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DETERIORATING INFRASTRUCTURE IN URBAN AND RURAL AREAS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON ECONOMIC GROWTH AND STABILIZATION

OF THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

NINETY-SIXTH CONGRESS

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Monday, June 18, 1979

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DETERIORATING INFRASTRUCTURE IN URBAN AND RURAL AREAS

MONDAY, JUNE 18, 1979

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMIC GROWTH AND
STABILIZATION OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 11:03 a.m., in room 305, 26 Federal Plaza, New York, N.Y., Hon. Jacob K. Javits (member of the subcommittee) presiding.

Present: Senators Javits and McGovern.

Also present: Deborah Norelli Matz, professional staff member; Alan Stone, Senator McGovern's staff; James O'Connell, Senator Javits' staff; and Mark Borchelt, administrative assistant.

OPENING STATEMENT OF SENATOR JAVITS, PRESIDING

Senator JAVITS. The subcommittee will come to order.

This is a hearing of the Subcommittee on Economic Growth and Stabilization of the Joint Economic Committee of Congress on the infrastructure problems of urban and rural areas in the country. It relates to a bill which Senator McGovern and I have introduced, S. 1049, to establish a "National Bank for Community Conservation"—to provide financial assistance to distressed areas for the conservation of existing public capital infrastructure.

"Infrastructure" means the "life support systems" of our cities and rural areas, our roads, bridges, streets, sewers, water mains, electricity conduits, subways, and so forth—that which makes it possible for people to get safely from one place to another; to have fresh drinking water; to be able to turn on their lights; and to cross bridges without fear.

This critical infrastructure is wearing out inexorably all across the country. The difficulties of water-main breaks—we saw one being repaired this morning at 91st Street and Columbus Avenue. The areas under the streets of any city, including New York City, are a labyrinth of public water supply, electricity generation, and mass transit systems. And then above the streets, arterial highways, bridges, viaducts, and so forth.

We saw also this morning the collapse of the West Side Highway from 57th Street south, a tragic waste of human and material resources, considering what it took in cost to build. New York City water tunnels, for example, have been in use for over 40 years. Nobody knows how much longer they will last. And Comptroller Goldin of the city of New York explained to Senator McGovern and I the dangers which we face as a city to health as well as to safety from this condition.

At the present rate of replacement and repair, it is expected to take 100 years to replace New York City's streets even if they need it urgently today.

Our witnesses today will be Comptroller Goldin who will be our first witness; Bob Wagner, Jr., the chairman of the New York City Planning Commission; and David Grossman, consultant for the Urban Institute, who has just authored a special study for the institute.

Senator McGovern and I believe the answers to the questions I have raised are conservation and conservation means maintenance; maintenance costs money, and that is credit. And the cities don't have the credit.

Therefore, we have offered a bill to establish a "Community Conservation Bank"—a national bank—for this purpose to make subsidized and unsubsidized loans and some relatively small grants. We estimate $200 million in Federal subsidies will buy up the $4 billion, perhaps $5 billion in loans which can be raised by the sale of the bank's own securities in the open market.

We believe this is a businesslike and extremely efficient way to handle the situation in view of the exigencies. It will preserve tens of billions of dollars in property which are the property of the United States even though they may be located in the municipality. They are all here. And this seems to us to be the most intelligent expenditure of Federal credit for this purpose.

The cities can and will repay. They need the money and they can't get it because their own credit is not that good, and the interest rates which are called for are impossible for so many of them.

We hope very much to have hearings in the Senate on this bill very shortly. We have already had the hearings in the House.

I ask unanimous consent that my written opening statement be inserted in the hearing record at this point.

[The written opening statement of Senator Javits follows:]

Written Opening Statement of Hon. Jacob K. Javits

Good morning.

Today the Subcommittee on Economic Growth and Stabilization of the Joint Economic Committee is holding a hearing on the very severe problem of deteriorating infrastructure in our urban and rural distressed areas—and on what we can do about it.

"Infrastructure" means the "life support systems" of our cities and rural areas—our roads, bridges, streets, sewers, water mains, electricity conduits, subways, etc.—what makes it possible for people to get safely from one place to another; to have fresh drinking water; to be able to turn on their lights; to cross bridges without fear.

And, regrettably, in urban and rural distressed areas all across the U.S. this critical infrastructure is wearing out inexorably. All too frequently, public water supply and distribution systems are breaking down; electricity generation and delivery systems are failing; mass transit systems are deteriorating; and our major arterial highway, bridge and street networks are collapsing—like the West Side Highway. These incidents of infrastructure deterioration in distressed areas can threaten the health and safety of our people and, if allowed to continue, will begin soon to expose the residents of distressed areas to very great risk.

All at once, it would seem, a combination of neglect, deferrals, accumulated wear and tear and the passage of time have begun to take their toll on the stock of public capital in distressed areas; and all around us we see evidence of palpable and chronic deterioration of our life support systems. New York City's water tunnels—the huge systems through which all our water flows—have been in constant use for over 40 years and no one knows how much longer they can last. Many of the smaller water mains were built in the last century and a fourth of our waterway bridges are in poor condition, according to the Urban Institute. And at the rate we are replacing our streets, they are expected to last for 100 years! Our people—who struggle every day to negotiate almost impassable streets, or to keep their appliances running; or to get to work safely and on time—begin to wonder if anything can be done about the relentless deterioration of their public assets.

Today we have a number of witnesses who are able to speak with authority on the situation in New York City and elsewhere. We have Deputy Mayor Trimble; Comptroller Harrison Goldin—who last month issued an extensive report on "Rebuilding During the 1980's"; Bob Wagner, Jr., the Chairman of the City Planning Commission; and David Grossman, who has just authored a special study for the Urban Institute on the problem of deteriorating infrastructure in New York City,

We will be asking them the same questions our constituents are asking us: "What are you going to do about it?" "What can be done about it?" "How much danger is there of a major collapse?" "Do we have to have a catastrophe before someone wakes up and begins upgrading these systems?"

Senator McGovern and I believe the answers to these questions are to be found in conservation; in the rehabilitation of what we have, as opposed to new construction. We need to make an investment in our own futures and the Federal Government can help out in this regard. We inherited from our parents a fine city; but there is danger that our children will be left a legacy of decay because our distressed areas are unable to raise the capital they need to upgrade their deteriorating facilities.

Accordingly, Senator McGovern and I have introduced S. 1049—the Community Conservation Act of 1979—to establish a National Bank for Community Conservation, which would make subsidized and unsubsidized loans, and some small grants, to distressed urban and rural areas, for the purpose of encouraging and assisting in the conservation of existing public capital facilities through renovation and rehabilitation.

The sole purpose of this Bank would be to help distressed areas to help themselves—and this is a critically important point: our bill is a self-help proposition, not a bail-out bill. The National Bank for Community Conservation would help distressed areas to conserve their capital stock; to husband their existing public infrastructure.

Congressman Moorhead of Pennsylvania has introduced his own bill targeted at the same purpose as the Javits-McGovern bill: the only difference is that the U.S. Treasury would handle the loans as opposed to a separate entity. And others have said the reorganized and expanded Economic Development Administration ought to take on the job of assisting distressed areas with infrastructure repair and rehabilitation.

I, for one, am not concerned about the particular agency chosen to target federal financial assistance to distressed areas for this specific purpose of infrastructure conservation. What matters most is that the Federal Government accept the responsibility to aid distressed areas like New York in preventing the complete collapse of essential public utilities through prudent and foresighted husbandry.

I estimate that for $200 million per year in federal subsidies the U.S. Treasury could support up to $4 billion in loans, which would be raised by the sale of the Bank's own securities on the open market.

So this is an extremely efficient and businesslike way to raise and target federal funds for a critical purpose—which is the viability of our cities in the future. If deterioration in New York and many other distressed areas is permitted to continue unabated, our cities will become unfit places for our children and their children to live in; and we will continue to lose business, jobs, people, revenues—and the whole vicious cycle will undo us.

But there is still some time and there is still hope that our public resources can be preserved. We need only to act, and soon, to make an investment in our own future.

I hope we will have the wisdom and the commitment to act.

Senator JAVITS. And now, I yield to my colleague. And may I say, Senator McGovern, how proud New York is to have you here today, former Presidential candidate of your party, one of our truly most distinguished U.S. Senators, and the gratification we have at the interest which you have shown in what is a new phenomenon that everyone of the 50 States no matter how rural begins to realize it, too, has urban problems just like we do.

Senator McGovern.

OPENING STATEMENT OF SENATOR MCGOVERN

Senator MCGOVERN. Thank you very much, Senator Javits.

I want to say first of all that I regard Senator Javits as one of the Nation's most informed and respected experts on our urban problems. He knows the problems of this city perhaps as well as any living person.

Beyond that, I want to stress that my interest here underscores the nationwide character of this problem. We saw this morning what happens when an underground water facility fails. One little break in an underground main or sewer system means the disruption of an entire city block while its being repaired.

We can see the same problems in Mitchell, S. Dak., or Omaha or Cedar Rapids or wherever we go in this country, no matter what size the community. While the size of the problem varies, the problems have a great similarity—the deterioration of roads, bridges, water mains, sewers, and transit systems.

Comptroller Goldin emphasized in his report, which I enjoyed reading last night, the importance of approaching these problems in a coordinated way. It doesn't make very much sense to repave a street 1 year, and tear up the water mains and the sewers on the same street the next year. There needs to be some greater planning and coordination if we are to get maximum value for the dollars spent.

The other point I would like to emphasize is that the approach that Senator Javits and I are taking in this legislation is essentially a conservative one. We recognize that in a time of double-digit inflation, public funds are limited, so we have to maximize the usefulness of our public investments. This is an effort not to completely rebuild the facilities of our cities, from New York to Los Angeles, but to try to repair, to maintain, to conserve, those facilities that still have sufficient life and are worth repairing and maintaining.

And as Senator Javits has said, we believe we have come up with a mechanism that will maximize the use of Federal funds. This is essentially a guaranteed loan program, using the credit of the Federal Government to enable cities to borrow the funds they need to maintain their public facilities.

It is a privilege to be here with Senator Javits. We have been working on this legislation for more than a year. I don't think either one of us believes that it is beyond modification or improvement and that, of course, is the purpose of this hearing and others that we hope to have in the future.

Senator Javits, I want to thank you in advance for agreeing to come to South Dakota next month and to look at some of the problems we have out there. It is a greater sacrifice for you to travel to South

Dakota than it is for me to get on the Eastern shuttle and fly from Washington to New York. But I appreciate your willingness to look at our part of the problem.

Senator JAVITS. Senator McGovern, anything for New York.

Senator McGOVERN. I ask unanimous consent that my written opening statement and the text of the bill S. 1049, introduced by Senator Javits and I, be inserted in the record at this point.

[The written opening statement of Senator McGovern and the bill S. 1049, introduced by Senators Javits and McGovern, follow:]

WRITTEN OPENING STATEMENT OF HON. GEORGE McGOVERN

Senator Javits and distinguished witnesses, this morning we'll discuss the extent to which the supporting infrastructures of this and other cities have decayed, examine the impact this has had on our economic and social life, and study some specific policy alternatives designed to help us better meet our needs.

The concept we are going to be talking about today has always been an important one. That is, the creative use of public funds to conserve capital infrastructures within our municipalities. These facilities—roads, sewers, streets, bridges, etc., are absolutely essential to sustain the economic and social standards we have become accustomed to. None of us in this room today needs to be deluged with statistics on the deterioration of our towns and cities. All we have to do is drive down any side street or over any bridge to notice the toll that time has taken. This is no less true in my State than it is in New York City. That is why Senator Javits and I have introduced the Community Conservation Act of 1979.

The particular approach Senator Javits and I have chosen to take with this piece of legislation is one that we have arrived at after a year of consideration. We are not absolutely committed to every subparagraph and comma in this bill. We know that this legislation is badly needed and we want to provide a vehicle for discussion. We know also that there are other legislators at the local, State, and Federal level who will have much to contribute to the further development of this legislation.

Since our investigations began, however, the concept of conservation of municipal infrastructures has taken on newer and more important dimensions.

First of all, it is clear that we have got to moderate our new expenditures across the board. Double digit inflation is a fact of life. Cities and municipalities across the country are going to have to learn to live within a world of lesser means. Conserving existing facilities is one very basic way to do that. It may not be as financially attractive to a contractor to repair as to build. It may not be as politically attractive to a local official to rehabilitate as it is to construct, but in fact, this is the approach that makes most sense.

Also, as the economy slows down and interest rates rise, it is going to become much more expensive for cities to borrow. The administration is attempting to slow down inflation by slowing down the economy. I don't entirely agree with this approach. I disagree that a recession would be good news. I have introduced selected mandatory wage and price control legislation to stop inflation without slowing down the economy. But, whatever approach is used, keeping costs down is very important.

Furthermore, since Senator Javits and I began to develop this legislation, it has become even more painfully obvious that the United States needs an energy policy that works. No policy will work unless it has as one of its fundamental building blocks energy conservation. No choice exists; we are simply going to have to use less fuel in the long run.

The energy crisis will make cities more attractive. Our municipalities, both urban and rural, will have to support and serve millions of families that would have left under a cheap energy policy, but will now stay. Millions may return, as living in outlying areas and building new homes and offices outside cities becomes ever more prohibitively expensive.

In short, the conservation, repair, and rehabilitation of transportation and energy-supplying facilities not only will save us necessary dollars, it will also help create support within our communities as they grow. These developments, of course, are essential to our economic recovery. No small business will return to a city without a sewer system that works, or adequate highways. A recent JEC study illustrated quite graphically that without adequate infrastructure support, businesses of all sizes will not locate in a community.

I have joined with Senator Javits in developing this legislation because my State desperately needs funds—loans, not necessarily grants—to help do a lot of things that are not now adequately supported: Converting farm commodities to alcohol, expanding waste water treatment plants, repairing crumbling bridges, and maintaining our sewer treatment facilities. An additional source of capital for municipalities would be of great benefit to scores of small cities and towns in South Dakota. There is a level of sophistication involved in public finance which unfortunately most rural communities do not now have. Too often, vital public facilities are left to deteriorate for the want of a simple, reachable, and affordable source of credit. Too often bonding mechanisms are cumbersome, expensive, and time consuming.

