space for parks or public facilities is another example. Improved financial administration on the part of local governments is yet another worthy purpose.

The intent of this bill is clear: to give local leaders maximum flexibility in the use of additional funds while expressing the concern of Congress for broad priority area. But, the effect, as opposed to intent, may be different. The combination of limited legislative purposes and varied local conditions sets up an incentive for localities to short-circuit the priorities stated by Congress; localities may legally divert their own funds to other purposes and use only Federal dollars for purposes which Congress has declared "high priority."

It would be far better to increase the number of priority uses to which local communities may apply the funds, thereby avoiding a conflict between Congressional intent and local use.

Grants to the states should be patterned after the grants to local units of government. Such a form will allow guidance by Congress as to national purposes and as to results that Congress expects to achieve by offering these grants.

*2. Significant incentives should be provided State and local units of government to improve their own administrative abilities and to provide for their own needs*

There is no attempt in this legislation to aid states in improving their administrative abilities. The requirement that states must maintain their level of aid from their own sources to units of local government will tend to uphold state use of their own revenues.

For local governments this bill offers little incentive for improving either tax effort or administrative ability. Only after funds have been divided among states and then divided again among county areas within each state does the distribution formula account for local revenues. Funds are divided between the county government and the units of local government within the county according to the ratio of adjusted taxes in the county to the adjusted taxes of the local units. This offers a slight encouragement to the county to increase its effort, but practically none to municipalities.

The law could permit, but would not require, area-wide expenditures of up to 10% of local totals for projects involving high-priority expenditures in two or more contiguous counties. This permission is conditioned on the enactment of a state law to provide for such programs, plus the spending by the state from its own sources of at least a matching amount.

Given the purposes now enumerated, all of which have heavy area-wide implications, and the acknowledged importance of area consciousness in planning and executing local programs, this bill should address itself much more positively to encourage inter-local cooperation. At the very least, it should stress, by reference or by inclusion, the sense of Sec. 204 of the Model Cities and Metropolitan Development Act and apply it to multi-county areas below metropolitan status.

On balance, this bill offers only slight incentive for state governments and virtually no incentive for local governments to improve their administrative abilities or to rely on their own resources.

**3. Local governments should be assured a fair portion of Federal funds provided.**

This bill separates grants to localities from state grants, rather than using a "pass through" mechanism; hence, the division of funds is clearcut. The ratio between the two, beginning at about two-to-one in favor of local governments in the first year, remains slightly weighted in favor of local governments through the fifth year.

Sections of the bill requiring states to maintain their level of local aid would appear to be effective in preventing states from cutting back on their efforts as a consequence of increased Federal fund availability. This section, however, does not mean that states may not reduce aid in the high priority areas specified for local governments; as long as states maintain total aid levels they may allocate funds by purpose as they see fit according to priorities set in the state.

On balance, this bill fully meets the criterion of assuring local governments a fair portion of Federal funds.

**4. Recipients of Federal program funds should be required to account to the Federal Government for their use of the funds.**

This act contains no accounting provisions as to use of funds granted state governments. There is no statement of purpose for granting funds to states other than the bill title which, in part, reads "to encourage the states to supplement their revenue sources. . . ." The Secretary of the Treasury is instructed ". . . to prescribe such regulations as may be necessary or appropriate to carry out provisions of this title." These words represent the sum total of Congressional overview for spending \$12 billion—hardly adequate to discharge the responsibility of this Congress to account to its constituency for such large sums.

As far as local government accountability, this bill requires the use of fiscal, accounting and audit procedures, such as may be specified by the Secretary of the Treasury, to assure that funds received are used for the purposes and in the manner intended. The bill attempts by this means to establish safeguards without imposing the same strangulating rules that have made categorical grants-in-aid ineffective and difficult to administer.

However, since this legislation offers no statement of what it expects to accomplish in terms of performance, the accounting and audit procedures must be conducted in a vacuum insofar as Congressional guidance is concerned. Communities will document how they expend Federal money, to be sure, but Congress is not able to measure the impact of H.R. 14370 on the total level of effort or achievement toward the national priorities it enumerates.

It would seem preferable that this bill—and other grant programs—contain language insisting that units of government receiving assistance adopt accountability policies that: (1) clearly spell out what they attempt to achieve with their funds from whatever sources and (2) carefully and periodically evaluate the degree to which they are achieving those results. We are not proposing that the Federal Government specify in detail what local governments should attempt to achieve, but that it require states and localities to do so as a means of measuring the value received from the large sums to be expended under this legislation.

**5. Appropriations for any fiscal year should be consistent with sound fiscal policies**

It is evident that a bill appropriating money for five years fails to meet this criterion; succeeding Congresses are obligated to a major expenditure whether or not it is in keeping with fiscal conditions at the time.

On the other hand, urban programs should not be singled out to become whipping boys for budget cutters; such programs should be viewed along with all other spending priorities of Congress so that appropriate overall levels can be achieved.

Neither should the alternative to this five-year appropriation be the continuation of a rigid annual process of appropriating funds for the current year, as has been practiced in many categorical programs. Congressional action on appropriations often extends well into the fiscal year in which the funds are to be spent, leaving local and state recipients in doubt both as to whether funds will be approved and, if so, the amount. The uncertainty plus start-and-stop action add to cost while reducing performance.

A superior alternative would be to separate authorization from appropriations and then to appropriate funds on a multi-year basis to allow for good planning

and management. Appropriations could be made either for a two-year period or for a year in advance of the current year so that local governments could get reasonably accurate budgets.

*6. All programs should provide for periodic Congressional review of results*

At least as important as Congressional review of fiscal conditions in making appropriations are the reviews of results actually being achieved by Federal grant programs.

The record does not offer much basis for optimism. Grant expenditures can be documented, but proving what they have accomplished has defied several qualified study committees, commissions and staffs in recent years.

The process of reviewing results should begin with a statement of purpose in this bill specifying accountability requirements and means of evaluating program effectiveness.

H.R. 14370 represents a major Federal initiative. It uses an untried approach for which we hold earnest hope of success. But success will not be preordained by passage of this bill. The approach deserves a fair test. Congress and the American people deserve the option to alter the approach—or to reject it—if experience shows the approach or its level of funding needs alteration.

I urge that, as a matter of principle, H.R. 14370 safeguard the options for review and adjustment by requiring the use of the Congressional appropriation process for funding.

Two recent research reports lend added urgency to the need for language in this bill to provide continuing review of grant programs by Congress.

The Tax Foundation has reported that state revenues surged 10% or \$5 billion last year (1971). Further, the outlook for future collections and future projections of need is that, by the end of this decade, state and local governments will be able to handle all their own needs without new forms of Federal assistance.

A Brookings Institution report concludes that Federal tax increases will become necessary over the next few years to fund the Federal programs already authorized by Congress.

For a generation, aid to cities and states was justified on the premise that Federal action is logical in meeting nationwide problems, to some degree and under proper conditions. The nation has accepted the assumption that Federal revenues will continue rising to relation to need, but that state and local governments will continue to be strapped for funds. All the new approaches to Federal aid are based on the assumption that the Federal Government can generate revenues more readily than state and local governments.

These two reports seriously challenge the necessity and the likelihood of easy access to Federal aid. They do not mean that urgent needs of many cities have suddenly evaporated. Neither do the reports indicate that the Federal Government suddenly has no legitimate role in meeting priority urban needs.

However, implications of these reports to the type of legislation now before this committee should be clear: We cannot afford to foreclose future options over a long period of time. Future Congresses must be left with the opportunity to assign spending priorities in the light of developments and changing conditions. Congress should be able to assess program effectiveness and to increase or decrease the funding for those programs accordingly. A five-year automatic appropriation will hardly allow for this exercise of Congressional supervision.

H.R. 14370 contains many features we applaud. It provides aid on an emergency, terminable basis. The block grants to localities allow the Congress to set forth broad national priority purposes while allowing local flexibility in administration and in specific projects within a broad purpose. Amendments we suggest will strengthen the legislation, sharpen its purpose and give the nation maximum opportunity to benefit from its expenditures.

*Conclusion*

In summary, the National Chamber urges that this committee approve a bill to grant aid to state and local governments, and that the bill contain the following basic features:

1. Two-year appropriations within a five-year authorization to permit good planning and management, but with regular review by Congress and the full use of the normal appropriations procedures.
2. Additional national priority purposes for which funds may be spent, so that local and state governments may stay within the stated purposes and yet have improved flexibility in allocating new funds according to actual local priorities.
3. State grants set out for broad purposes similar to the local grants.

The CHAIRMAN. The next witness will be Mr. Wayne Anderson, city manager of Alexandria, Va., on behalf of the International City Management Association.

**STATEMENT OF WAYNE ANDERSON, CITY MANAGER, ALEXANDRIA, VA., ON BEHALF OF THE INTERNATIONAL CITY MANAGEMENT ASSOCIATION**

Mr. ANDERSON. Thank you very much, Mr. Chairman and distinguished members of the committee. I am Wayne Anderson, city manager of Alexandria, Va., and the chairman of the task force on revenue sharing of the International City Management Association.

I am honored by the opportunity to appear here today in support of the State and Local Fiscal Assistance Act of 1972.

Our association is composed of 2,000 city managers, assistant managers, and chief administrative officers of cities, county administrators, and the executive directors of councils of governments throughout the United States.

As urban management professionals, it is our task to assist and advise locally elected mayors, councilmen, county executives, and commissioners as they adopt policies and programs, and we then administer these programs on a day-to-day basis.

I have submitted a written statement and the morning is running on and I would, therefore, just very quickly name the three major parts of our argument.

First, I would like to point out that it is not in the nature of our profession to look to the Federal Government for help in the day-to-day task of financing and carrying out the business of city government. Our association goes back to 1914 but it is revenue sharing that has for the first time drawn us into a position on a national issue of this type.

The task force which I had the honor of chairing, recommended to our association that the issue and the time had come for us to speak out and the membership voted to do just that.

It was our conclusion that the problems of the cities we serve are so great and the capacity of the traditional Federal remedy so limited that we could not responsibly remain silent on this very important issue.

Our reasons, then, are three. First, the fiscal distress of cities, and you have heard abundant testimony on that in the past days. Everyone has their own study and we have ours based on 400 cities.

Some quick major findings: Municipal revenues have increased 130 percent in a recent 10-year period and are expected to increase by another 47 percent by 1975.

Second, as you know, most of our money comes from the property tax and you are well aware of the inequities of that tax and other difficulties—67 percent of our money does come from the general property tax, normally about 5 percent from the Federal Government.

Third, and here again everyone tries to calculate the gap between revenues and expenditures in some future year—our best calculation is a \$50 billion gap by 1975, a very, very large gap to be closed.

Our second point is that we have done a courageous recorded job in trying to raise these revenues ourselves. We are not—we have not slackened at this job a bit in the past several decades and do not contemplate

that this will be possible even with the adoption of revenue sharing. I will not go revenue source by revenue source or anything like that, but any of the statistical records produced by Federal agencies for the last 5 years will show annual increases in our expenditures and revenues in the neighborhood of 10 to 12 percent, and studies also show that the major cause of this is the inflation that has pushed wages up by typically 5 percent, 6 percent, 7 percent and more, in many situations.

To cite personal experience which would be somewhat typical, 2 years ago I had the displeasure of recommending in one city a property tax rate increase of 25 percent. One year ago I had the displeasure of recommending a property tax rate increase of almost 20 percent. And this year no rate increase, but I lived with a 20-percent increase in assessments, and this is not too unusual, and it is the reason that we find our landscape strewn with the carcasses of our allies, the elected officials, and sometimes we are among them in that respect, too.

Our third reason is that we think revenue sharing complements the categorical aid system. It fills in the chinks. It provides the operating money that we need. The form of it, all of the characteristics that you know so well, meet our needs so much better than categorical aids.

Gentlemen, we are absolutely certain we as urban management professionals, we know that we do a better job of spending local dollars than we do Federal categorical aid dollars. We know we do it with greater accord to our own needs and priorities. We know we produce more timely impactful results in our cities where exactly that kind of action has been necessary in this past 5 years when our Nation came closer to tragedy than ever before.

Federal revenue-sharing dollars can be used in exactly the same way and with exactly the same maximum impact as local dollars. It is, then, for these reasons, the fiscal crisis of local governments, the need for Federal help, the form of the help and certain strengths of local government in the Federal system, that we very strongly support the revenue sharing program embodied in H.R. 14370. It was for these reasons that the International City Management Association broke with 50 years of tradition to speak out in favor of revenue sharing, and for this reason we urge your favorable consideration.

Thank you very much.

The CHAIRMAN. Thank you. Any questions, gentlemen?

Thank you very much.

(Mr. Anderson's prepared statement follows:)

PREPARED STATEMENT OF WAYNE F. ANDERSON, CITY MANAGER, ALEXANDRIA, VA.,  
ON BEHALF OF THE INTERNATIONAL CITY MANAGEMENT ASSOCIATION

Mr. Chairman and distinguished members of the Committee: I am Wayne Anderson, city manager of Alexandria, Virginia, and chairman of the Task Force on Revenue Sharing of the International City Management Association. I am honored by the opportunity to appear before you today in support of the State and Local Fiscal Assistance Act of 1972, H.R. 14370.

The International City Management Association is composed of over 2,000 managers, assistant managers, and chief administrative officers of cities, county administrators, and executive directors of councils of governments throughout the United States.

As urban management professionals, it is our task to assist and advise locally elected mayors, councilmen, county executives and commissioners as they adopt policies and programs, and we then administer these programs on a day-to-day basis.

It is in the nature of the municipal management profession that the problems of our nation's local governments are our prime concerns. It is also in the nature

of the profession that we look at the problems from the point of view of the delivery of municipal services.

But it is not in the nature of our profession to continually look to the Federal government for help in our day-to-day task of carrying out policies designed to provide the services necessary to solve our cities' problems. The International City Management Association, founded in 1914, has not traditionally taken stands on specific congressional legislation relevant to municipalities. We broke this tradition, however, when we created a task force in 1970 to investigate revenue sharing. That task force, which I had the honor of chairing, recommended to our Association that it support the concept of general revenue sharing for states and localities. The membership accepted our recommendation by voting to support revenue sharing.

The problems of the cities we serve are so great and the capacity of traditional federal remedies so limited that we could no longer remain silent. Revenue sharing is such an important need of our cities that silence would be irresponsible.

For the very reasons that caused us to speak out, we urge your favorable consideration of H.R. 14370.

The fiscal distress of our nation's cities is well known to this Committee. It has been emphasized by representatives of state and local government appearing before you throughout these hearings. I will not burden you with a long recitation of the problems. But I would like to emphasize that as an association, ICMA has given careful study to the financial situation of the cities. We conducted an extensive study of the problem last year. Nearly 400 cities were surveyed. The results of the study are reported in the Urban Data Service Report appended to this statement.<sup>1</sup> Let me summarize that report:

Municipal general expenditures increased 130% from 1958 to 1968. They are expected to increase by another 47% by 1975.

67% of total municipal revenue comes from the property tax. Only 5% comes from the federal government. Recent court cases indicate that cities may be deprived of part of their property tax revenue.

By 1975, unless major new sources of revenue are found, a revenue-expenditures gap of \$50-billion per year faces municipalities in the United States.

Some have argued that one reason for cities' sad financial plight is the cities' failure to pull their own weight. Some feel that cities have been too shy in raising needed revenue. Mr. Chairman, such people are badly mistaken. In point of fact, the opposite is the case. Many local governments have expanded their own tax base to the breaking point. Let me again turn to the Urban Data Service Report. Property taxes have increased in the neighborhood of 10% in the last decade. And property taxes are a principle source of local revenue. Localities have also had to increase existing taxes and impose new taxes to meet increasing costs. Many cities levy business license taxes. According to the report, the yield of this tax has increased over 50% in the last decade. General retail sales taxes have been levied by many cities. In those studied for the report, this tax has been raised by a mean average of 93.5%. Nearly one-half of the reporting cities have levied alcoholic beverage taxes. One-half of these cities with alcoholic beverage taxes have raised them by a mean average of 47%. Income taxes have been levied in one-fourth of the cities studied, and have been raised in half of these cities by an average of 74%. And this does not begin to exhaust the many ways local government has sought to carry its weight in meeting the cost of municipal services. We have not mentioned service charges and special assessments, which have also increased.

As you can see, locally raised revenue has increased dramatically. It has risen at the same time that the federal government has cut taxes. In fact, the federal government has cut taxes 5 times since the end of World War II.

Some are inclined to think that a great deal of the revenue burden of cities is carried by the federal government, in spite of the tax cuts. This, too, is a misconception. Let me quote directly from the Urban Data Service Report:

The nation's municipalities today receive approximately one-fourth of their total revenues from other governments via subsidies or shared taxes. While it is commonly believed that cities receive large amounts of federal aid, city governments, in fact, receive very little. In fiscal year 1968-69, federal grants-in-aid totaled \$20.3 billion, but cities received only \$1.5 billion. The fact is, most cities receive more aid from their state capitols than from the federal government.

So you see, Mr. Chairman, local government has carried its weight. But the costs of providing minimal municipal services have escalated so much in

<sup>1</sup> The study was made a part of the official files of the committee.

the past several years that our revenue raising capability is strained to the breaking point.

Frankly, as someone responsible for the delivery of municipal services, I am gravely concerned. In many cities, service levels are not adequate today. The prospect of further cutbacks to balance our budgets is very distressing.

It is distressing to the International City Management Association. Let me quote from the Statement on Revenue Sharing adopted by our membership:

"Members of ICMA are deeply concerned about the deficiencies of local government and the increasing decay of urban areas. Local resources are inadequate to meet increasing public needs for social services, and even the maintenance of the most essential municipal services is threatened.

"The result is that many local governments have become overburdened with the property tax which is not responsive to inflation and is inadequate to meet the growing service needs of an urban population. The limitations on local taxing capacity grievously limit the ability of local government to respond effectively to local obligation as well as to national problems. In effect, if not absolutely, it bankrupts local governments."

That is the policy of our Association.

The prospect of deepening fiscal distress is one major reason that causes us to join with our elected employers, represented before you by the National League of Cities, U.S. Conference of Mayors, and the National Association of Counties, to ask your favorable consideration of the concept of revenue sharing embodied in the H.R. 14370.

The prospect of poverty is only one reason. There is another.

Revenue sharing will transfer federal funds to localities in a way that will optimize the effective use of the funds. The broad funding categories, the absence of a need for the preparation of lengthy and terribly time consuming grant applications, and the certainty of funding are all aspects of revenue sharing that are particularly important to local government management.

Broad funding categories—public safety, transportation, and environmental protection in H.R. 14370—allow financially pressed local government to channel revenue according to local determination of priorities. Moreover, the broad categories will allow cities to focus money on many of the key service areas—solid waste collection, fire safety, and so on—that are not addressed by current federal categorical grant-in-aid programs. Also the broad categories will allow cities to focus money on key problems that are indigenous to a city, county, or region, but not national.

The absence of the application process due to the presence of a formula for fund distribution is also an important part of revenue sharing from the point of view of local government management. By eliminating the application process more time of the local chief executive can be spent seeing that the city or county runs smoothly according to systematic long-range planning.

Mr. Chairman, because of its features revenue sharing will be an important complement to the categorical grant-in-aid system in addressing the needs of our people. Some see it as a complete substitute. I do not. There will be continuing need for federal programs targeted for special national problems thru grants-in-aid to states and localities.

It is our judgment, Mr. Chairman, that revenue sharing funds will be money well spent. It will be spent in the very best interest of the citizens of this country. The record of local and state government in this country, in the area of fiscal responsibility, is very respectable. Indeed, as every urban management professional knows, locally raised and spent dollars are used more economically, more in accordance with local needs, and with greater timeliness and impact. Federal dollars without hobbling strings would be spent in the same way.

For these reasons—the fiscal crisis of local government, the need for federal help, the form of this help, and the demonstrated capability of local government—we strongly support the essentials of the revenue sharing program embodied in H.R. 14370. For these reasons, the International City Management Association broke with 50 years of tradition to speak out in favor of revenue sharing. For these reasons, we urge your favorable consideration of the measure before you.

Thank you.

The CHAIRMAN. That concludes our hearings and we will meet in executive session on Tuesday at 10 o'clock.

(Whereupon, at 12:25 p.m., the hearing was concluded.)

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**APPENDIX A**

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**Resolutions and Communications Submitted for the Record by  
Senator Gurney During Public Testimony, July 27, 1972**

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RESOLUTION NO. 72 - 0

WHEREAS, the Senate of the United States is presently considering adoption of a General Revenue Sharing Bill (S-3651) and said legislation in its present form contains certain provisions which would penalize the State of Florida and the Municipalities located therein for not having a State personal income tax and it is anticipated if subject legislation is passed in its present form, that the above penalizing factor would be increased by future Congresses until Florida is virtually forced to adopt a State personal income tax in order to equitably participate in Federal revenue sharing, and

WHEREAS, certain amendments to the above legislation have been proposed which would eliminate subject penalty provisions against the State of Florida and other states with little or no personal income tax provisions, and

WHEREAS, it is deemed essential that the State of Florida and its Municipalities voice their unified opposition to the inclusion of subject penalty provisions against the State of Florida,

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF BOYNTON BEACH, FLORIDA:

1. That the City of Boynton Beach, Florida, hereby goes on record as favoring proposed amendment to the General Revenue Sharing Bill (S-3651), which would provide for elimination of penalty against the State of Florida and other states not having personal income taxes.

2. Further that the City Clerk is hereby directed to furnish certified copies of this Resolution to Senator Lawton Chiles, Senator Edward Gurney and Representative Paul G. Rogers with request for their strong support for the General Revenue Sharing Bill with elimination of penalty provisions against States not presently having personal income tax

provisions.

PASSED AND ADOPTED this 20th day of June, A. D. , 1972.

CITY OF BOYNTON BEACH, FLORIDA

By: Robert B. Effron  
 Mayor

Emily M. Jackson  
 Vice Mayor

[Signature]  
 Councilman

David Roberts  
 Councilman

\_\_\_\_\_   
 Councilman

ATTEST:

Teresa Padgett  
 City Clerk

(CORP. SEAL)

I, TEREESA PADGETT, City Clerk of the City of Boynton Beach, Florida, do hereby certify that the above and foregoing is a true and correct copy of Resolution No. 72-0 passed and adopted on the 20th day of June, 1972, by the City Council of the City of Boynton Beach, Florida.

(SEAL)

Teresa Padgett  
 Teresa Padgett, City Clerk  
 June 22, 1972

**RESOLUTIONS****№ 281****RESOLUTION NO. 195**

WHEREAS, it has been brought to the attention of the City Council of the City of Clermont, Lake County, Florida, that there is pending in the United States Senate, Senate Bill 3651 which is a general revenue sharing bill that would eliminate the penalty against Florida and other States that do not have a State Income Tax, and

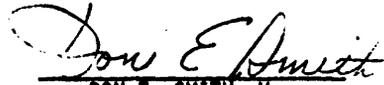
WHEREAS, it has been brought to the attention of the City Council of the City of Clermont, Lake County, Florida, that Senator Edward J. Gurney, the Senior Senator of the State of Florida to the United States Senate, is seeking support of his bill and also support of amendment to the general revenue sharing bill that would eliminate such penalties, and

WHEREAS, the City Council of the City of Clermont, Lake County, Florida, wishes to go on record as being unanimously against a State Personal Income Tax in whatever form whatsoever,

THEREFORE, the City Council of the City of Clermont, Lake County, Florida, resolves that:

1. The City Council of the City of Clermont, Lake County, does hereby officially go on record as being against the enactment of any form of State Personal Income Tax, and
2. The City Council of the City of Clermont, Lake County, Florida, does hereby go on record as being in support of the Gurney amendment which would eliminate the penalty against Florida and other States which do not have a Personal Income Tax, and
3. A copy of this Resolution be furnished to the Secretary of the United States Senate and to the Honorable Senator Edward J. Gurney.

ADOPTED at a regular meeting of the City Council of the City of Clermont, Lake County, Florida, held on June 27, 1972.

  
DON E. SMITH, Mayor

ATTEST:

DOLores W. CARROLL, CITY CLERK

## RESOLUTION NO. 72-77

WHEREAS, there is now pending before the United States Senate a legislative act known as S. 3651, referred to as "General Revenue Sharing Bill"; and

WHEREAS, certain features of said S. 3651 would work to penalize the State of Florida, and indirectly the municipalities of the State of Florida, because of the distribution formula set forth in said S. 3651, because the State of Florida does not have a State Personal Income Tax; and

WHEREAS, United States Senator Edward Gurney has proposed an amendment to S. 3651, which would eliminate the inequities of said bill and would eliminate the penalty provided therein against Florida and other states with little or no income tax.

NOW, THEREFORE, BE IT RESOLVED By the City Commission of the City of Fort Pierce, Florida, that it go on record in support of Senator Edward Gurney's amendment to S. 3651.

BE IT FURTHER RESOLVED that a copy of this Resolution be forwarded to Senator Edward Gurney and to Honorable David T. Kennedy, Mayor of the City of Miami, Florida, as Chairman of the Florida Mayors' Committee against a State Personal Income Tax.

This is to certify that this is a true and accurate copy of Resolution No. 72-77, adopted by the City Commission of the City of Fort Pierce, Florida, at the regular meeting of the City Commission held on June 19, 1972.

Witness my hand and the Official Seal of the City of Fort Pierce, Florida, this the 20th day of June A.D., 1972.

  
 \_\_\_\_\_  
 CITY CLERK

(CITY SEAL)

RESOLUTION NO. 1059

A RESOLUTION OF THE CITY OF WINTER PARK, FLORIDA ENDORSING THE AMENDMENT OF SENATOR ED GURNEY OF SENATE BILL 3651 WHICH IF PASSED, WILL PROVIDE THE STATE OF FLORIDA AN ESTIMATED SUM OF SEVENTEEN MILLION DOLLARS (\$17,000,000).

WHEREAS, there is now pending in the United States Senate a general revenue sharing bill, Senate Bill 3651, and

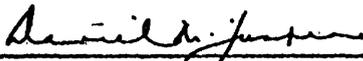
WHEREAS, the portion allocated to the State of Florida is substantially less simply because Florida has no state income tax, and

WHEREAS, the Honorable Ed Gurney, United States Senator, has proposed an amendment to Senate Bill 3651 which will eliminate the prejudice to those states not having a personal income tax.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COMMISSION OF THE CITY OF WINTER PARK, FLORIDA:

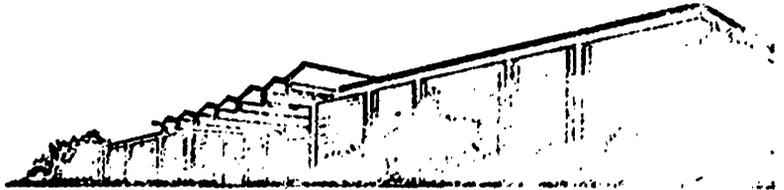
Section 1. That the City of Winter Park hereby endorses the amendment of Senator Ed Gurney, Senate Bill 3651, and instructs the clerk to send a copy of this Resolution to Senator Gurney.

ADOPTED at a regular meeting of the City Commission of the City of Winter Park, Florida, held at City Hall, Winter Park, Florida, this 12th day of July, A.D., 1972.

  
 \_\_\_\_\_  
 Mayor-Commissioner

ATTEST:

  
 \_\_\_\_\_  
 City Clerk



THE CITY OF KISSIMMEE, FLORIDA

ADMINISTRATION BUILDING

POST OFFICE BOX 340 TELEPHONE 447-2021

KISSIMMEE 32741

May 12, 1972

Honorable Ed Gurney  
U. S. Senate Office Building  
Washington, D. C. 20515

Dear Senator Gurney:

The City Commission of the City of Kissimmee has, by Resolution, unanimously endorsed the Revenue Sharing Bill, H. R. 11950 which is presently on the floor of the House and urges your support for passage of the Bill.

Although we realize that the Bill in its present form does discriminate against the State of Florida because of the state income tax provisions, we feel that Congress in its wisdom can adequately remedy that provision without killing the entire Bill.

As always we appreciate your concern for local government.

Sincerely yours,

Robert W. Gehrig  
City Manager

Is

"THE NEW OPPORTUNITY CENTER OF FLORIDA"



CITY OF  
**FORT LAUDERDALE**  
 FLORIDA

JAMES L. LEAVITT  
 MAYOR

P. O. DRAWER 1181 • 33302

June 26, 1972

The Honorable Edward Gurney  
 United States Senate  
 5105 New Senate Office Building  
 Washington, D. C. 20510

Dear Senator Gurney:

In recent months, our City has followed, with extreme interest, the progress of the General Revenue Sharing Bill. Like many other cities throughout the Country, Fort Lauderdale is facing a critical financial dilemma. Our residents are continually requesting and justifiably expecting an increase in municipal services. However, the cost of providing essential services has increased substantially, and it is questionable as to where the City will find adequate sources to maintain even current levels of services.

The City has officially endorsed the Revenue Sharing Bill and where appropriate, transmitted our reasons for support of the Legislation. Your continued support is sincerely appreciated.

It is our understanding that the Bill contains a provision which would penalize Florida for not having a State personal income tax. Although this \$17,000,000 a year penalty is directed at the State government share and does not affect funds allocated to local governments, it would adversely affect all constituents within the State should a personal income tax be required.

In addition, the loss of these funds would materially affect the entire State, inasmuch as they are critically needed for continuation and expansion of many programs. Therefore, I would like to express support of your amendment which would eliminate the penalty against Florida and other states with little or no income taxes.

If I may be of assistance, please do not hesitate to contact me.

Very truly yours,

  
 James L. Leavitt  
 Mayor-Commissioner

JLL:cvh

cc: Mayor D. T. Kennedy-Miami

**Telegram**

WFC019 WAE027(0734)(1-001977C172)PD 06/20/72 0732

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PMS SEN EDWARD GURNEY

SENATE OFFICE BLDG WASHDC

AUTHORIZED BY CARVEL C LINDEN MAYOR INDIAN CREEK VILLAGE FLORIDA

ICV ENDORSES SUPPORTS AND STRONGLY URGES PASSING HR14370 WITH  
SENATOR GURNEYS AMENDMENT S3651 RE FEDERAL REVENUE SHARING ACT  
SCHEDULED FOR VOTE ON 21 JUNE

STEPHEN DERRY VILLAGE MGR.

ICV HR14370 S3651 21.

Introduced: C/M Harry B. Williams, Jr.  
 Adopted: 6-19-72

**A RESOLUTION URGING THE SUPPORT OF  
 THE GURNEY AMENDMENT AND S. 3651 (H. R. 14370)**

WHEREAS, the General Revenue Sharing Bill, S. 3651, now before the United States Senate contains a feature that could penalize all of Florida, and

WHEREAS, Senator Gurney is leading the fight to correct this inequity and it is the purpose of the Mayors Committee to obtain support for him in this crucial effort to the people of Florida, and

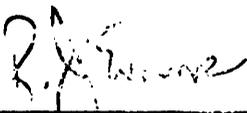
WHEREAS, Senator Gurney has proposed an amendment to S. 3651 which would eliminate the penalty against Florida and other states with little or no income taxes. It would prevent the imposition of a state personal income tax in Florida; and it would grant Florida an additional 17 million dollars a year for badly needed state financing,

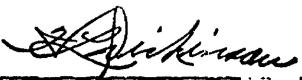
NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF JACKSONVILLE BEACH, FLORIDA:

SECTION 1. That the City Council, as a body, urge the support of the Gurney Amendment and S. 3651 ( H. R. 14370 ), this being in the best interest of all Floridians, including the citizens of all Florida localities.

SECTION 2. That this resolution take effect immediately.

AUTHENTICATED this 19th day of June 1972.

  
 \_\_\_\_\_  
 R. J. Evans, MAYOR

  
 \_\_\_\_\_  
 H. J. Dickinson, CITY CLERK



# THE SCHOOL BOARD OF POLK COUNTY, FLORIDA

TELEPHONE 833-3191  
AREA CODE 813

BARTOW, FLORIDA 33630

P. O. BOX 381

W. W. READ  
SUPERINTENDENT OF SCHOOLS

FREEDOM FOUNDATION'S PRINCIPAL SCHOOL AWARD WINNER 1971  
POLK COUNTY SCHOOL SYSTEM, NATION'S  
NUMBER ONE IN AMERICANISM

CHAIRMAN  
ROBERT J. ESTES  
DISTRICT 2

JAMES W. GRAY, JR.  
DISTRICT 3

ROBERT A. BUCCINO  
DISTRICT 1

WALTER G. GIBSON, JR.  
DISTRICT 2

WENDELL WATSON  
DISTRICT 3

July 19, 1972

Senator Edward J. Gurney  
United States Senate  
Washington, D. C. 20510

Dear Senator Gurney:

Thank you for your report dated June, 1972. I appreciate you sending me these periodic reports on what's going on in Washington.

Specifically I am writing to you relevant to the Revenue Sharing Bill in the recent Report. I would like to compliment you on your position and urge you to continue to battle to defeat the personal income tax proposal being correlated with the Revenue Sharing. I believe that I share the sentiments of most Floridians.

Keep up the good work and whenever you are in Bartow we would welcome your visit.

Sincerely,

*A. Martin Mills*

A. Martin Mills,  
Director Migrant and Compensatory  
Education

AMM/mm

RESOLUTION NO. 72-55

A RESOLUTION SUPPORTING THE GURNEY AMENDMENT AND S. 3651 (H.R. 14370), GENERAL REVENUE SHARING BILL BEFORE THE UNITED STATES CONGRESS.

WHEREAS, the City of Pinellas Park has been requested by the Florida Mayors Committee against a State Personal Income Tax to propose a local resolution expressing the support of local government for both the Gurney Amendment and S. 3651 (H.R. 14370); and

WHEREAS, the distribution formula, as proposed by the House Ways and Means Committee, would penalize Florida about seventeen (17) million dollars a year for not having a state personal income tax; and

WHEREAS, it is very possible that the amount of this penalty would be increased by future Congress until Florida is virtually forced into a state income tax; and

WHEREAS, the citizens of the State of Florida and the City of Pinellas Park are already burdened by numerous tax programs and deserve to be included in the proposed revenue sharing without being forced into another tax collection program.

NOW, THEREFORE, BE IT RESOLVED by the City Council for the City of Pinellas Park, Florida, that the City Council support the Gurney Amendment and S. 3651 (H.R. 14370).

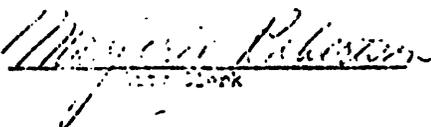
The foregoing Resolution was offered by Councilman Burke, who moved its adoption; was seconded by Councilman Donald, and upon roll call the vote was:

Ayes:	Councilmen Devos, Smith, Burke, Donald and Mayor Dinsmore
Nays:	None
Abstaining:	None
Absent:	None

and shall become effective immediately upon adoption at regular session of the City Council of the City of Pinellas Park, Florida this 13th day of July, 1972.

  
Mayor

ATTEST:

  
Mayor's Clerk

RESOLUTION NO. R-12-72

A RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF LANTANA, FLORIDA, SUPPORTING THE PROPOSED AMENDMENT TO THE GENERAL REVENUE SHARING BILL, S. 3651, AS INTRODUCED BY THE UNITED STATES SENATE.

S. 3651, a General Revenue Sharing Bill, S. 3651, is now being considered by the United States Senate, and

S. 3651, said bill would penalize the State of Florida and several other states by using a formula based in part on personal income taxes levied by the several states, and

WHEREAS, Florida has no personal income tax and in fact such tax is prohibited by the Florida Constitution, and

BECAUSE, Senator Curney has sponsored an amendment which will eliminate the penalty against Florida and other states which have no personal income taxes,

IT IS RESOLVED BY THE TOWN COUNCIL OF THE TOWN OF LANTANA, FLORIDA,

That by this Resolution they express their strong approval of the proposed "Curney Amendment" to the General Revenue Sharing Bill, S. 3651, and be it further resolved that a copy of this Resolution be forwarded to United States Senator Edward Curney, United States Senator Lawton Chiles, and Congressman Paul Rogers that each may know the sentiments expressed herein.

PASSED AND ADOPTED this 24th day of July, 1972.

TOWN OF LANTANA, FLORIDA

*Walter Brown*  
MAYOR

(CORP. SEAL)

*John N. Doe*  
TOWN CLERK

*Richard W. ...*  
COMMISSIONER

*...*  
COMMISSIONER

*...*  
COMMISSIONER

RESOLUTION NO. 72-72

A RESOLUTION TO SUPPORT BOTH, SENATOR GURNEY'S AMENDMENT AND S. 3651 (H R 14370), U. S. GENERAL REVENUE SHARING BILL.

WHEREAS, there is now before the U. S. Senate the General Revenue Sharing Bill. S. 3651, which could penalize all of Florida in regard to sharing of Federal monies to be received, and

WHEREAS, Senator Gurney has proposed an amendment to U. S. Senate Bill S. 3651 which would eliminate the penalty against Florida and other states with little or no income taxes, and

WHEREAS, Senator Gurney's amendment would prevent the imposition of a state personal income tax in Florida and it would grant Florida an additional 17 million dollars a year for badly needed state financing, now, therefore,

BE IT RESOLVED by the City Commission of the City of Key West, Florida as follows:

1. The City Commission of the City of Key West, Florida does hereby express its total support in behalf of both, the Gurney Amendment and U. S. Senate Bill S 3651 (House Bill H. R. 14370).
2. The City Clerk of the City of Key West, Florida shall mail copies of this resolution to the appropriate agencies and officials for their appropriate action.

Passed and adopted by the City Commission at a meeting held this 19<sup>th</sup> day of June, A.D. 1972.

  
MAYOR PRO TEMPORE

ATTEST:

  
CITY CLERK

July 11, 1972

House Ways and Means Committee  
State Capitol  
Tallahassee, Florida 32304

Gentlemen:

At the July 10, 1972 Council meeting of the City of  
Islandia, your bill was discussed and it was the unanimous  
decision of those present to support S.-3651 as amended by  
Senator Ed Gurney and urge you to pass it.

Yours sincerely,

City of Islandia

Jack Pym  
Vice-Mayor

cc: Senator Edward J. Gurney

*Islandia, Florida*

TEMPORARY CITY HALL

9205 South Dixie Highway  
Miami, Florida 33156

RESOLUTION

Upon motion by Commissioner Prevatt , seconded by Commissioner Neff , the following resolution was unanimously adopted:

WHEREAS, the U. S. Senate is considering the passage of the General Revenue Sharing Bill designated as "S3651"; and,

WHEREAS, S3651 has a feature which provides that state personal income tax collections shall be used as a basis for distributing funds; and,

WHEREAS, this feature could penalize the people of the State of Florida in that Florida has no personal income tax law; and,

WHEREAS, the Florida Mayors Committee against a state personal income tax has sought support in its effort to delete the subject feature of S3651; and,

WHEREAS, the Board of County Commissioners of Hillsborough County supports the efforts to oppose any penalty on the distribution of funds to state without personal income tax; and,

WHEREAS, Senator Ed Gurney has proposed an amendment to S3651 which would eliminate the penalty against Florida and other states with no personal income tax; and,

WHEREAS, it is deemed that this amendment would prevent the imposition of a state personal income tax in Florida and would grant Florida an additional seventeen million dollars per year for state financing which would directly effect the financial standing of Hillsborough County.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COUNTY COMMISSIONERS OF HILLSBOROUGH COUNTY, FLORIDA, IN REGULAR MEETING ASSEMBLED THIS 14TH DAY OF JUNE, 1972:

That the Board of County Commissioners does hereby express its opposition to the General Revenue Sharing Bill, S3651, as it exists now before the U. S. Senate in that it penalizes the citizens of Florida and Hillsborough County because Florida has no personal income tax and does support a proposed amendment to S3651 submitted by Senator Ed Gurney which would obviate the penalty provision of S3651 in its present form and greatly aid and benefit Hillsborough County's local financial standing.

