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[Apr. 1975]

- 2 -

- Permit a more flexible system of reports.
- Require renewal consideration two years prior to expiration.

For your information several additional tabs are provided:

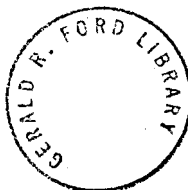
- White House "Fact Sheet" Tab C.
- Press Booklet (to be printed) Tab D.
- Draft Bill, Analysis and Comparative Type (to be printed) Tab E.

In addition to Treasury and OMB, Jack Marsh, Bill Seidman, Max Friedersdorf and your Counsel's office have cleared this legislative package. The Message and letters have been cleared by Paul Theis.

RECOMMENDATIONS

That you sign the transmittal letters to the President of the Senate and the Speaker of the House at Tab A and that you approve and sign the Message to the Congress at Tab B.

Note: The material at Tab E to be printed by Treasury will accompany these letters.



ANALYSIS

STATE AND LOCAL FISCAL ASSISTANCE ACT AMENDMENTS OF 1975

Section 1

The amount of a recipient government's revenue sharing allocation is determined by the data factors of that government relative to the data factors of all other competing governments. In the process of improving the data, it is sometimes necessary to make data corrections after the final allocation of funds, and after the period during which the vast majority of data corrections have been processed. Each data correction of this type, absent a special procedure, would result in retroactive changes to the allocations and payments of many governments which had expended the funds or had come to rely on those allocations and payments for budgetary purposes.

To mitigate the inequity arising from this unfortunate but inevitable circumstance, 31 CFR 51.25(a) has been promulgated. It establishes an Obligated Adjustment Reserve that is funded by administratively holding in reserve a small percentage (.005) of the revenue sharing funds appropriated for each entitlement period from which adjustments can be made to alleviate hardships caused by prior misallocations. The amount of revenue sharing funds held in reserve and the decision to make adjustment payments is determined at the discretion of the Secretary, as the equity of the situation requires.

The creation of the Reserve Fund has proved necessary for the orderly administration of the General Revenue Sharing program due to the

complexity of the allocation process. The proposed amendment to section 102 of the Act is recommended in the first section of the bill to clarify the authority of the Secretary to make adjustments in this manner.

Section 2

Section 105(b)(1) of the present Act provides for the periodic appropriation of funds from the general fund of the Treasury to the State and Local Government Fiscal Assistance Trust Fund. Funding under this section is provided through December 31, 1976, with an increase of \$150 million each full fiscal year with the exception of early periods and the last period of six months. That six-month period also provides for a step increase of \$150 million.

Clause (1) of section 2 of the bill provides for a continuation of the General Revenue Sharing program for 5-3/4 additional years, concluding with the fiscal year beginning October 1, 1981. This recommendation strikes a reasonable balance between the need of recipient governments for fiscal stability and the legitimate desire of the Federal Executive and the Congress to review the law in the light of future national economic concerns. Thus, the total amount to be distributed under the 5-3/4-year renewal program is \$39.85 billion, which includes \$75 million moved forward from the final six months of the current program. The original Act provided for a \$150 million increase for the six-month entitlement period which was to end the GRS program. Since the program is to be extended, the legislation seeks to continue linear \$150 million annual stairstep increases in funding level.

The amendment also creates a three-month appropriation period beginning July 1, 1976, and ending September 30, 1976, to provide for the transition to

the new October 1 Federal fiscal year. The entitlement period beginning July 1, 1976, combines this quarter with the following fiscal year so that the entitlement period would end on September 30, 1977.

When the revenue sharing allocation of Alaska or Hawaii is determined by the three-factor allocation formula, it becomes eligible for the non-contiguous State adjustment. Pursuant to section 106(c) of the Act, an adjustment may be made to the basic allocation for these States in which civilian employees of the U.S. Government receive an allowance under 5 U.S.C. section 5941. Section 105(b)(2) appropriates the funds used to make this adjustment.

Clause (2) of section 2 of the bill would amend section 105(b)(2) by extending this appropriation at the existing rate of \$4,780,000 per year. Further, this amendment, like that of clause (1) of section 2 above, would result in two appropriation periods being combined under the new fifteen-month entitlement period proposed for section 141(b). This will allow for the transition to the new Federal fiscal year and at the same time identify all the appropriations being proposed for this section, including the transition quarter.

Clause (3) of section 2 of the bill would amend section 105 of the Act to add subsections (d) and (e). The new subsection (d) provides that the funds appropriated for the extension of the General Revenue Sharing program are exempt from the appropriation procedures of section 401(a) and (b) of the Congressional Budget Act of 1974 (P.L. 93-344). This Act specifically provides that any extension of the General Revenue Sharing program is eligible for this exemption. The appropriation of funds at



the outset for the extension of the General Revenue Sharing program is vitally important to recipient governments to assist them in planning for their service programs, capital improvement programs, and financial policies without being subject to the inherent delays and uncertainties of the annual appropriation process.

The new subsection (e) provides that the Secretary of the Treasury shall submit a report, with recommendations concerning the extension of the Act, to the appropriate Congressional committees two years before the expiration of funding under this bill. A requirement to review the renewal of the General Revenue Sharing program two years in advance of its expiration would remove much of the uncertainty for State and local governments regarding availability of future funds and would provide the Congress adequate time to review the program.