We have sought to insure with this bill that the tendency of Federal programs to gravitate toward larger population centers will be balanced by a commitment to rural municipalities as well. Senator Javits has been very supportive of this balance.

There is no partisanship on this issue. We know that this basically modest measure will be difficult to pass given the present political climate. But we both know how important it will be to our constituents. I am very much looking forward to hearing from the witnesses.

II

96TH CONGRESS
1ST SESSION

S. 1049

To establish a National Bank for Community Conservation to provide financial assistance to distressed areas for the conservation of existing public capital infrastructure.

IN THE SENATE OF THE UNITED STATES

MAY 1 (legislative day, APRIL 9), 1979

Mr. JAVITS (for himself and Mr. MCGOVERN) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing and Urban Affairs

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A BILL

To establish a National Bank for Community Conservation to provide financial assistance to distressed areas for the conservation of existing public capital infrastructure.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Community Conservation Act of 1979".

FINDINGS

SEC. 2. The Congress hereby finds and declares that—

(1) existing local public capital facilities—including but not limited to bridges, sewers, water tunnels, roadways, storm drains and transportation systems—are among the Nation's most precious economic resources, are essential to the quality of life, health, and safety of citizens, and are vital to local and area economic development;

(2) the existing physical stock of capital, particularly in the older jurisdictions, has deteriorated badly and has reached the point where there exists a clear and present danger to the well-being of citizens;

(3) maintenance and upgrading of public infrastructure, and particularly, reversing the downward trend in capital expenditures appears to be the single greatest problem facing our Nation's cities, large and small;

(4) in many areas of the Nation adequate and affordable financial resources cannot be obtained to undertake major conservation and rehabilitation projects, therefore, supplemental financial assistance is required;

(5) there is an urgent need for the Federal Government to encourage and assist in the proper conservation of existing capital infrastructure through programs of capital rehabilitation, renovation, and repair;

(6) the establishment of a special-purpose Federal financing facility, with regional divisions, would be the most efficient and cost-effective way to assist localities in the preservation of existing stocks of infrastructure capital; and

(7) conservation of existing capital facilities can assist in achieving improved local and regional economic development, employment opportunities, and personal income.

PURPOSE

SEC. 3. The purpose of this Act is to establish a National Bank for Community Conservation, which shall be a special-purpose financing facility organized to provide financial assistance to local governments, through subsidized and unsubsidized loans and the purchase of public debt instruments from private financial institutions and grants, for the purpose of encouraging and assisting in the conservation of existing public capital facilities through rehabilitation and renovation.

DEFINITIONS

SEC. 4. As used in this Act—

(1) "bank" means the National Bank for Community Conservation;

(2) "obligation" means any bond, note, debenture, or other instrument evidencing debt;

(3) "distressed area" means (A) an area which the bank determines pursuant to section 9 to be eligible for financial assistance from the bank, (B) Puerto Rico, (C) Virgin Islands, Guam, American Samoa, Commonwealth of Northern Marianas, and Trust Territory of the Pacific, and (D) any area under the sovereignty or governance of an Indian tribe, band, group, and nation, including Alaska Indians, Aleuts, and Eskimos, and any Alaskan Native village, of the United States, which is considered an eligible recipient under the Indian Self-Determination and Education Assistance Act (Public Law 93–638) or under the State and Local Fiscal Assistance Act of 1972 (Public Law 92–512);

(4) "consortium" means areas encompassed by a group of contiguous local governments which are eligible distressed areas, the combined population of which exceeds 100,000;

(5) "eligible project" means any project in a distressed area which is designed to rehabilitate or otherwise improve, upgrade or modernize existing public physical infrastructure;

(6) "Federal agency" means the United States of America and any agency, department, or instrumentality thereof;

(7) "financial assistance" means any loan under section 10(a), any interest rate subsidy under section 10(a)(3) or any grant under section 10(c);

(8) "local government" means—

(A) a municipality, township, or other political subdivision of a State which is a unit of general government (determined on the same principles as are used by the Bureau of the Census for general statistical purposes), including the District of Columbia, hereof, and

(B) the governing authorities of the areas listed in clauses (C) and (D) of paragraph (3) of this section;

(9) "long-term debt" means any loan (or portion thereof) and any privately placed or publicly distributed debt securities which are extended or purchased by a private financial institution and (A) mature by their terms not less than one year nor more than thirty years from the date the determination is made as to whether such portions of a loan or debt securities qualify as long-term debt, and (B) in the case of any refinancing transaction, represent portions of loans or debt securities that were not outstanding prior to the refinancing transaction;

(10) "private financial institution" means any bank, trust company, savings bank, savings and loan association, industrial bank or loan company, credit union, building and loan association, insurance company, mortgage company, and any other company engaged in the business of providing long-term financing;

(11) "project cost" means the aggregate costs incurred by, or on behalf of, the local government for the rehabilitation or improvement of an existing public facility, which are determined by the bank to be necessary therefor, including the costs of debt service; and

(12) "infrastructure" means those physical capital facilities, including but not limited to bridges, roadways, water tunnels, sewage disposal systems, and elevated, surface and subsurface transit facilities, which are essential to necessary communication, transportation, water, sewage and garbage disposal, heating, cooling, lighting, health, and safety.

ESTABLISHMENT OF BANK

SEC. 5. (a) There is hereby established a body corporate to be known as the National Bank for Community Conservation, which shall have succession until dissolved by Act of Congress. The bank, which shall not be an agency of the United States Government, shall maintain such offices as may be necessary or appropriate in the conduct of its business. For the purposes of jurisdiction and venue, the bank shall be deemed a citizen and resident of the District of Columbia.

(b) No individual, association, partnership, or corporation, except the bank, shall hereafter use the words "National Bank for Community Conservation" as the name or a part thereof under which it does business.

(c) It shall be the specific purpose of the bank to encourage and provide financial assistance to local governments for the improvement and conservation of existing physical facilities through rehabilitation and modernization. Financial assistance may be provided to local governments in the form of subsidized and unsubsidized loans, repurchase agreements, and grants.

ORGANIZATION OF BANK

SEC. 6. (a) The bank shall have a board of directors which shall initially consist of fifteen members to be appointed by the President of the United States as follows:

(1) one member to be appointed from the Board of Governors of the Federal Reserve System;

(2) four members to be appointed from among the heads of departments and agencies in the executive branch of the Government;

(3) four members to be appointed from among those who represent the public generally, one of whom

shall be appointed, by and with the advice and consent of the Senate to serve as president of the bank and chairman of the board of directors;

(4) two members who are Governors of States from among nominees of the National Governors' Association;

(5) two members who are elected officials of county governments from among nominees of the National Association of County Officials; and

(6) two members who are elected officials of city governments from among nominees of the National League of Cities, and the United States Conference of Mayors.

(b)(1) Directors appointed under clauses (1), (2), and (3) of subsection (a) of this section shall serve at the pleasure of the President or until their successors have been appointed.

(2) One director initially appointed pursuant to each of clauses (4), (5), and (6) shall be designated by the President of the United States to serve until the first annual meeting of the stockholders, and one director appointed pursuant to each such clause shall be designated by the President of the United States to serve until the second annual meeting of the stockholders. Vacancies occurring pursuant to this paragraph at the time of each such annual meeting shall be filled by election by the stockholders at such meeting from among

nominees as provided in subsection (a) of this section. Directors elected pursuant to this subsection shall serve for terms of two years. The board may appoint a member to serve for any unexpired term of any such director.

(c) The board shall hold regular bimonthly meetings and shall hold other meetings at the call of the chairman. A majority of the board shall constitute a majority for the transaction of business. Any vacancy in the board shall not affect its powers or duties.

(d) The board shall be responsible for the management of the bank; shall have the power to review and approve all financial assistance and loan purchase decisions; and shall establish policies for the carrying out of the responsibilities of the bank under this Act. The board shall adopt, and from time to time may amend or repeal, such regulations as are necessary or convenient for the functioning of the bank. Any findings and approvals required by this Act to be made or given by the bank shall be made or given by the board or by the officer or officers of the bank designated by the board in one or more resolutions delegating to the officers specified the power to make or give such findings and approvals. Any such resolution delegating the power to make or give such findings and approvals shall set forth the standards to be applied by the officer or officers designated.

(e) Any director who is an officer or employee of the United States shall serve without additional compensation for his services as a director.

(f) The management of the bank shall be vested in the president of the bank, subject to such policies as the board of directors shall prescribe from time to time.

(g)(1) There shall be a president of the bank, who shall be appointed by the President of the United States with the advice and consent of the Senate, and who shall serve as chief executive officer of the bank. Subject to the direction of the board, the president shall manage and supervise the affairs of the bank and shall perform such other functions as the board may from time to time prescribe. There shall be an executive vice president of the bank, who shall be appointed by the President of the United States with the advice and consent of the Senate. The executive vice president shall perform the duties of the president of the bank during the absence or disability of, or in the event of a vacancy in the office of, the president of the bank and shall at other times perform such functions as the board and the president of the bank may from time to time prescribe. The president and executive vice president of the bank shall receive salaries at the annual rate of compensation in effect for executive level III and executive level V, respectively, of the executive schedule under subchapter II of chapter 53 of title 5, United States Code.

(h) The President of the United States shall appoint an advisory committee of nine members, two of whom may be officers or employees of the Federal Government. The members designated shall be persons who are generally knowledgeable in or representative of State and local government, commerce, finance, labor, community development, economic development, environmental protection, and consumer and community interests. The advisory committee shall meet at least three times each year on the call of the president of the bank to advise the bank on such matters as the board or the president of the bank shall specify. Members of the advisory committee who are not otherwise officers or employees of the Federal Government may be compensated at a rate not exceeding the daily equivalent of the rate for grade GS–18 of the General Schedule (5 U.S.C. 5332) for each day spent in travel or attendance at meetings of the committee; while so serving away from their homes or regular places of business, all members may be allowed travel expenses, including per diem in lieu of subsistence, as authorized by section 5703 of title 5, United States Code, for individuals in the Government services employed intermittently.

REGIONAL OPERATING DIVISIONS

SEC. 7. (a) The bank shall establish regional operating divisions. Each division shall be charged with responsibility for assessing borrower eligibility and making loans within its region or geographical area. To the maximum extent feasible, the boundaries of the regions or geographical areas respectively represented by the several regional operating divisions shall be the same as the boundaries of the areas respectively served by the regional offices of the various Federal departments and agencies.

(b) Each regional operating division shall transact all of the bank's business within its region with the assistance of the metropolitan area advisory staffs.

(c) Each regional operating division shall be supervised by a three-member panel appointed by the board. In addition, an advisory committee of not less than eighteen nor more than twenty-five persons representing all governments and all socioeconomic levels within the division's region shall be appointed by the board to develop policies and guidelines for the division's activities.

GENERAL POWERS

SEC. 8. To carry out the purposes of this Act, the bank shall have the following general powers:

(1) to sue and be sued, complain, and defend in its name in any court of competent jurisdiction, but no at-

tachment, injunction, garnishment, or other similar process, mesne or final, shall be issued against the bank or any of its property;

(2) to adopt, alter, and use a seal, which shall be judicially noticed;

(3) to adopt, amend and repeal, by the board, such rules and regulations as may be necessary to the conduct of its business and to carry out the authority granted under this Act;

(4) to conduct its business, carry on its operations, and exercise the powers granted by this Act in any jurisdiction without regard to any qualification, licensing, or other requirement imposed by law in any jurisdiction;

(5) to lease, purchase, accept gifts or donations of, or otherwise to acquire, and to own, hold, improve, use or otherwise deal in or with, and to sell, convey, mortgage, pledge, lease, exchange, or otherwise dispose of any property, real, personal, or mixed, or any interest therein wherever situated;

(6) to enter into contracts, to execute instruments, and to incur liabilities;

(7) subject to the civil service laws and chapter 51 of subchapter III of chapter 53 of title 5, to appoint and fix the compensation of such officers, attorneys,

employees, and agents as may be required and, to the extent desired by the bank, require bonds for them and fix the penalty thereof, and to appoint and fix the compensation of experts and consultants at a rate not exceeding the the daily equivalent of the rate for grade GS-18 of the General Schedule (5 U.S.C. 5332);

(8) to cooperate with and utilize the services of any Federal agency on a reimbursable basis, and any Federal agency is authorized to cooperate with and provide services as requested by the bank on such basis;

(9) to make use of the United States mails in the same manner and upon the same conditions as the executive departments of the Federal Government; and

(10) to do all other acts and things as may be necessary or incidental to the conduct of its business and the exercise of all the rights and powers granted to it by this Act.

DESIGNATION OF ELIGIBLE AREAS

SEC. 9. (a) ANNUAL DESIGNATION.—The bank shall within four months after the enactment of this Act and on an annual basis thereafter, determine and designate distressed areas pursuant to the criteria set forth in subsection (b). Each such determination and designation shall be published in the Federal Register and shall remain in effect for one year from the effective date of such determination and designation. The bank may, during any period while such a determination and designation is in effect and during one year thereafter, enter into agreements to provide financial assistance to eligible projects in areas included in such designation as distressed areas, notwithstanding the fact that any such areas are not so designated in the next year.

(b) METHOD OF DETERMINATION.—A distressed area is the geographical area encompassed by a local government that is characterized by at least three of the following conditions:

(1) the unemployment rate is above the average unemployment rate for the statistical grouping to which such local government belongs;

(2) the rate of growth in employment is less than the rate of growth for the statistical grouping to which such local government belongs;

(3) the absolute growth in per capita income is less than the absolute growth for the statistical grouping to which such local government belongs; and

(4) the rate of growth in population is less than the rate of growth for statistical grouping to which such local government belongs.

No area shall be a distressed area if the per capita income for the area during the most recent year for which data are available is more than 150 per centum of the average per capita income for the statistical grouping to which the related local government belongs.

(c) STATISTICAL GROUPINGS.—The term "statistical grouping" shall mean either all standard metropolitan statistical areas ("SMSA's") considered as a group, or all areas outside of such SMSA's ("non-SMSA's") considered as a group. A local government belongs to the statistical grouping comprised of all SMSA's if any part of the area of such local government is within the area of an SMSA: otherwise, such local government belongs to the statistical grouping comprised of non-SMSA's.