STATE OF FLORIDA )  
 )  
COUNTY OF HILLSBOROUGH)

I, JAMES F. TAYLOR, JR., Clerk of the Circuit Court and Ex Officio Clerk of the Board of County Commissioners of

Hillsborough County, Florida, do hereby certify that the above and foregoing is a true and correct copy of a resolution adopted by the Board in its regular meeting of June 14, 1972, as the same appears of record in Minute Book 54 of the Public Records of Hillsborough County, Florida.

WITNESS my hand and official seal this 17<sup>th</sup> day of July, 1972.

JAMES F. TAYLOR, JR., CLERK

By: Patella S. Waters  
Deputy Clerk

RESOLUTION 72 - 23

WHEREAS, the City of Indian Rocks Beach believes in the plan of federal revenue sharing with state and local governments, and

WHEREAS, the Congress of the United States is considering legislation that will implement federal revenue sharing but which will penalize those states that do not have a personal income tax,

and

WHEREAS, the Honorable Edward Gurney, United States Senator from Florida is leading a fight to amend the revenue sharing legislation so that states like Florida which have no personal income tax will not be penalized,

NOW THEREFORE BE IT RESOLVED BY THE CITY COMMISSION OF THE CITY OF INDIAN ROCKS BEACH, FLORIDA, IN SESSION DULY AND REGULARLY ASSEMBLED AS FOLLOWS:

1) That the City Commission of the City of Indian Rocks Beach firmly supports the efforts of United States Senator Edward Gurney to amend the revenue sharing legislation pending in the Congress to eliminate penalty tax for states who do not have a state income tax.

2) That the City of Indian Rocks Beach, Florida wholeheartedly supports the plan of federal revenue sharing to state and local governments unencumbered by excessive governmental regulation.

PASSED AND ADOPTED THIS 17th day of July, 1972.

ATTEST:

Harold D. Smith  
Mayor-Commissioner

Genea Burkay  
City Clerk

RESOLUTION SUPPORTING THE GURNEY AMENDMENT  
TO SENATE BILL S.3651  
(HR 14370)

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WHEREAS, Senate Bill S.3651 as written will reduce Federal revenues distributable to the State of Florida unless the State enacts legislation calling for a personal income tax; and

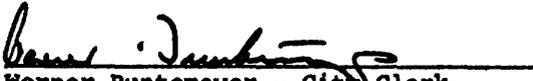
WHEREAS, the Gurney Amendment to said Senate Bill S.3651 would eliminate the proviso requiring a state personal income tax thereby increasing the Federal funds distributable to the State of Florida;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COMMISSION OF THE CITY OF CORAL SPRINGS, FLORIDA, THAT:

The City Commission of the City of Coral Springs, Florida, does hereby support the Gurney Amendment to Senate Bill S.3651 (HR 14370).

  
JAMES E. EDWARDS - MAYOR

Attest:

  
Werner Buntmeyer - City Clerk

Date: July 5, 1972

CITY OF MARGATE, FLORIDA  
 RESOLUTION NO. 2211

WHEREAS, the City Council of the City of Margate has been advised that due to certain provisions of certain laws now pending before the United States Congress there is a possibility that the State of Florida may find it necessary to impose a state personal income tax; and,

WHEREAS, the City Council desires to oppose said income tax on behalf of its self and its citizens.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MARGATE, FLORIDA.

Section 1: That the City Council of the City of Margate on behalf of its self and the citizens of the City oppose any personal income tax being imposed on the citizens of Florida;

Section 2: That in addition and in order that the State of Florida not be penalized by inequitable revenue distribution the City Council on behalf of its self and the citizens of the City support the GURNEY amendment and Senate Bill 3651 which would prevent any penalizing of the State through its general revenue sharing funds and assist in the prevention of the imposition of a personal state income tax.

PASSED, ADOPTED AND APPROVED THIS 12th DAY OF

July, 1972.

  
 President, City Council

ATTEST:

  
 City Clerk

## RESOLUTION NO. 18, 1972

RESOLUTION ESTABLISHING OPPOSITION  
TO ANY PLAN CONTAINED WITHIN THE  
FEDERAL REVENUE SHARING LEGISLATION  
WHICH WOULD REQUIRE THE STATE OF  
FLORIDA TO ADOPT A STATE PERSONAL  
INCOME TAX.

THAT, WHEREAS, there is pending legislation before the Congress of the United States of America which provides a revenue sharing program between the Federal level of government and the various State levels of government, within these United States of America;

AND WHEREAS, it has been brought to the attention of this City Council that one feature in the general revenue sharing bill, S-3651, which is now pending before the United States Senate could result in a penalty to the State of Florida,

AND WHEREAS, the penalty provided therein is contained within the distribution formula as proposed by the House Ways and Means Committee which could penalize Florida approximately \$17,000,000.00 per year for the reason that the State of Florida does not have a State Personal Income Tax;

AND WHEREAS, it is possible that said penalty could be increased by future sessions of Congress until such time that the State of Florida is coerced into enacting a constitutional revision or legislation which would require a State Income Tax;

AND WHEREAS the aforesaid penalty could not only affect the State level of government in the State of Florida, but could also adversely affect the economic interests of all local subdivisions and municipal corporations thereof in the event that Florida should be coerced into enacting a constitutional revision or legislation requiring a State Personal Income Tax;

AND WHEREAS the existing economic structure of the State of Florida is such that a Personal Income Tax is odious to the basic economic principles of this State, and the citizens who are residents hereof;

AND WHEREAS it does appear that the Honorable Edward Gurney, United States Senator, has proposed an amendment to S-3651 for the purpose of eliminating the penalty against the State of Florida and other states which do not have Income Taxes;

AND WHEREAS said amendment would prevent the imposition of a State Personal Income Tax in Florida and would grant Florida an additional \$17,000,000.00 a year for required State financing;

AND WHEREAS the City Council deems it to be in the best interest of the State of Florida and all of the political subdivisions and municipal corporations thereof and the citizens of this State who reside therein, for the aforesaid amendment to S-3651 to be adopted.

AND WHEREAS this City Council is strongly in support of the general revenue sharing plan provided that the aforesaid objectionable features now contained

therein can be eliminated.

NOW, THEREFORE, BE IT HEREBY RESOLVED BY THE CITY COUNCIL OF THE CITY OF PORT RICHEY, FLORIDA, as follows:

1. That this City is in favor of the general revenue sharing legislation now pending before the Congress of these United States of America so that adequate revenue being realized by the Federal Government will be made available to the various State governments, including the State of Florida, for needed projects within said states, for which funds are not readily available.

2. That this City Council is in opposition to any plan contained within said revenue sharing legislation which would require the State of Florida to adopt a State Personal Income Tax, either by constitutional revision or by the enactment of legislation.

3. That this City Council is in support of the proposed amendment to S-3651, as presented by the Honorable Edward Gurney, Senator from the State of Florida, which will eliminate the requirement contained in said general revenue sharing legislation for the State of Florida, or any other state, to enact a Personal Income Tax measure in order to qualify for general revenue sharing with the Federal Government.

ADOPTED at a regular meeting of the City Council of the City of Port Richey, Florida, this 11th day of July, 1972.

ATTEST:

/s/ Ralph W. Shannon  
President of the City Council  
City of Port Richey, Florida

/s/ Helen M. Caren  
City Clerk

RESOLUTION

A RESOLUTION URGING THE MEMBERS OF CONGRESS OF THE UNITED STATES TO REFRAIN FROM ADOPTING ANY MEASURE WHICH ALLOWS STATE PERSONAL INCOME TAXATION TO BECOME A CONSIDERATION IN THE DEVELOPMENT OF A FEDERAL REVENUE SHARING PLAN.

WHEREAS, the City Council of the City of Cocoa, Florida, wishes to advise the Congress of the United States that a Federal Revenue Sharing Plan which takes into consideration a State Personal Income Taxation would adversely affect the City of Cocoa and its constituents.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF COCOA, FLORIDA, that the Congress of the United States be urged to refrain from adopting any measure which allows State Personal Income Taxation to become a consideration in the development of a Federal Revenue Sharing Plan.

ADOPTED at a regular meeting of the City Council of the City of Cocoa, Florida, held on the 27th day of June, 1972.

s/ Arthur H. Tate  
 \_\_\_\_\_  
 Mayor

ATTEST:

s/ Kathryn A. Caldwell  
 \_\_\_\_\_  
 City Clerk

I, KATHRYN A. CALDWELL, the duly qualified Clerk of the City of Cocoa, Florida, DO HEREBY CERTIFY that the foregoing is a true and correct copy of a Resolution adopted by Council in Regular Session held on the 27th day of June A.D.1972.

IN WITNESS WHEREOF, I have hereunto set my hand and the seal of said City this 3rd day of July, A.D.1972.

*Kathryn A. Caldwell*  
 \_\_\_\_\_  
 City Clerk

RESOLUTION NO. R72- 63

A RESOLUTION URGING THE UNITED STATES CONGRESS TO ADOPT THE GENERAL REVENUE SHARING BILL MORE PARTICULARLY KNOWN AS S. 3651 (H.R. 14370) TOGETHER WITH THE GURNEY AMENDMENT THERETO AND STATING REASONS THEREFOR; DIRECTING COPIES OF THE RESOLUTION TO BE FORWARDED TO CONGRESSIONAL REPRESENTATIVES AND SENATORS

WHEREAS, the attention of the Mayor and City Council has been directed to pending national legislation, to-wit: the General Revenue Sharing Bill now pending before the Congress of the United States as S. 3651 (H.R. 14370); and

WHEREAS, the beneficial purposes of such legislation will be vitiated if it is adopted in its present form, since it invidiously discriminates against those states which do not burden their citizens with a State Personal Income Tax; and

WHEREAS, the Honorable Edward J. Gurney, Senator from Florida, has proposed an amendment to such legislation designed to cure such invidious discrimination; and

WHEREAS, the City of North Miami Beach desires to record its approval of the concept of General Revenue Sharing, and its further approval of the Gurney Amendment to the above-described pending legislation,

NOW, THEREFORE,

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF NORTH MIAMI BEACH, FLORIDA:

Section 1: That the Mayor and City Council of the City of North Miami Beach, on behalf of themselves and of the City of North Miami Beach, do hereby urge the Congress of the United States of America to adopt the Gurney Amendment to the General Revenue Sharing Bill S. 3651 (H.R. 14370), and to thereafter adopt such legislation as so amended for the reasons above stated, and commend to their Representatives and Senators in

Congress, to-wit:

Honorable Claude Pepper  
Honorable J. Herbert Burke  
Honorable Dante B. Fascell  
Honorable Lawton M. Chiles, Jr.  
Honorable Edward J. Gurney

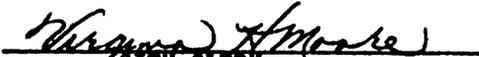
that they move forward expeditiously and assiduously to aid in the passage and adoption of this worthy and needed legislation.

Section 2: That the City Clerk be and she is hereby directed to forward suitably certified copies of this Resolution to the Congressional Representatives and Senators hereinabove set forth.

APPROVED AND ADOPTED in regular meeting assembled this  
20th day of June, 1972.

  
MAYOR

ATTEST:

  
CITY CLERK

(CITY SEAL)

## R E S O L U T I O N

The Board of County Commissioners of Okaloosa County assembled in regular session on the 22nd day of June, 1972, adopted the following Resolution:

WHEREAS, the Great State of Florida does not have a State Personal Income Tax and does not feel that it should be coerced into having a State Personal Income Tax in order to participate in General Revenue Sharing Bill S.3651, and

WHEREAS, the Honorable Senator Ed Gurney of Florida has dutifully and honorably served the Great State of Florida in the distinguished United States Congress, and

WHEREAS, Senator Ed Gurney has proposed an Amendment to S.3651 which would eliminate discriminatory practices against Florida for not having found it necessary to tax its citizens with a State Personal Income Tax.

NOW, THEREFORE, BE IT RESOLVED that the Board of County Commissioners of Okaloosa County, Florida, does support Senator Ed Gurney in his efforts to amend the General Revenue Sharing Bill S.3651 to prevent the United States Senate from imposing a State Personal Income Tax in Florida and to grant Florida its rightful revenues under the General Revenue Sharing Bill.

BE IT FURTHER RESOLVED that copies of this Resolution shall be sent to Senator Ed Gurney, Mr. David T. Kennedy, Mayor of Miami, the Honorable Bob Sikes, Senator Lawton Chiles and the Governor of Florida, Reubin Askew.

ADOPTED this 22nd day of June, 1972.

BOARD OF COUNTY COMMISSIONERS  
OKALOOSA COUNTY, FLORIDA

  
Dee Parkton  
Chairman

ATTEST:

  
Cecil L. Anders, Sr.  
Clerk

# CITY OF ORMOND BEACH

FLORIDA



June 15, 1972

Honorable Edward J. Gurney  
U. S. Senator - Winter Park, Florida  
Senate Office Building  
Washington, D. C. 20510

Dear Senator:

It has been brought to our attention by Mr. David T. Kennedy, Mayor of the City of Miami, that you have proposed an amendment to S. 3651, which would eliminate the penalty against Florida and other states with little or no income taxes.

The Commission of the City of Ormond Beach strongly supports your amendment as well as general revenue sharing itself. We trust that you will be successful in having this Amendment passed.

Sincerely,

*W. Lee Strong*  
W. Lee Strong  
Commissioner, Zone 1

*Ernest J. Cassen*  
Ernest J. Cassen  
Mayor

*John G. Schaeffer*  
John G. Schaeffer  
Commissioner, Zone 2

*B. J. Lilly*  
B. J. "Bill" Lilly  
Commissioner, Zone 3

*Burton R. McNary, Sr.*  
Burton R. McNary, Sr.  
Commissioner, Zone 4

*Gerald F. Althouse*  
Gerald F. Althouse  
City Manager

R E S O L U T I O N

WHEREAS, a State Personal Income Tax provision of the General Revenue Sharing Bill, S. 3651, now before the United States Senate, could penalize Brevard County and the State of Florida; and,

WHEREAS, the House Ways and Means Committee proposes a distribution formula which would penalize Florida approximately \$17,000,000 a year for not having a State Personal Income Tax; and,

WHEREAS, Senator Ed Gurney has proposed an Amendment to S. 3651 which would eliminate the penalty against Florida and other States with little or no income taxes, prevent the imposition of a State Personal Income Tax in Florida and grant Florida an additional \$17,000,000 a year for State financing; and,

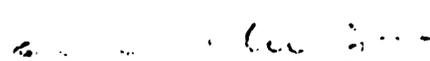
WHEREAS, Brevard County Board of County Commissioners is against a State Personal Income Tax and is desirous of correcting this inequity.

NOW, THEREFORE, BE IT RESOLVED, that the Board of County Commissioners of Brevard County, Florida, on behalf of the citizens of Brevard County, hereby requests the United States Congress to support the Gurney Amendment and the General Revenue Sharing Bill S. 3651 (H.R. 14370) without the provision of a State Personal Income Tax.

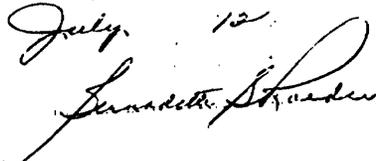
DONE, ORDERED AND ADOPTED, in Regular Session, this 29th day of June, A.D., 1972.

ATTEST:

  
CURTIS R. BARNES, CLERK

  
 \_\_\_\_\_  
 LORI WILSON, CHAIRMAN  
 BOARD OF COUNTY COMMISSIONERS  
 BREVARD COUNTY, FLORIDA

(S E A L)

*a*  
*resolution 1872*  
*July 12*  




# FLORIDA TAXPAYERS ASSOCIATION, Inc

• Founded 1932 •

3430 West Kennedy Boulevard, Tampa, Florida 33609

July 10, 1972

## OFFICERS

President  
HUGH B ALEXANDER,  
Chairman & President  
Lake Wales Bank & Trust  
Lake Wales

Vice President  
D RICHARD MEAD, Sr., Chairman  
D. R. Mead & Company  
Miami

Treasurer  
NORMAN H BUNTING, Partner,  
Bunting, Tripp & Ingley  
Certified Public Accountants  
Lake Wales

Executive Director  
ROBERT L NEWMAN, Jr.  
Tampa

## DIRECTORS

F. ELGIN BAYLESS, Chairman  
Barnett Bank At Sebring  
Sebring

EDWIN N BELCHER, Jr., President  
Belcher Oil Company  
Miami

JOHN B BOY, President  
United States Sugar Company  
Clewiston

DAVID R COWART, President  
Morrison Incorporated  
Morrison Cafeterias, Florida  
Mobile, Ala.

R. A CRAF, General Manager  
Cities Service Company  
Agricultural Chemical Operation  
Tampa

J R GRAVES, President  
Plymouth Citrus Products Coop.  
Plymouth

GRATTON HAMMOND, Jr., President  
Hammond Electronics, Inc.  
Orlando

GORDON B HOWELL, Plant Manager  
E. I. du Pont de Nemours & Company  
Lawley

JESSE T HUDSON, Jr.,  
Vice President Finance  
Southeast Banking Corporation  
Miami

JOHN A. LAYTON, Vice President  
Agrico Chemical Company  
Div. Continental Oil Company  
Pierce

C. I. LORD, Vice President-Finance  
Electronic Communications, Inc.  
St. Petersburg

T. H. McMILLAN, Division Manager  
Standard Oil Company  
Jacksonville

W. J. NOONAN, Jr., President  
Noonan Construction Company, Inc.  
Pensacola

L. FRANK ROPER, President  
Roper Brothers, Inc.  
Winter Garden

JOHN RYBOVICH, Jr., President  
Rybovich & Sons Boat Works, Inc.  
West Palm Beach

ROBERT STEWART, President  
Zellars Farms Company  
Zellwood

HENRY TOLAND, President  
Exchange National Bank of Tampa  
Tampa

Hon. Edward J. Gurney  
United State Senate.  
Washington, D.C.

Dear Senator Gurney;

This Association Supports your  
amendment to the Senate Bill on  
Revenue Sharing.

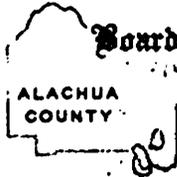
Sincerely yours

  
Robert L. Newman, Jr.  
Executive Director.

n

40th ANNIVERSARY - 1972

SIDNEY MARTIN  
CHAIRMAN  
RALPH W. CELLON, JR.  
G. M. DAVIS  
JACK DURRANCE  
EDWIN B. TURLINGTON



**Board of County Commissioners**

GAINESVILLE, FLORIDA 32601

June 22, 1972

WAYNE CARLISLE  
ATTORNEY  
R. J. MILLER  
ENGINEER  
H. H. WESTON  
ADMINISTRATIVE  
ASSISTANT

Senator Lawton H. Chiles, Jr.  
U.S. Senate  
Washington, D.C. 20515

Dear Senator Chiles:

At its meeting held June 20, 1972, the Alachua County Commission voted unanimously to support the General Revenue Sharing Bill, S. 3651 (H.R. 14370), now before the U.S. Senate. The Board also voiced its approval of the proposed Gurney amendment, which would eliminate from the Revenue Sharing Bill penalties against states that do not levy a personal income tax.

The Alachua County Commission urges your positive support of the Revenue Sharing Bill and the proposed Gurney amendment.

Sincerely,

SIDNEY MARTIN  
Chairman

SM/kt

## RESOLUTION NUMBER \_\_\_\_\_

W H E R E A S, the Board of County Commissioners, Bay County, Florida have been advised that the General Revenue Sharing Bill, S. 3651, as it is presently before the United States Senate would penalize the State of Florida for not having a State personal income tax, and

W H E R E A S, the Board has been advised that the present amount of said penalty would be approximately \$17,000,000.00 and that there is a possibility for future increases in this penalty until the State of Florida is virtually forced into a State income tax, and

W H E R E A S, the Honorable Senator Ed Gurney, Florida, has proposed an amendment to S. 3651 which would eliminate the penalty against Florida and other states similarly situated and which would prevent the Federal Government from forcing a State personal income tax in Florida and would grant Florida an additional \$17,000,000.00 a year for badly needed State financing, and

W H E R E A S, said Board of County Commissioners has determined that the amendment proposed by Senator Gurney is in the best interest of Bay County and the residents thereof,

NOW, THEREFORE, BE IT RESOLVED by the Board of County Commissioners, Bay County, Florida that the United States Senate be advised, through Senator Ed Gurney, of the support of the Board of County Commissioners of Bay County, Florida of the General Revenue Sharing Bill, S. 3651, PROVIDED THAT SAID BILL IS AMENDED AS PROPOSED BY THE GURNEY AMENDMENT.

BE IT FURTHER RESOLVED that a certified copy of this Resolution be provided to Senator Ed Gurney for presentation to the United States Senate and for such other uses as the Honorable Senator may see fit.

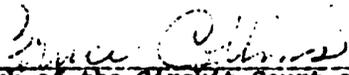
ADOPTED by the Board of County Commissioners, Bay County, Florida, this 13th day of June, 1972.

## CERTIFICATE

STATE OF FLORIDA  
COUNTY OF BAY

I, Bruce Collins, Clerk of the Circuit Court and ex officio Clerk and Auditor of the Bay County Board of County Commissioners, do

hereby certify that the above and foregoing resolution was duly adopted by the Bay County Board of County Commissioners in regular session assembled on the 13th day of June, 1972.

  
Clerk of the Circuit Court and ex  
officio Clerk and Auditor of the Bay  
County Board of County Commissioners

# CITY of AVON PARK

ROBERT J. BARBER  
MAYOR

COUNCILMEN

J. R. DOUGAN, Pres.  
DURRAN MARTIN, Vice Pres.  
MILTON C. HOWARD  
CLARENCE F. KING  
HERMON SIZEMORE

P. O. BOX 1467  
HIGHLANDS COUNTY  
AVON PARK, FLORIDA 33825

MALCOLM K. CREWS  
CITY CLERK  
JONATHAN H. MANCOCK  
CITY ATTORNEY

DAVID F. LANIER  
CITY JUDGE

FERLAND E. GRIBB  
CHIEF OF POLICE

H. M. FLOWERS  
FIRE CHIEF

JOHN ZIEGLER  
STREET SUPT.

WILLIE E. WILLIAMS  
WATER SUPT.

W. T. TROWELL  
GREENKEEPER

B. L. PARKERSON  
BUILDING OFFICIAL

## RESOLUTION

WHEREAS, A GENERAL REVENUE SHARING BILL, S. 3651,  
IS NOW BEING CONSIDERED BY THE UNITED STATES SENATE, AND  
WHEREAS, SAID BILL WOULD PENALIZE FLORIDA AND SEVERAL  
OTHER STATES BY USING A FORMULA PARTIALLY BASED ON PERSONAL  
INCOME TAXES LEVIED BY THE SEVERAL STATES, AND

WHEREAS, FLORIDA HAS NO PERSONAL INCOME TAX AND  
IN FACT SUCH TAX IS PROHIBITED BY THE FLORIDA CONSTITUTION, AND  
WHEREAS, SENATOR ED GURNEY HAS SPONSORED AN AMENDMENT  
WHICH WOULD ELIMINATE THE PENALTY AGAINST FLORIDA AND OTHER STATES  
WITH NO PERSONAL INCOME TAXES

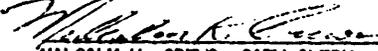
NOW THEREFORE, BE IT RESOLVED BY THE MAYOR AND CITY  
COUNCIL OF THE CITY OF AVON PARK, FLORIDA, THAT THEY GO ON RECORD  
AS FAVORING REVENUE SHARING AS AMENDED BY THE PROPOSED GURNEY  
AMENDMENT AND URGE THE SUPPORT OF THEIR REPRESENTATIVES IN CONGRESS  
FOR THIS AMENDMENT.

PASSED AND ADOPTED IN REGULAR SESSION THIS 12TH DAY  
OF JUNE, A. D. 1972 AT AVON PARK, HIGHLANDS COUNTY, FLORIDA.

SIGNED:

  
ROBERT J. BARBER, MAYOR

ATTEST:

  
MALCOLM K. CREWS, CITY CLERK

## RESOLUTION

WHEREAS, General Revenue Sharing Bill S3651 could penalize all of the State of Florida by penalty directed at the state government share of general revenue sharing funds,

WHEREAS, members of the Town Council of the Town of Lake Placid support any effort to correct this inequity to the people of Florida,

NOW, THEREFORE, BE IT RESOLVED, by the Town Council of the Town of Lake Placid, regularly assembled this 10th day of July, that S3651 (HR 14370) with the Gurney amendment has the full support of the Town Council.

This resolution adopted, this the 10th day of July, A.D. 1972

Steve C. LaGrone  
Mayor

Attest Helma Edman  
Clerk

Seal

## RESOLUTION No.21-72

WHEREAS, the United States Senate is considering H.R. 14370, Federal Revenue Sharing Bill, and

WHEREAS, this Bill, as passed by the House of Representatives, would require States to impose a State income tax to receive their fair share of the Federal Funds, and

WHEREAS, the State of Florida does not have a State income tax, and

WHEREAS, Senator Gurney of Florida has introduced an amendment to this Bill which would remove the State income tax requirement and substitute for it a distribution formula based on Federal Income Tax dollars collected from each State; and

WHEREAS, Senator Gurney's formula would provide a more equitable distribution of these revenues and not require the citizens of Florida to have the burden of an additional tax placed upon them,

NOW, THEREFORE, BE IT RESOLVED, By the City Council of the City of Maitland, Florida, that:

SECTION 1. The City Council supports the efforts of Senator Gurney to amend H.R. 14370.

SECTION 2. The City Council requests the members of the Senate Finance Committee and the members of the Senate to vote in favor of this amendment.

SECTION 3. This Resolution shall take effect immediately upon its passage.

PASSED and APPROVED by the City Council of the City of Maitland, Florida, this 17th day of July, 1972.

ATTEST:

*[Signature]* City Clerk

CITY OF MAITLAND

*[Signature]*  
Vice Mayor

## RESOLUTION NO. 216

RESOLUTION SUPPORTING THE NATIONAL REVENUE SHARING ACT AND  
SENATOR EDWARD GURNEY'S AMENDMENT.

WHEREAS, the Federal General Revenue Sharing Bill S-3651  
is now before the United States Senate; and

WHEREAS, the distribution formula as proposed, would penalize  
the State of Florida approximately 17 million dollars for not  
having a state personal income tax; and

WHEREAS, an amendment to this act has been filed by Senator  
Edward Gurney that would correct this inequity and allow Florida  
to share equally with other states.

NOW, THEREFORE, BE IT RESOLVED BY THE COMMISSION OF THE  
VILLAGE OF BISCAYNE PARK, FLORIDA:

That the Commission in the best interest of the citizens of  
Biscayne Park goes on record as supporting and endorsing Senate  
Bill 3651 and the Gurney Amendment thereto. BE IT FURTHER RE-  
SOLVED, that a copy of this resolution be forwarded to Senators  
Gurney and Chiles; and to the Chairman of the Florida Mayors  
Committee against a State Personal Income Tax.

PASSED and ADOPTED this 5th day of July, 1972.

*E. J. Burke*  
\_\_\_\_\_  
Edward J. Burke  
Mayor

ATTEST:

*Mary N. Singer*  
\_\_\_\_\_  
Mary N. Singer  
Village Clerk

I, Mary N. Singer, do hereby certify that the foregoing  
Resolution No. 216, was duly passed by the Commission of  
the Village of Biscayne Park, Florida, this 5th day of  
July, 1972.

*Mary N. Singer*  
\_\_\_\_\_  
Mary N. Singer  
Village Clerk

## R E S O L U T I O N

WHEREAS, there is pending in the National Congress, a Revenue Sharing Bill proposing to make available to states, counties and cities certain tax money collected by the Federal Government, and

WHEREAS, the Bill carries a provision that a State must be levying a State Income Tax in order for the State and its subdivisions to be eligible to receive a share of the revenue, and

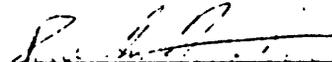
WHEREAS, the State of Florida has a constitutional prohibition against the levying of a State Income Tax, which is as its citizens want, and

WHEREAS, we feel such a restriction would be unfair to the people of such states and an unwarranted interjection of the Federal Government into local government,

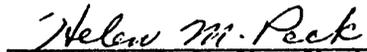
NOW THEREFORE BE IT RESOLVED THAT, the City of Cape Coral does hereby vigorously register its protest at the inclusion of any provision in the pending legislation on Revenue Sharing that would require a state to levy an income tax as a prerequisite to its eligibility to participate in the distribution of the funds that may be made available under the Revenue Sharing Program, and

BE IT FURTHER RESOLVED THAT, a copy of this Resolution be forwarded to the President of the United States, to the two Senators from Florida and to the Representatives in Congress from the State of Florida.

PASSED in regular session of the City Council of the City of Cape Coral, Florida this 22nd day of May, 1972.

  
 Paul L. Fickinger, Mayor

ATTESTED to and filed in my office this 22nd day of May, 1972.

  
 Helen M. Peck, City Clerk

SEAL

# SARASOTA

COUNTY CHAMBER OF COMMERCE • P. O. BOX 308 • SARASOTA, FLORIDA 33578 • PHONE 813-955-8187

July 19, 1972

Senator Edward J. Gurney  
5105 New Senate Office Building  
Washington, D.C. 20510

Dear Senator:

The directors of the Chamber of Commerce, on recommendation of the National Government Committee, have declared against federal revenue-sharing as provided in the Mills bill which passed the House.

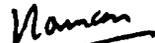
Their opposition to it is based on the same flaw which we know you have pointed out: that the formula for distribution works to the disadvantage of states without an income tax, and that each state should make its own decision as to whether it wants such a tax.

Your proposal, to base distribution on federal income tax collected from each state, is obviously much more fair.

The Chamber also condemned furnishing food stamps to strikers, though we know this is a matter not up for vote in either house.

Thanks, and best wishes.

Sincerely,



Norman Shaw  
General Manager

NS:a

RESOLUTION NO. 6014

A RESOLUTION SUPPORTING SENATE BILL  
3651 and HOUSE BILL 14370 TOGETHER WITH  
THE GURNLEY AMENDMENT

WHEREAS, it has come to the attention of the Town of Lauderdale-By-The-Sea, Florida, that general revenue sharing bill in the Senate known as 3651 and House bill known as 14370 contains an inequity in that the distribution formula proposed by the House Ways and Means Committee penalizes the State of Florida and its residents to the extent of approximately 17 million dollars annually; and

WHEREAS, the Gurney Amendment seeks to eliminate the penalty which would exist against Florida and other states which have not sought to adopt state income taxes; and

WHEREAS, it is vital that the State of Florida not be penalized because it has not sought to invoke a personal income tax against its residents.

NOW, THEREFORE, BE IT RESOLVED BY THE TOWN COMMISSION OF THE TOWN OF LAUDERDALE-BY-THE-SEA, FLORIDA, IN REGULAR SESSION CONVENED:

Section 1: That the Town of Lauderdale-By-The-Sea supports General Revenue Sharing Senate Bill 3651 and House Bill 14370 together with the Gurney Amendment.

Section 2: The Town of Lauderdale-By-The-Sea is in opposition to any action which would seek to penalize the State of Florida and its residents by way of the fact that this state has sought not to impose a state income tax, and as a consequence, fully supports the Gurney Amendment which is designed to prevent such occurrence.

Section 3: Passed and adopted this 13th day of June, 1972.

  
 \_\_\_\_\_  
 Mayor-Commissioner, Town Manager

Attest:

  
 \_\_\_\_\_  
 Town Auditor-Clerk

RESOLUTION NO. 42-72 OF THE CITY OF LAKE WORTH, FLORIDA,  
SUBMITTING THE OPINION AND RECOMMENDATIONS OF THE CITY  
COMMISSION REGARDING PENDING LEGISLATION TO THE FLORIDA  
CONGRESSIONAL DELEGATION.

WHEREAS, the General Revenue Sharing Bill S.3651, now pending before the United States Senate would penalize the State of Florida approximately 17 million dollars per annum for this State's failure to have a state personal income tax; and

WHEREAS, the Constitution of the State of Florida, prohibits the assessment of a personal income tax, and the people of Florida have been consistent in opposing such a levy; and

WHEREAS, Senator Ed Gurney has proposed an amendment to S.3651 which would eliminate this penalty against Florida; and

WHEREAS, the terms of S.3651 would otherwise provide the State of Florida, its counties and municipalities, with revenue vitally needed for the maintenance and operation of public safety systems, environmental protection systems, public transportation systems, and refuse disposal systems.

NOW, THEREFORE, BE IT RESOLVED BY THE COMMISSION OF THE CITY OF LAKE WORTH, FLORIDA:

1. That the City Commission is of the opinion that this pending legislation, S.3651, known as the General Revenue Sharing Bill, should become law, and hereby recommends that the Florida Congressional Delegation make every effort in this regard.

2. That the City Commission is of the further opinion that the proposed Gurney Amendment which would eliminate the penalty of approximately 17 million dollars against Florida, should be made a part of the General Revenue Sharing Bill and should become law, and hereby recommends that the Florida Congressional Delegation make every effort in this regard.

3. That copies of this Resolution be furnished to all members of the Florida Congressional Delegation and other interested and affected persons.

THIS RESOLUTION PASSED this 16th day of June, 1972.

*A. K. ...*  
Mayor

*George H. ...*  
Commissioner

*Dennis F. ...*  
Commissioner

*Max ...*  
Commissioner

*Bob ...*  
Commissioner

ATTEST:

*Elemer ...*  
City Clerk

Submitted: 6/16/72

# City of Layton

F L O R I D A



OFFICE OF THE MAYOR  
DEL LAYTON

June 15th, 1972

Honorable Edward J. Gurney  
U. S. Senator  
Washington, D.C.

Dear Senator,

On June 12th the City Council of the City of Layton voted unanimously to pass a resolution supporting your Amendment and S 3651 ( HR 14370)., and I want you to know you can depend on me for my personal support as well.

As I told Mayor Kennedy, I maintain a home in Miami and come up quite often as I have some commercial property there.

I hope to meet you in person some time when I come to Miami. Thought you might find the enclosed clippings interesting.

Respectfully & Sincerely yours,

Del Layton

R E S O L U T I O N

BE IT RESOLVED BY THE CITY COMMISSION OF THE CITY OF LEESBURG,  
FLORIDA, as follows:

That the City of Leesburg deems it to be in the best  
interest of all Floridians that the GURNEY AMENDMENT to  
the GENERAL REVENUE SHARING BILL No. S.3651 be adopted;  
and

BE IT FURTHER RESOLVED:

That all citizens are requested to contact their  
Congressional Representative and call upon them for  
their support to this amendment.

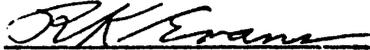
PASSED and ADOPTED this 26th day of June, 1972.

/s/ Sam L. Pyles  
\_\_\_\_\_  
Sam L. Pyles  
Mayor-Commissioner

ATTEST:

/s/ R K Evans  
\_\_\_\_\_  
RK Evans  
City Clerk and Auditor

I certify this to be a true and exact copy of the Resolution passed and adopted  
on the 26th day of June, 1972.

  
\_\_\_\_\_  
RK Evans, City Clerk and Auditor

DALE M. LESLIE

**CLERK OF THE CIRCUIT COURT****COUNTY COMMISSIONERS**

KIRK PITTMAN, Madison, Fla.  
GROVER C. CORE, Rt. 4, Greenville, Fla.  
CULPMAN RICHARDSCH, Madison, Fla.  
CLYDE KING, Rt. 4, Greenville, Fla.  
LESTER RATLEFF, Rt. 3, Greenville, Fla.

RECORDER AND AUDITOR, MADISON COUNTY

MADISON, FLORIDA 32340

Phone 973-6531

**BOARD MEETS FIRST WEDNESDAY  
IN EACH MONTH**

June 22, 1972

The Honorable Ed Gurney  
United States Senator  
Washington, D. C.

Dear Senator Gurney:

The Board of County Commissioners of Madison County, Florida, wholeheartedly supports your stand on the General Revenue Sharing Bill, S-3651, now before the United States Senate.

Yours very truly,

Dale M. Leslie, Clerk  
Board of County Commissioners  
Madison County, Florida

DML:jtl

CITY OF LIGHTHOUSE POINT  
FLORIDA

RESOLUTION NO. 319

WHEREAS, the United States Senate is presently considering General Revenue Sharing Bill, S.3651, which contains a distribution formula proposed by the House Ways and Means Committee which would penalize Florida approximately \$17,000,000.00 per year because the State of Florida does not have a State Personal Income Tax; and

WHEREAS, United States Senator Ed Gurney has proposed an amendment to said bill which would eliminate the penalty against Florida for failure of the State of Florida to have a State Personal Income Tax; and

WHEREAS, said amendment would have the effect of granting to the State of Florida an additional \$17,000,000 for needed State financing; and

WHEREAS, the City Commission of the City of Lighthouse Point is not in favor of a State Personal Income Tax for the State of Florida; and

WHEREAS, the City Commission believes it would be in the best interest of the residents of the City of Lighthouse Point and the State of Florida for Senator Gurney's proposed amendment to be adopted by the United States Senate and House of Representatives.

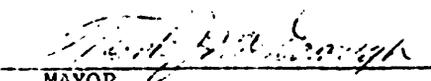
NOW, THEREFORE, BE IT RESOLVED BY THE CITY COMMISSION OF THE CITY OF LIGHTHOUSE POINT, FLORIDA:

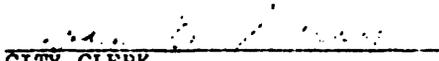
(1) The City Commission of the City of Lighthouse Point hereby serves notice that it opposes the distribution formula as proposed by the House Ways and Means Committee under General Revenue Sharing Bill S.3651 to the extent that it penalizes the State of Florida and its residents for failure of the State to have a State Personal Income Tax. Further, the City Commission hereby serves notice that it supports Senator Ed Gurney's amendment to said

bill which eliminates the penalty in the existing distribution formula against States not having Personal Income Tax.

(2) That certified copies of this Resolution be forwarded to the State of Florida members of the United States Senate and United States House of Representatives.

Passed this 27<sup>th</sup> day of June, 1972.

  
MAYOR

  
CITY CLERK

TOWN OF **MELBOURNE BEACH**, FLORIDA

P. O. BOX 113

*A Residential Community*

723-4232

32951

May 10, 1972

Honorable Edward J. Gurney  
Senate Office Building  
Washington, D. C.

My dear Sir:

We have learned that the House Ways and Means Committee has reported a new revenue sharing proposal to the floor of the U. S. House of Representatives.

I am sure you are well aware of the need for this vital assistance to the municipalities who are responsible for daily services to the people. We strongly urge your support of a revenue sharing bill.

We further request you exercise every effort to delete the provision requiring a personal income tax as part of the terms for fund distribution. This we feel is discriminatory and would be in opposition to the basic purpose of revenue sharing.

On behalf of the citizens of Melbourne Beach I would like to thank you in advance for your efforts in our behalf.