Section 3

Section 107(b)(5) of the Act provides a special rule to measure State assistance to local governments during the six-month-long entitlement period (July 1, 1976 - December 31, 1976). This provision is no longer needed in view of the fact that this legislation would replace the six-month entitlement period with a new longer entitlement period. Accordingly, it is proposed that section 107(b) be amended to delete paragraph (5). In situations in which either the recipient government's fiscal year does not coincide with an entitlement period or where an entitlement period is greater than or less than a full year, the Office of Revenue Sharing has provided by regulation (31 CFR 51.26) that the

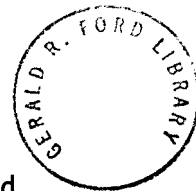
point of reference for measuring a State's assistance to local governments will be that State's fiscal year.

Section 4

Section 4(a) amends section 108(b)(4) of the Act to treat an entitlement waiver by an Indian tribe or Alaskan native village in the same way as waivers by other eligible governments.

Section 108(b)(4) of the present Act provides that if the governing body of an Indian tribe or Alaskan native village waives its entitlement, then the amount of the entitlement shall be distributed according to the rules relating to distribution within county areas. The waiver by an Indian tribe or Alaskan native village is therefore handled differently than a waiver by a unit of local government pursuant to section 108(b)(6)(D). In the case of a waiver by a unit of local government, the entitlement waived becomes a part of the entitlement of the county government of the county area in which the waiving unit is located. In the case of Indian tribes and Alaskan native villages, section 108(b)(4) requires the amount of the entitlement waived by those units to pass to all of the other local units of government in the applicable county area.

The required treatment of waived entitlements by Indian tribes causes a significant burden of recomputation, the net effect of which is to increase the entitlement of numerous units of local government by relatively insignificant amounts. In many instances, the cost to the Office of Revenue Sharing of making the required adjustment to entitlements initiated by waiver by an Indian tribe exceeds the amount of the entitlement waived. We believe that entitlements waived by an Indian tribe or Alaskan native village should be



treated the same as a waiver by any other unit of local government, and the amount waived should be added to the county government entitlement. Section 4(a) of the bill would accomplish that purpose.

Section 4(b) of the bill provides that beginning with the entitlement period that begins on July 1, 1976, the present maximum limitation on the amount of revenue sharing entitlements be raised. In order to insure that some communities would not receive extremely high or low allocations, the maximum and minimum limitations on the revenue sharing allocations to county areas and units of local government were imposed upon the revenue sharing formula. Under the current law, the maximum limitation for any county area or local government in a State is 145 percent of the per capita allocation to all local governments in the State.

The effect of this 145 percent maximum is as follows: after the entitlements of local governments within a State are computed according to the formula, any jurisdiction which is entitled to receive more than 145 percent of the average per capita allocation to all local governments in that State has its allocation reduced to the 145 percent level. The funds taken from these jurisdictions, which are generally characterized by low-income population and high levels of tax effort, are then redistributed according to the formula to the remaining jurisdictions within the State which are not so constrained and which would otherwise receive smaller amounts.

To reduce the impact on local governments which have been receiving additional funds that are redistributed because of the operation of the

145 percent constraint upon other jurisdictions within their State, the maximum allocation constraint would be raised gradually, in five steps, by an increase of 6 percentage points per entitlement period until a new maximum constraint level of 175 percent is reached. The purpose of raising the maximum per capita allocation constraint to 175 percent is to allow low personal income and high tax effort to be more fully reflected in the operation of the basic formula.

Due to the responsiveness of the revenue sharing formulas to changes in data--the allocation of revenue sharing funds is based on annually changing data elements such as adjusted taxes, and on periodically updated data elements such as per capita income and population--the effect of this proposed change will vary in any entitlement period and from State to State. As a result of the gradual phase-in, and as a result of the stairstep increases in the total amount being distributed each entitlement period, however, the potential losses to almost all jurisdictions in any given year should be fully offset so that they will not suffer an actual decrease in their revenue sharing payments as a consequence of this change.

Increasing the maximum constraint as proposed will, as a general rule, cause increased revenue sharing funds to be received by the 4,000 places that have been constrained in the past. These places include both major cities and smaller jurisdictions. Approximately 23,000 places would no longer receive additional redistributed funds from the constrained

places, but the amount involved for any given place is relatively small. Had the 175 percent constraint limitation been fully implemented in FY 1974, these 23,000 places would have received an average of \$3,000 less than they were actually paid in FY 1974, which is an average 2.2 percent less than they actually received.

Section 108(c) of the Act enables State governments, by enactment of a State law, to adopt an alternative formula for the distribution of revenue sharing allocations among the county areas and among the municipalities located therein. Section 4(c) of the bill amends section 108(c)(1)(C) for the sole purpose of reflecting the extension of the General Revenue Sharing appropriations until September 30, 1982.

Section 5

Section 109(a)(5) of the present Act states that, except as provided in the regulations, the determination of allocations and entitlements for any entitlement period shall be made as of the first day of the third month immediately preceding the beginning of each period. Further, section 109(a)(7) provides for uniformity of data and states the general rule that the data shall be the most recently available data. These provisions are effective and permit the orderly computation of entitlements before the beginning of each period so that States and local governments may be advised, for planning purposes and for purposes of informing their citizens, well before payments are made. In section 109(c)(2)(B) the definition of the general tax effort for States defines the most recent



reporting year as the one taken into account by the Bureau of the Census prior to the close of that entitlement period. This definition appears to conflict with the definition for all other data items and appears to conflict with the earlier section providing for uniformity of data and for computation of entitlements three months before the beginning of an entitlement period.

