

City of Cambridge

Councillor Glinton

In City Council,

May 1, 1972.

ORDERED:-

That the City Council go on record favoring the State and Local Fiscal Assistance Act of 1972 H.R.14370 recently passed by the House Committee on Ways and Means which represents the first step in the legislative process for enactment of a revenue sharing program by the Federal Government to the cities of the United States, and be it further

ORDERED:-

That a copy of this order be forwarded to Congressman Thomas P. O'Neill urging his support of this bill which would entitle the City of Cambridge to \$1,947,964.00 to use at their discretion for public safety, transportation and environment.

City Council. May 1, 1972

Adopted by the affirmative vote

of 8 members
Paul E. Healey

City Clerk

Healy
Council

NATIONAL LEAGUE OF CITIES



UNITED STATES CONFERENCE OF MAYORS

SUPPORT REVENUE SHARING -- NOW

The National League of Cities and the United States Conference of Mayors have worked for years for the enactment of a general revenue sharing program. The "State and Local Fiscal Assistance Act of 1972", H.R. 14370, recently passed by the House Committee on Ways and Means, represents the first step in the legislative process for enactment of a revenue sharing program.

Under the bill, the federal government would provide funds to cities for use at their discretion for public safety, transportation and environment. The program allows city officials to determine local priorities and gives cities the resources to meet local needs. While some believe the bill can be improved, our judgment is that given the complexity of the issue, the bill is a good compromise for the cities. Since the bill will undoubtedly be considered by the House under a closed rule (no amendments permitted), we urge all cities to support the bill through the House.

Some Congressmen are concerned about sharing federal revenues when the federal budget is in deficit. The federal budget is essentially a statement of priorities. We believe that the first priority of the federal government is to improve American life including the strengthening of local government. Revenue sharing accomplishes this. Besides, the federal deficit, to a great extent, results from federal tax cuts. From 1970 to 1973, federal tax cuts will amount to \$75.5 billion. In contrast, during this same period city tax increases will total at least \$6.7 billion. Many cities have exhausted their capacity to tax real property and they have no choice other than to cut back services, lay-off employees, and increase user charges, etc. Revenue sharing would help alleviate this fiscal crisis for many cities. Thus, in perspective, with the federal government cutting taxes and the cities having to raise them and reduce services, the federal deficit is not as significant a problem as the crisis now facing cities.

The details as to the revenues your city will receive under this bill are available from either your State League, the National League of Cities, or the U. S. Conference of Mayors.

Enclosed is a briefing book on general revenue sharing for your review. Please contact your Congressman and urge him to support the bill. His phone number is (202) 224-3121.

Sincerely,

Patrick Healy
Executive Vice President
National League of Cities

John J. Gunther
Executive Director
U. S. Conference of Mayors

4/27/72

**support
your
city**

**support
revenue
sharing**

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INTRODUCTION

A fundamental premise underlying the American federal system is the concept that government must remain close to the people it serves. Within this system it is the cities which are most directly in contact with the people and should, therefore, be the units of government most responsive to their needs. This crucial role implies that the cities have the resources--and the capabilities--for meeting these needs.

America's cities are being squeezed in a financial vice as never before since the Great Depression: one jaw of the vice is the rapidly increasing service needs of America's urban areas; the other jaw is the inability of many cities to raise the revenues required to maintain even their present degree of health.

The causes of the plight for cities lie in large part with the programs and policies of other levels of government. The need for vastly increased municipal services, for example, has been stimulated by nearsighted federal programs:

1. The national farm policy disinherited millions of farm families, driving masses of them into already crowded cities. At the same time, the fragmentation of the national welfare system not only allowed a Southern state to pay one-sixth as much for relief as New York, but trapped many of the poor in the cities' most squalid slums.

2. FHA policies contributed to urban sprawl by subsidizing more than ten times as many units of housing in the suburbs than 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.

In this way, national policies not only failed to stem the deterioration of our nation's cities, they partially caused it.

Of even greater importance--indeed the crux of the plight itself--has been the relation of the cities to their state governments. Cities are not sovereign entities as are the federal and state governments, but rather are creatures of the states. As such, they are wholly dependent upon the states for their powers--with the following consequences:

"Most... state governments have been hesitant if not fearful in grasping the urban needle. The road to the present urban hell was paved with many major sins of omission and commission that can be ascribed to the states. Cities and suburbs, counties, townships and boroughs alike, are after all, legal creations of the states. The deadly combination of restricted annexation and unrestricted incorporation; the chaotic and uncontrollable mushrooming of special districts; the limitation of municipal taxation and borrowing powers; the abjection of all important police powers of zoning, land use and building regulation into the hands of thousands of fragmented and

competing local governments -- these are but a few of the by-products of decades of state governments' nonfeasible and malfeasance concerning urban affairs."¹

Cities have not, however, accepted state control without resistance. They have fought in all 50 state capitals for increased powers to tax and/or increase state financial assistance. (States have had their own problems; particularly, they are fearful of interstate tax competition). At almost every session of state legislatures, city requests have been denied. Cities have been denied relief from their states so consistently that they began to seek help from Congress over twenty years ago. Congress has since assisted them through the enactment of categorical grants-in-aid, but even this financial arrangement is not only not enough, it is missing the target.

The answer to the plight is simple. Cities need operating money: money to hire police, firemen, and garbage men; money to build parks and sewage treatment plants.

Yet, what the people need in Seattle is not necessarily what is needed in Shreveport -- or New York or Little Rock or Detroit or Burns, Oregon. Each community has its own list of both operating needs and priorities among these needs.

How then can Congress design a traditional grant-in-aid program to meet all these needs in the correct proportion for each individual city in America? Clearly, it can't. A completely new approach is needed. Congress must make operating money available to cities -- to be allocated by locally elected officials who -- day in and day out -- work closest to the needs of the people and who best make decisions concerning local demands and priorities.

City officials live day in and day out with the results of their decisions, they can often measure costs and benefits with sensitivity and weigh them against one another with greater precision. Because they are closer to the people they serve, city officials will often have a fuller sense of appreciation of local perspectives and values. Moreover, officials in cities are often more likely to remember what Washington too often forgets: that the purpose of government is not budgets and programs and guidelines, but people.

The National League of Cities and the U. S. Conference of Mayors has determined that the establishment of an adequate and fair national revenue sharing system is the most immediate priority issue confronting American government. It is essential to preserving our federal system, vital to the ability of cities to set goals, make decisions, and be responsive to the needs of their citizens, and basic to the resolution of the principal domestic problems confronting America.

¹William G. Coleman, Executive Director, Advisory Commission on Intergovernmental Relations. Address before American Bar Association Section of Local Government Law, "Making Our Federal System Work -- A Challenge for the 1970's." Excerpt from Congressional Record, October 27, 1969, p. S13250.