Sincerely,

TOWN COMMISSION, TOWN OF MELBOURNE BEACH

John M. Hunt, Jr.  
Mayor

JMHj/bk

JOHN M. HUNT, JR.  
Mayor

WILLIAM E. WHITEHEAD  
Vice Mayor

JOHN A. FAIRDURN  
Commissioner

W. KNOX CAMPBELL  
Commissioner

FRANKLIN J. THOMAS  
Commissioner

WILLIAM SCHITROM  
Public Works Supervisor

JOEL S. MOSS  
Town Attorney

EUEL L. ROBERTS  
Chief of Police

ELIZABETH A. KRAZEL  
Deputy Town Clerk

RESOLUTION NO. 65 -1972

WHEREAS, it is presently pending before the United States Senate, Senate Bill 3651, known as the General Revenue Sharing Bill, and

WHEREAS, Florida Senator Ed Gurney has proposed an amendment which would eliminate the penalty against states with little or no income tax, and

WHEREAS, the State of Florida has no personal income tax and the Gurney amendment would grant Florida an additional \$17 million a year for badly needed state financing, now therefore

BE IT RESOLVED BY THE BOARD OF COUNTY COMMISSIONERS OF MONROE COUNTY, FLORIDA that it hereby endorses the Gurney amendment to the General Revenue Sharing Bill, Senate Bill 3651, now pending before the United States Congress and urges all of Florida's Senators and members of the House of Representatives to support the Gurney amendment and Senate Bill 3651.

BE IT FURTHER RESOLVED BY SAID BOARD that copies of this resolution be forwarded to Florida's United States Senators and members of the House of Representatives representing Monroe County, Florida and by this resolution requests them to support the above amendment and senate bill.

DATED June 20, 1972.

## RESOLUTION NO. \_\_\_\_\_

THAT, WHEREAS, there is pending legislation before the Congress of the United States of America which provides a revenue sharing program between the Federal level of government and the various State levels of government, within these United States of America;

AND WHEREAS, it has been brought to the attention of this City Council that one feature in the general revenue sharing bill, S-3651, which is now pending before the United States Senate could result in a penalty to the State of Florida,

AND WHEREAS, the penalty provided therein is contained within the distribution formula as proposed by the House Ways and Means Committee which could penalize Florida approximately \$17,000,000.00 per year for the reason that the State of Florida does not have a State Personal Income Tax;

AND WHEREAS, it is possible that said penalty could be increased by future sessions of Congress until such time that the State of Florida is coerced into enacting a constitutional revision or legislation which would require a State Income Tax;

AND WHEREAS the aforesaid penalty could not only affect the State level of government in the State of Florida, but could also adversely affect the economic interests of all local subdivisions and municipal corporations thereof in the event that Florida should be coerced into enacting a constitutional revision or legislation requiring a State Personal Income Tax;

AND WHEREAS the existing economic structure of the State of Florida is such that a Personal Income Tax is odious to the basic economic principles of this State, and the citizens who are residents hereof;

AND WHEREAS it does appear that the Honorable Edward Gurney, United States Senator, has proposed an amendment to S-3651 for the purpose of eliminating the penalty against the State of Florida and other states which do not have Income Taxes;

AND WHEREAS said amendment would prevent the imposition of a State Personal Income Tax in Florida and would grant Florida an additional \$17,000,000.00 a year for required State financing;

AND WHEREAS the City Council deems it to be in the best interest of the State of Florida and all of the political subdivisions and municipal corporations thereof and the citizens of this State who reside therein, for the aforesaid amendment to S-3651 to be adopted.

AND WHEREAS this City Council is strongly in support of the general revenue sharing plan provided that the aforesaid objectionable features now contained therein can be eliminated.

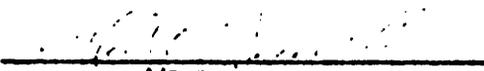
NOW, THEREFORE, BE IT HEREBY RESOLVED BY THE CITY COUNCIL OF THE CITY OF NEW PORT RICHEY, FLORIDA, as follows:

1. That this City is in favor of the general revenue sharing legislation now pending before the Congress of these United States of America so that adequate revenue being realized by the Federal Government will be made available to the various State governments, including the State of Florida, for needed projects within said states, for which funds are not readily available.

2. That this City Council is in opposition to any plan contained within said revenue sharing legislation which would require the State of Florida to adopt a State Personal Income Tax, either by constitutional revision or by the enactment of legislation.

3. That this City Council is in support of the proposed amendment to S-3651, as presented by the Honorable Edward Gurney, Senator from the State of Florida, which will eliminate the requirement contained in said general revenue sharing legislation for the State of Florida, or any other state, to enact a Personal Income Tax measure in order to qualify for general revenue sharing with the Federal Government.

DONE AND RESOLVED in the City Council Chambers of the City of New Port Richey, Florida, by unanimous action of the City Council this \_\_\_\_\_ day of June, A. D. 1972.

  
\_\_\_\_\_  
Mayor

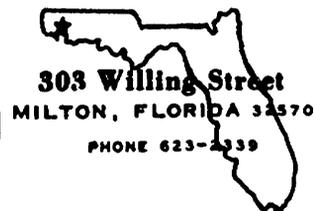
ATTEST:

\_\_\_\_\_  
City Clerk

LEO M. GLENN, President  
 W. LEONARD WOLFE, Vice President  
 BETTY SUE VILLAR, Secretary  
 GEORGE PARK, Treasurer  
 THOMAS W. SUTHER, JR., Manager

## DIRECTORS

GLOYICE ARD  
 C.A. BOWERS  
 W.N. BYRON  
 CLYDE W. GRAYDON  
 W.T. HARGREAVES  
 H.N. HENZELMAN  
 T. SOL JOHNSON  
 RICHARD LANE  
 HENRY LOCKETT  
 DR. H.V. LUNDY  
 CLAYTON MAPOLES  
 J.J. PINKE  
 FELTON SMITH  
 C.I. SOMERBY  
 NORMAN STEPHENS  
 CDR. E.D. SULLIVAN  
 A. DOUGLAS WORLEY



July 12, 1972

The Honorable Edward J. Gurney  
 5105 New Senate Office Building  
 Washington, D. C. 32210

Dear Senator Gurney:

Your June Newsletter arrived today and we note, with much interest, your actions concerning Revenue Sharing Bill.

The passage of this bill by the House is most unfortunate for the citizens of Florida. However, we are very fortunate to have you representing us with your proposed amendment in the Senate.

May we say thank you for your actions and wish you every success in your amendment.

If we can be of any assistance please let us know.

Sincerely,

Thomas W. Suther, Jr.  
 Manager

cc: The Honorable Lawton Chiles

## R E S O L U T I O N

The Board of Directors of the Gainesville Area Chamber of Commerce supports

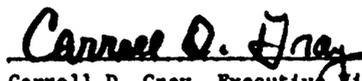
the concept of Revenue Sharing in HR 14370 with the following exceptions:

1. The overall Federal Tax burden should not be increased.
2. Funding for the bill should not be based on piecemeal tax reform. For example, there should be no repeal of the new ADR System and an increase in the minimum income tax on tax preference items as suggested by HR 14380.
3. The bill should follow normal appropriations procedures which would provide for congressional review of funding.
4. Distribution of the funds should not be geared to any single state tax. For example, the current provision will disallow Florida's participation in \$900 million since Florida has no personal income tax.

Adopted this 26<sup>th</sup> day of May, 1972, by the Board of Directors of the Gainesville Area Chamber of Commerce.

  
\_\_\_\_\_

E. Finley Cannon, Jr., President

  
\_\_\_\_\_

Carroll D. Gray, Executive Vice President

RESOLUTION 15-72

A RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF PALM BEACH,  
PALM BEACH COUNTY, FLORIDA, EXPRESSING SUPPORT TO SENATOR EDWARD  
GURNEY'S AMENDMENT TO SENATE BILL S. 3651.

\* \* \* \* \*

WHEREAS, a proposal exists before the United States Congress  
known as the "General Revenue Sharing Bill", S. 3651, and one of  
the effects of such bill would be to penalize those states which do  
not levy a State personal income tax, such as Florida; and,

WHEREAS, it would appear manifestly unfair to impose such  
penalty for such a reason; and

WHEREAS, Senator Edward Gurney has proposed an amendment known  
as the "Gurney Amendment" to eliminate such penalty provision and it  
is believed that such amendment would be in the public interest,

NOW THEREFORE, BE IT RESOLVED BY THE TOWN COUNCIL OF THE TOWN  
OF PALM BEACH, FLORIDA, as follows:

Section 1. That the Florida Congressional Delegation and United  
States Senators be and they are hereby urged to support Senator Edward  
Gurney's pending amendment to the General Revenue Sharing Bill, S. 3651,  
now pending before the Congress, and the Clerk is hereby directed to  
send certified copies of this Resolution to the members of such Con-  
gressional Delegation and to the members of the Senate.

PASSED AND ADOPTED in regular, adjourned session assembled  
this 13th day of June, 1972.

Mark F. Ritchie  
B. J. Roberts  
Robert M. Gresham  
James W. Matthews  
Town Council

APPROVED: W. S. Smith  
Mayor

ATTEST: D. J. Sweeney  
Town Clerk



## CITY OF PALM BEACH GARDENS

10500 N. MILITARY TRAIL • PALM BEACH GARDENS, FLORIDA 33403 • 622-1200

June 16, 1972

The Honorable Edward J. Gurney  
Senate Office Building  
Washington, D. C. 20510

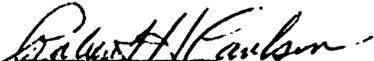
Sir:

On behalf of the Mayor and other members of the City Council, City of Palm Beach Gardens, Florida, I wish to inform you of their sincere interest in the General Revenue Sharing Bill, S3651 (H.R. 14370). The City Council is in full agreement with the concept of the Revenue Sharing Act.

Their main concern is the distribution formula as proposed by the House Ways and Means Committee, which would penalize Florida about 17 million dollars a year for not having a State Personal Income Tax.

The City Council, City of Palm Beach Gardens, Florida, strongly supports your proposed amendment which would eliminate this inequity.

Respectfully yours,

  
Robert H. Carlson  
City Manager

RHC:mms

cc: Lawton Chiles, U.S. Senator  
Paul G. Rogers, State Representative  
David Kennedy, Mayor, Miami, Florida

**RESOLUTION**

WHEREAS, there is now pending before the Congress of the United States a bill designated the general revenue sharing bill, S.3651, (H.R. 14370); and

WHEREAS, under the provisions of said bill if adopted, it is estimated that the State of Florida would receive approximately \$17,000,000.00 per year less than it otherwise would receive because of not having in effect a State personal income tax; and

WHEREAS, the Honorable Edward Gurney, one of the Senators from Florida, has proposed an amendment to said bill which would eliminate the penalties to the State of Florida and other states not having personal income tax; and

WHEREAS, the Board of County Commissioners of Polk County, Florida, having considered the general principles of the said revenue sharing bill and the proposed amendment by Senator Gurney believe both the said bill and the amendment are in the best interests of local government and of the people of this country, now, therefore;

BE IT RESOLVED by the Board of County Commissioners of Polk County, Florida, in regular session duly assembled, that the said revenue sharing bill and the Gurney amendment thereto be endorsed by this Board and the Congressional delegation from Florida be urged to support both said proposals; and

BE IT FURTHER RESOLVED that a copy of this Resolution be furnished to each member of the Florida Congressional delegation

DATED this 20th day of June, A.D., 1972.

STATE OF FLORIDA )

COUNTY OF POLK )

I, Paul Vaughn, Clerk of the Board of County Commissioners of Polk County, Florida, hereby certify that the above Resolution is a true and correct copy from the minutes of the Board of County Commissioners of June 20, 1972.

WITNESS my hand and official seal of said Board this \_\_\_\_\_ day of June, A.D., 1972.

PAUL VAUGHN, Clerk  
BOARD OF COUNTY COMMISSIONERS  
POLK COUNTY, FLORIDA

By \_\_\_\_\_  
Deputy Clerk

RESOLUTION NO. 510

A RESOLUTION OF THE CITY OF SAFETY HARBOR, FLORIDA ENDORSING THE GENERAL REVENUE SHARING BILL, S. 3651, NOW BEFORE THE UNITED STATES SENATE, AS AMENDED IN ACCORDANCE WITH THE PROPOSAL OF SENATOR ED. GURNEY.

WHEREAS, the General Revenue Sharing Bill, S. 3651, now before the United States Senate could penalize all of Florida in the amount of seventeen million dollars for not having a state personal income tax; and

WHEREAS, Senator Ed. Gurney has proposed an amendment to S. 3651, which would eliminate the penalty against Florida and other States with little or no income taxes; and

WHEREAS, the Gurney amendment would prevent the imposition of a state personal income tax in Florida and would grant Florida an additional seventeen million dollars a year for badly needed state financing; and

WHEREAS, although this seventeen million dollar a year penalty is directed at the state government share of general revenue sharing funds and does not affect funds allocated to local governments, it would eventually and vitally affect the constituents of all local governments in Florida, if Florida should be forced into a state personal income tax.

NOW, THEREFORE BE IT RESOLVED BY THE CITY COMMISSION OF THE CITY OF SAFETY HARBOR, FLORIDA, AS FOLLOWS:

THE CITY OF SAFETY HARBOR, FLORIDA DOES, IN THE BEST INTEREST OF ALL FLORIDIANS, INCLUDING THE CITIZENS OF SAFETY HARBOR, FLORIDA, ENDORSE THE GENERAL REVENUE SHARING BILL, S. 3651, AS AMENDED IN ACCORDANCE WITH THE PROPOSAL OF SENATOR ED. GURNEY.

PASSED AND ADOPTED THIS 19th DAY OF JUNE A. D. 1972.

ATTEST:

CITY CLERK

MAYOR-COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

RESOLUTION

ON MOTION BY COMMISSIONER KINBROUGH, SECONDED BY COMMISSIONER DAVIS, THE FOLLOWING RESOLUTION WAS UNANIMOUSLY ADOPTED AT THE REGULAR MEETING OF THE BOARD OF COUNTY COMMISSIONERS OF SEMINOLE COUNTY, FLORIDA, ON THE 20TH DAY OF JUNE, A.D. 1972

WHEREAS, United States Senate Bill No. 3651 entitled the General Revenue Sharing Bill is now being considered by the United States Congress, and

WHEREAS, the State of Florida at the present time does not impose a personal income tax on its citizens, and

WHEREAS, it is in the best interest of the State of Florida to refrain from imposing such a tax, and

WHEREAS, Senate Bill S. 3651 as it is presently drafted would penalize Florida \$17,000,000 per year and would have the effect of increasing the penalty to Florida in future years, and

WHEREAS, Senate Bill S. 3651 would virtually force the State of Florida into a state income tax;

NOW, THEREFORE, BE IT RESOLVED by the Board of County Commissioners that in consideration of the foregoing, they hereby express their support for Senate Bill S. 3651 (H.R. 14370) and for the amendment proposed by Senator Ed Gurney to correct the inequity inherent in the bill.

UNANIMOUSLY ADOPTED this 20th day of June, A.D. 1972.

\* \* \* \* \*

ATTEST:

*Arthur H. Beckwith, Jr.*  
ARTHUR H. BECKWITH, JR., Clerk

State of Florida ) SS.  
County of Seminole )  
I, Arthur H. Beckwith, Jr., Clerk of the Circuit Court of the Ninth Judicial Circuit and Ex-officio Clerk of the Board of County Commissioners of Seminole County, Florida, do hereby certify that the above and foregoing is a true and correct ascert from the County Commissioners' Minutes of Meeting held June 20, 1972. A same appears of record in County Commissioners' Minutes in as office.  
IN WITNESS WHEREOF, I have hereunto set my hand and seal of said Board, this ... day of June, A.D. 1972.  
(Seal) Arthur H. Beckwith, Jr. Ex-officio Clerk,  
Board of County Commissioners  
By *J. ...*

RESOLUTION NO. 1326.

A RESOLUTION OF THE BOARD OF COMMISSIONERS OF THE CITY OF TARPON SPRINGS, FLORIDA, SUPPORTING SENATOR EDWARD GURNEY'S AMENDMENT TO THE GENERAL REVENUE SHARING BILL, S 3651, AND THE GENERAL REVENUE SHARING BILL, S 3651, (H. R. 14370).

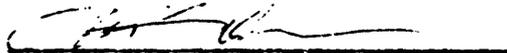
WHEREAS, it is vital that the municipalities of Florida support the Florida Mayors Committee, and go on record as to the General Revenue Sharing Bill,

NOW THEREFORE BE IT RESOLVED by the Board of Commissioners of the City of Tarpon Springs, Florida, support Senator Edward Gurney's Amendment to the General Revenue Sharing Bill, which amendment opposes state personal income tax, and support the General Revenue Sharing Bill, S 3651, (H. R. 14370).

PASSED AND ADOPTED in regular session this 20th day of June, 1972.

  
\_\_\_\_\_  
Mayor-Commissioner

  
\_\_\_\_\_

  
\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_  
Commissioners

ATTEST:

  
\_\_\_\_\_  
City Clerk and Collector

9278  
RESOLUTION NO. \_\_\_\_\_ -F

A RESOLUTION ENDORSING AND SUPPORTING FEDERAL REVENUE SHARING URGING THAT IT NOT BE CONDITIONED UPON IMPOSITION OF A STATE OR LOCAL PERSONAL INCOME TAX AND URGING THAT IT CONTAIN PROVISIONS WHICH WOULD PREVENT OR TEND TO PREVENT WITHDRAWAL OF REVENUES MUNICIPALITIES NOW RECEIVE FROM STATE AND LOCAL TAXATION.

WHEREAS, the City of Tampa, like many other large cities is vitally interested in the revenue sharing program now pending in the United States Congress, and

WHEREAS, it has been reported to the City Council of the City of Tampa that some members of Congress feel that revenue sharing should be conditioned upon the imposition of a state or local personal income tax, and

WHEREAS, the 1963 Florida Constitution prohibits a personal income tax and such condition would arbitrarily and discriminatorily deprive the City of Tampa and other cities similarly situated, of the benefits and vital need of Federal revenue sharing, and

WHEREAS, this Council is also concerned that with the advent of Federal revenue sharing, the state legislature may withdraw from cities the revenues or parts thereof which the cities now receive through state and local taxes, which would reduce or negate the benefits of Federal revenue sharing, now, therefore,

**BE IT RESOLVED BY THE CITY COUNCIL  
OF THE CITY OF TAMPA, FLORIDA:**

Section 1. The City Council of the City of Tampa has endorsed and supported and does hereby endorse and support the Federal revenue sharing concept as the solution of the large municipalities to meet the rapidly increasing cost of local government in heavily populated areas which of which are attributable to Federal taxation and financial condition.

Section 2. The City Council of the City of Tampa urges the members of the Florida Delegation in the United States Congress to oppose and effect the deletion or prevent the insertion of any provision in the pending Federal Revenue Sharing measure which would condition the receipt of such revenues upon the imposition of a state or local personal income tax.

Section 3. The City Council of the City of Tampa requests the Florida Delegation to oppose and effect the deletion in the Federal Revenue Sharing legislation of such appropriate provisions which would prevent or tend to prevent the state from withdrawing the aid to municipalities as the Federal aid, now received by such cities and counties.

Section 4. The City Clerk is directed to forward forthwith to each member of the Florida Delegation in the United States Congress a certified copy of this resolution

PASSED and ADOPTED by the City Council of the City of Tampa, Florida, this \_\_\_\_\_ day of \_\_\_\_\_ APR 18 1972, 1972.

*R. L. Cheney*  
CHAIRMAN CITY COUNCIL

TEST.

*W. L. Clark*  
CITY CLERK

State of Florida)  
County of Hillsborough)

This is to certify that the foregoing is a true and correct copy of \_\_\_\_\_ on file in my office.

Witness my hand and official seal this \_\_\_\_\_ day of \_\_\_\_\_, 1972.

*W. L. Clark*  
CITY CLERK.  
By: *Francis Hexxiguy*  
Deputy City Clerk

RESOLUTION NO. 467

A RESOLUTION IN SUPPORT OF SENATE BILL 3651  
(H.R. 14370) AND OF THE GURNEY AMENDMENT THERETO  
IN REGARD TO REVENUE SHARING.

WHEREAS, there is presently before the United States Senate the General Revenue Sharing Bill, S 3651 (H.R. 14370), and the distribution formula as proposed by the House Ways and Means Committee thereunder would penalize Florida approximately 17 million dollars per year for not having a State personal income tax, and

WHEREAS, it is possible that the amount of such penalty would be increased by future Congresses until Florida could be virtually forced into a State income tax, and

WHEREAS, although such 17 million dollar a year penalty is presently directed at the State government share of general revenue sharing funds and does not effect funds allocated to local governments, it would so effect the inhabitants of all local governments in Florida should Florida at some time be forced to pass a State personal income tax, and

WHEREAS, Senator Edward Gurney has proposed an Amendment to said Senate Bill 3651 which would eliminate the penalty against Florida and other states with little or no income taxes, which would prevent the imposition of a State personal income tax in Florida as well as granting to Florida an additional 17 million dollars a year for State financing, and

WHEREAS, the City of Wilton Manors does support the concept of general revenue sharing itself and does further strongly support the proposed Gurney Amendment to Senate Bill 3651 as above set out;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF  
THE CITY OF WILTON MANORS, FLORIDA:

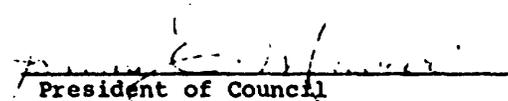
SECTION I

That the City of Wilton Manors does by this Resolution hereby evidence its support of the concept for general revenue sharing and does further strongly evidence its support of the Gurney Amendment to Senate Bill 3561 as hereinabove set out.

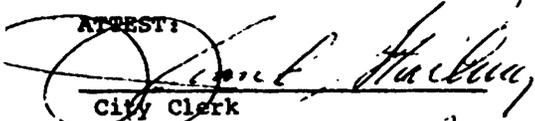
SECTION II

That a copy of this Resolution be forwarded to Senators Edward Gurney and Lawton M. Chiles, Jr. and Congressmen Paul G. Rogers and J. Herbert Burke.

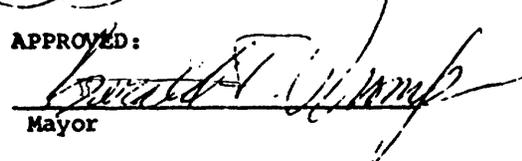
ADOPTED on this 27 day of JUNE, A.D. 1972.

  
\_\_\_\_\_  
President of Council

ATTEST:

  
\_\_\_\_\_  
City Clerk

APPROVED:

  
\_\_\_\_\_  
Mayor

## RESOLUTION No. 90

A RESOLUTION EXPRESSING THE SUPPORT OF THE PEOPLE OF THE CITY OF HIGH SPRINGS, ALACHUA COUNTY, FLORIDA, FOR THE GURNEY AMENDMENT TO THE GENERAL REVENUE SHARING BILL NOW BEFORE THE UNITED STATES SENATE.

WHEREAS, the United States Senate is considering the enactment of a General Revenue Sharing Bill S 3651 allocating funds for the operation of State Governments, and

WHEREAS, the Senate Bill now under consideration would penalize the State of Florida some 17 million dollars for not having a State Personal Income Tax, and

WHEREAS, this would tend to force the imposition of a personal income tax on all the people of Florida and vitally affect all the constituents of our local governments, and,

WHEREAS, Senator Gurney of the State of Florida has proposed an amendment to Senate Bill S 3651 which would eliminate the proposed penalty against the people of the State of Florida and other States with little or no state personal income tax:

NOW, THEREFORE, BE IT RESOLVED BY THE PEOPLE OF THE CITY OF HIGH SPRINGS, FLORIDA,

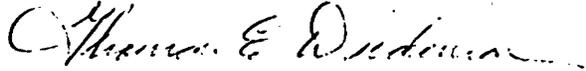
Section 1. That the Florida Delegation to the United States Congress be advised of our Community's support of Senator Gurney's amendment.

Section 2. That the United States Senate be urged to consider the plea of all local governments relating to support for a General Revenue Sharing Bill.

Section 3. That all Florida local governments be invited to support the amendment proposed by Senator Gurney to prevent the imposition of a State Personal Income Tax in Florida.

Section 4. That a copy of this resolution be provided every Member of the Florida Delegation to the Congress.

PASSED this 13th day of June 1972 A.D.



Thomas E. Diedeman  
Mayor-Commissioner

1972

Attest:



L.T. Cloutier  
City Clerk

## RESOLUTION

A RESOLUTION IN SUPPORT OF GENERAL REVENUE SHARING  
AND SENATOR GURNEY'S PROPOSED AMENDMENT TO S. 3651

BE IT RESOLVED BY THE BOARD OF COUNTY COMISSIONERS OF  
GADSDEN COUNTY, FLORIDA:

1. This Board is advised that under the present provisions of the General Revenue Sharing Bill S. 3651, now before the United States Senate, the State of Florida could be penalized because it does not have a state personal income tax.

2. That it is not fair to penalize the State of Florida because it chooses to raise its revenue from sources other than an individual income tax.

3. That the Federal government gets its tax money from the people of Florida on the same basis as it does from the people of other states, except that the personal income taxes of the people of Florida, paid to the Federal government, are not lessened by any deductions for income taxes paid to the State of Florida.

4. That the Board strongly supports:

a. General Revenue Sharing

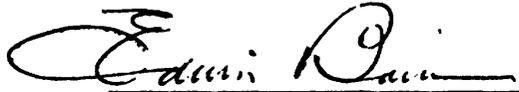
b. Senator Gurney's proposed amendment to S. 3651 and urges its adoption in order that the people of Florida will have equal and fair treatment with those of states having personal income taxes.

5. That the Clerk of this Board send a copy of this Resolution to Senators Gurney and Chiles, Congressman Fuqua, Governor Askew and State Association of County Commissioners.

STATE OF FLORIDA  
COUNTY OF GADSDEN

I, Edwin Baur, Clerk of the Circuit Court and Ex-officio Clerk of the Board of County Commissioners, of said county and state, do hereby certify the above and foregoing to be a true and correct copy of a resolution which was adopted in regular session on July 5, 1972, as appears in County Commissioners' Minutes of the public records of Gadsden County, Florida.

Witness my hand and official seal this 13th day of July, 1972.

 CLERK



RESOLUTION NO. 1-72

A RESOLUTION OF THE COMMISSION OF THE TOWN OF LAKE PARK, FLORIDA, SUPPORTING THE AMENDMENT OF SENATOR ED GURNEY OF FLORIDA TO SENATE BILL 3651 (HR 14370).

BE IT RESOLVED BY THE COMMISSION OF THE TOWN OF LAKE PARK:

SECTION I

The Town Manager is hereby directed to advise the Congress of the United States that the Town of Lake Park, Florida supports the amendment of Senator Ed Gurney of Florida to Senate Bill 3651 (HR14370), together with the said bills which will provide for general revenue sharing between the United States and municipalities without penalizing Florida municipalities because the State of Florida does not have a State personal income tax.

SECTION II

The Town Clerk is hereby directed to forward a certified copy of this resolution to Senator Ed Gurney, Senator Lawton Chiles and to Representative Paul Rogers.

PASSED AND ADOPTED THIS 5 DAY OF July, 1972.

(Town Seal)

Willis Green  
MAYOR

ATTEST:

John M. Mullin  
Town Clerk

I, John M. Mullin, Town Clerk of the Town of Lake Park, County of Palm Beach, State of Florida do hereby certify that this is a true and correct copy as taken from the official records of the Town of Lake Park, Florida.

John M. Mullin  
Town Clerk

RESOLUTION NO. 82-72

A RESOLUTION OF THE CITY COMMISSION OF THE CITY OF WEST PALM BEACH, FLORIDA, EXPRESSING APPROVAL IN PRINCIPLE, THE CONCEPT OF THE GENERAL REVENUE SHARING BILL, SENATE BILL NO. S-3651; EXPRESSING OPPOSITION TO PENALTY PROVISIONS IN SAID GENERAL REVENUE SHARING BILL IN REGARDS TO PENALIZING THOSE STATES WHICH HAVE NOT ADOPTED A STATE PERSONAL INCOME TAX AND URGING DELETION OF SAID PENALTY PROVISIONS FROM SAID GENERAL REVENUE SHARING BILL; AND FOR OTHER PURPOSES.

\* \* \* \*

WHEREAS, the Senate of the United States is presently considering adoption of a General Revenue Sharing Bill, Senate Bill No. S-3651, containing certain provisions which would penalize states and municipalities therein for not having a state personal income tax; and

WHEREAS, the City of West Palm Beach, Florida, approves in principle, the concept of said General Revenue Sharing Bill, but opposes penalty provisions penalizing those states which have not adopted a state personal income tax;

NOW, THEREFORE, BE AND IT IS HEREBY RESOLVED BY THE CITY COMMISSION OF THE CITY OF WEST PALM BEACH, FLORIDA:

SECTION 1: That the City of West Palm Beach, Florida, hereby expresses approval in principle, the concept of the General Revenue Sharing Bill, Senate Bill No. S-3651.

SECTION 2: That the City of West Palm Beach, Florida, hereby expresses opposition to penalty provisions in said General Revenue Sharing Bill in regards to penalizing those states which have not adopted a state personal income tax and urges deletion of said penalty provisions from said General Revenue Sharing Bill.

SECTION 3: That the City Clerk is hereby directed to furnish certified copies of this Resolution to Senator Lawton Chiles, Senator Edward Gurney and Representative Paul G. Rogers.

SECTION 4: That this Resolution shall take effect immediately upon its passage.

PASSED AND ADOPTED THIS 10th DAY OF July, 1972.

(CORPORATE SEAL)

ATTEST:

*Walter J. ...*  
CITY CLERK

*MC Anthony*  
*...*  
*...*  
*...*  
*...*  
CITY COMMISSION

James W. Vance, City Attorney

## RESOLUTION NO. 311

PERTAINING TO THE GENERAL REVENUE SHARING BILL,  
S. 3651, NOW BEFORE THE UNITED STATES CONGRESS.

WHEREAS, Senate Bill No. 3651, commonly referred to as the General Revenue Sharing Bill, is now before the Congress of the United States, and

WHEREAS, the distribution formula of said bill provides that high-taxing states shall receive a larger percentage of the money, and

WHEREAS, those states now operating without a state income tax would be penalized rather than rewarded for exercising economy in state government, and

WHEREAS, the distribution formula of said bill is patently discriminatory against those states which have avoided the enactment of a state income tax, and

WHEREAS, S. 3651 clearly fosters and encourages extravagance rather than economy in state and local government, and

WHEREAS, the tenor of S. 3651 is inflationary to the extent that higher state taxes will produce higher federal distribution to be disbursed by the states, and

WHEREAS, in order to obtain a fair proportionate share of the proceeds of S. 3651, those states presently without a state income tax will be required to enact such legislation, and

WHEREAS, unnecessary taxation is contrary to the principles on which our country was founded and developed, and

WHEREAS, the amendment proposed by the Honorable Ed Gurney, United States Senator from the State of Florida, would correct the inequities of S. 3651.

NOW, THEREFORE, BE IT RESOLVED, THAT THE CITY COMMISSION OF THE CITY OF ANNA MARIA, FLORIDA, MAKE KNOWN ITS STRONG SUPPORT FOR THE GURNEY AMENDMENT TO S. 3651 AND FOR GENERAL REVENUE SHARING, AND

BE IT FURTHER RESOLVED, THAT A COPY OF THIS RESOLUTION BE ADDRESSED TO THE HONORABLE SENATORS AND CONGRESSMEN REPRESENTING THE VOTERS OF THE CITY OF ANNA MARIA, FLORIDA, FOR THE PURPOSE OF SOLICITING THEIR SUPPORT AND COOPERATION IN THE ENACTMENT OF S. 3651 AS AMENDED BY THE GURNEY AMENDMENT.

PASSED AND ADOPTED by the City Commission of the City of Anna Maria, Florida, in regular session assembled this 3rd day of July, 1972.

Harry Cole  
MAYOR

Doc Lee  
COMMISSIONER

Howard H. Smith  
COMMISSIONER

Edwin L. Johnson  
COMMISSIONER

John Halloran  
COMMISSIONER

Thomas M. Myers  
CITY CLERK

RESOLUTION

WHEREAS, the Congress of the United States of America now has pending before it proposed legislation known as the General Revenue Sharing Bill, designated as S. 3651 and H.R. 14370;

AND WHEREAS, said legislation as presently proposed would limit participation in a revenue sharing for those states which do not levy a personal income tax;

AND WHEREAS, Senator Edward Gurney of Florida has proposed an amendment to said bill eliminating penal or restrictive provisions operative against such states not levying personal income taxes;

AND WHEREAS, the City of Holmes Beach, Florida, is desirous of expressing its support of Senator Gurney's proposed amendment, as well as its support of the Revenue Sharing Bill as so amended;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF HOLMES BEACH, FLORIDA, IN SESSION DULY ASSEMBLED, THAT:

1. The City of Holmes Beach, Florida, through its elected city council does hereby support the amendment proposed by Senator Edward Gurney of Florida to the General Revenue Sharing Bill, S. 3651, which amendment would remove any penalties or restrictions imposed upon states which do not levy personal income taxes.
2. The City of Holmes Beach, Florida, through its elected city council does hereby support the concept of the General Revenue Sharing bill, S. 3651 and H.R. 14370 as it would be amended by the proposed amendment of Senator Gurney.
3. The Mayor of the City of Holmes Beach, Florida, is hereby directed and authorized to take all necessary and proper steps to make known to the Congress of the United States in general, and the Florida Senators and Representatives in particular, the views expressed herein.

PASSED this \_\_\_\_\_ day of \_\_\_\_\_ 1972.

\_\_\_\_\_  
Member of City Council

SEAL

attest: \_\_\_\_\_  
City Clerk

APPROVED before me this 13<sup>th</sup> day of April A.D. 1972.

\_\_\_\_\_  
MAYOR

TOWN OF GOLFVIEW

Town of Golfview, Florida

Resolution No. 6

A Resolution of the Town Council of the Town of Golfview, Florida, in support of the General Revenue Sharing Bill, S. 3651, now before the United States Senate and in support of an Amendment to S. 3651 proposed by the Honorable Ed Gurney, United States Senator from Florida.

WHEREAS, a General Revenue Sharing Bill, S. 3651, is now before the United States Senate for its consideration; and,

WHEREAS, the distribution formula, as proposed by the House Ways and Means Committee, under such Bill would penalize the State of Florida approximately 17 million dollars a year for failure to have a state personal income tax; and,

WHEREAS, the Honorable Ed Gurney, United States Senator from Florida, has proposed an amendment to said Bill, S. 3651, which would eliminate the penalty against Florida and other States with little or no income taxes;

BE IT RESOLVED BY THE TOWN COUNCIL OF THE TOWN OF GOLFVIEW, FLORIDA:

SECTION 1. The Town Council does hereby support and adopt the idea and concept of a General Revenue Sharing Bill between the Federal Government and the States of the United States.

SECTION 2. The Town Council does hereby support and approve the General Revenue Sharing Bill, S. 3651, now before the United States Senate and the amendment thereto as proposed by the Honorable Ed Gurney, United States Senator from Florida, which would eliminate the penalty against Florida for not having a State personal income tax.

DATED the 22nd day of June, 1972.

TOWN SEAL

TOWN OF GOLFVIEW

\_\_\_\_\_  
Mayor

\_\_\_\_\_  
Councilman

*Edward L. Thomas*  
\_\_\_\_\_  
Councilman

*L. S. Farille*  
\_\_\_\_\_  
Councilman

*H. Habesky*  
\_\_\_\_\_  
Councilman

ATTEST:

*H. Habesky*  
\_\_\_\_\_  
Town Clerk

## RESOLUTION NO. R-72-142

A RESOLUTION OF THE CITY COMMISSION OF THE CITY OF HOLLYWOOD, FLORIDA, SUPPORTING THE GENERAL REVENUE SHARING BILL, S.3651, (H.R. 14370), AND THE AMENDMENT THERETO PROPOSED BY THE HONORABLE EDWARD J. GURNEY, U. S. SENATOR FROM THE STATE OF FLORIDA.

WHEREAS, the Honorable Edward J. Gurney, U. S. Senator from the State of Florida has proposed an amendment to the General Revenue Sharing Bill, S.3651, (H.R. 14370) which would eliminate the penalty against Florida and other states with little or no income taxes; and

WHEREAS, the City Commission of the City of Hollywood deems it to be in the best interest of the citizens of this municipality and the State of Florida that there be no State Personal Income Tax imposed on Florida residents,

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COMMISSION OF THE CITY OF HOLLYWOOD, FLORIDA:

Section 1: That the City Commission unanimously endorses and supports the General Revenue Sharing Bill, S.3651, (H.R. 14370) and the Gurney amendment thereto.

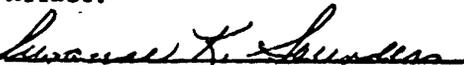
Section 2: That the City Clerk be and is hereby directed to send a copy of this resolution to the Honorable Edward J. Gurney, U. S. Senator from the State of Florida.

Section 3: That this resolution shall be in full force and effect immediately upon its passage and adoption.

PASSED AND ADOPTED this 28th day of June, 1972.

  
MAYOR

ATTEST:

  
ACTING CITY CLERK

This Instrument Prepared By  
B. L. DAVID, CITY ATTORNEY  
Post Office Box 2207  
HOLLYWOOD, FLORIDA 33022

BLS

RESOLUTION NO. 72.23

A RESOLUTION OF THE CITY OF MADEIRA BEACH, FLORIDA, SUPPORTING AMENDMENT TO SENATE BILL NUMBER 3651 PROPOSED BY THE HONORABLE EDWARD J. GURNEY, UNITED STATES SENATOR, STATE OF FLORIDA.

WHEREAS, the Honorable David T. Kennedy, Mayor, City of Miami, Florida, wrote under date of June 7, 1972, to the Mayor of the City of Madeira Beach, Florida, urging that the Board of Commissioners of the City adopt an appropriate Resolution supporting the Honorable Edward J. Gurney in his proposal of an Amendment to Senate Bill Number 3651, the General Revenue Sharing Bill now before the United States Senate; and

WHEREAS, it appears that the said Senate Bill contains a distribution formula, proposed by the House Ways and Means Committee of the United States Congress, which would penalize Florida in sums approximating 17 million dollars annually unless the State of Florida passes legislation imposing a state personal income tax on its residents; and

WHEREAS, such a state income tax for the residents of the State of Florida is undesirable; however, the Amendment as proposed by Senator Gurney to the said Senate Bill Number 3651 would alleviate the necessity of a Florida State personal income tax in order for the State of Florida to share in the General Revenue Sharing Bill; and

WHEREAS, Mayor Kennedy has requested that this Board of Commissioners adopt a Resolution expressing the support of this governing body to the Gurney Amendment to Senate Bill 3651; now, therefore,

BE IT RESOLVED BY THE BOARD OF COMMISSIONERS OF THE CITY OF MADEIRA BEACH, FLORIDA, that

This governing body, by virtue of this

Resolution, does hereby go on record in support of and favoring the Amendment of the Honorable Edward J. Gurney, United States Senator from Florida, to Senate Bill 3651, whereby the necessity of the State of Florida to impose and levy a personal income tax upon its residents would be eliminated and not required in order for the State of Florida to share in the General Revenue Sharing Bill, Senate Bill Number 3651, now before the United States Senate.

BE IT FURTHER RESOLVED that a certified copy of this Resolution be forthwith forwarded to the Honorable Edward J. Gurney, United States Senator; a copy to the Honorable David T. Kennedy, Mayor of the City of Miami, Florida, who is serving as Chairman of the Florida Mayor's Committee against a state personal income tax; a copy to the Honorable Lawton Chiles, United States Senator from Florida; a copy to each of Florida's Honorable Representatives in the House of Representatives, U. S. Congress; a copy to the Honorable Reuben O'D. Askew, Governor of the State of Florida; a copy to the Honorable Wilbur D. Mills, Chairman of the House Ways and Means Committee, United States Congress; and copies to such other persons as may be interested in the subject matter of this Resolution.