(d) DETERMINATION OF RATES.—

(1) UNEMPLOYMENT RATE.—For the purposes of this section, the unemployment rate for a local government shall be determined by computing the average rate of unemployment in the area contained within the local government during the most recent four calendar quarters for which data are available, as determined by the Bureau of Labor Statistics for the Secretary of Labor. The dates that define the period of time shall be the same for all local governments.

(2) RATE OF GROWTH IN EMPLOYMENT.—For the purposes of this section, the rate of growth in employment for a local government shall be determined

by subtracting from the employment in the area contained within the local government for the most recent four calendar quarters for which data are available, the employment within such area for a four-calendar-quarter period which preceded such recent four calendar quarters by two years, as determined by the Bureau of Labor Statistics for the Secretary of Labor, and dividing this difference by the employment within such area for the earlier four-calendar-quarter period. The dates that define the periods of time shall be the same for all local governments.

(3) ABSOLUTE CHANGE IN PER CAPITA INCOME.—For the purposes of this title, the absolute change in per capita income for a local government shall be determined by subtracting from the per capita income in the area contained within the local government for the most recent year for which data are available, the per capita income within such area for a year which preceded such recent year by two years, as determined by the Bureau of the Census for the Secretary of Commerce for general statistical purposes. The dates that define the periods of time shall be the same for all local governments.

(4) RATE OF GROWTH IN POPULATION.—For purposes of this Act, the rate of growth in population

for a local government shall be determined by subtracting from the population in the area contained within the local government for the most recent year for which population data are available, the population in such area as of a date which preceded the date of the most recently available population data either five or six years, as determined by the Bureau of the Census for the Secretary of Commerce for general statistical purposes, and dividing this difference by the population within such area for the earlier year. The dates that define the periods of time shall be the same for all local governments.

(5) NONAVAILABILITY OF DATA FOR SPECIFIED TIME PERIOD.—If data are not available for the specified period of time for eligibility under paragraph (1) or for the earlier periods of time referred to in paragraphs (2), (3), and (4), the Secretary of Labor or the Secretary of Commerce, as the case may be, shall determine the local rate in question on the basis of data for the period of time as close to twenty calendar quarters (in the case of paragraph (1)) or as close to five years (in the case of paragraphs (2), (3), and (4)) as such Secretary determines to be most appropriate.

(6) ASSIGNMENT OF RATES.—Where an unemployment rate or rate of growth in employment cannot

be determined for a local government, the unemployment rate or rate of growth in employment for the smallest unit of local government or appropriate geographical area for which a local rate has been determined within the jurisdiction or area in which such local government is located shall be assigned to such local government. However, if the Governor of the State in which such local government is located has provided the Secretary of Labor with an unemployment rate or rate of growth in employment for such local government and the Secretary of Labor determines that such rate has been developed in a manner consistent with the procedures used by the Secretary of Labor then such rate shall be assigned to the local government.

(7) DATA FOR CERTAIN AREAS.—For local governments described in section 4(7)(B), the data required for paragraphs (1) through (4) shall be determined by subtracting from the data for the county so much of such data as are applicable to local governments described in section 4(7)(A).

(e) RESPONSIBILITY FOR DETERMINING RATES.—(1) The Secretary of Labor shall determine or assign the unemployment rates and rates of growth in employment for each local government and for each statistical grouping annually and shall report such rates annually to the president of the bank.

(2) The Secretary of Commerce shall determine annually and shall report annually to the president of the bank (a) the rates of growth in per capita income and in population for each unit of local government and for each statistical grouping, and (b) the level of per capita income for each unit of local government and the average per capita income for each statistical grouping.

(f) OTHER DISTRESSED AREAS.—In the case of any geographical area encompassed by a local government with a population of at least fifty thousand persons that does not qualify as a distressed area under the criteria set forth in subsection (b), the appropriate local development authority may submit to the bank both an application for financial assistance and an application describing a smaller portion of such area and requesting that it be designated as a distressed area. The bank shall designate such smaller portion as a distressed area if it finds—

(1) that such smaller portion of the area is composed of contiguous territory and has a population of at least ten thousand persons, and

(2) on the basis of the best evidence available (which shall be submitted by the local government), it is probable that such smaller portion of the area would

qualify as a distressed area if it were the full geographical area encompassed by a local government.

SPECIAL POWERS

SEC. 10. (a)(1) Financial assistance under this section shall be made available to eligible distressed areas designated under section 9 on the basis of individual project applications submitted by local governments in such areas.

(2) In the selection of projects for which financial assistance is to be provided, the bank shall give priority to—

(A) distressed areas which have a population in excess of one hundred thousand persons;

(B) distressed areas which have a population of less than one hundred thousand persons, and which establish a consortium of contiguous local governments, the combined population of which exceeds one hundred thousand;

(C) distressed areas which have a population of less than one hundred thousand persons, for which the State submits an application; and

(D) distressed areas which have undergone exceptionally severe deterioration of essential infrastructure, as defined by the bank.

(3) In circumstances where a significant portion of the existing public physical capital for which conservation assistance is sought is contained within the jurisdiction of another

local government which is a distressed eligible area, the bank shall require joint preparation and submission of the application for financial assistance for the eligible project and joint administration of the project itself if assistance is provided.

(b) LOAN AUTHORITY.—(1) Subject to the provisions of this Act, the bank is authorized to make loans to local governments which are eligible distressed areas to finance the upgrading, modernization, and rehabilitation of existing physical capital infrastructure.

(2) All loans made pursuant to this section shall bear interest at a rate determined by the bank which shall be low enough to be competitive with municipal bonds, but in no event greater than one point over the average rate on Treasury borrowings of similar maturity.

(3)(A) Notwithstanding the provisions of paragraph (2), above, loans may be made to local governments in certain eligible distressed areas at a subsidized interest rate, which shall in no case be lower than the market rate less 3 per centum.

(B) In order to be eligible for a subsidized loan, a distressed area designated under section 9 must submit an approved infrastructure conservation plan, which includes a description of the particular project for which assistance is sought, and must demonstrate that—

(i) the infrastructure for which financial assistance is sought is critical to the health and safety of local residents and to the overall economic development of the distressed area;

(ii) the distressed area has been characterized by substantial and persistent unemployment for an extended period of time or a significant long-term erosion of employment opportunities;

(iii) access to conventional sources of financing at reasonable rates of interest is significantly impaired;

(iv) payment of the market rate of interest on comparable municipal securities would represent a substantial and continuing burden upon the financial resources and budgetary needs of the area; and

(v) the general condition of existing public physical capital in the area is in a seriously deteriorated state.

(C) In selecting areas which shall receive subsidized loans from among those eligible and submitting applications, the bank shall take into account the relative severity of the conditions described in section 10(b)(3)(B) or in section 9(b).

(D) When the bank makes subsidized loans, the board of directors shall determine the appropriate interest subsidy taking into account factors including but not limited to—

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(i) the effect of the loan upon the area served by the local government, including but not limited to, economic development, improved standard of living, energy efficiency;

(ii) the need of the eligible distressed area, in terms of health, safety, and the quality of living, for the particular infrastructure rehabilitation project proposed for assistance; and

(iii) the likelihood that financial assistance provided under this section will be repaid as described in the terms of the loan agreement.

(4) The bank may establish any and all terms and conditions of repayment of loans authorized under this section, including number of installment payments, deferral of principal payments and early repayment of obligations.

(5) A loan made under this section may not exceed the total capital cost of the project to be financed, and shall be made for a term determined by the bank; except that the term of a loan made under paragraph (2) of subsection (a) shall not exceed the life of the project or forty years, whichever is less.

(c) PURCHASE AUTHORITY.—(1) Subject to the provisions of this Act the bank is authorized to make commitments to purchase and to purchase from private financial institutions, and may service and sell, on terms and conditions determined by the bank, qualified debt (or participation therein) of a local government issued to finance rehabilitation of existing physical infrastructure. This authority shall be exercised to encourage the participation of private financial institutions in the activities to extend financial assistance to local governments to fulfill the purposes of this Act.

(2) The terms "qualified debt" means long-term debt extended by private financial institutions to eligible areas to finance projects in distressed areas. The term "qualified debt" shall not include the portion of any long-term debt—

(A) that is the subject of an interest subsidy; or

(B) which otherwise represents credit extended or guaranteed by, or the interest cost on which is subsidized by, a Federal agency, or any State or local government, or any agency, department, or instrumentality thereof.

(3) PRICE.—The bank is authorized to purchase any qualified debt at a price which may reflect a premium to the seller in pursuance of the objectives set forth in section 1001.

(4) SERVICING OF LOANS.—The bank may arrange for the seller of any qualified debt or any other financial institution to service and have custody of such qualified debt and the related security. The bank may pay reasonable fees for such services. In lieu of such arrangements, the bank may

perform such services itself and charge reasonable fees for such services.

(5) RESERVE FOR CONTINGENCIES.—There shall be derived from amounts appropriated for use under this section, an amount equal to not more than 25 per centum of the total outstanding amount of loans guaranteed under this title that shall be used to the extent the bank determines to be necessary to honor its guarantees under this title.

(d) GRANT AUTHORITY.—(1) The bank is authorized to agree to make and to make grants to local governments in eligible areas to assist in defraying the cost, including that of debt service, of an eligible project in connection with which the bank has entered into a financial relationship provided for under subsection (b) or (c) of this section. The bank may make such grants from the funds appropriated for such purpose pursuant to section 13(b). Such grants shall be made to the eligible local government and may be expended by such government to defray any project costs. Any grants made pursuant to this section shall be on such terms and conditions as the bank may prescribe, subject to paragraph 3 of this subsection and if for the purpose of subsidizing the payment of interest on municipal securities, shall be subject to the provisions of subsection (b)(3).

(2) Upon receipt of an application for financial assistance requesting a grant under this subsection, the bank will

transmit a copy of the application to the Department of Commerce and the Department of Housing and Urban Development. Those Departments shall be given an opportunity to participate fully in consideration of the application for a grant. In deciding upon the application for a grant, the bank shall consider the views of those Departments as to whether the proposed project is consistent with other Federal or federally assisted economic and community development activities in the distressed area in which the project is to be located.

(3) RESTRICTIONS ON GRANTS.—(A) No grant shall be made by the bank unless—

(a) the amount of such grant does not exceed the lesser of (i) 15 per centum of the applicable project costs or (ii) $3,000,000; and

(b) the bank, and the local government shall have entered into contractual arrangements providing either that (i) the obligation of the bank to make such grant is subject to the prior or simultaneous incurrence of the long-term debt described in subsection (a) or subsidized pursuant to paragraph (3) or (ii) the amount of the grant is subject to refund to the bank in the event that incurrence of such debt does not take place.

(B) The Secretary of Commerce or the Secretary of Housing and Urban Development, depending upon the funds from which the grant is drawn, is also authorized to waive any requirement otherwise applicable to grants made under section 119 of the Housing and Community Development Act of 1974, as amended, or under section 903 of the Public Works and Economic Development Act of 1965, as amended, as the case may be, which the respective Secretary and the bank acting together determine in writing would be inconsistent with the specific terms and provisions of this Act.

(C) The bank shall develop criteria to assure that projects assisted by it are not inconsistent with comprehensive planning for the development of the communities in which they will be located, or disruptive of Federal programs which authorize assistance for the development of like or similar categories of projects, or inconsistent with Federal policies directed at the protection of the environment.

(D) In any case in which the bank undertakes to provide assistance to a local government under subsection (a) for a project for which a department or agency of the Federal Government (under another law of the United States) will also provide funds—

(1) the assistance provided by the bank under subsection (a) may be in the full amount needed by the local government to finance such construction (including the amount of the funds which will be provided by such department or agency), with the funds to be pro-

vided by such department or agency with respect to such construction thereupon becoming payable (notwithstanding any contrary provision in the law under which they are payable) to the bank in lieu of being paid directly to such government; and

(2) the bank may accept in return (A) an obligation or obligations of such local government covering only the difference between such full amount and the amount of the funds which are payable with respect to such construction by such department or agency, plus (B) a commitment from such department or agency to pay the funds which are to be provided by it and are payable to the bank as described in paragraph (1), in order to insure that such local government will not have to include within its debt limit that portion of the indebtedness incurred for the financing of such construction which is attributable to funds provided by the Federal Government.

(e) The bank is authorized to establish a financial aid and technical advisory staff for any metropolitan area upon a determination by the board that the amount of the bank's activity in such area is sufficiently large to support a full financial and technical advisory staff. The staff shall process applications and requests for assistance from that area and shall assist applicants in obtaining such assistance.

(f) Except as otherwise specifically provided in this Act, the bank may impose charges or fees for its services with the objective that all costs and expenses of its operations should be within its income derived from such operations.

CAPITALIZATION OF THE BANK

SEC. 11. The bank's stated capital shall be limited to $2,000,000,000 which shall be raised, insofar as it is feasible, by the sale of the bank's common stock, and the remainder shall be provided as follows:

(1) The Secretary of the Treasury is authorized to purchase obligations of the bank in the amount of $200,000,000 a year for a period of ten years. If the Secretary finds it is necessary for the successful operation of the bank to waive the payment of interest and principal or any given year such interest shall then be added to the principal of the obligation. The bank is authorized to include appropriate provisions in the instruments evidencing the obligations provided for in this paragraph. Each purchase of obligations by the Secretary under this paragraph shall be upon such terms and conditions as to yield a return at a rate not less than a rate determined by the Secretary, taking into consideration the current average yield on outstanding marketable obligations of the United States of comparable maturities. The Secretary may sell, upon such terms and conditions and at such price or prices as

he shall determine, any of the obligations acquired by him under this paragraph.

(2) The Secretary of the Treasury is additionally authorized to purchase debentures of the bank in the amount of $200,000,000 on emergency call of the bank.

(3) Each public borrower from the bank at the time of receiving loans shall be required to purchase stock until it holds an amount of stock equivalent of $0.50 per capita for each person within its jurisdiction or for each person expected to be served by the facility or facilities involved. The borrower shall purchase stock equal to one-twentieth of the amount of his loans until he reaches the $0.50 per capita maximum requirement. For the purposes of paragraphs (1) and (2) of this section, the Secretary of the Treasury is authorized to use as a public debt transaction the proceeds of the sale of any securities hereafter issued under the Second Liberty Bond Act, as now or hereafter in force, and the purposes for which securities may be issued under the Second Liberty Bond Act, as now or hereafter in force, are extended to include such purchases. All redemptions, purchases, and sales of obligations or debentures under such paragraphs shall be treated as public debt transactions of the United States.