REVENUE SHARING PROGRESS REPORT

The National League of Cities and the United States Conference of Mayors have established as their number one priority for federal legislation the enactment of a general revenue sharing program. For the last several years, the National League of Cities and the U. S. Conference of Mayors have been working with the Congress and the Administration, as well as the national associations representing state and county governments to develop a consensus and coalition for the successful passage of a revenue sharing program. The Mills' bill represents the culmination of these efforts. After years of work, the National League of Cities and the U. S. Conference of Mayors are extremely pleased that a measure will soon be before the House of Representatives.

While there are some aspects of the bill that can be improved upon, we believe that given the complexity of the issue and the political dynamics of the House, the bill is a good compromise for cities. Since the bill will undoubtedly be considered by the House under a closed rule (no amendments permitted), the National League of Cities and the U. S. Conference of Mayors are urging full support for the bill.

While the National League of Cities and the U. S. Conference of Mayors began its effort several years ago for a revenue sharing program, the current momentum began to build in Fall of 1970. At that time, the National League of Cities and the U. S. Conference of Mayors joined in a coalition with the representatives of the national associations of state and county governments. The members of the coalition had agreed to the concept of revenue sharing, but there were some differences over the exact provisions of the bill.

In October, 1970, the Administration showed a renewed interest in the program and contacted the coalition in an attempt to hammer out a compromise bill that would be acceptable to the coalition and the Administration. Through the last months in 1970 negotiations continued. Finally in December, 1970, at an Atlanta meeting attended by senior Administration officials, mayors, governors, and county officials, the basic provisions of a bill were successfully hammered out. In January, 1971, President Nixon announced a program for general revenue sharing as part of his State of the Union Message.

The President's program provided for a permanent appropriation of 1.3% of the nation's taxable personal income. In the first year, the appropriation would be \$5 billion and it would increase as the nation's taxable personal income grew. The distribution of the revenues to the states was determined by the size of its population and the degree to which it had already mobilized its own tax resources. The bill also provided for an automatic "pass through" to general purpose local governments from the states of about one-half of the funds. General revenue sharing monies would come without program or project restrictions.

The response in Congress to the President's initiative was not as enthusiastic as the cities had hoped. Since the general revenue sharing program was so strongly identified with a Republican Administration, the Democratic leadership in Congress opposed the program and it was clearly possible that it might fall victim of partisan politics. To

overcome this opposition, representatives of the National League of Cities and the U. S. Conference of Mayors had several private major confrontations with the Congressional leadership. As a result of these meetings, Chairman Mills of the House Committee on Ways and Means agreed to hold hearings on the President's proposal.

During the hearings in June, 1971, before the Ways and Means Committee, the National League of Cities and the U. S. Conference of Mayors presented testimony that a major fiscal crisis was confronting many cities and it meant that essential domestic public services would be substantially curtailed in many metropolitan areas unless the Congress were to pass a revenue sharing program. As a result of our efforts, Chairman Wilbur Mills, while objecting to the Administration's general revenue sharing program, became convinced that many cities are in serious financial straits and that he would support a program to aid them. By summer, Chairman Mills stated, "I personally would not be opposed to providing federal grants to local governments to aid those cities and counties which face truly acute, immediate problems and which can prove their needs."

Chairman Mills' objections to the Administration's general revenue sharing program were:

1. The Administration's general revenue sharing plan distributed funds to local governments on the basis of their tax collection and not on the basis of need.
2. Without "strings attached", revenue sharing would completely divorce the responsibility for raising revenue from the spending of revenue.
3. Revenue sharing would add another "uncontrollable" expenditure to the Federal Budget.
4. Revenue sharing does nothing to encourage state and local governments, which are in financial difficulty, to help themselves.

In August, 1971, representatives of the National League of Cities and the U. S. Conference of Mayors met with Chairman Mills to discuss his opposition to the Administration's bill and possible alternatives. As a result of our negotiations, Mills instructed his staff to work with NLC, USCM, and representatives of the governors, legislators and the counties to develop a compromise bill. NLC and USCM worked throughout the end of summer and fall on a compromise bill acceptable to all the parties involved. When these intensive negotiations were finally successful, Congressman Mills introduced the Intergovernmental Fiscal Coordination Act of 1971, H.R. 11950 on November 30, 1971. This bill met the major objections that Chairman Mills had with the Administration's program. In brief, these provisions include:

1. The program would be of limited duration for only a five-year period.
2. The Act would distribute the funds on the basis of need to state and local governments.

3. Rather than be an "uncontrollable" appropriation in the federal budget, the proposal allocated \$3.5 billion to local governments and \$1.8 billion to state governments for each of the five years.

4. Expenditures under the program are limited to financing local items designated as national high priority needs. These include public safety, environmental protection, public transportation, youth recreation programs, health financial administration, and related capital programs.

Due to other business, the Committee was unable to act on the bill in December and it was held over for the second session of Congress which convened in January, 1972. Since January, the Ways and Means Committee has been working in executive session on the bill. After considerable debate and discussion, the Committee further refined the bill. A summary of the provisions in the bill follows.

SUMMARY OF H.R. 14370

THE STATE AND LOCAL FISCAL ASSISTANCE ACT OF 1972

The Committee on Ways and Means ordered reported H.R. 14370, the State and Local Fiscal Assistance Act of 1972, which provides financial aid to States, counties and municipalities. Separate funds and distribution formulas have been developed for the State Governments and for county and other local governments. In addition, the bill authorizes the Federal Government to collect State individual income taxes at the request of the States (piggybacking) when the State laws closely conform to Federal law. The effective date for the financial aid provided by the bill is January 1, 1972.

A. Distribution of Funds to Local Governments

\$3.5 billion a year is to be distributed to local governments for a five-year period which also begins on January 1, 1972. This amount is to be divided among the States (for distribution to local governments) under a formula based one-third on population, one-third on "urbanized population" (cities of 50,000 or over and the metropolitan areas surrounding them), and one-third on relative per capita income. The latter factor is population multiplied by a fraction in which the numerator is per capita income in the United States and the denominator is per capita income in the State.

The distribution within a State to the county areas (which includes both the county government and the municipal and township governments within the county) is made under the same type of formula as that described above for at least the first year and one half, that is, until July 1, 1973. After the first year and one half, the State may either continue to use the standard formula or use a second formula, (described below) and may vary the weighting of the factors involved in either of the formulas so that the weight of a factor may be decreased from 1/3 by no more than 25 percent or increased by no more than 40 percent. The second formula may be substituted for the standard formula, only if this decision is made by State law. The second formula contains the same three factors as the first, except that the population

factor is multiplied by per capita tax revenues.^{1/}

The county government's share of the funds allocated to the county area is the same proportion of the funds going to the county area which the county government's tax revenue is of the total tax revenue raised in the county by the county government and the incorporated municipalities in the county. If the county's share of the tax revenues is 25 percent, it is to receive 25 percent of the funds flowing to the county area.

