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PART I

# OVERALL VIEW OF HOUSE BILL H.R. 14370— STATE AND LOCAL FISCAL ASSISTANCE ACT OF 1972

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PREPARED FOR THE USE OF THE

COMMITTEE ON FINANCE

BY THE STAFF OF THE

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# OVERALL VIEW OF HOUSE BILL H.R. 14370—STATE AND LOCAL FISCAL ASSISTANCE ACT OF 1972

## Title I—Payments to Local Governments and to the States

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H.R. 14370 provides for the distribution of funds to State and local governments over a 5-year period. Initially, the funds are to be distributed at an annual rate of $5.3 billion. Of this amount, $1.8 billion is to be distributed to State governments and $3.5 billion to the localities. The annual amount distributed to the localities remains the same over the 5-year period. The annual amount distributed to the States after the first full year may increase by as much as $300 million a year, reaching a total of about $3.1 billion (on an annual rate basis) in the final half year of the 5-year period.

*Distributions to States and local governments.*—For the first full year of operation, the distributions to the States for their own use and the total distributions to the localities in each of the States are shown in the table below.

TABLE 1.—ESTIMATED 1ST YEAR DISTRIBUTION OF FUNDS UNDER H.R. 14370, STATE AND LOCAL FISCAL ASSISTANCE ACT OF 1972, BY STATE [1]

[Amounts in millions of dollars]

| | State share | Local share | Total |
|---|---|---|---|
| United States, total | 1,800.0 | 3,500.0 | 5,300.0 |
| Alabama | 14.9 | 65.2 | 80.1 |
| Alaska | 3.5 | 3.1 | 6.6 |
| Arizona | 14.0 | 32.1 | 46.1 |
| Arkansas | 8.0 | 30.4 | 38.4 |
| California | 241.1 | 369.7 | 610.8 |
| Colorado | 20.3 | 39.1 | 59.4 |
| Connecticut | 21.0 | 51.7 | 72.7 |
| Delaware | 7.8 | 9.5 | 17.3 |
| District of Columbia | 10.8 | 15.2 | 26.0 |
| Florida | 31.9 | 118.1 | 150.0 |
| Georgia | 28.3 | 75.1 | 103.4 |
| Hawaii | 13.2 | 12.7 | 25.9 |
| Idaho | 5.8 | 9.6 | 15.4 |
| Illinois | 105.1 | 196.6 | 301.7 |
| Indiana | 31.0 | 82.8 | 113.8 |
| Iowa | 26.2 | 41.6 | 67.8 |
| Kansas | 13.8 | 34.0 | 47.8 |
| Kentucky | 19.2 | 52.6 | 71.8 |
| Louisiana | 18.4 | 64.8 | 83.2 |
| Maine | 5.6 | 14.2 | 19.8 |
| Maryland | 50.1 | 67.4 | 117.5 |
| Massachusetts | 74.6 | 104.4 | 179.0 |
| Michigan | 91.0 | 152.7 | 243.7 |
| Minnesota | 51.7 | 62.4 | 114.1 |
| Mississippi | 10.1 | 35.9 | 46.0 |
| Missouri | 27.9 | 79.6 | 107.5 |
| Montana | 6.9 | 9.9 | 16.8 |
| Nebraska | 9.7 | 24.8 | 34.5 |
| Nevada | 3.7 | 8.5 | 12.2 |
| New Hampshire | 3.3 | 10.2 | 13.5 |



See footnotes at end of table.

