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1/13/75  
THE PRESIDENT HAS SEEN  
ACTION

THE WHITE HOUSE  
WASHINGTON

January 10, 1975

MEMORANDUM FOR: THE PRESIDENT  
FROM: KEN COLE  
SUBJECT: Policy Options for Renewal of General  
Revenue Sharing

BACKGROUND

Attached is Secretary Simon's memorandum prepared following your meeting on November 30 with the Steering Group working on this issue. (Tab A) A number of steps have been taken to refine the recommendations and consult with State and Local government leaders.

Almost all of the recommendations of the paper are supported unanimously by Secretary Simon, Roy Ash, Bill Seidman, Alan Greenspan, Bob Hartmann, Max Friedersdorf and myself.

However, Jack Marsh and I have serious reservations about particular sections of the recommendations dealing with anti-discrimination and spending (use) restrictions. These are spelled out later in this memorandum.

On all other issues it is fair to say that we are unanimous and feel the recommendations have the strong support of the leaders of State and Local government necessary for favorable Congressional action.

You are on record as supporting the renewal of the present program in substantially its present form. Your approval of these recommendations will assure action consistent with your public positions while attempting to seek some needed improvements.

This memorandum identifies issues for your decision contained in Secretary Simon's paper and provides you with recommendations.

RECOMMENDATIONS

1. That we seek to renew the program for 5 3/4 years (both authorization and appropriations) with a provision calling for a review 2 years before expiration.

We recommend approval. Approve NR7 Disapprove \_\_\_\_\_

2. That we seek to continue the stair-step annual increment increase of \$150 million.

We recommend approval. Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

Note: We looked seriously at the possibility of "capping" the program at its 1976 level. It is felt that this would raise much fear and criticism and undercut support as well as highlighting the efforts of those who will seek to tie increases to some form of index, i.e., Consumer Price Index, Cost of Living or Federal Income Tax.

3. That we retain the present formulas which have worked reasonably well and are the consensus result of the Congressional process.

We recommend approval. Approve NR7 Disapprove \_\_\_\_\_

4. That we retain the present 1/3 -2/3 split in funding between State and Local governments.

We recommend approval. Approve NR7 Disapprove \_\_\_\_\_

5. That the present "maximum limitation" on the amount of funding per capita that can be allocated to high tax effort areas be raised gradually over 5 years from 145% to a new maximum of 175%.

We recommend approval. Approve NR7 Disapprove \_\_\_\_\_

Note: This would not be a major retargeting, but would direct additional money to some cities, partially addressing some increased needs and minority undercount criticisms of past census data which is the base.

- 6. That we retain, as is, the 20% "minimum requirement" which serves to ensure that small units of government receive a minimum level of assistance.

We recommend approval.                      Approve PR9      Disapprove \_\_\_\_\_

- 7. That we strengthen the anti-discrimination protection afforded by the act and clarify the Secretary's authority to defer payments in certain cases.

(a) The Steering Group recommends a change in the legislation to allow deferral of payments by the Secretary after a due process hearing and a finding of discrimination by the Federal or State courts; a human rights agency in the State; and/or an administrative law judge to be created in the office of Revenue Sharing.

Jack Marsh and I recommend that you approve part of this change but disapprove other parts. The Federal and State Courts should be relied on completely to determine legal questions. The existing judicial system is adequate and we should not attempt to rely on quasi-agencies in such matters.

I agree \_\_\_\_\_

Marsh and Cole recommend approval of reliance on Federal and State Courts for such findings.

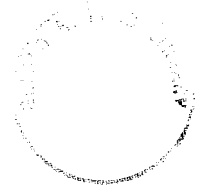
Approve \_\_\_\_\_      Disapprove \_\_\_\_\_

Marsh and Cole recommend disapproval of reliance on human rights agencies or administrative law processes.

Approve PR7      Disapprove \_\_\_\_\_

- (b) That we seek authority for the Secretary to withhold or defer only that portion of funds being used in a discriminatory manner.

We recommend approval.                      Approve \_\_\_\_\_      Disapprove PR7.



- (c) That we seek to permit the Secretary to request the Attorney General to seek injunctions if termination of funding does not result in corrective action.

We recommend approval.

Approve \_\_\_\_\_

Disapprove MR7.

8. The deletion of Spending (Use) Restrictions.

- (a) The Steering Group recommends deletion of the Spending (Use) restrictions which target expenditures on priority categories in the Act.