The share of each municipal government within the county is to be determined on the basis of its share of the municipal population in the county and on the basis of its per capita income relative to the per capita income of the other municipalities in the county.

This is the standard formula, and it is to be used in the first year and a half. It also is to be used thereafter unless State law provides that the second formula is to apply. Under the second formula, distribution is to be made one-half on the basis of relative per capita income (as in the standard formula) and one-half on the basis of population times the relative per capita revenue raised in the locality.

Funds distributed to local governments are to be used for (1) maintenance and operating expenses for public safety (including police and fire protection, building inspection), environmental protection (including sewage disposal, sanitation, pollution abatement), and public transportation (including transit systems and streets), and (2) capital expenditures for sewage collection and treatment, refuse disposal systems, and public transportation (including transit systems and street construction). However, eligible capital expenditures cannot include regular, recurring capital expenditures.

The Treasury Department is to have operating responsibility for these programs, and it is to make decisions with respect to distributions. The Treasury also is responsible for audits,

^{1/} Tax revenues are the taxes raised in the county by all units of government, including the county and municipalities, divided by the aggregate of the amount raised by all local governments in the State. Amounts raised for education by all governmental units in a State are excluded from the totals for these distributions.

but it is authorized to use audits of local governments that are performed by State governments in cases where it believes that the State audit is adequate.

Provision is made for permanent appropriation of both the \$1.8 billion and the \$3.5 billion for the five-year period.

In order to be eligible for their shares of the \$3.5 billion, the local governments cannot discriminate against any person because of race, color, sex, or national origin in any of the categories in which they spend these Federal funds.

B. Distribution of Funds to State Governments

\$1.8 billion is to be distributed among the States for their unrestricted use, under a formula involving two factors which have equal weights. This provision is to be effective as of January 1, 1972, for a five-year period.

\$900 million of the \$1.8 billion is to be distributed to the States on the basis of their State income tax collections. The distribution is to be based on 1/2 of 15 percent of State individual income tax collections, but the minimum payment which can be made is one-half of 1 percent and the maximum payment is one-half of 6 percent of the total Federal individual income tax liability within the State.

The other \$900 million is to be distributed on the basis of the combined general tax effort of the State and local governments. This is determined by multiplying the total State and local taxes for the State by a fraction, in which the numerator is total State and local taxes and the denominator is personal income in the State.

Estimates of State income tax collections in 1972 are to be used in determining the State-by-State distributions in the first year. After the first year, the \$1.8 billion may be increased by as much as \$300 million a year in order to avoid a cutback in the distribution of funds to States that already have high income taxes, or maintain a high tax effort, as other States increase their taxes.

C. Federal (Piggyback) Collection of State Income Taxes

Provision is made for Federal collection of State income taxes at the request of State governments. If a State exercises this option, the Federal Government is to handle the administration of the State income tax. Federal collection of State income taxes also involves the Federal Government in collecting the States' share in the withholding of income taxes from wages and salaries (employers withholding State income taxes would pay them to the U.S. Treasury instead of to State treasuries, with the withheld funds generally being paid to the States within three days after collection).

To take advantage of Federal collection of State income taxes, the State generally is to conform its income tax to the Federal tax. The State may either express its tax as a percentage of Federal income tax or apply the State income tax rates to the same base as Federal taxable income. In both cases, however, adjustments are to be made by (1) adding back in State and municipal bond interest income, (2) adding back in State income tax payments deducted for Federal income tax purposes, and (3) excluding Federal bond interest income. (However, the first two adjustments are optional if the State tax is based on a percentage of Federal tax.)

This provision is to go into effect on January 1, 1974, if at least five States accounting for at least five percent of the taxpayers in the United States have requested Federal collection of their State income taxes.

QUESTIONS AND ANSWERS ON REVENUE SHARING

Proponents of revenue sharing often stress the versatility of this policy instrument. They advance favorable arguments from several dimensions, emphasizing that revenue sharing has many different simultaneous objectives. These might best be summarized under three headings:

(1) Fiscal Relief. Revenue sharing reallocates public resources from the equitable and efficient federal system to assist in meeting more urgent and pressing state and local needs -- providing some relief from rising property and sales taxes.

(2) Political Decentralization. Revenue sharing involves a substantial delegation of decision-making authority to state and local governments. This is needed to make our whole system more responsive and effective, and to enhance the role of elected and publicly accountable officials over that of career governmental employees.

(3) Administrative Reform. The basic simplicity of the proposal, together with its absence of distracting red-tape and expenditure restrictions, introduces an important measure of reform into a total federal aid effort which is badly out of balance. Rather than have all federal assistance channelled through narrow categorical programs, revenue sharing can produce a far more balanced "mix" of federal aid, bringing needed flexibility and efficiency.

This section of questions and answers is organized around frequently voiced concerns directed at each of these three dimensions.

Q. How can you "share" federal revenues when the overall budget is in deficit?

A. Two issues are inherent in this question. The first is a matter of priorities of federal spending. The second is the concern over the deficit itself.

1. The federal budget is essentially a statement of national priorities. As such, it gives the nation's cities an opportunity to assess how the federal government responds to their needs compared to the other claims on federal revenues and program thrusts. The nation's cities believe that the federal government should put the quality of American life as the first priority of the federal government. General revenue sharing appears to be the beginning of reorienting national priorities towards that goal. But, in examining the Administration fiscal year '73 budget, general revenue sharing alone is not enough. The dominant elements of the Fiscal Year 1973 Administration's budget include:

- A projected cash outlay of \$246.3 billion.
- A projected cash deficit of \$25.5 billion.
- An up-dated estimate of the actual FY 1972 deficit at \$38.8 billion.
- A continuing commitment to a full employment budget.

As for urban categorical aid programs, the key features of the budget are:

- A \$1.3 billion cut below FY'72 Congressional appropriations for critical programs managed by the Department of Housing and Urban Development (HUD).

- A renewed commitment to welfare reform, with \$350 million set aside in FY'73 for administrative planning, but actual payments to beneficiaries under a new plan not to start until FY'74. (It should be noted that welfare reform cannot be considered as a substitute for general revenue sharing, see following questions and answers).
- Increases in proposed categorical funding for urban transportation, law enforcement assistance, manpower, and public schools -- but not enough of an increase to offset the loss in funding for HUD, social services, and some other social programs.
- A hold-the-line attitude toward outlays for environmental protection, health facilities, and some other urban impact aid programs.

The budget item for \$5.3 billion in General Revenue Sharing is the most significant recognition of city needs in this year's budget. Its approval by Congress will be critical to maintaining the current level of federal commitment to urban needs.

