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[1976]



I. Description of H.R. 5247

The bill has three titles.

Title I. Provides for 100% federal grants for local public works projects, with a FY 1977 authorization of \$2.5 billion.

Title II. Provides for anti-recession grants to State and local governments to help them maintain basic municipal services in the face of the falling revenues and rising costs attributable to recession. The estimated cost is \$1.5 billion over the next 15 months. The program would be triggered by the national unemployment rate exceeding 6% and the level of funding would increase with the unemployment rate. The allocation of funds is governed by a complex statutory allocation formula based on unemployment rates and taxes raised by the recipient.

Title III. Provides (1) \$1.4 billion in FY 1977 funds for EPA's wastewater treatment grants, (2) an extension, \$500 million authorization and modification of the Job Opportunities program, (3) interest subsidies on EDA loans to businesses, and (4) additional EDA grant and loan authority which would effectively make EDA an Urban Renewal Agency. The estimated potential cost of this Title is over \$6 billion, of which \$675 million would be for FY 1976.

H.R. 5247 in its present form has many weaknesses. It addresses the cyclical problems of state and local governments just at the time when those problems are beginning to abate for most states and smaller communities. Most State and local governments are emerging from the recession, and, as is typical in economic recoveries, their revenue increases now are outrunning their expenditure increases. Only a relatively small proportion of the enormous overall cost of H.R. 5247 would be available in the short-term to provide the assistance which local governments are seeking to help them cope with the effects of temporarily high levels of unemployment. Titles I and III of the enrolled enactment would require continuing expenditures in calendar year 1978 and beyond regardless of the condition of the economy and would saddle local governments with political pressure to maintain newly-hired employees on the public payroll.

Title I, in particular, suffers from this defect, since it provides funds for public works which will be utilized, given lead times for such projects, in years when the economic recovery is much stronger and when the projects could be inflationary. Title I's provision for 100% federal grants also eliminates incentives for recipients to carefully select and monitor proposed projects or to weigh the value of the project against competing local priorities. Finally, Title I is in effect a categorical public works program, introduced when the Administration had been consolidating such programs.

Title II, which is a public service employment program, bases its fund allocations in part on the basis of taxes raised locally, which means cities and States receive aid based on what they spend, not what they need. More funds would be provided to those local governments with higher tax bases, including many which plan to run surpluses in 1976, and to those which have been least efficient in holding down costs. Title II could also encourage escalation in local public employee wage settlements, since in effect part of the cost would be paid by the Federal government, as long as the overall unemployment rate remains above 6%. Nor is there any workable mechanism in the bill to ensure that State and local governments, as intended, will spend the money either to create useful and substantial jobs, or to prevent layoffs of essential public employees and maintain the current level of public services. Such public service employment programs often merely substitute federally funded employment for jobs that would have been funded by local revenues anyway, thus adding few net jobs. This may result partially from the limited capacity of local government to rapidly absorb new employees. Finally, it is often extremely difficult to terminate a public service employment program when the need for it is over, since termination could mean politically explosive layoffs of public employees.

Title III has some of the same weaknesses as Title I. It is a categorical program very similar to prior such programs, which have proven ineffective. The EDA amendments envision a program strikingly similar to Urban Renewal which was terminated because it was devastatingly harmful to the social and economic fabric of cities, and was consolidated into the Community Development Block Grant program, which provides a better means of assisting the cities.

Title III also subverts the purpose of EDA both programmatically and geographically. EDA's role is to provide development assistance to those regions and communities which have chronic unemployment resulting from the lack of economic infrastructure, not as a result of a temporal recession. Hence, EDA's attention would be directed away from its historical constituency of rural communities, which are undergoing financial problems as a result of the recession, to a very different urban clientele.

While H.R. 5247 is deficient in many respects, it does attempt to address, albeit in a confused and inadequate fashion, a major problem of many local governments, particularly large cities. While general economic recovery will aid state and local governments in balancing their budgets and in continuing to provide services, there are still many cities which have been hard hit by the recession and which will be particularly slow to emerge from it. These are cities which suffer from economic decline generally, hence were especially vulnerable to the effects of the recent recession, which superimposed cyclical fiscal problems upon their long-term economic problems. This has created fiscal difficulties on a continuing basis and trapped these cities in a vicious cycle in which they must either raise taxes or reduce services, in either case exacerbating the economic decline which originally generated the fiscal problems.

These cities are typically older, larger central cities, particularly in the Northeast and Midwest, although there are an increasing number of cities in the West and South with such characteristics. These cities generally have been losing both middle income population and private employment, have large poverty populations and are small relative to their suburban areas. They face higher per capita costs of providing services to a population which increasingly needs their services, but which cannot generate the required tax revenues.

II. Proposed Alternative to H.R. 5247

A. Program Description

HUD's proposed assistance program is based on the concept of providing temporary financial assistance to those local governments which most need it, when their already serious fiscal problems are exacerbated by a recession.

B. Recipients

Funds would be provided only to cities with more than 50,000 population, since these are the cities which face the most severe fiscal problems on both a short-term and long-term basis. Small units of government would be funded through the states because of the administrative problems of our determining their relative needs.

C. Trigger and Allocation Formula

The program would be activated only when the national unemployment rate was over 7% for a calendar quarter. At that time, funds would be provided for the following four calendar quarters only in those large cities which have unemployment rates at or above 8%. These cities would receive a pro-rata share of \$10 million per quarter, for each .1% that the national unemployment rate exceeded 7%. For example, the unemployment rate for the fourth quarter of 1975 was 8.3%. Funds would be provided, beginning in the second quarter of 1976, in the amount of \$130 million per quarter, or \$520 million per year, for as long as the unemployment rate remained at 8.3% (1.3% above the 7% trigger). Each city with an unemployment rate at or above 8% would receive funds in direct proportion to its share of the total number of persons unemployed above 8%. If the national unemployment rate falls to 8.0% in the first quarter of 1976, then the funds to be allocated would be reduced to \$100 million per quarter or \$400 million per year, beginning in the third quarter of 1976.

In the alternative, funding could be provided at the rate of \$15 million per quarter, for each .1% that the national unemployment rate exceeded 7%. Under this alternative, funds would be provided, beginning in the second quarter of 1976, in the amount of \$195 million per quarter, or \$780 million per year, for as long as the national unemployment rate remained at 8.3% (1.3% above the 7% trigger). Each city with an unemployment rate at or above 8% would receive, at this higher funding level, the same proportion of funds available as it would receive at the lower funding level. If the national unemployment rate falls to 8.0% in the first quarter of 1976, then the funds to be allocated at this higher level of funding would be reduced to \$150 million per quarter, or \$600 million per year, beginning in the third quarter of 1976.

Individual cities would become eligible under either formula for funds on a quarterly basis and receive funding only while their unemployment rates were above 8%. Thus, as the economy improves, the total amount of funds available, and the number of cities receiving funds, would decline from quarter to quarter.

A fund equaling 25% of the funds available in any quarter would be distributed to states with an unemployment rate of over 8% in areas lying outside cities of 50,000. The states would be required to distribute those funds to communities of under 50,000 with unemployment rates (using locally derived estimates) of over 8% and suffering serious fiscal problems.

D. Program Administration

These assistance grants would be administered with a minimum of additional Federal or local bureaucratic expense by using an existing administrative structure. Virtually all cities who would be potentially eligible for assistance under this program are already operating community development and housing programs under the Housing and Community Development Act of 1974. The Community Development Block Grant Program requires recipients to develop a comprehensive three-year plan and an annual application for funds, which is reviewed and monitored by the Department of Housing and Urban Development. In addition, each recipient has an on-going planning and management structure to operate its programs.

Grants made each quarter to eligible cities would flow into their community development program, subject to the same statutory and regulatory constraints as the regular block grant program. Each quarter, cities would be notified of their eligibility for emergency stipend. In order to receive the funds, the city would submit a brief statement of its planned use of that quarter's funding, simply referencing its HUD-approved community development application. Activities (as in the Community Development Block Grant discretionary program) must be those which can be completed with this temporary bi-annual grant or other identifiable available funds (including Community Development Block Grants). Their next annual application and performance report for block grant funds would explain how the additional funds were utilized, either through an acceleration or augmentation of activities already planned, or, in some instances, in additional community development activity which had not previously received support because of a lack of funds. Post hoc Federal audit and monitoring of grant expenditures would be a part of HUD's routine administration of the block grant program.

