

EMBARGOED FOR RELEASE
UNTIL 2:00 P.M. EDT

APRIL 25, 1975

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE
PRESS CONFERENCE
OF
EDWARD SCHMULTS
UNDER SECRETARY OF TREASURY
AND
GRAHAM WATT
DIRECTOR OF THE
OFFICE OF REVENUE SHARING
THE BRIEFING ROOM

10:32 A.M. EDT

MR. GREENER: As Ron mentioned yesterday, the President will be transmitting to Congress at 2:00 today proposed legislation, which will extend and improve the General Revenue Sharing Act of 1972.

You should have by now the President's message to Congress, a fact sheet, letters of transmittal to the House and Senate, and a Treasury booklet containing Q's and A's. Also, there should be a section-by-section analysis, and I think we are running short of those. They are in the bins now.

We have here this morning to summarize the legislation and answer your questions Mr. Edward Schmults, Under Secretary of the Treasury Department, and Mr. Graham Watt, Director of the Office of Revenue Sharing.

I would like to remind all of you again that since the President will be making his remarks at 2:00 on this legislation to the State legislators, and since the legislation will not be transmitted to the Hill until that time, all material for the briefing is embargoed until 2:00.

MR. SCHMULTS: As Bill indicated, to my right is Graham Watt, the Director of the Office of Revenue Sharing, who has done such a first-rate job in administering the program for the first years of its operation.

The present revenue sharing program is probably the most thoroughly studied Federal assistance program in history. The formula under which it operates, and the manner in which the program has been administered have been carefully scrutinized by various Congressional committees, by the Comptroller General, and by a wide variety of privately funded and Government supported independent studies.

MORE

Many of these assessments were reviewed by an interagency task force, of which I was a part, and which made recommendations to the President about the future of revenue sharing.

Today, as Bill Greener indicated, the President is transmitting to the Congress a revenue sharing program under the following very broad outlines, which I will indicate now, and they are indicated also in the material that you have there.

First of all, the program would be continued for five-3/4 years. The odd fraction is to take into account the transition to the new Federal fiscal year. This will mean that the program will be extended to September 1982.

There would be a requirement that the Executive present new proposals to the Congress about the future of the program two years prior to its 1982 expiration so that in the light of further experience and future priorities, a well-reasoned decision could be made about the continuation of the program after 1982.

Such a review would also give State and local recipients advance notice of Congress' intentions.

The President proposes to continue the \$150 million annual stair-step increases in the funding levels. The \$150 million increase for the last six months, under the present plan, will be spread over the first full 12 months of the new program. The increase will provide some adjustment for inflation without constricting excessively to Federal costs.

MORE

The present 3-factor, 5-factor formulas for interstate and intrastate distribution are to be retained in view of the fact they represent a carefully arrived at balancing of interest.

The President has also concluded that the present one-third and two-third split of shared revenues between State and local governments should continue in that it represents a reasonable and easily applied standard.

The present 145 percent maximum restraint is to be raised to 175 percent in five steps. This constraint says no jurisdiction can receive a payment on a per capita basis which is greater than the 145 percent of the average per capita payments going to other jurisdictions within its State.

By relaxing this restraint, some jurisdictions with a very low income, high tax effort, or both, will receive a higher level of funding.

The President has decided that the 20 percent minimum per capita restraint should be retained in its present form. The amount of money that would be freed by lowering or eliminating this constraint, as some have suggested, would be about \$47 million a year. This is a relatively small amount.

Eliminating the constraint would remove almost 1,400 local governments from the program and we think this would be undesirable.

The strong anti-discrimination requirements and the existing compliance powers of the Secretary of the Treasury are to be retained. In addition, the Secretary will be expressly authorized in the statute, itself, to withhold all funds or that part of the funding used in a discriminatory program or activity.

He will be authorized to require repayment of funds that are used in a discriminatory manner, and he will be authorized to terminate eligibility for further payments.

The President has decided that the priority expenditure requirements and the prohibition against the use of general revenue sharing funds to obtain Federal matching grants should be continued in their present form. These restrictions were added by the Congress to the current law and have not proved to be unduly burdensome to local governments.