Were this non-conforming definition to be given precedence, it would necessitate substitution of these data during an entitlement period while payments were being made, and would result in changing the entitlements for all 38,000 recipient governments during the middle of the payment year.

Section 5 of the bill would eliminate this non-conforming language by amending section 109(c)(2)(B) by deleting the word "close" in the phrase "made before the close of each period", and inserting in lieu thereof the word "beginning". Thus, the phrase would read, "made before the beginning of such period". In this way, data from which the general tax effort factor is computed, and which is published by the Department of Commerce by October of each year, would be used for the computation of the entitlement period beginning in the following year, and no tax effort adjustments to the general universe of recipients would be necessary.

Section 6

Section 121(a) of the Act requires States and units of local government to submit a report to the Secretary of the Treasury at the close of

each entitlement period setting forth the amounts and purposes for which funds received during such period have been spent or obligated. The purpose of this section is to keep the Secretary and the public abreast of how recipient governments are spending their General Revenue Sharing funds.

Attempts to measure the various effects General Revenue Sharing funds have had on recipient governments from the Actual Use Reports submitted to date have met with only limited success. Section 6(a) of the bill is intended to give the Secretary more discretion to determine the form and content of the reports submitted under section 121(a) of the Act. This additional authority to regulate the substantive content of the Actual Use Reports will be used to require recipient governments to report financial and use information in a fashion that is more meaningful to the general public, to the Congress, and to the Executive Branch.

Section 121(b) of the Act requires States and units of local government expecting to receive revenue sharing funds for any entitlement period to submit a report to the Secretary of the Treasury setting forth the amounts and purposes for which they plan to spend or obligate the funds during such period. The so-called Planned Use Report is intended to be used to inform the Secretary and the public as to how recipient governments plan to expend their General Revenue Sharing funds.

Section 6(b) of the bill is intended to serve the same function for the Planned Use Reports as section 6(a) serves for the Actual Use Reports. In each case, we believe the effectiveness of the reports could be

significantly enhanced if the Secretary were allowed more administrative discretion to determine their content. The present requirement that the Planned Use Report set forth the amounts and purposes for which the recipient government plans to spend or obligate the funds does provide beneficial information. However, section 6(b) would make it possible for the reports to provide data that is more useful to local citizens and the Federal Government.

Section 121(c) of the Act requires each recipient government to publish a copy of each report which it submits to the Office of Revenue Sharing in a newspaper which is published within the State and has general circulation within the geographical area of that government. Based on our administrative experience, this section should be modified. The Office of Revenue Sharing has received a large number of complaints, particularly from small units of government, regarding the relatively high cost of publication. Some small governments receiving less than \$1,000 have had to spend \$100 or more for publication due to a variety of local circumstances. In other instances, the unavailability of a newspaper circulating generally within the geographical area of a county has been called to our attention. In still other cases, we have been advised that there are more effective ways to get the information contained in the report to the citizens of the community.

Section 6(c) of the bill would amend section 121(c) to authorize the Secretary to establish alternative procedures where it is determined that the requirement of publication in a newspaper is unreasonably expensive

in relation to the amount of revenue sharing funds involved, or, where the Secretary finds that in terms of public understanding, there are better methods to get the information before the residents of the community.

Section 7



Section 122(a) of the Act provides that no person in the United States shall on the ground of race, color, national origin, or sex be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity funded in whole or in part with revenue sharing funds. The statutory authority of the Secretary of the Treasury to enforce the above nondiscrimination provision is set forth in section 122(b) of the Act. It presently states that upon a determination by the Secretary that a recipient has failed to comply with subsection 122(a), and after notification to the Governor of the State (or, in the case of a unit of local government, the Governor of the State in which such unit is located) and after failure to secure voluntary compliance within a reasonable period of time, the Secretary may either: refer the matter to the Attorney General with a recommendation that an appropriate civil action be instituted; exercise the powers and functions provided by Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000d); or take such other action as may be provided by law.

Title VI of the Civil Rights Act of 1964 prohibits discrimination in the use of Federal financial assistance by way of grant, loan, or contract,

(42 U.S.C. 2000d-1). In order to receive such assistance, generally the State or local government must file an application satisfying the requirements of the particular program. Revenue sharing payments are based on a statutory entitlement for which States and units of local government are automatically eligible pursuant to Section 102 of the Act. The Secretary has no discretion to approve or disapprove in advance payments to any participating recipient government.

Recognizing the unique aspects of revenue sharing entitlements, section 7 of the bill is intended to express clearly in the Act certain authority of the Secretary in applying the nondiscrimination provisions of Section 122. This is accomplished by stating explicitly that the Secretary has authority to withhold all or a portion of entitlement funds due a State or unit of local government, to terminate one or more payments of entitlement funds, and to require repayment of entitlement funds previously expended in a program or activity found to have been in violation of subsection (a). The changes in section 122 will further enhance the Secretary's ability to ensure that entitlement funds are not utilized in a discriminatory manner.

Section 8

Broad public participation in State and local decision making as to how revenue sharing funds are to be expended is an essential ingredient of General Revenue Sharing. For this reason, section 121(c) requires that the news media be notified when the Planned Use and Actual Use Reports are published in a local newspaper. By regulation, recipient

governments must also make these reports available to the general public. Additionally, to encourage citizen involvement, section 123(a)(4) of the Act requires recipient governments to provide for the expenditure of revenue sharing funds only in accordance with the laws and appropriation procedures which are applicable to the expenditure of their own revenues.