OBLIGATIONS OF THE BANK

SEC. 12. (a) The bank is authorized to issue and have outstanding obligations (including but not limited to the obligations and debentures described in section (2) having such maturities and bearing such rates of interest as may be determined by the bank. Such obligations may be redeemable at the option of the bank before maturity in such manner as may be stipulated therein. The amount of the bank's indebtedness outstanding at any one time should be limited to fifty times the bank's paid-in stated capital.

(b) The Government National Mortgage Association (hereafter referred to as the "Association") is authorized, upon such terms and conditions as it may deem appropriate, to guarantee the timely payment of principal of and interest on such obligations (other than obligations and debentures described in section (2) as shall be issued by the bank. The Association shall collect from the bank a reasonable fee for any guaranty under this subsection and shall make such charges as it may determine to be reasonable for the analysis of any obligation proposed to be issued by the bank. In the event the bank is unable to make any payment of principal of or interest on any obligations guaranteed under this subsection, the Association shall make such payment as and when due in cash, and thereupon shall be subrogated fully to the rights satisfied by such payment. The full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection.

FEDERAL PAYMENTS TO THE BANK

SEC. 13. (a) With respect to such amounts of loans of the bank as may be specified in appropriation Acts, the Secretary of the Treasury is authorized to make, and to contract to make, annual payments to the bank in such amounts as are necessary to equal the amount by which the dollar amount of interest paid by the bank on account of its outstanding obligations exceeds the dollar amount of interest received by the bank on account of obligations purchased or loans made by it.

(b) There are authorized to be appropriated to the Secretary of the Treasury $50,000,000 for the fiscal year ending September 30, 1980; $100,000,000 for the fiscal year ending September 30, 1981; and $150,000,000 for the fiscal year ending September 30, 1982; to carry out his functions under this Act, including making the annual payments required by contracts entered into by the Secretary of the Treasury pursuant to subsection (a) of this section.

FEDERAL INSURANCE OF OBLIGATIONS TO THE BANK

SEC. 14. (a) The Secretary of Housing and Urban Development (hereinafter in this section referred to as the "Secretary"), upon application by the bank, is authorized to insure any loan made by the bank (including, for purposes of this section, any debt purchased as provided in section 10(b)), and to issue a commitment for the insurance of any such loan prior to the date of its execution or disbursement thereon upon a determination that all of the applicable criteria established by or under this Act will be met with respect to such loan.

(b) The insurance of any loan under subsection (a) and any payments pursuant thereto shall be made on such terms and conditions, and in such manner and form, as the Secretary shall by regulations prescribe, and shall provide for the payment in full to the bank of the outstanding principal balance of the loan together with any unpaid interest, upon default by the borrower, in accordance with procedures set forth in such regulations.

(c) The Secretary is authorized to charge and collect premiums for insurance under this section. Such premiums shall be fixed at the lowest possible levels which are determined by the Secretary to be reasonable and sufficient to keep the insurance program under this section in a sound and secure condition and maintain the fund established by subsection (d) at a level adequate to meet all anticipated losses.

(d)(1) There is established a revolving fund to be used by the Secretary in carrying out his function under this section. All premiums charged as provided in subsection (c), and all other receipts under the insurance program, shall be deposited in the fund. All payments with respect to insurance under this section shall be made from the fund. Moneys in the fund not needed for the payment of current operating expenses or the payment of insurance under the program may be invested in bonds or other obligations of, or bonds or other obligations guaranteed as to principal and interest by, the United States.

(2) There is authorized to be appropriated as initial capital for the revolving fund established by paragraph (1) the sum of $10,000,000.

(e) In the performance of, and with respect to, the functions, powers, and duties vested in him by this Act, the Secretary shall (in addition to any authority otherwise vested in him) have the functions, powers, and duties set forth in section 402 (except subsection (c)(2)) of the Housing Act of 1950.

AUDIT OF FINANCIAL TRANSACTIONS

SEC. 15. (a) The financial transactions of the bank shall be audited by the Comptroller General of the United States in accordance with the principles and procedures applicable to commercial corporate transactions and under such rules and regulations as the Comptroller General of the United States may prescribe.

Senator JAVITS. Mr. Goldin, would you lead off.

Mr. GOLDIN. Thank you.

Senator JAVITS. Please proceed as you will, Mr. Comptroller. I would hope you might put your prepared statement in the record and confine your presentation in chief, if you can, to 10 minutes.

STATEMENT OF HARRISON J. GOLDIN, COMPTROLLER, NEW YORK CITY

Mr. GOLDIN. Senators Javits and McGovern, thank you for this opportunity to speak about the urgent need to repair and reconstruct the rundown infrastructure of New York City and about your bill to provide Federal financial assistance to help our city and similarly distressed areas of the Nation.

We start with the fact that large areas of the United States are physically falling apart in both private and public sectors. We end with awesome capital requirements in both sectors, running into trillions of dollars just to maintain our present inadequate rate of reconstructing and replacing our existing physical plant.

It boggles the mind to think of what it would cost to stay even with the accelerating rate of decay—what price we would pay just to repair or replace what is falling apart.

What shall we say, then, about capital costs in a society in which the standard of living is supposed to rise continuously and in which the perfection and refinement of what exists is itself supposed to be a growth industry and in which the creation of new products and new facilities and new capital plant has up to now been expected as part of the American way of life?

The evidence of physical deterioration is all around us. We can see the decay in both urban and rural areas, in slums, abandoned housing, seedy factories, boarded up stores, rundown business districts, decrepit farms, and, in the public sector, potholed streets, collapsed water mains, clogged and deteriorating sewer pipes, crumbling bridges and elevated road structures like the West Side Highway in New York City that simply give up and fall down.

Just last week, a small 3-foot piece of the South Street Viaduct, an elevated extension of the East River Drive, fell victim, literally, to years of deferred maintenance and concrete rot, collapsing to the surface roadway below the viaduct.

It is a small enough area, no one was hurt, and the elevated roadway had been slated for reconstruction next year anyway. Nevertheless, the incident illustrates the admitted fact that maintenance or reconstruction of much of our city's infrastructure has been delayed far too long and that continued deferral of such needed work poses hazards to our citizenry.

Incidentally, this very section of the viaduct was singled out by an operational audit on New York City Bridges and Structures which my office issued 11 months ago.

If it is statistics we want to document the fact that the entire Nation's rebuilding activity is not keeping up with the rate of decay, we need only look at the Statistical Abstract Table entitled "Value of New Construction Put in Place."

That value for all public and private construction in 1977 was $173 billion. Sounds like a lot. But in the next table, that sum is translated into only $110 billion in terms of constant 1972 dollars. In 1972, the value of such new construction was $124 billion, $14 billion more than in 1977.

In other words, the value of all construction completed in 1972 was 13 percent more than was completed 5 years later. Going back a dozen years, we were building in 1965 above the same amount we were building in 1977.

In the public sector, which in the past 15 years has each year absorbed between two-tenths and three-tenths of the Nation's aggregate construction activity, decline can be seen in the categories of public buildings and highways and streets; military facilities and water supply construction held their own; and only sewer system construction showed a substantial increase in the period after 1973.

The decline over 12 years in highway and street construction is the most dramatic decline in any category. In terms of constant dollars, highway and street construction throughout the country totaled $11.6 billion in 1965; $1.3 billion in 1970; $10.4 billion in 1972; only $7.3 billion in 1975; and a low of $6.1 billion in 1977, the latest year for which these statistics are available.

That is a national drop of 47 percent between 1965 and 1977, a period during which every unreconstructed highway and street that was built before 1965 got 12 years older.

Your bill, Senator Javits and Senator McGovern, is an excellent first step toward halting this steep decline in highway and street construction in our Nation.

It would apply to both urban and rural areas, to metropolitan regions and small cities and, if I read your bill correctly, the city of New York qualifies as a distressed area eligible for loan assistance: the city has above average unemployment, below average employment growth, and below average population growth.

I agree with the kind of targeting you have written into your bill, restricting assistance to specifically defined distressed areas. I agree with the concept of providing direct grants to help defray debt service costs of eligible projects, as well as subsidized and unsubsidized loans.

And finally, I agree with your proposal to establish a National Bank for Community Conservation as the Federal vehicle for transmitting assistance to distressed areas.

So I support it wholeheartedly. But I must point out that it will only scratch the surface of what is ultimately needed by the communities of America. It is a good first step, but in my opinion the limit of $2 billion which your bill places on the working capital of the proposed National Bank is too small.

I realize that the bill is not supposed to take care of all local capital requirements. But I think that the number of cities and rural communities that are distressed areas under your definition is much larger than we may think.

Certainly, the backlog of work that has to be done is growing at an accelerating pace in relation to existing public construction activity. If this gap between need and action continues to grow, that is, if public capital plant throughout the country falls apart more and more rapidly than we can repair it, we most definitely will have a rising number of distressed areas.

Let me point out that existing public construction activity, which is already falling behind the true needs of our communities, totals a staggering $38 billion. If there is any way for you to increase the working capital of the national bank beyond $2 billion, it would make the bill more meaningful.

Let me cite New York City's capital problems as an example of what is needed in large, older cities of America.

We have a capital plant which, as in other cities, is generally taken for granted. Some of it is never even seen by most of the public. Just a partial listing of the public facilities in New York City includes the following:

There are 51 waterway bridges, 3 aqueducts, 2 huge water tunnels and a third under construction whose completion has been postponed, several upstate reservoirs, 6,200 miles of paved streets, 6,000 miles of sewers, almost as many miles of water mains, 6,700 subway cars, 4,500 buses, 25,000 acres of park land, 17 hospitals, 19 city university campuses, 950 schools, nearly 200 libraries, hundreds of fire houses and fire trucks, precinct houses and police cars, sanitation trucks and garages, public buildings and playgrounds.

For years, the city deferred maintenance of this magnificent public property; the fiscal crisis abruptly and effectively brought our capital program, including both new projects and reconstruction or replacement of old plant, to a virtual halt. The result of these years of neglect, combined with the fiscal crisis, is a rising number of collapses of rundown facilities, an increasing amount of downtime for the city's various fleets of vehicles, and a consequent extraordinary loss of useful manpower made idle for long periods of downtime.

We can measure that deterioration is now faster than our repair and replacement process by the rapidly rising number of judgments and claims against the city.

In connection with potholes and defective roadways alone, this year, we expect to be paying more than $500,000 in property claims. In past years, settlements of personal injury claims, which for some reason are down this year, have exceeded $3 million.

We do not have a clear idea of how much our run down infrastructure may have been a factor in business decisions to leave the city. But we know that it does enter into those decisions.

Last month, I issued a report on the city's capital requirements for the next decade. I brought a summary of that report with me for inclusion in the record. And I hope it proves useful to you.

I estimated that the city should be spending nearly $40 billion in the next 10 years, an average of $4 billion a year. Yet, New York City's 4-year financial plan calls for actual capital spending of only $5.6 billion in 4 years, or an average of only $1.4 billion a year.

The $40 billion figure is for the whole capital plant. Even if you subtract from that all needed capital spending for public buildings, public safety, education, and recreation, you are still left with $34 billion for what is strictly defined as infrastructure: $16 billion for water supply, water distribution, sewers, pollution control, and waste disposal; $13 billion for mass transportation; and $5 billion for streets, highways, bridges, traffic control, and street lighting.

This is an enormous price tag for, mind you, not totally new infrastructure, but just to reconstruct or replace old infrastructure.

I might say finally in passing that during the past year my office has been laying the groundwork for making the first physical inventory of the city's fixed assets. It is a massive undertaking, never before done, and it will include the age, condition, and replacement cost of each item in the city's capital plant; an inventory of "deferred maintenance," that is, a quantification in dollars of needs that have resulted from years of neglect; and eventually an index of optimal replacement cycles for various elements of our capital plant.

In 2 or 3 years, then, the city will have a valuable tool that will give it the capability of setting up a coherent system of rational priorities that will make our capital program more efficient and effective in responding to the city's true capital needs.

We need that accurate priority system, primarily because it is unlikely that the city will be able to raise the entire $40 billion it needs.

Summing up, your bill to create a national bank for community conservation is a good one, for the Nation and our city.

I support it warmly as a first step toward answering a critical need.

I ask you to consider raising the working capital of the bank so that its mission on behalf of distressed communities can be more effectively accomplished.

Thank you very much.

Senator JAVITS. Thank you, Comptroller Goldin.

You said you brought a summary of your report with you and without objection, it will be included in the record following your prepared statement.

[The prepared statement of Mr. Goldin, together with a summary of a report entitled "Rebuilding During the 1980's: New City Capital Requirements for the Next Decade," follows:]

PREPARED STATEMENT OF HARRISON J. GOLDIN

Senator Javits, Senator McGovern, thank you for this opportunity to speak about the urgent need to repair and reconstruct the rundown infrastructure of New York City and about your bill to provide Federal financial assistance to help our city and similarly distressed areas of the nation.

We start with the fact that large areas of the United States are physically falling apart in both the private and public sectors. We end with awesome capital requirements in both sectors running into trillions of dollars just to maintain our present inadequate rate of reconstructing and replacing our existing physical plant.

It boggles the mind to think of what it would cost to stay even with the accelerating rate of decay, what price we must pay just to repair or replace what is falling apart.

What shall we say, then, about capital costs in a society in which the standard of living is supposed to rise continuously, in which the perfection and refinement of what exists is itself supposed to be a growth industry and in which the creation of new products and new facilities and new capital plant has up to now been expected as a part of the American way of life?

The evidence of physical deterioration is all around us. We can see the decay in both urban and rural areas, in slums, abandoned housing, seedy factories, boarded up stores, rundown business districts, decrepit farms, and, in the public sector, potholed streets, collapsed water mains, clogged and deteriorating sewer pipes, crumbling bridges and elevated road structures like the West Side Highway in New York City that simply give up and fall down.