In actuality these spending restrictions have no impact because the funds can be used in almost any way they want. But Congress wanted to be able to target certain areas of priority and did so with these rather loose targeting restrictions. To remove the restrictions would probably put us in a position of contention with the Congress and create an unnecessary controversy. Therefore, I recommend disapproval.

Approve \_\_\_\_\_

Disapprove MR9

- (b) The Steering Group recommends deletion of the restriction against the use of Revenue Sharing funds for matching of other Federal funds. This provision is disliked by State and local government since they must take care to free their own funds for matching purposes while putting Revenue Sharing funds into expenditures that do not involve Federal matching funds.

Revenue Sharing funds were intended as new money to help State and local government meet their own objectives. If it is freed for use as matching funds, it would distort the patterns of use because far more leverage could be gained by using all of the GRS funds for matching purposes. Many governments would gain additional leverage by putting up GRS dollars to buy other Federal funds increasing the value of GRS dollars by a substantial percentage but causing expenditures to be made where the best matching gain could be made rather than where the greatest local need existed.

Jack Marsh and I recommend retaining the matching restriction and urge you to disapprove this change.

Approve \_\_\_\_\_

Disapprove MR7

9. To encourage greater citizen participation, we should seek a change in the legislation to assure public hearings on the use of the funds to be received.

We recommend approval.            Approve MRG    Disapprove \_\_\_\_\_

10. We should seek broader discretion for the Secretary of the Treasury to determine the form and content of planned and actual use reports and the requirements of publication. This could permit the lifting of some unnecessary burdens from small governments and enable the Secretary to make the reports more informative for Congress and the Executive Branch.

We recommend approval.            Approve MRG    Disapprove \_\_\_\_\_







THE SECRETARY OF THE TREASURY  
WASHINGTON

DEC 30 1974

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Recommendations on the Renewal of General Revenue Sharing

The Administration will be proposing legislation to the next Congress to renew the General Revenue Sharing (GRS) program. For the past several months, a joint Treasury-OMB-Domestic Council Steering Group has been considering possible changes in the current program which the Administration may wish to propose in that legislation. A report on the status of the Steering Group review was made to you at the November 30, 1974, meeting organized by the Domestic Council. The Steering Group has now completed its deliberations and its recommendations are presented below for your consideration.

I have reviewed the findings of the Steering Group and concur in their recommendations.

In formulating specific recommendations for your consideration, the Steering Group has been guided by several major considerations. First, the Steering Group has sought to eliminate or modify unnecessary complications and restrictions in the program that impair its flexibility. Second, in fashioning a more flexible program, the Steering Group has been sensitive to Congressional concerns and those voiced by major interested groups that the program contain adequate provisions to prevent discrimination and assure effective public participation in deciding on the use of funds. Third, the Steering Group has proposed minimum changes in order not to reopen old debates regarding the basic form and content of the program.

Ken Cole and I, along with other officials from the Treasury, OMB, and the Domestic Council met in the White House on December 23 with representatives of the major state and local government interest groups to outline the Steering Group's recommendations to them in order to gauge their response. While in favor of a higher level of funding than that proposed, the public interest groups appeared to be generally receptive to our recommendations, and we are hopeful of securing their support for our legislative proposals.

Recommendations

The Steering Group makes the following recommendations as a basis for legislation to be offered to the next Congress, as well as for incorporation in the State of the Union address:

(1) Duration of the Program, Manner and Level of Funding

The November 29 memorandum on the status and future of the General Revenue Sharing program described the latest Steering Group deliberations as pointing to an authorization and appropriations period for the program of 5-3/4 years with a continuation of the now established stair-step annual increments at the rate of \$150 million per year.

The Steering Group's recommendation is that the above mode of authorization and appropriation should be proposed to the Congress. State and local government groups and other friends of revenue sharing would like to see the program made permanent. The Steering Group concluded, however, that providing for continuation of the program for 5-3/4 years and the inclusion in the legislation of a provision calling for the review of future renewal two years in advance of the program's expiration would remove much of the uncertainty of state and local governments regarding the future availability of funds without sacrificing flexibility at the time of the next renewal.

In authorizing the existing program, the Congress appropriated the full \$30.2 billion needed to fund the program for the full five-year period. To assure state and local governments that future funds will flow with certainty and not be subject to the delays and uncertainties of the annual appropriation process, it is recommended that an appropriation to fund the new program for the entire 5-3/4-year period be made at the outset.

The Steering Group also views their funding recommendations as striking a reasonable compromise between the need for certainty and the stability of funding and the legitimate desire of the Federal Executive and the Congress to maintain control over the budget.