MORE

With respect to the planned and actual use reports -- these are short-form reports on one page of paper that governments have to file with the Office of Revenue Sharing -- the Secretary of the Treasury is to be granted full discretion to determine the form, content and the manner of publication of these reports so that he will be able to tailor the reporting and publicity requirement to the type and size of jurisdiction.

As a consequence, we feel these reports would be more useful to local citizens and the Federal Government.

Finally, in the area of public participation, the President is proposing that recipient governments be required to give assurance that the process by which expenditure of general revenue sharing funds is determined includes a public hearing or other means by which residents can participate in the decision.

There are other improvements proposed, the details of which are noted in the materials which are being distributed today.

Graham Watt and I will be happy to answer any questions you might have on the program at this time.

Q Mr. Schmults, on the new civil rights requirements, or authority, that you hope to write into this, does that mean that the office now will take a more aggressive stance on civil rights compliance and also, will you seek additional staff to help on this?

MR. SCHMULTS: Well, as to the latter point, we have been seeking additional staff. In fiscal 1975, we asked Congress for 26 new positions and we got five. We are going back to them in fiscal 1976 and ask for 21 more positions, or those we didn't get in the compliance area, so we are asking for more staff.

As to whether it is going to mean a more aggressive civil rights stance, I think the point of the President's proposal is that it does clarify the powers of the Secretary of the Treasury to administer the statutes so that no revenue sharing funds are used in a discriminatory manner.

We feel that the present administration of that provision of the law by the Office of Revenue Sharing has been the right way to go and we certainly intend to strengthen that wherever we can to make it more effective.

MORE

Q Mr. Schmults, you have these powers in the present revenue sharing legislation, and a number of groups have made studies with which I am sure you are familiar, pointing out that you did not oversee the Federal revenue sharing dollar after it got into the hands of the city fathers.

You have a good mechanism for accounting procedures. You make sure no money is stolen. But you don't follow the money after it gets into the city's jurisdiction. What assurance can these people, as well as the general public, have that you are going to be more aggressive with your 26 more positions than you have been so far?

MR. SCHMULTS: I don't think that is entirely correct that we already have these powers. I think it may be unclear as to whether we have these powers. I think the statute is being strengthened by clearly specifying in the statute in the law exactly what the powers of the Secretary are. Second, there are powers to withhold funds. That is not clear in the law.

MORE

Q You have the same powers those people have, those private groups that brought court groups successfully, an example of which is in Chicago. They used the law, the same law you would have had to use; they use the civil rights laws for that. That is just an example. I can't cite any other.

MR. SCHMULTS: With respect to the Chicago case, I think we need to amend our regulations to deal with what was a gap in the regulatory structure that we saw as a result of that case. We do follow funds; we do look at funds after they are in the hands of the jurisdictions.

Revenue-sharing is entered into a cooperative State auditing program with about 38 or 40 States now, I believe, so that the use of these funds is audited both on an accounting basis and from a civil rights basis. We have entered into agreements with HEW, with EEOC and other agencies. We are working out one with HUD now so this is a cooperative effort where we plan to use other resources in the Federal Government to help us in our civil rights efforts.

Q You missed the question. I hate to be argumentative about this. I was asking why you couldn't use the same resources, the same redress that private groups who brought successful revenue-sharing suits, why you couldn't use that law just as they did?

MR. SCHMULTS: I think the procedures that we will have in the new program will be more expeditious, indeed, than court procedures because this will authorize, or the Secretary of the Treasury can have an administrative hearing now before an administrative judge and determine whether or not there has been a civil rights violation. If there has been then we think the statute has been strengthened by clearly specifying in the law itself the powers he has to remedy the situation.

Obviously, our efforts here are not to penalize jurisdictions. We hope to achieve compliance so there is mediation and conciliation involved here and we hope to bring the jurisdictions into compliance so that we don't have to invoke these remedies. Where that can't be done we certainly will take appropriate steps.

Q Mr. Schmults, did I understand the implication of your answer to be that you could rely increasingly on administrative remedies to cases of discrimination rather than to wait for court determination before shutting off money?

MORE

MR. SCHMULTS: There are a variety of remedies. One would be going the administrative law route, or administrative judge route. Another remedy would be to refer the matter as we can now to the Attorney General who presumably will bring a civil suit. Or two, we could respond or react to a civil suit brought by a private citizen similar to what has happened in the Chicago case. So there are a variety of remedies here and we would choose, if we can't effect compliance by our own process, to use that which seems best to us at the time.