From the perspective of the cities, the setting for evaluating this year's federal priorities list is one of continuing fiscal crisis for municipal governments. City costs have been rising in recent years at a rate in excess of \$3 billion a year. Necessarily, tax increases have mounted accordingly to keep pace with the employee pay increases, expanded sanitation and public safety services, increased prices for supplies and equipment, and the other items that are the necessities of urban life. The bonded indebtedness of municipal governments has tripled since 1955 with almost a third of it representing obligations of our 25 largest cities. The revenue gap has currently reached the point where an increasing number of cities have exhausted their capacity to tax real property and therefore have no choice other than to cut back services, lay off employees, increase user charges, and announce other gloomy news. Meanwhile, the Administration's budget documents inform taxpayers that Federal taxes have been cut by \$22 billion since 1969. It does not mention the three other major tax cuts made since 1962.

Because of its size and scope, the federal budget has become an increasingly important force in shaping the quality of urban life. Though state and federal aid is not allocated evenly from city to city, or even according to actual local need, it is now almost a quarter of municipal revenues.

Having noted this and the two renewed initiatives in this year's budget, the nation's cities find that careful scrutiny of the overall figures reveals that the federal contribution to the needs of city government and the solution of urban problems remains a lesser national priority.

Another way of looking at the priorities picture is to compare what the Administration is seeking in new authorizations for urban impact programs with new authorizations for other kinds of activities. This analysis takes account of the fact that 71% of the budget is a function of prior mandates and commitments not readily subject to change -- the so-called "uncontrollable" aspect of the budget.

As Chairman Allen J. Ellender of the Senate Appropriations Committee noted in the January 27, 1972 Congressional Record, additional Congressional authorization is required for \$45.5 billion of the FY'73 budget. Of that sum, the Administration seeks \$13.7 billion -- almost a third -- for military procurement and Navy shipbuilding, and another \$8.5 billion for military research and development.

By comparison, new authorizations sought for all agencies and programs that have any degree of urban impact come to no more than \$7.5 billion, less than a sixth of the \$45.5 billion figure.

Cities have an improved capability for management and planning, thanks in part to federal aid for urban renewal, Model Cities, manpower, and related programs. Given the capacity, the cities now need the resources to meet the urgent needs of their citizens.

2. The President's Budget Message of late January projected a unified budget deficit of \$38.8 billion for fiscal year 1972. Recently, however, the Treasury Department revised the deficit figure for 1972 to \$30 billion because of a combination of unanticipated revenues and a reduction in expenditures. For fiscal 1973, the deficit is estimated at \$25.5 billion.

These are huge deficits and no one can be happy or complacent about them. However, Federal budgets must be analyzed in the context of economic conditions and national objectives. The pace of our economic growth while now increasingly vigorous has not been fast enough to produce the needed reduction in unemployment. Under these circumstances, the objective is to stimulate economic growth -- in order to reduce unemployment, while at the same time continuing to brake inflation.

The Administration has stated that the spending and taxing decisions set forth in the budget are appropriate in the light of present circumstances and objectives.

The fiscal 1973 budget will return the Government to a "full employment" budget balance. In other words, budget expenditures are set at a level which is about equal to the revenues the present tax structure would produce at "full employment" of economic resources. While actual full employment is not a realistic expectation for fiscal 1973, the deficit will shrink as the economy grows, and will disappear as the national economic objectives are achieved.

Nevertheless, deficits of the size projected for the period ahead do cause concern among the public. The concern stems from a belief that: (1) the absolute size of the debt imposes a severe burden on the economy, (2) deficits of this size will in and of themselves intensify inflation and (3) that at the very least, financing these deficits will have the effect of driving up interest rates. These concerns are worthy of a further examination.

The Federal debt is largely an internal debt owed by the nation primarily to our own citizens. In a real sense, we owe the debt to ourselves. The size of the Federal debt and the burden it imposes has decreased dramatically since World War II as our economy has grown at a much faster pace than our debt.

In 1945, Federal debt held by the public (excluding amounts held by the Federal Reserve and U. S. Government accounts) was \$228 billion which was 116% of Gross National Product for that year. In contrast, at the end of 1971 publicly held Federal debt stood at \$256 billion or 23.5% of the GNP for the year. More recently, between 1963 and 1973, Federal debt held by the public is projected to increase by \$81.1 billion or 36.5%. During this same period, the nation's economy as measured by GNP will have

expanded by about 95%. In addition, as the Federal debt has declined over the years in relation to the size of our economy it has also diminished enormously relative to other types of debt in our financial system. The debt of corporations, individuals and state and local governments has all grown much more rapidly than the Federal debt in the post war period.

As for budget deficits or budget surpluses themselves, these are just one of a number of forces at work in the economy at any given time. There are usually more important fundamentals affecting prices and interest rates. A look at the history of Federal budgets suggests that there is no reason to conclude that budget deficits automatically lead to inflation and escalating interest rates or, for that matter, that surpluses mean low interest rates and less inflation. In looking at the record, what stands out is the fact that major inflations in the United States are associated with wars and that peak interest rate levels are related to inflation. As far as budget deficits or surpluses in and of themselves are concerned, there is no one-to-one relationship between them and inflation and interest rates.

Taking the last 20 years or so, budget surpluses occurred during two out of the three Korean war years; nevertheless, we had a sharp inflation and substantial increases in interest rates. A recession followed the Korean war in 1953-54 and inflation and interest rates subsided despite a large budget deficit in FY 1954. As the economy expanded in 1955-57, a sharp rise in prices and interest rates occurred even though the Government ran sizable surpluses during most of the period.

In all but one of the eight fiscal years, 1958 through 1965, Federal deficits were incurred. These years were characterized by the existence of unutilized resources and unsatisfactory levels of unemployment. Inflation was virtually dormant and interest rates, after 1959, were remarkably stable.

More recently, the 1965-69 period was a time of inflationary boom -- again associated with war. Inflation and interest rate levels became intolerable. Here in this superheated climate very large deficits did indeed aggravate the inflation and the rise in interest rates of the late 1960's.

This quick review of recent history suggests clearly that to run a large deficit in an overheated, full employment economy like FY 1968, can cause problems but quite a different effect can be achieved in the present environment when the Nation is moving in transition from war to peace and when fiscal stimulation is needed to speed the transition.

To put the FY 1972 and 1973 budgets in their proper context, they must be analyzed in light of the present economic objectives. In announcing the New Economic Policy last August, the President stated the Administration's economic objectives as:

- To break the back of inflation.
- To promote sustainable economic growth.
- To create jobs and reduce unemployment.
- To work toward restructuring the international monetary system.

To accomplish these objectives, major steps have already been taken: a major reduction in personal and business income taxes, automobile excise tax cut, an international currency realignment and a coherent wage price stabilization program which is known as Phase II.

