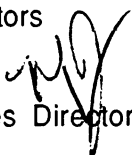


February 12, 1990

TO: MMA Board of Directors
FROM: Marie Johnson, 
Membership Services Director
RE: Meetings with Congressional Delegation during NLC Congress of Cities

The National League of Cities Congressional Cities conference will be held March 3-6 in Washington, D. C. Senator John Kerry will host a reception, a briefing session and a luncheon for Massachusetts municipal officials. Senator Kerry is inviting federal experts in the area of drugs, the environment, housing and health and human services to address Massachusetts local officials.

The reception is Monday, March 5, 6:00 pm in Room 535 of the Dirksen Senate Office Building. The issues briefing session is Tuesday, March 6, from 9:00 am to 12:30 pm, followed by a luncheon.

Congressmen Moakley and Frank have contacted us and are interested in meeting with local officials from their districts.

Congressman Moakley has offered to meet with people at 2:30 pm on Tuesday in room H312 of the Capitol.

Congressman Frank will meet with people at 2:30 pm, Tuesday in Room 1030 of the Longworth House Office Building.

NLC has made available issues briefings on key municipal issues including the president's proposed budget, the CDBG reauthorization, the Clean Air, anti-drug assistance for cities and towns, federal tax legislation affecting cities and towns, and housing. The briefings are attached.

For further information on the meeting or if you plan to attend any of the sessions, please contact me at the MMA office, 617-426-7272.

TAXES & MUNICIPALITIES

Background

For the nation's cities and towns, the president's budget proposes:

- * sharp increases in federally mandated taxes directly upon municipalities;
- * the elimination of priority municipal tax programs for housing, economic development, and job training; and
- * a major new savings initiative which could undercut the ability of your members to issue tax exempt bonds or notes.

1. **Mandatory Social Security and Medicare:** The president has proposed mandated Social Security participation by municipalities. Municipalities and their employees would be mandated to pay federal Social Security taxes effective October 1, 1990. The tax, 6.2% on both municipalities and their employees, would affect over 4 million municipal and state employees, many of whom are part-time workers and students.

The president has also resubmitted a federal tax increase to mandate municipalities and their employees to pay federal Medicare taxes for all employees hired prior to April 1, 1986. This tax, 1.45% on all municipalities and employees, would impact at least 2 million municipal and state employees according to the administration.

Together, the proposals would raise \$3.8 billion in new taxes in 1991.

NLC Position: NLC opposes these costly federal mandates. NLC opposes direct taxation of cities and towns by the federal government. NLC opposes federal interference with locally determined medical and retirement systems.

2. **The president proposes the elimination of:**
 - * mortgage revenue bonds and credit certificates;
 - * municipal small issue industrial development bonds; and
 - * targeted jobs tax credits.

The president called for termination of the mortgage revenue bond and mortgage credit certificate programs. The MRB program enables cities and towns to raise capital to provide homeownership opportunities for low and moderate income constituents and is a critical source of funds to help municipalities finance foreclosed federal FHA properties and the affordable housing properties under the savings and loan bailout legislation.

NLC Position: NLC opposes elimination of these programs and urges extension.

3. **A threat to municipal public finance:** The president's new savings initiative - the Family Savings Account - is expected to have the greatest impact on cities and towns. Because the proposal would create an investment opportunity offering both higher tax exempt interest rates and a safer credit rating than cities and towns can provide, the proposal is likely to significantly increase the cost of municipal tax exempt bonds and borrowing for cities and towns.

The administration has not yet clarified whether interest on the new savings plan would also be exempt from municipal and state taxes.

Brady projected that the president's savings proposal would allow families to earn tax exempt interest and earnings of up to \$5000 in federally guaranteed deposits or investments at 8% interest as long as the taxpayer left the money in for 7 years. In contrast, cities and towns were offering about 7.25% in interest rates on long-term general obligation bonds last week. Private activity bonds, which are partially subject to federal income taxes, were offering slightly higher interest rates, but still far below the proposed Family Savings Accounts.

NLC position: NLC opposes costly federal programs which would interfere with the ability of cities and towns to finance public operations and facilities.

Pre-CCC Planning Action: In preparation for coming to Washington to meet with your Congressional delegation on these municipal tax priority issues, you might consider the following:

- * On Social Security, have your members determine exactly how many of their employees are not covered by Social Security and what the cost of such coverage would be - and from where the money to pay such federal taxes would come;
- * On mandatory Medicare, have your members determine how many pre-April 1, 1986 employees not covered by FICA withholding they have, what the fiscal impact would be, and how such employees are already covered by an alternate municipal system which would make Medicare a costly and duplicative federal mandate;
- * On the terminations, check with both your members, state housing finance agency, and others to determine the impact of mortgage bonds and small issue idbs issued by your members in 1989, and what benefits they provided in order to urge their extension;
- * On the Family Savings Account, ask your members to seek help from their finance directors to determine what the impact would be of paying over 8% for bonds or other municipal borrowing on local budgets, operations, and projects.