The above and foregoing Resolution upon Motion of Commissioner Eldred and seconded by Commissioner Nicholas was duly approved and adopted at a meeting of the Board of Commissioners held on the 27th day of June, A.D., 1972.

Ayes: - 5 -

Nays: - 0 -

Absent or Abstaining: - 0 -

ATTEST:

James Kilme

Raymond W. White  
Mayor-Commissioner



Upon motion of Commissioner Lockhart, duly seconded by Commissioner Holloway, the following Resolution was unanimously adopted:

WHEREAS, the General Revenue Sharing Bill, S. 3651, is now before the United States Senate; and

WHEREAS, certain provisions of said bill may vitally affect the share of general revenue sharing funds allocated to the State of Florida; and

WHEREAS, Senator Ed Gurney has introduced an amendment to S. 3651 which would correct the apparent inequity contained in S. 3651;

NOW, THEREFORE, BE IT RESOLVED by the Board of County Commissioners of Osceola County, Florida, that it go on record as supporting said S. 3651, as amended the Gurney Amendment, and that it notify the Florida Congressional Delegation of its position in this matter.

BE IT FURTHER RESOLVED by said Board that copy hereof be sent to each member of the Florida Congressional Delegation.

DONE AND ADOPTED in regular session this 13th day of June, 1972.

(SEAL)

BOARD OF COUNTY COMMISSIONERS  
OF OSCEOLA COUNTY, FLORIDA

By

*Bill Bled*  
Chairman

ATTEST:

*Harris B. Daniel*  
Clerk

*By O.E. Hooper D.C.*

RESOLUTION OF THE DADE COUNTY  
LEAGUE OF CITIES, INC. URGING  
PASSAGE OF THE FEDERAL REVENUE  
SHARING ACT AND URGING AMENDMENT  
THERE TO AS PROPOSED BY SENATOR  
EDWARD GURNEY.

WHEREAS, there is pending before the Senate of the United States a Federal Revenue Sharing Act which provides for direct payments to local governments and to states, and

WHEREAS, the Dade County League of Cities, Inc. supports the passage of said bill because of the limited taxing capacity of local governments and the fiscal problems faced by local governments; and

WHEREAS, the bill as proposed would penalize those states which do not impose an income tax, including the state of Florida, and,

WHEREAS, Senator Edward Gurney of the State of Florida has proposed an amendment to the Act which would eliminate the penalty for failing to have an income tax, and

WHEREAS, the Dade County League of Cities, Inc. supports the amendment proposed by Senator Gurney;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE DADE COUNTY LEAGUE OF CITIES, INC.:

Section 1. That they hereby urge the Senate of the United States to pass the pending Federal Revenue Sharing Bill retaining the concept of direct payments to local governments but incorporating the amendment proposed by Senator Gurney.

Section 2. That the Executive Director of the League is hereby instructed to send copies of this resolution to Senators Edward Gurney and Lawton Chiles.

PASSED and ADOPTED this 13th day of July, 1972 at Miami Beach, Dade County, Florida.

DADE COUNTY LEAGUE OF CITIES, INC.

By E. J. Burke  
President

ATTEST:

B. L. S. L. L.  
Secretary



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**APPENDIX B**

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**Communications Received by the Committee on Finance  
Expressing an Interest in Revenue Sharing**

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(563)



**STATEMENT OF HON. LLOYD M. BENTSEN, A U.S. SENATOR FROM THE STATE OF TEXAS**

Mr. Chairman, I wish to add my voice to those who have testified in support of amendment No. 1215 to S. 3651, the State and local Fiscal Assistance Act.

Mr. Chairman as you and the other members of the Committee are by now well aware, this bill which is identical to the one passed by the House, includes a formula for a portion of the state government's share which rewards states with high personal income taxes with only a minimum payment for states without personal income taxes. Mr. Chairman, my State is one of those which is receiving that minimum payment for lack of a state income tax. As a result of this provision, Texas ranks 50th in revenue shared with state governments on a per capita basis though we rank 27th in total Federal tax contribution. Only the State of Tennessee receives less on a per capita basis. Senator Baker of Tennessee has introduced Amendment 1312 which I would also support as a reasonable alternative to the formula which passed the House.

However, Mr. Chairman, regardless of which states receive a disproportionate share compared to their contribution the more basis objection to the bill as now written is that the Congress should not use revenue sharing as a club to force states to adopt any particular means of taxation. We in the Congress frequently pass out grants to state and local governments with strings on how those funds should be spent but this string does not apply to just the funds we are adding to their budget but to their entire budget. The Congress in passing such an "inducement," which can just as accurately be described as a "coercion" when you are on the receiving end, is making a judgment that the individual income tax is the best means of raising State revenues.

Even if there was sufficient evidence to support such a conclusion, which I do not believe there is, this provision violates our concept of federalism. The original purpose of revenue sharing was to strengthen state and local governments not deprive them of the basic decision as to how they should tax themselves.

While the House Committee report gives very little information upon what base they concluded that individual income taxes should be encouraged, I would assume it was because income taxes are generally regarded as progressive taxes. However, some state income taxes are far more progressive than others. The provision ignores the amount of progressivity in the state tax and considers only its level. As the House report says, "the greater a State's income tax effort the greater the amount allocated to it."

The House passed provision ignores the progressivity of state corporate taxes. As a member of the Joint Economic Committee I have listened with interest as experts debated who actually bears the burden of a corporate income tax—the shareholder or the purchasers of the corporation's products. Most economists concluded that the shareholders bear a substantial portion. To the extent they do, this is also a progressive tax.

Even more importantly this income tax inducement ignores special taxes which states have tailored to their individual needs and revenue sources. Senator Gurney has mentioned the large number of expensive "second homes" located in Florida which afford an unusually progressive property tax base. In the State of Texas we enjoy considerable revenues from the petroleum resources within the State. State production taxes on crude oil and natural gas yielded approximately \$360 million in fiscal 1971. The State obtained an additional \$63 million for the permanent and university school funds from royalties and bonus on state owned lands. This does not include an estimated \$200 million to 400 local and county school districts in Texas. In Texas, in fact over 221 school districts obtain over half their revenue from taxes on oil and gas development.

This is not to say we have no need for Federal revenue sharing funds. The State of Texas, as all states, is in serious need of funds to provide additional services. However, because of a special revenue source not available to most states we have been able to avoid an individual income tax while keeping our sales tax lower than many states who do have one.

Surely Texas should not now be penalized by a revenue sharing formula because other states have been forced to adopt an individual income tax.

Mr. Chairman, there has been a great erosion in our system of federalism over the past several decades. However, until now the Federal Government has never interfered with the right of states to exercise fiscal self-determination. I submit we should not do so now, and I urge the adoption of an amendment to remove individual income taxes from the distribution formula for Federal revenue sharing.

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STATEMENT OF HON. CHARLES MCC. MATHIAS, JR., U.S. SENATOR FROM THE STATE OF MARYLAND

Mr. Chairman, I am deeply grateful to have the opportunity to express to your Committee my enthusiastic support for S. 3651, the State and Local Fiscal Assistance Act of 1972. As a former member of the Senate Government Operations Committee's Intergovernmental Relations Subcommittee, I am all too familiar with the fiscal plight of our State and local governments and with the various proposals for easing it. Moreover, I recently held hearings in my own State of Maryland to study alternatives to the inadequate property tax system upon which our local governments have been forced to lean. I am convinced that revenue sharing is essential, not only to the survival of the federal system as we know it, but to the solution of our most urgent public problems.

Maryland will receive \$117.5 million this year if S. 3651 is enacted, bringing relief to property owners who have watched their taxes soar as local governments strive to pay for schools, police, fire protection, water and sewer lines and other public services. The \$19.4 million available to Baltimore this year under revenue sharing is essential to bringing new life to the urban center of Maryland. How essential will be understood when it is realized that the current Baltimore City budget anticipates these funds and will be in default if they are not provided. A real urban crisis would follow the defeat of this bill.

I would like to address myself to one of the objections most often raised against revenue sharing—the charge that it would divorce the authority to tax from the authority to spend and thus destroy one of our most basic built-in controls over irresponsible spending. There is, it is argued, no more effective check upon such spending than the requirement that the responsibility for raising and for spending money should rest upon the same governmental shoulders. To permit a government to enjoy the power of spending money without having first to endure the pain of raising it is, we are told, to undermine the principle of public accountability.

On the face of it, Mr. Chairman, this argument would seem to have a good deal of force. But it simply does not stand up under close and careful analysis.

To begin with, revenue sharing is not the novel notion—the alien and untried idea—that some would have us think it is. In the broadest sense of the phrase, revenue sharing has been with us since the early decades of the Republic. It has, more recently, become not only a fact of federal life, but an increasingly important feature of our federal system. We have developed what Daniel Elazar has called a “cooperative system,” in which “the federal government, the states, and the localities share the burden for the great domestic programs by making the larger governments primarily responsible for raising the revenues, and the smaller ones primarily responsible for administering the programs.” As we all know, state and local officials have, for decades now, administered billions of dollars of federal assistance. But what is far more significant, and what we rarely seem to recognize, is the fact that for years every state in the nation has been sharing large portions of its revenues with local units of government. In fiscal 1969, the states disbursed almost \$25 billion to their local governments.

The development of these state revenue sharing practices has not been merely a matter of accident or convenience, but of deliberate design. We have relied heavily, under our federal system, upon those governments and agencies closest to the people—upon local governments and agencies—for the actual provision of many of our public services. We have, at the same time, relied just as heavily upon the Federal and state treasuries for much of the funding of these services. And we have done so for some very sound reasons.

It is, to begin with, impossible to devise a set of geographic boundaries that would divide the country into governmental units capable of raising precisely

the amount of revenue each unit would need. Some of our areas are wealthy, others poor; some are rural, others urban; some are industrial, others residential; and so on. Yet none of these areas is self-contained. Over their boundaries, countless times daily, millions upon millions of people are passing—making demands upon one jurisdiction while paying taxes in another.

The only way to make government responsive and effective under these conditions is to work out a system of intergovernmental transfers to help insure the provision of at least the essential services in every jurisdiction. Without some such system, many units of government would inevitably elect to block the immigration of people or businesses or activities which, for one reason or another, might add to its financial burden. In varying degrees this has, in fact, already happened—most notably in the resistance of some suburbs to the construction of low and moderate income housing. It is to counter this tendency that we have developed a rather complex set of both federal-state and state-local transfers.

Recently, the federal-state system of transfers—the federal grant in aid system—has come in for a good deal of attention. But we have in the process almost entirely ignored the fact that, for many years, the states have had highly advanced systems of grants. Indeed, state grants account for over 30 per cent of local governmental expenditures, and for about a third of state budgets. Many of these grants are for specific purposes, but many others are not. State grants, in other words, cover the entire spectrum of possibilities—from grants that are completely untied, to others which allow a great deal of latitude, to still others that leave state-local officials with virtually no discretion.

Take, for example, my own State of Maryland. We have had school equalization grants for many years. These are transfers from the State to local governments which spend money they do not raise in taxes. Every school board in my State spends money it is not responsible for raising. Finally, the county "piggy-back" income taxes are a form of revenue sharing, at least to the extent of the minimum 25 per cent which the State requires of all counties.

The same situation holds true in a variety of ways throughout the country. A number of states have independently enacted "per capita grants" to their local governments, which are similar in every respect to the revenue sharing grants proposed in the legislation before us today. Back in 1949, New York State replaced most of its shared taxes (personal and corporate income, alcoholic beverages, and utility taxes) with per capita aid to localities. Many other states use shared taxes in one form or another; and still others provide support in the form of property tax relief.

The enactment of a new revenue sharing plan in New York stands out as the most dramatic state aid development of 1970. The New York plan will distribute 21 per cent of the State personal income tax to counties and municipalities. As a result, New York's per capita aid will triple from the present \$200 million to \$600 million.

At the federal-state level, some degree of federal sharing of revenue with the states has occurred in every period since the beginning years of the nation. Before the depression years of the 1930's, most such distribution of funds was of a temporary or short-term nature—with a few notable exceptions such as the land grant colleges, vocational education, and the federal aid highway system. In 1790, at the recommendation of Secretary of the Treasury Alexander Hamilton, the Federal government assumed some \$18.3 million worth of Revolutionary War debts incurred by the states. During the closing years of the second Jackson Administration federal revenues exceeded both the national debt and the level of current expenditures. The Federal government decided in 1836, to distribute more than \$28 million of its surplus funds to the states in proportion to their electoral votes.

Today, in addition to the billions of dollars of federal categorical or restricted assistance which each year pour out of the federal treasury and into the hands of state and local officials, the Federal government directly shares with state and local governments a portion of the revenues it derives from the sale of public lands from grazing leases and permits, and from the use of national grasslands.

In short, Mr. Chairman, state and local officials are already very much involved in spending funds which they themselves have had no hand in raising—and they have been doing so for many, many years.

There is, however, one glaring gap between the Federal-state and the state-local transfer systems: states *do* make general purpose grants to localities, while the

Federal government currently makes no such grants to state and local governments. That gap should, in my judgment, be closed by a carefully constructed program of Federal revenue sharing.

The major reason for revenue sharing, which I shall not expand upon here, is to help reduce the enormous disparities that have developed in the revenue raising abilities of our state and local governments—disparities that we cannot diminish through the conditional grant system. Next to the swelling growth in Federal revenues—a ninety-fold increase in 36 years—state and local revenues seem almost at a standstill, their growth stifled by their dependence upon regressive and excessive property and sales taxes. As John Kenneth Galbraith once said: "The great economic anachronism of our time is that economic growth gives the federal government the revenues while, along with population increase, it gives the states and especially the cities the problems."

A federal revenue sharing program to overcome that fiscal imbalance would, I am convinced, strengthen rather than subvert political accountability at all levels of government—Federal, state and local.

If divorcing the authorities to tax and to spend were as dire a deed as some suggest, then we would have been done for long ago—for, as I've stressed, we have had such a divorce, in some form or other, from the start.

Nor do I see how the current system of categorical aid is in any respect more "accountable" than a system of general revenue sharing. As President Nixon noted in his Revenue Sharing Message to Congress, the "crucial operating decisions are often made by anonymous bureaucrats who are directly accountable neither to elected officials, nor to the public at large." Indeed, even many of the elected officials who control federal spending have only a limited degree of public accountability. In its sheer size and complexity, with its 500 different spigots, the current multi-billion dollar categorical aid system defies both Presidential and Congressional oversight. Under this system, authority rests in the hidden hands of thousands of program administrators who run the system by spawning a vast jungle of regulation that serves as an almost impenetrable obstacle to efficient state and local use of Federal aid dollars.

Presidential and Congressional control over this sprawling system has steadily slipped away. Increasingly, the Congress has relied on trust funds, long term contract authorizations, and debt service grants to help finance highways, airports, mass transit facilities, college housing, and public housing units. The great gap between Federal aid promises (program authorizations) and funding performance (annual appropriations) has been one of the strongest factors behind the demand that Congress make the funding of these and other capital facility programs far more certain. We have paid an extremely high price for that certainty—as the President and the Congressional appropriations committees have been stripped of much of their annual budgetary control over these major categorical aid programs.

In a real sense, then, neither the Congress nor the President nor the Federal bureaucrats down the line are capable of being really accountable or responsive to the mass of citizens who are affected by their actions.

As President Nixon put it in his Message, "accountability really depends, in the end, on accessibility—on how easily a given official can be held responsible for his spending decisions." The crucial question is thus not where the money comes from, but whether the official who spends it can be made to answer to those who are affected by the choices he makes. To echo the President: Can the people get their views through to him? Is the prospect of their future support a significant incentive for him? Can they remove him from office if they are unhappy with his performance? These questions, quite clearly, are far more likely to receive an affirmative answer in a smaller jurisdiction than in a larger one.

Under revenue sharing, therefore, the political accountability of state and local officials to their electorate would stand as a powerful and natural defense against wasteful fiscal practices. Local policymakers will fully realize that, if they fritter away revenue sharing funds, they will be forced to ask their constituents to pay yet higher taxes.

As an argument against revenue sharing, therefore, the issue of divorced taxing and spending and of diminished accountability simply does not stand up. It is a false issue that simply diverts our attention from the real one—the urgent and overriding need to relieve the fiscal plight of our states and localities.

Mr. Chairman, we can no longer ignore the fiscal crisis threatening our states and localities—we can no longer delay action on revenue sharing. I strongly urge prompt adoption of S. 3351.

U.S. SENATE,  
 COMMITTEE ON GOVERNMENT OPERATIONS,  
 SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS,  
 Washington, D.C., July 27, 1972.

HON. RUSSELL B. LONG,  
 Chairman, Committee on Finance,  
 Washington, D. C.

DEAR RUSSELL: I appreciate very much your invitation for me to testify on general revenue sharing before the Committee on Finance. Unfortunately, I was unable to arrange my schedule so that I could testify. However, I am enclosing a Statement which I would appreciate your including in the record.

In that Statement, I have explained a proposal of my own for the formula for determining State shares under the bill. A copy of my proposal is attached to the Statement.

I am aware that many Senators are concerned because the formula in the House-passed bill would shortchange those States which do not utilize the State income tax. I know that Senators Gurney, Ribicoff and Baker have offered amendments which would eliminate incentives for States to make better use of the income tax.

My proposal, on the other hand, would include an incentive for the States to make better use of the income tax. It would allocate \$1.8 Billion to the States on the basis of population and tax effort as would the Baker amendment—but would in addition provide a bonus to those States which utilize the State income tax in an amount equal to six percent of their State income tax collections for the previous year.

I believe that it is essential that any revenue sharing proposal that passes the Congress this year include an incentive for the States to improve their own systems of raising revenue. On the other hand, I understand the objections of Senators whose States would be severely shortchanged if half or all of the State's shares were to be determined on the basis of State income tax collections. I believe my proposal is a logical compromise which would retain a significant incentive for the States to make better use of the income tax without penalizing those States which at the present time collect little or no revenue from the income tax.

I urge your Committee to give my proposal serious consideration when it marks up the revenue sharing bill.

Thanks again for allowing me the opportunity to express my views.

With best wishes, I am

Sincerely,

EDMUND S. MUSKIE.

STATEMENT OF SENATOR EDMUND S. MUSKIE

Mr. Chairman, I appreciate this opportunity to present testimony on general revenue sharing legislation before this distinguished Committee.

First, I want to commend this Committee for its expeditious handling of this most significant legislation.

I have long supported the concept of general revenue sharing legislation. In 1969, and again last year, I introduced general revenue sharing bills of my own. In both of those years, my Subcommittee on Intergovernmental Relations conducted extensive hearings on general revenue sharing.

I believe that the record now being accumulated by the Committee on Finance as well as the record of my Subcommittee's hearings have underscored the urgent need for general revenue sharing legislation.

It is unnecessary for me to detail the fiscal crises in our cities. You have already heard from representatives of the U.S. Conference of Mayors and the National League of Cities who must deal with the continual problem of running their cities without necessary revenue.

The harsh reality is that no matter how hard they try, there is no way without outside help that the cities and States can raise the kind of money they need to meet the rising costs of government.

In short, cities have reached the end of the line. Unless they get help—and get it fast—city after city in this Nation may fall into bankruptcy.

There are some who would blame the fiscal crises in our cities on the inability of urban governments to raise their own revenue efficiently. There are others who would point a finger at the States, insisting State governments have too often denied the cities the power they need to raise adequate revenues and

that the States have in too many cases shirked their responsibility to provide cities with financial help.

But now is no time to assess blame. The demise of our great cities would not be just a local or State tragedy, it would be a National tragedy. That is why it is incumbent upon us, the members of the Senate, to see that that tragedy is averted.

And that is why it is vital for this Congress to enact general revenue sharing legislation.

Mr. Chairman, I believe that the House Ways and Means Committee has gone a long way toward drafting a reasonable and responsible general revenue sharing bill. And, if this Committee after its consideration of that bill were to approve it in its present form, I could support it on the Senate floor.

Last year, when I introduced my own bill, I said that any revenue sharing legislation enacted by Congress must meet three criteria.

First, it must channel the most assistance to those cities and counties which need it the most.

Second, it must contain adequate incentives to the States to improve their own systems of raising revenue. For the Congress to pass general revenue sharing legislation without these incentives would be to give the State governments a carte blanche to perpetuate the inadequate revenue-raising systems that have gotten them and local governments into their current fiscal crises.

Third, it must contain adequate protections against the shared revenues being used in a discriminatory manner.

To meet those criteria, I incorporated some new features into my revenue sharing bill. First, I incorporated a need factor in the formula for distributing funds to local governments. Second, my bill offered a bonus to those States which utilize the State income tax—a more progressive means of raising revenue than the sales tax or the property tax which most States use to raise revenue. In addition, my bill offered the States the option of utilizing the machinery of the Federal Government to collect State income taxes for them.

I am pleased that S. 3651 incorporates the thrust of these provisions.

It does include a need factor in its formula for distribution of funds to local governments. While the formula in S. 3651 is, in my view, less successful at getting revenue to the cities that need it most than was the formula in my bill, it does provide significantly larger shares for the major cities than would the President's original bill. As a result, I could support the present formula in S. 3651.

Secondly, S. 3651 does include incentives for the States to make better use of the progressive income tax and rely less heavily on more regressive taxes. In fact, S. 3651 contains a provision that would allow for Federal collection of State income taxes.

However, I am concerned that the present formula for allocating State shares in Section 122 of S. 3651 severely penalizes those States that do not at this moment make effective use of the State income tax and, as a result, may jeopardize the inclusion in the bill of any income tax incentive at all. I am aware that Senator Gurney, Senator Ribicoff, Senator Baker and others object to the current formula because their States do not currently have an income tax and, as a result, find themselves shortchanged by the current formula.

Mr. Chairman, I know there are amendments pending before this Committee which would eliminate the income tax incentive from the formula for disbursing revenues to the States. I would oppose such an amendment. It is clear that despite the fact that the graduated personal income tax is the most progressive tax generally available to public authorities, most States still depend most heavily on the property tax and the sales tax.

It is for that reason that I suggest the Committee give serious consideration to a proposal I have attached to this Statement which would retain the income tax incentive, but at the same time would not severely penalize those States which now do not make adequate use of the income tax.

Under my proposal, \$1.8 Billion would be allocated among States on the basis of population and overall tax effort—the same as it would be under the amendment proposed to this Committee by Senator Baker. However, my proposal would, in addition, provide those States which do utilize the State income tax with a bonus equal to six percent of their State income tax collections for the previous year.

The cost of my proposal would be about \$600 Million in the first year—making the total cost of the bill \$5.9 Billion. Under my amendment, every State, but one, would receive a larger share than it would under the original formula in S. 3651.

And every State, except four, receive a larger share under my proposal than they would under the amendment proposed by Senator Gurney which would remove the income tax incentive entirely.

I believe my proposal represents a constructive answer to the dilemma of how to allocate funds to the States. It would retain a substantial incentive to the States to make better use of the State income tax and it would provide nearly every State—whether it utilizes an income tax or not—with a larger share than in any of the proposals now being considered by this Committee.

Mr. Chairman, S. 3651 with the change I have recommended, is in itself no panacea for the financial ills of city and State governments. But, if we are ever to deal effectively with the fiscal woes on the State and local levels, it is essential that we in the Congress begin today. I urge immediate Committee approval and Senate passage of S. 3651.

#### AMENDMENT

Intended to be proposed by Mr. MUSKIE to H.R. 14370, an Act

viz: One page 26, line 22, strike out "adjusted".

On page 27, strike out "adjusted" where it appears on lines 1 and 3.

On page 27, strike out lines 5 through 10 and insert in lieu thereof the following:

(2) INCENTIVE AMOUNT.—The incentive amount of any State for an entitlement period of one year is 6 percent (or 3 percent in the case of an entitlement period of 6 months) of the net amount collected from State individual income tax of such State during 1972 or (if later) during the last calendar year ending before the beginning of such period.

On page 27, strike out lines 11 through 23.

On page 28, lines 14 and 15, strike out "net amount referred to in subparagraph (A)" and insert in lieu thereof the following: "population of such State".

On page 29, strike out lines 1 through 6 and insert in lieu thereof the following:

(2) POPULATION.—Population shall be determined on the same basis as resident population is determined by the Bureau of the Census for general statistical purposes.

On page 32, strike out lines 8 through 19 and insert in lieu thereof the following:

(A) For the period beginning January 1, 1972, and ending June 30, 1972, \$300,000,000.

(B) For the fiscal year beginning July 1, 1972, \$700,000,000.

(C) For the fiscal year beginning July 1, 1973, \$900,000,000.

(D) For the fiscal year beginning July 1, 1974, \$1,100,000,000.

(E) For the fiscal year beginning July 1, 1975, \$1,300,000,000.

(F) For the period beginning July 1, 1976, and ending December 31, 1976, \$750,000,000.

On page 33, strike out lines 8 through 19 and insert in lieu thereof the following:

(A) For the period beginning January 1, 1972, and ending June 30, 1972, \$900,000,000.

(B) For the fiscal year beginning July 1, 1972, \$1,950,000,000.

(C) For the fiscal year beginning July 1, 1973, \$2,050,000,000.

(D) For the fiscal year beginning July 1, 1974, \$2,150,000,000.

(E) For the fiscal year beginning July 1, 1975, \$2,250,000,000.

(F) For the period beginning July 1, 1976, and ending December 31, 1976, \$1,175,000,000.

STATEMENT OF HON. WILLIAM V. ROTH, JR., A U.S. SENATOR FROM  
THE STATE OF DELAWARE

#### TAX CREDITS AND THE REVITALIZATION OF DECENTRALIZED GOVERNMENT

Mr. Chairman, I very much appreciate the opportunity to submit this statement on the subject of revenue sharing to this distinguished Committee. On June 17, 1971, I, along with the distinguished senior Senator from Delaware (Mr. Boggs), introduced in the Senate the Intergovernmental Revenue Adjustment Act of 1971 (S. 2060). This bill has been offered in the House as H.R. 9847

by the Honorable Jerry L. Pettis of California. It has two major aims: One, to direct immediate aid to the urban states and their larger cities, where a fiscal crisis of serious proportions exists; and two, to help state and local governments to achieve true financial strength and independence.

Title I of my proposal seeks to meet the immediate needs of state and local entities, especially those with urban characteristics, through a temporary five-year program of revenue sharing. Approximately five billion dollars in Federal revenues would be distributed among the states on the basis of the origin of Federal personal income tax revenues. Within the states a city of fifty thousand or more would be guaranteed a share of its state's allotment equal to its proportion of population in the state. Cities of seventy-five thousand or more located in Standard Metropolitan Statistical Areas of 500,000 or more would benefit from a multiplier of 1.25. We have found that these modes of inter- and intra-state distribution place more money than other formulae in the urban states and in sizable center cities regardless of their locations.

Titles II and III of S. 2080 are intended to arrest the long-term march of governmental responsibility to Washington by helping non-Federal political bodies strengthen their revenue systems. Title II allows taxpayers a credit of 40% of state and local personal income taxes against their Federal tax bills, while Title III permits the Internal Revenue Service to collect certain state and local income taxes. It is the matter of tax credits to which I wish to devote the major portion of my remarks today. It is my hope that tax credits may be of great use in improving the revenue-producing capabilities of the states and their localities. Such an improvement would help restore these governments, which are closer to the people, to a more prominent place within the Federal system.

I am prepared to accept a temporary plan for the sharing of Federal revenues with non-Federal governments which provides considerable assistance to the hard-pressed urban areas. Such temporary assistance is provided for in my Intergovernment Revenue Adjustment Act. Similarly, I have added my name as a co-sponsor to the State and Local Fiscal Assistance Act of 1972 (H.R. 14370, S. 3651) which this Committee is currently considering. In fact, I have long supported the temporary sharing of Federal revenues with state and local governments, having introduced H.R. 13353 in the 91st Congress, the House version of the revenue-sharing bill proposed by the distinguished Senator from Maine (Mr. Muskie) and former Senator Goodell of New York. S. 680, President Nixon's revenue-sharing measure, which I co-sponsored, has also had my general endorsement.

The Ways and Means Committee bi-partisan bill eliminates a number of the weaknesses of the Administration bill. First of all, it provides for a closeout date on revenue sharing after five years. Second, an incentive for states to make wider use of personal income taxes is provided by allocating half of the money distributed to state governments on the basis of state personal income tax collections. Third, the Ways and Means compromise permits the Internal Revenue Service to collect on behalf of states individual income taxes tailored after the Federal income tax. Finally, an effort has been made in this bill to put proportionally more money in the urban areas of the nation.

I do not, however, regard revenue sharing as a very good permanent solution to the long-term ills of our decentralized political system. It would do little to modernize state and local tax structures, nor would it lessen the fiscal dependence on Washington of states and communities. In fact, we might simply be enacting another Federal grant-in-aid program. I further object to revenue sharing on a permanent basis, because I, like many others, prefer to keep the responsibility for imposing taxes at the same governmental level at which resultant revenues are spent.

It seems axiomatic to me that any effort to redistribute revenues among the parts of our Federal system must also seek to return to non-Federal entities the means with which to reclaim a more independent and vital governmental role. From the vantage point of the Congress, this might be done through the encouragement of particular structural reforms on the parts of the states and localities or through efforts to prompt modernization of their revenue systems. The provision for credit of state and local income taxes against a taxpayer's Federal tax bill which I have offered in S. 2080 seeks this latter goal.

I intend to press further for the enactment of tax credits for non-Federal personal income taxes by offering an amendment on the Senate floor to the State and Local Fiscal Assistance Act. This amendment would prescribe that, with the termination of revenue sharing on December 31, 1976, citizens be permitted a credit of 40% of their state-local personal income taxes against their Federal tax

bill. During the period of revenue sharing, states and localities could not only benefit from the fiscal relief provided, but could prepare themselves constitutionally and otherwise to utilize the tax credit provisions.

I am concerned about the current imbalance between the central government and the other parts of our political system because I think that it is vitally important to settle many governmental problems in a decentralized fashion. Many of the advantages of making decisions locally have made themselves more apparent as Americans have become familiar with the excesses of centralization. These excesses are nowhere more apparent than in the administration of our vast system of domestic categorical grants-in-aid. As a result, we see widening support for strengthening the regional administration of grant programs and for giving states and their subdivisions wider latitude in the use of intergovernmental revenues. President Nixon has incorporated the former demand into his executive reorganization program and the latter into his special revenue sharing proposals.

I would like to say just a few more words about the merits of our Federal plan of government as it was conceived by those who constructed it in 1789. It is my devotion to this political concept which causes me to demand that we look beyond what we call "revenue sharing" and seek a long-term readjustment of the relative tax-gathering capabilities of the three levels of our governmental structure.

It has become commonplace to argue that those who advocate placing decision-making in the state capitols, county court houses, and city halls do so simply because they believe that demands for expanded governmental social activity will not be met there. While this contention may have merit in some instances, I think that it is not the essential truth which should be emphasized. Rather, I would argue that state and local executives and legislators have made valiant attempts to assume with the limited resources available the greater burdens of services which their residents have placed upon them.

The expenditures of these non-Federal governments rose from \$44.9 billion in 1958 to \$102.4 billion in 1968, an increase of 128%.<sup>1</sup> The Tax Foundation predicts that these expenditures will rise 89% between 1965 and 1975.<sup>2</sup> Similarly the number of persons employed by these governments has almost tripled since 1948.<sup>3</sup> These statistics do not suggest to me that the state and local political entities are "lying down on the job." This great expansion in spending prompted a growth in state and local debts between 1960 and 1970 of 112.7%, from \$66.4 billion to \$141.2 billion.<sup>4</sup> During the same time span the debt of the national government rose by 31.4% from \$290.9 billion to \$382.6 billion.<sup>5</sup> Besides the increased taxation and the use of deficit financing, this dramatic expansion of state-local expenditures was made possible by an increase in aid from Washington. In 1971 this Federal aid amounted to about 18% of non-Federal revenues, as compared to 10.9% in 1950.<sup>6</sup>

Knowing these realities, I feel that we can reject the contention that only those who oppose expanded governmental operations will sing the praises of decentralized government. I, for one, am convinced that the arguments made against over-centralization of power in this country since the Eighteenth Century are of real import today. Excessive centralization poses a threat to civil liberties; it fails to account sufficiently for the great diversity of our nation; it eliminates the opportunities for experimentation found in a healthy Federal system, it brings about diseconomies of scale; and it presents the dangers of massive errors made at the center. At a time when people, especially young people, appear to want a government which is more humanely responsive and open to their participation, a revitalization of state and community level decision-making would seem to be the order of the day.

Perhaps the greatest obstacle faced by our states and localities in their struggle to fulfill their proper tasks is the weakness of their revenue systems. These governments depend largely upon taxes which in comparison to the personal income taxes levied by Congress, are less responsive to the economy, less equitable in the burdens they place on individuals and social groups, and often detrimental in their effects on the economy, land use, housing, and other aspects of urban growth.

<sup>1</sup> Tax Foundation, *Federal Revenue Sharing: A New Appraisal*, brief No. 16, p. 4.

<sup>2</sup> Tax Foundation, *Fiscal Outlook for State and Local Government to 1975*, brief No. 7, p. 2.

<sup>3</sup> Advisory Commission on Intergovernmental Relations, *State-Local Finances and Suggested Legislation*, 1971 ed., p. 170.

<sup>4</sup> Advisory Commission on Intergovernmental Relations, *State-Local Finances and Suggested Legislation*, 1971 ed., p. 200.

<sup>5</sup> Computed from statistics in the *Special Analyses of the Budget*, 1973, p. 34.

<sup>6</sup> *Special Analyses of the Budget*, 1973, p. 245.

According to the Advisory Commission on Intergovernmental Relations, in 1969 state governments derived only 18% of their tax collections from personal income taxes, while 29.7% came from general sales taxes, 13.5% from motor fuel taxes, and 7.6% from corporation income taxes.<sup>7</sup> The remainder of state revenues resulted from fees for motor vehicle and operators licenses, tobacco and alcoholic beverage taxes, death and gift taxes, and amusement taxes.

When we survey the local tax systems, we find a situation where income taxes, which are more progressive and elastic in relation to growth in the GNP, play an even smaller role. In 1969 only 2.6% of local revenues from our own sources were derived from income taxes, primarily on individual incomes, according to the Tax Foundation.<sup>8</sup> 55.8% of revenues originating locally still came from property taxes in 1969, down from its high of 72.7% in 1902. Utility taxes, various charges levied on citizens, sales taxes, license fees, collections for social insurance, and liquor store receipts accounted for the remainder of local governmental income.

Although by 1970 thirty-seven states utilized some sort of an individual income tax, between 1960 and 1969 this source of revenue grew as a portion of state revenues by less than 6%.<sup>9</sup> The proportion of revenue from sales taxes grew at about the same rate. The decade of the 1960's saw individual income taxes increase as a portion of local tax collections from .9% to only 2.6%. Perhaps one can obtain a clearer idea of the limited advances made by income taxes as a mode of taxation at the state and local level when one realizes that between 1948 and 1966, 76.5% of the growth in non-Federal tax revenue was derived from property, sales and other non-income taxes.<sup>10</sup>

Why should we be concerned about the continued heavy reliance of the states and their subdivisions on taxes other than those levied on individual incomes? I do not intend to argue that the revenue modes widely utilized by non-Federal governments have nothing to be said in their favor or that they should not continue to play a role in taxation of these levels of government. My intention is more to suggest that in seeking new sources of revenue states and localities turn more frequently to individual income taxes. The disadvantages of these current modes of revenue to strong federalistic government are basically threefold. To begin with, the yield of property, sales, and corporate income taxes do not usually increase at the same rate at which the GNP and our need for public services grow, while personal income taxes grow 1.5%–1.8% for every 1% increase in the GNP.<sup>11</sup>

While the national government can to a considerable extent depend on economic growth to provide increased revenues, state and local officials are continuously forced to seek increases in their tax rates through legislation or public referendum. This is one important way in which Washington obtains considerable advantage over other governments in the intergovernmental competition for revenues. We at the center simply make use of a tax which is normally a more efficient revenue-producer than those upon which other governments depend. Further, we must remember that to some extent we in Washington have pre-empted personal incomes as a source of taxation. Income taxes must come out of the same pockets regardless of what level of government levies the tax. A credit of state and local income taxes against Federal payments would help to release a part of this superior revenue source to our non-central political bodies.

Voters will commonly deny tax increases to their state or local governments either through referendum or pressure on legislators. Since Federal income tax yields increase automatically as the economy expands, these voters cannot so easily prevent such increases in national taxation. As a consequence, we in Congress often meet demands for services which would more properly be met by other governments, simply because these governments are without the financial means.

A second way in which the present tax systems of most of our states and localities suffer in comparison to one which makes wider use of income taxes is in the area of equity. These taxes may be inequitable among individual taxpayers or among social groups. Some suffer from both disadvantages. The property tax is often seriously inequitable in the former sense.

Great variation in the effective property tax exists from one taxing authority to another as a result of differing assessment ratios and exemptions. U.S. Census Bureau data indicates that 71.8% of the geographic areas defined for study had coefficients of dispersion (or variation) for assessment ratios among

<sup>7</sup> ACIR, *State-Local Finances and Suggested Legislation*, 1971, p. 14.

<sup>8</sup> Tax Foundation, *Facts and Figures on Government Finance*, 1971, p. 233.

<sup>9</sup> Tax Foundation, *Facts and Figures*, p. 233.

<sup>10</sup> Calculated from ACIR, *Fiscal Balance in the American Federal System*, vol. 1, p. 104.

<sup>11</sup> ACIR, *Fiscal Balance*, vol. I, p. 114.

their taxing jurisdictions of 15% or more.<sup>13</sup> Eight states—among them Michigan, New York, Pennsylvania, and Texas—show 20% or more of their areas with coefficients of dispersion of 40% or more. In other words, a taxpayer in one taxing jurisdiction in such a state might have his property assessed at 40% greater value than that of another taxpayer in the same state residing in another jurisdiction. Similarly state and local sales taxes select purchasers of certain types of goods and services for higher taxation, and state corporate income taxes may hit one industry, or business harder than another.

In addition to being inefficient producers of revenue and often inequitable in their incidence, most state and local taxes have serious side effects which might be at least partially avoided by the use of personal income taxes. In many instances use of the property tax has had harmful influence on patterns of urban growth, causing a scattered pattern of expansion. This results from the fact that speculators can hold undeveloped land located nearer the center of urban population since such undeveloped land is generally subject to relatively low property taxes. Those who wish to buy land for development, but do not wish to pay the high prices asked by speculators, must purchase land further out on the urban fringe.

The result is a scattered pattern of metropolitan growth, leading to expensive extensions of public services to these outlying developments. The cost of public services may further be increased by the likelihood that high cost property on the near urban fringe will be used for high rise apartments, rather than single family housing, creating a heavy demand for school, water and sewer facilities, street widening, and traffic regulation systems.

Dependence on property taxes also encourages jurisdictions to zone property for the purposes of maximum tax production. This is a part of the contest among local subdivisions for tax base. Such an orientation may well ignore environmental considerations and the need for housing in order to obtain the property tax yield resulting from intensive land use. Inexpensive inner city housing may be expanded only with difficulty since landowners feel that they need to use their land for more profitable purposes to justify its high cost. To the degree that many cities grant special tax deductions for single-family residential dwellings as opposed to multi-dwelling units, they encourage a mode of housing which is not a practical answer to urban housing needs.

On the whole, the fact that residential property bears the brunt of the property tax tends to discourage citizens from devoting their resources to this form of consumption. Mayor Kenneth Gibson of Newark, New Jersey recently pointed out to a subcommittee of which I am a member that in his city the value of a \$10,000 home was consumed by property taxes in about eleven years.