At the November 30 Domestic Council meeting, we discussed the possibility of "capping" the program at amounts available under the current authorization. I continue to have some sympathy with that approach since it would put an absolute limit on the Federal monies to be expended. However, with inflation, "capping" the program at a single annual rate will mean that state and local governments will be receiving a diminishing level of funding. It would be difficult to get Congress to approve the "capping" approach. Even though continuation of the modest step increases under the present law will raise annual program costs by approximately \$800 million by the final year of the renewal period, the Steering Group concludes that this approach would

provide a firm "hold the line" position that could defeat attempts to "index" the program to income tax receipts or some other indicator and thus raise costs by substantially larger sums.

In a recent report on the renewal of General Revenue Sharing, the Advisory Commission on Intergovernmental Relations proposed tying the program level to the personal income tax base. The National Governors Conference is also on record favoring that approach. We can expect many similar proposals as the program is debated in Congress next year. The fiscal impacts of those proposals, including the recommended stair-step increases, over the proposed renewal period are set forth at Tab A.

The Steering Group also considered other funding proposals such as tying GRS funding to actual Federal budget surpluses that might be anticipated over the next several years, if the Federal Government could enlist the support of state and local officials in restraining the growth of Federal expenditures. At this time the study group believes such approaches might be premature. The idea, however, has merit and should be considered in the context of alternatives for controlling Federal outlays and dealing with any resulting surpluses.

Option: Period of Authorization

Permanent authorization \_\_\_\_\_

Authorization and appropriation for 5-3/4 years with review two years in advance of expiration \_\_\_\_\_

Other \_\_\_\_\_

Recommendation: Renew the program for 5-3/4 years with provision for review two years before expiration. This approach removes much of the uncertainty about the future availability of revenue sharing funds while still allowing later modifications in the program.

Option: Magnitude of Funding

Seek to "cap" the program by holding expenditures at one annual level \_\_\_\_\_

Seek to continue stair-step increments of \$150 million \_\_\_\_\_

Tie expenditures to an index to take into account inflationary impact \_\_\_\_\_

Tie funding proposals to actual Federal budget surpluses \_\_\_\_\_

Other \_\_\_\_\_

Recommendation: Continue the stair-step annual increments of \$150 million. Since allowing an annual increase for inflation has wide appeal, the stair-step procedure would help deflate the strong pressure that can be expected for an indexing system. A tie to budgetary surpluses should not be attempted for the reasons stated in the text.

(2) Distribution of GRS Funds

Four major issues were considered with respect to the distribution of General Revenue Sharing funds: (a) the allocation formulas, (b) the state/local government split, (c) the maximum allocation, and (d) the minimum allocation.

(a) Allocation Formulas. The Steering Group recommends no change in the basic formulas for allotment of funds among the states and among local governments in a state. Possible changes in basic formulas and formula factors are legion. Measures of need, fiscal capacity, relative taxing effort of the states and of localities all could be altered and many different formulas will be proposed in the Congress. No formula provides precise measurements.

The Steering Group urges no change in view of the inevitable changes in Federal dollar allocations to individual governments that would result from formula changes. Reduced amounts for many governments would impair the early enactment of extension legislation and tend to generate a move for costly "hold harmless" provisions.

Option: Allocation Formulas

Retain the present formulas \_\_\_\_\_

Provide an analysis of various possible changes for further review and Presidential decision \_\_\_\_\_

Other \_\_\_\_\_

Recommendation: Retain the present formulas. They have worked reasonably well and are the consensus result of the Congressional process when revenue sharing was enacted. Proposals for change may create legislative chaos.

(b) State/Local Split. The Steering Group also considered the question of whether the present 1/3-2/3 allocation of a state's revenue sharing funds between the state government and local governments within that state should be continued.

One proposal reviewed was to develop a new formula to take into account the actual disparity in state/local fiscal responsibilities. The total money going to all states would still be one-third. However, varying percentages would be distributed within different states depending upon the comparable state/local tax burden. This would benefit state governments in states such as New Mexico which finances 80 percent of state/local expenditures, and local governments in states such as New Jersey where the state government has relatively limited fiscal responsibility.

The view of the Steering Group is to continue with the straight 1/3-2/3 split. There is the feeling that it may not be worthwhile to increase the complexity of the distribution formula in view of the fact there is no real need or demand to do so. In addition, the cost of the program might be increased by a demand to maintain the level of payments to the local governments otherwise affected within a state.