NLC is working with other groups including the Public Finance Network and the Anthony Public Finance Commission on alternatives such as a modified IRA where savers could receive a \$2000 tax deduction for investing some pre-set amount of savings into municipal tax exempt bonds issued for infrastructure or capital investment purposes. NLC's concern is that if the federal government is going to provide tax-favored subsidies for savings and investment, such proposals should not encourage individuals and families to sell municipal bonds and invest in federally subsidized alternatives that offer better and safer returns.

COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM (CDBG)

Background

The future of the Community Development Block Grant program (CDBG) could very well rest on decisions that will be made during this session of the 101st Congress. CDBG, along with the majority of housing and community development programs are up for reauthorization this year and the Congress must decide two very important issues: 1) funding levels and 2) proposals being offered by the Administration and nonprofit organizations that will drastically alter the scope and viability of the CDBG program.

Funding: While the Administration can request and the Congress can **"authorize"** various levels of funding for housing and community development programs, the real decision-making process is vested in the House and Senate **"Appropriations"** committees.

Specifically, the **House and Senate HUD/Independent Agencies Appropriation Subcommittee's** establish the annual appropriation levels. Within these two subcommittees housing and community development programs are in direct competition for funding with programs dealing with Veterans, Environmental Protection (EPA), NASA and the National Science Foundation (NSF).

For cities and towns it is critically important -- particularly when it come to the CDBG program -- that members of these subcommittees understand the importance of the housing programs and the community benefit they serve as they begin to establish funding priorities for the fiscal year. The establishment of these **"priorities"** will be taking place during the NLC Congressional Cities Conference.

CDBG Proposals: 1990 marks the sixteenth years of the CDBG program. Unlike many of HUD's programs, CDBG has not been the subject of reported management abuses currently being investigated by the Congress. On the contrary, given the disinvestment of federal resources for community and economic development activity and the termination of such programs as General Revenue Sharing (GRS) and the Urban Development Action Grant (UDAG), the burden for providing housing and neighborhood revitalization, health care, job training and counseling has fallen almost exclusively on the limited funding available through the CDBG program.

Last year various attempts were made to alter the scope and nature of the CDBG program. Nonprofit organizations were advocating that local governments were not being responsive to their needs and sought to become eligible to compete with smaller communities for a share of the **State CDBG funding**. In addition, they lobbied both the Administration and the Congress in an effort to have a portion of the CDBG funding **(10 %) set-aside** for nonprofit use and to **increase the low/mod targeting requirement, from its current 60 percent to 100 percent** in some communities, to more directly benefit low income residents. The Administration sought to **mandate an additional reporting requirement** which would require all recipient communities to develop an **"anti-poverty"** strategy in their usage of CDBG funding which would document how they are using CDBG funds to fight poverty.

NLC and other public interest groups opposed these proposals on the basis that the CDBG program was never intended to be a "poverty" program and to increase the targeting requirement along with providing additional program requirements and constraints would drastically alter the intent of the program and the current flexible nature of local decisionmaking.

The Congress, through the House and Senate Banking Committees, agreed with NLC and voted down, on a bi-partisan basis, these recommendations prior to the end of the last session of Congress.

Administration Proposals: While the Congress was very clear that the proposed CDBG changes would not be acceptable prior to congressional hearings to determine the impact they would have on local governments, the Administration, in its FY 91 HUD budget proposal has decided to fight this decision.

Specifically, the HUD proposals call for the following changes in the CDBG program:

- **INCREASED TARGETING TO LOW- AND MODERATE INCOME PERSONS TO 75 PERCENT IN "NON-DISTRESSED" COMMUNITIES AND 100 PERCENT IN "DISTRESSED" COMMUNITIES.**

--HUD has yet to define the criteria for "distressed" and "non-distressed" communities. In addition, there have been no studies or reports that point to the necessity to "nationally" change the current targeting levels.

- **PROPORTIONATE ACCOUNTING IN DETERMINING LOW/MOD BENEFIT WHICH WILL IMPACT DIRECTLY ON "AREAWIDE" BENEFIT PROJECTS.**

--This method of account, added to the increased targeting requirement, will mean that local governments will have to become involved in "project specific" activity. Areawide projects (ie. infrastructure) will be difficult given the increased targeting. CDBG will be transformed into a "categorical grant" program.

- **REQUIRING ALL ENTITLEMENT GRANTEES AND STATES TO DEVELOP STRATEGIES FOR FIGHTING POVERTY.**

Communities are now required to prepare, in addition to housing assistance plans and citizen participation plans, a residential antidisplacement and relocation assistance plan. HUD's proposal would add yet another plan requirement without identifying additional resources to meet this requirement.

