

Mayor Tucker

C.C. Ludwig

Mayor Noyes

REMARKS BY SENATOR HUBERT H. HUMPHREY BEFORE THE 33RD ANNUAL CONVENTION
OF
THE AMERICAN MUNICIPAL ASSOCIATION

Sound from
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Chase Hotel, St. Louis, Mo.-Nov. 28, 1956

Mr. Chairman, Distinguished Guests, Members and Friends of the

American Municipal Association:

It is a genuine pleasure to be with you today to discuss a subject which is very close to my heart -- Problems of Federal-State-Local Fiscal Relations.

Standing before this wonderful audience of Mayors, City Managers, and other municipal officials, I feel that I am once again face to face with the very bone and sinew of American democracy. Often in the rather distant and detached atmosphere of Washington, I remember with nostalgia the most vital and vigorous days of my public service -- the time when I was Mayor of the great city of Minneapolis.

National and State officials play a vital role, ^{in Govt,} of course -- even Senators do! But the problems of the National official are nation-wide and world-wide. Those of the State official are State-wide and only incidentally local. It is the municipal government official, however, who is primarily the foundation-stone of American democracy. These dedicated and devoted

men and women represent democracy in action, as they persevere tirelessly from day to day, meeting their responsibilities.

As municipal officials, they are faced by the endless demands of their respective communities and their taxpayers. They struggle along under archaic laws and outmoded State constitutions, which require them to turn to often unsympathetic State legislatures for authority which should rightly be vested directly in them and in their constituency. ^{Municipal officials} They must fight for adequate funds to enable them to perform even their most basic tasks. They must carry on the endless search for sources of revenue which are necessary, if they are to furnish even minimal services, ^{They must fight} against ever-increasing encroachment on these sources not only from their own State Governments, but also by the mammoth Federal Government. Truly, these men and women are the unsung heroes of the American way of life. For it is in these communities, and in their municipal councils, where a solvent, efficient democratic system is essential to the welfare of every man, woman, and child in America.

Claude Porter of Adrian Mich

A note of sadness is injected into this distinguished gathering today by the absence of a man who, for many of us, symbolized the dedicated, devoted and tireless municipal government official. I refer, of course,

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to the untimely death of the late Mayor Claude Porter of Adrian, Michigan, whose outstanding service and endless labors have had a tremendous impact on the continuing struggle of municipal governments for fiscal integrity.

It was Mayor Porter who fought constantly over these many years to bring about a recognition on the part of the Federal Government of the serious responsibilities which that Government must bear with respect to the fiscal soundness of our more than 16,700 cities, 3,000 counties, and the other local governmental entities throughout the land. I served with him on the Study Commission on Payments in Lieu of Taxes and Shared Revenues of the Commission on Intergovernmental Relations. Mayor Porter's work on that Commission alone entitles him to special recognition for a unique contribution to the cause of local government. That was only one of his many contributions, however, and I know that you all share my feeling of sadness and regret that his energy and indomitable spirit are no longer available. *Local Government has lost a good friend.*

The subject of Federal-State-local fiscal relations is not new to me

and I know that it is not new to you. As Mayor of Minneapolis, as a member of the Senate Committee on Government Operations and, at one time Chairman of its Subcommittee on Intergovernmental ~~Relations~~ Relations, and as a member of the Commission on Intergovernmental Relations and its Study Committee on Payments in Lieu of Taxes and Shared Revenues, I have been studying these matters for many years.

Year after year, the demand for municipal services continues to rise, with a consequent need for increased municipal expenditures. Year after year, municipal officials have had to make every effort to meet these demands and find new sources of revenue to cover the cost. Year after year, municipal authorities are faced with the necessity for providing funds for police, fire, highway, sanitation, welfare, education, health and hospitals, recreation, housing, etc. The problems are tremendous-- the solutions, to the extent that solutions exist -- are neither simple to grasp nor simple to achieve.

It is my purpose here today to discuss the efforts which have been made ~~and~~ which are continuing today to restore to municipalities some of the

vital revenues of which they have been deprived as the result of Federal acquisition and control of real and personal property and the impact of Federal immunity from State and local taxation on local governmental revenue resources.

First, however, in the words of a famous former Governor, "Let's look at the record."