E. Advantages

This proposal has several fundamental advantages:

- (1) It is focused both geographically and temporarily on specific, severe urban problems. It is a measure to provide emergency relief only to those local governments with high unemployment, who are having a particularly hard time recovering from the recession. Unemployment is a reasonable and accessible means of identifying cities facing such serious fiscal problems.
- (2) The proposal is aimed at cities with continuing and systemic economic problems which make their participation in the general economic recovery most difficult. Individual cities which experience economic recovery and improved employment conditions before the program phases out will have their own supplemental funding reduced or eliminated as their economic condition improves.

- (3) The national economic recovery anticipated in 1976 and 1977 will phase the entire program out automatically as the national unemployment rate drops below 7%.
- (4) The program is inherently temporary; it carries no implication of being a continuing "entitlement," and by its quarterly allocation of funds mitigates against any long-term reliance on or anticipation of future funding.
- (5) Directing supplementary funding into community development programs at the local level is responsive to the special problems of these cities. In addition to stimulating the local economy with "new" money, the supplement will allow the recipients to accelerate community development activities and meet needs which are all the more pressing because of local unemployment and lagging municipal revenues. For example, they can undertake economic development initiatives to attract and keep industry, stabilize and preserve declining neighborhoods which threaten to become even larger public burdens, and rehabilitate existing housing stock for improved living conditions for residents. All of these activities treat the economic base deficiencies which are at the root of most urban problems, and should contribute to overall recovery in those cities which tend to fall into recession more deeply, and to come out of it more slowly.
- (6) Unlike the pending legislation, however, it should not encourage additional local government spending by basing the allocation formula on local fiscal effort or local taxes.
- (7) The higher trigger will allow an earlier phase-out and the lower level of funding envisioned will result in far lower costs than the pending legislation.

- (8) Use of the existing Community Development Block Grant administrative structure at the Federal and local level also contributes to the attractiveness of this proposal. First, it is cost-effective and efficient in that virtually all appropriations for the program will go directly to recipient governments for community development efforts already planned, thus greatly reducing start-up time and administrative costs and increasing the city's capacity to absorb and use its incremental funds. Second, the Community Development mechanism provides the recipient community with the ability to weigh competing priorities and the responsibility to carefully assess potential uses for their Federal funds. Third, by avoiding the creation of a new bureaucracy at the Federal or local level, it minimizes start-up costs or delays, preserves the temporary character of the program, and avoids the problem of disruption which often occurs when Federal funds are discontinued.
- (9) The Community Development program already has an administrative infrastructure, at the Federal and local level, to assure compliance with other related Federal laws, such as National Environmental Protection Agency, relocation and anti-discrimination provisions.
- (10) The Community Development Block Grant Program was conceived and designed to meet the needs of our urban areas while learning from the mistakes of the old categorical programs. By building on this on-going program, the proposed supplementary grant can take advantage of those elements which make it a sound urban program. The wide scope of eligible activities and the broad discretion allowed recipients in setting local priorities makes it easy for cities to make effective use of the funds.

- (11) Based on our experience with the Community Development program, a very high percentage of the funds would be spent on activities which provide jobs in the private sector rather than creating long-term obligations for financially strapped local governments by swelling public payrolls.
- (12) If, as presently anticipated, the economy continues to recover and interest rates fall, the cost of government borrowing would decrease and the Administration could remain within its budget target of \$395 billion.

APPENDIX

The table shows approximate amounts which would be allocated under the proposed formula, for the 20 cities receiving the largest awards. The figures are based on first quarter 1975 U.S. Department of Labor unemployment figures and on 1970 Census labor force totals for the cities over 50,000 population with 8% or more unemployment. If the proposed legislation were enacted, current labor force data would be used, so the actual grant amounts would differ slightly from the figures in the table. A total of 243 cities would be eligible for aid.



	Allocation under \$10 million per 1/10% formula (\$ mill.)	Allocation under \$15 million per 1/10% formula (\$ mill.)	Allocation under formula in Title II of HR 5247 (\$ mill.)	CDBG Allocation FY 1975 (\$ mill.)	Unemployment Percent	No.	Unemploy- ment over 8%
New York	51.4	77.1	137.8	102.2	10.5%	351,000	117,000
Los Angeles	20.8	31.2	20.3	38.6	10.7	134,000	46,000
Chicago	9.8	14.7	18.6	43.2	9.1	132,000	31,000
Detroit	50.6	75.9	38.0	34.2	21.6	131,000	88,000
Philadelphia	14.9	22.4	21.5	60.8	11.0	89,000	32,000
Baltimore	6.2	9.3	5.2	32.7	10.7	40,000	13,000
San Francisco	5.4	8.1	10.5	28.8	10.5	37,000	12,000
Boston	8.3	12.5	16.0	32.1	12.8	36,000	16,000
San Diego	4.6	6.9	2.9	9.1	10.4	32,000	11,000
St. Louis	7.5	11.3	8.6	15.2	12.9	32,000	15,000
Buffalo	9.6	14.4	6.6	11.7	16.5	30,000	17,000
Milwaukee	2.7	4.1	2.5	13.4	9.4	29,000	7,500
Cleveland	2.8	4.2	3.2	16.1	9.5	29,000	7,600
Atlanta	6.3	9.5	3.6	18.8	12.7	28,000	13,000
Indianapolis	1.0	1.5	2.8	13.9	8.5	27,000	4,700
Phoenix	3.4	5.1	2.5	2.6	10.3	25,000	8,000
Seattle	0.9	1.4	2.0	11.6	8.6	21,000	4,000
Kansas City, Mo.	2.0	3.0	3.4	17.9	9.5	21,000	5,600
New Orleans	2.0	3.0	3.0	14.8	9.5	21,000	5,600
Pittsburgh	2.5	3.8	2.7	16.4	10.0	20,000	6,100

THE WHITE HOUSE

WASHINGTON

January 14, 1976

MEMORANDUM FOR

FROM

SUBJECT:

JIM CANNON

PAUL MYER

Countercyclical Aid Legislation

Per your request of yesterday evening, attached are the pertinent documents relating to the Administration's review of countercyclical aid legislation. This legislation, now part of the Public Works Bill Conference Report (H. R. 5247), has been overwhelmingly approved by the Senate and awaits House action. An early House vote on this Conference Report is anticipated.

On July 10, 1975, at a White House meeting, Mayor Landrieu and other representatives of the Conference of Mayors were promised a review of the Administration's position on countercyclical aid legislation. This matter has been pending in EPB since that time. To date, Mayor Landrieu has not received an official response from the Administration. A draft letter has been prepared by Treasury and OMB. While we had urged delay while the conferees attempted to gain agreement, there is no longer any reason to hold off. In fact, should and must be sent. As I indicated to you last night, the dispatch of this letter has now been delayed due to an apparent dispute over who should sign the letter. Simon apparently refuses to sign the letter and feels that Jim Lynn is the more appropriate signator.

While the Conference of Mayors awaits a formal response, Treasury has sent to the House Government Operations Committee their views and position opposing the countercyclical aid bill. This letter was approved by OMB.

As you know, the combined Public Works/Countercyclical Aid Bill represents a likely veto target. In addition to fulfilling



our commitment to Moon Landrieu, a decision must also be made on the extent to which the White House will actively lobby against inclusion of the countercyclical aid provision. It is likely that a separate vote on the House Floor could be obtained when the Conference Report is considered. The manner in which this is handled could effect GRS renewal.

Attachments

1. Request of USCM for review of the Administration's position
2. Proposed draft response
3. Treasury report to Congress on countercyclical aid bill
4. Cannon memo to Seidman



File = Countywide aid

CALA CODE 2...

UNITED STATES CONFERENCE OF MAYORS

1620 EYE STREET, NORTHWEST
WASHINGTON, D. C. 20006

July 14, 1975

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Mayor of San Francisco

Vice President:

MOON LANDRIEU
Mayor of New Orleans

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Mayor of Chicago
HENRY W. MAIER
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Executive Director:

JOHN J. GENTHER

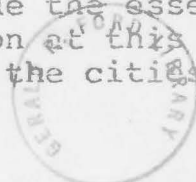
The Honorable William E. Simon
Secretary, Department of Treasury
Treasury Building
15th and Pennsylvania Ave, N.W.
Room 3330
Washington, D.C. 20220

Dear Mr. Secretary:

On behalf of the Conference of Mayors' President, Mayor Landrieu, please accept our deepest appreciation for the opportunity that we had to meet with you at the White House on Thursday, July 10.