Pre-CCC Planning Action: In preparation for the Congressional Cities Conference (CCC) your members should be urged to become actively involved in the following:

- Meeting with their local housing and community development staff to receive a briefing on the various projects that are underway in their communities and the direct role that the CDBG program played in their funding;

- During these discussions they should attempt to assess the impact that the Administrations CDBG proposals will have on their various local projects. They should try of identify **specific** examples of impact that can be used during their visits to congressional offices during CCC;
- Their housing department might attempt to prepare a "housing and community development" **FACT SHEET** specifically tailored to their local situation that can be distributed to the staff of the various congressional offices;
- Members of their congressional delegations and their staff should be contacted to inform them on the various local funding needs for housing and community development within their districts and the impact that any budget reductions will have on their ability to provide vital community services;
- Invitations should be made to their congressional delegations and staff to come to a "briefing session" **in the community** and include a tour of projects that have been assisted through CDBG and other federal resources.

HOUSING

Background

Housing is the number one priority for the National League of Cities. Over the past three years this issue has been the focus of congressional hearings and studies, conferences and seminars.

Last year alone, the **National Housing Task Force**, chaired by James Rouse of the Enterprise Foundation, produced a study titled: "**A Decent Place to Live**" which focused on the overall needs of housing and called for a "national commitment" to house all Americans. This study was followed by report from the **National Low-Income Housing Preservation Commission**, chaired by former HUD Secretary Carla Hill, titled: "**Preventing the Disappearance of Low Income Housing**" which focused specific attention on the need to preserve the nation's low-income housing stock that is at risk due to expiring low income housing contracts with the federal government or owners opting to prepay their mortgage notes and converting low income property to market rate use (i.e., condominium conversions). Both studies involved input from a host of housing experts from the various levels of government, Homebuilders/Developers, Realtors, Mortgage Bankers, Nonprofit organizations and the academic community.

In addition to these studies, congressional hearing have been held in both the House and Senate devoted to crafting a national housing legislative effort based on the findings of the various studies and testimony from housing experts in both the public and private sector.

Congressional Activity: Funding for the nation's housing and community development programs expired last September. Efforts to develop a reauthorizations bill was put off until this session of Congress. At the present time there are three (3) housing initiatives being discussed: 1) in the Senate the **National Housing Act of 1989** (S. 566), sponsored by **Sen. Alan Cranston (D-CA)** chairman of the Senate subcommittee on Housing and Urban Affairs, 2) in the House the **Housing and Community Development Act of 1989 (HR 1180)**, sponsored by **Cong. Henry Gonzalez** chairman of the House Banking, Finance and Urban Affairs Committee and 3) the Administrations **HOPE** initiative.

The Senate will begin hearings on their bill towards the end of February and the House will begin activity during the week of the Congressional Cities Conference on March 6th. Formal legislative language on the Administration's HOPE initiative has yet to arrive on the hill, however, it is anticipated within the next several weeks. It is also anticipated that, during the House and Senate discussions, the Administration will make an attempt at having their community development block grant (CDBG) proposals made a part of the final omnibus housing bill.

NLC Policy Statements: The National League of Cities has specific policy language regarding those elements that we would like to see in a national housing policy. An overview of our policy would be as follows:

- o NLC supports a "comprehensive housing policy for the nation...that is sensitive to and concerns with the needs of low and moderate income people;

- We support a housing policy that can be accomplished without creating increased federal deficit or bloating federal bureaucracies;
- Financing for new federal housing programs -- both rental and homeownership -- should be done by redirecting federal funds. Such a shift would not only create more and better housing, but it would create more job opportunities for unemployed and underemployed Americans;
- Local government should be viewed as a resource in developing cost-effective programs. continued federal cooperation is necessary to ensure that cities do not bear a disproportionate burden of housing their residents;
- We should replace the complicated patchwork of housing assistance with a new block grant program for housing assistance which minimizes red tape and allows cities and their neighborhoods to create their own uniquely tailored housing programs;
- Under such a block grant, local governments should provide the full range of housing assistance and supporting social services in conjunction with the development activities they now carry out under the Community Development Block Grant program;
- HUD's role should be primarily that of monitoring these locally-generated housing programs to make sure they are targeted to meet the needs of low and moderate income residents, including the elderly, the handicapped, and the growing numbers of homeless;
- NLC calls for the creation of a "National Community Housing Partnership" program providing federal grants for leveraging partnership efforts involving local and/or state governments, the private sector, and non-profit housing developers, in the construction and rehabilitation of affordable housing excluding CDBG-funded programs.

Pre-CCC Planning Action: In preparation for the Congressional Cities Conference (CCC) your members should be urged to become actively involved in the following:

- Making contact with their congressional offices to explain the housing need within their communities and briefing members and their staff on the impact that a reduction in funding will have on providing this service to community residents;
- Emphasis should be placed on the need for the Congress to enact a two-year housing reauthorization bill that will enable local communities to provide comprehensive planning over an extended period of time. Your members should make certain to emphasize specifically how the uncertainty of the annual appropriations process and funding levels impacts on their ability to provide these services;

- Your members should meeting with their local housing staff and come to Washington prepared to provide their congressional delegations with specific examples on what they are doing with federal housing resources and what specific projects would not have been possible if funding was either reduced or eliminated;
- Your members should meet with their housing staff and prepare a "housing" **FACT SHEET** specifically tailored to their local situation that can be distributed to the staff of the various congressional offices.