At this time, these steps appear to be producing results, evidenced by a real growth rate in the economy of nearly 6% in the last quarter of 1971. Further substantial gains in economic activity are occurring so far this year. However, this developing business expansion must be sustained. The Federal budget in FY 1972 and 1973 will act to reinforce the major economic policy initiatives taken in recent months.

In summary, the budgets for fiscal 1972 and 1973 are appropriate stimulants for the economy. These budgets do not appear to be inherently inflationary nor will the deficits for these years produce a major escalation in interest rates.

Q. What evidence exists of a "fiscal mismatch"?

- A. This term refers to the basic budgetary forces operating at the federal level versus the state and local level.

Relying heavily on growth responsive income taxes, federal revenues grow faster than the economy. Over the past 20 years, healthy growth in federal revenues and expenditures has been accompanied by four major income tax reductions (1954, 1964, 1969, and 1971).

At the state and local level the picture is reversed. Over the past 20 years, economic growth has accounted for only one-half the rise in state and local revenues. The remainder has come from countless separate increases in state and local taxes. At the state level alone, 450 new taxes or tax rate increases have been instituted since 1959. Yet, despite this impressive revenue growth, expenditure demands related to the need for more and better domestic services have been even greater.

Not only does the income tax respond to economic growth, it is also progressive. That is, it is based upon a fundamental tax principal of ability to pay. In contrast, the taxing powers available to most local governments -- property, sales, and user charges -- are highly regressive. They fall most heavily on those unable to pay -- the poor and moderate income people especially those with fixed incomes as pension and welfare recipients.

In addition, the National Government enjoys another advantage -- its freedom from interlocal and interstate tax competition. The more limited a government's jurisdictional tax reach, the more apprehensive the government becomes about its relative tax climate. Two great forces are heightening this sensitivity to intergovernmental tax competition -- the growing desire of state and local policymakers to promote economic development and the increasing interdependence of our economy.

The result is the "fiscal mismatch". One level of government has the superior revenue system. The other levels of government have the major domestic expenditure requirements.

The Federal Government has responded by increasing categorical aids from \$1 billion in 1946 to \$34 billion this year. Clearly, Congress has long recognized the need for assistance and the appropriateness of responding to that need. With revenue sharing, the only significant issue at stake is the form in which federal aid should be disbursed. We believe the arguments are compelling for extending assistance in a substantially less conditional and more broadly based manner.

Q. Don't studies question the existence of this "mismatch"?

- A. Since 1965, there have been six or seven studies projecting state and local expenditures and revenues for 1975. These projections vary widely. Some find no significant revenue "gap". Some find a modest discrepancy, perhaps within the reach of existing state and local tax sources plus rising categorical aids. But others, such as the Urban Coalition's projection in Counterbudget, find a sizable disparity -- \$67 billion.

The other studies conclude that an inherent "gap" definitely exists.

TEMPO Report:

The National League of Cities ordered TEMPO, General Electric's Company's Center for Advanced Studies to develop an objective economic study of the revenue gap facing cities. The TEMPO Report issued in January, 1967 found that the nation's cities face a staggering \$262 billion revenue gap -- \$125 billion of which can only be closed by the federal government -- over the ten year period 1966-1975. The projections were done based upon dates developed by the Joint Economic Committee (See Table I below).

TABLE I. Estimated Annual Revenue Gaps and Recommended Funding Sources for the 1966-1975 Period, in \$-billions.

YEAR	ESTIMATED GAP(a)	FUNDING SOURCES			
		FEDERAL GOVERNMENT	STATES	INCREASES IN CITY CHARGES	INCREASES IN NET CITY DEBT
1966	\$ 4.5	\$ 1.0	\$ --	\$ 0.5	\$ 3.0
1967	8.0	3.0	1.0	1.0	3.0
1968	12.0	6.0	2.0	1.0	3.0
1969	16.5	8.0	3.0	1.5	4.0
1970	22.0	10.0	4.0	2.0	6.0
1971	28.5	13.0	5.0	2.5	8.0
1972	34.5	16.0	6.0	3.5	9.0
1973	40.0	19.0	8.0	4.0	9.0
1974	45.5	23.0	9.0	4.5	9.0
1975	50.5	26.0	11.0	4.5	9.0
TOTAL	\$262.0	\$125.0	\$ 49.0	\$25.0	\$63.0

NOTE: ^aDifferences from gaps in Table I are due to rounding.

Tennessee

The Tennessee Municipal League has projected that the revenue gap facing over 300 municipalities between 1970-74 is in excess of \$425,000,000. This study reveals that the serious revenue gap is not confined to any one size, or type, or class of city. For towns in the 1,000-2,500 population range, over \$14,000,000 in new and additional revenues will be needed over the next four years. Put in terms of per capita costs, an additional \$121.00 will have to be raised for each man, woman and child living within municipalities in this population grouping. For cities with more than 5,000 but fewer than 10,000 inhabitants, the study indicates a need of over \$18,500,000 in additional revenues between 1970 and 1974. This amounts to \$111.00 for each person residing in those communities.

The report states, "The issue is not merely whether these communities will be able to provide traditional municipal services -- the real issue is whether or not many of these cities and towns can survive as viable political units."

Georgia

The report shows that in 1970 cities collected \$329 million from their own sources and received \$78 million in Federal aid and \$13.5 million in state grants for a total of \$421 million. Yet, over the next five years Georgia cities project \$1.8 billion in capital and non-capital needs for which no revenues are presently in sight except the property tax.

\$1.5 billion is projected for capital improvements which would amount to \$122 million per year reduced to twenty year debt service at 5% interest. \$300 million additional money is needed for salaries, fringe benefits and other increases in cost of operations which averages out at \$60 million per year. Thus, the average amount of required new revenues on a five year annual basis is \$182 million.

California

The League of California Cities has studied the revenue gap facing its cities. The League studies indicate that cities need an additional \$353 million in fiscal year 1971-1972 in order to continue providing existing services. However, this figure is conservative for two reasons. First, the 1971-72 revenue need figure is the fifth year figure in a five year estimate. Little of the additional revenue needed in the first four years was provided and, thus, the 1971-72 estimate is understated by that amount. If presented completely, the accumulated revenue need of cities would approach \$1 billion. Second, the League estimates include a uniform 4% adjustment for salaries and general cost of living increases. Any review of economic growth during the past five years would demonstrate the conservative nature of this 4% figure.

While the estimates are definitely conservative, it is this fact plus the overall care with which they were prepared that convinces us they are an accurate reflection of minimum city revenue needs.

The magnitude of the city revenue gap is awesome, but it is fact. It is also a fact that this gap will continue to widen until a new source of revenue is added to the municipal revenue base that will permit city revenues to grow at a rate that is equivalent to the annual growth in expenditures for current service.