Mayors Landrieu, Perk, Mayors attending the White House meeting and other Mayors throughout the nation, are most encouraged that the Administration has agreed to place the Conference of Mayors's proposal for Anti-Recession Fiscal Assistance- as outlined in the Muskie-Brock legislation- on the agenda of the President's Economic Council this week. After the meeting on Thursday, Mayor Landrieu and Perk asked me to contact you. Following our phone conversation on Saturday morning, I am submitting, attached herewith, our report to you for the purpose of placing our proposal on your agenda as you meet this week.

As you know, the Senate Committee on Government Operations plans to meet this week to report out the Intergovernmental Anti-Recession Assistance Act (Muskie-Brock legislation). It is our present understanding that the Congress plans to recess for the month of August. A favorable recommendation from you and your colleagues to President Ford this week would provide the essential support we need from the Administration at this critical time in providing the fiscal assistance the cities need throughout the nation.

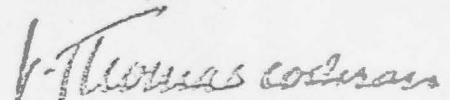


The Honorable William E. Simon
Page Two
July 14, 1975

Please be assured that the nation's Mayors, and the Conference staff stand ready to assist you and your colleagues in any way possible during your deliberations this week.

Again, on behalf of the nation's Mayors, we appreciate your concern and are hopeful to hear from you on this vital matter as soon as possible.

Sincerely,



J. Thomas Cochran
Deputy Executive Director

Encl.



Countercyclical aid

Dear Mayor Landrieu:

As OMB Director Lynn and I agreed when we met at the White House with mayors from around the Nation on July 10, the Administration has carefully reassessed its policy position with respect to the countercyclical assistance proposal now pending before the Congress. As Chairman of the Economic Policy Board, I would like to report to you on that reassessment. Our evaluation has led us to conclude that we should continue to oppose the present proposal. While we realize that the funds that would be provided to local and state governments meeting the criteria set forth in the proposed legislation would be of substantial benefit to many of them in responding to difficult fiscal situations which they face, we believe that the program's benefits are outweighed by other considerations that pertain to both the impact of the proposal on the national economy and the merits of the way the program is designed to operate.

It is our view that specific Federal actions directed toward achieving economic recovery and mitigating the effects of unemployment provide a better approach toward correcting the fiscal difficulties faced by state and local governments because these actions would ameliorate the underlying reasons for the problems that exist. Federal initiatives, such as extended unemployment compensation and tax reduction, will be much more effective in achieving economic recovery than would setting up a broad, automatic intergovernmental assistance program.

Enactment of countercyclical assistance as a new spending program, in addition to those resources already committed in our attempt to return to economic stability, would both further add to the serious Federal deficits we face this year and next year and, at the same time, pose significant risks of causing overstimulation. Because the program would have to be financed by new Federal borrowing, its enactment would, together with the other pressures toward greater spending, create intolerable risks of driving up interest rates and discouraging much needed private investment. For example, heavier Treasury borrowing could easily attract funds away from thrift institutions, thereby reducing the availability of mortgage credit and retarding activity in the residential construction sector.

It is our conclusion the intergovernmental assistance proposal pending in Congress does not deal with the problem it is intended to address as equitably or efficiently as it should. There is always a wide variation in the revenue and expenditure outlook facing individual state and local governments, and the local unemployment rate does not necessarily reflect a jurisdiction's fiscal outlook. Even today, many localities are able to maintain full municipal services without finding it necessary to raise taxes. Under the proposal, however, such local governments would be entitled to receive Federal grants. Moreover, sufficient distinction is not made between communities on the basis of either tax effort or tax structure. A State or city with a low income level that taxed its own citizens heavily to maintain services would not get a higher level of benefits than would a wealthier jurisdiction that put forth a relatively lower tax effort.



Other aspects of the bill also trouble us. For example, the measure would add one more uncontrollable program to the Budget, reducing both the President's and Congress' flexibility. With regard to state and local budgetary planning, countercyclical grants would, in many instances, be built into local government base programs and would place such programs in deficit status when the grants were phased out, to the extent that local revenues did not increase as employment increased.

We are sympathetic to the plight of state and local governments faced with fiscal crisis because of unemployment and recession. We recognize that governments have had to cut services being provided to their citizens and to increase tax burdens in order to respond to conditions that they are facing. At the same time, we do not believe that the countercyclical proposal, which would represent nearly \$2 billion in new Federal spending on top of the more than \$60 billion now going annually into grants-in-aid to state and local governments, is a desirable approach to resolve these problems. The funds that would be distributed to individual communities would certainly be of benefit to them. However, because funds would be distributed widely, the proposal would probably not make a critical difference to the fiscal survival of any of them. ~~For example, the latest estimates show that the city of Chicago would receive about \$_____ million annually if countercyclical assistance were to be enacted. While the receipt of such an amount would be helpful, it would not go very far in meeting Chicago's problems.~~ In contrast, viewing things from the Federal perspective, it is our conclusion that adding to deficit spending could have a very adverse impact on the economic recovery necessary for all segments of our economy, including local governments, to again prosper.

The Administration has already announced its vigorous support for the extension of the General Revenue Sharing program. We believe that this program, which currently provides over \$6 billion a year to state and local governments, is effective in providing a reasonable level of general fiscal assistance to governments throughout the Nation. When considered along with categorical and block grants presently going to state and local governments, we feel that the total amount of Federal aid committed under existing programs, more than \$60 billion during this fiscal year, is the maximum that we can responsibly provide, given the economic and fiscal conditions we face.

Sincerely yours,

Chairman of the Economic
Policy Board

The Honorable Moan Lindquist
Mayor of New Orleans
President
Conference of Mayors
1620 I Street, N.W.
Washington, D.C. 20006



Treasury

letter was hand
carried to the
DEC 10 1975 Hill on 12/10/75

File - Countercyclical Aid

Dear Mr. Chairman:

This is in response to your requests for the views of this Department on H.R. 6408, H.R. 6416, and H.R. 7936, "To coordinate State and local government budget-related actions with Federal Government efforts to stimulate economic recovery by establishing a system of emergency support grants to State and local governments." Our comments would also apply to other proposals of this type currently under consideration by the Conference Committee on H.R. 5247.

It is the Department's view that specific Federal actions directed toward achieving economic recovery and mitigating the effects of unemployment provide a better approach than would countercyclical assistance toward correcting the fiscal difficulties faced by State and local governments because such actions will ameliorate the underlying reasons for the problems that exist. Federal initiatives, such as extended unemployment compensation and tax reduction, will be much more effective in achieving economic recovery than would be setting up a broad, automatic intergovernmental assistance program.

Enactment of countercyclical assistance as a new spending program, in addition to those resources already committed in our attempt to return to economic stability, would both further add to the serious Federal deficits we face this year and next year. At the same time, because changes in the rate of unemployment tend to lag several quarters behind changes in the level of economic activity, use of the unemployment rate as a spending trigger for the program would extend economic stimulation beyond the early stage of recovery, thereby generating or accelerating inflationary pressures.

The Department believes that the intergovernmental assistance proposals pending in Congress do not deal with the problem they are intended to address as equitably or efficiently as they should. There is always a wide variation in the revenue and expenditure outlook facing individual State and local governments, and the local unemployment rate does



not necessarily reflect a jurisdiction's fiscal outlook. Even today, many localities are able to maintain full municipal services without finding it necessary to raise taxes. Under the proposals, however, such local governments would be entitled to receive Federal grants. State-local governments historically have tended to accumulate budgetary reserves in good years to allow them to maintain expenditures (without major tax increases) in bad years. If they no longer need to be as provident because of Federal countercyclical aid, they will raise expenditures in good as well as bad years. The net effect of these programs could, therefore, be an expansion of State and local government spending without much effect on the stability of such spending.

Even with regard to those governments that would need aid to maintain services, sufficient distinction is not made between communities on the basis of either tax effort or tax structure. A State or city with a low income level that taxed its own citizens heavily to maintain services would not get a higher level of benefits than would a wealthier jurisdiction that put forth a relatively lower tax effort.

Other aspects of the bills also trouble us. For example, the measures would add one more uncontrollable program to the Budget, reducing both the President's and Congress' flexibility. The President is committed to restraining the growth of Federal spending and has advocated a Federal budget of \$395 billion for fiscal year 1977. This is a crucial first step toward balancing the budget in three years. With regard to State and local budgetary planning, counter cyclical grants would, in many instances, be built into local government-based programs and would place such programs in deficit status when the grants were phased out, to the extent that local revenues did not increase as employment increased.