CLEAN AIR ACT

Background

Reauthorization of the Clean Air Act, which is necessary to extend deadlines for compliance with the National Ambient Air Quality Standards (NAAQS) for ozone, carbon monoxide and particulate matter, is one of NLC's top priorities for the 101st Congress.

Over 400 cities and towns in more than 100 metropolitan areas are not in compliance with the 1987 deadline for attaining these standards (NAAQS) for either ozone or carbon monoxide or both.

Failure to attain the standards results in the imposition of sanctions which directly impact on municipalities -- withholding of highway funds and grants for implementation of local air pollution control programs; and which impact on stationary sources (and therefore the economic base) of cities and towns -- a ban on construction or major modifications of sources of pollutants for which the area is nonattainment. The one remaining sanction in current law -- withholding of sewage treatment plant construction grants -- will lose all relevancy in fiscal 1991 when the grants program will be supplanted by a revolving loan program.

Congressional Action

While both the House and Senate have made progress over the last year in moving forward legislation (H.R. 3030, S. 1630) to extend the deadlines for compliance with the NAAQS and defining new strategies to assist nonattainment areas in reaching clean air, the measure incorporates many controversial provisions -- e.g., mobile source controls, acid rain provisions -- and faces many hurdles before it will be ready for the President's signature.

The Senate is current considering S. 1630 on the Senate floor and could possibly have concluded action on the measure before the March meeting.

The House Energy and Commerce Subcommittee on Health and the Environment has reported out an amended version of the President's proposal (H.R. 3030). In addition, the Subcommittee on Energy and Power has scheduled a mark-up of provisions dealing with acid rain and may also propose an alternative fuels program in early February. Recent indications from full Committee chair, John Dingell are that full committee consideration will take place in mid-spring.

NLC Policy and Its Relationship to H.R. 3030 and S. 1630

Many of NLC's policy recommendations (highlighted in bold type) have already been incorporated in the proposals being considered in both bodies:

- **To ensure a nationally uniform effort to achieve safe pollution levels, reasonable attainment deadlines must be established.** Both proposals extend deadlines, based on the severity of the nonattainment problem, for up to twenty years.

- Sanctions and restrictions on new source permitting should be applied only to areas that fail to make good faith efforts to comply with the Clean Air Act. Sanctions should be imposed on the level of government responsible for the noncompliance. Both bills make improvements over existing law sanctions. The Senate bill however does impose sanctions for failure to attain annual percent reductions in emissions.
- Where pollution is caused by motor vehicles, the primary means for abatement of such pollution should be direct and stringent controls on motor vehicles. In addition, Congress should enact and EPA promulgate, standards for diesel-fuel burning vehicles, heavy trucks and buses as soon as possible. Both bills impose more stringent emission limitations on motor vehicles; both bills adopt the California standards, the Senate bill also imposes a second-tier of even more stringent tailpipe emission standards after the turn of the century.
- EPA should design a vehicle emissions test which accurately reflects the real world conditions under which automobiles are operated (including cold temperatures) and which focuses on the cold start portion of the driving cycle; develop a technological solution to reducing cold start emissions and establish performance standards requiring manufacturers to produce automobiles which emit less carbon monoxide during cold starts in cold temperatures. Both bills include cold starts provisions.
- Transportation control measures (TCMs) should not be made mandatory; however, areas needing an attainment extension for ozone or carbon monoxide should be required to implement vehicle inspection and maintenance and all other transportation control measures found, after analysis, to be cost-effective and reasonably available for the area. Severe and extreme nonattainment areas will be required to adopt TCMs.
- Congress should direct EPA to designate major pollution transport corridors, allowing cities and states in each corridor to negotiate necessary reductions within a reasonable time. Both bills establish "transport regions" and authorize EPA to designate additional such areas.

Unresolved Issues

- EPA should continue to identify and set standards for hazardous pollutants. Both bills mandate the imposition of controls on toxic air pollutants which will include regulation of emissions from such municipal facilities as sewage treatment plants and sanitary landfills. The Senate measure deals separately with municipal incinerators*.
- The federal government should expedite development, testing and commercialization of alternative fuels. While the Administration proposed a bold alternative fuels program to be implemented in the nine most polluted metropolitan areas (San Diego, Los Angeles, Houston, Milwaukee, Chicago, Greater Connecticut, New York City, Philadelphia, Baltimore) neither the House nor Senate have resolved this issue at this time.

Action

From the above it is clear that cities and towns have already had a significant impact on the provisions of the proposed reauthorization measures. Many of NLC's policy goals were incorporated in the legislative proposal from the very start.