In addition to estimating the size of the municipal revenue gap, the enormity of the existing city fiscal crisis is apparent in its present effect on cities. For example:

- Cities have been required to utilize and, in many cases, deplete emergency reserves.
- Cities have found it necessary to budget accumulated capital outlay funds for current operating programs.
- Most cities are now unable to fill vacant or authorized positions.
- Many cities have found it necessary to abolish positions and lay-off existing employees.
- Cities have been forced to reduce existing levels of service, and they have been unable to finance a constructive response to the social problems with which they are confronted.

It seems crystal clear that simple projections of past history are unsatisfactory in this area. We know, for example, that public services cost substantially more per capita to deliver in an urban setting than in a rural environment. The changing urban population mix, the whole new set of demands created by suburban expansion and urban reclamation, and rising expectations all combine to make earlier projections look pretty naive.

Q. Why not let states and localities tax themselves?

- A. Of course, they have been taxing themselves substantially and will continue to do so in the future. State and local taxes have risen from 5.6 percent of gross national product in 1950, to 7.2 percent in 1960 to 8.5 percent in 1968-69.

But revenue sharing seeks to address two difficulties inherent in simply abdicating federal responsibility for assistance.

First, states and localities differ substantially in their relative capacities to tax. Without some element of resource redistribution, the quality of such basic services as education, law enforcement, fire protection, and sanitation is uniquely dependent on the wealth and income level of a community. But these are not wholly local concerns. Failure to provide such basic services in one part of the country eventually creates social difficulties in another part of the country.

Second, state and local tax sources are both regressive and unresponsive to economic growth. A continued pattern of federal tax reduction coupled with state and local tax increases leads to a reduction in the overall equity of our tax system.

With revenue sharing, states and localities will retain primary responsibility for meeting their own needs. But a portion of their services will be federally financed -- reflecting the national interest in their provision to all Americans.

Q. Aren't many states making ineffective use of their taxing opportunities?

A. In 1960, 19 states were imposing both general sales and personal income taxes. By 1970, this number had grown to 33.

Presently, 43 states make some use of the income tax, with only Florida, Nevada, Ohio, South Dakota, Texas, Washington, and Wyoming not taxing any form of individual income. However, five other states have no broadly based personal income tax.

It is no doubt true that some states could be exerting a more substantial taxing effort. The revenue effort feature in Title II of the Mills' bill operates to encourage just such behavior.

State taxes have been growing faster than any other taxes in recent years. (See attached table).

The basic case for revenue sharing does not hinge on the existence of virtual bankruptcy in every state. We are talking principally about revenue sharing as the most effective way to deal with a fundamental power and fiscal imbalance within our federal system. To preserve strong states and localities and to retard the centralization of power in Washington, we need to convert our number one fiscal and power source -- the Federal income tax -- into a truly federal tax rather than just a federal government tax.

ANNUAL RATES OF GROWTH IN SELECTED TAX ITEMS

1957 - 1969

All State and Local General Revenues (own sources)	8.9%
All State General Revenues (own sources)	9.6%
All State Sales and Gross Receipts Taxes	9.0%
All State Individual Income Taxes	13.8%
All Local General Revenues (own sources)	8.0%
All Local Property Taxes	7.6%
All Federal General Revenues	6.4%
Federal Individual Income Tax	7.8%

Q. If a city needs more revenues, why doesn't it raise its own taxes?

A. Generally speaking, cities cannot either legally or practically raise their taxes. The major tax source for most cities is the property tax. However, most cities have a maximum limit for property taxation imposed by state law or constitutions and most

cities are at their limit. Other cities which are not at their limit find increasing property taxes is practically impossible. These cities usually have independent school districts who have also utilized the property tax as the major source of education revenues. As education costs soared over the last few decades, property taxes for education increased significantly. The property taxpayer is caught in the squeeze. He does not discriminate between property taxes paid for city services or education. He only knows that his property taxes are exorbitantly high. Today's "taxpayer revolt" is largely due to the substantial increases in the property tax by independent school districts. Consequently, cities are "boxed-in" both legally and practically from levying higher property taxes.

Because of the limited revenues that cities can derive from the property tax, they have over the last few decades, increasingly turned to the sales tax. Invariably, for the cities to obtain sales taxing power, they have had to seek legislative authority from their state governments. At the same time, states have claimed the sales tax as a major source of revenue. Thus, cities find it almost impossible to gain further authority to increase sales taxes, when the states are looking towards the same form of taxing power for their own needs.

Since cities are limited in sales and property taxing powers, they have increasingly turned to service charges as a form of revenue. The service charge is a fee charged to the "consumer" for a service rendered. But service charges have not come close to solving the urban fiscal crisis.

Some of the more hard-pressed cities have secured the income taxing power from their state legislatures. But even where the power has been granted it is severely limited by the state legislatures. In all other cases, cities are prohibited from levying income taxes without state legislation or constitutional amendment. The only exception is Ohio, where cities have utilized the income taxing power under a home rule provision in the state constitution. (In Ohio, revenues of cities levying the income tax almost equal the amount received from property taxes.) But, even in Ohio where this constitutional authority exists, the state legislature has put a ceiling on the amount of taxes cities can impose.

Except for the income tax -- property tax, sales tax and service charges are highly regressive in nature. To increase these taxes means that the poor and the middle income citizens are paying proportionally more than the rich. Nevertheless, the demand for public services in the cities continues to grow. Without general revenue sharing, cities will be forced, one way or another, to increase such regressive taxes.

Besides being regressive, local taxes do not grow with the economy. While the national government can count on automatic higher revenue yields generated by economic growth to accommodate most growing needs, almost every year state and local policy makers are forced to take the politically risky course in imposing new taxes and raising the rates of existing taxes to meet the rising expenditure requirement of an urbanized society. In 1960, 19 states were imposing both general sales and personal income tax. Ten years later, the number had climbed to 33. Over this same time period, the growth in sales and local taxes collection outpaced national economic growth. State and local taxes rose from the equivalent of 7.2% to gross national product in 1960 to 8.5% of gross national

product at the close of the decade. A study by the Advisory Commission on Intergovernmental Relations revealed that between 1950 and 1967 only 47% of the increase in major state taxes -- income, and general and selective tax -- were the result of economic growth while 53% resulted from legislative enactment.

It is obvious that local elected officials have been courageous over the last decade in raising local taxes. These tax resources have been utilized to their fullest extent. The question is not whether their local government officials are going to raise taxes in the future, but what their tax sources will be. Existing sources are not adequate.

Q. Won't revenue sharing only encourage waste and irresponsibility?

A. It is most difficult to see why it would. Under revenue sharing, state and local officials are held politically accountable for the use of these funds -- wasteful practices would force them to ask their constituents to pay higher taxes. This hard political fact, one which all state and local officials are now painfully aware of, will provide a powerful and automatic defense against irresponsible actions.