THE PROBLEM

During fiscal year 1955, total revenues of cities in the United States having 25,000 or more inhabitants, reached a record level of \$8,019 million, representing an increase of more than 6.5 percent over 1954. By total revenue, I refer, of course, to all revenue received from external sources by municipalities and their dependent city agencies, including utilities and employee retirement systems. It may be noted that general revenue--i.e., revenue excluding utility and employee retirement amounts --was \$6.374 million in 1955, or nearly 7 percent more than the 1954 amount. Of this latter amount, \$4,158^{million} represented total tax revenues.

It is highly significant, however, that of the total amount of general revenues (\$6,374 million), \$3,047 million or 47.8 percent were derived from property taxes, which includes general property taxes relating to

property as a whole, real and personal, tangible or intangible, and taxes on selected types of property, such as motor vehicles.

Total city expenditures in fiscal year 1955 amounted to \$8,363 million, or 6.5 percent more than the 1954 expenditures. General expenditures, which excludes spending for utility and retirement purposes, amounted to \$6,524 million, or nearly 7 percent more than the 1954 expenditure.

Significantly enough, these figures reflect a continuous upward trend in both expenditures and revenues. Also significant is the fact that State

legislatures have followed a practice of ignoring local needs and refusing to permit municipal governments to enlarge their taxing authority so as to enable them to tax persons receiving numerous benefits but over whom they have no taxing jurisdiction. Finally, with the acquisition by the Federal

Government of more and more taxable property, thus operating to remove it from the tax rolls, local governments are more hard pressed than ever to meet the demands made upon them. If it has not happened already, local

taxable property will soon reach a saturation point beyond which assessments and tax rates cannot be raised.

Recent studies reveal that the Federal Government owns almost 410 million acres, or almost one-quarter of the total land in the United States. These lands vary enormously in physical characteristics, value, utilization and importance to the community. They range from large areas with relatively worthless desert expanses and mountain peaks to small tracts containing highly developed and valuable industrial plants.

As of June 30, 1955, the real property in the United States owned by the Federal Government, consisted of 11,777 installations, containing 384,916 buildings, covering a total of 2,196,320,063 square feet of floor space, and costing \$32.5 billion. This total cost is comprised of (a) \$2.4 billion, or 7.4 percent, for land; (b) \$14.5 billion, or 44.6 percent, for buildings; and (c) \$15.6 billion, or 48.0 percent, for structures and other facilities. These figures, of course, do not include costs for public domain for national parks, forests or other conservation uses, historical sites procured other than by purchase, and trust properties.

Let us consider for a moment, what all of these figures mean in terms of municipal government and administration. It seems to me that what all this shows is an enormous amount of Federal ownership of property which constitutes

the major source of revenue to the cities and other local governmental entities of the Nation. It means that in the face of continuing demands for local governmental services by local taxpayers, the base of the most important source of revenue--the property tax--is being continually reduced by the ever-increasing acquisition of property by the Federal Government, resulting in the removal of that property ~~by the~~ from the tax rolls and the denial to local taxing authorities of vital income.

(X) It is true that in some instances, an overall benefit results to a community from the presence of Federal installations. In many other instances, however, the community is required to furnish additional services to such installations, thereby burdening the community further, at the same time that substantial portions of its revenue-producing property are removed from taxation.

↳ We know too that various efforts have been made over the years to analyze and evaluate this problem.

Let us acknowledge here and now that from time to time, the Congress has recognized in principle its responsibility for reducing the adverse effects

of these acquisitions upon local government revenues and fiscal structures by enacting numerous statutory provisions which authorize payments by certain Federal agencies and departments or upon certain types of properties.

Thus, according to the latest information I have been able to acquire, there are now some 55 Federal laws dealing with Federal payments of taxes or in lieu of taxes, or shared revenue arrangements. Of this number, some 20

provide for a sharing of revenue between Federal, State and local governments; 18 authorize payments in lieu of taxes; and 17 authorize the payment of direct taxes.

However, the great majority of Federal agencies have no general authority to make payments on their properties. Furthermore, existing provisions of law are quite diverse and result in different treatment for similar properties of various agencies. Thus, those provisions of law which do exist fail to present any clear-cut, uniform policy. On some classes of properties, some agencies pay taxes; others make payments in lieu of taxes; and still others make no payments at all.