The Department is sympathetic to the plight of State and local governments faced with fiscal crisis because of unemployment and recession. We recognize that governments have had to cut services being provided to their citizens and to increase tax burdens in order to respond to conditions that they are facing. At the same time, we do not believe that countercyclical assistance, which would represent a substantial increase in new Federal spending on top of the about \$60 billion now going annually into grants-in-aid to State and local governments, is a desirable approach to resolve these problems. The funds that would be distributed to individual



communities would certainly be of benefit to them. However, because funds would be distributed widely, the proposals would probably not make a critical difference to the fiscal survival of any of them. In contrast, viewing things from the Federal perspective, it is our conclusion that adding to deficit spending could have a very adverse impact on the economic recovery necessary for all segments of our economy, including local governments, to again prosper.

The Administration has already announced its vigorous support for the extension of the General Revenue Sharing program. We believe that that this program, which currently provides over \$6 billion a year to State and local governments, is effective in providing a reasonable level of general fiscal assistance to governments throughout the Nation. When considered along with categorical and block grants presently going to State and local governments, we feel that the total amount of Federal aid committed under existing programs is the maximum that we can responsibly provide, given the economic and fiscal conditions we face.

In view of the objections described above, the Department strongly opposes enactment of countercyclical assistance legislation.

The Department has been advised by the Office of Management and Budget that there is no objection to the submission of this report to your Committee and that enactment of the proposed legislation would not be in accord with the program of the President.

Sincerely yours,

(Signature of Robert T. Mitchell)

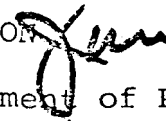
General Counsel

The Honorable
Jack Brooks, Chairman
Committee on Government Operations
House of Representatives
Washington, D.C. 20515



THE WHITE HOUSE
WASHINGTON

September 16, 1975

MEMORANDUM FOR: BILL SEIDMAN
FROM: JIM CANNON 
SUBJECT: Announcement of Presidential
Countercyclical Aid Decision

I am informed that the Economic Policy Board will be considering the announcement of the President's recent decision on countercyclical aid. Ed Schmults' office is drafting a letter from Secretary Simon to Mayor Landrieu reiterating our stance.

I believe this would be a serious mistake and advise against any announcement of that decision at this time for the following reason:

The countercyclical aid legislation has not been sent to conference; the bill remains at the Speaker's desk. It is being held because the key Democrats involved cannot agree on what to do with this legislation. Without going into detail, the Mayors, ALF-CIO and others are focused on serious Congressional problems-- problems representing a more formidable barrier to their goal of attaining countercyclical aid than the position of the Administration at the present time.

Question: Why should we announce now and give everyone a target and excuse? Under the circumstances, the President would be blamed for their failure to achieve Congressional consensus on this program.

I recognize that such a decision will eventually have to be announced. However, unless the decision must be announced now, I urge delay.

THE WHITE HOUSE
WASHINGTON

January 23, 1976

*Put
Held*

MEMORANDUM FOR *P* JIM CANNON
FROM PAUL MYER
SUBJECT: Countercyclical Aid

The attached memorandum on the counter-cyclical aid situation in the House of Representatives requires your immediate attention and action.

I have discussed this matter briefly with Bob Wolhuis and at his request prepared the memorandum. I also mentioned this situation to both McConahey and Delaney.

Have we been able to get Landrieu the promised response on this legislation?
See my memorandum to you of January 14, 1976.

11

Attachment



THE WHITE HOUSE

WASHINGTON

January 23, 1976

MEMORANDUM FOR

JIM CANNON
MAX FRIEDERSDORF

FROM

PAUL MYER

SUBJECT:

House Action on
Countercyclical Aid

As noted in previous memorandums, the House will soon be taking up the Public Works Conference Report, H. R. 5247, which contains a provision to provide countercyclical assistance to State and local governments with high unemployment. This Conference Report has already been overwhelmingly approved by the Senate. House Rules Committee consideration is scheduled on Wednesday, January 28, and Floor action is anticipated on Thursday.

Because the countercyclical provision was approved in the Public Works Committee Conference, bypassing the established committee procedures in the House (no hearings or mark-up were held by the Government Operations Committee which has jurisdiction over this legislation), it is subject to a point of order. Although the Leadership will seek a rule which waives points of order, an alternative rule to allow a separate vote on this specific provision would be more desirable and advantageous from the President's view. Nay votes could be attracted on both substantive and procedural grounds.

As you know, the Administration is opposed to the countercyclical aid bill and the total dollar amount of the Conference Report makes it a likely target for a Presidential veto. It is my strong personal view that the President should not be faced with a veto decision on countercyclical aid at this time. Thus, if it is possible to defeat this provision on the House Floor, we should seek that result.



There are a number of considerations which should be taken into account. Given the initiative taken by the President in his State of the Union Address with respect to renewal of revenue sharing and the establishment of block grants, our efforts should be directed toward building support for his program and budget proposals. Specifically, for example, the U. S. Conference of Mayors will be meeting in Washington next Thursday and Friday. In fact, the President will be meeting with the Mayors at the White House on that Thursday. We hope to use these meetings to solidify the Mayors' support for the President's legislative proposals. However, I believe our efforts would be seriously undercut if their major concern were a Presidential decision on countercyclical aid -- a matter which has always been a top priority of the U. S. Conference of Mayors. The defeat of countercyclical aid by the House of Representatives would remove this factor for the short term. Of course, countercyclical aid would remain an issue and become entangled with General Revenue Sharing renewal. However, in the event this legislation were vetoed by the President, we would be in the same situation. Consequently, I think it serves both the President's long- and short-term interests to have the House defeat countercyclical aid.



THE WHITE HOUSE
WASHINGTON

File

ACTION

January 27, 1976

MEMORANDUM FOR

Paul
JIM CANNON

FROM

PAUL MYER

SUBJECT:

House Action on
Countercyclical Aid

I went through this situation again in great detail with Bob Wolthuis yesterday evening. He indicated that Max had not yet had a chance to focus on this matter and would discuss it with him on Tuesday. He thought a phone call from you would be helpful.



1976 JAN 28 1 51

Countercyclical

THE WHITE HOUSE

WASHINGTON

April 13, 1976

MEMORANDUM FOR

MAX FRIEDERSDORF
JIM CANNON

FROM

PAUL MYER *Paul Myer*

SUBJECT:

Senate Countercyclical
Proposal

Attached is a copy of the new Senate countercyclical proposal which is to be introduced as an amendment to the Public Works Bill by Muskie and Long. It provides for a \$1.5 billion distribution in accordance with the current General Revenue Sharing formula with the addition of an unemployment factor. The proposal meets many of the criticisms of the previous anti-recession proposal.

cc: O'Neill
Quern
McConahey



IN THE SENATE OF THE UNITED STATES

Referred to the Committee on _____ and ordered to be printed.

Ordered to lie on the table and to be printed.

AMENDMENT

Intended to be proposed by Mr. _____
to S. 3201, a bill to amend the Public Works and Economic
Development Act of 1965, to increase the antirecessionary
effectiveness of the program and for other purposes.

Viz Immediately after the first section insert the following
caption:

TITLE I -- GENERAL PROVISIONS

Redesignate sections 2 through 14 as sections 101
through 113, respectively.

After section 113, as redesignated by this amendment,
insert the following new title

TITLE II -- ANTIRECESSION PROVISIONS

Findings of Fact and Declaration of Policy

Sec. 201. (a) Findings - The Congress finds --

(1) that State and local governments represent a
significant segment of the national economy whose economic health
is essential to national economic prosperity;

(2) that present national economic problems have
imposed considerable hardships on State and local government
budgets;

(3) that those governments, because of their own
fiscal difficulties, are being forced to take budget-related
actions which tend to undermine Federal Government efforts to
stimulate the economy;

(4) that efforts to stimulate the economy through
reductions in Federal Government tax obligations are weakened
when State and local governments are forced to increase taxes;

(5) that the net effect of Federal Government efforts
to reduce unemployment through public service jobs is substantially
limited if State and local governments use federally financed
public service employees to replace regular employees that they
have been forced to lay off

(6) that efforts to stimulate the construction
industry and reduce unemployment are substantially undermined
when State and local governments are forced to cancel or delay
the construction of essential capital projects; and

(7) that efforts by the Federal Government to
stimulate the economic recovery will be substantially enhanced
by a program of emergency Federal Government assistance to State
and local governments to help prevent those governments from

taking budget-related actions which undermine that Federal Government efforts to stimulate economic recovery.