One can reasonably argue that high property tax rates on land and improvements and speculation in unimproved property in metropolitan areas tends to discourage the rebuilding of these often blighted communities. Investors will choose to place their apartments, factories, or other improvements in suburban areas where property does not cost so much and tax rates are not so high. Landlords are further discouraged from rehabilitating their rental property since these improvements will raise their property taxes. Such factors contribute to the vicious circle whereby the center city's tax base continues to decline and tax rates on the remaining base climb. The suburban fringe, which does not suffer from as great a burden of public expenses, gains the tax base denied to the cities.

Finally, state and local property taxes, sales taxes, and some income taxes utilized by local jurisdictions, have impacts on the economy which many view as adverse or unfair. These taxes may direct consumption and investment into patterns they might not otherwise follow. For instance, I have mentioned how individuals may not spend as much of their resources on housing if they know that this form of consumption will be subject to heavy property taxes. Similarly, they may not buy certain non-essential goods subject to high sales taxes. Investors will also be influenced by state and local taxation. Resources are probably directed away from investment in real estate and personal property to investment in manpower and training by property taxes. As for manufacturing specifically, the property tax may tend to penalize industries which are large users of real estate and machinery.

Non-Federal modes of revenue-raising also frequently place heavy burdens of collection and compliance on businesses and cause distortions in patterns of

<sup>13</sup> Schechter and Gale, *Property Taxation*, p. 47. Source: U.S. Bureau of the Census, *Census of Governments*, 1967, vol. 2.

employment and purchasing which may impair the efficiency of the economy. The latter problem to a large extent results from the fact that local taxing jurisdictions are small and are not necessarily economic units. Nevertheless, economic activities will be influenced by local taxing policies—a strong argument for state supervision of local taxation.

Just how would a 40% tax credit for state and local income taxes against the citizen's Federal tax bill, such as I have proposed, help these state and local political entities improve and modernize their tax structures? Basically, it would encourage state legislators, county commissioners, city councilmen, and others to select income taxes when seeking new revenues since they would be able to legitimately tell their constituents that they would get 40% of these new taxes back in the form of a Federal tax reduction. We would not only be allowing the states and localities to share part of the Federal tax base, but we would be encouraging the more extensive use of modern, progressive, and elastic taxes. I feel that we in Congress have a duty to take action which will make it easier for non-national levels of government to regain their proper role in the Federal system through improvements in their finances.

The provision of a tax credit of 40% as an alternative to the present deduction of state and local taxes would make it possible for more taxpayers to receive credit for these taxes on their Federal tax bill. The current deduction is available only to those who itemize their Federal returns—only about 42% of returns were itemized in 1969, and it is predicted that this will decline to 28.5% by 1972 as a result of the Tax Reform Act of 1969.<sup>13</sup> Rather than being deducted from taxable income, 40% of state-local income taxes would simply be subtracted from what a citizen finally owed in taxes to the Federal government.

Thus, an increase in Federal tax relief to state-local taxpayers would result from enactment of S. 2080, the Intergovernmental Revenue Adjustment Act of 1971, or the adoption of my tax credit amendment to the State and Local Fiscal Assistance Act of 1972. This relief would be of greatest benefit to those in medium and lower income groups. Wealthier taxpayers would still have the option of an itemized deduction for state and local taxes if they felt they would benefit more from it than from the tax credit.

The measure which I have proposed would not permit the credit of state or local taxes on personal income which are not minimally progressive to the extent that they include basic personal exemptions similar to those provided to Federal taxpayers.

My Intergovernmental Revenue Adjustment Act (S. 2080) would also encourage non-Federal political units to make use of some of the advantages of the Federal tax system in the areas of progressiveness, responsiveness to economic growth, and efficiency of collection through its third title. This title makes possible the collection, at no charge, by the Internal Revenue Service of state and local revenues which are levied as a percentage of Federal taxes.

Some would argue that the tax credits provided for in S. 2080 will be mainly of use of state governments, since few local governments use taxes which would be creditable under its provisions. Further, it might be maintained that the state legislatures determine what sorts of taxes their subdivisions may levy; so counties, municipalities and other bodies often are not free to adopt progressive income taxes even if they wish to.

I would answer that localities will benefit from the tax credit aspects of this bill in two main ways. First, if states come to use modern income taxes more extensively, the local communities and their citizens will benefit from larger amounts of revenues available for intergovernmental aid, and from the greater equity and less detrimental economic-social impact of taxation. Second, where cities, counties, etc., are permitted the latitude under home rule provisions of levying progressive income taxes or of collecting a percentage of a state income tax, their residents could utilize the tax credit made available by the Intergovernmental Revenue Adjustment Act of 1971.

I have taken the liberty of thus imposing upon the time of this distinguished committee because I feel strongly that we must push the debate over revenue sharing a step further to a consideration of alternating the long-term imbalance within the Federal system of government. Revenue sharing does not of itself give our State and local governments the fiscal tools with which to undertake their proper tasks. Tax credits, such as I have proposed, would ease the pains of State-local revenue reform and at the same time make avail-

<sup>13</sup> Senate Finance Committee Report on the Tax Reform Act of 1969, United States Code, Congressional and Administrative News, 1969, vol. 12, p. A-652.

able part of the Federal income tax base for taxation by these governments at the grassroots.

Again, Mr. Chairman, I very much appreciate the opportunity given to me to submit my views on revenue sharing and tax credits to this distinguished committee.

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CONGRESS OF THE UNITED STATES,  
HOUSE OF REPRESENTATIVES,  
Washington, D.C., June 30, 1972.

Hon. RUSSELL B. LONG,  
U.S. Senate,  
Senate Office Building.

DEAR SENATOR LONG: The Senate Finance Committee which you chair will soon begin active consideration of the revenue sharing bill passed by the House last week. Because of the closed rule under which the Committee version of the bill was considered on the House floor, I was unable to offer an amendment which, I feel, improves this legislation. I would hope that your Committee might weigh the merits of my suggestion.

One of the criteria upon which the distribution formula is based is population density—the size of the community. The formula operates so that the more heavily populated a community, the greater its bonus under this portion of the formula.

Revision of the formula is necessary to guarantee that smaller communities and rural areas are not shortchanged under the program. Shrinking populations and the special costs of providing services to sparsely populated areas make the tax base in rural communities and small cities inadequate to provide the level of services now accepted as necessary in larger urban centers. Rather than penalize small communities which have very severe, density-related problems, the formula should take these problems into account. This might be done by changing the "zero point" of the formula from the present "zero population" to a figure which approximates a moderate-sized city of, say, 150,000 which should have the balance of resources and problems. If the zero point were thus raised, and the formula adjusted to award "bonuses" for the amount of divergence in either direction from that point, the formula would more accurately reflect increasing aid for communities in accordance with their density-related problems.

It is an obvious error to assume that the most rural areas have the least problems in delivering governmental services. In program after program, Federal spending discriminates against the needs of people living in rural areas. It is time we provide the governments of small town America with their fair share of the resources to handle their responsibilities.

I hope you will find this suggestion useful and constructive.

With every good wish I am

Sincerely yours,

VERNON W. THOMSON,  
Member of Congress.

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U.S. SENATE,  
COMMITTEE ON THE JUDICIARY,  
Washington, D.C., February 11, 1972.

Hon. RUSSELL B. LONG,  
Chairman, Finance Committee,  
U.S. Senate, Washington, D.C.

DEAR CHAIRMAN LONG: Enclosed is a copy of the February 9 letter I have received from the Honorable Herschel Lashkowitz, Mayor of Fargo, North Dakota, and a copy of the February 8 resolution of the Fargo City Commission in support of revenue sharing legislation.

I would deeply appreciate your Committee's consideration of the correspondence in its deliberations on revenue sharing. Also, I respectfully request that the correspondence be made a part of your formal record on pending revenue sharing legislation.

With kind regards, I am  
Sincerely,

QUENTIN N. BURDICK.

Enclosure.

CITY OF FARGO,  
 Fargo, N. Dak., February 9, 1972.

HON. QUENTIN N. BURDICK,  
 U.S. Senator,  
 Washington, D.C.

DEAR SENATOR BURDICK: I am pleased to enclose herein a certified copy of a Resolution prepared by myself and adopted by the City Commission at its regular Meeting held Tuesday, February 8, 1972, on the general subject of revenue sharing.

This Resolution reaffirms previous Resolutions which have been acted upon by the Commission. It, I believe, serves to underscore and emphasize that the issue of revenue sharing is not an academic one, but a very real and pragmatic one.

Admittedly, revenue sharing is not a panacea nor a cure-all; however, under the present system of categorical grants and programs millions and millions of dollars, yes, perhaps more, are being expended in unnecessary duplication and also in the administrative process. This tax money could be more effectively utilized by being remitted directly to the local, political subdivisions.

The Commission has reaffirmed the general principle of revenue sharing and makes reference to both President Nixon and The Honorable Wilbur Mills, Chairman of the House Ways and Means Committee. I believe that the Mills proposal is a more current one and does have general acceptance from the leadership of both parties if my information is correct. In any event, we are writing you early in the session in the hopes that some meaningful legislation will be introduced and enacted into law.

I would greatly appreciate this Resolution and my letter being presented to the Congress of the United States as part of their official proceedings.

Sincerely,

HERSCHEL LASHKOWITZ,  
 Mayor and President,  
 Board of City Commissioners.

Enclosure.

RESOLUTION OF THE CITY OF FARGO, FEBRUARY 8, 1972

The Regular Meeting of the Board of City Commissioners of the City of Fargo, North Dakota was held in the City Commissioners' Room at the City Hall at 7:00 o'clock p.m., Tuesday, February 8, 1972.

RESOLUTION ADOPTED SUPPORTING REVENUE SHARING LEGISLATION:

Commissioner Bromenschenkel offered the following Resolution, which had been submitted by President Lashkowitz, and moved its adoption:

Whereas, The City of Fargo has heretofore memorialized the Congress of the United States to enact revenue sharing legislation which will authorize the United States of America to remit a portion of the collected income taxes to various local subdivisions; and

Whereas, Heretofore, President Nixon has proposed a program calling for revenue sharing with states and local governments; and

Whereas, Congressman Wilbur Mills, Chairman of the House Ways and Means Committee introduced legislation providing for direct payments to cities and local subdivisions of a portion of revenue collected by the United States of America; and

Whereas, The Executive Committee of the United States Conference of Mayors Meeting in Washington, D.C. in January, 1972 has adopted the following Resolution:

Whereas, The fiscal plight of American cities remains as the major problem threatening the existence of local government in America; and

Whereas, Many cities have been forced to curtail or eliminate desperately needed services; and

Whereas, Some cities have been forced to curtail their participation in desperately needed national programs because they cannot raise the matching funds; and

Whereas, President Nixon has proposed general revenue sharing to assist state and local governments; and

Whereas, Chairman Wilbur Mills introduced an alternative program for inter-governmental fiscal coordination last November: Now, therefore, be it

**Resolved**, That the United States Conference of Mayors urgently requests that Congress act immediately on a program to provide general fiscal assistance to cities so that these vital institutions of American democracy may continue to provide local government to the people of the United States. Now, therefore, be it

**Resolved**, That the Fargo City Commission does hereby reaffirm its support of revenue sharing and calls upon the Congress of the United States to enact into law a feasible program for the sharing of collected income tax revenues to be paid directly to the local subdivisions in order to assist the local governments in providing the necessary services vital to their operations of city government; be it further

**Resolved**, That the herein Resolution be inscribed upon the permanent records of the proceedings of the Board and certified copies forwarded to the North Dakota Congressional Delegation, to the Executive Offices of the United States Conference of Mayors and the National League of Cities, to the Honorable Spiro T. Agnew, Vice President of the United States, and to the Honorable Wilbur Mills, Chairman of the House Ways and Means Committee.

Second by See. On the vote being taken on the question of the adoption of the Resolution Commissioners Bromenschenkel, See and Lashkowitz voted aye.

Absent and not voting: Commissioners Schuster and Markey.

The President declared the Resolution to have been duly passed and adopted.

HERSCHEL LASHKOWITZ,

*Mayor and President, Board of City Commissioners, City of Fargo, N. Dak.*

CERTIFICATE OF CITY AUDITOR

STATE OF NORTH DAKOTA,  
*County of Cass, ss.*

I, F. R. Fahrlander, do hereby certify that I am the duly appointed, qualified and acting City Auditor of the City of Fargo, North Dakota; and

That the foregoing is a full, true and correct copy of a Resolution adopted by the Board of City Commissioners of the City of Fargo at a Regular Meeting of the Board held on Tuesday, February 8, 1972; and

That such Resolution is now a part of the permanent records of the City of Fargo, North Dakota, as such records are filed in the office of the City Auditor.

F. R. FAHRLANDER,

*City Auditor, City of Fargo, N. Dak.*

U.S. SENATE,  
COMMITTEE ON COMMERCE,  
*Washington, D.C., July 24, 1972.*

Mr. THOMAS VAIL,  
*Chief Counsel, Committee on Finance,  
New Senate Office Building,  
Washington, D.C.*

DEAR MR. VAIL: Enclosed is the statement of Meldrim Thomson of Orford, New Hampshire, on H.R. 14370, the Revenue Sharing Bill.

I shall appreciate it if you will arrange to have this statement made a part of the record of hearings on this measure.

With every good wish,  
yours sincerely,

NORRIS COTTON,  
*U.S. Senator.*

Enclosures.

STATEMENT BY MELDRIM THOMSON, ORFORD, N.H., IN PROTEST AGAINST THE  
PROPOSED REVENUE SHARING BILL

Mr. Chairman, members of the committee, as a citizen and businessman of New Hampshire, I respectfully urge your rejection of the revenue sharing measure presently pending before your committee.

Under the formula proposed in House Bill 14370, the citizens of New Hampshire would be grossly penalized for their thrift and frugality.

Our citizens would receive \$17.50 per capita, the lowest apportionment made to any state. The citizens of New York would receive the highest allotment to a state with their \$35.20 per capita share.

For years New Hampshire, the first colony to declare its independence from the British tyranny of taxation without representation, has adhered to its state constitutional precept that economy is a most essential virtue.

New Hampshire is the only state without either a general sales or income tax.

Frequently, our people have protested and voted against excessive spending at local and state levels.

Last year at a regular session of the legislature and again this year at a special session our General Court overwhelmingly rejected general sales and income taxes.

We are presently one of the few states operating state government with a surplus.

By contrast, I understand that a number of states now preparing their budgets for next year are incorporating therein monies they hope to receive from this bill in order to avoid financial disaster.

This bill would reward waste, extravagance and even corruption. It would destroy those timeless virtues of moderation, temperance, industry and frugality which the New Hampshire constitution holds to be "indispensably necessary to preserve the blessings of liberty and good government."

This bill will not long solve the crucial financial problems facing our local and state governments. At best it is a poor stop-gap.

Only a return to economy and a strict curb on the spiraling costs of government can in the long run solve the financial crises facing our states.

The majority of New Hampshire people can see no justice in a formula that gives them the crumbs of revenue sharing while profligate states like New York and California feast on the cake and frosting.

What becomes of those noble constitutional concepts of equal justice, equal protection and due process when the small harvest of our New Hampshire frugality is taken from us and given to the high-spending citizens of other states?

As a lawyer and student of the Constitution I cannot believe that those who framed and amended the federal Constitution ever once dreamed that a discriminatory and confiscatory bill such as this could pass the test of constitutionality.

As a candidate for the Republican gubernatorial nomination this fall, I have promised the people of New Hampshire that if this bill should be enacted and I am elected governor that I shall promptly and vigorously test its constitutionality in the United States Supreme Court.

U.S. SENATE,  
COMMITTEE ON COMMERCE,  
Washington, D.C., July 7, 1972.

Hon. RUSSELL B. LONG,  
Chairman, Senate Finance Committee,  
New Senate Office Building, U.S. Senate.

DEAR SENATOR LONG: The enclosed letter I have received from the Chairman of the Washington State Legislature's Legislative Budget Committee concerning H.R. 14370. I would appreciate the Committee's consideration of the recommendation made in this correspondence and would also like to request that you insert the enclosure as appropriate in the Committee's official hearing record on this bill.

Best personal regards.

Sincerely,

WARREN G. MAGNUSON,  
U.S. Senator.

Enclosure.

STATE OF WASHINGTON,  
LEGISLATIVE BUDGET COMMITTEE,  
Olympia, June 23, 1972.

Senator WARREN G. MAGNUSON,  
Old Senate Office Building,  
Washington, D.C.

DEAR SENATOR MAGNUSON: The members of the Legislative Budget Committee recently reviewed a staff report on House of Representatives Bill 14370. As you know this bill proposes to establish a plan for the sharing of federal tax revenues with the several states and the general purpose units of local government therein. It appears that under the present federal proposal the State of Washington will fare relatively poorly, largely because this state does not now impose an individual income tax. As the legislative committee most intimately concerned with the fiscal well-being of this state, the committee members unanimously

adopted a motion at our most recent meeting requesting that a letter be directed from the committee to you asking for consideration of an allocation formula relying more on over-all state tax collections from individuals in lieu of a heavy reliance on state individual income tax collections.

The Governor and a majority of the legislators of this state appear to favor a net income tax on both individual and corporate income. As you are aware, income tax laws have been enacted by the legislature and approved by the Governor several times only to be upset by the courts or rejected by a vote of the people. The last such turn-down occurred as recently as November 1970. Legislative and Executive leaders have continued to work since that date on tax reform proposals including both an individual and a corporate income tax. As a result of these efforts, a new tax reform plan may go before the voters this Fall.

Although Washington does not now include a tax on individual income in its overall tax structure, the record adequately demonstrates it has not been due to any lack of interest or effort on the part of responsible elected officials. It is, rather, that the people of this state, acting in their sovereign capacity, have declined to permit the imposition of an income tax by the state.

In view of these circumstances, it is regrettable that the federal government should now be considering a plan for the sharing of revenues with state governments which in effect would penalize those states which do not place a tax on individual income. This could be regarded as discriminating and an unwarranted federal intrusion into what should be a purely domestic matter, i.e., the selection of a state tax system by the people of a state.

On behalf of the Legislative Budget Committee, I urge you to use your influence in the United States Senate to ensure that if a plan for federal revenue sharing is adopted by the Congress, that the State of Washington will not be unduly penalized due to any lack of an individual income tax in its overall state tax structure.

Sincerely,

FRANK W. FOLEY,  
*Chairman.*

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STATE OF MONTANA,  
DEPARTMENT OF ADMINISTRATION,  
*Helena, July 25, 1972.*

HON. RUSSELL B. LONG,  
*Chairman of the Committee on Finance,  
New Senate Office Building,  
Washington, D.C.*

DEAR CHAIRMAN LONG: Please take whatever steps are needed to insure the passage of "The Senate and Local Fiscal Assistant Act of 1972," H.R. 14370 before the adjournment of Congress this fall. Montana state and local governments are in dire need of these funds in order to balance our operating budgets. Our economic gross simply does not keep pace with inflation, much less provide for needed new programs.

Proposed amendments that tend to favor the more populated states and states with no income should be rejected. Also, divorce any welfare reform measures from the revenue sharing bill. Welfare reform provisions should be considered separately from revenue sharing.

Sincerely yours,

DOYLE B. SAXBY, *Director.*

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WISCONSIN COUNTY BOARDS ASSOCIATION,  
*Madison, Wis., July 17, 1972.*

Re all 72 Wisconsin counties unanimously support H.R. 14370, State and Local Fiscal Assistance Act of 1972.

HON. RUSSELL B. LONG,  
*Chairman, Senate Finance Committee, U.S. Senate, Old Senate Office Building,  
Washington, D.C.*

DEAR SENATOR LONG: The Wisconsin County Boards Association, consisting of all 72 Wisconsin counties, strongly supports federal revenue sharing as contained in H.R. 14370. On April 27, 1972, we issued a press release to all Wisconsin news media, requesting support for revenue sharing. All officials of local government in Wisconsin are in strong support. A couple years ago, a national poll indicated that over 77% of all Americans favored federal revenue sharing.

Wisconsin county government, an area wide government that is beginning to perform many municipal type services, instead of performing the usual role of counties in merely administering state government, has been recognized by H.R. 14370, as an important cog in the local government structure. County government would receive a fair share of the proceeds distributed under the bill. Also, taxpayers would be recognized for their tax efforts in providing services to Wisconsin residents.

We support all phases of H.R. 14360, including "maintenance of effort"; and we respectfully urge passage with no amendments.

Amendments could defeat this popular measure that passed the House by the large majority of 274 to 122.

Very respectfully,

ROBERT MORTENSEN,  
*Executive Director.*

COUNTY OF CUYAHOGA,  
*Cleveland, Ohio, July 25, 1972.*

Hon. RUSSELL B. LONG,  
*U.S. Senate,  
Old Senate Office Building,  
Washington, D.C.*

DEAR SENATOR LONG: The Board of County Commissioners of Cuyahoga County, Ohio, wishes to urge you to support and expedite the concept of Federal revenue sharing. While we view the concept as put forth in H.R. 14370 as a generally acceptable step, we would like to see at least one of its provisions broadened considerably. In our view, it is necessary to widen the concept of "high priorities".

The current narrow construction of the "high-priorities" definition would severely limit both county and townships in the utilization of monies made available. The high-priority items as currently defined are highly restrictive and would hamstring county governments in such a way as to almost negate the purpose of revenue sharing. The county, in addition to the highway function, has traditionally been concerned with the administration of justice. This latter function does not seem to be adequately covered within the current bill under consideration.

We would like to propose that either the restrictions on local governments be deleted or that they at least be broadened. If these restrictions are deleted it would allow local governments to concentrate on what they feel their local "high-priorities" really are and not what the Federal government, relying upon a general across-the-board stereotype, believes them to be. Perhaps the local government should define its areas of high-priority and then file them with the Secretary of Treasury. If the restrictions on program focus must be kept, then the definitions should be broadened. For instance, the public safety category, now seemingly limited to police-fire-building inspection, might well be broadened to include the courts, corrections, and those ancillary functions that make the justice/public safety operations a total system.

Your favorable consideration of this matter will be of great concern to the Board. We are committed to improving the total criminal justice system. In order to do so, we must find financial resources to develop and carry out programs in the areas of Common Pleas Court, Clerk of Courts, Prosecutor's Office, Coroner's Office, and similar agencies. It is not enough that we strengthen "public safety", but we must carry this through all phases of the justice and corrections program. In doing so, the county government will more usefully dovetail with the strengthening of the public safety related actions to be taken under revenue sharing by the cities within the county.

We feel that the public safety/criminal justice example cited is indicative of the need for broadening all categories. We also wish to be sure that environmental protection and transportation will be broadened sufficiently to give us the scope to plan and execute meaningful programs related to the problems that confront us in this county.

If we can be of service to you in reviewing these matters in more detail, we shall be most pleased to do so.

Respectfully submitted.

HUGH A. CORRIGAN,  
*President.*  
FRANK R. POKORNY,  
SETH C. TAFT.

STATEMENT SUBMITTED BY ROBERT E. MERRIAM, CHAIRMAN, ADVISORY  
COMMISSION ON INTERGOVERNMENTAL RELATIONS

The Advisory Commission on Intergovernmental Relations has been in the vanguard of those advocating the revenue sharing idea. The basis for the Commission's commitment to the concept is its belief that revenue sharing will build greater flexibility into our intergovernmental system—the kind of flexibility that will enable State and local governments to be more responsive to the diverse conditions and needs in this vast country. This is, of course, the essence of federalism and the source of its benefits as a form of governmental organization.

As recently as December, 1971, the Commission expressed its appreciation to the House Ways and Means Committee for resolving to make H.R. 11950, the progenitor of H.R. 14370, its first order of business when Congress reconvened in January 1972. The Commission noted at its December 17, 1971, meeting that from its earliest espousal of the idea of Federal revenue sharing with States and localities, "this Commission has consistently taken the position that the first order of priority is to establish the principle of general support payments." H.R. 14370 does this and therefore on behalf of the Commission I can say that it supports this bill.

In addition to being in the vanguard of those advocating revenue sharing, the Advisory Commission on Inter-governmental Relations has been in the vanguard of those advocating more intensive use of the State personal income tax. While it comes as no surprise to members of the Advisory Commission that the limited State income tax incentive provided in H.R. 14370 is under attack, we want the record to show clearly that ACIR favors the retention of the State income tax incentive.

The case for linking revenue sharing with encouragement of the State personnel income tax rests on three arguments:

1. *Without an inducement to use the personal income tax, revenue sharing would tend to undercut State use of this prime tax source.* State legislators, especially those in the non-income tax States, could be expected to live in constant hope that even larger Federal revenue sharing grants will take them off the fiscal hook. Yet no rhetoric about the plight of financially hard-pressed State and local governments can gloss over the fact that the non-income tax States are failing to help themselves.

2. *The claim that a Federal incentive for the use of the State personal income tax is "coercive" carries little weight when the inducement is part of a revenue sharing bill.* If Congress is willing to make general support payments to States and localities, it becomes quite reasonable for Congress to enact as part of H.R. 14370 a provision that would help insure that States tap their own income tax potential.

3. *The combination approach—revenue sharing coupled with a State personal income tax inducement provision—is the best hope of meeting both the immediate and long-range fiscal requirement of State and local governments.* H.R. 14370 will provide high income tax States such as California, New York, Oregon and Wisconsin immediate financial aid and long-range assistance in the form of reduced vulnerability to interstate tax competition. The somewhat larger allocations to income tax States would tend to prompt non-income tax States, e.g., Connecticut, New Jersey, Tennessee and Texas, to enter the income tax field and the resultant reduction in the vulnerability of income tax States to interstate tax competition would then permit States such as New York to make further use of the personal income tax.

In summary, H.R. 14370—the State and Local Fiscal Assistance Act—promotes the interests of federalism by introducing both a badly needed element of flexibility into our Federal aid arrangements and an incentive for greater State use of the income tax.

STATEMENT OF ROBERT E. MERRIAM, CHAIRMAN, ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS, BEFORE THE HOUSE WAYS AND MEANS COMMITTEE, U.S. HOUSE OF REPRESENTATIVES, JUNE 14, 1971

Mr. MERRIAM. Thank you, Mr. Chairman.

For the record, I have with me William MacDougall, the Executive Director of the Commission and John Shannon, who is Assistant Director.

I also for the record make note of Congressman Ullman's kind remarks and recall that you, Mr. Chairman, were one of the original members of this Commission in 1959 when it was formed.

Let me express the appreciation of our Commission for this opportunity to testify in support of the general proposition that Congress should construct a more flexible and balanced system for aiding State and local governments.

Before commenting in detail on the specific issue currently before this committee, permit me to make several general observations.

First, the Congress in establishing the ACIR in 1959 recognized the need for a permanent bipartisan forum for the continued consideration of intergovernmental relationship including specifically such problems as: " \* \* \* the most desirable allocation of governmental functions, responsibilities and revenues among the several levels government \* \* \* and " \* \* \* a less competitive fiscal relationship between the levels of government \* \* \*."

Second, in the 11 years of its existence, the ACIR, in serious exercise of its congressional mandate, has made a number of critical analyses of State and local governmental operations. Among these were policy reports dealing with (1) State action to check the fragmentation of the metropolitan areas tax bases, (2) revision of State school aid formulas to reflect poverty overburden particularly in the central cities, and (3) the creation of a better balance in State and local tax systems by more effective use of the State income tax and a more equitable use of sales and property taxes.

Currently, the two main studies being conducted by the Commission relate, first, to the problems of regional governmental groupings; and second, to new techniques whereby States and localities can improve further their own tax productivity.

I underscore this aspect of the Commission's work to emphasize our awareness of the two-sided nature of the present debate about strengthening Federal aid programs. Most surely, our system of shared powers requires much remedial State and local action to insure their ability to use well the Federal dollars they receive. Having personally served both as a city councilman in Chicago and as Deputy Director of the Bureau of the Budget, these facts of life are well known to me, as they are to all of you.

#### GROWING FISCAL IMBALANCE

Conceding freely, therefore, the many well-known deficiencies of State and local governments and the need for internal reform, over the years the Commission has become nevertheless increasingly concerned with the growing imbalance in our revenue-collecting systems and in the delivery of services. We witnessed State governments—and Governors—making major, and often heroic and politically suicidal efforts to raise taxes, some 446 identifiable State increases since the Commission was formed in 1959.

We have watched local officials searching everywhere for new tax sources to relieve the growing burden of the regressive property tax. We have seen modernization of State constitutions and governmental reorganizations, including the establishment in most States of departments of local government. Many of these reforms were long overdue, and many still remain to be made. But significant progress, at long last, has begun.

With all this, the delivery of essential local services, if anything, continues to fall back, and progress. Last Friday, you were given a firsthand report on the grim picture in the central cities. As new needs become either identified or recognized—environmental control, et cetera—new tax revenue demands are made. The cycle is a vicious one.

#### THE FEDERAL RESPONSE—EXPANSION OF CATEGORICAL AID SYSTEM

The Congress, in attempting to cope with these ballooning problems in the last decade, continued largely the traditional revenue sharing technique of specific categorical grants for narrowly specified purposes. As you have heard many hundreds of times, we now have 430 of these programs, currently involving approximately \$30 billions of estimated Federal expenditures.

#### THE COMMISSION'S LONG RANGE PLAN FOR REDRESSING THE FISCAL BALANCE

Believing as we do that the ability to perform these needed services at the right level of government is a critical ingredient for an effective working Federal system of divided responsibilities, the Commission has, over the months and years, developed a plan for a massive rearrangement of financing responsibilities among Federal, State, and local governments. Specifically, the Commission has called for:

Sharing of a percentage of the Federal personal income tax with States and localities.

Assumption by the Federal Government of all costs of public welfare and medical.

Assumption by State government of substantially all local costs of elementary and secondary education.

Encouragement of a high-quality, high-yield State tax system through a Federal income tax credit for State income taxes paid.

Creation of a more manageable and streamlined categorical aid system through consolidation and joint funding of existing Federal grant programs.

Let me hasten to add that we recognize that not all of this massive rearrangement can or will take place at once. Nor do we expect that there will be agreement on all the objectives we have outlined and we most certainly are not unaware of the fiscal problems currently confronting you and the Congress.

#### EVERY PRESCRIPTION HAS AT LEAST ONE SERIOUS ADVERSE SIDE EFFECT

Additionally, we are keenly aware that each of our individual prescriptions has at least one major weakness as well as its strengths. Federal welfare take-over, for example, to which this committee has recently addressed itself, obviously tends to reinforce the trend toward greater centralization of administrative power in Washington and does not provide assured fiscal relief to central cities which most need it.

Tax credits, while stimulating State action on the income tax front, also fall short on the aid-to-local-government criteria. Although so-called general revenue sharing can target funds quickly into areas of greatest need, it is vulnerable to the charge that the separation of taxing and spending authority is too great.

The fact that each of these policies has one or more serious drawbacks, however, should not force us either to dismiss them all or to hail one as the substitute for the others. As your committee has so often demonstrated, the test of statesmanship is to devise an innovative combination that can maximize the unique strength of each while minimizing their adverse side effects.

With all of these sometimes conflicting objectives in mind, the Commission in 1969 bit the bullet by reducing to legislative language a melding of two "rival" ideas—general revenue sharing and Federal tax credits for State income tax payments.

The result was the Intergovernmental Revenue Act of 1969 introduced in the Senate by Messrs. Muskie and Goodell and in the House by Mr. Roth. Your distinguished committee colleague, Mr. Ullman, introduced his own tax credit proposal, representing this part of the ACIR bill with which he personally, as a member of the Commission, concurred.

#### INTERGOVERNMENTAL REVENUE ACT OF 1971—S. 1770

As you know, from his testimony last week, Senator Muskie has now introduced the Intergovernmental Revenue Act of 1971, S. 1770, a revised version of the Commission's 1969 proposal. While it does not have the tax credit feature, Senator Muskie's latest version does retain the important incentive principle by (1) making a bonus grant to States using the personal income tax; and (2) retaining the provision authorizing the Federal Government to collect a State's personal income tax if the State so elects. This bill also adds a poverty factor to the formula governing the distribution of aid to local governments.

The following are the major considerations in our support of the concepts embodied in the Intergovernmental Revenue Act of 1971:

First, the tax credit—or bonus—feature overcomes the charge that general revenue sharing would lessen the incentive for the States themselves to use the income tax. This feature of the bill is especially significant in view of the fact that 11 States do not have a broad-based income tax, and about half of the rest make rather anemic use of this prime revenue source. It should mute the legitimate concern as to whether States are truly pulling their own weight.

Second, by introducing general support into the present Federal aid structure, this proposal would inject a sorely needed element of flexibility and equalization into an overly rigid and narrowly focused Federal aid system.

General revenue sharing must not be viewed as a weapon to destroy categorical aids, but, rather, as a supplement to it. Categorical aids will always be needed to stimulate programs in specific areas of national interest. However, we also need broad functional grants, through grant consolidation, to give Federal, State, and

local policymakers greater flexibility in meeting intergovernmental needs in broad program areas.

Third, by sharing Federal income tax among the States on a per capita basis modified for tax effort, this proposal works in the right parties on the revenue-raising front. This fact must be carefully noted. While there is a gradual lessening in wealth differentials among the States, the differences are still very great. For example, even if both Mississippi and Connecticut had personal income taxes imposed at a rate of 10 percent of the Federal personal income tax, Connecticut's per capita yield would have amounted to \$62, compared to Mississippi's per capita yield of \$16. Because the State allocation formula emphasizes a per capita distribution, revenue sharing tends to compensate for the great differences in revenue-raising ability between wealthy and poor States.

Fourth, the combination of population, tax effort, and poverty factors in the pass-through formula should insure that most of the aid will go to those local jurisdictions in greatest fiscal need.

It is becoming increasingly apparent that any revenue-sharing measure must reduce the great fiscal tensions now experienced by major cities. Admittedly, the lack of data on local governments makes it extremely difficult to develop a truly sophisticated equalization formula for local governments, although parenthetically, I might say I believe we at the Commission are making some real strides in this area.

Nevertheless, the use of population, revenue effort, and a poverty measure as a proxy for local fiscal need can insure that most of the pass-through ends up in the localities experiencing the most severe fiscal tensions. The cutoff at 25,000 population is important in this regard.

Fifth, this aid measure will give States the means to strengthen their aid to local governments. It is critically important to design a comprehensive federal aid system in a way so as not to provide a convenient excuse for States to shirk their responsibility to the Nation's cities, or in such a way, that cities become wards of the Federal Government. For this reason, Federal aid policies must not be limited to just helping hard-pressed local governments; they must also be framed so as to strengthen the general fiscal position of the States as well.

Sixth, this aid mechanism would introduce greater equity into the Nation's intergovernmental tax system. The sharing of Federal personal income tax revenue and greater State use of the income tax would enable State and local governments to make a less intensive use of local property and State sales taxes, levies that are most burdensome for low-income families.

While the bill currently before this committee does not accord in all its points with these ACIR proposals, the majority of our Commission have expressed support of H.R. 4187 as an important beginning in the direction of fiscal flexibility.

#### SUMMARY

In the final analysis, we believe the basic issue before this committee is not whether to have revenue sharing, but, rather, how, and with whom.

In answering the how question, the overriding objective must be to build greater flexibility and equalization into an overly rigid Federal aid system.

In answering the who question, our central aim should be to extend aid so as to strengthen our total federal system, not just specific governmental units within it.

The ACIR believes it is possible to achieve these dual objectives, thus avoiding the twin shoals of excessive power concentration at the Federal level, on the one hand, and the unwarranted separation of tax and expenditures responsibilities at the State-local level on the other.

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THE NEW FEDERALISM AND H.R. 14370. A FINANCIAL AND FISCAL PROFILE—A RESEARCH REPORT ON STRENGTHENING THE FEDERAL SYSTEM—PREPARED FOR THE U.S. SENATE COMMITTEE ON FINANCE

(By Frank Rodio, Jr.)

Mr. Chairman and distinguished Members of the United States Senate Committee on Finance: H.R. 14370, the State and Local Assistance Act of 1972, had its genesis almost three years ago on August 9, 1969 and August 13, 1969. The

crisis and problems this legislation proposes to solve have been with us since the Republic's creation and in many cases were created by the federal, state and local governments themselves. President Richard Nixon outlined his philosophy on the future of the federal system and an explanation of his administration's revenue sharing legislation currently embodied in H.R. 14370 which is being considered by your committee.

The President's August 8, 1969 analysis stated "We can no longer have effective government at any level unless we have it at all levels. There is too much to be done for the cities to do it alone, or for Washington to do it alone, or for the States to do it alone. For a third of a century, power and responsibility have flowed toward Washington—and Washington has taken for its own the best sources of revenue. We intend to reverse this tide, and to turn back to the States a greater measure of responsibility—not as a way of avoiding problems, but as a better way of solving problems." What has been Congress' response to the President's program? Three years of delay and inaction.

The President sent to Congress a series of special messages on revenue sharing on August 13, 1969, February 4, 1971, February 9, 1971, March 2, 1971, March 4, 1971, March 8, 1971, March 18, 1971, April 6, 1971 and February 7, 1972. These special messages were referred to the United States House of Representatives, Committee on Ways and Means, Committee on Banking and Currency, Committee on Education and Labor, and Committee on the Judiciary. The Committee on Ways and Means has primary responsibility for revenue sharing legislation since it involves matters pertaining to federal taxation. All legislation pertaining to federal taxation must originate in the Committee on Ways and Means.

The dissenting views of the Committee on Ways and Means Report 92-1018 on H.R. 14370 points out . . . "According to the Census Bureau, there are some 80,000 units of local government in the United States, including more than 3,000 counties, 17,300 townships, 18,600 municipalities, 20,000 school districts and 21,000 additional special districts, the average number of local governmental units per State is about 1,600 ranging from a low of 19 in Hawaii to a high of 6,453 in Illinois. The Chicago area alone embraces more than 1,000 separate units; Philadelphia and environs have about 870; Metropolitan New York about 550; and the Oakland-San Francisco area more than 300. The nationwide average is 91 units of government per metropolitan area."

It is my opinion that the main reason for the financial and fiscal problems of state and local governments is the proliferation of local governmental units. My own State of New Jersey has been referred to as the most urbanized State in the Union of 50 United States of America. New Jersey has 21 counties and 567 separate municipalities. New Jersey instituted a general sales tax in 1966 and in March, 1970 hiked the general sales tax rate from 3 to 5%. New Jersey has very severe financial problems with respect to local and state governments. Governor William Thomas Cahill appointed in 1971 a gubernatorial Tax Policy Study Commission.

The Commission recommended a 40% reduction in local property taxes, adoption of a graduated state income tax ranging from 1 to 14% and adoption of a small statewide property tax. The New Jersey State Legislature is currently debating the Tax Policy Commission Report recommendations. New Jersey is currently involved in an interstate tax dispute with the neighboring Commonwealth of Pennsylvania. I might add that I reside in Camden County, New Jersey's First Congressional District. Camden County, New Jersey has 37 municipalities and is part of the eight county Philadelphia metropolitan area. I reside in the Rosedale area of Winslow Township, located in the southeastern part of Camden County. Pennsylvania Governor Milton J. Shapp submitted to the 1971 General Assembly a 5% *graduated* state income tax levy. The Pennsylvania Supreme Court declared the 5% *graduated* income tax levy unconstitutional because the antiquated 1874 Pennsylvania Constitution provides for all taxes to be "flat" with no exemptions which a "graduated" income tax levy would provide for.