Just last week, a small 3-foot piece of the South Street Viaduct, an elevated extension of the East River Drive, fell victim—literally—to years of deferred maintenance and concrete rot, collapsing to the surface roadway below the viaduct. It's a small enough area, no one was hurt and the elevated roadway had been slated for reconstruction next year anyway, Nevertheless, the incident illustrates the admitted fact that maintenance or reconstruction of much of our city's infrastructure has been delayed far too long and that continued deferral of such needed work poses hazards to our citizenry.

Incidentally, this very section of the viaduct was singled out by an operational audit on New York City bridges and structures which my office issued 11 months ago.

If it is statistics we want to document the fact that the entire Nation's rebuilding activity is not keeping up with the rate of decay, we need only look at the Statistical Abstract Table called "Value of New Construction Put in Place."

That value for all public and private construction in 1977 was $173 billion. Sounds like a lot. But in the next table, that sum is translated into only $110 billion in terms of constant 1972 dollars. In 1972, the value of such new construction was $124 billion, $14 billion more than in 1977.

In other words, the value of all construction completed in 1972 was 13 percent more than was completed 5 years later. Going back a dozen years, we were building in 1965 about the same amount we were building in 1977.

Comparing the value of new construction put in place for different year in terms of constant 1972 dollars, the peak year was 1973 and the second best year was in 1972. The general decline since then can be seen in almost all construction categories.

In the private sector, less construction was being completed in 1977 in the following categories; housing, factories, office towers, other commercial buildings, religious structures, private educational facilities and construction for telephone, gas and electric companies.

In the public sector, which in the past 15 years has each year absorbed between two-tenths and three-tenths of the Nation's aggregate construction activity, decline can be seen in the categories of public buildings and highways and streets; military facilities and water supply construction held their own; and only sewer system construction showed a substantial increase in the period after 1973.

The decline over 12 years in highway and street construction is the most dramatic decline in any category. In terms of constant dollars, highway and street construction throughout the country totaled six hundred million dollars in 1965; eleven billion three in 1970, ten billion four in 1972; only seven billion three in 1975; and a low of six billion one hundred million dollars in 1977, the latest year for which these statistics are available. That is a national drop of 47 percent between 1965 and 1977, a period during which every unreconstructed highway and street that was built before 1965 got 12 years older.

Your bill, Senator Javits and Senator McGovern, is an excellent first step toward halting this steep decline in highway and street construction in our Nation. Since your bill would provide both subsidized and unsubsidized loans to local governments for conserving all parts of a distressed community's infrastructure, it could be used to help reconstruct many parts of a municipality's capital plant.

It would apply to both urban and rural areas, to metropolitan regions and small cities and, if I read your bill correctly, the city of New York qualifies as a distressed area eligible for loan assistance; the city has above average unemployment, below average employment growth and below average population growth.

I agree with the kind of targeting you have written into your bill, restricting assistance to specifically defined distressed areas. I agree with the concept of providing direct grants to help defray debt service costs of eligible projects, as well as subsidized and unsubsidized loans.

And finally, I agree with your proposal to establish a National Bank for Community Conservation as the Federal vehicle for transmitting assistance to distressed areas.

As both of you noted so well in your Congressional Record remarks, a separate entity with the targeted purpose of coping with the Nation's crumbling public infrastructure would be a more effective instrument for achieving the goals of your bill than a multipurpose cabinet department.

So I support it wholeheartedly. But I must point out that it will only scratch the surface of what is ultimately needed by the communities of America. It is a good first step, but in my opinion the limit of $2 billion which your bill places on the working capital of the proposed National Bank is too small.

I realize that the bill is not supposed to take care of all local capital requirements. But I think that the number of cities and rural communities that are distressed areas under your definition is much larger than we may think. Certainly, the backlog of work that has to be done is growing at an accelerating pace in relation to existing public construction activity. If this gap between need and action continues to grow, that is, if public capital plant throughout the country falls apart more and more rapidly than we can repair it, we most definitely will have a rising number of distressed areas.

Let me point out that existing public construction activity, which is already falling behind the true needs of our communities totals a staggering $38 billion. If there is any way for you to increase the working capital of the National Bank beyond $2 billion, it would make the bill more meaningful.

Let me cite New York City's capital problems as an example of what is needed in large older cities of America.

We have a capital plant which, as in other cities, is generally taken for granted. Some of it is never even seen by most of the public. Just a partial listing of the public facilities in New York City includes the following:

There are 51 waterway bridges, 3 aqueducts, 2 huge water tunnels and a third under construction whose completion has been postponed, several upstate reservoirs, 6,200 miles of paved streets, 6,000 miles of sewers, almost as many miles of water mains, 6,700 subway cars, 4,500 buses, 25,000 acres of parkland, 17 hospitals, 19 city university campuses, 950 schools, nearly 200 libraries, hundreds of firehouses and firetrucks, precinct houses and police cars, sanitation trucks and garages, public buildings and playgrounds.

For years the city deferred maintenance of this magnificent public property; the fiscal crisis abruptly and effectively brought our capital program, including both new projects and reconstruction or replacement of old plant, to a virtual halt. The result of these years of neglect, combined with the fiscal crisis, is a rising number of collapses of rundown facilities, an increasing amount of "down time" for the city's various fleets of vehicles, and a consequent extraordinary loss of useful manpower made idle for long periods by "down time."

We can measure that deterioration is now faster than our repair and replacement process by the rapidly rising number of judgments and claims against the city. In connection just with pot holes and defective roadways alone, this year we expect to be paying more than $500,000 in property claims. In past years, settlements of personal injury claims—which, for some reason, are down this year—have exceeded $3 million.

We do not have a clear idea of how much our rundown infrastructure may have been a factor in business decisions to leave the city. But we know that it does enter into those decisions.

Last month I issued a report on the city's capital requirements for the next decade. I brought that report with me for inclusion in the record and I hope it proves useful to you. I estimated that the city should be spending nearly $40 billion in the next 10 years, an average of $4 billion a year. Yet, the city's 4-year financial plan calls for actual capital spending of only $5.6 billion in 4 years, or an average of only $1.4 billion a year.

The $40 billion figure is for the whole capital plant. Even if you subtract from that all needed capital spending for public buildings, public safety, education and recreation, you are still left with $34 billion for what is strictly defined as infrastructure: $16 billion for water supply, water distribution, sewers, pollution control and waste disposal; $13 billion for mass transportation; and $5 billion for streets, highways, bridges, traffic control and street lighting.

This is an enormous price tag for, mind you, not totally new infrastructure, but just to reconstruct or replace old infrastructure.

I might say finally in passing that during the past year my office has been laying the groundwork for making the first physical inventory of the city's fixed assets. It is a massive undertaking, never before done, and it will include the age, condition and replacement cost of each item in the city's capital plant; an inventory of "deferred maintenance," that is, a quantification in dollars of needs that have resulted from years of neglect; and eventually an index of optimal replacement cycles for various elements of our capital plant.

In 2 or 3 years, then, the city will have a valuable tool that will give it the capability of setting up a coherent system of rational priorities that will make our capital program more efficient and effective in responding to the city's true capital needs.

We need that accurate priority system, primarily because it is unlikely that the city will be able to raise the entire $40 billion it needs.

Summing up, your bill to create a National Bank for Community Conservation is a good one, for the Nation and our city.

I support it warmly as a first step toward answering a critical need.

I ask you to consider raising the working capital of the bank so that its mission on behalf of distressed communities can be more effectively accomplished.

Thank you.

SUMMARY OF A REPORT ENTITLED "REBUILDING DURING THE 1980'S: NEW YORK CITY CAPITAL REQUIREMENTS FOR THE NEXT DECADE," PREPARED BY THE OFFICE OF THE COMPTROLLER, NEW YORK CITY, N.Y., MAY 7, 1979

We estimate New York City's capital expenditure requirements for rehabilitation and upgrading of its physical plant at upwards of $40 billion during the decade of the 1980's. Even were the Federal and State governments to finance half these needs, it seems highly unlikely—given its fiscal condition, financing and legal limitations—that the city will be able to finance the balance.[1] Hence, the city must develop a rational system of priorities among competing needs. Along with other urban areas, the city will have to convince the Federal Government of its responsibility for an urban conservation program.

Perhaps the most fundamental problem in the city's capital budgeting process is the lack of data that is necessary for the development of a coherent long-range program. The city has no inventory of its capital plant, nor of the age, condition and replacement cost of this plant; neither is there an inventory of "deferred maintenance", i.e., a quantification in dollars of the needs which result from many years of neglected capital maintenance and restoration. Furthermore, the city has no index of optimal replacement cycles for the various elements of its capital plant.

Absent such a frame of reference, the risk is great that the city will dissipate its limited capital financing capability on low priority expenditures. There is also a serious risk that the city will undertake certain related projects out of sequence, e.g., improvement of roads before deteriorated underlying water mains are replaced.

Accordingly, the essential first step in responsible capital budgeting is an inventory of city structures and equipment. The age, condition, replacement cycles and replacement costs of these capital resources must be cataloged. This exercise is a prerequisite to a long-range, comprehensive and coherent plan, in priority order.

The city has begun this process; as a byproduct of its accounting reforms an inventory of fixed assets is being prepared. However, this inventory will be only partially completed by the time the 1981 budget is prepared.

As in other older cities, New York's physical plant is deteriorating. Although this deterioration accelerated over the past 4 years, it antedated the city's fiscal crisis. Even during the previous two decades, when capital funds were relatively plentiful, major elements of capital maintenance and rehabilitation were neglected. As a result, in connection with important aspects of the city's physical infrastructure, continued operation requires massive funding.

The poor condition of the infrastructure is readily observable. Much of the city's vehicle fleet is continually out of service, creating serious service delivery problems in such areas as sanitation and mass transit. Potholes abound, bridges and other roadways are badly deteriorated and subway stations lack critical amenities.

As to other elements of the city's capital plant, while deterioration may not be as evident, it may be more serious. For example, 8.8 percent of the City's sewer system is more than 100 years old (over 50 percent of Manhattan's sewers are 100 years old or older), 71 percent of city water mains are more than 60 years old and important elements of the water distribution system, such as dams and aqueducts, need major repair. Similarly, subway tunnels and structures require major rehabilitation among other improvements, water pollution control plants require upgrading of exhaust systems for health and safety of workers.

This report is mandated by section 220 of the city charter; the Comptroller is to submit comments and recommendations to the Board of Estimate and City Council respecting the proposed Executive Capital Budget. In it we survey the city's capital needs and conclude that a detailed analysis of each element of the capital structure is overdue and essential to rational planning.

A capital expenditure must relate to a project or involve equipment with a useful life of at least 5 years and a unit cost of at least $15,000 (e.g., automobiles and light trucks are excluded). Whether or not rehabilitation expenditures for existing physical structure are chargeable to the Capital Budget depends upon the extent of the refurbishment and its effect on the useful life of the structure.

In estimating the city's capital expenditure needs over the next decade, we grouped capital projects into 53 major categories and assumed a conservative

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[1] The magnitude of the financing problem is evidenced by the fact that the city's current 4-year financing program will produce only $2.3 billion of city-funded capital improvements. Projected combined State and Federal funds for capital projects during that period are approximately equivalent to the city funds.

annual inflation rate of 8 percent. Many of our estimates are approximations in many cases after consultation with agency officials, given the paucity of available data.[2]

These are our summary observations in ten selected major capital activities:

STREETS AND HIGHWAYS

Approximately $3.6 billion should be spent on street reconstruction and repaving over the next 10 years. Largely due to insufficient maintenance, more than one-third of the city's 6,000-miles of streets is in disrepair and requires immediate work. The city should reconstruct at least 162 miles of streets each year over the next decade and resurface at least 222 miles during each of those years, too. Reconstruction should be coordinated with sewer line and water main replacement; this will minimize inconvenience and expense and assure that a 40-year average street reconstruction cycle can be maintained.

SEWERS

Over the next 10 years the city should spend about $870 million to replace 312 miles of aged and badly deteriorated sewers. If the incidence of collapse increases in sewers that are at least 100 years old, replacement requirements may rise to 822 miles, and a cost of some $2.0 billion. More than 530 miles of sewers, including more than half the sewers in Manhattan, are more than 100 years old; 104 miles of Manhattan brick sewers date from the period of the Civil War. Sewer reconstruction and possibly roadway needs are greater than our estimate; however, a greater volume of work during the ten year period would severely paralyze Citv life.

TRANSIT POWER SUBSTATIONS

The city should spend approximately $442 million over the next decade to refurbish or replace 114 subway substations. (Power substations convert alternating current (AC) to direct current (DC); Con Edison cannot generate a sufficient quantity of D.C. power to meet subway requirements.) 92 rotary converters and mercury arc systems should be replaced; they require extensive maintenance and are more expensive to operate, using more power than modern solid-state rectifier systems. We estimate that such modernization would save $13 million a year in power costs alone.

ASBESTOS REMOVAL FROM SCHOOLS

The Board of Education estimates at $24.8 million the cost of removing asbestos from the interior of 145 school buildings. It is anticipated that $4.2 million will have been spent by July 1, 1979; hence, an additional $20.6 million will need to be spent during the next 10 years. (A recently completed survey of 1,412 school buildings by the Board established that although no deleterious health effects can be attributed to the concentration of crysotile asbestos, it would be prudent to eliminate all unnecessary asbestos exposure in about 200 schools.)

BUSES

More than $1 billion is required for the purchase of 5,275 buses for the Transit Authority (TA) over the next 10 years. Our engineers recommend that the TA adopt a 9-year bus replacement cycle to avoid the major bus overhauls usually required during the tenth year of operation, when a bus has typically been run for some 270,000 miles. More than 42 percent of the TA's bus fleet is at least 12 years old; 10 percent is at least 14 years old. (While the Federal Urban Mass Transit Administration (UMTA) provides funds for replacement based on a 12-year replacement cycle, New York City's streets are particularly hard on buses. Accordingly, the city should petition UMTA to modify this cycle.

WATER SUPPLY DISTRIBUTION SYSTEM

Approximately $2.45 billion should be spent over the next decade to replace the 39 percent of the city water mains and 8 percent of the values that are at least 60 years old and have exceeded their design life. The 2,204 miles of trunk and distribution mains in this age category are constructed of "Scotch Pipe," i.e., horizontally cast iron pipe with lead joints. Leaks and failures usually occur at these joints because there is no allowance for movement. Since 1929, the city has been

[2] While one might use alternate estimating techniques under these circumstances, we think our estimate of the overall magnitude of the position is realistic.

using reinforced concrete pipe and coal tar enamel lined steel pipe, both with 100-year expected life spans. However, much Scotch Pipe remains.