Financial Assistance Authorized

Sec. 202. (a) Payments to State and Local Governments. -- The Secretary of the Treasury (hereafter in this title referred to as the "Secretary") shall, in accordance with the provisions of this title, make payments to States and to local governments to coordinate budget-related actions by such governments with Federal Government efforts to stimulate economic recovery.

(b) Authorization of Appropriations. -- Subject to the provisions of subsections (c) and (d), there are authorized to be appropriated for each of the five succeeding calendar quarters (beginning with the calendar quarter which begins on July 1, 1976) for the purpose of payments under this title --

- (1) \$125,000,000 plus
- (2) \$12,500,000 multiplied by the number of one-tenth percentage points by which the rate of seasonally adjusted national unemployment for the most recent calendar quarter which ended three months before the beginning of such calendar quarter exceeded 6 percent.

(c) In no case shall the aggregate amount authorized to be appropriated under the provisions of subsection (b) in any calendar quarters beginning with the calendar quarter which begins July 1, 1976, exceed \$1,375,000,000.

(d) Termination. -- No amount is authorized to be appropriated under the provisions of subsection (b) for any calendar quarter if --

(1) the average rate of national unemployment during the most recent calendar quarter which ended 3 months before the beginning of such calendar quarter did not exceed 6 percent, and

(2) the rate of national unemployment for the last month of the most recent calendar quarter which ended 3 months before the beginning of such calendar quarter did not exceed 6 percent.

ALLOCATION

Sec. 203. (a) Reservations. --

(1) Eligible States. -- The Secretary shall reserve one-third of the amounts appropriated pursuant to authorization under section 202 for each calendar quarter for the purpose of making payments to eligible State governments under subsection (b)

(2) Eligible Units of Local Government. -- The Secretary shall reserve two-thirds of such amounts for the purpose of making payments to eligible units of local government under subsection (c).

(b) State Allocation. --

(1) In General. -- The Secretary shall allocate from amounts reserved under subsection (a)(1) an amount for the purpose of making payments to each State equal to the total amount reserved under subsection (a)(1) for the calendar quarter multiplied by the applicable State percentage.

(2) Applicable State Percentage. -- For purposes of this subsection, the applicable State percentage is equal to the quotient resulting from the division of the product of --

(A) the State excess unemployment percentage, multiplied by

(E) the State revenue sharing amount by the sum of such products for all the States.

(3) Definitions. -- For the purposes of this section --

(A) the term "State" means each State of the United States;

(E) the State excess unemployment percentage is equal to the difference resulting from the subtraction of 4.5 percentage points from the State unemployment rate for that State but shall not be less than zero.

(C) the State unemployment rate is equal to the rate of unemployment in the State during the appropriate calendar quarter, as determined by the Secretary of Labor and reported to the Secretary; and

(D) the State revenue sharing amount is the amount determined under section 107 of the State and Local Fiscal Assistance Act of 1972 for the one year period beginning on July 1, 1975.

(c) Local Government Allocation. --

(1) In General. -- The Secretary shall allocate from amounts reserved under subsection (a)(2) an amount for the purpose of making payments to each local government, subject to the provisions of paragraphs (3) and (5), equal to the total amount reserved under such subsection for calendar quarter multiplied by the local government percentage.

(2) Local Government Percentage. -- For purposes of this subsection, the local government percentage is equal to the quotient resulting from the division of the product of --

(A) The local excess unemployment percentage, multiplied by

(B) the local revenue sharing amount, by the sum of such products for all local governments.

(3) Special Rule. --

(A) For purposes of paragraphs (1) and (2), all local governments within the jurisdiction of a State other than identifiable local governments shall be treated as though they were one local government.

(B) The Secretary shall set aside from the amount allocated under paragraph (1) of this subsection for all local government within the jurisdiction of a State which are treated as though they are one local government under subparagraph (A) an amount determined under subparagraph (C) for the purpose of making payments to each local government, other than identifiable local governments within the jurisdiction of such State.

(C) The amount set aside for the purpose of making payments to each local government, other than an identifiable local government, within the jurisdiction of a State under subparagraph (B) shall be --

(i) equal to the total amount allocated under paragraph (1) of this subsection for all local governments within the jurisdiction of such State which are treated as though they are one local government under subparagraph (A) multiplied by the local government percentage as defined in paragraph (2) (determined without regard to the parenthetical phrases at the end of paragraphs (4), (B), and (C) of this subsection), unless

the effective date of this title,

(ii) such State submits, within 30 days, after/ an allocation plan which has been approved by the State legislature and which meets the requirements set forth in section 206(a), and is approved by the Secretary under the provisions of section 206(b).

(D) If local unemployment rate data (as defined in paragraph (4)(B) of this subsection without regard to the parenthetical phrase at the end of such definition) for a local government jurisdiction is unavailable to the Secretary for purposes of determining the amount to be set aside for such government under subparagraph (C) then the Secretary shall determine such amount under subparagraph (C) by using the local unemployment rate determined under the parenthetical phrase of subsection (4)(B) for all local governments in such State treated as one jurisdiction under paragraph (A) of this subsection (unless better unemployment rate data, certified by the Secretary of Labor, is available).

(.) Definitions. -- For purposes of this subsection--

(A) the local excess unemployment percentage is equal to the difference resulting from the subtraction of 4.5 percentage points from the local unemployment rate, but shall not be less than zero;

(B) the local unemployment rate is equal to the rate of unemployment in the jurisdiction of the local government during the appropriate calendar quarter, as determined by the Secretary of Labor and reported to the Secretary (in the case of local governments treated as one local government under paragraph (3)(A), the local unemployment rate shall be the unemployment rate of the State adjusted by excluding consideration of unemployment and of the labor force within identifiable local governments, other than county governments, within the jurisdiction of that State);

(C) the local revenue sharing amount is the amount determined under section 108 of the State and Local Fiscal Assistance Act of 1972 for the one year period beginning on July 1, 1975 (and in the case of local governments treated as one local government under paragraph (3)(A), the local revenue sharing amount shall be the sum of the local revenue sharing amounts of all eligible local governments within the State, adjusted by excluding an amount equal to the sum of the local revenue sharing amounts of identifiable local governments within the jurisdiction of that State);

(D) the term "identifiable local government" means a unit of general local government for which the Secretary of Labor has made a determination concerning the rate of unemployment for purposes of title II or title VI of the Comprehensive Employment and Training Act of 1973 during the current or preceding fiscal year; and

(E) the term "local government" means the government of a county, municipality, township, or other unit of government below the State which --

(i) is a unit of general government (determined on the basis of the same principles as are used by the Social and Economic Statistics Administration for general statistical purposes), and

(ii) performs substantial governmental functions. Such term includes the District of Columbia and also includes the recognized governing body of an Indian tribe of Alaskan native village which performs substantial governmental functions. Such term does not include the government of a township area unless such government performs substantial governmental functions.

For the purpose of paragraph (4) (D), the Secretary of Labor shall, notwithstanding any other provision of law, continue to make determinations with respect to the rate of unemployment for the purposes of such title VI.

(5) Special Limitation -- if the amount which would be allocated to any unit of local government under this subsection is less than \$100, then no amount shall be allocated for such unit of local government under this subsection.

Uses of Payments

Sec. 204. Each State and local government shall use payments made under this title for the maintenance of basic services customarily provided to persons in that State or in the area under the jurisdiction of that local government, as the case may be. State and local governments may not use emergency support grants made under this title for the acquisition of supplies and materials and for construction unless such supplies and materials or construction are to maintain basic services.