After prolonged debate, the Pennsylvania General Assembly adopted a "flat" 3½% state income tax levy. Pennsylvania thus became the 43d state to enact a personal income tax levy. Many New Jersey residents work in Pennsylvania and its largest city, Philadelphia. Philadelphia adopted a city income tax in 1939 with its present rate being 3%. Thus, New Jersey and other out-of-state residents must pay the 3½% "flat" income tax state levy and the 3% city income tax levy. New Jersey has a 5% sales and use tax and Pennsylvania has a 6% sales and use

tax. New Jersey retaliated by enacting into law the same 3½% "flat" income tax levy on Pennsylvania residents working in the Garden State. The non-residents taxpayers associations of New Jersey and Pennsylvania are fighting the New Jersey Pennsylvania-Philadelphia income taxes in both state legislatures and federal and state courts. The Federal Government spent \$38 billion in fiscal year 1972 in federal grants to states and localities. About 70% of the 1972 figure (\$26.8 billion) will be spent in the 233 metropolitan areas of the country.

H.R. 14370, the State and Local Assistance Act of 1972, which provides an annual appropriation of \$5.3 billion for a five-year period retroactive to January 1, 1972, is a small but significant first step in attempting to solve the financial and fiscal problems of state and local governments. The states would receive \$1.8 billion of this amount to spend in any way they see fit; the remaining \$3.5 billion would be allocated to the states to "pass through" to 39,000 units of local government to be used for "high priority" expenditures. In my opinion H.R. 14370 would go a long way toward alleviating financial and fiscal problems facing New Jersey and Pennsylvania as well as other states which I described earlier. I recommend enactment into law of H.R. 14370, the State and Local Assistance Act of 1972 would, in my opinion, preserve and strengthen "the New Federalism."

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NEW YORK STATE BAR ASSOCIATION, TAX SECTION, REPORT ON FEDERAL-STATE TAX COLLECTION ACT OF 1972 BY COMMITTEE ON PERSONAL INCOME TAXATION, SUBMITTED BY RICHARD H. APPERT, CHAIRMAN

The Federal-State Tax Collection Act of 1972 (the "Bill") was passed by the House of Representatives late in June 1972 as Title II of H.R. 14370 (the State and Local Fiscal Assistance Act of 1972). The Bill is currently under consideration by the Senate Finance Committee.

The Bill provides that at the election of any state, the federal government will collect and administer the "qualified state individual income taxes" of such state (hereinafter referred to as "piggyback arrangements"), provided that such state complies with certain conditions of participation which includes certain limitations on its taxing authority. A qualified state individual income tax is:

(a) a tax imposed on individual residents (as defined in the Bill) of a state which either (i) is based on taxable income for Federal purposes with certain specified limited adjustments, or (ii) is a percentage of the Federal income tax as computed after certain specified limited adjustments, and

(b) a non-discriminatory non-resident tax on what is essentially earned income. The effective date of the Bill is the later of January 1, 1974 or the January 1 following the date on which at least five states which have in the aggregate residents who filed at least five percent of the Federal individual income tax returns during 1972 have elected to participate in the piggyback arrangements.

The report of the Committee on Ways and Means of the House of Representatives accompanying H.R. 14370<sup>1</sup> (the "Committee Report") states that the purposes of the Bill are to eliminate duplication of effort by state and federal tax administrators, eliminate unnecessary record-keeping by taxpayers, establish uniform treatment for individual taxpayers at both the state and Federal levels, provide for faster collection of withheld income taxes and free the state courts from individual income tax controversies.<sup>2</sup>

The Committee Report states that it is expected that the piggyback provision will make a substantial contribution to tax simplification by causing a standardization of state income tax laws and the elimination of the confusion of completing and filing separate tax forms for state and federal income taxes and maintaining different records for each computation.<sup>3</sup>

The Committee on Personal Income Taxation strongly endorses the objectives of the Bill. We are of the view, however, that the Bill should be more precise with respect to the conditions of participation in the piggyback arrangements relating to the constraints imposed by the Bill on the rights of participating states to impose individual taxes other than qualified state individual income taxes. We also have three more technical comments with respect to the Bill.

<sup>1</sup> H.R. Rep. No. 92-1018, 92d Cong., 2d Sess. (1972).

<sup>2</sup> *Ibid.* at 46-47.

<sup>3</sup> *Ibid.* at pp. 14-16.

### 1. Permissible taxes

Proposed section 6362(f) (3) of the Bill<sup>4</sup> provides that a participating state may not impose any tax on the income of individuals other than a qualified state individual income tax or a tax on investment income of individuals domiciled but not resident in the state in question. Proposed section 6362(f) (7) provides that entities such as partnerships, trusts, estates and subchapter S corporations, etc., which are treated as conduits for Federal income tax purposes must also be treated as conduits for state income tax purposes. The Committee Report adds that to the extent there is a conduit principle under Federal income tax law, the entity which serves as a conduit is not to be subject to state corporate income tax or unincorporated business income tax on income taxed to the shareholders or partners, as the case may be.<sup>5</sup>

The above noted provisions limiting the taxing ability of participating states are far more extensive than the provisions which would be necessary merely to conform the state taxes collected by the Federal government to the Federal income tax in order to facilitate Federal collection of such state taxes. It seems clear that these limitations are an attempt by Congress to simplify the system of taxing income in the United States by compelling those states that opt for the significant advantage of Federal collection of state income taxes to conform all aspects of their system of taxation of individual income to the Federal system. We support this objective and we suggest two changes to further implement it.

(a) *State and political subdivisions thereof.*—The Bill appears to distinguish between a tax imposed by a "state" and a tax imposed by "a political subdivision thereof."<sup>6</sup> Thus, it appears that the restrictions imposed in the Bill on the ability of states to impose certain taxes are limited to taxes imposed by a state itself, and that there are no limitations on taxes imposed by a political subdivision of a state. The Bill is not precise on this point and we strongly urge that the Bill as finally enacted be clear as to whether the taxing powers of political subdivisions of states are limited if a state participates in the piggyback arrangements and we suggest that political subdivisions be included in the restrictions. If political subdivisions are included in the restrictions, we suggest that they also be included in the piggyback arrangements.

A limitation on the taxing power of a state but not that of its political subdivisions might well have a significant adverse impact on tax simplification. It would seem quite plausible to assume that many of the state-wide taxes which would have to be eliminated by participating states would be replaced by similar taxes imposed by political subdivisions of the states with a resulting balkanization of the tax structure of each state with concomitant greater evils than the different state taxes now present. We understand that including political subdivisions within the scope of the Bill will cause complexities but we strongly urge that this problem be dealt with.

(b) *Type of taxes.*—It appears from the statement on page 62 of the Committee Report that the intent of the Bill is to require participating states to tax individuals in the same way as the Federal government taxes individuals with respect to their income and that a participating state is prohibited from imposing an unincorporated business tax. We agree with this attempt to induce conformity but we think the statute should be explicit in this respect and should provide that the only taxes computed with reference to the net income of an individual or other entity other than a corporation which may be imposed by a participating state (and, as noted above, we would include political subdivisions thereof) would be those taxes specified in the statute. Thus, for example, it would be clear that a participating state could not impose an unincorporated business tax upon a partnership or on a sole proprietorship.<sup>7</sup>

### 2. Residency in more than one State during the taxable year

Proposed section 6362(e) (4) provides that where an individual becomes a resident or ceases to be a resident of a state during a year, his liability to such state for the state individual income tax on residents is to be determined by multiply-

<sup>4</sup> All references are to sections of the Internal Revenue Code of 1954 as such Code would be amended by the Bill.

<sup>5</sup> Committee Report at p. 62.

<sup>6</sup> See proposed section 6362(b) (3) (B).

<sup>7</sup> We would also include the restrictions in the Bill on double taxation of corporate conduits such as Subchapter S corporations.

ing the amount which would be his liability for tax if he had been a resident of such state for the entire taxable year by a fraction, the numerator of which is the number of days he was a resident of such state and the denominator of which is the total number of days in the taxable year. Thus, for example, if a person were a resident of a particular participating state for  $\frac{1}{2}$  of the taxable year, he will owe that state  $\frac{1}{2}$  of the tax he would owe had he been a resident for the entire taxable year even if, in fact, he earned all of his income for the year while a resident of such state and in such state. This rule, when read together with the permitted taxation of non-residents, would have the capricious result of permitting a state to tax a non-resident who earned money within its borders more highly than a resident who earned the same amount of money within its borders but who ceased to be a resident of the state during the year since the non-resident can be taxed in full by such state on his earned income from within such state.

We do not think that the mechanical simplicity of the above stated rule on changes of residence is necessary. We recommend that serious consideration be given to amending the Bill to provide that an individual who was a resident of a state for part of his taxable year will be taxed by such state on the income earned while a resident and that the non-business deductions would be apportioned on the basis of the relationship of adjusted gross income subject to tax by such state to total adjusted gross income.

### 3. State bond interest

In the case of a qualified state individual income tax based on Federal taxable income proposed section 6362(b) (1) requires the state to add to Federal taxable income net income from bonds of a state or political subdivision thereof which is exempt from Federal income tax ("net tax exempt income"). In the case of a qualified state income tax which is a percentage of the Federal income tax, proposed section 6362(c) (3) provides that the state must either add to Federal gross income both net tax exempt income and the amount of state income taxes deducted in computing Federal taxable income or make neither adjustment; a state may not make one adjustment without the other.

The statutory authorization of the obligations of New York State Public Authorities typically contains language similar to the following: "The state of New York covenants with the purchasers and with all subsequent holders and transferees of bonds issued by the authority pursuant to this title, in consideration of the acceptance of and payment for the bonds, that the bonds of the authority issued pursuant to this title and the income therefrom, and all moneys, funds and bonds, shall at all times be free from taxation except for estate taxes and taxes on transfers by or in contemplation of death."<sup>8</sup>

It is likely that New York State could not constitutionally breach such covenant and tax the interest on bonds of such an authority even if it were inclined to do so. See, *e.g.*, *The Macallen Company v. Massachusetts*, 279 U.S. 620 (1929).

In light of the foregoing, if the qualified state income tax based on Federal taxable income as finally enacted contains the requirement of the Bill that net tax exempt income be added to Federal taxable income, New York State will probably be precluded from participating in the piggyback system with a tax based on Federal taxable income. New York would have to participate, if at all, on the basis of a tax which is a percentage of Federal income tax. Moreover, even on that basis, since New York could not add back net tax exempt income, it could not add back state income taxes.

The Committee feels that the effect on states such as New York of the treatment in the Bill of net tax exempt income should cause a reexamination of such treatment. In this connection we suggest that the Bill be amended either to eliminate any adjustment for net tax exempt income or to permit each state to elect whether it wanted to add back net tax exempt income.

### 4. Direct payments by States in lieu of State tax benefits

The Bill provides for very limited and specific situations in which participating states may exercise state policy in connection with the grant or withholding of deductions or credits. The Committee Report acknowledged that certain states have in the past provided tax incentives which would not be available if such state participated in the piggyback arrangements.<sup>9</sup> Among the incentives noted are the exclusion from state taxation of interest on the bonds of the state in question and income tax credits for property taxes paid by the elderly. The Com-

<sup>8</sup> New York Public Authorities Law § 1596n (McKinney 1970).

<sup>9</sup> See pp. 53-55.

mittee Report states that nothing in the Bill prevents a state from continuing to make these or other benefits or incentives available by other means. Thus, by way of example, the Committee Report states that a state could make a direct payment to an individual in connection with interest derived by him from the obligations of such state, or with respect to property taxes paid by the elderly. The Committee Report states that the Internal Revenue Services would not participate in the administration of those payments or refunds, other than to make information from the individual returns available to the state.

We suggest that if and to the extent that a state specifically makes a payment to an individual which it denominates as a reduction of his income tax liability to such state that such payment be considered for all purposes as a direct reduction of state taxes for the year of receipt or accrual, as the case may be, to the extent of the state tax paid or accrued for such year. This would most closely approximate the result which the state intends, i.e., a reduction in such individual's state income taxes. Permitting a direct offset would eliminate the problem of imposing a Federal income tax on the state payment to a recipient who claims a standard deduction and thus received no Federal income tax deduction for the state tax which the payment is designed to reduce; moreover, it would prevent the imposition of a state income tax on the reimbursement itself. Moreover, although this procedure would not meet the stated covenants of the New York Public Authorities Law mentioned above, an argument might be advanced that this procedure afforded the holders of such bonds substantially the same benefits.

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STATEMENT OF DONALD W. JACKSON, EXECUTIVE SECRETARY, TENNESSEE TAXPAYERS ASSOCIATIONS, INC.

JULY 28, 1972.

Mr. Chairman and members of the Senate Committee on Finance: I am Donald W. Jackson, Executive Secretary of the Tennessee Taxpayers Association, Inc., with offices in Nashville. I am also currently serving as Chairman of the National Taxpayers Conference, which is comprised of the executives of statewide taxpayer-research organizations operating in more than half of the States. The views expressed in this statement are concurred in by the executives of those organizations on the attached list.

The opportunity to present these views on H.R. 14370, the State and Local Fiscal Assistance Act of 1972, is much appreciated. This legislation could mark a new turning point in Federal-State-local fiscal relationships and, therefore, should receive most serious and careful attention. Despite the lofty objectives which have been claimed for it, and the intense pressures which have been brought upon the Congress for its enactment, there are some of us who sincerely question the wisdom of adopting this new approach at this time, and who doubt that it will provide effective fiscal relief of State-local government.

This distinguished committee does not need to be reminded, Mr. Chairman, that the Federal Government is already "sharing" 35-to-40 billions of its revenues with State-local governments through the existing categorical grant structure; if this bill becomes law that total will soon approach \$45 billion annually. Additionally, indirect Federal aid is provided, for example, through the deduction of State-local taxes from the Federal income tax, and the exemption of interest on State-local bonds.

It is contended that a new approach is needed because the categorical grant structure is over-controlled, too complex, and imposes severe administrative and other burdens on State-local governments. But H.R. 14370 corrects none of those deficiencies, Mr. Chairman; it simply piles \$5 or \$6 billion of additional aids atop the present structure. We would urge that, as a first priority, the Congress undertake a thorough review and reform the existing grant structure in order to see whether the \$35-to-\$40 billion currently provided could not be used more efficiently and effectively to meet the needs of State and local governments. To enact this new program before that is done puts the cart before the horse, and will only further weaken and defer chances of improving the existing grant structure.

It is also argued that revenue sharing in the form proposed will decentralize decision-making and strengthen the powers of State-local governments in the use and application of these funds. The House-approved version of H.R. 14370 does, of course, place some restrictions on the use of the aid provided to local governments. Apart from that, however, there is a more fundamental question.

Revenue sharing cannot be considered in a vacuum. It must be considered in conjunction with the many billions of Federal aid dollars already being made available, the additional Federal responsibilities envisioned under the pending welfare reform measure, current proposals to levy a new Federal tax in order to increase the Federal share of the costs of education, and other proposals.

Viewed in this context, we may well ask whether we are not buying some decentralization in decision-making or some additional "flexibility" for State-local governments in the use of these Federal funds at the cost of a much greater centralization of the taxing power. This is an issue which deserves the most careful consideration.

There can be no question that some State-local units, and particularly some urban centers, are confronted with severe financial pressures. Experts differ, however, as to whether H.R. 14370 will contribute to a sound and lasting solution of these problems. Robert D. Reischau, of the Brookings Institution, has recently expressed the view that the pending legislation fails to distribute revenues according to any measure of relative need, and "may upset the existing patterns of fiscal responsibility that have evolved within states over the past 100 years." Furthermore, in many instances the amounts which would be provided to many local governments under this bill would not be sufficient to contribute significantly to pressing needs. Far from solving the problems of these governments, it is likely only to bring renewed pressure upon the Congress to increase this new form of Federal aid.

On this same point, there can be no doubt that one of the factors which has contributed to the difficulties in which State-local governments now find themselves is the severe inflation which has greatly increased the cost of goods and services to those governments. The "fiscal crisis" of the State and local governments would be substantially eased if inflation were brought under control.

This brings us to the further question: Is the fiscal plight of the State and local governments any worse, or even as bad, as that of the Federal government? It is unnecessary to review for the able members of this committee the fiscal position and outlook of the Federal Government. On the basis of present projections the combined budget deficits for the fiscal 1970-74 period, even on the favorable unified budget basis, appears likely to exceed \$80 billion, and on the Federal funds basis may exceed \$120 billion. These deficits are a principal cause of the inflation which is wreaking havoc upon State-local governments as well as other segment of our society.

Further, one of the basic ingredients of the current fiscal dilemma is the fact that such a large proportion—more than 70 percent—of Federal expenditures are "relatively uncontrollable" under present law. A new program of Federal revenue sharing, whether financed through permanent appropriations, as in the House-passed version of H.R. 14370, or by earmarking a percentage of revenues, will only aggravate this problem of controllability of Federal outlays.

In conclusion, Mr. Chairman, many of us share a grave concern over the state of Federal finances. And we are not convinced that a new program of revenue sharing with the State-local governments should have a priority over putting the Federal Government's financial house in order. On the contrary, it is our view that unless that is done, and done first, no amount of additional aid will provide real and meaningful fiscal relief to State-local governments and strengthen the Federal system which I am certain we all want to preserve.

The views expressed in this statement are concurred in by the executives of the statewide organizations listed below:

Ed Staples, Executive Director, Missouri Public Expenditure Survey.

E. L. Newton, Executive Sec., Nevada Taxpayers Association.

Maurice W. Scott, Ex. Vice Pres., Taxpayers' Federation of Illinois.

George Annala, Manager, Oregon Tax Research.

Max Yost, Executive Manager, Associated Taxpayers of Idaho.

Frank Haines, Executive Dir., New Jersey Taxpayers Association.

Charles P. Stone, Exec. Director, Minnesota Taxpayers Association.

John O. Allen, Executive Director, Wyoming Taxpayers Association.

Keith Anderson, Montana Taxpayers Association.

John F. Quigley, Colorado Public Expenditure Council.

Fred Bennion, Tax Foundation of Hawaii.

Jack A. Olson, Executive Vice Pres., Utah Taxpayers Association.

Robert C. Brown, Executive Vice Pres., California Taxpayers Association.

TESTIMONY OF RECOMMENDATIONS OF THE NATIONAL OMBUDSMEN'S ASSOCIATION  
APPLIED RESEARCH CENTER

PREPARED AS AN OPEN MESSAGE FOR ALL THE GOVERNORS OF THE UNITED STATES

In principle, we generally approve of revenue sharing as already passed by the House, or as it is being presently considered in the Senate. But we need to alert all Governors in the nation and all legislators and concerned citizens that we are firmly convinced that optimum delivery of community services will be dangerously destroyed unless we attach now (not next year or later!) to the package of the bill the one important string of a built-in Oversight State Commission to oversee potential innovation loss for all of the high priority expenditures outlined.

As early as 1964 when the Office of Economic Opportunity first joined our governmental bureaucratic complex we approved in principle decentralizing poverty funds, but we warned that the establishment of innovation-oversight, Ombudsmen-type councils or commissions would be necessary as an insurance policy to avoid potential abuse of power and to discourage mediocrity in civic solutions. Because this was not done, the War on Poverty had to fail.

We are here to warn in this report that every good change we will achieve under revenue-sharing in the future will drive out the better or the best solutions, unless this bill *discourages* (underlined) mediocre and obsolete, wasteful solutions. We believe that the success of the intent of revenue sharing can be insured by adding a single sentence amendment under establishment of further priorities: "In order for a State to receive such funds there must be evidence that a State innovation-advisory council has been established."

It is the function of such councils to establish regular public hearings on innovations for all high priorities expenditure fields at least once a year, statewide. The National Ombudsmen's Association finds that the major cause of a 20-50 year time lag of change in needed community innovation for education, environment, safety, health, housing, etc., is the lack of adequate innovation-information exposure systems and recommends the use of new types of media charrettes, for optimum local citizen participation and action for all city and state community problems.

We sincerely believe that all revenue sharing must be wasteful unless such an Oversight Operation is built in, not "next year", but now.

On Tuesday morning, August 1, 1972, N.O.A. will be ready to report the final phase of our four year research study on the potentials of upgrading state leadership. Four years of investigation in New York State, three years of "The Connecticut Story", and supplementary shorter studies in several other scientifically selected states, indicate unmistakably that it is not possible to upgrade state leadership at the present time no matter how much money is being expended.

**NO ADEQUATE SYSTEMS OF COMMUNICATION OF VALIDATED INNOVATIVE INFORMATION NOW EXISTS ANYWHERE AT ANY LOCAL LEVEL.** Contrary to public opinion, surprisingly, centralized bureaucratic complexes can produce faster major changes than decentralized agencies at present. Evidence to support the statements of our recommendations appears in a 387 page documented exhibit available to any Congressman or Senator without cost. Attached to this report are some pages from this exhibit, to help establish the need for this amendment.

We are appreciative of the opportunity to present this information in the report of the hearings.

**N.C.L. STATEMENT—NATIONAL COMMUNICATION LABORATORIES, NEW YORK, 1966**

In the early 40's, a single letter from a private citizen to the Secretary of Commerce helped establish our National Inventors' Council. Written by a patent attorney, it pointed out with regret that many practical inventions, some even vital for national defense, were being lost.

As the Council grew, over the years it was to give overdue recognition to the "way-out" inventors and to their much maligned, long suffering precocious brain-children. In place of hasty labels of "impractical" even "crackpot," more than 5,000 inventions important to our national welfare were resurrected from their potential graveyards. . . . There are those who would go so far as to say that we might not have won the last war without such insurance. Many bold new ideas were no longer lost or delayed by the orderly and well-intentioned but deadly pigeonholes of normal bureaucratic chain-of-command.

Ideas thus saved ran a strange gamut, from milkweed substitutes for war-scarce kapok, to new kinds of mine detectors, and a generator that saved the bazooka for us. Other inventions even more important or bizarre were rescued from the hazards of "normal cultural lag."

With much regret, attention must now be called to a similar fate of oblivion that awaits many new ideas in another war—this time against poverty and its many handmaidens. As we engage in logistics, seek consensus how best to deploy huge manpower forces and funds for the Great Battles ahead for the Great Society, this dangerous fact must be noted and spelled out in specific details for all the Poverty Warriors as late as April of 1966:

We are losing most of the social inventions that are the bold new tools we desperately need if our war on poverty is to be really successfully waged.

Even today, the best of our new anti-poverty organizations institutionalize, as Task Force goes home, with role strictures that prevent continuous renewal. The good must now drive out the better, the best now almost impossible. Somehow, we have, with very good intentions, managed to have upset the Balance of Innovation. Like upsetting the Balance of Nature, we seem to be able to get rid of one pest, only to bring in another. Time was when private foundations could fund "the way out and less safe ideas," leaving the government to pick up the tab for "safer" projects. It is a desperate error to think that specialists who never before had a major change agent role can now suddenly expand their horizons fast enough to allow us to do anything but commit national major innovation suicide now.

The verifiable statement is made here that Operation Headstart probably could not have come just when it did to the War on Poverty without the June '64 N.C.L. recommendations at an OEO staff conference that we must bring to the poor and to the entire nation, Operation Cribstart. While these recommendations were carried orally to Sargent Shriver by his own top Task Force, final decision was left to the middle-level Administrators unfortunately and inadvertently.

On November 11, 1964, after a fourth time to offer testimony, the director of N.C.L. was told at 4:00 P.M. she had wasted her time coming to Washington to recommend Pre-school programs for there would be no such action contemplated by a War on Poverty, organized only for Job Corps and teen-agers. This was said not by Mr. Shriver, who had already shown interest. Not by Task Force, where the N.C.L. program was validated. By middle echelon decision makers, who cannot handle "way-out" innovation.

As N.C.L. predicted in June of 1964, Pre-school became important, in 1965.

We need now to take a new, long, hard look again with 20-20 hindsight, at the rest of the historic N.C.L. recommendations given to OEO and accepted in June of 1964 by Task Force, which were sieved out, by bureaucratic fiat in November of 1964.

Recreation areas and school playgrounds, and community areas, it was suggested, should be scientifically educationally programmed for slums to give really upgraded country club atmosphere and automatic play learning, could provide optimum community problem solving through new types of multi-purpose one-stop community centers educationally optimized, even run as profit-making businesses. Such revolutionary places as cafeterias, laundromats, even general stores were suggested for such new types of centers. Emphasis would be on automation of learning, so that specially trained programmed-play-learning aides could be free to act as counsellors rather than teachers. Hundreds of thousands of jobs could be developed, through production of new types of educational services and products, for this Operation Cribstart, as it was proposed then.

This is even more true today.

Regretably this is a program not implemented yet, though it would indeed provide more needed services for the poor, for much less money, than present programs contemplated or in action.

Here, again, the good is driving out the better, also the best.

We need to take another look too at the N.C.L. vest pocket park recommendations in '63 which led to the vast open-space program in '65. We need to be reminded that not just "parks," but programmed play learning automatically-planned parks were then proposed. These are still not on the national scene though they would have cost much less, looked much better, and produced infinitely more.

We need, perhaps, most of all, to be reminded that N.C.L. suggested that it did not cost much money, only seed money. Above all, we need to heed the warning sounded then, that a 43 billion dollar annual informal academic grapevine can be properly harnessed to formal education, only if we have a National Informal Education Laboratory Systems approach.

## COMMUNITY OMBUDSMAN ALERT, UNIONVILLE, CONN.

The National Education Ombudsmen's Association is impressed with the efforts of government agencies and citizens' groups which have become concerned with environmental problems. We are, however, alarmed at the number of programs that are *not* fulfilling community need in an optimum way even with a great expenditure of time and money. Indeed we too often now are in the unenviable position of "building better mousetraps" at a time when someone has learned how to eliminate the mice. It is no secret we now have a time lag of change of from 10 to 50 years or even longer.

NEOA is prepared to support a State Plan for Environmental Education only if it can tackle problems with total systems perspectives and the synergistic solutions of generalist, "ombudsmanship" approach which enabled exposure of all information that is pertinent.

Research now confirms that it is likely than any audit or evaluation of environmental education resources in any area as well as dissemination of environmental information for planning may be able to be effective or efficient only in so far as it can fully utilize services of local and state specially trained environmental education ombudsmen. Only a brand new kind of communication and media technology expertise can now make better communities. This new kind of "know how" is basic training of the "Environmental Education Ombudsman."

Environmental Education Ombudsmen or Ombudswomen, specially briefed in less than a single day can become a new kind of communication technologist, not just to service, but able to prevent most environmental problems and complaints by exposing information more effectively for much more efficient community action.

We therefore support this State Plan for Connecticut only if there is included a full exploration of the potentials if the Environmental Education Ombudsman for all education levels. A new multi-disciplinary course can then be immediately instituted by Environmental Education Ombudsmen for all school levels providing a new type of curriculum of Community Services Learning experiences, to better solve environmental problems and even save taxpayer dollars.

Lacking passage of this type of State bill, every State must lose billions of dollars of environmental potential action through its hundreds of thousands, even millions of students who are not being creatively employed for community services learning.

The current Senate (Federal S. 2780) Community Education bill proposed is at least 30 years obsoleted even before it is passed! Thus, we need an Innovation Advisory Council, not only for State levels, but could use this for Federal levels, to "Watchdog Innovation".

# STATE OF NEW YORK

9932

## IN SENATE

March 21, 1972

Introduced by COMMITTEE ON RULES—read twice and ordered printed, and when printed to be committed to the Committee on Education

### AN ACT

to amend the education law, in relation to promoting the development and expansion of community schools and environmental and other educational services throughout the state

*The People of the State of New York, represented in Senate and Assembly, do enact as follows:*

- 1 Section 1. Title one of the education law is hereby amended by  
 2 adding thereto a new article, to be article twenty-five, to read as fol-  
 3 lows:

#### ARTICLE 25

##### COMMUNITY SCHOOL SERVICES DEVELOPMENT

6 *Section 1130. Short title.*

7 *1131. Declaration of intent.*

8 *1132. Definitions.*

EXPLANATION—Matter in *italics* is new; matter in brackets [ ] is old law to be omitted.

1           1133. *Community education centers grants.*

2           1134. *Application.*

3           1135. *Authorization of appropriations.*

4           1136. *Grants for community school service programs.*

5           1137. *Consultation with state educational agency.*

6           1138. *Payments.*

7           1139. *Community school promotion.*

8           1140. *Advisory council.*

9   § 1130. *Short title. This act shall be known and may be cited as the*  
10 *community school services development act.*

11 § 1131. *Declaration of intent. It is the purpose of this act to utilize*  
12 *better the school student services and public school or other available*  
13 *government building for the full benefit of the community from pre-*  
14 *school to and including senior citizens. The act will provide recrea-*  
15 *tional, educational, and community social services including effective*  
16 *environment action for public school credit. The act establishes com-*  
17 *munity schools as experiential learning curriculum centers for accre-*  
18 *dited activities in cooperation with community groups and educators,*  
19 *and calls upon federal grant agencies to provide funding.*

20 § 1132. *Definitions. As used in this act, the term*

21 (1) *"Community school" means a public elementary or secondary*  
22 *school or state institution of higher education that is utilized as a*  
23 *multi-service, multi-opportunity community center operated in coop-*  
24 *eration with other groups in the community to provide recreational,*  
25 *educational, environmental and a variety of other community and*  
26 *social services for the community which the center serves. Wherever*

1 possible, community experiential learning will receive school or aca-  
2 demic credit for community service program units with a national  
3 board of standards called A.B.L.E. (American Board of Learning  
4 Experiences).

5 (2) "Community school service program unit" means a unit of com-  
6 munity service for which students can receive academic credit as a  
7 learning experience that combines basic academic learning with expe-  
8 rience, under supervision of faculty in each school system through a  
9 state A.B.L.E. commission consisting of twenty local superinten-  
10 dents of schools of different size school systems.

11 (3) "Environmental action" means a sustained student program to  
12 improve the quality of the environment.

13 (4) "Community education ombudsmen services" are those pro-  
14 gram units of experiential learning where students serve as commu-  
15 nication or other ombudsmen to cut through red tape to either answer,  
16 service, or prevent complaints or provide information in any commu-  
17 nity problem area such as housing, education, drug abuse, health, rec-  
18 reation, or environmental with appropriate adequate supervision by  
19 educators, and community groups assisting actively, for different age  
20 groups and different community populations.

21 (5) "Youth ombudsman" is a representative trained to serve and  
22 prevent complaints of young people. He or she either receives school  
23 credit or remuneration for the work following training, as a public  
24 redress officer for youth, or as information officer.

25 (6) "Senior citizen ombudsman" is trained representative for  
26 senior citizens who receives public school or higher educational credit

1 or remuneration for the work, in such community service areas as  
2 health, safety, nutrition, environment, transportation, etc.

3 (7) "Child ombudsman" is a trained representative clearly dis-  
4 tinguishable from a "child advocate."

5 (8) "Environmental art ombudsman" means a person trained to  
6 make and construct building material art forms in art classes, from  
7 re-cycled waste.

8 (9) "Communication ombudsman" means a radio, television, news-  
9 paper or other media script writer or producer, editor or reporter who  
10 transmits information in such a manner that it is exposed to a max-  
11 imum audience.

12 (10) "Commissioner" means the state commissioner of education.

13 (11) "Commission" means a board of learning experiences for the  
14 state, consisting of twenty school superintendents of varying school  
15 system populations as selected by the council. (A.B.L.E. for Commu-  
16 nity Education, for New York State)

17 (12) "State educational agency" means the board of regents, state  
18 department of education, or officer, such as the chief state officer pri-  
19 marily responsible for the state supervision of state elementary and  
20 secondary education, or higher education.

21 (13) "Council" means the community schools advisory council for  
22 community schools and community schools services programs, called  
23 the community schools services advisory council, for short.

24 (14) "Institution of higher education" means an educational insti-  
25 tution which (A) admits as regular students only persons having a  
26 certificate of graduation from a school providing secondary educa-

1 tion, or the recognized equivalent of such a certificate, (B) is legally  
2 authorized to provide a program of education beyond secondary edu-  
3 cation, (C) provides an educational program for which it awards a  
4 bachelor's degree or provides not less than a two-year program which  
5 is acceptable for full credit toward such a degree, (D) is a public or  
6 other nonprofit institution, and (E) is accredited by a nationally rec-  
7 ognized accrediting agency or association or, if not so accredited, (i) is  
8 an institution with respect to which the commissioner has determined  
9 that there is satisfactory assurance, considering the resources avail-  
10 able to the institution, the period of time, if any, during which it has  
11 operated, the effort it is making to meet accreditation standards, and  
12 the purpose for which this determination is being made, that the insti-  
13 tution will meet the accreditation standards of such an agency or  
14 association within a reasonable time, or (ii) is an institution whose  
15 credits are accepted, on transfer, by not less than three institutions  
16 which are so accredited, for credit on the same basis as if transferred  
17 from an institution so accredited. Such term also includes any school  
18 which provides not less than one year program of training to prepare  
19 students for gainful employment in a recognized occupation and  
20 which meets the provision of clauses (A), (B), (D) or (E).

21 (15) "Local educational agency" means a public board of education  
22 or other public authority legally constituted within the state for  
23 either administrative control or direction of, or to perform a service  
24 function for, public elementary or secondary schools in a city, county,  
25 township, school district, or other political subdivision of the state, or  
26 such combination of school districts of counties as are recognized in

1 *the state as an administrative agency for its public elementary or sec-*  
2 *ondary schools. Such terms also include any other public institution*  
3 *or agency having administrative control and direction of a public ele-*  
4 *mentary or secondary school; and*

5 (16) *"Community school program" means a program in which a*  
6 *public elementary or secondary school or state institution of higher*  
7 *education is utilized as a community center operated in cooperation*  
8 *with other groups in the community to provide recreational, educa-*  
9 *tional, and a variety of other community and social services for the*  
10 *community that the center serves, including accredited experimental*  
11 *learning programs for schools.*

12 § 1133. *Community education centers grants. (a) The commission*  
13 *shall seek and accept grants for institutions of higher education and*  
14 *for nonprofit educational research agencies to develop and establish*  
15 *programs in community education services which will train people as*  
16 *community school services directors or ombudsmen or women.*

17 (b) *Where an institution of higher learning has such a program*  
18 *presently in existence, such grant may be made to expand the pro-*  
19 *gram.*

20 § 1134. *Application. A grant under this title may be made to any*  
21 *institution of higher education upon application to the commission at*  
22 *such time, in such manner, and containing and accompanied with*  
23 *such information as the commission deems necessary. Each such*  
24 *application shall:*

25 (1) *provide that the programs and activities for which assistance*  
26 *under this title is sought will be administered by or under the super-*  
27 *vision of the applicant;*

1 (2) describe with particularity the programs and activities for  
2 which such assistance is sought;

3 (3) set forth such fiscal control and fund accounting procedures as  
4 may be necessary to assess proper disbursement of and accounting for  
5 federal funds paid to the applicant under this title;

6 (4) provide for making such reasonable reports in such form and  
7 containing such information as the commissioner may reasonably  
8 require.

9 § 1135. Authorization of appropriations. There are authorized to  
10 be appropriated no sums. Funds are largely obtained by federal  
11 funds matched with "in kind" volunteer services of school educators  
12 and community groups offering space or personnel as volunteers.

13 § 1136. Grants for community school service programs. (a) The  
14 commission may upon proper application, make grants to local educa-  
15 tional agencies for the establishment of new community school ser-  
16 vices programs and the expansion of existing ones.

17 (b) Grants shall be available for the training and salaries of school  
18 service directors and various kinds of specialized ombudsmen and  
19 women as well as actual and administrative and operating expenses  
20 connected with such programs.

21 § 1137. Consultation with state educational agency. In deter-  
22 mining the recipients of project grants the commission shall consult  
23 with the state educational agency to assure support of the program  
24 providing adequate experience in the operation of community school  
25 service programs.

26 § 1138. Payments. Payments under this title shall be made from  
27 the state's apportionment by any state educational agency which has  
28 been selected by the commission.

1    § 1139. *Community school promotion. In order to promote the*  
2 *adoption of community school services programs throughout the*  
3 *state, the commission shall:*

4    (1) *accumulate and disseminate pertinent information to local*  
5 *communities;*

6    (2) *appoint five teams, consisting of not more than four individuals*  
7 *on each team, to assist communities contemplating the adoption of a*  
8 *community school service program; and*

9    (3) *establish a program of permanent liaison between the commu-*  
10 *nity school district and the commission, called A.B.L.E. for short,*  
11 *then each separate district such as A.B.L.E. for N.Y.C. (A Board of*  
12 *Learning Experiences for New York City).*

13   § 1140. *Advisory council. (a) There is hereby established in the*  
14 *office of the commissioner a community schools services advisory*  
15 *council to be composed of seven members appointed by the governor*  
16 *for terms of two years.*

17   (b) *The council shall select its own chairman and vice chairman*  
18 *and shall meet at the call of the chairman, but not less than four times*  
19 *a year. Members shall be appointed for two year terms, except that of*  
20 *the members first appointed four shall be appointed for a term of two*  
21 *years as designated at the time of appointment. Any member*  
22 *appointed to fill a vacancy occurring prior to the expiration of the*  
23 *term for which his predecessor was appointed shall serve only for the*  
24 *remainder of such term. The advisory council is, yearly, to select from*  
25 *school superintendents throughout the state, a commission of twenty*  
26 *from school systems of varying sizes, to be called the commission.*

1    *Using only federal funds, which will be sought for these specific*  
2    *purposes, all monies are to be divided by the commission in consulta-*  
3    *tion and cooperation with state educational agencies.*

4    *A proportion of all federal education money should, from this act,*  
5    *be allocated to develop the community schools services programs,*  
6    *including the training of community school services directors, and all*  
7    *kinds of different specific ombudsmen and women services for which*  
8    *public and university credit is to be allotted, by the cooperating insti-*  
9    *tutions.*

10   *Special emphasis should be placed on environmental action units,*  
11   *and on the environmental art ombudsman programs which use school*  
12   *credit to recycle waste materials into art or modular construction*  
13   *units.*

14    § 2. This act shall take effect one year from the date when it shall  
15    have become a law.