Clause (1) of section 8 of the bill would further strengthen the general public's role in the General Revenue Sharing process. It amends section 123(a)(5) of the Act to the extent that in order to qualify for revenue sharing funds, a State or unit of local government must establish to the satisfaction of the Secretary of the Treasury that it will provide the residents under its jurisdiction with an opportunity to give their recommendations and views on how the revenue sharing funds should be spent. This opportunity for public involvement may be provided either in a public hearing or, where appropriate, by other means prescribed in regulations to be issued by the Secretary of the Treasury. This amendment would serve to ensure that all recipient governments, regardless of whether they have State or local public participation requirements, will include the public in the decision-making process on the expenditure of revenue sharing funds.

Section 123(a)(8) of the Act provides that Indian tribes and Alaskan native villages must spend their revenue sharing funds for the benefit of members of the tribe or village residing in the county area from which its revenue sharing entitlement originates. This provision affects Indian

reservations which are located in more than one county, thus resulting in the tribe receiving separate revenue sharing allocations from each county area.

Clause (2) of section 8 proposes to eliminate this provision for two reasons. First, it is very difficult for the Indian government to administer since it demands that an analysis be made of each proposed revenue sharing expenditure to ensure that the proper percentage of residents in the applicable counties will benefit in proportion to the percentage of revenue sharing funds generated from each county. Second, this requirement frustrates reservation-wide planning by limiting the capacity of the tribal government to concentrate its revenue sharing expenditures in areas which have the highest priority.



Section 9

Section 141 of the Act defines the entitlement periods which govern the distribution of funds to recipient governments. Section 9 of the bill would revise the last entitlement period (July 1, 1976, to December 31, 1976) by extending it to September 30, 1977. This fifteen-month entitlement period would provide for the transition to the new Federal fiscal year and would combine the appropriations of subparagraph (G) and proposed subparagraph (H) of section 105(b)(1). Also, section 141 would be amended to extend the General Revenue Sharing program until September 30, 1982.

[Apr. 1975]

NOTE FOR FILE:

SOLDIER FOR REVENUE SHARING

Also - Friend of JMCs:

Mr. William D. Hassett, Jr.
107 Delaware Avenue
Buffalo, New York
14202



DOMESTIC COUNCIL CLEARANCE SHEET

DATE: April 3, 1975

JMC action required by: _____

TO: JIM CANNON

VIA: DICK DUNHAM

JIM CAVANAUGH

FROM:

Jim Fall

[Handwritten initials/signature]

*When a letter
to Governor
Mayors
County Execs
other recipients*

SUBJECT:

Revenue Sharing Message

COMMENTS:

DATE: _____

RETURN TO:

Material has been:

- Signed and forwarded
- Changed and signed (copy attached)
- Returned per our conversation
- Noted
-



Jim Cannon

THE WHITE HOUSE
WASHINGTON

April 3, 1975

MEMORANDUM FOR: JIM CANNON
FROM: JIM FALK **7**
SUBJECT: Revenue Sharing Reenactment

Attached is a revised draft of the Message to Congress. The Legislation, fact sheet and press packet will be ready Monday. The draft will be relayed from Treasury and OMB on Monday with final comments. We will be ready to transmit the entire package during the week of April 7.

Attachments



April 2, 1975

RETURN TO RESEARCH
ROOM 123

ok/ase

PRESIDENTIAL MESSAGE ON GENERAL REVENUE SHARING
RENEWAL LEGISLATION

To the Congress of the United States:

I herewith transmit to the Congress legislation to extend the State
and Local Fiscal Assistance Act of 1972. The ^{er} Act, and the General
Revenue Sharing program which it authorizes, expires on December 31,
1976. I strongly recommend that the Congress continue this highly
successful and important new element of American Federalism well in
advance of the expiration date.

*in only that states can
local government work with sound fiscal plans*

The Value of Federalism

The genius of American government is the Federal system of
shared sovereignty. This system permits and promotes creativity and
freedom of action at three levels of government simultaneously. The
Federal way enables our people to approach their problems through the
governments closest to them, rather than looking to an all-powerful
central bureaucracy for every answer.

With the Federal Government heavily committed to international affairs, the Nation's defense, the state of the economy and the crisis over energy, we need strong, effective state and local governments to meet the everyday needs of our people -- for good police and fire protection, education, transportation, sanitation, and the basic services of a well-governed society.



In 1972, when General Revenue Sharing was passed, the Federal partnership was in trouble. The Federal Government, with its highly efficient tax gathering machinery, then collected some two-thirds of the Nation's total tax revenues. Federal revenues, particularly because of the income tax, tended to be elastic, to grow with the economy. However, state and local revenues, more dependent on relatively rigid real property taxes and regressive sales taxes remained largely stagnant. These governments had to meet rising demands for services and costs through endless rounds of tax increases. Simply stated, revenues had grown fastest at the Federal level, while needs were growing fastest at the state and local levels.

The Federal Government, then as now, sought to help states and communities meet their needs through Federal aid. For the most part, this aid is in the form of categorical grants that is, narrowly defined, closely controlled grants for specific purposes. Today, over one thousand of these categorical grants are available for almost every imaginable objective.

However, the necessity to go to Washington for the solution to many local problems has had a stifling effect on the creativity and accountability of state and local governments. Along with Federal aid come Federal strings which virtually choke local initiative.