Statement of Assurances

Sec. 205. Each State and unit of local government may receive payments under this title only upon filing with the Secretary, at such time and in such manner as the Secretary prescribes by rule, a statement of assurances. Such rules shall be prescribed by the Secretary not later than 90 days after the effective date of this title. The Secretary may not require any State or local government to file more than one such statement during each fiscal year. Each such statement shall contain --

(1) an assurance that payments made under this title to the State or local government will be used for the maintenance, to the extent practical, of levels of public employment and of basic services customarily provided to persons in that State or in the area under the jurisdiction of that unit of local government which is consistent with the provisions of section 204;

(2) an assurance that the State or unit of local government will --

(A) use fiscal, accounting, and audit procedures which conform to guidelines established therefor by the Secretary (after consultation with the Comptroller General of the United States), and

(B) provide to the Secretary (and to the Comptroller General of the United States), on reasonable notice, access to, and the right to examine, such books, documents, papers, or records as the Secretary may reasonably require for purposes of reviewing compliance with this title;

(3) an assurance that reasonable reports will be furnished to the Secretary in such form and containing such information as the Secretary may reasonably require to carry out the purposes of this title and that such report shall be published in a newspaper of general circulation in the jurisdiction of such government unless the cost of such publication is excessive in relation to the amount of the payments received by such government under this title or other means of publicizing such report is more appropriate, in which case such report shall be publicized pursuant to rules prescribed by the Secretary;

(4) an assurance that the requirements of section 206 will be complied with,

(5) an assurance that the requirements of section 207 will be complied with;

(6) an assurance that the requirements of section 208 will be complied with;

(7) an assurance that the State or unit of local government will expend any payment it receives under this title before the end of the 6-calendar-month period which begins on the day after the date on which such State or local government receives such payment, and

(8) an assurance that the State or unit of local government will spend amounts received under this title only in accordance with the laws and procedures applicable to the expenditure of its own revenues.

Optional Allocation Plans

(a) State Allocation Plans for Purposes of Section 203(c)(3).

A State may file an allocation plan with the Secretary for purposes of section 203(c)(3)(C) (ii) at such time, in such manner, and containing such information as the Secretary may require by rule. Such rules shall be provided by the Secretary not later than 60 days of the effective date of this title. Such allocation plan shall meet the following requirements:

(1) the criteria for allocation of amounts among the local governments within the State shall be consistent with the allocation formula for local governments under section 203(c)(2);

(2) the plan shall use ---

(A) the best available unemployment rate data for such government if such data is determined in a manner which is substantially consistent with the manner in which local unemployment rate data is determined or

(B) if no consistent unemployment rate data is available, the local unemployment rate data for the smallest unit of identifiable local government in the jurisdiction of which such government is located,

(3) the allocation criteria must be specified in the plan, and

(4) the plan must be developed after consultation with appropriate officials of local governments within the State other than identifiable local governments.



(b) Approval. -- The Secretary shall approve any allocation plan that meets the requirements of subsection (b) within 30 days after he receives such allocation plan, and shall not finally disapprove, in whole or in part, any allocation plan for payments under this title without first affording the State or local governments involved reasonable notice and an opportunity for a hearing.

Nondiscrimination

Sec. 207. (a) In General. -- No person in the United States shall, on the grounds of race, religion, 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 funds made available under this title.

(b) Authority of the Secretary. -- Whenever the Secretary determines that a State government or unit of local government has failed to comply with subsection (a) or an applicable regulation, he shall, within 10 days, notify 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 the chief elected official of the Unit) of the noncompliance. If within 30 days of the notification compliance is not achieved, the Secretary shall within 10 days thereafter --

(1) exercise all the powers and functions provided by title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000 e);

(2) refer the matter to the Attorney General with a recommendation that an appropriate civil action be instituted;

(3) take such other action as may be provided by law.

(c) Enforcement. -- Upon his determination of discrimination under subsection (b), the Secretary shall have the full authority to withhold or temporarily suspend any payment under this title, or otherwise exercise any authority contained in title VI of the Civil Rights Act of 1964, to assure compliance with the requirement of nondiscrimination in federally assisted programs funded, in whole or in part, under this title.

(d) Applicability of Certain Civil Rights Acts. --

(1) Any party who is injured or deprived within the meaning of section 1979 of the Revised Statutes (42 U.S.C. 1983) or of section 1980 of the Revised Statutes (42 U.S.C. 1985) by any person, or two or more persons in the case of such section 1980, in connection with the administration of a payment under this title may bring a civil action under such section 1979 or 1980, as applicable, subject to the terms and conditions of those sections.

(2) Any person who is aggrieved by an unlawful employment practice within the meaning of title VII of the Civil Rights Act of 1964 (42 U.S.C. 2000 e et seq.) by any employer in connection with the administration of a payment under this title may bring a civil action under section 706 (f)(1) of such Act (42 U.S.C. 2000 e-3 (f)(1) subject to the terms and conditions of such title.

Labor Standards

Sec. 207. All laborers and mechanics employed by contractors on all construction projects funded in whole or in part by payments under this title shall be paid wages at rates not less than those prevailing on similar projects in the locality as determined by the Secretary of Labor in accordance with the Davis-Bacon Act (40 U.S.C. 276a to 276a-5). The Secretary of Labor shall have, with respect to the labor standards specified in this section, the authority and functions set forth in Reorganization Plan Numbered 14 of 1930 (15 C.F.R. 3176) and section 2 of the Act of June 13, 1934, as amended (40 U.S.C. 276c).

Special Reports

Sec. 208. Each State and unit of local government which receives a payment under the provisions of this title shall report to the Secretary any increase or decrease in any tax which it imposes and any substantial reduction in the number of individuals it employs or in services which such State or local government provides. Each State which receives a payment under the provisions of this title shall report to the Secretary any decrease in the amount of financial assistance which the State provides to the units of local governments during the 12-month period which ends on the last day of the calendar quarter immediately preceding the date of enactment of this title, together with an explanation of the reasons for such decrease. Such reports shall be made as soon as it is practical and, in any case, not more than 6 months after the date on which the decision to impose such tax increase or decrease, such reductions in employment or services, or such decrease in State financial assistance is made public.

Payments

Sec. 209. (a) In General. -- From the amount allocated for State and local governments under section 203, the Secretary shall pay to each State and to each local government which has filed a statement of assurances under section 205, an amount equal to the amount allocated to such State or local government under section 203.

(b) Adjustments. -- Payments under this title may be made with necessary adjustments on account of overpayments or underpayments.

(c) Termination. -- No amount shall be paid to any State or local government under the provisions of this section for any calendar quarter if --

(1) the average rate of unemployment within the jurisdiction of such State or local government during the most recent calendar quarter which ended three months before the beginning of such calendar quarter was less than 4.5 percent, and

(2) the rate of unemployment within the jurisdiction of such government for the last month of the most recent calendar quarter which ended three months before the beginning of such calendar quarter did not exceed 4.5 percent.

State and Local Government Economization

Sec. 210. -- Each State or unit of local government which receives payments under this title shall provide assurances in writing to the Secretary, at such time and in such manner and form as the Secretary may prescribe by rule, that it has made substantial economies in its operations and that payments under this title are necessary to maintain essential services without weakening Federal Government efforts to stimulate the economy through reductions in Federal tax obligations.

Estimated Distribution Based on 1950 Census
(Actual distribution will vary with national and local unemployment rate)

State Name	State Government Distribution	Local Government Distribution	Total
Alabama	7,184,000	14,122,500	21,306,500
Alaska	1,151,500	2,309,900	3,461,400
Arizona	5,499,500	10,034,400	15,533,900
Arkansas	6,405,000	11,693,000	18,098,000
California	65,766,000	121,557,600	187,323,600
Colorado	1,427,500	3,206,600	4,634,100
Connecticut	7,206,500	16,945,900	24,152,400
Delaware	1,868,000	3,785,400	5,653,400
District of Columbia		3,780,500	3,780,500
Florida	18,841,000	36,291,900	55,132,900
Georgia	12,621,500	23,469,100	36,090,600
Hawaii	1,340,500	2,389,500	3,730,000
Idaho	2,131,500	3,974,700	6,106,200
Illinois	16,049,000	48,939,900	64,988,900
Indiana	11,301,000	20,915,500	32,216,500
Iowa	1,710,500	3,614,400	5,324,900
Kansas	500,000	1,519,200	2,019,200
Kentucky	6,045,500	8,129,500	14,175,000
Louisiana	8,232,000	16,423,600	24,655,600
Maine	4,897,000	9,142,800	14,039,800
Maryland	3,688,500	12,934,500	16,623,000
Massachusetts	25,215,500	48,737,400	73,952,900
Michigan	47,298,500	101,666,100	148,964,600
Minnesota	6,398,500	10,493,900	16,892,400
Mississippi	5,121,000	9,378,900	14,499,900
Missouri	6,731,000	15,219,900	21,950,900
Montana	2,039,500	2,669,400	4,708,900
Nebraska	1,305,000	2,813,400	4,118,400
Nevada	1,644,000	3,101,800	4,745,800
New Hampshire	897,500	2,194,300	3,091,800
New Jersey	19,118,500	36,292,500	55,411,000
New Mexico	2,561,500	4,776,600	7,338,100
New York	64,328,000	131,637,700	195,965,700
North Carolina	17,358,500	34,261,900	51,620,400
North Dakota	662,500	1,391,200	2,053,700
Ohio	19,624,500	38,182,000	57,806,500
Oklahoma	1,452,500	2,555,500	4,008,000
Oregon	7,569,000	14,486,900	22,055,900
Pennsylvania	25,486,500	50,802,900	76,289,400
Rhode Island	5,094,500	9,953,500	15,048,000
South Carolina	10,534,000	19,073,000	29,607,000
South Dakota	304,000	1,034,200	1,338,200
Tennessee	7,462,500	13,857,800	21,320,300
Texas	7,442,500	17,869,600	25,312,100
Utah	1,922,000	3,885,000	5,807,000
Vermont	1,928,000	3,719,800	5,647,800
Virginia	4,633,500	9,886,100	14,519,600
Washington	8,285,000	14,475,200	22,760,200
West Virginia	1,000,000	5,000,000	10,279,800

