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Office of the White House Press Secretary

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THE WHITE HOUSE

TO THE CONGRESS OF THE UNITED STATES:

I am today transmitting to the Congress proposed legislation to extend and revise the State and Local Fiscal Assistance Act of 1972. The act, and the General Revenue Sharing program which it authorizes, expires on December 31, 1976. I strongly recommend that the Congress act to continue this highly successful and important new element of American Federalism well in advance of the expiration date, in order that State and local governments can make 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 simultaneously at three levels of government. Federalism 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 energy problem, 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 taxing system, then collected some two-thirds of the Nation's total tax revenues. Federal revenues, particularly because of the income tax, grew with the economy. However, State and local revenues are more dependent on real property taxes and sales taxes. 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.

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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 comes Federal restrictions which limit local initiative and flexibility.

Furthermore, until the concept of block grants was developed, States and localities were limited to categorical grants which 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 system's three 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 nearly \$19 billion to 50 States and some 39,000 local governments -- money 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 and more police on the street, help for essential mass transportation, a better environment, improved fire protection and many other useful public activities. If some communities have not used their revenue sharing funds wisely, they are a miniscule fraction of governments which have used this money well.

The current revenue sharing act has also enabled individuals and citizen groups to play their part in determining the use of these Federal funds in their communities by placing the decision on the use of these funds at the local rather than the Federal level. This citizen participation strengthens our democracy in the best possible way. It is my intention to strengthen our efforts to encourage the widest possible citizen participation.

#### 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,

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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.

Many State and local governments are facing deficits with the prospect of having to raise additional taxes or cut services. Our States and localities are facing these adverse developments at a time when their fiscal responsibilities have mounted due to the impact of inflation on their expenditures and the tax burdens placed on citizens. Further, the present high unemployment is taking its toll in terms of lower tax receipts and higher costs on States and communities. This combination of financial pressures is likely to continue to bear down on these governments for the foreseeable future.

Many units of governments, particularly in distressed 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 immediate and painful. Our efforts to revive the economy would suffer a serious blow. States, cities, counties and small communities would have to either cut back essential services causing increased public and related private unemployment or tax more or borrow more -- thus defeating the objectives of our national efforts to reduce the total tax load and revive the economy.

Enactment of Federal revenue sharing was a wise decision in 1972. Its continuation is imperative now. Before deciding to recommend extension of this program, I directed that an exhaustive study be made of the present program to identify its strengths and weaknesses. This assessment has been carried out 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 any significant findings which may yet emerge from studies presently underway.

Based on our review of this work, I am now proposing to the Congress legislation which will maintain the basic features of the existing revenue sharing program while offering several improvements.

The principal elements of the renewal legislation I am proposing are:

-- The basic revenue sharing formula is retained. Experience to date suggests the essential fairness of the present formula and I recommend its retention.

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

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-- The current method of funding with annual increases of \$150 million will be retained to compensate, in part, for the impact of inflation. Over the five and three-quarters years, this level will produce a total distribution of Federal revenues of \$39.85 billion. By the final year, the revenues shared will have increased by \$937 million over the current level of payments.

-- Recognizing the need to raise the existing per capita constraint on the basic formula, my proposal would permit those hard-pressed jurisdictions now constrained by the per capita limitation to receive more money. The impact of this change on other communities would be minimized by phasing the change in five steps and by the increase of \$150 million annually.

-- To strengthen the civil rights provisions of the existing statute the proposed legislation would authorize the Secretary of the Treasury to invoke several remedies to enforce the nondiscrimination provisions of the act. This would be 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 discriminatory. This change will further enhance the Secretary's ability to ensure that none of our citizens is denied on grounds of race, color, sex or national origin the benefits of any program funded in whole or in part through revenue sharing.

-- To strengthen public participation in determining the use of shared revenues, the proposed legislation requires that recipient governments must provide a procedure for citizen participation in the allocation of revenue sharing monies.

-- The Administration proposal would also make reporting 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 of reports and the kind of information required of recipients. Similarly, he would have more flexibility to determine the method by which recipient governments must publicize their use of funds.

-- Finally, the proposal requires a reconsideration of the program two years before its expiration.

#### 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 will require action in this first session of the 94th Congress. In fact, in the fall of 1975 many of our States and local governments will be preparing their fiscal year 1977 budgets. It will be essential for them to know at that time whether General Revenue Sharing funds will be available to them after December, 1976.

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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 program which has done so much to preserve and strengthen that compact -- General Revenue Sharing.

GERALD R. FORD

THE WHITE HOUSE,

April 25, 1975.

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