In contrast to the current grant-in-aid system, revenue sharing dollars would flow through regular local budgetary processes and be subject to far more scrutiny than are the "sheltered" categorical aid dollars. The inefficiency associated with all the buck-passing and report preparing would not be present under revenue sharing.

Q. By separating the taxing powers from the spending action, aren't you removing a vital check on efficiency?

A. This is one of those logical sounding assertions that suffer from a complete absence of practical effort. Focusing both taxing and spending at the same level of government provides no assurance of efficiency. Efficiency depends on program design, administrative capability, and clear assignment of responsibility and accountability. Revenue sharing allows all of these -- quite contrary to the categorical grant system which maintains taxing and spending at the same level.

Of course, revenue sharing also retains taxing and spending decisions at one level -- the federal level. The Congress would be making the spending decision -- to spend a portion of federally raised revenues for state and local governmental purposes. It would be decentralizing responsibility and accountability for the administration of those funds just as it now does when spending money for any other federal program. Only in the revenue sharing case, this delegation of authority would run to publically-elected state and local officials rather than to career employees of the Federal Government.

Our federal system is one of shared problems and shared responsibility for solving those problems. No neat distinction exists for precisely separating functions among levels of government. This is why 47 states share revenues "without strings" with their localities; this is why Congress now shares \$30 billion annually with states and localities; this is why general revenue sharing does not represent a break with some long-standing and immutable principle about the "separation" of taxing and spending.

Q. Can we really trust the states and localities with all that money?

- A. In the end, the quality of government depends on the kind of leaders the people elect. That is what democracy is all about. If state and local leaders make poor decisions, they can be replaced. But they can hardly be held accountable for failing to meet problems if they don't have the resources.

We should also remember that the best way to assure responsible government at the state and local level is by giving greater responsibility to state and local officials. The purpose of this program is to set the states and localities free; free to make their own mistakes sometimes, but also free to accomplish great successes which would not otherwise be realized.

Q. How sensitive are state and local officials to the legitimate needs of minority and disadvantaged citizens? Isn't there an unpleasant history of neglect here?

- A. This argument is largely emotional rather than empirical. It is most often expressed either in a regional or a personal sense. Certainly several of our states enacted important civil liberties and human rights legislation long before the Federal Government ever responded in the 1960s. The American Indians -- long the exclusive wards of the Federal Government -- have not experienced a history of federal sensitivity to their legitimate needs.

Revenue sharing funds must be accounted for. Reports must be filed. And, most importantly, all civil rights protection now accompanying federal grants will exist under revenue sharing.

With more and more of our minority and poverty populations concentrating in urban centers, the need for support of vital domestic services -- those currently the responsibility of states and localities -- was never more urgent. Revenue sharing responds directly to this need; more so than other forms of federal spending.

Full civil rights protection will cover expenditures under revenue sharing, including Title VI of the Civil Rights Act of 1964, which applies to grants-in-aid now.

Q. What makes you confident that decentralization will produce better or more efficient decision-making?

- A. A confidence which follows from the basic success of this managerial approach throughout our governmental history and within our major private institutions as well.

We have generally found that those most closely acquainted with a problem, when given the chance to solve that problem, respond in the most effective and productive manner. This has been documented in the literature on organizational behavior and management ever since the "Hawthorne experiment" at Western Electric Company earlier in this century. This has been the basis for our strength as a nation.

Local self-government is the backbone of our democratic system. To assert that local citizens are somehow incapable of organizing their own public affairs, and that federal officials could do it better, is to express an arrogant view alien to our liberal traditions.

Q. Won't revenue sharing actually extend federal influence even deeper into state and local affairs? Doesn't it represent a "Trojan Horse" that will later unveil a host of federal controls?

A. Such a future attachment of nefarious conditions to revenue sharing would have to be imposed by the national legislature, which is theoretically made up of persons elected freely by the people of the United States. The Congress could, today, impose by public law any condition it wished upon the various states of the Union, provided that such a law was within the Constitutional powers of the Congress. The powers of the Congress to impose odious requirements on the expenditure of federal funds would in no way be expanded by the enactment of general revenue sharing. On the contrary, enactment of the proposal would mark the first time in the history of public finance that the Federal Government had actually relaxed its minute control over the expenditure of a small portion of its revenues. The Congressman may very well have in his arsenal a number of weighty and considerable reasons why revenue sharing should not be enacted. But, it is doubtful that this spectre of major new federal interference in state affairs is one of them.

Q. What is wrong with the current "strings attached" approach?

A. Officials at every level of government cite a growing number of difficulties produced by fragmentation, over-control, lack of coordination, and inflexibility. Basically, these add up to substantial inefficiency. Too often, a local problem is defined to fit a federal program grant. Solutions ought to be designed for problems, but the reverse is frequently true under this system.

Q. If categorical grants are so bad, why not replace them all with general revenue sharing?

A. It is not the categorical grant per se that is bad, but the proliferation of them and the exclusive reliance on them as an intergovernmental assistance method.

The Ashe Council noted the existence of more than 1,000 catalogued activities administered by 57 federal departments and agencies. Actually, it is a dramatic commentary on this complicated system that we don't know exactly how many grant programs there are operating today.

There is a desirable and strong role for categorical assistance. It is appropriate where economies of scale, or the need for national standards, or the desire to provoke innovative practices are present.

What we need most, however, is a better "mix" of federal grant assistance so that local flexibility and accountability can be encouraged. During FY 1971, 100 percent of the \$30.3 billion in federal aids are of the narrow, categorical variety. With

revenue sharing, FY 1972 outlays for federal aid (\$38.3 billion) would acquire a substantially different mixture:

	<u>Percent of Total Outlays</u>
General Revenue Sharing (Maximum flexibility)	10%
Categorical Assistance (Limited or no flexibility)	<u>90%</u>
	100%

Q. What evidence do you have that the current system is more costly, more burdensome, or more inequitable than revenue sharing?

A. Aside from the ever-present complaints of those directly involved in these programs at every level of government, there are many specific examples of difficulties. For example:

- (1) Most states and major cities acknowledge that they have a "minimum grant size-- usually \$50,000 - \$100,000--below which they will not bother to apply in view of the costs of application and the probabilities of securing the grant.
- (2) Congressman Byrnes reports that while six percent of Wisconsin's elementary education expenditures are due to federal aid programs, over 50 percent of the manhours consumed by the State Department of Education is spent in administering that six percent.
- (3) The Council of State Governments reports on a survey of governmental reporting requirements in Ohio. Six state departments were surveyed. These six submit a total of 664 different types of reports to various federal agencies. This effort consumes the equivalent of 259 full-time employees, at an annual cost of over \$2.6 million--just to meet federal reporting requirements in the six agencies surveyed. Not included are the effort required at other levels of government in Ohio to provide these six departments with the data necessary to compile the information.
- (4) Senator Muskie notes of the categorical grant technique, "its proliferation has threatened to create as many problems as it was intended to solve."
- (5) The Advisory Commission on Intergovernmental Relations termed the current system a "management mess." ACIR found it necessary to publish a "Catalogue of the Catalogues" of available federal programs.