The seriousness of the general problem appears to have been magnified

by the outbreak of the Korean War in 1950, when large-scale Federal acquisitions of defense production facilities throughout the country resulted in the removal of substantial parcels of real property from local tax rolls. In addition, local taxing authorities have been and are still being deprived of personal property tax revenues on inventories of such properties as a result of provisions in procurement contracts under which title to such inventories passes to the Federal Government prior to completion.

During the past 20 years, the fiscal problems of local governments resulting from Federal acquisition and control of real property, and the impact of Federal immunity from State and local taxation have been the subject of almost continuous study by governmental, quasi-governmental, and private groups which have filed numerous reports with recommendations.

Probably the most important was the 311-page report of the Commission on Inter-Governmental Relations filed in June 1955. It was accompanied by 15 additional volumes, totaling in all, approximately 2,200 pages. One of these volumes, was a 197-page report entitled "Payments in Lieu of Taxes and Shared Revenues," which contained an exhaustive study of the entire subject,

with detailed recommendations concerning future Federal policy with respect to payments to State and local governments for Federal property holdings located therein. The Senate Committee on Government Operations, to which these reports were referred, had an index to them prepared. It is published as Senate Document 111, 84th Congress. Copies may be obtained by addressing a request to the Committee clerk.

CONGRESSIONAL ACTION

The appropriate House and Senate committees have concerned themselves with various aspects of our problem for at least a decade. During the past seven years, while I have been a member of the Senate Committee on Government Operations, we have had bills pending before us during every session of Congress dealing with Federal-State-local tax relations in general, and of payments of taxes or in lieu of taxes, in particular. It was during the last Congress, however, the 84th, when the report of the Commission on Intergovernmental Relations stimulated the most energetic activity in our Senate Committee on this whole subject.

During 1955-6, the Committee had before it 12 pertinent bills, which

fell into the following five major categories:

(1) The establishment of permanent and overall policies and procedures with respect to payment by the Federal Government of taxes or in lieu thereof, such as S. 1566, which I introduced for myself and Senators Kuchel and Goldwater.

(2) The establishment of a limited program of payments by the Federal Government in lieu of taxes with respect to Federal real and personal property acquired during and subsequent to the Korean War.

(3) The establishment of a temporary, short-term, limited program for the relief of local taxing authorities, designed to alleviate their acute fiscal difficulties pending a more permanent solution - one of these was the committee bill which I introduced following the hearings on these measures, S. 4183.

(4) The establishment of a program authorizing payments of a very limited type, such as special assessments for public improvements.

(5) The elimination of certain types of Federal tax immunity with respect to State sales taxes on personal property.

In 1955, Congress passed Public Law 388 on August 12, 1955. As
you all know, this act provides temporary relief to local taxing authorities by restoring to the tax rolls certain real property which had been held by the Reconstruction Finance Corporation and was subject to local taxation, but which was taken out of taxation by the transfer of such property to other Government agencies.

In July 1955, the Chairman of the Committee on Government Operations, Senator John L. McClellan, authorized me to preside over committee hearings on the pending bills. Accordingly, preliminary hearings were held on the 7 bills then pending before the committee. Further action was deferred, however, pending an opportunity to examine and evaluate the report and recommendations of the Commission on Intergovernmental Relations, and the receipt of the administration's comments and views on the pending bills. The preliminary hearings were held largely to accommodate representatives of your sister organization, the National Association of County Officials which was holding its annual meeting in Richmond, Virginia, and had requested an opportunity for some of its members to be heard while they were in the vicinity.

Following this hearings, the staff was directed to make an exhaustive analysis of the pending bills and the pertinent recommendations of the Intergovernmental Relations Commission and its Study Committee on Payments in Lieu of Taxes and Shared Revenues, which had been referred to the committee on June 27, 1955. This study was embodied in a 17-page staff memorandum, to which was attached a 52-page appendix, all of which were incorporated in the record of the hearing. The bulk of the testimony received at that hearing was from individuals and groups concerned with payments of taxes or in lieu of taxes to State and local taxing authorities. Since the executive branch agencies had not yet formulated a policy on this subject, they did not desire to present their views at that time.