Furthermore, until the concept of bloc grants was partially introduced, these Federal grants rarely went to support basic, day-to-day services, such as the schools or police protection where states and localities needed the help most. They were designed to lead state and local governments in new directions. Consequently, the recipients,

all too often, headed in the direction where the grant monies were available, rather than where their genuine needs existed.

Finally, much of the aid the Federal Government makes available has to be matched by state and local funds. The impact of this requirement is often to aggravate rather than to alleviate a state or local government's financial plight.

This was the situation the Executive Branch and the Congress faced in 1972 -- a Federal system endangered by the growing impoverishment of two out of the three Federal partners. This is the situation that the Federal Government wisely met, by the passage of General Revenue Sharing.

This program has been a resounding success. Since its enactment, General Revenue Sharing has provided over \$17 billion to 50 states and some 39,000 local governments -- with virtually no strings attached, which these governments could use as they saw fit to meet their priority needs.



These Federal revenue sharing dollars have meant new crime fighting equipment or more police on the street, help for sinking but essential mass transportation, a ~~more wholesome~~ ^{healthier} environment, ^{better} ~~environment~~, better fire protection and a hundred other useful public investments. If some communities have not used their revenue sharing funds wisely, they are a miniscule fraction of those governments which have used this money well.

The current revenue sharing act has also enabled individuals and citizen groups to play a part in determining the use of these Federal funds in their communities. This broadened citizen participation strengthens our democracy in the best possible way, from the people up.

The Need Goes On

General Revenue Sharing has also been the keystone of additional efforts to reform Federal aid. The new block grant programs, more decentralized grant management, joint funding projects and grant integration, improved program information, and executive reorganization

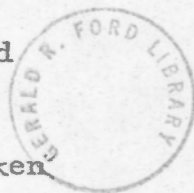
have all been included in a large-scale effort to make better sense of
and to get greater results from the billions granted to state and local
governments.

The General Revenue Sharing program enacted in 1972 turned a
corner. It caught a serious problem in time and helped us get back on
the road to a sounder Federalism, of shared rights and responsibilities.
But, given the impact of the recession on state and local governments, the
need for revenue sharing is, if anything, accentuated today. The budgets
of state and local governments, by and large, show serious deficits.
This situation is expected to continue for the foreseeable future.

Many units of governments, particularly pressed urban areas,
count on these funds for their budget planning. If the flow of shared revenues
were to be turned off or scaled down, the results would be sharp and painful.
Our efforts to revive the economy would suffer a serious blow. States,
cities and small communities would have to cut back essential services.

Public and related private unemployment would increase. These governments would have to tax more or borrow more -- which would tend to defeat the objectives of our national efforts to reduce the tax load and revive the economy.

Federal revenue sharing was a wise move when it was enacted. Its continuation is imperative now. However, before recommending extension of this program, the Administration has conducted an exhaustive evaluation of the present programs, its strengths and its weaknesses, so that we can build on experience. This evaluation has been carried out by the Administration and an interagency study group, and has taken into account the views of the Congress, state and local government officials, interested citizen bodies and private study groups analyzing government policy. I will also consider for future consideration any significant findings which may yet emerge from studies presently underway.



Based on the Administration's review of this evaluation, I am now proposing to the Congress legislation which will maintain the basic features of the existing revenue sharing program while offering a number of improvements.

Briefly, the principal elements of the legislation which the Administration proposes for renewing the General Revenue Sharing program are as follows:

-- the basic present revenue sharing formula is retained. We find this formula to be a reasonable compromise of the complex interests involved. Experience to date suggests the basic fairness of the present formula. The poorer states, by and large, get more aid per capita than the wealthier states. The central cities generally fare better, per capita, than less needy suburbs. States which make an effort to raise their own revenues tend to benefit more than those who do not.

-- funds will be authorized for 5 and three-quarters years. The effect of this provision is to conform the time period to the new Federal fiscal year;

-- the current level of funding will be retained, but will be increased by a \$150 million annual increment to compensate, in part, for the impact of inflation. Over the five and 3/4 years, this level will produce a total distribution of Federal revenues of \$39.3⁷⁶ billion.

By the final year, the revenues shared will have increased by \$937 million over the current level.

-- it requires a review of the program two years before its

expiration to help state and local governments with their budget planning;

-- recognizing differing levels of need, the Administration proposal

would allow hard-pressed areas with a particular jurisdiction to receive

75 percent more than the average per capita grant rather than the current

limit of 45 percent. The impact of this change on other communities would be

minimized by phasing the change over a five-year period and by the

\$150 million annual increment in the total program.

The prohibition on the discriminatory use of funds continues, of course, under the Administration proposal. Revenue sharing was not designed nor intended to circumvent the anti-discrimination provisions of Federal law.

In fact, the Treasury Department's Office of Revenue Sharing would increase its activities for ensuring that the civil rights provisions of the law are enforced under my proposal. The Administration bill would

also make another useful change in the discrimination provisions of the law.

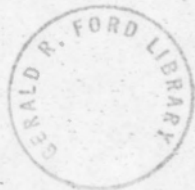
The Secretary of the Treasury, at his discretion, may choose to defer only that portion of a revenue sharing payment actually involved in a discriminatory action. In this way, discrimination can be combatted without the community at large being unnecessarily penalized.

-- to strengthen public participation in determining the use of shared revenues, the proposed legislation requires

(MORE)

that recipient governments must provide a procedure for citizen participation in the allocation of revenue sharing monies.

-- the Administration proposal would also make reporting and publicity requirements more flexible to meet varying needs from community to community. The legislation would grant the Secretary of the Treasury greater latitude in determining the form and the information required of recipients. Similarly, he would have more flexibility in determining the method by which recipient governments must make public their use of funds.