TABLE 1.—ESTIMATED 1ST YEAR DISTRIBUTION OF FUNDS UNDER H.R. 14370, STATE AND LOCAL FISCAL ASSISTANCE ACT OF 1972, BY STATE [1]—Continued

[Amounts in millions of dollars]

| | State share | Local share | Total |
|---|---|---|---|
| New Jersey | 44.7 | 135.0 | 179.7 |
| New Mexico | 6.5 | 16.0 | 22.5 |
| New York | 317.4 | 332.2 | 649.6 |
| North Carolina | 36.3 | 76.8 | 113.1 |
| North Dakota | 3.6 | 8.4 | 12.0 |
| Ohio | 49.5 | 177.8 | 227.3 |
| Oklahoma | 11.4 | 41.4 | 52.8 |
| Oregon | 24.8 | 35.2 | 60.0 |
| Pennsylvania | 98.4 | 202.5 | 300.9 |
| Rhode Island | 7.8 | 18.0 | 25.8 |
| South Carolina | 14.3 | 43.5 | 57.8 |
| South Dakota | 3.7 | 9.8 | 13,5 |
| Tennessee | 14.3 | 65.0 | 79.3 |
| Texas | 46.2 | 202.0 | 248.2 |
| Utah | 8.8 | 20.2 | 29.0 |
| Vermont | 5.7 | 5.3 | 11.0 |
| Virginia | 38.3 | 77.3 | 115.6 |
| Washington | 20.9 | 58.2 | 79.1 |
| West Virginia | 10.0 | 26.4 | 36.4 |
| Wisconsin | 65.9 | 71.1 | 137.0 |
| Wyoming | 2.2 | 3.9 | 6.1 |

[1] These figures are shown on an annual rate basis. The first distribution is for a half year, Jan. 1 through June 30, 1972.

The distributions to individual localities within each State are shown in the tabular material which comprises the bulk of the supplemental House report.

The $1.8 billion is distributed to the States on an incentive basis, one-half designed to encourage tax effort generally and one-half to to encourage greater use of individual income taxes. General tax effort for this purpose is measured by comparing State and local tax collections relative to the personal income level in one State, with similar revenue efforts made by the other States. Income tax encouragement is provided by basing the distribution on one-half of 15 percent of a State's individual income tax collections. However, in no event is the minimum amount taken into account to be less than one-half of 1 percent of total Federal income tax liabilities within the State. Nor may the maximum payment exceed one-half of 6 percent of these Federal income tax liabilities.

The $3.5 billion of funds distributed to the local governments is to be made available to them under formulas which measure their need by taking into account population, the extent of urbanization, and the extent of poverty in the localities, as indicated by the relative income levels of their residents. The funds for the first year and a half are to be distributed to county areas under formulas generally weighting these three factors equally. A division of the funds is then made between the county government and all the municipal governments within the county on the basis of the relative taxes raised by each (not taking into account taxes used for education).[1] The funds then are distributed among the municipalities in a county under formulas which give equal weight to population and to poverty in those municipalities as indicated by relative income levels of their

[1] The same type of division is also made for all townships where these types of governmental units exist. The division of funds among townships is made in the same manner as the division among municipalities (see discussion in text).

residents. The amount going to any unit of local government may not exceed 50 percent of its tax receipts (other than for education) plus intergovernmental transfers.

After the first year and a half, the local formulas indicated above may be modified by the States where variation is desirable to meet local problems. They may vary the weighting of the factors with respect to the formula for distribution to the county area by from 25 to 40 percent. In addition, if they believe it is desirable to emphasize the varying costs of government within their States, they may substitute for the population factor in the formula for distribution to the county area, or in the formula for distribution among the municipalities (or both), a factor taking into account variations in taxes raised by the governmental units in question.

Although distributions will be made to municipalities with a population under 2,500, the breakdown for the smaller municipalities is not yet available. Distributions will, however, be made to any municipality where its entitlement amounts to $200 or more. The breakdown also is not yet generally available for townships (in those States where these are general purpose governmental units).

*Limitations on use of local funds.*—Payments received by local governments under the House bill are not to be used to match Federal funds for other programs where those funds are required, under a formula provided by Federal law, to be matched by non-Federal funds. The payments are to be used by the local governments only for the high-priority purposes listed in the statute—(1) maintenance and operating expenses for public safety, environmental protection, and public transportation, and (2) capital expenditures for sewage collection and treatment, refuse disposal systems, and public transportation.