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

April 27, 1976

MEMORANDUM FOR

FROM

SUBJECT:

JIM CANNON

PAUL MYER

Countercyclical Aid
Amendment

Attached for your information is an analysis of the Senate countercyclical aid amendment to the Public Works Act of 1976, S. 3202, prepared by the Treasury Department.

Attachment

cc: Art Quern
Steve McConahey





OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

April 22, 1976

MEMORANDUM FOR: Mr. Richard R. Albrecht
FROM: Kent A. Peterson *KAP*
SUBJECT: Analysis of Countercyclical
Aid Amendment to the Public Works
Act of 1976, S.3202

On April 13, 1976, the Senate at the urging of Senator Muskie, by a vote of 54 to 28, amended the Public Works Act of 1976 to include a program of countercyclical aid to State and local governments. Attached please find an analysis of that bill as well as a detailed outline of its allocation formula and a State-by-State list of estimated allocations prepared by Senate staff (based on a \$1.5 billion total amount, which is more than the bill allows).

Also included in the Muskie amendment was the Nunn-Talmadge waste treatment proposal, with a cost of \$1.4 billion.

We are currently involved in discussing the design of a trial of the countercyclical formula contained in S.3202 with State staff, but there are serious data availability problems which may prevent such a trial prior to the early part of May. I have some serious concerns about the existence of quarterly data to allocate funds to governments under 50,000 population under this program.

You might note the following highlights of the bill:

- (1) It is for 5 quarters beginning July 1, 1976, with a total of \$1.375 billion allowed.



- (2) Its formula differs from earlier versions of this program in that:
- GRS entitlements replace adjusted taxes as the measure of a jurisdictions size- this is said to spread funds around more.
 - Excess unemployment is considered to be all that over 4.5% rather than the current rate minus that for a base period- which would help places with chronic unemployment.
 - There is no contingency fund for units in critical need.
 - Total authorization increases for each 1/10 of 1% increase in national unemployment rather than each 1/2 of 1%.
 - Less responsibility is placed on the Secretary of the Treasury to provide allocation patterns for areas without unemployment data.
 - The Governor of a State may submit to the Secretary an allocation plan for governments without unemployment data if the State legislature will not meet within 3 months of the law becoming effective.
- (3) Eligibility is tied to the performance of "substantial governmental functions" - and this is particularly applied to townships.
- (4) The nondiscrimination section incorporates time limits for Treasury action not in the current GRS act; covers discrimination on grounds of religion; specifically grants the Secretary power to withhold payments and exercise any Title VI authority; and specifically grants the right of private suit based on existing statutes.



OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

April 22, 1976

Analysis of Title II (Countercyclical Aid) of
S.3201, Public Works Employment Act of 1976

I. Funding

- A. For each of 5 quarters beginning with July 1, 1976-
 - (1) \$125 million plus
 - (2) \$12.5 million x number of 1/10 (of 1%) percentage points by which the rate of seasonally adjusted national unemployment for the most recent calendar quarter which ended 3 months before the beginning of such calendar quarter exceeded 6%.
- B. At the current (March, 1976) 7.5% national unemployment level, this would amount to about \$1.6 billion over 5 quarters. However, the bill sets a limit of \$1,375,000,000 for total funding during the 5 quarters.
- C. Funds are not made available for a quarter if 2 conditions are met:
 - (1) The average rate of national unemployment during the most recent calendar quarter which ended three months before the beginning of such quarter did not exceed 6% and
 - (2) The rate of national unemployment for the last month of the most recent calendar quarter which ended 3 months before the beginning of such calendar quarter did not exceed 6%.

II. Allocation Formula

A. State Allocation

- (1) 1/3 of funds for any quarter go into a separate "pot" out of which State governments receive their allocations.
- (2) Each State government amount results from total quarterly State funds multiplied by its applicable State percentage.



- (3) Applicable State percentage is equal to:
State excess unemployment percentage x State revenue sharing amount divided by the sum of the products of the above for all States.
- (4) State excess unemployment percentage is equal to:
The State unemployment rate (during the appropriate calendar quarter as determined by the Secretary of Labor) minus 4.5 percentage points. (It shall not be less than 0).
- (5) The State revenue sharing amount is the E.P.6 revenue sharing entitlement.

B. Local Allocation (See Attachment A)

- (1) 2/3 of funds for any quarter put into a separate local "pot".
- (2) Each local government amount results from total quarterly local allocation multiplied by the local government percentage. (The District of Columbia is treated as a locality).
- (3) The local government percentage is equal to:
local excess unemployment x local revenue sharing amount divided by the sum of the products of the above for all local governments.
- (4) The local excess unemployment percentage is equal to:
The difference resulting from subtraction of 4.5 percentage points from the local unemployment rate during the appropriate quarter as determined by the Secretary of Labor. (Not to be less than 0).
- (5) The local revenue sharing amount is the amount of the E.P.6 GRS entitlement.
- (6) Special rule for governments that are not identifiable.
- "Identifiable" local governments are those for which the Secretary of Labor has made a determination concerning the rate of unemployment for purposes of Title II or Title VI of the Comprehensive Employment and Training Act of 1973 during the current or proceeding fiscal year.



- Governments which are not identifiable in each State are to be treated as one local government participating in the same allocation process as identifiable local governments. The local excess unemployment rate for each such government is the rate of its State, adjusted by excluding the unemployment which pertains to the identifiable governments in the State. The GRS amount for these governments is found by excluding from E.P.6 local GRS to the State that which goes to identifiable local governments.
- Each government which is not identifiable shares in the unidentifiable allocation to its State in proportion to its portion of E.P.6 local GRS for the unidentifiable portion of the State.

C. Optional Local Allocation Formula

- (1) States may submit within 30 days of the effective date of the bill (July 1, 1976) an alternative plan for allocation to non-identifiable governments.
- (2) This plan must be approved by the State legislature unless it is not scheduled to meet in regular session within 3 months of the title's effectiveness, in which case, the governor may provide a plan.
- (3) Such a plan must be submitted to the Secretary of the Treasury under rules he provides and it must meet the following requirements:
 - Be consistent with general allocation formula for localities.
 - Use best available unemployment rate data if such is determined in a manner consistent with the manner in which local unemployment rate data is determined; or if no consistent data is available, the smallest unit of identifiable local government in the jurisdiction of which a government is located.
 - Specify allocation criteria in the plan.
 - Be developed in consultation with officials of governments involved.

- (4) The Secretary approves plan which meets above standards within 30 days. Before he finally disapproves, he must afford State and local governments involved reasonable notice and opportunity for a hearing.

D. DeMinimus

If the formula allocates less than \$100 in a quarter to a local government, then it receives no allocation.

E. Definition of Local Government

A government of a county, municipality, township, or other unit of government below the State which -

- is a unit of general government (on same base as used by Social and Economics Statistics Administration for general statistical purposes).
- performs substantial governmental functions - includes D.C., Indian tribe or Alaskan village that performs substantial governmental functions, but omits "township area(s)" that do not.

III. Restrictions on Use

Must use to maintain basic services customarily provided to persons in that State or area where a government is located. Funds may not be used for acquisition of supplies and materials and for construction unless such supplies and materials or construction are to maintain basic services.

IV. Nondiscrimination

- A. Forbids discrimination on the grounds of race, religion, color, national origin, or sex in programs or activities funded in whole or part by funds made available by the title. (Religion is not included in current GRS statute).