MORE

Q Mr. Schmults, there have been two recent developments in the civil rights area relating to revenue sharing; one, that the Comptroller General has said that he thought because of the fungibility of revenue sharing funds that all of the Government funds should be subject to the anti-discrimination provisions of the revenue sharing law as a contingency for receiving funds; secondly, the recent Humphrey-Muskie counterfiscal bill in saying the provisions allowing the citizens to sue, they have standing to sue in Federal court, if they found that the local government was discriminating with the use of Federal monies and that the Federal Government should pay the cost if the citizens are successful in a suit.

How would the Treasury Department react to those kinds of provisions if Congress wanted to put those in the revenue sharing law?

MR. SCHMULTS: Our position now is that we do not favor the GAO position on that, that we don't think the Congress intended that revenue sharing have these enforcement or compliance powers. It is rather clear in the law, we think that where revenue sharing funds go that we ought to be looking at those programs.

Now, it is true fungibility does raise a problem. Dollars are freely interchanged, but through our auditing efforts, through the reports that are filed, we certainly intend to police the civil rights sections of the law.

As to the latter point, it is our understanding, and we wouldn't favor that proposal either, it is our understanding that citizens can sue under the Civil Rights Act of 1964, so it isn't necessary to put that in the revenue sharing law.

Q Except in the case the Federal Government would pay the costs for those suits that are won by the citizens. It would give standing pertaining to public interest or law firms, I think, much greater incentive to sue.

MR. SCHMULTS: We reviewed that proposal, and we think the stance the President has taken in the renewal program is the one to take.

MORE .

Q I know you can't give a firm answer, but through the administrative route, or through reference to the Attorney General or civil suits brought by private citizens, how long would this process take, approximately, until it is resolved?

MR. SCHMULTS: It is very difficult to predict that. I suppose it would be anywhere from six months to over a year. You know, you are predicting who else intervenes and what the appeal process is. It is difficult to predict.

Q How is most of the \$19 billion being spent so far? What are the priority projects for the State and local governments? A follow up. Are there any areas in which the money may not be used other than the matching fund provisions?

MR. SCHMULTS: At the State level, it can be spent for any purpose, really. Local governments can spend it for any purpose for capital needs.

There are so-called priority expenditures for the spending of revenue sharing funds for operating and maintenance expenses. These are very broad categories. They were put in the law by Congress and, as I indicated in my opening statement, they have not proved burdensome.

I think it is interesting to note at the State level 52 percent of the funds have been spent on education. This is a large amount. Over \$6.4 billion have been distributed to States.

Other important categories are public transportation, health, general Government social services. At the local level, public safety leads the list with 36 percent, and then you drop down through the other priority expense categories.

Q A little slower please. Thirty-six percent for --

MR. SCHMULTS: -- at the local level was spent for public safety.

MORE

Q What does education get at the local level?

MR. SCHMULTS: At the local level, for operating and maintenance expenses, that is not a priority expenditure category. You will recall that many local governments in fact do not raise funds for school districts. They are supported at the State level by special purpose governments. That is the reason why that category of expenditure is eliminated from the priority list at the local level. But there is a significant amount of funds, of revenue-sharing funds spent for education because of the large amounts spent at the State level.

Q When they spend \$1 of revenue-sharing funds for education, Mr. Schmults, are they relieved from the obligation of spending an equal dollar raised from their own taxes, local taxes?

MR. SCHMULTS: There is no maintenance of effort requirement, that is right.

Q Is that written into this new legislation?

MR. SCHMULTS: No, it is not. But States can't reduce the aid that they have given to local communities in the law. That is in the present law. But if you spend \$1 in revenue-sharing funds for an expenditure category, it is true that at least a dollar in effect will be spent by local governments in some other category of use.

Q With the cities' and States' problems, are you saying or now telling them they now can get out of their money problems with this bill?

MR. SCHMULTS: First of all, I think it is important to note the President has met many times with the Governors, with the mayors and other local officials and they have all said revenue-sharing is their number one priority. Maybe Jim Falk can elaborate on that a minute.