A proposal was introduced in the 93rd Congress by Wilbur Mills and Hugh Carey to eliminate state governments from revenue sharing and have all money go to local governments. It is argued that many state governments are in good fiscal condition and do not need revenue sharing as much as do local governments. There is also the view that the states have stronger revenue raising abilities than local governments.

We feel that a move to cut the states out as revenue sharing recipients is poor policy. Arguments about fiscal condition are less compelling because of the economic downturn. There is also a philosophical objection to removing the states from the program since they are indispensable fiscal and political entities in the Federal system. Furthermore, a good share of the states' entitlements has been used to reduce local fiscal concerns either directly with state financed property tax relief programs or indirectly as the states assume a larger share of local school costs. Finally, a move to end state participation would reduce support for revenue sharing in Congress.

Option: State/Local Split

Continue the present 1/3-2/3 allocation between state and local governments \_\_\_\_\_

Keep the same overall allocation but vary individual state splits with local government in proportion to relative state and local fiscal effort \_\_\_\_\_

Remove the states from the program entirely and distribute all sums to local governments \_\_\_\_\_

Other \_\_\_\_\_

Recommendation: We recommend that no change be made in the basic 1/3-2/3 allocation formula.

(c) The Maximum Allocation. The Steering Group recommends that the present maximum limitation on the amount of General Revenue Sharing funding per capita allocated to high tax effort areas be raised. To reduce the impact on those jurisdictions which would lose funding as a result of this adjustment, however, this limitation, now set at 145 percent, would be raised gradually over five years with an increase of 6 percentage points per annum to a new 175 percent maximum.

Such a change would not involve a major retargeting of the GRS formula but would direct additional dollars to some cities. It would also partially address certain collateral concerns such as the undercount of minority populations in the census.

Certain major cities would gain significantly larger shares of GRS entitlements under this proposal. With regard to several cities (e.g., Philadelphia, Baltimore, Boston, and St. Louis), the amount of the increase in funding available would be quite substantial. After the change is fully effective, they would receive 21 percent more money each year. Other large cities such as Dallas, Newark, Louisville, and Los Angeles, however, would experience a very small percentage reduction (one to three percent) in their present funding level. Due to the increased funds available through the annual stair-step increase and the fact that the maximum is only being increased by 6 percentage points per year, no major cities should experience a net dollar decrease in funding.

Funds would be transferred to a few major cities, industrial enclaves, and resort jurisdictions so that their per capita rises gradually from 145 to 175 percent of the state average. The additional monies going to these and other local governments which benefit would come on a percentage basis from all other jurisdictions in the state not constrained or protected by the maximum or minimum per capita requirements. To illustrate, in Connecticut, where Hartford and New Haven would show a 21 percent increase after the change is fully effective, all jurisdictions outside the maximum-minimum constraints would only experience a 4 percent loss in their funding level.

Because of the dynamics of the revenue sharing formulas, the effect of this proposed change on a relative basis varies from state to state. As a result, more major cities and all other types of jurisdictions on a net basis experience a reduced funding level than gain funds. (The eventual effect after five years of the proposed change in the maximum on the level of funding received by various large cities and counties is set forth at Tab B.) However, because of the gradual phase-in and the stair-step funding increases explained earlier, the losses to almost all jurisdictions in any given year will be fully offset by funding increases so that they suffer no absolute loss in their payments. A very few jurisdictions might have more significant losses which would not be offset by the stair-step funding increases.

The Steering Group also considered raising the 145 percent maximum to 200 percent. It was found that such a change did not produce results as desirable as those obtained at the 175 percent level. The proportion of funding made available to major cities was not significantly increased on the whole over that available at 175 percent while more funds were taken from larger counties and medium-size cities.

Option: The Maximum Allocation

Raise the maximum per capita limitation to 175 percent immediately \_\_\_\_\_

Raise the maximum limit to 175 percent but phase the increase over five years, as outlined above \_\_\_\_\_

Retain the present 145 percent limitation \_\_\_\_\_

Other \_\_\_\_\_

Recommendation: While important to some central cities, it would not be advisable to raise the limitation to 175 percent immediately. Although political opposition may still be generated from some Congressmen representing jurisdictions whose funding level will be reduced, it seems advisable to reduce the effect of an arbitrary constraint on the formula by raising the 145 percent limitation to 175 percent over a five-year period. This will place the Administration in a better position to refute charges that it is not sensitive to the problem of putting money where it is most needed and the problem of the census undercount of minority groups.