In the second session of the 84th Congress, hearings on the bills then pending before the committee were held on April 19 and 20, 1956, and your Association was most ably and persuasively represented by the late Mayor Porter. Although we had invited all of the executive branch departments and agencies to participate, with the exception of the Department of Defense and the Bureau of the Budget, they preferred to submit their views in the

form of written statements for the record. For the most part, these statements contained detailed analyses of the effect of the various bills on the reporting agency, and evidenced much painstaking effort.

The position of the executive branch was presented by representatives of the Bureau of the Budget and the Department of Defense in the form of oral testimony, supplemented by supporting materials submitted for the record.

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The Administration Position

At the hearings, a representative of the Bureau of the Budget stated, in effect, that the Administration was fully aware that large-scale Federal acquisition of real property, and Federal tax immunity may, and often does, result in serious financial hardship to local governments. However, the presence of Federal installations often results in benefits to a community which more than offset the burdens. Furthermore, care must be taken to preserve the traditional Federal immunity from local taxation. Accordingly, it was the view of the Administration that the solution was not to inaugurate a broad system of payments in lieu of taxes, which might involve the expenditure of huge sums of money, but rather to seek an accomodation which would lessen the severity of the Federal tax immunity, while avoiding a major breach of existing immunities and incorporation of adequate safeguards against unnecessary or excessive Federal payments.

It was the position of the Administration that the basic principle of an appropriate system must be that in a particular taxing jurisdiction, there is a demonstrable hardship caused by the recent removal of Federal property from the tax rolls, and that the hardship is of such depth and importance that special Federal financial assistance is warranted.

Demonstrable Hardship!

The Administration spokesman stated that---

"the magnitude of the problem has led us to conclude that a limited and careful start should be made, through suitable legislation, toward making payments were communities demonstrate financial distress because of revenue loss directly attributable to the removal of taxable real property from the tax rolls as a result of Federal acquisition."

Based upon these considerations, the Administration was unable to support any of the major bills pending before the committee, but was prepared to support legislation which would achieve what they referred to as "a proper balance between a fair payment to the recipient local government and a fair charge to the National

Government." It was their position, however, that such legislation should include (1) a limited designation of the kinds of acquired Federal properties which may be the subject of payments; (2) precise definitions of eligibility for particular categories of property; and (3) rules for charging for special services rendered to the National Government and crediting special benefits conferred by the National Government. With such an approach, the Administration felt it should be possible to define and control the policy commitment and the resulting financial obligation of the Federal Government, in those cases where a substantial impairment of the finances of the local government is directly attributable to the removal of property from the tax base as a result of Federal acquisition.

Summing up its position, the representative of the Bureau of the Budget stated:

"We recommend that legislation be enacted now to provide the authority and mechanism for payments, during a period of 4 or 5 years, in cases of demonstrable hardship

involving the recent removal of real estate from the tax rolls by reason of its acquisition by the National Government for industrial or commercial purposes, and including provision that during that period there should be detailed field studies of specific local situations. We believe that additional legislation should await a reasonable period in which to acquire experience in administering this limited policy."

Recent Committee Action

Following consideration of the testimony contained in the 477-page record of the hearings, the committee concluded: (1) there was an urgent need for immediate legislative action to relieve local taxing authorities from unjustified and inequitable burdens and hardships which have been imposed upon them as the result of large-scale Federal acquisition of various types of property which has operated to remove such property from the local tax rolls.

(2) Because of the complexities inherent in the subject, and the large number of variables involved, it was unable to recommend favorable action on any of the pending bills.

(3) Since the factual pattern varied in the 16,778 cities and 3,049 counties in the United States which might possibly be affected by Federal tax immunities, the only approach which would furnish a measure of relief to those local governments which were hard pressed as a result of Federal acquisition, was through a limited program of payments in lieu of taxes, coupled with a case-by-case consideration by an administrative board of the relative merits of individual cases.

(4) A more comprehensive approach at this time was likely to result in huge expenditures of Federal funds and possible "windfall" payments to communities which have actually benefited rather than been harmed by the presence of Federal installations.