- B. After he determines noncompliance, the Secretary must within 10 days notify the Governor of the State (also the chief elected official if a locality is involved) of the noncompliance. If compliance is not achieved within 30 days of notification, within 10 days the Secretary shall:
- (1) exercise the powers and functions provided by Title VI of the Civil Rights Act of 1964 (42 U.S.C. 2000e);
 - (2) refer the matter to the Attorney General with a recommendation that an appropriate action be instituted;
 - (3) take such action as may be provided by law.

(Time periods are not in current GRS statute).

- C. Secretary has full authority to withhold or temporarily suspend any payments under this title, or otherwise exercise any authority contained under Title VI of the Civil Rights Act of 1964 to assure nondiscrimination in federally assisted programs funded in whole or part under this title. (Not specifically included in current GRS Act).
- D. Individuals may bring suit under provisions of section 1879 of the Revised Statutes (42 U.S.C. 1983), section 1980 of the Revised Statutes (42 U.S.C. 1985), and section 706(f)(1) of Title VII of the Civil Rights Act of 1964 (42 U.S.C. 2000e - 5(f)(1)). (Not specifically included in current GRS Act, but may make little real difference).
- E. Secretary may withhold funds after affording reasonable notice and opportunity for hearing when assurances are not substantially complied with - including the assurance related to nondiscrimination.



V. Assurances

The Secretary by rule within 90 days after the title is effective provides for annual assurances from recipients relevant to:

- use requirements
- fiscal, accounting, and audit procedures; and access to Secretary and Comptroller General to records.
- submission to Secretary and publication of reports (Secretary is given some flexibility).
- optional allocation plans
- nondiscrimination
- Davis-Bacon requirements
- special reports on tax increases and decreases, public employment, and State transfers to localities.
- requirement that funds be spent in 6 months of receipt.
- use of funds in accordance with its own laws.

The Secretary shall after reasonable notice and opportunity for hearing, withhold further payments when he finds failure to comply with assurances.

VI. State and Local Government Economization

A recipient must provide written assurance as provided by rule by the Secretary that it has made substantial economies in its operations and that payments under this title are necessary to maintain essential services without weakening Federal government efforts to stimulate the economy through reductions in Federal tax liabilities.

VII. Davis-Bacon

Laborers and mechanics employed by contractors on all construction projects funded in whole or part with funds provided under the title are to be paid prevailing wages in accordance with the Davis-Bacon Act.

VIII. Reports

- A. All recipients shall report to the Secretary on increases and decreases in taxes and substantial reductions in the number of their employees. State governments also must report decreases in their assistance to local governments during the 12 month period ending on the last day of the calendar quarter immediately preceeding the date of enactment of the title. All these reports must be provided as soon as practical, but no later than 6 months after such decisions are made.
- B. The Secretary must report to Congress after the end of each calendar quarter on amounts paid to each government and any withholding actions taken. He shall report after the end of each calendar year on the amounts paid, withholding actions, and an evaluation of uses by recipients and the economic impact of payments.

IX. Payments

- A. Payments are to be made not later than 5 days after the beginning of each quarter once assurances are received.
- B. Adjustments may be made for under-payments and over-payments.
- C. No payments are to be made to a governments for a quarter if:

- its average unemployment for the calendar quarter which ended three months before the beginning of the payment quarter was less than 4.5%, and
- its rate of unemployment for the last month of the calendar quarter ending three months before the beginning of such calendar quarter did not exceed 4.5%.

X. Administration

The Secretary prescribes necessary rules within 90 days after the effective date of title. Necessary administrative funds are authorized.

XI. Evaluation and Study

- A. Comptroller General, in consultation with the Congressional Budget Office and the Advisory Commission on Intergovernmental Relations (ACIR), shall investigate and report to Congress (within one-year of enactment) on the impact of the program in State and local governments and the national economy.
- B. The Congressional Budget Office and ACIR, in consultation with the Comptroller General, shall study and report to Congress (within 2 years of enactment) on the most effective means to stabilize the national economy through programs directed toward State and local governments.



Attachment A

Allocation - Countercyclical Amendment

1. Calculate one 5 quarter allocation for each recipient using a total pot of \$1,375,000,000.
2. Use E.P.6 GRS amounts.
3. State allocation

Total pot = 1/3 of all funds (1/3 x \$1.375 billion = \$.458 billion)

$$\text{Each State allocation} = \left[\$.458 \text{ billion} \right] \times \left[\frac{\text{(State unemployment rate (latest quarterly average) - 4.5\%)} \times \text{(State E.P.6 GRS)}}{\text{Sum of above products for all States}} \right] \text{ ①}$$

4. Local allocation ②

Total pot = 2/3 of all funds (2/3 x \$1.375 billion = \$.917 billion)

$$\begin{array}{l} \text{③ Each identifiable and} \\ \text{49 unidentifiable portions} \\ \text{of States} \end{array} = \left[\$.917 \text{ billion} \right] \times \left[\frac{\text{(local unemployment rate - 4.5\%)} \times \text{(E.P.6 local GRS)}}{\text{Sum of above products for all local governments}} \right] \text{ ①}$$

The local excess unemployment rate for unidentifiable governments is the rate for the State adjusted by excluding that unemployment which pertains to the identifiable governments of the State. The GRS amount is found by excluding from E.P.6 local GRS to the State that which pertains to identifiable governments.

Unidentifiable governments in each State share in the unidentifiable allocation to their State in proportion to their portion of E.P.6 local GRS for the unidentifiable portion of the State.

Notes

1. Not to be less than 0.
2. The District of Columbia is treated as a locality.
3. A \$100 quarterly de minimus is applied.



(Actual distribution will vary with national and local unemployment rate) 3

<u>State Name</u>	<u>State Government Distribution</u>	<u>Local Government Distribution</u>	<u>Total</u>
Alabama	7,184,000	14,122,500	21,306,500
Alaska	1,151,500	2,309,900	3,461,400
Arizona	5,499,500	10,034,400	15,533,900
Arkansas	6,405,000	11,693,000	18,098,000
California	65,766,000	121,557,600	187,323,600
Colorado	1,427,500	3,206,600	4,634,100
Connecticut	7,206,500	16,945,900	24,152,400
Delaware	1,868,000	3,785,400	5,653,400
District of Columbia		3,780,500	3,780,500
Florida	18,841,000	36,291,900	55,132,900
Georgia	12,621,500	23,469,100	36,090,600
Hawaii	1,340,500	2,389,500	3,730,000
Idaho	2,131,500	3,974,700	6,106,200
Illinois	16,049,000	48,939,900	64,988,900
Indiana	11,301,000	20,915,500	32,216,500
Iowa	1,710,500	3,614,400	5,324,900
Kansas	500,000	1,519,200	2,019,200
Kentucky	6,045,500	8,129,500	14,175,000
Louisiana	8,232,000	16,423,600	24,655,600
Maine	4,897,000	9,142,800	14,039,800
Maryland	3,688,500	12,934,500	16,623,000
Massachusetts	25,215,500	48,737,400	73,952,900
Michigan	47,298,500	101,666,100	148,964,600
Minnesota	6,398,500	10,493,900	16,892,400
Mississippi	5,121,000	9,378,900	14,499,900
Missouri	6,731,000	15,219,900	21,950,900
Montana	2,039,500	2,669,400	4,708,900
Nebraska	1,305,000	2,813,400	4,118,400
Nevada	1,644,000	3,101,800	4,745,800
New Hampshire	897,500	2,194,300	3,091,800
New Jersey	19,118,500	36,292,500	55,411,000
New Mexico	2,561,500	4,776,600	7,338,100
New York	64,328,000	131,637,700	195,965,700
North Carolina	17,358,500	34,261,900	51,620,400
North Dakota	662,500	1,391,200	2,053,700
Ohio	19,624,500	38,182,000	57,806,500
Oklahoma	1,452,500	2,555,500	4,008,000
Oregon	7,569,000	14,486,900	22,055,900
Pennsylvania	25,486,500	50,802,900	76,289,400
Rhode Island	5,094,500	9,953,500	15,048,000
South Carolina	10,534,000	19,073,000	29,607,000
South Dakota	304,000	1,034,200	1,338,200
Tennessee	7,462,500	13,857,800	21,320,300
Texas	7,442,500	17,869,600	25,312,100
Utah	1,922,000	3,885,000	5,807,000
Vermont	1,928,000	3,719,800	5,647,800
Virginia	4,633,500	9,886,100	14,519,600
Washington	8,285,000	14,475,200	22,760,200