Where a State spends more money on a particular category of items than all the units of local government located in that State spend on that category, then that State may exclude that category of items from the high-priority list. Also, a State may require local governments to spend up to 10 percent of the funds they receive under this bill for areawide high-priority purposes that affect those local governments, but only if the State matches those local expenditures out of the State's own funds on a current basis.

The House bill requires with respect to periods after July 1, 1972, each local government must establish in advance that: (1) it will create a trust fund in which it deposits its revenue sharing receipts; (2) it will use these funds only for high-priority purposes set forth in the bill; (3) its revenue sharing capital expenditures are additional and not of a character for which the local government regularly makes expenditures on a recurring basis; (4) it will pay back to the Treasury 110 percent of any expenditure from the trust fund made in willful violation of these requirements; (5) it will use such fiscal, accounting, and audit procedures as conform to guidelines established for this purpose by the Secretary of the Treasury; and (6) it will provide reasonable access to records required for reviewing compliance and will make annual and interim reports to the Secretary of the Treasury.

Also, the Davis-Bacon Act standards are to apply to wages paid to laborers and mechanics employed by contractors and subcontractors in the performance of work on construction financed in whole or in part from revenue sharing money.

As to persons hired with funds under this bill, the wages the locality pays must not be lower than those paid to other persons employed in similar jobs by that local government. The bill prohibits discrimination on account of race, color, sex, or national origin, in the use of revenue sharing funds by local governments.

*Other provisions.*—Each State is required, as a condition of receiving its payments under the bill, to maintain its level of support of local governments in that State.

The District of Columbia is in general treated as a State for purposes of determining benefits to States and as a local government for purposes of determining benefits to local governments. If the District of Columbia imposes a "commuter tax", its benefits are reduced by the amount of its net commuter tax collections.

Expedited judicial review procedures are provided in the case of any dispute between a recipient government and the Secretary of the Treasury as to whether the restrictions of the bill have been complied with.

Provision is made in the bill for updating the data upon which the distribution formulas are based. As part of the system for updating this information, the bill requires taxpayers to indicate on their income tax returns current information as to the political subdivisions in which they live.

## Title II—Federal Collection of State Individual Income Taxes

The House bill provides for the Federal Government to collect and administer State individual income taxes [1] under a voluntary arrangement with those States that wish to have the Federal Government perform this tax collection and administration service for them. For the Federal Government to perform this collection function it will be necessary for States entering into the arrangement to largely conform their individual income taxes to the Federal income tax. This provision is to go into effect on January 1, 1974, or, at such later time as 5 States, accounting for at least 5 percent of the taxpayers in the United States, request Federal collection of their income taxes.

The bill provides that the procedural and administrative provisions of the Internal Revenue Code generally are to apply to Federal collection of those State individual income taxes in the same manner as if the taxes were imposed by the Federal Government. The Federal Government is required to protect the interests of the State in the same manner in which it protects the interests of he Federal Government.

The funds collected by the Federal Government on account of those State taxes are to be promptly transferred to the States.

In general, the State taxes will either have to be based on Federal taxable income, with certain adjustments, or be based on Federal income tax liabilities, also with certain adjustments. If the State tax is based on Federal taxable income, the State may prescribe its own rate structure; if the State tax is based on Federal tax liability, the State may impose its tax as a percentage of the Federal tax liability.

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[1] The bill applies to income taxes of individuals, estates, and trusts, but not to income taxes of corporations.

H.R. 14370 provides rules for determining the taxpayer's residence, rules for allocating income where the taxpayer is a resident of more than 1 State, and procedures for the State to exercise its option to enter into or withdraw from this Federal collection system. Expedited judicial review is provided in the case of disputes as to whether a State has effectively entered or withdrawn from the system.