BRIDGES

Approximately $826 million should be spent over the next decade to rehabilitate 420 of the city's bridges; after exhausting available Federal and State aid, the city will still need to spend about $388 million. Inspection of the city's bridges by our engineers revealed that many are in very poor condition, with extensive corrosion, inoperative expansion joints, frozen bearings and holes in roadways and supporting steel members, among other problems. For instance, suspender bars which hold up the roadway have been snapping with alarming regularity on the Brooklyn Bridge. There are serious foundation deterioration problems on the Pelham and Greenpoint bridges; the piers supporting the 145th Street and Hutchinson River bridges have cracked.

SUBWAY CARS

Approximately 205 subway cars should be replaced in each of the next 10 years, at a total cost of $2.6 billion. In addition to the 1,060 cars that need to be replaced because they have exceeded their 35-year cycle, consideration should be given to replacing 601 newer cars (R–44 and R–21 models) which experience frequent breakdowns. An additional 385 cars will be required if four new subway lines are completed (the 63d Street tunnel to Queens, and the Archer Avenue line, Northern Boulevard to Woodsite line and Woodside to 71st Avenue line, all in Queens).

FIRE VEHICLES

To maintain its firefighting fleet, the City will need to spend more than $150 million on vehicle replacement over the next decade. The Department maintains that the appropriate replacement cycle for its vehicles is 7 years, rather than the current 10-year cycle. Among the factors which it says cause this situation are the incidence of fires and false alarms, poor condition of streets, salt and other chemicals used on streets, poor preventive maintenance and neglect of the increasingly sophisticated electrical and hydraulic systems on the new vehicles.

SANITATION EQUIPMENT

Department of Sanitation trucks experience a high percentage of "down time" due to mechanical problems. In addition to improving its maintenance procedures, the Department should spend more than $400 million over the next 10 years to purchase 2,850 collection trucks and 2,160 other pieces of equipment. Based on prevailing replacement cycles, some of this equipment will be replaced more than once during the next decade.

In addition to maintaining its existing capital inventory, the city must also provide for emerging needs resulting from new residential and other development (e.g., sewers on Staten Island), as well as other essential services (e.g., the third water tunnel) and the requirements of coterminality of city service districts.

Further, account must be taken of necessary capital expenditures based on new technology. For example, resource recovery plants are required to alleviate the problem of garbage and sewage disposal by reducing bulk and recycling metals and other materials.

Capital expenditures are also required to improve and expand the city's economic base, to provide incentives for commercial and industrial firms to remain in the city and to attract others to the city. These projects include wholesale markets and industrial parks.

Capital expenditures that reduce operating expenses and are energy-efficient, while providing at least comparable service, must also be encouraged and included in the city's capital plans. For example: hovercraft or hydrofoil equipment to replace much larger conventional ferry boats on low-volume night runs; computerization of clerical functions creating labor cost savings; and energy conservation capital projects to reduce energy costs. (Our recent audit of the maintenance and repair of park facilities, for example, showed that a lack of equipment, some of which was capital resulted in the waste of approximately $7 million a year in manpower.)

The essential direction of the city's capital expenditure program in the 1980's must be catch-up i.e., to raise the city's existing infrastructure and physical plant to an acceptable standard. This required upgrading is so expensive that it is not likely to be achieved. Therefore, priorities must be established to assure that the most critical needs are satisfied first.

In some cases, economies can be realized through close coordination among several projects. For example, sewer lines, water mains and street bed projects should proceed simultaneously. Although it is claimed that the Department of Highways now attempts to coordinate street reconstruction and water main replacement, we found at least four instances in the past 3 years, in Lower Manhattan alone, in which there was apparently no such coordination. There were four water main breaks in streets that had been reconstructed during the previous three years, 1973–1975. These four mains had been constructed prior to 1870; they were more than 100 years old and should have been replaced as part of the basic street work. The locations are:

1973–75 street bid reconstruction contract No.	Location of street reconstruction and water main breaks (1976–78)	Year of water main construction
M 70–2AR	Chambers St. and West Broadway	Prior to 1870.
THHM 2074	6th Ave. and Van Dam St	Do.
M 70–2AR	West Broadway, south of Chambers St	Do.
M 67–18	LaGuardia Pl. and Bleeker St	Do.

Elsewhere, too, greater coordination is necessary in capital replacement. For example, of the 6,100 miles of sewers in the city's system, 300 miles are constructed of cement pipe. These pipes are 93 to 117 years old and in an advanced state of deterioration. When sewer pipes collapse, sewer replacement is often made on a manhole to manhole basis. However, such construction should proceed on a street intersection to street intersection basis, because initial collapes are invariably followed by secondary sewer collapses. These repeat collapses creat additional replacement costs and cause traffic disruptions.

A rational capital expenditure policy during the 1980's must take into account numerous factors; e.g., which projects are most likely to produce Federal and State funds and, thereby, leverage city financing; which projects will generate further construction within the city; the ability of the city to manage this large program; which will attract industry and stimulate the economy; which are necessary simply to make the city a better place in which to live. An inventory of capital needs must be followed by a responsible statement of priorities that will give consideration to these factors.

Senator JAVITS. I just have one question, Mr. Goldin. Given our $2 billion capital, we are trying to adjust our sights to get a thing like this started, even though I agree with you, the amount is inadequate.

Would you have any trouble identifying such projects as would represent a fair share for New York City?

Let us say you would have a potential of 10 percent of the total operation available to you. I would imagine we are probably talking about something in the order of magnitude of $300 million in the way of capital that could be made available. Would you have any problem choosing the necessary priorities on the basis of urgency for that purpose?

Mr. GOLDIN. Senator, I was candid in acknowledging for you that New York City is only now belatedly, but not too late, developing a system that will enable us to identify for the first time our greatest priority needs.

As I pointed out, the city has never before done an inventory of its physical plant. Without an inventory, and that is necessary for a rational planning process, we are unable to catalogue what it is that needs to be done first.

And consequently, priorities can't be developed without that system going forward. We are now moving forward rapidly, however, to remedy that deficiency. And I have every confidence that by the time the bill is enacted and becomes law, we will be in a position to take advantage of the funding on a very careful and responsible basis.

Senator JAVITS. Thank you.

Senator McGovern.

Senator MCGOVERN. Comptroller Goldin, I want first of all to commend you on this report. I can't claim I have read all 338 pages, but I did read enough of it last night to be enormously impressed with the value of it.

And I also want to commend you on the proposed inventory that you now have underway. As a first step, this needs to be done. The absence of overall data on the condition of the capital plan in this city must be remedied. You have identified enough things already, I think, to convince any reader of the importance of an inventory.

The fact that half of all the sewers in Manhattan are over 100 years old is very impressive to me. I saw some sewers being dug up in my home town 2 weeks ago that are about 90 years old. It might come as a surprise to you to know that we have facilities even in that part of the country that old, but it is true. Even out in the so-called frontier, the cities do go back 100 years and more, some of them.

The problem of declining facilities is an old one.

You estimate that it would cost $40 billion just to repair and reconstruct the existing capital structure in this city. Do you have any idea what we are talking about in terms of a national problem here, what it might cost, say, for the 9 or 10 largest cities in the country? Are they all in as bad shape as New York? Have you ever let your mind play on what it would cost to rebuild the infrastructure nationwide?

Mr. GOLDIN. Senator, it more than occupies my mind to focus on New York City's problems. So I am afraid I can't enlighten you very much nationally. I suspect nobody has ever done the kind of detailed analysis which gave rise to the figure that you read in that study.

On the other hand, we developed a methodology which could be applied in other cities and I hope will. We don't know what the figures are elsewhere.

I think it would be a very useful exercise for somebody to seek to find out.

Senator MCGOVERN. One of the reasons I hope SALT II will work, and set the stage for SALT III and SALT IV and eventually turn down the arms race, is that I think we have other national defense problems that aren't being addressed.

I think if the bridges fall down in New York, that is a national defense problem. If you can't drive on the streets without breaking the axles on your car, that is a national defense problem. And I am sure you see it that way.

A lot of people will say, "Why don't they just go to the bond market as we ordinarily do? Why do we need a Federal bank to get in on the act?" Do you have an answer for that?

Mr. GOLDIN. Yes. New York City is a very good illustration of that problem, Senator. The amount of credit that is available, the amount of credit that it would be prudent for a locality to be seeking in the public credit markets, the debt service costs that would be required if it were available, the kind of guarantee that would reduce that service, all of these factors and others, I think, would make prohibitive and beyond the realm of likelihood the sort of reconstruction program that your bill envisions.

So to pretend that localities, older localities, across the Nation would be able to finance in the public credit markets without Federal support the sort of reconstruction that is necessary seems to me an illusion.

Senator McGovern. Thank you very much, Mr. Goldin.

Senator Javits. Again, thank you very much, Comptroller Goldin, for your very helpful testimony. We are so grateful to you for being with us this morning.

Mr. Goldin. Thank you, sir.

Senator Javits. The next witness is Deputy Mayor Phillip Trimble.

Mr. Trimble, your prepared statement will be made part of the record. And we hope you will confine the oral statement to 10 minutes.

STATEMENT OF PHILLIP R. TRIMBLE, DEPUTY MAYOR, NEW YORK CITY

Mr. Trimble. Thank you, Senators Javits and McGovern, it is a great pleasure to be here this morning.

My name is Phillip Trimble. I am Deputy Mayor for New York City's Intergovernmental Relations. Comptroller Goldin has very well summarized the situation in New York and why we are so interested in infrastructure.

We have an enormous number of bridges, sewers, streets, and so forth. And I won't recount the list. It is a very important item to this city.

I would just this morning like to emphasize that the continued functioning of this system is really the most fundamental prerequisite to the health, safety, economy and, indeed, the way of life, of not only the people in our city, but similarly in cities in other communities around the Nation.

Business, industry, and commerce are equally dependent on the efficient and reliable provision of infrastructure services. It is common these days to talk about proposition 13 and government retrenchment. In New York City, our fiscal problems are particularly acute as we cut back spending to produce a genuinely balanced budget.

The days of the sixties were expanding programs and expanding budgets are gone. And it is clear that there will be little room in our budgets over the next decade for new and large construction projects.

It is also clear that we must better maintain what we have if we are to arrest the potential economic and social erosion which has come to haunt all of our older cities.

If traditional services provided by local government, and those certainly include roads and water and sanitation, continually deteriorate, businesses and people will leave, and the deterioration will continue.

The basic policy of the city has been chartered in a document prepared by New York City's Department of City Planning, which Chairman Wagner will speak about. Our own capital needs and priorities and the main emphasis in that charter is on preserving the infrastructure that we have.

The current maintenance of the infrastructure is also the more cost-effective means rather than allowing existing facilities to deteriorate to the extent that they have to be completely replaced. The disrepair of the infrastructure leads to costly emergency repair situations and undermines the efficient delivery of other municipal services.

In recent years, the combination of inadequate replacement and poor maintenance has removed 35 percent of the city sanitation trucks, and that list can go on. Substantial parts of all our vehicles, substantial parts of all of our motorized equipment, are simply out of service because we have not properly maintained them.

Comptroller Goldin referred to the lawsuits that have been engendered by inadequate street and sidewalk repair. And corporation counsel advised me that has cost $61 million in the last 7 years. The figure this year, I believe, is $70 million. And with inflation and so forth, it is likely to escalate.

Senator JAVITS. $61 million is per year?

Mr. TRIMBLE. Over the last 7 years.

Senator JAVITS. Then, where do you get the $70 million for this year?

Mr. TRIMBLE. That is the current estimate for the exposure for the current fiscal year.

Senator JAVITS. One year?

Mr. TRIMBLE. I'm sorry, $7 million.

As never before, Federal policy has distorted local capital spending. Most Federal programs provide funds for the construction of new facilities rather than the maintenance of existing ones. The result has been to entice local governments into investing in new capital facilities under available Federal programs.

These programs, in turn, require local matching funds and also necessitate increased operational costs, thus taking away funds that could be used to repair existing facilities and further increasing the financial difficulties which many urban areas are experiencing.

In addition, Federal priorities may mandate local capital spending with attendant operating expense budget consequences. The Water Pollution Control Act is a good example of this. Municipalities are required to construct water pollution control plants in order to reduce levels of pollution.

In New York City, this mandated construction will eventually cost the city nearly $400 million and the State the same amount. Under the act, specific operation and maintenance guidelines must be met if the local area is to be eligib'e for future capital funds for water pollution. And these, they have to construct in order to meet the required levels of water quality.

Federal assistance is available for the construction of these facilities, but not for their operation and maintenance. In New York City, in order to meet the operation and maintenance requirements, the city now spends approximately $40 million a year. The completion of plants mandated by Federal law require operation and maintenance costs that we estimate will exceed $60 million a year, leaving a gap now of $20 million.

And we understand that many other cities face the same problem.

Recently, there have been indications of limited changes in Federal policy toward the infrastructure. Federal assistance is now available for surveying, inspecting, and rehabilitating local bridges. The problem is that years of neglect of the existing system, brought about by local financial limitations and local policies which stressed new construction, have created conditions of vastly deteriorated infrastructures throughout the Nation.

The problem, as Senator McGovern noted at the outset, is a nationwide one. The extent of the problem is massive. The New York City-New Jersey Port Authority recently estimated $40 billion will be needed in the next 10 years to adequately rebuild or replace the two-State area's systems.

We are not keeping pace with the deterioration. The statistics on repaving our streets and sewers and replacement cycles are very well known to you, and I won't go into them.

But in conclusion, I would just stress that with the assistance of the Congress, this city and other cities and communities around the country will be able to better utilize the capital market.

I think the real argument of a proposal such as you are making is an argument that is similar to revenue sharing. It is the Federal Government which really has the most efficient and fairest method of raising revenue. And it is the Federal Government that has the obviously strongest credit reservoir in the country. And by in effect plowing that money back in the case of revenue sharing with lending it back to the cities in cases such as the bill that you are proposing, the Federal Government is performing a very needed means of keeping local governments fiscally viable and permitting them to perform the services that they have to provide which the Federal Government cannot provide.

That concludes my testimony. I would be glad to respond to any questions.