(5) The only equitable program which was possible was one in which payments are based upon individual cases and situations as they are presented and documented, and as information relative to each situation is compiled, evaluated and assessed on its merits.

(6) Any further legislative action would have to await the accumulation by such a board of information concerning specific local needs and situations, compiled on a case-by-case basis, following field studies.

(7) No amount of general study,,unrelated to the specific variable factors in each individual case, would serve any useful purpose.

The Committee was supported in these conclusions by the major sponsors of the pending bills who testified before the committee that, in their judgment, bills proposing to establish broad, comprehensive programs had not been acted upon favorably through the years because such an approach is simply not feasible.

L Now I am going to let you in on some inside information.

Following the hearings last spring, I directed the committee staff to prepare a draft bill authorizing a limited program of payments in lieu of taxes, with a view to developing a measure which would embody concepts acceptable to the sponsors and proponents of the pending bills, as well as to the Administration.

Now I was fully aware of the fact that the very limited approach just described would not afford to local governments the full measure of assistance which they require or to which they are entitled.

I was also acutely aware of the political realities involved, Not only was it necessary to obtain the support of an adequate number of Members of Congress, but Administration approval was also needed to insure against a possible veto.

Now as conferences between the committee staff and the representatives of the Administration progressed with respect to a draft bill, it became apparent that the type of measure which they were willing to support was so limited in scope and coverage that it was doubtful whether any payments in lieu of taxes would ever be actually made during the five-year test period proposed.

In fact -- and I hope I am not betraying a confidence -- at one time during these conferences, an Administration spokesman openly admitted that if the Administration's version became law, only the members of the projected Administrative Board would ever

receive any money!

After examining the first draft, embodying the Administration's position, I instructed the staff that it was entirely unacceptable to me and that negotiations should continue toward the drafting of a bill which would actually afford a measure of relief.

The version which finally emerged out of these negotiations, introduced by me and reported by the committee as S. 4183, authorized for a 5-year period:

(1) a very limited program of payments in lieu of taxes on industrial or commercial real property acquired by the Federal Government after June 30, 1950;

(2) payments of special assessments levied after the effective date of the act in urban or suburban areas, if such assessments were also levied on real property owned by other taxable persons; and

(3) payments in lieu of taxes on the interest of the Federal Government in real property leased or sold to private persons under

conditional sales contracts, if such property were owned by a taxable person.

The program would be administered by a 5-member, bi-partisan Federal Board for Payments to Local Governments, appointed by the President, subject to Senate confirmation. A taxing authority would have been required to file an appropriate application, specifying the Federal property involved, the basis of its claim and the period for which the claim is made (not to exceed 12 months in any single application). The Board, after determining the existence of a probable basis for the claim, and conducting a hearing if a basis was found to exist, would have been required to determine and certify to the controlling Federal agency the amount of payment to be made to the local taxing authority.

In the case of industrial or commercial real property, however, the applicant would have been required to make a showing that Federal acquisition of such property resulted in a financial hardship to the community in question. The actual payment to be made was to be based upon the amount of local taxes which would

have been payable had the property been privately owned, increased by any additional expenditure incurred by the taxing authority in furnishing services to the Federal property, and diminished by the aggregate of local-type governmental services furnished by the controlling Federal agency, further diminished by any additional credit against Federal liability resulting from any exemption, immunity or reduction in the tax rate or amount, if such are available, under State or local law, to private persons as an inducement to engage in industrial or commercial activities within the territorial jurisdiction of the particular taxing authority. The Board's decisions were made final and conclusive upon all taxing authorities and Federal agencies.

The bill provided further that the board conduct a comprehensive study and make a case-by-case analysis of virtually every phase of fiscal and related problems of local taxing authorities arising out of Federal immunity from local real and personal property taxes, including the operation of existing programs. The Congress was

to receive semi-annual reports from the Board on the operation of the program and, within 2 years after the date of enactment, a comprehensive report, accompanied by appropriate proposed legislation, detailing the Board's recommendations on the necessity for a continuing policy. Nothing contained in the bill would have had any effect upon existing payments or revenue-sharing arrangements already authorized by law.