City officials, who by and large are supportive of the efforts Congress is making to reauthorize this major environmental program, should understand that implementation of the pending proposals is neither easy nor without cost. The alternative, however -- failure to reauthorize the bill -- will subject over 400 cities and towns to a construction ban and potential withholding of highway funds (withholding of air grants impacts only those cities which have responsibility for implementing the Clean Air Act).

It is clearly the intent of Congress that this reauthorization will have the intended effect of bringing virtually every area of the country into compliance with the national standards. New strategies, new tools, and new requirements as well as rational deadlines for compliance, all of which are based on the severity of the nonattainment problem, are there.

The message to Congress is that they should reauthorize the Clean Air Act before they adjourn this fall.

* While NLC has been in the forefront in supporting Senate efforts to provide municipalities with certainty in dealing with incineration as a solid waste disposal option, negotiations are still ongoing on final language in these provisions. Given the opposition of the industry (e.g. Waste Management, Inc.) and the EPA to inclusion of these provisions in a Clean Air bill, it is not at all certain that Senate approval is a foregone conclusion.

Insofar as it is possible, you will be provided with additional information on incineration at the earliest possible time prior to the March meeting.

DRUG FUNDING

Background

In January, NLC released it's annual opinion survey of city leaders. In the survey, city leaders were asked what single issue each would most want to discuss in a meeting with President Bush. The overwhelming response was DRUGS. Drugs were also sited as the problem that has worsened the most in cities and towns over the past year.

Fifty-eight percent of the survey group said drug problems have worsened over the past year, and only 9 percent said they were making any headway against drugs. Another 31 percent said the magnitude of the drug problem remained constant.

The survey results documented what cities and towns across America have been claiming in increasing numbers - that they are being deluged by the social problems, crime and violence inherent in the drug abuse problem. What was once considered the blight of the inner city has, because of its very nature, traveled to all areas - rural and suburban as well as large urban centers.

Municipal officials have increasingly suffered from the domino effect in their fight against drugs. If law enforcement is stepped up, then the jails, courts and probation systems swell. As arrests of drug addicted criminals increases, so does the demand for treatment, and so on.

Administration Budget Proposal and Second National Strategy: The recently released second volume of the Administration's National Drug Strategy includes no direct funding for anti-drug assistance to cities and towns. Moreover, as a condition for receipt of Federal criminal justice funds, the administration has proposed legislation to require cities and towns to adopt expensive drug testing programs throughout their criminal justice systems.

According to a sampling of city officials, the cost of a single drug test range between \$50 to \$250 per test. With the wide variation among types of drug tests available and numerous difficulties associated with test result accuracy, city officials have, out of necessity, become fearful of the legal ramifications surrounding the drug testing issue.

Despite recognizing the critical role of cities and towns in winning the war on drugs, administration drug Czar Bennett says any additional federal assistance would "lard an already inefficient system." Thus the administration proposes a \$3.6 billion foreign aid increase by no direct assistance to cities to fight the war on drugs.

Action: Your members should come to Washington prepared to urge Congress to develop a funding mechanism that moves meaningful federal resources quickly and efficiently to cities and towns with maximum local flexibility and without permitting States to skim off funds for administrative costs. There should not be a local match requirement. There should be no new federal mandates. Nor should funds be taken from other domestic programs to fund increased funding for anti-drug programs.

NLC Policy:

- * NLC anti-drug funding policy calls for funds to go to states with the requirement that states would be required to pass through a formula-determined amount to local governments within 120 days of state receipt of funds. The money would be sent back to the federal drug czar's office if states fail to meet the established time line and thus becoming the czar's responsibility to disperse the funds promptly go cities and other local governments within that state.
- * States would not be able to withhold any funds for administrative purposes.
- * Funds allocated to small cities should be passed through to those cities within 120 days of their availability, and small community programs should encourage interjurisdictional cooperation.
- * Policy calls for local flexibility to allow cities to devise programs relevant to their needs;
- * Policy opposes taking funds from other domestic programs to provide funding for this anti-drug programs;
- * NLC policy supports raising federal taxes if that is the only way to fund the anti-drug effort.
- * NLC supports the seizure of assets of convicted individuals involved in illegal drug activity. Funds should go directly to local law enforcement agencies for anti-drug activities and to fund a special fund for victims of drug-related crime.
- * NLC policy supports increased funding for federal, state and local law enforcement agencies.

Specific preparations your members could take to make more effective presentations to your delegation might include:

- * Members of Congress like to know in dollars and cents how a specific proposal would impact cities and towns in their district. For example, if your city has received federal law enforcement grant funds, you might provide your Congressperson with what, exactly, those dollars can buy. i.e. how much would it cost to provide, per test, drug testing to all persons arrested in your city. Or you could provide them with the complete cost of hiring one police officer. This could include salary, benefits, uniform, training, weapons, squad car, etc.
- * Prepare a city or multicity anti-drug plan complete with cost estimates of such a programs implementation. This could include current programs or those you would like to implement if you had sufficient financial assistance. Did you or would you have to raise local taxes? Did you or would you have to cut services elsewhere? Have you been turned down by the state for law enforcement funds and why?
- * Be prepared to discuss specifics of your community's drug abuse problem and steps you have taken to fight the problem.