**JEREMIAH B. BLOOM'S SENATE REPORT—FEBRUARY 7, 1972**

**A REPORT OF LEGISLATIVE DEVELOPMENTS IN ALBANY FOR FAMILIES IN THE 17TH  
SENATORIAL DISTRICT FROM SENATOR JEREMIAH B. BLOOM**

**Senate Resolution 84. BLOOM, LAVERNE—Whereas, Publicly operated schools at all levels are experiencing student, faculty, and community unrest; and**

**Whereas, Many of these schools are in a state of turmoil, bordering on potential structural breakdown of our formal educational system; and**

**Whereas, There is still a serious bottleneck in communication networks between student, faculty, administration, and community; and**

**Whereas, All educational policy makers do not yet have complete or even adequate access to innovation information nor have proper communication channels have designed for overcoming this serious lack; and**

**Whereas, The teachers are being unjustly abused without adequate machinery for redress; and**

**Whereas, The above is equally applicable in the case of abuse of students or administrators; and**

**Whereas, Modern innovative changes needed in the schools are still not being implemented rapidly enough; and**

**Whereas, All the technological resources in the community are still not being adequately tapped; and**

**Whereas, The increasing proliferation of modern bureaucratic agencies in this computerized age, even under Decentralization, has caused many individuals to feel alienated from the system; and**

**Whereas, Students, teachers, and parents frequently feel that their voices are unheeded in the decision-making process which causes them to feel alienated, hopeless, or rebellious; and**

**Whereas, Power abuse is a frequent cause for complaint in a bureaucratic structure and increases discontent and slows down needed innovation; and**

**Whereas, The White House Conferences on Youth and also on Aging have recently gone on record as seeking many new kinds of Ombudsmen services for all types of problems for children and youth, and senior citizens, as national policy and top priority; and**

**Whereas, High schools, colleges, City and County Education Ombudsmen have, already been in existence and demonstrated their success for four years through all the states of the nation, including New York; and**

**Whereas, New York City has just established an Ombudswoman for an Action Center for its schools, using 30 volunteers; and**

**Whereas, It seems necessary to design new channels of dialogue and communication in a participatory democracy in order to get better education and improve quality by overcoming the problem of overcostly obsolescence now demonstrable in many of our school systems; and**

**Whereas, Ombudsmen and women can easily be trained not to just service complaints but also to prevent complaints by simple one-day training institutes in communication media and technologies; and**

**Whereas, A new type of simple education ombudsman training can improve communication for changes needed, with credit given in high schools and/or colleges for such services; and now, therefore, be it**

**Resolved (if the Assembly concur), That it is the sense of the people of the State of New York as manifested by the considered judgment of their duly elected representatives in the Senate and the Assembly that the Department of Education take such action as may be necessary to encourage school districts to establish the office of education ombudsman and to provide consultative and other services to school districts establishing such offices; and be it further**

**Resolved (if the Assembly concur), That copies of this resolution be immediately transmitted to the Commissioner of Education.**

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**STATEMENT OF RICHARD SCHIFTER IN SUPPORT OF AMENDMENT  
No. 1357 TO H.R. 14370**

This statement is submitted on behalf of the Navajo Nation, the Oglala Sioux Tribe of South Dakota, the Pueblo of Cochiti and the Pueblo of Laguna, both of New Mexico, the Seneca Tribe of New York, the Nez Perce Tribe of Idaho, the San Carlos Apache Tribe, the Hualapai Tribe, the Salt River Pima Maricopa Indian Community, all of Arizona, the Metlakalta Indian Community of Alaska, and the Mississippi Band of Choctaw Indians.

Ever since 1934, the year of the enactment of the Indian Reorganization Act, Congress has been committed to a policy of supporting and strengthening Indian tribal governments. In recent years this policy has been reflected in numerous laws which recognize Indian tribes as eligible for the same kind of Federal assistance as is received by other units of State and local government. Yet, every once in a while, as a legislative proposal for assistance to States and local units of government is developed, Indian tribal governments are left out by inadvertence. That is exactly what appears to have happened in the case of H.R. 14370.

Indian tribal governments render substantial governmental services to close to half a million Reservation Indians. These services often take the place of services otherwise rendered by States or units of local government. In rendering these services, the tribes are assisted by the Bureau of Indian Affairs, but there is no doubt that the Congressional policy of Indian self-government would be greatly strengthened if Federal assistance could be extended in a manner which would not tie it in with BIA paternalism. Revenue sharing may indeed be an excellent opportunity for Indian tribes to find a golden middle way between the twin evils of paternalism and termination.

As I have already indicated, Indian Tribes now receive some assistance from the Bureau of Indian Affairs and other Federal agencies. Yet, the bulk of their expenditures is financed out of their own resources. Some tribes actually levy taxes. Most of them, however, finance their governmental services out of the income derived from tribal assets. As a member of an Indian tribe is, in effect, a shareholder in the economic enterprises of the tribe and would be entitled to his *per capita* share of the tribal income if it were distributed in full, any portion which is diverted to public service is, in effect, a tax on him. The use of tribal income to finance governmental services is, therefore, a very substantial local tax effort.

I am sure that every member of this Committee, whether or not he comes from a State with a substantial Indian population, is well aware of the fact that Indians are among the most poverty-stricken people in our country, that their need for assistance is great. Through revenue-sharing it will be possible for their own governmental institutions to be strengthened, so that these local institutions can play an increasingly effective role in improving Indian living conditions.

Once the basic decision has been made that it would be fair to let Indian tribes participate in revenue sharing on the same basis as States and units of local government, the question arises as to how this should best be done. After trying a number of different approaches, I submit to you that the legislatively and administratively simplest approach would be to set up a special fund for division among Indian tribes, the size of the fund reflecting the percentage of United States residents who are Indian living on Indian reservations. That figure is the one incorporated in the Metcalf amendment. It would result in an amount being set aside which would be meaningful for Indian tribes but would have only an insignificant effect on the allocations to the States and units of local government.

On behalf of the Indian tribes which I represent I want to express my thanks to you for your consideration of this proposal.

ATLANTA, GA., July 27, 1972.

Mr. TOM VAIL,  
Chief Counsel, Senate Committee on Finance,  
New Senate Office Building,  
Washington, D.C.

DEAR MR. VAIL: The following is a statement concerning revenue sharing and Federal collection of State income taxes.

#### A. REVENUE SHARING

1. Governments most in need of added revenue are those of the cities; however, in many cases the proliferation of separate local governments makes city government inefficient. Revenue sharing with cities will tend to exacerbate this condition.

2. State governments are not now in difficult financial circumstances. In my own State, the revenue is adequate, even though there is constant agitation for increased taxes. The State annual budget has increased at an alarming rate

over the past decade, and there is at least superficial evidence that the departments are overmanned and inefficient. The State does not in any large measure share revenue with the cities, although it could.

3. Conclusion: No revenue sharing on an unrestricted basis is advisable. Certain dedicated funds, such as for water quality control, may be committed on a "do it or else" basis.

#### B. FEDERAL COLLECTION OF STATE INCOME TAXES

1. Federal collection of Federal taxes seems much more efficient than State collection of State taxes, at the present time.

2. Many States use taxable income bases virtually identical to those of Federal.

3. Federal collection would be of direct benefit to States if the large bureaucracy now involved in State collection were conformably reduced.

4. Federal collection would be of benefit to taxpayers, by ending the extra paper work and harassment of separate State collection.

5. Conclusion: Federal collection would be good, provided proper restrictions were placed to make such collection as efficient and inexpensive as possible.

Yours very truly,

EDWIN T. ALSAKER (C.P.A.).

#### STATEMENT BY WILKINSON, CRAGUN & BARKER FOR SEVERAL INDIAN TRIBES ON H.R. 14370

This statement is submitted on behalf of Wilkinson, Cragun & Barker, a law firm in Washington, D.C., which is general counsel to the Arapahoe Indian Tribe of the Wind River Reservation in Wyoming, the Three Affiliated Tribes of the Fort Berthold Reservation in North Dakota, The Confederated Salish and Kootenai Tribes of the Flathead Reservation, Montana, and the Quinault Tribe of the State of Washington. It also is special counsel to the Hoopa Tribe of California and serves as counsel on some problems for the National Congress of American Indians, the only all-Indian organization in the United States. Our purpose is to raise questions with respect to treatment of Indian tribes under H.R. 14370.

H.R. 14370 deals with allocations to states, county governments, municipalities, and townships. Generally speaking, Indian reservations are "federal islands" located geographically within the confines of one or more counties in the states in which they are located.<sup>1</sup> Indian tribes have long been considered as sovereign powers, distinct from other governmental organizations on many grounds;<sup>2</sup> and have been declared to be "distinct, independent, political communities," qualified to exercise powers of self-government.<sup>3</sup> On the other hand, the extent of state power over Indian affairs is very limited. See Cohen, *Handbook of Federal Indian Law*, pages 116-118. This is why an Indian reservation usually is not merged in the governmental functions of a county or state. The state has no jurisdiction to enforce its criminal laws over Indians on the Indian reservations; this is left to federal courts or courts of Indian offenses or tribal courts. Likewise, the public business of the tribe is transacted by its officials, not by the officials of the county within which it is located.

Most Indian reservations have need for participation in revenue sharing for at least the following activities:

1. Public safety, including law enforcement. The responsibility for financing jurisdiction to enforce its criminal laws over Indians on the Indian reservations; but some tribes pay substantial portions or the entire cost of law enforcement. It would seem that Indian tribes should benefit from revenue sharing in this field if local governments are to share.

2. Sanitation is a significant problem on most Indian reservations. Some work has been done by the Indian Health Service of the Department of Health, Education and Welfare, but it is inadequate. Sewage disposal and pollution abatement are related to this. Again, it seems only fair that Indian reservations share in revenue made available by the federal government if local governments near and surrounding Indian reservations are to share.

<sup>1</sup> When termination of the Menominee Tribe in Wisconsin was effectuated, the state legislature created a new county encompassing only the Menominee Reservation, although it had been located within the exterior boundaries of two existing counties theretofore.

<sup>2</sup> See Cohen, *Handbook of Federal Indian Law*, 1942, pp. 273, 277.

<sup>3</sup> *Worcester v. Georgia*, 31 U.S. (6 Pet.) 515, 559 (1832). See Cohen, pp. 122-149.

3. Public transportation requirements on an Indian reservation are probably unlike the needs which are apparent for urban areas. Nevertheless, Indian reservations, probably more than other areas within the United States, suffer from subpar road systems. Well-traveled federal or state roads frequently are maintained by those instrumentalities, but the Department of the Interior and the Indian tribes themselves are responsible for construction and maintenance of other roads within Indian reservations. Totally inadequate amounts have been available for these purposes. Efforts are now being made to rectify this, but it is submitted that some of the proceeds of revenue sharing should go to improvement of roads on Indian reservations as well as improvement of forms of public transportation in municipalities near Indian reservations.

H.R. 14370 would provide for allocation of funds to the states and the counties but it is doubtful that any of the amount allocated to the state or the county would reach the Indian reservation except in a possibly indirect way, such as construction of a county road through a reservation (a rare occurrence).

In order that Indian tribes, who are similar to municipalities, may receive the benefits such as embodied in H.R. 14370, an amendment to that bill seems required. Perhaps the best way is to provide some special provision such as that provided in subtitle C, Section 141(c) for the District of Columbia. The District of Columbia is treated as a state for some purposes, and as a local government for others. We are informed that the latest estimates of the Bureau of Indian Affairs for the American Indian population in the United States are approximately 488,000. This would seem to be the most reliable figure upon which to base some allocation. One amendment suggested is that of adding a new subsection (d) to Section 141 to read somewhat as follows:

(d) *Indian tribes*.—(1) For purposes of this act, Indian tribes which perform some governmental functions described in subtitle A, Section 102(a) of this act, shall receive allocations determined by the Secretary on the basis of Indian population as determined by the Secretary of the Interior, and the Secretary shall prescribe regulations for the division of such funds among the tribes.

We are among the first to admit that there are difficulties involved in coordinating this plan with the over-all plan of sharing with states and local governments. However, American Indians are citizens of the United States, are entitled to the same treatment as other citizens, their governments are similar to municipalities, and the United States would again be guilty of ignoring the needs of this significant minority if it is not included within the revenue sharing plan.

We ask that the Committee consider and find a fair answer to this dilemma.

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#### STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION

We appreciate the opportunity to present the views of the American Farm Bureau Federation with respect to the State and Local Fiscal Assistance Act of 1972 (H.R. 14370), commonly known as general revenue sharing.

Farm Bureau is the nation's largest general farm organization with a voluntary paid membership of more than 2 million member families in 49 states and Puerto Rico. Through the official policies adopted by their voting delegates at our most recent annual meeting, these members have expressed their ideas on revenue sharing, bloc grants and tax credits, as well as general taxation and appropriations.

First, let us say that Farm Bureau opposes "general" revenue sharing. This is not because we do not believe there is need for a change in the federal versus state and local balance in revenue collection and expenditure, but because we believe there is a more satisfactory alternative—namely, tax credits. We shall turn now to what we view to be some of the weaknesses of "general" revenue sharing. Later we will elaborate on the basis for our support of the tax credit concept.

#### WEAKNESSES OF "GENERAL" REVENUE SHARING

In the first place, we must ask "what revenue is to be shared?" At a time when the federal government is talking of sharing federal revenues with state and local governments, it is noteworthy that the federal government does not have enough tax-generated revenues to support itself. A 1971 deficit of \$23 billion has been followed by a 1972 deficit estimated to be in excess of \$20 billion, and the 1973 estimated deficit is in the \$25 to \$35 billion range.

We must conclude that the Federal government is not proposing to share its revenues with state and local governments, but its ability to borrow—its ability to go further into debt.

At our most recent annual meeting, held last December in Chicago, Illinois, the official voting delegates of the member State Farm Bureaus said in part:

"Inflation is a serious threat to economic stability. Excessive federal government spending is the basic cause of our current problem of inflation. Deficit spending by the federal government and policies which expand the supply of money and credit faster than production clearly lead to inflation. Both Congress and the Executive Branch of government must face up to this fact and bring expenditures into balance with income at tax rates which are not oppressive."

This policy statement—and the present federal fiscal situation—is enough reason for Farm Bureau to oppose "general" revenue sharing of the \$5.3 billion magnitude proposed.

#### WHO IS RESPONSIBLE?

Another very important issue is raised when one looks at the basic philosophy of "general" revenue sharing. With one level of government raising the taxes and another making the expenditures, who is going to be responsible? We believe this is a very serious fault in the plan.

We do not subscribe to the statements that one level of government has certain inherent wisdom for spending money more wisely than another. We do believe, however, that the government closest to the people is generally most responsive to the wishes of its individual constituency. It is because of this that local government is often harshly criticized for its funding decisions when it must choose between segments of its constituency while working with limited resources.

This brings us to the questions: Would state and local officials exercise the needed restraint on expenditures when they didn't have to raise the revenues? Wouldn't the expenditure disciplines related to imposition of taxes be lost to a large degree? We believe they would, and we oppose "general" revenue sharing for this reason, also.

#### TAX CREDITS AS THE ALTERNATIVE

As far back as 1966 Farm Bureau members were discussing the problem before us today. Beginning with our annual meeting in December, 1966, our official voting delegates called for the granting of credits to individuals and corporations against their federal income tax liabilities equal to a portion of the amount of state and local sales and income taxes paid.

Farm Bureau has drafted a bill to carry out this policy. It has been introduced in the House of Representatives as H.R. 618.

H.R. 618 proposes a 40 percent credit. That is, for each \$100 of state and local income and sales taxes paid by an individual or corporation, a \$40 federal income tax credit would be granted.

Some may contend that 40 percent is too high or that credits for sales taxes should not be granted. We will not attempt to spell out in detail our rationale in this regard. We only want to present to you the tax credit concept as a preferable alternative to "general" revenue sharing.

Farm Bureau policy envisions moving appropriate functions now being carried out by the federal government back to state and local governments at the time such "credits" are adopted. This would clearly signal the need for state and local action to accept both administrative and financial responsibilities. This is where we come to the crux of the issue between tax credits and "general" revenue sharing.

Since the credit would be granted to the individual taxpayer, it would require action by state and local officials to increase state and local taxes to fund program levels suited to each local situation. There would not be a division of responsibility for collection and expenditure. Also, tax credits are a simpler approach. If the objective, as the "general" revenue sharing proposal before you indicates, is to enable state and local governments to function more effectively by strengthening their finances, what is the need to send the money to Washington in the first place? Why not adopt the "credit concept," leave the money in the hands of taxpayers and then let state and local governments decide how much of it they need on a community-by-community and a state-by-state basis?

Our members have answered these questions—and that is why we are here today supporting the tax credit concept as an alternative to "general" revenue sharing.

## FISCAL IMPACT OF TAX CREDITS

Tax credits would have the same fiscal weaknesses of "general" revenue sharing if it were not for the feature of Farm Bureau's proposal which moves program financing responsibilities to state and local governments. Under Farm Bureau's proposal, tax credits would be a means of reducing federal involvement in programs which are carried out mainly at the state and local levels. Not unlike the idea envisioned in parts of the Administration's "special" revenue sharing proposals, Farm Bureau's proposal would link the transfer of certain federal grant-in-aid programs to full state and local control and financing to the adoption of tax credits. Gearing the level of the credit to the amount of program expenditures moved to state and local governments would avoid the adverse fiscal impact which would result from "general" revenue sharing.

## CONCLUSION

Time and time again we see evidence that American citizens are less than satisfied with what they are getting for their money when it comes to government. There are ample reasons for this feeling, as most of you know.

We believe it is this feeling on the part of the public which caused the Administration to come forth with the "general" revenue sharing proposal. We are sympathetic with the objective of this proposal. Self-government can only work if people feel that they are a part of it, and they are more apt to feel a part of that government closest to them.

Our objections relate primarily to the method of delivery of government to the people. We believe the desired end can best be met through tax credits. We urge this Committee to move from consideration of "general" revenue sharing to a serious consideration of the tax credit concept.

Thank you again for this opportunity to be heard.

## TESTIMONY OF WEBNER Z. HIRSCH

The Federal government can justify providing funds to state and local governments for various reasons. I suppose that in the past the Federal government subsidized state and local governments mainly because it decided that certain social objectives should be attained and because it was desirous of equalizing service levels throughout the land by raising them in poor parts of the country. There can be other reasons, and in recent years particular emphasis has been placed on the declining fiscal health of our central cities as well as in general, the limited ability of local governments to raise funds because of their inelastic tax base.

I would like to mention that even if we decided that the fiscal health of central cities is so poor that they deserve Federal support, it does not necessarily follow that this support from the Federal government has to come to the local government. Instead, the economic activities in the core city could be raised so that its residents and business could be in a better position to contribute to the financing of local governments. The major reason for the fiscal plight of central cities appears to be that they are the home of large numbers of the poor. Today, our core cities are havens for our poor. Thus, the reasons for the fiscal pressures on core cities are more people-oriented than property- or location-oriented. For these reasons, funding of such people-oriented services as welfare, health, and education can be made more the responsibility of the Federal government—and, in the case of education, of the state government as well. Such a proposal has much merit and there are indications that your Committee, and the Congress in general and some states are moving in this general direction.

Why, then, revenue sharing? I suppose one reason would be that there are still certain other needs that cannot be taken care of through further assumption of financial responsibility for health, education, and welfare by the Federal government. But is the program proposed in HR 14370 the best program?—or at least a good program?

To attempt to answer this question we must examine the issue of which level of government should be aided, how, and how much. Such an examination must also pay attention to whether or not a new aid program, superimposed on very complex existing ones, further complicates our tax system and government expenditure patterns.

Turning to the method by which RH 14370 intends to disperse funds, we would like to make the following observations, quite a few of which are in the nature of reservations:

The proposed Bill appears to be only in a very limited sense a "revenue sharing" program. Instead, it appears to be providing (a) block grants to states, (b) earmarked grants to local governments for relatively broad program categories, and (c) no automatic sharing device insofar as the growing Federal tax base is concerned.

We are puzzled to know what possible philosophy underlies the decision to provide states with one-third of the Federal funds. Unlike local governments, which because of state laws and for other reasons are usually unable to rely on a highly elastic income tax base, and therefore have faced fiscal difficulties beyond their control, state governments have no such excuses. There is little reason why state governments could not more fully tap the income elastic income tax base, as does the Federal government, except perhaps for reasons of political expediency and lack of courage. The relatively modest incentive in the apportionment formula is not likely to bring about changes in state tax effort. In addition, there seems no assurance of a redistribution of funds towards poorer states.

While on an overall basis, one-third of all new Federal funds would go to state governments and two-thirds to local governments, the state-local ratio in some of our most urbanized states is virtually one to one. For example, under the proposed formula the State of New York would receive almost the same amount that would go to New York's local governments. In some of our more rural states the ratio of funds is much more lopsided, as in the case of Tennessee where the state-local ratio is in excess of one to four, or in the case of South Dakota where it is about one to three. We cannot assume that states will allocate their Federal funds mainly to activities which will help financially poor central cities; thus block grants to states are not likely to serve the interests of central cities and their poor. The one-man, one-vote rule, although once believed to give the advantage to the central city, has shifted political power to the suburbs. Today, many suburbs can and very often do out-vote the central city. The suburbs can also join forces with the rural areas in many states to oppose state programs that would alleviate the plight of the central city—e.g., special services to poor minorities, low-income housing, and urban mass transportation. In short, we are wondering whether, under the proposed formula, local governments do not receive too little a share of the Federal funds, and state governments with predominantly urban populations too large a share—New York and California being outstanding examples of the latter.

Federal subsidies, like all subsidies, have distorting effects. As a matter of fact it is for this very reason that in the past Federal subsidies have been designed. Specifically, in the past Federal funds have been provided to promote specified social objectives, including equity. The block grants to states will produce distortions of resource use not controlled by the Federal government. The earmarked funds to the local governments will channel Federal resources into "high-priority" programs, many of which most likely deserve attention during the next five years. But it should be clear that under such a stimulus other local government programs not only will fail to be promoted but will lose in relative importance. Such programs include health, welfare, education, libraries, and street lighting—to mention just a few.

But additional distortions are likely. For example, counties financially responsible for health and welfare—e.g., Los Angeles County, because of the distribution formula to counties—will tend to receive much more Federal monies than will a county without financial responsibilities for these services. Yet, counties cannot use funds under HR 14370 for health and welfare services, and therefore will have a disproportionately large fund of money available for the "high-priority services." Furthermore, for example, since residents of incorporated cities pay taxes for both county and city police services, they will continue to subsidize such services to people in unincorporated suburbia. The Federal "high-priority services" subsidy will further exacerbate these inequities, making the poor poorer and the rich richer.

Also, it should be noted that many local governments are most concerned about their maintenance and operating budgets, i.e., the short term. Their use of Federal funds may therefore lead to under-investment in the community's public service facilities.

Finally, we would like to point to a distortion that is a cause of additional concern. Municipal salaries have increased very rapidly in recent years. There

is evidence for example, that in recent years those cities in which the charter provides that the city pay salaries comparable to those paid in private industry have reached a situation where their own salary level by far exceeds that in private industry. The strong bargaining power of municipal unions makes certain that substantial portions of the Federal funds provided under HR 14370 will end up in the form of higher wages, without necessarily bringing about improved municipal services. For example, despite the fact that the Los Angeles City Charter provides, as do the charters of many other cities, that municipal employees be paid wages and salaries comparable to those of the private sector, the City of Los Angeles was found to be paying its clerical workers 15% more than those in private industry and 23% more than those in the Federal government. For data processors in state government the differentials were 18% and 39%, respectively.<sup>1</sup> Therefore, it would be useful to include in the bill a provision which would make it easier for local governments to use Federal revenue sharing funds in a manner that improves productivity. Therefore, just as the allocation formula includes a tax effort provision, it might also have a productivity improvement effort provision.

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[Telegram]

SAN DIEGO, CALIF., July 25, 1972.

Hon. RUSSELL B. LONG, *Chairman,*  
*Washington, D.C.*

As tax manager for a multistate operating company, I would like to suggest that the following be considered in the hearings regarding revenue sharing and Federal collection of State income taxes:

States that have mirrors of the IRC be given incentives to continue and those States that don't, be given a greater incentive to conform to the IRC. The incentive could be in the form of a greater share of revenue sharing.

U.S. FINANCIAL, *Tax Department.*

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[Telegram]

FORT WORTH, TEX., July 21, 1972.

Hon. RUSSELL LONG,  
*Washington, D.C.*

The city council of the city of Fort Worth, Tex. has unanimously adopted a resolution supporting general revenue sharing as presented in H.R. 14370 and urges its adoption at the earliest possible time.

RODGER N. LINE, *City Manager.*

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HELENA, MONT., July 27, 1972.

Hon. RUSSELL B. LONG,  
*Chairman, Committee on Finance,*  
*Senate Office Building, Washington, D.C.*

I heartily endorse H.R. 14370, the current revenue sharing legislation before your committee. It is legislation that is long overdue and badly needed, and deserves the support of all concerned citizens.

As you know, Montana is beset with economic problems such as high unemployment, lack of job opportunities, and lack of economic growth. The recent shutdown of the ABM facilities, coupled with some plant closures, has left Montana with serious economic ills. Most of our cities and counties have been pressed to their statutory limits with their mill levies and there is no place else to turn. For these reasons we desperately need assistance from the revenue sharing proposals.

The legislation, as it now stands, and if applied retroactively to January 1, 1972, would mean about \$21 million to Montana and its local governments. With the adoption of a minimum ceiling it would go a long way toward helping to create jobs and lessen the unemployment crisis.

I therefore strongly urge you and the other members of your committee to consider this most important legislation and to pass on it soon.

Sincerely,

THOMAS L. JUDGE,  
*Lieutenant Governor, State of Montana.*

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<sup>1</sup> Stephen H. Perloff, "Comparing Municipal Salaries with Industry and Federal Pay," *Monthly Labor Review*, October 1971.

SHELBY COUNTY COMMISSIONERS,  
Memphis, Tenn., July 10, 1972.

GENTLEMEN: The vital importance of a Revenue Sharing Law during mid-1972 (certainly during this Congress) cannot be overemphasized.

For your consideration, I have attached a copy of Shelby County's recent letter and the National Association of Counties Revenue Sharing Resolution forwarded to Senators Baker and Brock, as well as the National Association of Counties' Revenue Sharing Platform which was also adopted at the NACO Annual Convention on June 27, 1972.

The critical need for these revenues has been, and will be, further spelled out in specific detail before your early Committee Revenue Sharing hearings, and I respectfully urge your active support in behalf of this proposed legislation.

Thanking you in advance for your close consideration and assistance to the citizens of every county in America, I remain.

Sincerely,

JACK RAMSAY,  
Chairman, Shelby County Commission.

JUNE 30, 1972.

Hon. HOWARD H. BAKER, Jr.,  
New Senate Office Building,  
Washington, D.C.

DEAR HOWARD: Commissioner Jack Ramsay, who is presently touring New Towns, suggested the attached Resolution be forwarded to you without delay.

The Resolution was passed unanimously by the approximately 3,000 delegates in attendance at the National Association of Counties' Annual Convention in Washington on June 27, 1972.

Knowing of your keen interest regarding this subject, perhaps you will assist County Government by making your colleagues in the Senate, and especially Senator Long, aware of the vital importance of the passage of meaningful General Revenue Sharing at the very earliest opportunity in Mid-1972.

Thanking you in advance for your continuing support of local objectives, I remain,

Sincerely,

CLIFFORD L. TUCK,  
Director, Shelby County  
Development Coordination Department.

PROPOSED RESOLUTION—GENERAL REVENUE SHARING

Whereas, the states, counties, and cities throughout the United States are in desperate fiscal need and require immediate assistance from the more broadly based federal revenue system; and

Whereas, the more progressive federal individual income tax would provide relief to the more regressive property and sales taxes used at the state and local level; and

Whereas, the United States House of Representatives has recognized these facts, has acted positively on H.R. 14370, the "State and Local Fiscal Assistance Act of 1972," and has sent this General Revenue Sharing legislation to the United States Senate; and

Whereas, Senator Russell Long (D-La.), Chairman of the powerful Senate Finance Committee, indicated to county and city officials that he would expedite action on General Revenue Sharing as soon as the House acts; and

Whereas, more than 50 United States Senators have co-sponsored bipartisan legislation identical to H.R. 14370.

Now therefore be it *Resolved*, That the National Association of Counties assembled at their Annual Convention on June 27, 1972 in Washington, D.C., express its confidence and optimism that the Chairman and Members of the Senate Finance Committee will hold immediate hearings on General Revenue Sharing and will report a meaningful and comprehensive fiscal relief program to the Senate floor in the very near future; and

Be it further *Resolved*, That the National Association of Counties strongly urges every member of the United States Senate to vote "yes" on a meaningful General Revenue Sharing measure when it reaches the floor of the Senate.

## NACO PLATFORM

## TAXATION AND FINANCE—GENERAL REVENUE SHARING

In order to help solve what is a serious fiscal crisis among our states, counties, and cities, we call upon the Federal Government to enact a permanent general revenue sharing program which would provide:

1. An automatic, annual appropriation of a designated portion of the federal income tax base;
2. Distribution to the states primarily on a population basis, with some emphasis on tax effort and poverty or per capita income factors;
3. A mandatory and equitable pass-through to general purpose local governments;
4. No program or project restrictions on the use of the funds;
5. Additional support to the current efforts of many states and local governments to update their operations and incentives to improve the quality and effectiveness of their programs; and
6. States should only have the option of establishing an alternative distribution formula if county officials approve of the proposed change.

## STATEMENT OF THE FORD MOTOR COMPANY

Ford Motor Company supports the concept of "general revenue-sharing" as expressed in H.R. 14370 and urges enactment of legislation that will provide much-needed financial assistance to the states and local governments.

We are interested in this legislation as a major, federal, state and local taxpayer. Our primary interest, however, is to improve the ability of state and local governments to meet effectively the legitimate and burgeoning needs of the people they serve. Ford is especially aware of this need in states such as Michigan and Ohio and cities and metropolitan areas such as Detroit, Cleveland, Cincinnati, Newark and others where we have large numbers of employees and major economic interests.

The general revenue-sharing legislation which you are now considering can help state and local governments meet the needs of people in three important ways:

By providing additional money to finance existing programs and services.

By providing funds for new programs and better service.

By providing strong financial incentives to encourage governmental reorganization and tax reform.

The financial problems of state and local government are serious and improvements in the delivery of services to people will require significant new money from federal sources. The way the funds are provided and the conditions attached to their use may well have as much influence on the effectiveness of the expenditures as the amounts of money that are provided. For example, we have some concern that Federal revenue-sharing could have the effect of weakening state and local government if its implementation should increase their dependency on federal funds, reduce their effective control over decision-making, or side-track current modest efforts toward governmental reorganization and tax reform.

We believe that federal general revenue-sharing objectives must go beyond merely helping to pay old and new bills of state and local governmental units. Instead, we believe that a properly conceived and administered program, largely along the lines of H.R. 14370, could strengthen and revitalize these levels of government by improving their ability to meet the needs of people and encouraging them to deal with the fundamental governmental organization and taxation policy problems that are both cause and effect of their current financial plight.

Accordingly, we respectfully suggest your consideration of some modification of the legislation which is before you.

## LIMITATION OF LOCAL GOVERNMENT EXPENDITURES OF GENERAL REVENUE-SHARING RECEIPTS TO CAPITAL OUTLAY

Federal grant-in-aid programs have usually avoided subsidizing maintenance and operating expenses. We believe that this policy should be continued, because it leaves the responsibility for determining the level of expenditure in this criti-

cal and potentially "bottomless" area in the hands of those who must raise the money.

Limited federal funds are now available for some capital outlays for public safety, environmental improvement and public transportation programs. If the same programs should become eligible for federal operating and maintenance subsidies, the public would tend to regard the cost of providing service improvements beyond current levels as federal rather than local costs. This perception would make it extremely difficult for local elected officials and administrators to resist demands for unwarranted service levels and to assure efficient cost-effective operations.

H.R. 14370 would provide federal funds to subsidize operation and maintenance expenses for a selected group of municipal functions only. This would tend to compound the difficulties local governments already encounter in administering compensation policies that deal equitably with all classes of their employees.

For these reasons, we suggest that H.R. 14370 be modified to allow local governments to use their general revenue-sharing receipts for capital outlay only, but for the same high-priority categories identified in H.R. 14370—sewage treatment and collection, refuse disposal, public transportation, public safety and environmental improvement.

DEVELOPMENT OF PROVISIONS FOR FUTURE MODIFICATION OF H.R. 14370 TO  
ENCOURAGE GOVERNMENTAL REORGANIZATION AND TAX REFORM

Over the years, Ford Motor Company has participated in a wide range of state and local government issues in a variety of capacities—as a major taxpayer, as a business which is affected by legislation and governmental policy, and as a "corporate citizen" concerned with state and community affairs generally.

Our participation and observations have led us to the following conclusions:

That additional federal funds are needed now to relieve the current financial pressures on state and local governments.

That new money alone will not significantly increase the ability of state and local government to meet the needs of their constituents.

That government reorganization and tax reform are the areas which are most likely to bring long-run improvement both in the financial condition of state and local government and their effectiveness in meeting the social, economic and physical needs of people.

Almost without exception our metropolitan areas are governed by a multiplicity of agencies with overlapping geographical and functional responsibilities, financed by a patchwork of excise, income, property and privilege taxes. In most metropolitan areas, the central cities have the problems, the suburbs have the tax base, the council of governments has the plans, the counties have an identity crisis and the state has the power. Everybody has a piece of the action so no one is in charge.

H.R. 14370 deals with a significant element of these problems by encouraging greater state reliance on the income tax as a revenue source. But the critical needs of our cities and metropolitan areas will not be met adequately until there is greater coincidence of responsibility, authority and financial ability. Many of these needs are regional in nature and will require the development of governmental mechanisms which are able both to plan and implement at the regional scale. But since local governments derive both their existence and their powers from the states, most of the changes will require state legislation.

The most important long-run effect of general revenue-sharing could be to buy the time and provide the stimulus to deal with those fundamental problems. H.R. 14370 could become the vehicle for providing strong financial incentives that would encourage the states to develop and implement plans for local government reorganization, tax reform and the creation of effective regional agencies.

We recognize, however, that careful deliberation and considerable time will be required to develop legislative provisions that will help assure progress in dealing with these sensitive matters while avoiding either the appearance of reality of federal domination.

Accordingly, since the need for general revenue-sharing is immediate while the development of governmental reorganization and taxation policy provisions will require considerable time, we recommend:

That during the current session, Congress enact general revenue-sharing along the lines of H.R. 14370, incorporating the "capital outlay limitation" discussed above.

That Congress begin the deliberations necessary to develop "governmental structure and taxation policy" provisions for future incorporation into the basic legislation.

The continued success of the Ford Motor Company and all American business is dependent on the social and economic well-being of America's people and institutions. This requires governmental structures and programs at all levels that are capable of meeting both the critical needs of today and the growing needs of the future. General revenue-sharing is by no means a panacea—but we believe that, with the modifications we have suggested, it can go a long way toward enhancing the capacity and effectiveness of government.

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PUBLIC SERVICES LABORATORY,  
GEORGETOWN UNIVERSITY,  
Washington, D.C., July 17, 1972.

Senator RUSSELL B. LONG,  
Chairman, Senate Finance Committee,  
Old Senate Office Building,  
Washington, D.C.

DEAR SENATOR LONG: I am writing to you at this time because of my deep concern that H.R. 14370, a bill to give assistance to the States and local governments (on which the Senate Finance Committee is scheduled to be holding hearings beginning July 20, 1972) contains no provision for improvement over time in the carrying out of the grant allocations, or in the effectiveness of the expenditure policies of the state and community. Nor does the bill seek to safeguard the vital program aids provided to states and communities.

My testimony before the Ways and Means Committee on June 8, 1971 makes plain my support of the general concept of revenue sharing. It is my view that the national government should give aid to the states and cites on a flexible general support basis and that such general support can serve important national purposes.

My specific concerns are these:

(1) Need for an appropriation authorization for data collection, data analysis, and data processing.

The bill has no specific provision authorizing appropriations to the Department of the Treasury, the Department of Commerce, and its Bureau of the Census for the collection and processing of data needed to carry out the allocation of federal grant funds. Such appropriations would help assure objectivity and provide recurring information on a timely basis.

The bill, furthermore, makes no provision for analysis of the data for allocations or for the formulation of new data needs on fiscal capacity, relative interjurisdictional costs of public services, revenues received, and so forth, and the collection of such new data. You, I know, are fully aware of the difficulties of designing a grant-in-aid formula or formulas that would match the purposes of the bill. No one pretends that the formulas contained in the bill are perfect; few would dispute the need for reexamination and reassessment of the data base on which the allocations are made in accord with the provisions of Title I. Yet the bill does not provide for reexamination, nor authorize appropriations for the purpose.

(2) Evaluation should be required together with recommendations to the Congress and the President on new approaches and options where amendments are indicated.

The bill—Section 105(c)(2)—does not require an objective evaluation of the grant assistance in the period ahead that would relate performance to purpose. In the light of the discussions that have taken place over many years now of revenue sharing—its purposes and limitations—it seems important to build into the authorizing legislation a more specific requirement for evaluation in terms of purpose (perhaps by the Bureau of the Census, General Accounting Office, or some other agency not directly involved in the granting processes). Such an evaluation should be specified so that the base line of current practices may be identified as early as possible, and the changes anticipated be recorded so that the actual performance may be tested against the current situation. Further the evaluation should include an identification of options for subsequent analysis. The agency responsible should be charged with outlining options for Congressional consideration within a period of not more than three years after the bill's enactment.

(3) Limitation on general support grant amount linked to the total amount of categorical aids.

While the appropriation authorizations under Section 104 and Section 123 of H.R. 14370 restrict the amounts of general support grants to local governments and to states, I should like to urge that in addition Congress adopt a limitation on the national total of general support aid as a sum not to exceed, for example, 25 percent of the total of categorical grant-in-aid to all states and communities combined. Grants-in-aid for that purpose would be grants as defined under the Intergovernmental Cooperation Act of October 16, 1968. A limiting provision of this kind would help to underscore the Congress's intent that general state and local fiscal assistance and categorical program grants-in-aid be continued as complementary to one another, and that general assistance not be substituted for categorical aid.

(4) *A set aside of 1 percent of the general revenue shares to each State and community for planning, program policy analysis, and evaluation.*

The specific provisions outlined in the paragraphs above would gain the reconsideration required for later amendment incorporating improved allocation formulas and other changes.

It has become axiomatic that state and community planning are essential complements to general revenue sharing. Yet the bill makes no provision for such planning assistance. The problem and one approach to a solution are outlined in the attached reprint of a statement prepared for the Joint Economic Committee at its request in 1971.

I hesitate at this late hour in the session to do more than urge on the Committee the writing of minor provisions into the bill to help assure its evaluation and improved operations over time. Along with other grant-in-aid experts there are changes that, I think, would help to direct the funds more nearly to communities that are in greatest fiscal distress. For example, and adjustment for differences in prices of public services in the various regions of the United States would reallocate the funds more nearly in accord with need.

I hope that these comments are useful to you in your Committee deliberations on H.R. 14370.

Sincerely,

SELMA J. MUSHKIN, *Director.*

Attachment.

## DECENTRALIZED DECISIONMAKING OF NEW FISCAL FEDERALISM

By SELMA J. MUSHKIN, *Director, Public Services Laboratory, Georgetown University, Washington, D.C.*

The following note is a response to the request from the Joint Economic Committee. The note is directed toward very briefly (a) describing the current concern with decentralization of government, (b) defining the problems ahead for which additional legislative solutions are indicated, and (c) outlining approaches to solutions of those problems. It is not intended to be a comprehensive statement.

### A. CURRENT EMPHASIS ON DECENTRALIZATION

The patterns of proposals by the administration for decentralized decisionmaking within a new fiscal federalism are only now emerging. It now appears that some \$12 billion of Federal grants-in-aid would go to States and local governments basically as unfettered funds to be used in accord with the priorities within the State and local governments. (The \$12 billion total includes general revenue sharing and special revenue sharing other than educational shares and the mass transit set-aside of the special transportation grant.) A new revolution in intergovernmental fiscal relations is in fact being urged—it is a revolution in which the national tax system would be used to finance State, city, and county services but without direction, essentially, from the National Government on how those funds would be spent (except in the broadest of outlines). The grant-in-aid from the National Government, instead of being a stimulus to encourage a particular program by reduced State and local tax cost, becomes a way to tap Federal tax resources on behalf of State and local programs. The raising of taxes is separated from the expenditure of funds, and the expenditure, in turn, is freed from restrictive conditions that could alter State and local program decisions.

The freeing up of uses of Federal funds, together with the removal of matching and conditional requirements, responds to failures of splintered Federal categorical grants-in-aid to function in delivering public services. It is a response as well to the added costs and delays of project grants.