(d) The Minimum Allocation. The Steering Group also considered eliminating the 20 percent minimum requirement which serves to ensure that local government units, which have small populations and/or have limited tax efforts, receive a minimum level of revenue sharing support. Its elimination has been suggested since it tends to channel money to governments or levels of government that do not need it as much as other jurisdictions. Removing this minimum requirement, however, would adversely affect thousands of small jurisdictions and completely eliminate many others from participation in the program. The Steering Group recommends that the minimum be retained.

Option: The Minimum Allocation

Retain the 20 percent minimum requirement \_\_\_\_\_

Eliminate the 20 percent minimum requirement \_\_\_\_\_

Other \_\_\_\_\_

Recommendation: Retain the 20 percent requirement since deletion would adversely affect large numbers of jurisdictions and thus raise substantial opposition.

(3) Anti-Discrimination

Some of the strongest criticism of General Revenue Sharing legislation and operations comes from civil rights and government reform groups, including the League of Women Voters Education Fund, the National Conference on Civil Rights, the Joint Center for Political Studies, the Lawyers Committee for Civil Rights Under Law, and the National Urban Coalition. They have argued that the anti-discrimination portions of the legislation are too weak, and that compliance efforts by the



Office of Revenue Sharing are not vigorous enough. Some members of Congress, especially Senator Muskie, have shown sympathy for the concern expressed by these groups.

The present procedures for determining non-compliance and follow through action have emphasized negotiation and legal settlement rather than court action. Pursuant to Federal district court order, the entire current payment to Chicago has been deferred based upon a finding of discrimination in that city's police department personnel practices.

In making its recommendations, the Steering Group deemed it desirable to emphasize that the existing broad guarantee of the statute is wholly sufficient. The current law assures that General Revenue Sharing funds will not be used in projects or activities to discriminate on the basis of race, color, sex, or national origin. However, it is appropriate at this time to clarify several aspects of the statute regarding discrimination.

One of the principal areas of concern is appropriate use of the sanction of deferral of funds where discrimination in fund use has been determined. The Secretary of the Treasury's power to defer payments should be clarified to specify at what point funds may be deferred, and to what share of funds a deferral should apply.

The Steering Group proposes that the Secretary of the Treasury be given the discretion (1) to seek adjudication of discrimination complaints filed with the Office of Revenue Sharing in what he considers to be an appropriate forum, and (2) to defer funds where a finding of discrimination has been made by a court, a state agency, or an administrative law judge.

The Steering Group's specific recommendations in the civil rights area are as follows:

(a) Clarify through legislative change the deferral powers of the Secretary of the Treasury where the question of discriminatory use of GRS funds is raised. The Secretary would have the express option of deferring funds. However, such deferral would only be made after a due process hearing and a finding of discrimination made by (i) a Federal or state court, (ii) a human rights agency in the state in which the unit of government was located, or (iii) an administrative law judge assigned to hear discrimination cases. Such clarification of deferral authority would provide an effective means of preventing Federal support of discriminatory practices during the period when longer processes of final action are being pursued.

(b) It is further proposed that the legislation clearly grant the Secretary of the Treasury the discretion to defer only that part of GRS funds which he determines to be used in a discriminatory program or activity. Such a clarification would allow more appropriate and effective action in individual situations.

(c) The legislation should be amended to permit the Secretary of the Treasury to request the Attorney General to seek an injunction against discriminatory action after payments have been terminated, if termination does not bring corrective action.

The proposal listed under paragraph (a) above is designed merely to give the Office of Revenue Sharing another method of ascertaining whether or not revenue sharing funds are being used in a discriminatory manner. At present, the Office can make its own finding or refer the matter to the Department of Justice. We believe that allowing the Office of Revenue Sharing to utilize findings by a state administrative agency is wholly in accord with the philosophy of General Revenue Sharing to strengthen the processes of state and local government.

The proposal does not seek to grant state human rights agencies new authority to make final determinations about revenue sharing matters. Where a state agency is already concerned with a local government activity that may involve discrimination it might be worthwhile under appropriate circumstances to let that agency make the initial inquiry for the Federal Government's purposes as well as its own. To the extent that an adequate civil rights mechanism is already in place we would consider utilizing it. The Office of Revenue Sharing would rely only upon the determinations of those state agencies who have a proven record of competence and fairness.

Finally, as part of the program spelled out above, the Office of Revenue Sharing may seek (1) to have one or more administrative law judges detailed to it from other Federal agencies, or (2) to establish administrative law judge positions within the Office of Revenue Sharing if justified by case load experience.