Senator JAVITS. Thank you, Mr. Trimble.

[The prepared statement of Mr. Trimble follows:]

PREPARED STATEMENT OF PHILLIP R. TRIMBLE

I am Phillip R. Trimble, Deputy Mayor of the city of New York. I am pleased to speak before this subcommittee of the Joint Economic Committee today. If anyone is qualified to speak on the subject of the infrastructure, we are. New York City has more miles of streets, water mains, and subways, and more bridges and water pollution control plants than many countries. The extent and variety of our infrastructure is over whelming. New York City has:

Over a thousand bridges;

A water supply system which produces a billion and a half gallons of water a day from a reservoir system of approximately 2,000 square miles, through 3 aqueducts;

2 tunnels, and over 6,000 miles of trunk and distribution mains;

6,000 miles of sewers, 12 operating water pollution control plants, and 80 sewage pumping stations;

6,200 miles of paved streets;

6,700 subway cars which ride on 232 miles of tracks; and

4,550 buses.

This is just a partial listing of the immense life support system that is required to provide the basic services for just one city. Similar, though smaller, systems exist to meet the basic needs of every city and county in the Nation. The continued functioning of the system is a fundamental, but easily forgotten, prerequisite to the health, safety, economy—and indeed the way of life—of millions of people. Business, industry and commerce are equally dependent upon the efficient and reliable provision of infrastructure services.

It has become common these days to speak of Proposition 13 and government retrenchment. In New York City our fiscal problems are particularly acute as we cut back spending to produce a genuinely balanced budget. The days of the 1960's, with their expanding government budgets and round after round of government programs, are gone. It is clear that there will be little room in our budgets over the next decade for large new construction projects. It is also clear that we must better maintain what we have if we are to arrest the potential economic and social erosion which has come to haunt all of our older cities. If the traditional services provided by local government—police, fire, sanitation, roads, and water—continually deteriorate, businesses and people will leave.

Current maintenance of the infrastructure is also more cost effective than allowing existing facilities to deteriorate to the extent that they have to be completely replaced. The disrepair of the infrastructure leads to costly emergency repair situations and undermines the efficient delivery of all municipal services. In recent years the combination of inadequate replacement and poor maintenance has removed 35 percent of all of New York City's sanitation trucks and 265 of the city's 440 mechanical brooms from service. Inadequate street and sidewalk repair has led to over 35,000 suits against the city related to potholes and defective sidewalks. These suits resulted in the city paying out $61 million in damages during the last seven years.

As never before Federal policy directs local capital spending. Most Federal programs provide funds for the construction of new facilities rather than for the maintenance of existing ones. The result has been to entice local governments into investing in new capital facilities under available Federal programs. These Federal programs require local matching funds and necessitate increased operational costs, thus taking away funds that could be used to repair existing facilities and further increasing the financial difficulties which most urban areas are experiencing.

In addition, Federal priorities may mandate local capital spending, with attendant operating expense budget consequences, without commensurate provisions for payment. The Water Pollution Control Act is a good example of this. Municipalities are required to construct water pollution control plants in order to reduce levels of water pollution. In New York City this mandated construction will eventually cost the city nearly $400 million, and the State the same amount. Under the Act specific operation and maintenance guidelines must be met if the local areas are to be eligible for future capital funds for water pollution control plants which they must construct in order to reach required levels of water quality. Federal assistance is available for the construction of these facilities but not for their operation and maintenance. In New York City, in order to meet Federal operation and maintenance requirements the city spends approximately $40 million a year. The completion of plants mandated by Federal law require operation and maintenance costs that will exceed $60 million a year, thus leaving a gap of $20 million. Many other cities face this same problem.

Recently there have been indications of limited changes in Federal policy toward the infrastructure. Federal assistance is now available for surveying, inspecting, and rehabilitating local bridges. The problem is that years of neglect of the existing system, brought about by local financial limitations and Federal and local policies which stressed new construction over maintenance and rehabilitation, have created conditions of vastly deteriorated infrastructures throughout the Nation.

The problem we are addressing today is a nation-wide one. Potholes in New York City, closed bridges in Pittsburgh, and watermain breaks in rural water districts, are all examples of the need by all areas of the Nation for assistance for the existing infrastructure. The extent of the problem is massive. The Port Authority of New York and New Jersey recently estimated that $40 billion will be needed in the next 10 years to rebuild or replace the two-State area's water, sewer, road, mass-transit, and power systems.

We simply are not keeping pace with the deterioration. For example, the desirable rate for repaving streets is once every 20 to 25 years. New York City has been repaving streets at the rate of once every 200 years.

Engineers believe that a water main should be replaced every 100 years. In 1974—before the fiscal crisis—the city replaced 22 miles of water mains a year. At this pace it would have taken 277 years to replace the entire system. Today the replacement rate is every 296 years.

Engineers also indicate that sewers should be replaced every 100 years, but the replacement rate in New York City has been every 300 years.

We recognize that the conservation of the infrastructure is primarily a local responsibility, and therefore, the city of New York is pursuing this fundamental direction in its capital program. I believe that this is a direction that all local governments should follow.

With the assistance of Congress, New York City is again able to borrow funds for its capital budget. We are reforming that budget and undertaking fundamental changes in our capital spending policies. We are completing the removal of expense budget items from our capital budget. We are also putting priority on maintenance and on rehabilitation of the existing infrastructure over new construction.

For example, in the City's fiscal year 1980 budget, appropriations for the infrastructure have more than doubled over last year's level and are planned to increase steadily throughout the next 4 years, increasing the appropriations for road and bridge reconstruction from $130 million in fiscal year 1980 to over $500 million in fiscal year 1983, and earmarking $100 million to meet the immediate structural needs of waterway bridges.

These are tough reforms and policies to undertake. You can't cut a ribbon on a replaced water main or a better maintained transit system. On the other hand, no one wants to be Mayor when a structural failure cuts off water for thousands of residents or closes a major roadway.

Despite local efforts an enormous gap will still exist between the need and the resources available. In New York City, for example, we expect $110 million to be available during this fiscal year for highway reconstruction. We project that $500 million is needed. In mass transit $312.5 million is anticipated, while our city planning department estimates $652 million is needed. In relative terms such gaps are being faced throughout the Nation.

The Federal Government should help local governments to make a better effort—and that is what this bill to establish a National Bank for Community Conservation would do.

The Bank is not a handout to local governments, and it is not a handout to New York City. The Bank is simply a mechanism to improve the borrowing ability of local government to preserve and rehabilitate its existing infrastructure. The responsibility and initiative for this work remains with local government. Through direct loans and repurchase of local public debt in the private market, the National Bank improves the ability of local government to finance this work. New York City knows first hand the crucial importance of the ability to borrow, and how the Federal Government can improve that ability without direct cost to itself.

This is a nation-wide problem in which New York City has a lion's share of experience. The bill's criteria for designating distressed areas makes need the basis for assistance, not size or region or age. The sponsors of this bill, the distinguished Senators from New York and South Dakota, display a broad base of concern for the infrastructure problem: urban and rural, East and West, Republican and Democratic.

This bill is an appropriate response to this concern over our deteriorating infrastructure, well within the established tradition of Federal assistance in dealing with local problems.

If Congress can establish loan programs for local business development, isn't it even more fundamental to help local governments to preserve and repair the roads and water systems that make it possible to conduct local business?

Cities and towns that adequately maintain their infrastructure are preserving their futures. For the Federal Government to assist local efforts is the most lasting investment Washington can make in local economies.

Senator JAVITS. Mr. Trimble, could you give us briefly a pattern of New York City's ability to raise money in the credit markets as of 1975 when the first Federal loans to New York City were legislated?

Mr. TRIMBLE. Well, starting with 1975, the city itself was taken out of the credit market, and we were unable to raise capital funds. A State agency, the New York Municipal Assistance Corporation or MAC, was formed which basically using bonds secured by city revenues, has been able to keep the city afloat in the intervening 3-year period.

Beginning in January of 1978, we put together a $4.5 billion long-term financing program which would extend over 4 years. And it was on that basis that we sought the Federal loan guarantees.

Since the passage of that enactment—and I will provide the exact figures for the record—the city has been able to go back into the long-term credit market, although not the public market, and through the use of guaranteed bonds, I believe that we now have raised on the order of magnitude of $1 billion.

Senator JAVITS. Guaranteed bonds by the Federal Government?

Mr. TRIMBLE. By the Federal Government.

Senator JAVITS. That is very important. That's what we are talking about here.

Mr. TRIMBLE. Absolutely critical.

Senator JAVITS. Without that, you couldn't raise any money?

Mr. TRIMBLE. That's correct.

Senator JAVITS. Do you believe that New York City can pay a reasonable bill for maintenance of its infrastructure if it got it on a long-term credit basis?

Mr. TRIMBLE. I believe so. Obviously, the ability to pay the debt service would be critical, but I think that the city's economic and financial condition is basically sound at this point for the long term. And barring some horrendous national recession, the city should have a pretty stable economic future which would enable it not only, we hope, to get back into the credit market on our own, but also to pay the debt service on whatever additional financing capacity we were given.

Senator JAVITS. And we have, do we not, an accumulated maintenance problem right now which we have absolutely neglected because we couldn't help it for a minimum of 5 years; isn't that so?

Mr. TRIMBLE. It has become highly acute in those 5 years and really goes back much beyond that because we sort of let things slide. The statistics on our replacement cycle for sewers, over 200 years, things like that, are really implausible.

Senator JAVITS. We can only hope as is now true every one of the 50 States, as Senator McGovern, I think, exemplifies himself, has a comparable problem, notwithstanding they may be rural, not urban States.

I think that is what produced the New York City difficulty, and I think that is where your chances are for this bill.

Mr. TRIMBLE. The order of magnitude must simply be horrendous. If you really did a study on a nationwide basis, it would be larger than the defense budget.

Senator JAVITS. These are assets of the United States.

Mr. TRIMBLE. Most important.

Senator JAVITS. Senator McGovern.

Senator MCGOVERN. Mr. Chairman, let's look honestly at the cost factor. Isn't it fair to say that if we don't move rather quickly on the questions of repair, maintenance, and other preventive measures, that what we are looking at down the road is a cost so horrendous as to dwarf anything involved in reconstruction and repair?

Mr. TRIMBLE. It just gets worse. I am not an economist, but I do own an automobile, and I know that if you use a few dollars each year for preventive maintenance in basically keeping it up, you avoid some very large repair bills down the road.

Senator MCGOVERN. Recognizing that Comptroller Goldin is doubtlessly right when he says that even if this bill passes, it just reaches a very small part of the problem and recognizing also the limited budgets that all cities are up against, what kind of priorities would you set? Where are the most urgent capital improvement problems here in New York City?

If you had to define the most urgent one, where would you begin?

Mr. TRIMBLE. Well, it is hard to pick one exclusively, but in our current capital budget, I think that we have, first of all, emphasized basic infrastructure improvements. About two-thirds of the total capital budget is attributable to things like roads, repaving highways and streets, sewers, particularly acute problems in a couple of our boroughs, repairing the bridges and things of that nature, and improving the sanitation department fleet.

I think that the major problem that we have had in our newly found capital budget has been spending the funds that have been made available through the Federal loan guarantees. Because we didn't have a budget for such a period of time, the projects that we had on the shelf have tended to languish. And when we got back into the long-term credit market, we found that we really were deficient in having things ready to go.

And so this last year, what we have concentrated on is a crash effort to get the projects designed to get the sewers designed, the road repaving which involves engineering and professional work. And the city has in fact contracted out a lot of these services because, first of all, we didn't want to hire a lot of city architects and engineers that we would then later have to lay off.

And we thought we could do it more efficiently by contracting out. So we are now in the process of building up a backlog of infrastructure projects. And I am sure that we would have no problem finding some way to use it.

Although, as I said, it is not just like you or me going out and spending money at the drugstore. It does take some work. But it is something that we are building on.

I would be happy with $2 billion.

Senator McGovern. Thank you, Mr. Trimble.

Senator Javits. Thank you very much, Mr. Trimble. And thanks to the mayor. I understand his absence.

Mr. Trimble. Yes. I should have said at the outset the mayor had to attend a funeral of a fireman, and he wanted to be here, but his schedule was such that he couldn't.

Senator Javits. Our next witness is Bob Wagner, chairman of the New York City Planning Commission.

Your prepared statement will be included as part of the record, Mr. Wagner.

STATEMENT OF ROBERT F. WAGNER, JR., CHAIRMAN, NEW YORK CITY PLANNING COMMISSION

Mr. Wagner. Thank you very much, Senators Javits and McGovern for giving me this chance to talk to S. 1069. I have a prepared statement for the record, but it repeats many of the points made already by Comptroller Goldin and Deputy Mayor Trimble. So I thought what I would do is just make some quick summary points——

Senator Javits. Please do.

Mr. Wagner [continuing]. On the city's capital needs and the relationship of those needs to the legislation you have introduced.

In March of 1978, the New York City Planning Commission said that next to the fiscal crisis, the condition of the city's capital plant is the city's basic problem. And we reiterated that point last March when we again issued our capital needs and priorities statement.

Essentially what we said is, the first priority of the city had to be the rebuilding of what we have, as opposed to an emphasis on new construction. Comptroller Goldin and Deputy Mayor Trimble have already made abundantly clear just how serious the problem is, a result of the age of the city's infrastructure and as a result of years of deferred neglect. Let me just give you some illustrations of what I mean.

Engineers say we should rebuild roads every 25 to 40 years. The present rate for road rebuilding in the city of New York is every 180 years. We are told that water mains should be replaced every 80 years, and we saw one this morning that had broken that was 100 years old. In fact, the replacement cycle for water mains right now in the city of New York is every 296 years. Even before the fiscal crisis, it was every 277 years.

In the case of sewers, the same points hold true and so on and so forth through all the areas of the infrastructure. No one has a firm sense of what precisely the needs would be, but clearly, they are enormous and meeting them is beyond our present ability. We do not have the necessary funds and cannot raise them by borrowing, even with the long-term guarantees, or from regular revenues coming into the city.

Comptroller Goldin has said $40 billion is needed for the infrastructure over the next decade. The port authority for the New York region, as opposed to just the city of New York, has used the same figure, and it is clear that something on that order of magnitude is accurate.