Q. Why will revenue sharing be a more efficient technique?

A. Because of its basic simplicity and delegation of responsibility to state and local officials. The whole applications and approval mechanism is eliminated. An objective formula treats every government equivalently--whether or not it maintains a staff of grant specialists.

Q. Why not consolidate and reform the grant system rather than put in this "no strings" plan?

A. We need both grant reform and consolidation along with general revenue sharing. They compliment, not substitute, each other.

Q. Why make the expensive "round trip" of tax dollars to Washington? Why not leave the money in those states and localities where it originates?

A. Actually, the Department of the Treasury has lower tax-collection costs than any state or local government agency. Current collection costs are about 45 cents per \$100 of income. General revenue sharing will not require any new federal agency or bureau. All that will be needed is a check-writing procedure, so the roundtrip should be economical.

Q. Why not beef-up the categorical programs instead?

A. The nation's cities need federal categorical programs. This is evidenced by the tremendous growth in categorical programs from under \$1 billion in 1949 to over \$28 billion in 1971. Despite the problems of categorical programs -- matching requirements, rigid planning and administrative guidelines and requirements, and the slowness of the federal bureaucracy to produce the money -- general revenue sharing is not to be a substitute for categorical grants-in-aid.

But categorical grants-in-aid are not a substitute for general revenue sharing. The fiscal crisis facing American cities is one of resources needed for operating expenses. Services which are being cut -- police, fire, street maintenance, garbage pick-up, parks and recreation -- are the ones which the federal government does not provide categorical grant-in-aid, the ones which the citizens need the most, and the ones which suffer first in a fiscal crisis.

Q. Instead of revenue sharing, why don't we expand the public service employment program? Won't this help you as much as revenue sharing?

A. Public service employment legislation is a program that mayors have strongly supported to alleviate the unemployment that plagues our cities. But while transitional public service relieves unemployment, it does not offer long range financial assistance to cities to counter their fiscal dilemma. Without permanent federal financial assistance as is guaranteed in revenue sharing, cities cannot continue to provide police, fire, parks, and recreation and other traditional municipal services. Emergency public service employment, therefore, is not a substitute for revenue sharing.

Q. Wouldn't it be a great help for cities to have the federal government take over welfare?

A. Federal assumption of all welfare costs is badly needed, but it should not be regarded as a substitute for general revenue sharing. Cities and states need both measures to help meet their growing fiscal problems.

Actually, very few cities have a welfare responsibility; this is largely a burden borne by the states and federal government. Thus, federal takeover of all welfare costs would not provide direct financial help to an overwhelming majority of municipal governments. Nor would it return a greater share of responsibility to state and local governments; instead it would pass further responsibility up to the federal level.

Q. Why not an Urban Development Bank?

- A. Borrowed money is used by states and cities to finance specific capital projects, and the term of borrowing is generally required to be within the life of the project. Current budgets and capital budgets are separate, except as the current budget provides for payment of interest and amortization on debt previously issued for capital projects. (Occasionally some capital projects may be financed in part out of current revenues). Generally it is illegal to borrow for current expenses except in minor amounts, and it is considered bad practice credit-wise. If done in any size, special legislation is required on an emergency basis.

The important fact about state and local bond financing is that not only will interest be paid but over a period of time the principal itself will be paid off from taxes or revenues, and the whole maturity pattern, either serial or through sinking funds, is set up on that basis. In this respect it is entirely different from Treasury debt, from most corporation debt and from most agency debt. It is more like consumer installment debt or amortized mortgages.

Q. Why not a tax credit program?

- A. A federal tax credit for state and local income tax payments may seem like an easy response to this difficult question, but they do not hold up under examination as an effective device for bolstering the financial resources of state and local government. Although no Federal funds would go directly to state or local governments, Federal revenues would be reduced immediately.

There seems to be great ignorance as to how a tax credit works. No one has suggested a 100% credit for state and local income taxes against a person's Federal tax liability, for that would almost amount to a blank check on the Treasury. On the other hand, those who recommend a credit as low as 10%, apparently do not understand the Federal tax system. Many taxpayers would be better off by merely taking the existing deduction for state and local taxes.

In any event, hard pressed states and localities would only benefit to the extent that a credit toward the Federal income tax softens taxpayer resistance and thus enables state and local governments to institute or raise income taxes above the levels otherwise politically acceptable. Dollar for dollar, revenue sharing will be more effective in channeling financial resources to states, cities, and counties. Clearly, a Federal credit for state and local income taxes will do little to help local governments who derive the bulk of their revenues from the property tax. At best, the benefits would be distributed in an uneven, hit-and-miss fashion.

Q. Why not cut the federal income taxes?

A. Local governments are not sovereign governments like the federal government. State constitutions and governments, on the whole, determine what local governments can tax and the maximum amounts they can levy. In many cases local governments are already utilizing all their taxing powers to their fullest extent. Thus, local governments could not increase their taxes to take up the slack with a cut in federal income tax.



UNITED STATES CONFERENCE OF MAYORS

April 21, 1972

Dear Mayor

Ackermann,

The House Committee on Ways and Means reported out a revenue sharing bill, the State and Local Fiscal Assistance Act of 1972, on April 17. The bill provides that the effective date of the program is retroactive to January 1, 1972.

Some observers will contend that certain aspects of the bill can be improved upon. While we would agree, we believe that given the complexity of the issue and the political dynamics of the House, the bill is a good compromise for cities. Since the bill will undoubtedly be considered by the House under a closed rule (no amendments permitted), House members will be requested to vote either for or against the bill. The National League of Cities and the United States Conference of Mayors are urging full support for the bill.

The next immediate steps in the legislative process are as follows: A committee report on the bill is to be filed on April 26. We will join the Ways and Means Committee in requesting a closed rule (no amendments permitted) from the Rules Committee. Presently, we anticipate floor action the first or second week in May.

The Ways and Means Committee has computed the allocations for cities and reports that your city will be entitled to \$1,947,964. in 1972.

The support that you have given to a revenue sharing program to date has brought it to this point. You're now urged to contact your Congressman and urge him to vote for the bill. We are hopeful that it will soon be enacted into law.

Sincerely,

Patrick Healy

Patrick Healy
Executive Vice President
National League of Cities

John J. Gunther

John J. Gunther
Executive Director
U. S. Conference of Mayors

164 4

Communication from John J. Gunther, Executive Director U.S. Conference of Mayors relative to a revenue sharing bill, namely the State and Fiscal Assistance Act of 1972, urging the City Council to favor said bill

May 1, 1972

Adopted