Options: Anti-Discrimination

Section (a):

Clarify the Secretary of the Treasury's deferral authority as outlined in paragraph (a) \_\_\_\_\_

Retain the present procedure \_\_\_\_\_

Other \_\_\_\_\_

Section (b):

Give the Secretary of the Treasury the ability to defer only that portion of GRS funds that is used in a discriminatory manner as discussed in paragraph (b) \_\_\_\_\_

Retain the present procedure \_\_\_\_\_

Other \_\_\_\_\_

Section (c):

Amend the legislation as outlined in paragraph (c) to permit the Secretary of the Treasury to request that the Attorney General seek an injunction if termination of funding does not result in corrective action \_\_\_\_\_

Do not grant such authority \_\_\_\_\_

Other \_\_\_\_\_

Recommendation: We feel that making the changes suggested above will significantly strengthen the civil rights portion of the General Revenue Sharing program without creating a vast enforcement bureaucracy or requiring burdensome regulatory procedures. The proposed approach also anticipates Congressional debate in the civil rights area and answers some of the questions outstanding.

(4) Spending (Use) Restrictions

The Steering Group has sought to reflect in its recommendations the basic philosophy of General Revenue Sharing, which seeks flexibility in the use of funds by states and localities with as few Federal "strings" as possible. The Steering Group

recommends that the provisions restricting use of revenue sharing funds for local operating and maintenance expenditures to eight priority expenditure categories and prohibiting the use of such funds for matching with other Federal monies, be deleted from the statute in any proposed renewal. Both of these restrictions, it should be recalled, were added to the original Administration GRS proposal by the Congress.

(a) Deletion of the Local Priority Expenditures Requirement. This restriction is contradictory to the basic philosophy of the program and seems to have failed to accomplish the original goal of targeting money into selected areas. The eight priority categories are so broad, and the GRS funds so fungible that local resources freed by GRS funds are often used to finance non-priority expenditures. The National League of Cities has recently gone on record as opposed to the priority restrictions, and other governmental interest groups are likely to concur.

Option: Priority Expenditures

Delete the priority expenditures requirement \_\_\_\_\_

Retain the priority expenditures requirement \_\_\_\_\_

Other \_\_\_\_\_

Recommendation: Delete the requirement in order to provide state and local governments with greater flexibility.

(b) Restriction Against Use of Revenue Sharing Funds for Matching of Other Federal Monies. The Steering Group recommends deletion of this restriction from renewal legislation to be submitted to the next Congress. This provision, if effective at all, most likely distorts the budget-making decisions of state and local jurisdictions since they must take care to free their own funds for matching purposes while putting GRS funds into expenditures not requiring matching.

Option: Matching Monies

Delete the restriction \_\_\_\_\_

Retain the restriction \_\_\_\_\_

Other \_\_\_\_\_

Recommendation: Delete the restriction for the reasons stated in the text.

(5) Public Participation in and Publicity of Decision-making on Use of General Revenue Sharing Funds

Broad participation in state and local decisions on uses of funds is an essential ingredient of GRS. Governmental reform groups are questioning whether revenue sharing has sufficiently stimulated wider citizen participation in the processes of state and local government. Some special interest groups such as the League of Women Voters Education Fund and other constituent groups of the National Clearinghouse on Revenue Sharing urge a strengthening of the provision to better assure such participation. The Steering Group concurs in this thrust.

In considering means by which to better assure citizen participation, the Steering Group has also sought to widen the discretion of the Secretary of the Treasury to eliminate pointless burdens on recipients and adapt requirements related to the variations in local government size and processes.

(a) A Requirement to Assure Some Form of Public Hearing. The new legislation should encourage more citizen participation in decision-making by requiring that all recipients give assurance that their processes for determining uses of GRS funds afford input from interested groups. In formulating this recommendation, an option requiring an elaborate local procedure for public hearings on the entire budget of a jurisdiction was rejected as too restrictive. However, recipients should minimally be required to assure the Secretary of the Treasury that the process by which the expenditure of GRS funds is determined includes at least some form of hearing. Since most recipient units of government already have such procedures, they would be subject to no new requirements.

Option: Public Participation

Revise to require assurance of at least some type of public hearing \_\_\_\_\_

Retain the present procedures \_\_\_\_\_

Other \_\_\_\_\_

Recommendation: Revise to require the assurance of public participation through some type of public hearing.