I don't think I am standing here today for the President and saying the proposal to Congress is saying that revenue-sharing is going to solve all the needs of the cities and local governments. And you shouldn't expect it to solve all the needs. You should recognize that revenue-sharing is part of a general pattern of Federal aid programs and the niche it fills is a very important niche, we think, in allowing local governments to receive some money and spend it as they see fit for locally perceived needs as they see fit.

MORE

It also reaches an awful lot of governments who receive no other Federal aid--they don't have the ability to file applications for grants and other aid programs. So we think it is a very important part of the overall scheme of Federal aid to State and local governments.

Q You are saying cities and States are still going to be in money trouble?

MR. SCHMULTS: I am saying whatever problems they have revenue-sharing will be helpful but I am not saying it will solve all their problems, no. I certainly couldn't say that.

Jim, you might take a minute and talk about this.

Q The ESEA funds, sir, States are not allowed to appropriate less when they do get ESEA funds. Am I mistaken on that? They still have to maintain their level?

MR. SCHMULTS: Yes. They have to maintain their general aid level to the local communities.

Q And ESEA is on top an additional supplemental to that?

MR. SCHMULTS: In that sense, yes.

Q That is not the case in revenue-sharing; is that correct?

MR. SCHMULTS: They have to maintain the local level of aid they have given.

MR. WATT: The gentleman is correct. ESEA funds are in addition to their basic on-going program. Revenue-sharing, however, is better characterized as general support for State and local governments and is not targeted for specific purposes such as education or welfare.

MORE

Q Mr. Schmults, in recommending that the present formula be basically retained, how do you answer the objections that it is discriminating in favor of the rural poorer States, which in some cases are getting twice as much per capita as some industrial States?

MR. SCHMULTS: I think the criticism you are referring to is that the revenue sharing formula may not adequately address the question of need. We think in many respects that is an unfair criticism, that the poorer States do receive more on the average than the richer States; that the highly urbanized areas of counties do receive more than the less urbanized counties.

Revenue sharing, to a very great extent, does address the question of need. I think we are taking a good step in that direction, though, by raising the maximum constraint percentages. That percentage, as I indicated, said some jurisdictions who would have normally received more under the basic formula cannot get it because under the present law they can't receive more than 145 percent on a per capita basis of the State average.

Now, by going to 175 percent, that constraint is substantially eliminated for most jurisdictions. We are phasing in this over a period of time so that other Governments will not lose money in the process. That happens not just as a result of phasing in the increase, but because of the \$150 million annual stair-step increases.

Q Mr. Schmults, some Congressmen are talking about a permanent program of revenue sharing. How does the Administration feel about this?

MR. SCHMULTS: We took a look at that. There are a good number of people who would like to see the program made permanent. There are good reasons why it should be made permanent. The principal reason is it does provide some measure of certainty, to State and local governments -- they will know how much money they are going to get.

Of course, in a real sense, no program is permanent since a law can always be changed by Congress. In balancing the interest, we thought it would be desirable to go for 5-3/4 since it balances the needs of the State and local governments with some certainty with the need of Federal Government to take a look at the program every so often to see how well it is working and to make improvements.

We think by having it end in 5-3/4 or having it come up for renewal is really a better way of putting it, that it will be a discipline on the Executive and Congress to take a look at it and to make such improvements in the program as may be necessary.

Q How do you answer the question of suburban government officials who say that the people in their township or whatever are paying the payroll tax in the city which entitles the central city to more revenue-sharing funds while the suburb doesn't get credit for what its citizens are paying in other jurisdictions and they claim that their needs are growing and crime, and all the rest, is spreading to the suburbs? How do you answer that?

MR. SCHMULTS: Graham, you might answer that.

MR. WATT: I think it is important to note in general revenue-sharing there is a strong element of fiscal equalization -- an attempt to put more funds where the needs are greater. By and large the consensus would be in the central cities there are greater needs that have to be met, and in many cases there are fewer resources available with which to meet them. The fact that in some locations suburban residents may be paying a city income tax or city payroll tax which reflects to the tax credit of the central city in the allocation formula I think is only a further reflection of that desirability on the part of the Congress and the Administration to have general revenue-sharing help to balance the fiscal system and to help balance needs and resources.

MR. GREENER: Thank you, gentlemen.

THE PRESS: Thank you.

,

END

(AT 10:56 A.M. EDT)