FEDERAL BUDGET & MUNICIPALITIES

Background: President Bush last week presented a \$1.25 trillion budget proposing major increases in spending for:

- * defense: \$7 billion or 2.3%,
- * foreign aid: \$3.6 billion or 20%,
- * space: \$2.9 billion or 24%,
- * savings and loan bailouts: \$40-\$100 billion or as much as 33%, and,
- * education: \$1.2 billion or 5%.

He proposed significant cuts in:

- * municipal wastewater construction grants - 18%,
- * highways and public transportation - 12%,
- * the Community Development Block Grant (CDBG) program - 5.5%.

The president also proposed nearly \$29 billion in federal tax increases, including both mandatory Medicare and mandatory Social Security taxes on municipalities and their employees.

From the perspective of the nation's cities and towns, the budget proposes steep cuts and eliminations in every priority municipal program except for housing assistance and anti-drug law enforcement assistance. The budget proposes no direct role for cities and towns in either increase. It proposes significant new federal taxes directly on municipalities and recommends new mandates.

The budget recommends a 12% increase in federal anti-drug funding, of which less than 4% would go to states for state and local anti-drug efforts.

The administration would propose elimination of the municipal mortgage revenue bond program, small issue industrial development bonds, the targeted jobs tax credits, and employer education tax credits.

The proposal calls for major federal tax changes - changes which would significantly impact municipalities.

The president is expected to submit tax legislation to Congress to seek mandated federal tax increases on cities and towns, to cut capital gains taxes, and to create a new savings certificate which would compete with municipal bonds.

It also calls for accelerated deposits to the IRS of payroll deductions by municipal governments.

The biggest single tax increase for state and municipal governments and their employees is proposed through mandated participation in Social Security and Medicare. The administration projects that this mandated federal tax increase would raise \$3.8 billion next year. These increases, which would apply to non-participating municipalities and their employees, would mandate equal contributions from both the city or town and the respective employee.

NLC Position: NLC opposes any cuts in priority municipal programs. It believes reinvestment in America and its cities and towns to make the nation competitive with foreign countries should be a higher priority than foreign aid and defense spending. NLC opposes new federal mandates and federal tax increases on cities and towns.

Pre-CCC Planning: In order to prepare for the March meeting with your Congressional delegation on federal budget issues, we recommend your members work with their budget directors and finance directors to assess the impact of the president's budget proposals on their respective cities and towns.

- * Overall we think your members should stress the S&L bailout issue: why can the federal government afford over \$300 billion to bail out the savings and loan industry, but has to cut priority municipal programs?
- * How, when the United States is the largest debtor nation in the world and has a record foreign trade deficit, can the nation increase foreign aid, but cut domestic investment?
- * Your members should examine the impact of the CDBG, public transportation, and highway cuts: what will they mean in terms of reduced programs or projects - or how much will local taxes or fees have to be raised to make up for the cuts? For the EPA cuts, what might they mean in terms of compliance with EPA wastewater mandates - keeping in mind that the budget proposes more than a \$200 million increase for EPA enforcement.
- * On the mandated federal taxes: are 100% of your members' employees covered by FICA payroll deductions? If not, what would the cost to your member be of mandated federal Social Security and Medicare taxes be and what legal or binding employment agreements with their employees might be affected?
- * What are your members' interest rates on borrowing? What borrowings in 1990 do they anticipate for school, highway, jail or other public works construction that might be adversely affected by the Family Savers' proposal?
- * What is happening to taxes and fees among your members as they strive to balance local budgets while the federal government is talking about cutting taxes and cutting assistance to cities?

BELLAS HESS

Background

On March 13, 1989, Rep. Jack Brooks (D-TX) issued a challenge to city officials at NLC's Congressional-City Conference:

"It's a fight we can -- and should -- win, but it's YOUR move."

Brooks was describing the need for a proactive campaign by state and city officials on legislation to authorize the collection of state and local sales taxes on interstate sales. To meet this challenge, municipal officials must take immediate steps to reach out to their natural allies and partners -- local retailers, businesses, governors and state legislators -- in this battle and involve them in such a campaign.

Brooks is the chairman of the House Committee on the Judiciary and a longtime champion of legislation to authorize the collection of state and local sales taxes on interstate transactions. In response to his challenge, it is essential that city officials -- working through the state municipal leagues -- undertake a proactive campaign to obtain the support of local businesses for the legislation and their assistance in refuting the negative campaign of the direct marketers. This campaign should be directed at associations of retailers and businesses as well as individual businesses.