(b) Wider Discretion Concerning Use Reports. By amendment to the statute, the Secretary of the Treasury should be allowed full discretion to determine the form and content of planned and actual use reports and the manner of publication thereof, as well as to waive the reporting requirements for certain jurisdictions. The proposal would permit the lifting of unnecessary burdens on small governments, as well as making GRS use reports more informative for the Congress and the Federal Executive.

Option: Wider Discretion Concerning Use Reports

Revise to allow greater flexibility in reporting \_\_\_\_\_

Retain the present procedures \_\_\_\_\_

Other \_\_\_\_\_

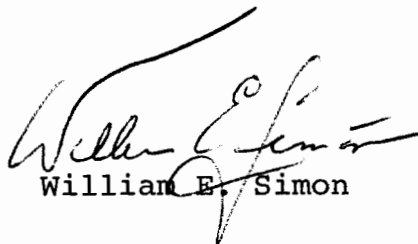
Recommendation: Revise to allow greater flexibility in planned and actual use reports.

Overview

The recommendations of the Steering Group outlined above represent, in my view, desirable modifications for a renewal of GRS. They should:

- Strengthen the basic structure of the program by introducing greater flexibility, removing deterrents to state and local decision-making, and reinforcing public participation.
- Meet, in large part, the major criticisms of civil rights and minority interest groups.
- Help to gain the active support of state and local governmental interest groups to achieve the bi-partisan support and sponsorship required for early reenactment of the GRS extension.

Every effort will be made to gain early action in the next Congress.

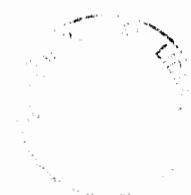
  
William E. Simon

GRS Funding Alternatives

Various funding alternatives were considered by the Steering Group. They were:

1. Maintaining a constant funding level over the renewal period.
2. Continuing the present "step" pattern of a statutory annual increment, ranging between \$150 and \$300 million during the authorization period. The Steering Group recommends a \$150 million annual increment.
3. Price adjusting GRS appropriations by the consumer price index (CPI), to take account of both past and prospective price increases or for past increases only while continuing the "stair step" increments during the next authorization period.
4. Tying GRS appropriations to adjusted gross income as reported on federal individual income tax returns.

The fiscal impacts are arrayed in the following table.



GRS Appropriations (Present Program, Alternative  
Extension Funding Levels)  
(In millions)

	Present level maintained	Stair Step Progression		Price adjusted			
		\$150M	\$300M	Adj. for CPI to 1977, \$150M Step CPI <sup>3/4</sup> / <sub>4</sub>	Adj. Gross Income <sup>3/4</sup> / <sub>4</sub>	Adj. for AGI to 1977 + \$150M Step	
Total first 5 years	\$30,213 <sup>1</sup> / <sub>4</sub>	\$30,213 <sup>1</sup> / <sub>4</sub>	\$30,213 <sup>1</sup> / <sub>4</sub>	\$32,110		\$32,716	
1972 1/2 yrs.	2,650	2,650	2,650	2,650		2,650	
1973	5,638	5,638	5,638	5,638		6,050	
1974	6,050	6,050	6,050	6,050		6,050	
1975	6,200	6,200	6,200	6,709		6,679	
1976	6,350	6,350	6,350	7,226		7,480	
1977 1/2 yr.	3,250 <sup>2</sup> / <sub>4</sub>	3,250 <sup>2</sup> / <sub>4</sub>	3,250 <sup>2</sup> / <sub>4</sub>	3,837		4,219	
Total 5-3/4 yrs.	37,375 <sup>2</sup> / <sub>4</sub>	39,850	42,325	49,334	\$46,601	66,873	\$50,994
1977 1/2 yr.	3,250 <sup>2</sup> / <sub>4</sub>	3,250	3,250	3,837	3,837	4,219	4,219
1978	6,500	6,650	6,800	8,057	7,824	9,493	8,588
1979	6,500	6,800	7,100	8,371	7,974	10,565	8,738
1980	6,500	6,950	7,400	8,631	8,124	11,654	8,888



	Stair Step Progression			Price adjusted			
	Present level maintained	\$150M	\$300M	CPI <sup>3/4/</sup>	Adj. for CPI to 1977, \$150M	Adj. Gross Income <sup>3/4/</sup>	Adj. for AGI to 1977 + \$150M Step
1981	\$6,500	\$7,100	\$7,700	\$8,899	\$8,274	\$12,854	\$9,038
1982	6,500	7,250	8,000	9,174	8,424	14,178	9,188
1983 1/4 yr.	1,625	1,850	2,075	2,365	2,144	3,910	2,335

<sup>1/</sup>The amount shown is the cumulative total under the existing statute exclusive of noncontiguous States Adjustment Amounts in the sum of \$23.9 million over the period, or \$4.780 million for a full fiscal year. The figure shown includes \$150 million increase for the first half of the year 1977.