Early Renewal Is Important

I urge the Congress at its earliest convenience to begin deliberations on the renewal of the State and Local Fiscal Assistance Act of 1972. Effective ^{planning} at the State capitols, city halls, and county courthouses ~~which~~ ^{will} require action well before the expiration of the program.

The expiration of the present General Revenue Sharing Law is coincident with the year in which the Nation celebrates its bicentennial. There could be no more practical reaffirmation of the Federal compact which launched this Country than to renew the law which has done so much to preserve and strenthen that compact -- the General Revenue Sharing program.



EXECUTIVE OFFICE OF THE PRESIDENT
 OFFICE OF MANAGEMENT AND BUDGET
 WASHINGTON, D.C. 20503

APR 9 1975

MEMORANDUM FOR THE DIRECTOR

Subject: General Revenue Sharing (GRS) renewal funding

One of the key decisions resulting from the Administration's review of General Revenue Sharing renewal was a Presidential determination to maintain \$150 million annual stair-step increases through 1982. Furthermore, the Administration decided to revise the current GRS legislation (which runs through December 31, 1976) to bridge immediately into the transition quarter (July 1-September 30, 1976) and thereafter to reflect the Government's new fiscal year (October 1-September 30) throughout the renewal period.

Below are two alternative funding approaches based on these decisions - but reflecting different treatment of the fifteen month entitlement period between July 1, 1976, and September 30, 1977.

	(\$ in millions)	
	<u>Option A</u>	<u>Option B</u>
<u>Current legislation - (through December 31, 1976):</u>		
◦ FY 1976	6,350.0	6,350.0
◦ Transition quarter (1/4 of FY 1977 rate of \$6,500)	1,625.0	1,625.0
◦ 1st quarter, FY 1977 (1/4 of 1977 rate of \$6,500)	1,625.0	1,625.0
 <u>Renewal legislation - (January 1, 1977 to September 30, 1982):</u>		
◦ 3 quarters, FY 1977	4,875.0	4,912.5
Total, FY 1977	(6,500.0)	(6,537.5)
◦ FY 1978	6,650.0	6,687.5
◦ FY 1979	6,800.0	6,837.5
◦ FY 1980	6,950.0	6,987.5
◦ FY 1981	7,100.0	7,137.5
◦ FY 1982	<u>7,250.0</u>	<u>7,287.5</u>
 Total, renewal legisla- tion	 39,625.0*	 39,850.0*

*Estimates reflect moving forward \$75 million from the last six months of the present program to provide even stair-step increases during the renewal period.

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Option A provides for \$150 million increments between each fiscal year. The three month transition quarter is calculated as one-fourth of the 1977 amount of \$6,500 million. The incremental increase in the transition quarter does not affect the base for determining 1977 and subsequent year levels.

Option B calculates the transition quarter in the same method as Option A (one-fourth of the 1977 amount of \$6,500 million) but considers the transition quarter as establishing a new base for 1977 and subsequent years.

Option B assumes a literal interpretation of the President's decision to increase GRS by \$150 million annually (every four quarters). Since the period July 1, 1976, to September 30, 1977, has five quarters, this alternative adds an increase of \$150 million for four of those quarters but provides a further increased increment for the fifth quarter.

The difference between these options is best illustrated in the following table:

	(\$ in millions)	
	<u>Option A</u>	<u>Option B</u>
1976	6,350.0	6,350.0
Incremental increase for the transition quarter	<u>+37.5</u>	<u>+37.5</u>
Subtotal	6,387.5	6,387.5
Incremental increase for 1977 above the transition quarter	<u>+112.5</u>	<u>+150.0</u>
1977	6,500.0	6,537.5
Subsequent years increase \$150 million from these bases.		

For the fifteen month period, between July 1, 1976 and September 30, 1977, Options A and B provide for the following increases above 1976:

	(\$ in millions)	
	<u>Option A</u>	<u>Option B</u>
◦ Transition quarter	+37.5	+37.5
◦ FY 1977	<u>+150.0</u>	<u>+187.5</u>
	187.5	225.0

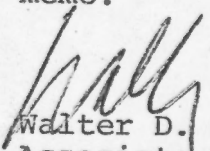
Since Option A does not consider the transition quarter in establishing 1977 levels, it is more consistent with the treatment other Federal programs received in the 1976 budget than Option B. Option A differs slightly from normal budget treatment in that it calculates the transition quarter from 1977 rather than 1976. Since the President agreed to progressively increase GRS program levels throughout the renewal period, it was determined inappropriate to hold the transition quarter static at the 1976 level. However, Option A does not consider the transition quarter as establishing a new base for determining 1977 GRS levels.

In other programs comparable to General Revenue Sharing--Community Development grants, Comprehensive Employment and Training Act, Airport Development Aid Program and Law Enforcement Assistance Administration--decisions concerning the transition quarter level and the 1977 projected level were made in accordance with guidance published by OMB in Bulletin No. 75-8 and Transmittal Memorandum No. 42 revising Circular A-11. Under that guidance, budget authority for the transition quarter and future years was calculated from the 1976 level. In other programs, such as the Federal-aid Highway program, decisions were made relative to the individual issues involved. In the Highway program, contract authority, authorized in prior years, is being used for the 1976 and transition quarter program with additional "make well" authority provided for certain states. The 1977 Highway program levels are higher than those in 1976. Even in the Highway program, the transition quarter, however, was treated throughout as related to 1976 or as part of a 15-month period including 1976. We have identified no instance in which the transition quarter was used in establishing the base for 1977 program levels.