Status: As a result of opposition to the state-local compromise by two key California legislators, Chairman Brooks did not propose the compromise legislation as intended. Instead he submitted legislation, H.R. 2200 (Check), which NLC does not support. This legislation would provide for the collection of state excise taxes and uniform local excise taxes, and allow states to determine any allocation to local governments.

No member of the House or Senate has yet agreed to offer the state-local compromise legislation drafted jointly by the National Governors' Association, NLC, the National Conferences of State Legislatures, NACO and USCM.

Issue: To provide a level playing field for your local retailers and merchants, to assure that municipalities receive a fair share of any excise taxes collected.

State-Local Compromise: The five major organizations which represent state and local government -- NLC, the U.S. Conference of Mayors, the National Association of Counties, the National Governors Association, and the National Conference of State Legislatures -- have developed compromise legislative language. The heart of the agreement is a provision which would provide for a uniform local rate for each state through the establishment of a state-wide local "in-lieu fee" for interstate transactions. Any written materials concerning Bellas Hess legislation should refer to proposed legislation as the "state-local compromise."

ESTIMATED SALES TAX COLLECTIONS UNDER STATE-LOCAL COMPROMISE
(based on 1985 - 1986 data)

	RATES (percent)			REVENUES (millions)		
	state	local	state- local	state	local	state- local
Alabama	4.0	2.0	6.0	19.6	10.0(d)	29.6
Alaska						
Arizona	5.0	1.0	6.0	22.7	13.5(d+p)	36.2
Arkansas	4.0	0.5	4.5	14.4	1.7	16.1
California	4.75	1.5	6.25	298.1	79.5	377.6
Colorado	3.0	2.75	5.75	12.0	10.8	22.8
Connecticut	7.5		7.5	60.9	0	60.9
Delaware	----- no state or local sales taxes -----					
Florida	5.0	0.0	5.0	102.8	10.2(p)	113.0
Georgia	3.0	1.0	4.0	30.3	9.8	40.2
Hawaii	4.0	0.0	4.0	10.2	0	10.2
Idaho	5.0	0.0	5.0	8.1	1.3(p)	9.4
Illinois	5.0	1.75	6.75	91.6	30.6	121.7
Indiana	5.0	0.0	5.0	54.3	0	54.3
Iowa	4.0	*	4.0	22.1	?	
Kansas	4.0	1.0	5.01	17.2	4.6	21.8
Kentucky	5.0	0.0	5.0	33.8	0	33.8
Louisiana	4.0	3.5	7.5	16.4	14.3	30.7
Maine	5.0	0.0	6.0	9.8	0.4(p)	10.2
Maryland	5.0	0.0	5.0	56.4	0	56.4
Massachusetts	5.0	0.0	5.0	39.2	26.2(p)	65.4
Michigan	4.0	0.0	4.0	60.1	10.6(p)	70.7
Minnesota	6.0	*	6.0	47.2	0.4	47.6
Mississippi	6.0	0.0	6.0	23.4	0	23.4
Missouri	4.25	1.25	5.5	34.7	11.2	45.9
Montana	----- no state or local sales taxes -----					
Nebraska	4.0	0.75	4.75	11.5	1.7	13.2
Nevada	5.75	*	5.75	8.4	4.4(d+p)	12.8
New Hampshire	----- no state or local sales taxes -----					
New Jersey	6.0	0.0	6.0	107.1	0	107.1
New Mexico	4.75	1.0	5.75	7.6	4.5(d+p)	12.1
New York	4.0	3.5	7.5	96.5	81.8	178.3
North Carolina	3.0	2.0	5.0	35.2	23.9	59.1
North Dakota	5.5	*	5.5	8.3	0.1	8.4
Ohio	5.0	0.5	5.5	88.8	12.3(d+p)	101.1
Oklahoma	4.0	2.75	6.75	17.3	9.3	26.6
Oregon	----- no state or local sales taxes -----					
Pennsylvania	6.0	0	6.0	127.8	0	127.8
Rhode Island	6.0	0.0	6.0	11.0	0	11.0
South Carolina	5.0	0.0	5.0	29.6	0	29.6
South Dakota	5.0	0.75	5.75	5.1	1.0	6.1
Tennessee	5.5	1.75	7.25	35.7	13.4(d+p)	49.1
Texas	6.0	1.5	7.5	225.2	38.2	263.3
Utah	5.0	1.25	6.25	14.8	3.4	18.2
Vermont	4.0	0.0	4.0	4.2	0	4.2
Virginia	3.5	1.0	4.5	49.1	14.0	53.1
Washington	6.5	0.75	7.25	61.1	7.5	68.6
West Virginia	5.0	0.0	5.0	16.2	0	16.2
Wisconsin	5.0	*	5.0	44.8	?	
Wyoming	3.0	0.75	3.75	1.5	1.3(d+p)	2.8
Totals				2,087.2	456.8	2,544.0

Key: "d" refers to sales taxes directly imposed by local governments; "p" refers to the portion of state sales taxes which must be passed through to local governments under state law.