<sup>2/</sup>Assumes the present Act's increase in entitlement for the first half of 1977 is spread over the entire year 1977. The cumulative total for the 5-3/4 years includes the one half of the increase in the 1977 appropriation.

<sup>3/</sup>Based on Troika estimates of the CPI and GNP assuming achievement of full employment and price stability by 1980. (calendar years); 1980 annual rates of increase assumed to continue for the remaining period of the 5-3/4 years or 3.1 percent rise in CPI and 10.3 percent rise in AGI.

<sup>4/</sup>Calculated on the base of the first full year of entitlements beginning in 1974.

Effects of raising the  
maximum limit from 145% to 175% of  
Statewide per capita allotments to local governments

Net changes, by major units of  
government based on current funding level

Gainers

Cities with populations  
over 100,000

+ \$26.2 million

Losers

Counties	\$20.8 million
Smaller cities & other units of government	.1 million
Townships	5.3 million

CHANGES IN FUNDING LEVEL FOR SELECTED LARGE JURISDICTIONS  
FOR PERIODS AFTER THE 145% LIMITATION HAS BEEN RAISED TO 175% 1/

GAINERS			LOSERS		
	<u>Amount</u> (Thous.)	<u>Percent</u>		<u>Amount<sup>2/</sup></u> (Thous.)	<u>Percent</u>
Baltimore	\$ 5,475	21	Anchorage	\$ 134	9
Boston	4,300	21	Bridgeport	160	4
Detroit	5,202	13	Charlotte	131	2
Evansville	161	6	Chicago	120	.02
Gary	76	2	Dallas	366	3
Hartford	683	21	Grand Rapids	265	8
Jersey City	418	8	Flint	308	8
Lexington	662	21	Indianapolis	146	1
New Haven	682	21	Los Angeles	230	1
Philadelphia	10,368	21	Louisville	232	2
Richmond	1,266	21	Newark	292	3
St. Louis	2,975	21	New Orleans	287	2
Norfolk	1,424	19	New York City	52	nil.
Kern Co., CA.	690	8	Pittsburgh	798	6
Tulare Co., CA.	208	5	Salt Lake City	29	1
Lake Co., IND.	95	2	San Francisco	126	1
			Prince Georges Co., MD.	1,100	11
			Montgomery Co., MD.	572	11
			Arlington Co., VA.	267	14
			Fairfax Co., VA.	726	14
			Kent Co., MICH.	158	8
			Oakland Co., CA.	216	8
			Los Angeles Co., CA.	634	1
			Allegheny Co., PA.	1,000	8
			Delaware Co., PA.	242	8
			Bucks Co., PA.	218	8
			New Castle Co., DEL.	232	5

1/ If changes were to be fully effective during the current period, i.e., no gradual phase-in.

2/ Under the Steering Group recommendation these changes would occur gradually over a five-year period and in almost all cases dollar losses would be offset by the additional funding resulting from the stair-step increase.

THE WHITE HOUSE  
WASHINGTON

January 14, 1975

MEMORANDUM FOR: JERRY JONES

FROM: DICK CHENEY

Jerry, attached is a copy of the decision memo on Policy Options for General Revenue Sharing.

The President wants a meeting to discuss the subject either on Thursday of this week or possibly Friday. Get that up as a schedule proposal through the Rustand operation so we can sit down and make the decision.

Attachment

*Jerry -*

*I gather this memo.*

*Call Cavanaugh*

*1/22 Per Jim Cavanaugh,  
action completed  
in meeting w/P.  
on Sat., January 18.*



THE WHITE HOUSE

WASHINGTON

January 13, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: KEN COLE  
FROM: JERRY H. JONES  
SUBJECT: Policy Options for Renewal of  
General Revenue Sharing

Your memorandum to the President of January 10 on the above subject has been reviewed and the following decisions were indicated:

1. Approve.
2. No decision.
3. Approve.
4. Approve.
5. Approve.
6. Approve.
7. (a) The following notation was made next to "Marsh and Cole recommend approval of reliance on Federal and State Courts for such findings":  
-- I agree.  
(b) Disapprove.  
(c) Disapprove.
8. (a) Disapprove.  
(b) Disapprove.
9. Approve.
10. Approve.

Please follow-up with the appropriate action.

Thank you.

cc: Don Rumsfeld