Treasury is concerned that Option A will be misinterpreted by state and local recipients as an attempt to deprive them of funds they believe they are entitled to by virtue of the President's decision. State and local governments are well aware of the President's decisions. Since there will be significant renewal issues raised by the critics of GRS, Treasury does not want to raise issues about the calculation of funding levels with GRS supporters. You might recall that Bill Simon asked Ed Schmults to call you about the political issues involved in this decision.

In fact, either Option A or B is defensible as far as carrying out the President's decision is concerned. Option A has the advantage of being somewhat more consistent with the treatment of other similar programs. Furthermore, the Administration could point out that in Option A it opted to calculate the transition quarter from a higher 1977 level (as opposed to 1976 in most other programs) in accordance with the President's decision to consistently increase program levels throughout the renewal period.

From the attachment you can see Highways is the principal precedent problem. Let's discuss this as soon as you have a chance to review this memo.



Walter D. Scott
Associate Director for
Economics & Government

Attachment



Treatment in the 1976 Budget of Programs Similar to General Revenue Sharing
(dollars in millions)

Program	1976		Transition quarter		1977		1978		1979		1980	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
Community Development grants	2,550	1,300	---	600	2,550	2,250	2,500	2,650	2,500	2,600	2,500	2,500
Comprehensive Employment and Training Act	2,394	2,684	599	673	2,394	2,540	2,394	2,394	2,394	2,394	2,394	2,394
Airport Development Aid program*	350	360	88	100	350	360	350	350	300	340	300	330
Law Enforcement Assistance Administration	770	888	195	237	770	925	770	809	770	780	770	773
Federal-aid and Highway programs*	5,200	5,817	1,300	1,365	5,500	5,600	5,650	5,600	5,800	5,600	5,950	5,600

*Current estimate, obligations are used in lieu of BA.



DATE: April 3, 1975

JMC action required by: _____

TO: JIM CANNON

VIA: DICK DUNHAM _____

JIM CAVANAUGH _____



FROM: Jim Falk

SUBJECT: Reverend Sharing Message

COMMENTS:

DATE: _____

RETURN TO:

Material has been:

- Signed and forwarded
- Changed and signed (copy attached)
- Returned per our conversation
- Noted
-

Jim Cannon

THE WHITE HOUSE

WASHINGTON

April 3, 1975

MEMORANDUM FOR: JIM CANNON
FROM: JIM FALK *F*
SUBJECT: Revenue Sharing Reenactment

Attached is a revised draft of the Message to Congress. The Legislation, fact sheet and press packet will be ready Monday. The draft will be relayed from Treasury and OMB on Monday with final comments. We will be ready to transmit the entire package during the week of April 7.

Attachments

ole/ape

PRESIDENTIAL MESSAGE ON GENERAL REVENUE SHARING
RENEWAL LEGISLATION

To the Congress of the United States:

I herewith transmit to the Congress legislation to extend the State
and Local Fiscal Assistance Act of 1972. The ^{er} Act, and the General
Revenue Sharing program which it authorizes, expires on December 31,
1976. I strongly recommend that the Congress continue this highly
successful and important new element of American Federalism well in
advance of the expiration date.

X

The Value of Federalism

The genius of American government is the Federal system of
shared sovereignty. This system permits and promotes creativity and
freedom of action at three levels of government simultaneously. The
Federal way enables our people to approach their problems through the
governments closest to them, rather than looking to an all-powerful
central bureaucracy for every answer.

With the Federal Government heavily committed to international affairs, the Nation's defense, the state of the economy and the crisis over energy, we need strong, effective state and local governments to meet the everyday needs of our people -- for good police and fire protection, education, transportation, sanitation, and the basic services of a well-governed society.

In 1972, when General Revenue Sharing was passed, the Federal partnership was in trouble. The Federal Government, with its highly efficient tax gathering machinery, then collected some two-thirds of the Nation's total tax revenues. Federal revenues, particularly because of the income tax, tended to be elastic, to grow with the economy. However, state and local revenues, more dependent on relatively rigid real property taxes and regressive sales taxes remained largely stagnant. These governments had to meet rising demands for services and costs through endless rounds of tax increases. Simply stated, revenues had grown fastest at the Federal level, while needs were growing fastest at the state and local levels.

The Federal Government, then as now, sought to help states and communities meet their needs through Federal aid. For the most part, this aid is in the form of categorical grants that is narrowly defined, closely controlled grants for specific purposes. Today, over one thousand of these categorical grants are available for almost every imaginable objective.

However, the necessity to go to Washington for the solution to many local problems has had a stifling effect on the creativity and accountability of state and local governments. Along with Federal aid come Federal strings which virtually choke local initiative.



Furthermore, until the concept of bloc grants was partially introduced, these Federal grants rarely went to support basic, day-to-day services, such as the schools or police protection where states and localities needed the help most. They were designed to lead state and local governments in new directions. Consequently, the recipients,

all too often, headed in the direction where the grant monies were available, rather than where their genuine needs existed.

Finally, much of the aid the Federal Government makes available has to be matched by state and local funds. The impact of this requirement is often to aggravate rather than to alleviate a state or local government's financial plight.

This was the situation the Executive Branch and the Congress faced in 1972 -- a Federal system endangered by the growing impoverishment of two out of the three Federal partners. This is the situation that the Federal Government wisely met, by the passage of General Revenue Sharing.