Now, my friends, I think you all realize by this time that the version which finally emerged, S. 4183, was certainly not the bill I would have liked to have seen reported. However, it did represent a modest beginning. It was acceptable to the Administration and was, therefore, not likely to run into a Presidential veto. Finally, it was sufficiently limited in scope and coverage to allay the fears of those of my colleagues in the Senate who were concerned about the possible expenditures of Federal funds and so-called windfall payments.

I worked hard for this bill and I believe it is probably the best we will be able to get during the next session of the Congress, when I intend to reintroduce it. It provides for a modest program on a five-year trial basis. It would permit modest payments in limited areas and, in its major aspects, would permit payments only to those taxing authorities which are able to show that, after weighing the benefits resulting from the presence of Federal installations against the burdens imposed on local taxpayers and local taxing authorities, they were still suffering financial hardships.

{ This is what I had in mind when I said on the Senate floor, during the debate on this measure, on the final night of the session last summer, July 27, 1956:

"The purpose of this bill is to move into the field on a limited scale and, at the same time, to provide a continuing study with pragmatic tests. Applications from local taxing authorities would be considered by a competent Federal administrative board. Unless this is done, there would be nothing more than a study in the theory of government, and nothing could be done about its practical application.

"This bill makes a beginning in manageable proportions, so that we will know what we are doing; so that we can proceed case by case, locality by locality, on the basis of the facts, and not in any way overextend our responsibilities at the Federal level. At the same time, we will not ignore the crying needs of community after community, which at the present time find their tax base whittled away by the acquisition of property by the Federal Government.

"Let me be very candid with my colleagues. I wanted what I thought was a more generous and comprehensive bill. I argued for weeks to bring out a better and more generous bill; but I thought if we could accomplish something, it would be better than to accomplish nothing. I thought if we could get the Bureau of the Budget and the President and the departments of Government to agree on this limited advance, it would be worthwhile. I am convinced that once the Federal board of five members for which the bill provides, is established, we shall see an improvement in the legislation in the years to come.

"We shall see it cover wider areas and meet more definite problems. But I think we should recognize that we cannot pass such a bill -- which enters into a new field of activity -- on a regularized basis unless the President and the Administration are in support. In this instance, we have their support. If the bill passes, the President will sign it."

Finally, in closing my remarks on the Senate floor, I stated:

"Mr. President, the time has come when we must face this problem in a forthright, realistic manner. We have studied this subject to death. What we need now is action. Certainly, a modest, experimental approach to this serious problem for a 5-year period, such as this bill would establish, with a report being made every six months, and an exhaustive report within 2 years, is not too much for hard-pressed communities to expect from the Federal Government."

Unfortunately, the bill came up for debate on the last night of the 84th Congress. Due to the pressure of other business and -- shall I say -- the "misunderstanding" of certain of my colleagues with respect to the objectives of the measure, it was laid aside. I hope for better luck in 1957.

In closing let me summarize my own thoughts about where we should go from here:

First, as I just said, we must direct our efforts toward the enactment of a law, early in the next session of the Congress, which will, at the very least, accomplish what we had intended to accomplish with S. 4183.

Second, we must make every effort to bring pressure on the Federal Government, not only to relinquish some of its enormous real property holdings in these cases in which it has no real need for them, but also to weigh carefully future acquisitions of real property. If such a program is given proper impetus, large parcels of Federally-owned lands and buildings may again be restored to the tax rolls.

Third,^{and} conversely, if Federal agencies are required, in proper cases, to make payments to local governments for certain types of real property, it should serve as an incentive to these agencies to dispose of numerous substantial holdings of commercial and industrial real property which should be in the hands of private industry and on the tax rolls of the communities in which they are located.

Fourth, your efforts should be directed toward working out arrangements with your respective States whereby local governments will be able to exercise taxing authority, or whereby certain non-

property taxes are made available by the States to their local subdivisions.

L Fifth, and finally, some additional revenues should be forthcoming from a strengthening of the property tax by promoting better assessment practices and more effective equalization of assessments. This would, in many instances, necessitate assistances from your State Legislatures, but it should be considered.

Finally, I can assure you that as long as I remain in the United States Senate, I shall continue my efforts to obtain the enactment of legislation which will insure the fair and equitable treatment of local taxing authorities. Some progress has been made. I am confident that we will attain a further measure of success in the very near future.

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