Impact of Bellas Hess Loophole on Local Businesses and Communities: In the 1967 Bellas Hess decision, the Supreme Court ruled that a state could not require out-of-state retailers to collect sales taxes owed on purchases to residents of the state unless the retailer had a physical presence or "nexus" in the state in question. This ruling also limits the collection of local sales taxes on interstate transactions.

Because of this loophole, out-of-state retailers can sell merchandise at a substantial discount to consumers who live in a state where a state and/or local sales tax applies to in-state purchases of the same good. The out-of-state retailer's price advantage typically equals the combined state and local sales tax rate applicable to a comparable in-state transaction.

A consequence of this price discount for interstate transactions is likely to be a reduction in local purchases of goods, with local businesses the ultimate losers. Economists have estimated that a one percent increase in the sales tax rate may reduce local retail sales by six percent as consumers avoid the tax by making purchases by mail or traveling to jurisdictions with lower sales taxes to do their shopping.

Two types of sellers are currently able to avoid responsibility for the collection of state and local sales taxes because of the Bellas Hess loophole. Both could be required to collect state and local sales taxes under the proposed legislation.

Direct marketers -- sellers who solicit sales through catalogues, television shopping networks, direct-response commercials, computer shopping, and other high-tech methods -- make about \$150 billion in sales each year or about 14 percent of all retail sales. By next year, it is estimated that their share of the retail market will increase to about 20 percent.

Border sellers -- sellers located near to state boundaries -- ship goods across borders via delivery truck or the postal service, thereby circumventing the collection obligation. The sales tax revenues lost as a result of this method of selling is unknown, although it clearly has a major impact on local businesses in certain areas of the country.

Action: Your members should assess what the potential revenue impact would be to their merchants and their municipality. They should bring whatever specific examples they can to Washington.

It is our view that if this effort is perceived as one of the equity instead of a tax increase, and if it carries strong local business support; we are more likely to obtain support in the Congress.

The new coalition's four cochairs are: Cathy Reynolds, former NLC President and Councilwoman-at-Large, Denver, Colorado; Gov. George Sinner of North Dakota; Edward Knodle, President of Knodle's Appliance and Electronic Center, Sycamore, Illinois; and Gerald McEntee, President of the American Federation of State, County and Municipal Employees. About 30 groups have now joined the coalition, and the coalition is seeking additional retail and business groups (including state and local groups) as members. Retail and business groups can join the coalition or obtain additional information about the coalition by writing:

Coalition for Fair Collection of Interstate Sales Taxes
Suite 660
1828 L Street, N.W.
Washington, D.C. 20036-5188

Examples of members are: American Floorcovering Association, Arkansas Retail Merchants Association, Marine Retailers Association of America, Oklahoma Chamber of Commerce, Chicago Design Sources, and Southwest Home Furnishings Association.

Action: A national coalition -- the Coalition for Fair Collection of Interstate Sales Taxes and comprised of business groups, labor unions, and state and local government organizations -- has been established to mobilize support for the legislation and to mount a counteroffensive to DMA's negative campaign. This effort should be reinforced to the maximum extent possible at the state and local level: state municipal leagues should ask local and state-wide associations to join this coalition and become active supporters of its efforts and to ask members of Congress to support legislation to close the Bellas Hess loophole.



OFFICE OF THE MAYOR

CITY HALL, CAMBRIDGE, MASSACHUSETTS 02139

(617) 498-9090

Alice K. Wolf
Mayor

TO: The Honorable Members of the City Council
FROM: Alice K. Wolf, Mayor AKW
RE: NATIONAL LEAGUE OF CITIES MEETING
DATE: February 22, 1990

Attached is scheduling and briefing information supplied by the Mass Municipal Association in preparation for the National League of Cities Meeting in Washington.

You will note that Senator Kerry is planning both a reception and a briefing session for Massachusetts officials. The reception is on Monday, March 5, from 5:30 PM to 7:00 PM at the Banking Commission Room, Dirksen Senate Office Building. The briefing session will be held on Tuesday, March 6 from 9:00 AM to 12:00 Noon at the Hall of States, Room 263, 444 North Capitol Street. The guest speakers will be Senator Edward Kennedy, Senate Majority Leader George Mitchell, Congressman Charles Rangel who is Chairman of the House Committee on Narcotics and Abuse Control, and Chairman Michael Deland from the Council on Environmental Quality. Following the briefing session there will be a luncheon from 12:30 PM to 2:00 PM being held at the Monocle Restaurant which is across from the Hall of States.

AKW/smb

Enclosure

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S-187

REPORTS FROM CITY OFFICERS

Comm. from Alice K. Wolf, Mayor, transmitting a scheduling and briefing information for the National League of Cities meeting in Washington.

In City Council,

February 26, 1990

Placed on file