This program has been a resounding success. Since its enactment, General Revenue Sharing has provided over \$17 billion to 50 states and some 39,000 local governments -- with virtually no strings attached, which these governments could use as they saw fit to meet their priority needs.

These Federal revenue sharing dollars have meant new crime fighting equipment or more police on the street, help for sinking but essential mass transportation, a more wholesome environment, better fire protection and a hundred other useful public investments. If some communities have not used their revenue sharing funds wisely, they are a miniscule fraction of those governments which have used this money well.

The current revenue sharing act has also enabled individuals and citizen groups to play a part in determining the use of these Federal funds in their communities. This broadened citizen participation strengthens our democracy in the best possible way, from the people up.

The Need Goes On

General Revenue Sharing has also been the keystone of additional efforts to reform Federal aid. The new block grant programs, more decentralized grant management, joint funding projects and grant integration, improved program information, and executive reorganization

have all been included in a large-scale effort to make better sense of
and to get greater results from the billions granted to state and local
governments.

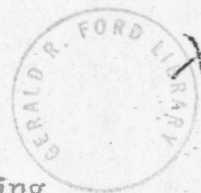
The General Revenue Sharing program enacted in 1972 turned a
corner. It caught a serious problem in time and helped us get back on
the road to a sounder Federalism, of shared rights and responsibilities.
But, given the impact of the recession on state and local governments, the
need for revenue sharing is, if anything, accentuated today. The budgets
of state and local governments, by and large, show serious deficits.
This situation is expected to continue for the foreseeable future.

Many units of governments, particularly pressed urban areas,
count on these funds for their budget planning. If the flow of shared revenues
were to be turned off or scaled down, the results would be sharp and painful.
Our efforts to revive the economy would suffer a serious blow. States,
cities and small communities would have to cut back essential services.

Public and related private unemployment would increase. These governments would have to tax more or borrow more -- which would tend to defeat the objectives of our national efforts to reduce the tax load and revive the economy.

Federal revenue sharing was a wise move when it was enacted.

Its continuation is imperative now. However, before recommending extension of this program, the Administration has conducted an exhaustive evaluation of the present programs, its strengths and its weaknesses, so that we can build on experience. This evaluation has been carried out by the Administration and an interagency study group, and has taken into account the views of the Congress, state and local government officials, interested citizen bodies and private study groups analyzing government policy. I will also consider for future consideration any significant findings which may yet emerge from studies presently underway.



Based on the Administration's review of this evaluation, I am now proposing to the Congress legislation which will maintain the basic features of the existing revenue sharing program while offering a number of improvements.

Briefly, the principal elements of the legislation which the Administration proposes for renewing the General Revenue Sharing program are as follows:

-- the basic present revenue sharing formula is retained. We find this formula to be a reasonable compromise of the complex interests involved. Experience to date suggests the basic fairness of the present formula. The poorer states, by and large, get more aid per capita than the wealthier states. The central cities generally fare better, per capita, than less needy suburbs. States which make an effort to raise their own revenues tend to benefit more than those who do not.

-- funds will be authorized for 5 and three-quarters years. The effect of this provision is to conform the time period to the new Federal fiscal year;

-- the current level of funding will be retained, but will be increased by a \$150 million annual increment to compensate, in part, for the impact of inflation. Over the five and 3/4 years, this level will produce a total distribution of Federal revenues of \$39.⁷⁶~~37~~ billion.

By the final year, the revenues shared will have increased by \$937 million over the current level.

-- it requires a review of the program two years before its expiration to help state and local governments with their budget planning;

-- recognizing differing levels of need, the Administration proposal would allow hard-pressed areas with a particular jurisdiction to receive 75 percent more than the average per capita grant rather than the current limit of 45 percent. The impact of this change on other communities would be minimized by phasing the change over a five-year period and by the \$150 million annual increment in the total program.

The prohibition on the discriminatory use of funds continues, of course, under the Administration proposal. Revenue sharing was not designed nor intended to circumvent the anti-discrimination provisions of Federal law.

In fact, the Treasury Department's Office of Revenue Sharing would increase its activities for ensuring that the civil rights provisions of the law are enforced under my proposal. The Administration bill would

also make another useful change in the discrimination provisions of the law.

The Secretary of the Treasury, at his discretion, may choose to defer

only that portion of a revenue sharing payment actually involved in a

discriminatory action. In this way, discrimination can be combatted

without the community at large being unnecessarily penalized.

-- to strengthen public participation in determining the use of
shared revenues, the proposed legislation requires

(MORE)



that recipient governments must provide a procedure for citizen participation in the allocation of revenue sharing monies.

-- the Administration proposal would also make reporting and publicity requirements more flexible to meet varying needs from community to community. The legislation would grant the Secretary of the Treasury greater latitude in determining the form and the information required of recipients. Similarly, he would have more flexibility in determining the method by which recipient governments must make public their use of funds.

Early Renewal Is Important

I urge the Congress at its earliest convenience to begin deliberations on the renewal of the State and Local Fiscal Assistance Act of 1972. Effective/at the State capitols, city halls, and county courthouses ^{will} ~~which~~ require action well before the expiration of the program.

The expiration of the present General Revenue Sharing Law is coincident with the year in which the Nation celebrates its bicentennial. There could be no more practical reaffirmation of the Federal compact which launched this Country than to renew the law which has done so much to preserve and strengthen that compact -- the General Revenue Sharing program.