Up to a very few years ago, inaction of States and communities was the subject of much concern. The issue of whether States and communities could provide sorely needed public services was regarded as very much open to question. State disabilities were enumerated as multiple ones—shameful in their resulting neglect of special groups such as the mentally ill and those confined to correctional institutions, and grossly inadequate in their attacks on basic problems of the environment and poverty. Among the worst of the influences at work was the malapportionment of representation in State government, but other

characteristics were no less handicapping. Constitutional restrictions on taxing, spending, and borrowing power have impaired the flexibility required by State and local government to accommodate altered circumstances. And divisive policies of independent commissions and boards and multiple agencies in many instances have kept both State executives and State legislative bodies weak. As a result, a great deal of controversy in the past has centered on the ways to deliver programs to people despite State inaction through, for example, direct national dealings with cities and with nonprofit institutions such as colleges and universities, or through nationally administered programs such as the national social insurance programs. Additional Federal incentives to the States also were applied in moving away from 50-50 matching to substantially higher matching. Weaknesses of the States contributed to such counteractions designed to overcome State government inaction or restricted response to vital public problems. In part to counter State weakness, a shift from the State to the National Government took place, with the Nation acting as a provider of public services or agent of the public in gaining the necessary production of services.

The Nation's actions or counteractions to respond to public service needs reached their peak of activity in the Great Society days. Within a brief span of months, many new Federal aids were adopted, often small in amount, overlapping in purpose, and heavily dependent upon Federal guidelines and review. In 1967, Charles Schultze, then Director of the Bureau of the Budget, in testifying before the Senate Subcommittee on Intergovernmental Relations explained the choices that were faced in responding to demands for national action:

We could have sat on our hands and played it safe. There would certainly be fewer complaints. There would, also, however, be an even worse gap—that between mounting social costs and responsible policy initiatives. In closing one gap, we opened another, but it is the one we prefer. I dislike to see evidence of faulty coordination, spinning wheels, frustrating delays, failures of communication, and all the other dross that comprises the symptoms of uneven administration and program execution. At the same time, it would be surprising if everything clicked smoothly in the wake of such an immensely productive period of legislation.

Nowadays the pendulum has swung and not unexpectedly. The mood is one of decentralization. And that mood is heightened by the elevation to the level of public discussion of the revenue sharing proposal with its emphasis on untied, unconditional Federal grants-in-aid to the States. The Nixon administration's advocacy of revenue sharing has turned on the "cardinal question" of the relationship between the States and the Central Government. "I propose," President Nixon wrote to the Congress in 1971, "that we give our States and our cities, our towns, and our counties the tools—so that they can get on with the job."<sup>1</sup>

Decentralization of decision making, of course, if it is to work in delivery of public services of the kind and in the amount and quality sought by the people, needs to have a complete kit of "tools" for the task. Federal revenue sharing, that is the Federal subvention, has proved over many decades to be an important tool for providing Federal tax support in carrying out program objectives. Is, however, the

<sup>1</sup> *Presidential message, "General Revenue Sharing."* Transmitted to the Congress by Richard Nixon, Feb. 4, 1971.

national interest met simply by providing states with Federal tax funds? In the past the answer has been "no"—more Federal taxes require stouter program strings to get the most Federal Government leverage for the Federal tax dollar. The current advocacy of revenue sharing answers this question with a "yes—in part." And the intent about "the part" is poorly defined.

President Nixon in his 1971 message to the Congress noted that the central purpose of revenue sharing is that it combines the advantages of Federal taxation with the advantages of State and local decision making:

... revenue sharing will not shield State and local officials from taxpayer pressures. It will work in just the opposite direction. Under revenue sharing, it will be harder for State and local officials to excuse their errors by pointing to empty treasuries or by blaming Federal bureaucrats for misdirected spending. Only leaders who have the responsibility to decide and the means to implement their decisions can really be held accountable when they fail.<sup>3</sup>

Decentralization to the States in being urged and encouraged in the many complex ways that Presidential endorsement of a proposal yields. But the foundations of a decisionmaking process in the States and communities have not changed markedly; it may be expected that those foundations in many places are not strong enough to bear the weight of the tasks assigned. As States and community governments are structured now, there is no reason to believe that there is even a 50-50 chance between "mistakes" in use of Federal revenue shares on the one hand, and "splendid successes" on the other, as seems to be implied in the Presidential message of February 1971. The record of the past decades is testimony to scales weighted in favor of "mistakes." To improve the balance and to weight the scales toward successes requires the careful design of a new structure of supports for States and communities that can encourage improvements in State and local governance and decisionmaking.

It remains a truism that strength of the States in our Federal system essentially depends upon the internal power of the State government and State responsiveness to residents who for the most part live in congested urban places. It depends, for example, upon whether the Governor has powers of decisionmaking. And it depends upon the existence or nonexistence of a strong chief executive who has a staff sufficient in numbers and in qualifications and competence to carry out careful analysis of the problem issues before him and thus give him the working materials that he needs for informed decision. It depends also on the quality and responsiveness of the legislators to their constituency, the availability to them of staff competent to carry out required investigation and study, and on the flexibility of the specific rules for program design within which constitutional safeguards are preserved yet optional programs can be formulated and weighed with due concern for the access of the general public to their government, and for fairness. In short, decentralization requires incentives of the national Government to encourage the States and communities to strengthen themselves. Sharing of Federal tax funds alone is not likely to be sufficient. The barriers are far more complex than lack of financial resources, and thus added funding alone will not by itself reduce the barriers.

<sup>3</sup> *Presidential message, "General Revenue Sharing."* Transmitted to the Congress by Richard Nixon, Feb. 4, 1971.

## B. A PARTIAL DEFINITION OF THE PROBLEM

Steps have been taken toward building a foundation in better management processes and skills in the regions, States, and localities for untied (unconditional) grants-in-aid. Among those steps are these:

Project grant funds (e.g., "701 grants") have been provided to improve management processes in the States and communities.

Technical assistance has been given by Federal agencies to the States and communities in their program planning (e.g., Federal Technical Assistance Program).

State and local employees have participated, along with Federal employees, in training programs designed to gain improved staff qualification for analysis and evaluation of programs (e.g., Civil Service programs).

Training has been carried out for States by the U.S. Civil Service Commission at the request of the States (e.g., programs for Utah and Hawaii).

Training programs for State and local officials by universities and others such as consultant firms have been encouraged, including the preparation of personnel training materials (e.g., Title I of the Higher Education Act).

Cooperative intergovernmental programs on statistics and management information systems have been fostered (e.g., Bureau of Census cooperative population data program and HUD management information programs).

Fuller use of new technology in approaches to solution of public service problems in State and city has been actively sought (e.g., HUD, NASA, and NSF programs).

Statutory authority has been granted for public service career training that would encourage competent young persons to enter State and local employment.

The regional structure of Federal agencies has been conformed at least as to boundaries and cities of operations.

Regional offices have been given more authority to act on proposals from the States and communities within their jurisdiction.

The above listing of actions that have been taken is lengthy. Despite the length of the list, it is substantially incomplete. Why then concern about Federal stimulus for actions that would provide a firm foundation for decentralization? Why concern about the future support for the build-up of management capability in States and localities when the vital link between management and funding is so clearly recognized as essential to fulfilling the promise of decentralization?

In reply to these questions, it must be said first that there is no evidence of a firm commitment to counterpart measures that could give reality to the concepts of decentralization. The President's message to the Congress of February 4, 1971, on revenue sharing, for example, mentions none of the counterpart steps needed or even the partial steps that have been taken. It concerns itself with advocacy of new sources of revenue of State and local governments as the means for strengthening those governments. As part of the proposals for a special revenue grant, an appropriation of \$100 million a year is recommended to improve planning capability in State and community for urban and for rural development. That recommendation was made later,

and appears to be in the process of elaboration as the additional revenue sharing proposals are advanced.

Many decisions on basic questions still remain unresolved. What range of planning is to be encouraged? What means are to be used to safeguard the sovereignty of the state while encouraging staff support to the office of its chief executive? What companion supporting funds can be made available to state and local legislative bodies to finance required analytical staff work and post audits on the basis of program results without basic intrusion on federalism? How is the central executive staff support work on program planning to be related to the program analysis and evaluation of the several state or local functional agencies? For example, the concept of functional area planning is endorsed by the proposals for special revenue shares for manpower, law enforcement, and transportation. How would the federal agency administering a new planning grant coordinate its requirements and review processes with those of other federal agencies having intergovernmental responsibilities? What would be the administrative ties in any new planning grant for central staff work on behalf of the chief executive to: (a) functional state agency planning? (b) Federal technical assistance efforts? (c) Federal efforts to achieve improved State and local personnel training or management analysis? (d) statistical assistance and intergovernmental cooperation in statistics gathering, statistics use, and use of administrative information such as tax collection data, etc? (e) research of experimental program design and conduct of research on public service problems (Federal, State, university)? (f) technology transfers and science offices in the State governments? and (g) governmental research and evaluation institutes (Federal, State, local, or nonprofit)?

Second—and a concomitant perhaps of the first point—is that the programs listed have been undertaken as hesitant and grossly inadequate efforts. The inadequacies in size and scope may impair the implementing of techniques required to give reality to more effective State and local government. For example, the U.S. Bureau of the Budget early in 1965-66 gave its support to an intergovernmental demonstration in 5 states, 5 counties, and 5 cities of the application of management analysis to State, city, and county. At the close of the 5-5-5 project demonstration, the U.S. Department of Housing and Urban Development provided some financial support to program analysis in the nine local governments continuing their efforts, and undertook to invite governors in selected states to formulate planning projects that would call for the introduction of integrated systems of program planning and budgeting. Beginning with responses from Tennessee and New Mexico, the then U.S. Bureau of the Budget, through its Office of Program Evaluation, took on a role of technical overview on behalf of the Department of Housing and Urban Development. In the course of a subsequent team visit to Colorado, the technical overview was extended to include planning in the City of Denver—a beginning of the first of three visits to cities including in addition to Denver, Seattle and Indianapolis, Missouri, Wisconsin, and Connecticut also were visited, but in the latter case the preplanning grant overview was converted, by prior HUD approval, into a technical assistance team process. Thus, in over two and a half years a restricted program of Federal technical assistance built on and developed out of an Office of Management and Budget (and that of its predecessor agency) interest

in strengthening the program analysis capability of State and local governments resulted in team visits to only 6 states and 3 cities. And those team visits were single visits of a week or less duration without follow-up and post-grant evaluation.

Third, the framework for relating the several techniques of improved management into a set of reinforcing modules is missing. Too little and too fragmentary characterizes each of the several components of a management analysis process. For example: A new step toward building program analysis and related skills to strengthen staff capacity to inform governors, mayors, and county executives has just recently been taken with the adoption of the Intergovernmental Personnel Act of January 5, 1971. Earlier legislative authority for development of public service career training by the universities enacted as Title IX of the Higher Education Act has remained on the statute books without appropriation. And Title I of that Act, to encourage university assistance in community services has had an uncertain financial life. The several activities were not carefully designed to produce direct program interaction and to facilitate in some orderly way the achievement of the composite result of better program analysis and evaluation in the States.

Again, the statistical programs of the national government are designed to correct the deficiencies in data series that "to often fail to focus on the crucial facts needed for effective decisionmaking." Importantly the emphasis for the immediate period ahead is on statistics that can meet "the needs of local authorities in dealing with social and economic problems under the New Federalism."<sup>3</sup> For example, a national demonstration project was carried out by the Social and Rehabilitation Service to assist States and local areas to develop improved social welfare statistics. For the coming year, a substantial increase is proposed to construct models and carry out demonstration projects for cooperative Federal, State, and local health statistics programs. But such efforts are not related to each other. To illustrate, the important work of the U.S. Bureau of the Census in putting into practice a truly intergovernmental effort on data collection and estimation was not even mentioned in the recent special analysis made of statistics programs. Research on important national, regional, and local problems is being encouraged without the linking of that research to the statistical undertakings and to the planning grant support. The 1972 U.S. Budget, for example, calls for a stepping up of National Science Foundation appropriations to strengthen research that can help solve major intergovernmental problems such as pollution, health, transportation, and other urban, social, and environmental problems. This effort is linked to the research community and to the possible creation of special science offices in the State governments; and it seems to be unrelated to Federal governmental technical assistance efforts; intergovernmental statistics programs, or personnel training.

<sup>3</sup> *Budget of the U.S. Government: Special Analyses, Fiscal Year 1972*. "Special Analysis F: Principal Federal Statistical Programs." Washington: Government Printing Office, 1971, p. 87.

### C. APPROACHES TO SOLUTIONS

Consideration might well be given to reinforcing, enlarging, and interrelating approaches to strengthening the capacity of the State and local governments so that they may function more effectively within the new Federal fiscal structure proposed. Among the possible steps to be taken are these:

(1) The assignment by the Congress of some clear overseeing role on management of intergovernmental public programs to some executive agency. An overseeing technical role becomes essential at the national level to record the priorities in resource allocation as adopted by the States and communities and to measure those decisions and results obtained against the nation's priorities. More rational decisionmaking on the whole range of Federal domestic programs is sought now through the Domestic Council which provides a forum for considering all the various Federal activities and functions that affect the states and their subdivisions. However, further decentralization of domestic policies in the States and localities sharpens and deepens the requirement to be informed nationally about the decisions taken in the States and communities.

(2) The authorization by the Congress of offices of Federal-State-local relations in each of the major Departments concerned with intergovernmental relations. Heretofore, such offices, where established, have been a way to gain greater standardization of Federal procedures with respect to grants-in-aid, greater uniformity in program proposals put before the Congress, and to interpret to State and local governments the authority and intent of national legislation. A new range of responsibilities becomes urgent with the adoption of more flexible grant authority. Such authority requires of the agencies:

A better understanding of the actions taken by the States and communities on programs of concern to each Federal Department;

A clear recording of the objectives that are being pursued by each of the States and the communities, and the relationship of those purposes to national program purposes;

Collecting of data on tax change, and analysis of net consequences for "fairness" of taxation;

The recording of progress made in achieving program purposes, in terms of the Nation, the State, and the community;

A determining of the overall resource allocation achieved and the changes over a period, marking changes in quality and scope as well as quantity adjustments and their application;

A process of reviewing the extent of achievement of purposes of experimentation, together with a clear understanding of experimental findings;

The disseminating of program and research finding across State-local governmental boundaries.

These added functions require more surveillance of State and local activities than has been required heretofore, and makes more

urgent that surveillance particularly when there is no specific program reporting requirements that could show program achievements for which Federal dollars are committed.

Federal-State-local offices in each of the Departments, if established, would have additional responsibility for coordinating programs administered by several agencies within the Department, and also developing procedures for assuring that assistance on planning and program evaluation is extended as required to both central staff agencies of the governors, mayors, and county executives, and to the functional agencies in the States and communities.

Where appropriate, Departments, through their offices of Federal-State-local relations, might well encourage decentralized reporting, data gathering, and technical assistance efforts, with regional offices serving in this role. The basis for better coordination of Federal domestic programs has been established with the creation of uniform boundaries and office locations for each of the 10 Federal regions. Regional councils composed of regional directors of major grant-making agencies now have the primary responsibility for coordinating the various programs. However, regional offices now do not appear to have either the staff or the organization required to service on a collaborative basis central staffs of State and local governments and counterpart functional agencies.

(3) The executive branch of the national Government has recognized that organizational effectiveness does not flow automatically from structure. Basically the ability of organization depends upon the strength of the program management staff. Manpower planning, manpower training, and manpower utilization at the State and local government levels are an integral part of Federal revenue sharing proposals. The legislative authority exists; appropriations have to be adequate to carry out the Congressional intent.

(4) Moreover, timely and accurate information is required for effective policy making and program management. In the light of program problems and policy purposes, information will have to be generated that can quantify program purposes and measure accomplishments. It is proposed that in connection with any revenue sharing measures—general or special—requirements be imposed on recipient governments for “statements of intent and purposes in use of Federal funds” so that those statements may be monitored and analyzed.<sup>4</sup>

(5) State and community planning assistance needs to be enlarged. As part of a consistent effort to assist States and communities, the President recommends \$100 million of expenditures for a planning and management program. The President has essentially recommended a broadening of the authority of section 701 “because of the importance of increasing the management capacity, the decision-making capacity of State and local governments and areawide agencies.”

Neither the form nor the amount is adequate to the task of encouraging program planning and analysis, and the content as elaborated in the President’s message to the Congress of March 10

<sup>4</sup> It is important that these not be termed “plans” in order to avoid some of the confusion that already surrounds the word “planning.”

on Rural America in Transition has more the aspects of land planning than of program planning, management analysis, and evaluation. The administration's proposal appears to call for a state-wide development plan which is based on a consultative process that considers plans submitted by multijurisdictional planning districts covering all areas of the State. These multijurisdictional planning districts established by the State would be required to be composed of local elected officials. In the consultative process required of title II of the urban community development proposal, the governor would have the assistance of one member from each of the district planning bodies. The product would be a plan that would seek to integrate all important community development factors, including land use, and could identify (a) potential growth areas, (b) potential new community development sites, and (c) environmentally important areas.

In view of the special focus of the planning provision of the planning and management assistance program proposed by the President, it seems desirable to suggest consideration of an additional program analysis and evaluation grant. This grant would go to States and local governments participating in revenue sharing under formula rather than as a project grant. It would be in an amount equal perhaps to 5 percent of the general revenue sharing, but would be specially appropriated by the Congress out of other funds for this purpose and would be distributed in accord with the general grant formula. Of the amount so provided, perhaps as much as 25 percent of the total might be required to be used for evaluation purposes and generation of program options suggested by the evaluation findings.

The general purpose planning grant proposed might have the characteristics shown in Attachment A as to purposes, fund use, activities to be assisted, and authorities of the Federal administrative agency.

(6) Technical assistance by the national agencies needs to be made truly interagency, well designed, and be enlarged as a collaborative Federal technical assistance effort. In recognition of the central role of the State and community in providing services to the people, technical assistance on the one hand has to concentrate on helping State and local governments gain an enhanced measure of capability in management analysis and evaluation and a sensitive response to the objectives of the job at hand. On the other, a considerable body of new types of data and materials is needed in order that the national Government understand what is ongoing in the States and localities so that it may evaluate those activities and programs and help to disseminate findings that would be generally of concern and interest to many States and communities and to the Congress. A strategy for technical assistance necessarily must be developed.

Technical assistance by a national agency in a Federal system that gives full recognition to State sovereignty has at no time been an easy concept to carry out; when Federal strings on funds are absent and Federal purposes remain to be served, the execution becomes even more difficult. Questions remain as to whether technical assistance in a Federal system is best carried out directly by the national Government, or by intermediaries such as research in-

stitutes. The pros and cons of the several methods need far more attention than has been given to the problem heretofore.

(7) The Joint Economic Committee of the Congress and the Committee concerned with intergovernmental relations may wish to consider the development of a joint staff to monitor the activities and resource allocation decisions involving federal tax funds in the states and communities. Not only will the Congress look to that staff to assess and review formulas developed for the distribution of funds among governments under general revenue sharing and other grant-in-aid provisions, but also assessment of program results in terms of people and services. Measurements will be required to gain accountability for performance of urban development, rural development, education, transportation services, manpower development, and law enforcement programs. Moreover, none of the special revenue sharing proposals as now drafted, with the exception of the special manpower revenue sharing, makes adequate provision for data collection required to test out and propose revisions as necessary in the yardsticks used for formula allocations. Especially urgent in this regard is the need for data that can improve the factual base on income of all the residents of each of the jurisdictions eligible for support and the extent of the low incomes prevailing in each of those jurisdictions. A planned use of Federal internal revenue income data should be explored. At present, existing statistics are not adequate to the task of measurement of need, price differences, and income resources among governments.

These and other approaches to solutions necessarily are considered against a background of growth in State and local government. Within a brief period of 5 years or so States and communities may well be spending \$200 billion to provide services for their residents. It is not unlikely that within these years the National Government's commitment of tax resources to those expenditures may reach \$60 billion. And in addition, the National Government may well have taken on a far larger responsibility for income maintenance and medical assistance, thus relieving States and communities of at least part of the financial burdens of those public protections.

If the experiment of relaxing Federal strings is to have a trial, the shortcomings of State and local capacity for program policy formulation and management cannot be swept under the rug. Rather, there needs to be a forthright effort to help States and communities in their analysis and evaluation work so that they may carry out their public responsibility for responsive production of services.

The steps that need to be taken are not unfamiliar; small beginnings have been made on many approaches to assistance by the National Government. The difficulties in the past have been the lack of commitment to strong supports for State and community management program decision and monitoring of results. Hesitant, faltering, uncoordinated efforts and directions have been compounded by the pulling and hauling of the many Federal agencies, each of whom has in fact an important role to perform but not in isolation.

Perhaps least developed is the role of the Congress and the congressional committees in a federalism that leaves wide discretion to the States and communities. Program analysis as a part of legislative

formulation and evaluation that is fed into program design for congressional consideration are vital components of required action.  
(Attachment A follows:)

**ATTACHMENT A.—ILLUSTRATIVE SPECIFICATIONS FOR A GENERAL-PURPOSE  
PLANNING GRANT**

**I. Purpose.**—To strengthen planning capabilities in State and local governments by assisting States, cities, and counties to improve planning processes and functions within their agencies and instrumentalities: by increasing the ability of States to assist smaller units of general local government within their borders to carry on such planning functions and to establish and maintain appropriate staff units for such purposes; and by supporting training programs to augment the supplies of qualified personnel necessary for such activities.

**II. Uses of grant funds.**—Funds allotted to States would be available for expenditures for:

- A. Salaries for augmented analytical staff components in State agencies,
- B. Support of improved organizational arrangements for carrying on planning functions (including support of multi-disciplinary analytical teams),
- C. Staff training programs and activities for State and local personnel,
- D. Publication and dissemination of data, results of studies and analyses, and other planning materials (including materials on the techniques of planning and the relationship of planning to other governmental processes), and
- E. Technical assistance and consultation services.

**III. Matching.**—Within the limits of each jurisdiction's allotment, 66% percent reimbursement of the cost of activities carried on in pursuance of the jurisdiction's program for promotion and improvement of planning functions.

**IV. Limitations on use of grant funds.**—The following limitations apply to the sums used by the State from its allotment for direct expenditure and to all expenditures by cities and counties of 50,000 population or over (percentages are of the total annual allotment):

- A. Minimum percentages (not to exceed 10 percent) when set by regulation, to be used for staff training programs and activities (as further defined by regulation) for State and local personnel.
- B. Not more than 15 percent for additional staff in agencies receiving other planning assistance grants (under Federal programs).
- C. Not more than 25 percent for contractual services or retainers and fees for outside consultants.

**V. Grant conditions.**—In addition to the usual accounting and administrative provisions:

- A. Submission by the State, city, or county of an acceptable program for promotion and improvement of planning functions, indicating—
  - 1. The agency to have overall responsibility for carrying out the program,
  - 2. The central staffing arrangements for assuring liaison among the various agencies carrying on planning functions,
  - 3. The intended apportionment of grant funds among—
    - a. The jurisdiction's central staff unit,
    - b. Other agencies with planning functions,
    - c. Staff training programs and activities.
  - 4. Proposed uses in combination with other planning grant funds,
  - 5. Other major uses proposed, and
  - 6. Minimum standards that will be applied by the State, city, or county in certifying expenditures for planning activities for purposes of Federal reimbursement.

B. Submission of annual reports by the State, city, or county containing a review and an evaluation of the effectiveness of the jurisdiction's program and proposed modifications for its improvement.

**VI. Planning activities to be assisted.**—To be defined so as to make clear the intent to assist those activities that are major components of planning processes without regard to the context or focus of the planning effort within which they are carried on. The definition should also contain an illustrative list of types of activities embraced by the definition and indicate it is subject to further

clarification or expansion by administrative regulation. The list of examples should include such activities as:

A. Data procurement activities, including activities in development of appropriate data systems,

B. Preparation of demographic, economic, fiscal, and other projections,

C. Compilation of inventories of existing resources and programs,

D. Assessment of current and future needs, development of standards or criteria for the purpose, and identification of factors affecting needs,

E. Evaluation of existing programs,

F. Identification of emerging issues and problems that may require analysis,

G. Development of program alternatives in response to identified governmental objectives,

H. Program analyses, including systems analyses, cost-effectiveness studies, cost-benefit analyses, etc.,

I. Examination of the consequences and implications for future years of current program options and decisions, including development and maintenance of a multiyear program and fiscal plan, capital improvement program, etc., and

J. Development and maintenance of PPB system-type procedures.

VII. *Standard-setting authorities of the Federal administering agency.*—To include, at least, establishment by regulation of the criteria to be applied in determining "acceptability" of proposed State, city, and county programs and in reviewing annual reports and proposed modifications; such criteria to include such matters as:

A. Recommended guidelines for establishing a continuing central staff unit and functions to be performed by such a unit,

B. Policies to attain a balanced and effective apportionment of grant funds (including percentages to be used for training),

C. Standards to be applied in identifying in-service training activities for purposes of Federal reimbursement (including the use of outside consultants for such training purposes),

D. Policies covering the use of grant funds for activities also aided by other Federal planning assistance programs, and

E. Minimum content for the initial year program in jurisdictions with no previous central planning staff organization.

**PPB NOTES FOR CITY, STATE, AND COUNTY OBJECTIVES\***

- WHAT IS PPB?** A brief exposition of the basic purpose of PPB systems, identifying major characteristics and components.
- PPB NOTES 1-8** In this collection, the problems of integrating techniques into a single unified system are dealt with as follows:
1. How a government might answer the question: Is an integrated Planning-Programming-Budgeting system useful for our jurisdiction?
  2. Some alternative administrative frameworks for establishing a PPB system in states, counties, and cities.
  3. The development of instructions to inaugurate a PPB system; a sample set of administrative recommendations on instituting it; and an illustrative "program structure."
  4. The problems of staffing and training for a PPB system in state and local governments.
  5. The development of output-oriented categories—the "program structure"—one of the key components of a PPB system.
  6. The role and nature of cost analysis in a PPB system.
  7. The nature of the "output measures" useful for a PPB system: Multi-Year Program and Financial Plan (illustrated).
  8. The Multi-Year Program and Financial Plan: its purpose and role in PPB, with suggestions for its content. The emphasis is on the financial part of the plan.
- PPB NOTE 9** The preparation of economic and demographic data guidelines useful in a PPB system.
- PPB NOTE 10** Examples of program objectives, effectiveness criteria, and selected program structure for a state highway safety program.

\*PPB NOTES 1-8 (in one volume), 9, 10, 11, and WHAT IS PPB? are available from The Bookstore, The George Washington University, 2110 "I" Street, N.W., Washington, D.C. 20006. PPB NOTES 12 to 14 (and all subsequent Notes) are available from the Public Services Laboratory, Georgetown University, Washington, D.C. 20007.

- PPB NOTE 11**      The purpose, content, and scope of the "Issue Paper": a first step to useful program analysis (with an illustrative outline and actual examples).
- PPB NOTE 12**      The nature of a cost-effectiveness paper (with an illustrative step-by-step outline of such an analysis).
- PPB NOTE 13**      A detailed case study of an actual community lead poisoning problem (illustrating a cost-effectiveness analysis of three different options).
- PPB NOTE 14**      The meaning of a PPB system for a legislative body: its usefulness for programming legislation; its evaluation capability as a post auditing tool; and its value in helping a legislature to give support to executive agencies.

AMERICAN HOSPITAL ASSOCIATION,  
WASHINGTON SERVICE BUREAU,  
Washington, D.C., July 25, 1972.

Hon. RUSSELL LONG,  
Chairman, Senate Committee on Finance,  
U.S. Senate,  
Washington, D.C.

DEAR MR. CHAIRMAN: The American Hospital Association, on behalf of some 7000 health institutions in his country, is concerned with certain aspects of the revenue sharing legislation (H.R. 14370) now pending before your committee.

Particularly, we are concerned with the restrictions placed on the funds going to counties and other local units of government. As the bill is now written, those funds could be used *only* for public safety, environmental protection and public transportation.

Your committee, Mr. Chairman, more than any other committee of the Congress is deeply aware of the commitments which have been made to the citizens of this country to provide more comprehensive health care to all our people regardless of income status or geographic location. As we attempt now to put those promises—health care as a matter of right to all people—into practice, we must necessarily involve all segments of government as well as private resources.

As an example of the demands being made on local government, there are currently about 16 states which require local contributions toward the state matching funds for the Medicaid program. In 1973 this local contribution is estimated to amount to approximately \$800 million. Similarly, local government contributions are significant in many other health activities. In addition to the support of local health initiatives, local funding ranges upward from 25 percent of costs in such federally sponsored health programs as Areawide Comprehensive Health Planning, Maternal and Child Health Projects, and the Community Mental Health Centers program. Health care must be oriented to the needs of the community and local governments must more and more be involved in decision making and assisting in the support necessary for the availability and delivery of health services. These health demands are occurring at a time when both local and state governments are in extreme need of financial assistance.

For these reasons, we think it would be appropriate and a major contribution to better health care for the citizens of the nation if "health" were included in the revenue sharing legislation as a specific category of authorized expenditure by local governments.

Your careful consideration of this recommendation will be greatly appreciated.  
Sincerely,

LEO J. GEHRIG, M.D.  
Acting Director, Washington Service Bureau, American Hospital Association.

CITY OF LOS ANGELES, CALIF.,  
June 5, 1972.

CITY SUPPORT FOR HR-14370—REVENUE SHARING PROPOSAL

I hereby certify that the attached report of the State, County and Federal Affairs Committee was adopted, as amended, by the Los Angeles City Council at its meeting held June 5, 1972.

REX E. LAYTON, *City Clerk*.  
(By J. Stowell, Deputy).

TO THE COUNCIL OF THE CITY OF LOS ANGELES.

Your State, County and Federal Affairs Committee reports as follows:

Your Committee recommends, that inasmuch as the City is expressing its support for revenue sharing, pursuant to the Council's May 1971 action, not only through its Washington Representative but also through contacts of City officials with Congressmen on such occasions as the recent Congressional-Cities Conference in Washington, D.C., that the <sup>1</sup> City's Legislative Program include support

<sup>1</sup> Amended by Council Action 6-5-72.

for HR-14370 and that the Council exert every effort to make the City's position known to Congress including trips to Washington, D.C.

Respectfully submitted,

STATE, COUNTY AND FEDERAL AFFAIRS COMMITTEE.

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STATEMENT OF WALTER S. ORLINSKY, PRESIDENT, BALTIMORE CITY COUNCIL

The pattern of the ecology of growth and decay which used to co-exist in the growing cities tends today to become more divided between the city and the suburbs. Our cities, as the oldest and most built-up areas, account for far more of the decay than the growth. This imbalance between growth and decay in the territorily constricted city has serious consequences for our contemporary society. The result of increased central city costs at a time when we have reduced central city resources has laid our older cities, once the life blood of America, almost prostrate.

To Baltimore City, as well as many other older American cities, the reality of this trend so long predicted has finally come home to roost. As the more affluent leave the city for more spacious suburban surroundings, the surrounding counties gain the income tax benefit and the city is forced to rely even more heavily on its regressive real property tax. The large differential serves further to encourage the emigration. Also, because of the high property tax rate, new development in the city has been at a relative standstill during the past several years. Even were sufficient quantities of land available for commercial and industrial development, the advantages of a city location are, more often than not, outweighed by the high property taxes.

Facing a property tax rate which was already 40% higher than the second highest rate in the State of Maryland and with the prospect of a 12% increase just to maintain services at their present level, the Baltimore City Council exercised further budget cuts and anticipating only one-third of the revenue from HR 14370 was able to enact a 4% increase which still left our property tax rate over 50% higher than the next highest rate in our State.

The relatively small increase is hardly a matter of pride in view of the fact that the increase provides no additional services over last year. In fact, the budget reflects a very real reduction in services. We are not riding to any glory day as local elected officials even if the Congress passes revenue sharing. While it is clear that HR 14370 is urgently needed to continue the present level of services, the sharing formula leaves much to be desired. Whereas the sharing formula will provide desperately needed funds for our cities, the benefit is diminished by the amount of funds available and the expected breadth of coverage. Much more could be accomplished if the monetary thrust was directed at our most critical urban areas, for it is in these geographic areas that economic recovery and social stability are most difficult to achieve on a self-help basis.

This bleak picture is eased only by the fact that the City is still managing to hang on, and that there are encouraging signs of eventual breakthrough. The fruit of the urban renewal tree is beginning to ripen. Concerted efforts are being made to attract and retain industry in the city. The attraction of suburban living is no longer magical, and, in fact, our sister suburbs are now beginning to feel the responsibilities of providing services, dealing with decay and sprawl and the other costly matters attendant to urban society.

The next five to ten years will be critical in terms of our city's development. Our city like most older American cities is at the crossroads. There are those who would just as soon have the cities die just as rural America was allowed to die and wither away. I can hardly believe that the Senate would permit a re-enactment of that sorry chapter in our history. Clearly the result would be not only the destruction of our cities but of the now affluent suburbs just as the death of rural America lead to the current crisis in our cities.

Assistance from HR 14370 is necessary to ensure that our citizenry not lose faith in the next critical years. There will be time to evaluate and change how and where revenue should go in succeeding years. The point is simply that the need now is so great that we cannot afford to jeopardize what seems to be within the realm of reality. I urge you to make it a certainty.

CITY OF RIVERSIDE,  
California.

Mr. THOMAS VAIL,  
Chief Counsel,  
Senate Finance Committee,  
New Senate Office Building,  
Washington, D.C.

DEAR MR. VAIL: The following is a statement of the position of Riverside, California on revenue sharing. We ask that it be entered in the Hearing Record, following statements by the mayors.

"The City of Riverside, composed of 145,900 people, strongly support revenue sharing as proposed and passed by the U.S. House of Representatives. Like American communities across the nation, our city has many similar problems whose solutions are paramount to the future well-being of our citizens. The major problems in Riverside can be listed as follows: smog, unemployment, crime, urban redevelopment and mass transportation. Approval of revenue sharing is essential if we are to continue our efforts toward alleviating and possibly solving these problems.

"Smog is our worst enemy at present. The mounting costs wrought by this dreaded phenomenon staggers the imagination. Riverside hopes to help alleviate this problem by converting city-owned vehicles to gaseous fuel with funds received under the revenue sharing program.

"With respect to crime, these funds will go a long way toward hiring additional policemen as well as community relations personnel in order to attempt to reduce the problems existing in these areas.

"Riverside is faced with a multitude of problems associated with the deterioration of various urban neighborhoods. Approval of the revenue sharing program will assist in transforming these blighted areas into revitalized centers for our citizens. Renewal of these areas will also mean additional jobs and an increased community tax base.

"Riverside desperately needs a balanced transportation system, both to help combat the community's serious air pollution problem and also provide bus transportation for our citizens who do not have their own automobiles. Many programs now available through the Department of Transportation might be utilized more effectively with additional resources resulting from revenue sharing channeled into this area.

"The Mayor and City Council of Riverside strongly commend the Senate Finance Committee to approve the General Revenue Sharing Program as proposed in order to help our community and thousands across the nation solve their pressing urban problems."

Sincerely,

CARL W. RIEDY, Jr.,  
Washington Assistant to Riverside.

NATIONAL ASSOCIATION OF REAL ESTATE BOARDS,  
Washington, D.C.

Hon. RUSSELL B. LONG,  
Chairman, Senate Committee on Finance, Senate Office Building, Wash-  
ington, D.C.

DEAR MR. CHAIRMAN: On behalf of the National Association of Real Estate Boards\* I am submitting this letter in support of H.R. 14370, "The State and Local Fiscal Assistance Act of 1972." We hope your Committee will approve the bill in this session of the Congress.

In past testimony, this Association has favored the concept of general revenue sharing and we have attempted to narrow our arguments to those areas which are in the direct purview of our interests. I am attaching a copy of the policy statement on this subject adopted by the delegate body of our Association on November 18, 1971.

We are convinced that general revenue sharing can strengthen and preserve the relationship between federal, state, and local government and the concept of home ownership in this country.

\*The National Association of Real Estate Boards consists of approximately 1,600 local Boards of Realtors in every State of the Union, the District of Columbia, and Puerto Rico. The combined membership of these boards is approximately 500,000 persons actively engaged in brokering, managing, and appraising residential, commercial, industrial, and farm real estate.

Our first argument is that general revenue sharing can offer an alternative to local government's reliance on the real property tax as its principal source of revenue. The property tax is definitely a financially inferior revenue instrument and, like a sales tax, is regressive. Yet about two-thirds of all general revenues raised by local governments from their own sources now comes from property taxes. Recent efforts to finance municipal services such as education or other expanding functions of local governments have caused both real estate assessment and tax rates to climb to unprecedented levels. In many localities the property tax bill is placing an excessive burden on the average home owner, and in some cases tax rates have risen to the point where they imperil home ownership. From recent testimony consider the situation in Newark, New Jersey, where assessed property taxes equal approximately ten per cent of the value of the property. In this city the increases in property taxes, upon an inelastic property tax base, have reached the level where they actually discourage individual investment in a home. The market for a \$20,000 home with an annual tax of nearly \$2,000 becomes quite limited. This in turn discourages new buildings, rehabilitation, and self-renewal of deteriorating areas and thus hurts the non-poor as well as the poor.

The proposal for funds allocation in H.R. 14370 would probably not act to lower taxes in such situations as described above, but could provide reductions in future property tax increases and reduce pressure on local government to rely on real property taxes to meet revenue increases. This will demonstrate benefits for both urban and rural areas.

Emphasis in this bill is toward state and local government reliance upon personal income taxes with progressive rates. We are convinced that this is an integral part of the revenue sharing concept, and of any alternative concept offered as a means of financing local governments. Although some states do not use income taxes and even have constitutional restrictions against them, abnegation of income taxes in the future will be impossible for local governmental units. Therefore, any new bill such as H.R. 14370 should be commended for providing an immediate incentive for state tax reform.

Secondly, we favor the general revenue sharing program in H.R. 14370 because it places more decision-making responsibility with those governors, state legislators, mayors and county executives who are close to the results of the public spending programs. This general revenue sharing bill will strengthen the federal-state-local relationship by increasing the involvement of local government in fiscal decision making and thus encourage confidence in their administrative performance.

Although the spending priorities outlined in the bill are limited to public safety environmental protection, and public transportation, we understand that in following years other categories could be added. For the present limiting the priorities demonstrates a reasonable shift of decision-making responsibility and, since the priorities that were mentioned are important to all communities, the fund should receive 100 per cent utilization. In the future we would encourage the use of a local referendum to select local priorities.

It is true that H.R. 14370 has received its share of criticism, but since it proposes to distribute funds to 38,700 local units each having individual needs, no general revenue sharing bill could offer a perfect solution. This bill is an improvement over additional categorical grant programs and has greater feasibility to meet the immediate needs than the alternative programs that have been offered such as revenue shifting or tax credit plans. H.R. 14370 in no way impedes the development of any alternative plans, to some of which we may offer our future support; and we believe the bill forms a sound basis for federal aid to assist states and localities to finance their growing expenditures.

We confidently urge the approval of this proposed State and Local Fiscal Assistance Act of 1972.

We request that this letter be incorporated in the record of the Committee's hearing on this legislation.

Sincerely yours,

JOHN C. WILLIAMSON.

REVENUE SHARING

Virtual preemption by the federal government of major sources of revenue has placed state and local governments in such serious financial difficulty as to undermine the existence of our historic federal-state-local relationship. Continual in-

crease in federal categorical grants, now at a \$28 billion annual expenditure level, has spawned and nurtured a vast and complex bureaucracy that threatens to relegate local officials to the sole ministerial task of disbursing federal money.

To reverse the flow of power in America, and to restore to state and local governments the decision-making powers which the Constitution reserves to them, we recommend that the Congress enact general revenue sharing legislation as well as special revenue sharing as a substitute for existing categorical grant programs.

(Statement of Policy, National Association of Real Estate Boards, adopted November 18, 1971.)



# Effect of the Gurney Amendment to the State and Local Fiscal Assistance Act of 1972