If you look just at two areas of the city's needs, you can get some sense of the gap between the dollars that were available and the dollars which should be spent. For example, in the area of street repavings, resurfacing, and reconstruction, our estimate in the city is that we should be spending $500 million next year to begin the process of narrowing the gap between what is right now being done and what should be done. The actual funds come to about one-fifth that amount or $110 million.

In the area of mass transit, leaving aside new construction, the New York City Planning Commission has estimated that we should spend $452 million a year to begin the process of narrowing the gap between what is desirable and what actually is happening. And yet, we have only $321 million to spend.

So that it is clear, I think, that our needs exceed what we are able to spend, though we are only able to spend what we are now spending thanks to the assistance of the U.S. Senate and the U.S. House of Representatives in terms of provision of the long-term guarantees.

And on the part of the city, I think we have taken a number of steps to see that that money is well spent and we will continue to take additional steps in this direction over the next several years.

I think the first and most important step for us—Deputy Mayor Trimble has already referred to it—has been the shift in priorities toward an emphasis on rebuilding what we have in life support systems rather than in new building. Thus, the amount of money allocated toward infrastructure rebuilding and rehabilitation has more than doubled during the last year. We have accelerated the phasing out of the expense budget items from the capital budget even beyond what is mandated by the Federal Government and by State law.

We have begun the process of rebuilding our capital budget management system. We have shown a willingness to consolidate unneeded parts of the existing physical plant, whether it is in the area of unnecessary hospital beds, whether it is in the area of schools which right now are underutilized, and we have started, as Comptroller Goldin said, the process of developing an inventory.

I think even with the city's efforts, even with the new long-term guarantees, there is a great deal more that will have to be done, and a good deal of our efforts will be in attempting to get additional assistance from the Federal Government.

I think the bill that you have introduced is important in two ways. One, obviously, is the dollar amounts that would become available to a city like New York, given the formula that you have set out. Two, even more than that, is the recognition that there has to be Federal support for rebuilding as opposed to new construction.

In 1966, two-tenths of 1 percent of the city's capital budget came from the Federal Government. Today, approximately 45 percent of it comes from Federal assistance, but the vast bulk of that assistance is for new construction.

This legislation would represent a true recognition that rebuilding should be assisted by the Federal Government, not just for the city of New York, but for other cities as well.

Obviously, we would like the dollar amounts to be greater. Obviously, we would like shifts in other forms of Federal assistance. But I see this as a very important and significant beginning and want to thank both of you for not just introducing the legislation, but for holding this hearing here today.

Senator JAVITS. Thank you, Commissioner Wagner. You really have been very helpful to us in taking us about to see some examples. We really are very grateful to you.

[The prepared statement of Mr. Wagner follows:]

PREPARED STATEMENT OF ROBERT F. WAGNER, JR.

Good morning, ladies and gentlemen.

Mayor Koch has put forth the compelling need for a National Bank for Community Conservation to help cities finance the repair of their life support systems. In effect, the bank would help rebuild large portions of America, which through neglect, have deteriorated. In some instances they are even in danger of collapse.

Before adding to Mayor Koch's remarks by sketching some particulars of New York City's need for the proposed bank, it might be appropriate to provide some of the background behind today's intense focus on the infrastructure.

When the Koch administration took office a year and a half ago its number one priority was to resolve the fiscal crisis. Nevertheless, as Chairman of the City Planning Department, my office believed it imperative to look beyond the crisis and examine the prospects for the city in the near future.

After undertaking this determination, it became my firm belief that repairing the city's life support systems—its watermains and sewers, bridges, tunnels and mass transit system, and its major parks—which in a city as dense as New York does support life—is the city's number one priority after the fiscal crisis.

It was a theme I sounded as early as March, 1978, and it is gratifying that it has been heard not only in Congress but on a community level. I have visited all the city's 59 Community Boards; among them and other grass roots organizations there is a swell of support for repairing the infrastructure in neighborhoods as well as in the midtown core in which most jobs are generated.

Moreover, just last week the Port Authority of New York and New Jersey, after extensive study, found that $40 billion was needed during the next decade to rebuild or replace the two-state area's water, sewer, road and mass-transit systems. It went further: It said that to ignore them could mean the loss of economic gains made in the area during the last 2 years.

This thrust toward repairing the life support system of older localities comes precisely at a time when a new set of realities will impinge on these areas during the coming decade.

New York and other cities are no longer growing as they did in the 1950's. Nor can they afford the dreams of the 1960's. Today's realities are different. There have been fundamental changes. Four of the most basic changes are:

One, there has been a fundamental change in the size of city's population.

Two, the economy of the city has altered.

Three, the role of government is very different today from what it had been in the past.

And, finally, four, the relationship of the city government to the federal and state governments is completely different today from past decades.

The city's population has not been growing during this decade. It is estimated to have declined by more than half a million people between 1970 and 1977. Just as important for the future is the fact that the birth rate has also dropped; today 50,000 fewer persons are born a year, on the average, than were born during each year in the early 1960's. New York in the future will have fewer people.

The implication of this fact is that instead of expanding our capital plant and building new structures we should rebuild the existing facilities—exactly what this bill would help us do.

A second change worth noting is that the city's economy has altered. Although there has been substantial publicity about the upsurge of economic activity here—particularly in midtown and downtown Manhattan, we must remember that the city's economic health is not at the level today that it was at just a decade ago.

Between 1970 and 1978, the number of persons employed here fell by half a million; unemployment rose by more than four percent. And much of the other pertinent economic data, indicators like the assessed value of commercial real estate and the value of payrolls, also indicate less activity.

Clearly, this year there has been some stabilization in the city's economy. The rate of inflation here is lower than in the nation and there has been a substantial increase in building activity. But to see these factors as a drastic reversal of past trends would be a mistake.

The slower economic pace here in the 1970's is not an abberation due to some strange occurrence that will soon disappear. Actually, it is more a preface to what is likely to happen here in the 1980's.

Thus, more than ever, today and in the future, we will need the assistance that the proposed bank would make available.

Let us turn now to what has been happening in New York City's government with respect to the capital budget, from which infrastructure repair is financed.

The fiscal crisis of 1975 and its aftermath has shown that the city's ability to fund the capital budget is limited and will continue to be constrained. In fact, in real dollar terms the city allocated 48 percent more to capital projects in 1966 than it did this year.

This trend will continue during the immediate future. This year's capital budget is only about a billion dollars, and it contains expense items which the Mayor is committed to eliminate from the budget by 1982. The budget for each year from now until 1982 will grow at a rate that may not be any greater than the rate of inflation, which means no real growth, whatsoever.

This reality, like the others, makes the need for the bank imperative.

Now I would like to turn to the role of the federal and state governments in capital projects.

Federal aid has increased from 0.2 percent of the city's capital program in 1966 to 43.5 percent today. And state agencies have assumed a major role in building what had been traditionally considered city capital facilities.

These changes over the past two decades have significantly altered the relationship between the city, state and federal governments. And the change has far reaching implications for maintaining and repairing the infrastructure.

Intergovernmental support has had a dramatic impact on capital spending priorities. The city has had to devote much of its money to matching funds for federal-and-state-mandated programs. And 81.8 percent of all federal and state money available for the city's capital budget since 1966 has been devoted to mass transit and to building the mandated water pollution control plants mentioned by Phil Trimble, speaking on behalf of Mayor Koch.

In general, federal funding has tended to emphasize new construction over rebuilding what we have. The federally mandated new construction, with city matching funds for it, has locked significant portions of our capital budget into programs which might not be the most necessary from the city's point of view.

Finally, the city's increased dependence on federal and state aid has shifted our program of maintaining the capital plant from one that we may find most desirable to one that the federal government mandates. For example, the city has had to emphasize highway repair to the detriment of repairing its streets and bridges.

A bank to help the city finance the repairs of the infrastructure it deems essential is the only fair way to help cities out of the bind that some federal mandates put them in.

In summary, in the coming decade the older localities will face a series of new realities. They include a smaller population, a lessened level of economic activity, a diminished capital budget. Also, greater federal and state mandates will direct the use of capital funds for projects not necessarily of the greatest urgency for the survival of these cities.

The economic forecast for the immediate future is for a recession. Should there be one, the ability of cities to tend to their infrastructure needs will be hampered beyond their present, already impaired ability to make repairs and rebuild.

Even if regular economic activity returns soon cities will not be able to maintain their life support systems without aid. The proposed bank is, in part, the kind of aid needed, although its pegged $2 billion capitalization is far from adequate.

S. 1049 has the makings of a far reaching and imaginative measure. I wholly support it.

Senator JAVITS. I have just one question of you Mr. Wagner. If you can't answer it, perhaps you will consult the mayor and answer it in writing. But it has been charged that politicians, because they like to show people new things, spent New York's maintenance really on new schools, firehouses, police stations, hospitals, instead of the maintenance and repair of what we had.

Now, we do have in this bill certain criteria as to municipal distress in financial terms. Can you make any suggestion as to how we can protect ourselves to be sure that the effort expended is commensurate with the kind of aid which is sought from the Federal Government under our plan? We certainly don't want to give this aid from the Federal Establishment and then have the cities use the money for pretty, new gadgets that will attract the voter.

Is there any way that you can see that we can handle that?

Mr. WAGNER. There is no question, Senator, that your basic observation is true, and probably not just true for the city of New York, but other governments as well; that our capital budget over recent years has tended to be a wish list. It has tended to emphasize new construction, much of which was not needed, but which would lead to ribbon cuttings and events.

And I think what has happened in the last several years is that there has been a growing recognition on the part of elected officials in the city that we have faced a basic survival test of the way of life here in the city of New York, and the kind of politics which channeled the capital budget in the past no longer is appropriate.

That's why I think a very different kind of capital budget with different priorities was approved this year. As I visited all 59 New York City community planning board districts, I was struck by a recognition that infrastructure repairs, life-support systems repairs, many of which people don't even see, have a higher priority than other more visible kinds of capital construction.

I think in terms of the legislation as it now stands, you have set standards and defined infrastructure. And I think perhaps those standards could be even tightened to make sure that the money that would come through this new bank would go for absolutely essential and necessary repairs.

Senator JAVITS. Thank you. And also, I am inclined to include a maintenance of effort.

Mr. WAGNER. I think the maintenance point is a very key one, and one of the things we are just beginning to do is try to look at the expense budget implications of capital projects and make sure that included in the expense side is adequate funding for maintaining the facilities.

Senator JAVITS. Thank you very much.

Senator McGovern.

Senator McGOVERN. Thank you very much for your testimony, Mr. Wagner.

Mr. Grossman is going to be our final witness. He is the former New York City Budget Director and has written a very interesting report recently, as you doubtlessly know, on the capital plant of New York City and future needs. He makes one statement that I am wondering if you, Mr. Wagner, would be in general agreement with, and I quote:

> Now, nearly half of all city capital funds in the prior decade went to education, transit, and pollution control, with only about one-sixth invested in water, sewer, and the highway system.

And then he makes this observation:

> In the coming decade, the education, transit, and pollution control appropriations are forecast to decline to one-tenth of total city funds while water, sewers and streets combined rise to more than three-fifths of all capital funds.

Without getting into the question of whether you agree exactly with those percentages, do you think that is the general shift that will occur in the capital budget?

Mr. WAGNER. Senator, I think that is a too general shift. I think if you look at the last decade, there were basically two reasons for the kinds of priorities we had. I believe the figure is that 81.8 percent of the Federal capital assistance to the city went for water, pollution control facilities, and mass transit facilities, therefore skewing the city's own priorities in that direction.

In the case of education, that was basically bad planning on the part of New York City. We remained locked into 1950 reality which no longer existed. Even though in the last 4 years the birth rate in the city has been 50,000 a year less than it was in the equivalent period in the previous decade, we still pushed for new school construction, largely, I think, for the reason that Senator Javits mentioned before. This tends to be a politically desirable kind of item, even when unneeded.

I think we will see a shift over the next decade, both because of a change in terms of congressional actions as well as realization on the city's part that we have got to take a very different attitude toward the limited capital funds we have.

And in terms of our own funding, it is significantly limited. In the city's 4-year financial plan, the highest amount of city-borrowed money, using the Federal loan guarantees, will be in 1983. And in real dollar terms, that will be 48 percent of what the city contributed to its capital budget in 1966.

So I think there is on our part recognition that we have got to use the money that we have as carefully as we can, and I think your bill recognizes a need to shift on the Federal Government's part toward an emphasis on rebuilding as opposed to new construction. And that, too, will help us on infrastructure needs as opposed to some of the needs which were the priorties during the last decade.

Senator McGOVERN. Thank you very much, Mr. Wagner. I appreciate your testimony.

Mr. WAGNER. Thank you.

Senator JAVITS. Thank you very much, Mr. Wagner.

Our final witness is David Grossman, consultant, to the Urban Institute.

Mr. Grossman, would you please proceed.

STATEMENT OF DAVID A. GROSSMAN, PRESIDENT, NOVA INSTITUTE, NEW YORK, N.Y., AND CONSULTANT TO THE URBAN INSTITUTE, WASHINGTON, D.C.

Mr. GROSSMAN. Senators Javits and McGovern, thank you very much for the opportunity to appear here and comment on New York City and perhaps some other cities' infrastructure issues.

My name is David A. Grossman. I am president of the Nova Institute which is a nonprofit research organization located here in New York City.

I have recently done—and I will be delighted to leave with you a copy if you want it—a study for the Urban Institute in Washington of New York City's capital plant. It contains a look at the kinds of investments that had been taking place in the city in the years prior to the fiscal crisis, of the kinds of investment that the city foresees making in its infrastructure in coming years, and a look at some of the condition issues that I gather you have been looking at in person this morning.

In 1966, I became the deputy budget director of New York City and worked in that capacity for 5 years, followed by 2 years as New York City's budget director. And during that time, I was pretty heavily concerned with the city's capital budget and with the need for investment in that capital budget.

After leaving city government, among other things, I did a study in 1977 for the Twentieth Century Fund. This was about at the point of the depths of the city's own depression in terms of its fiscal crisis. I tried to look ahead for some 10 years at the city's fiscal needs, an issue which I guess somewhat to my surprise at this point has become a matter of considerable discussion and concern, not only here, but in other parts of the Nation.

And just recently, as I said, I completed a study for the Urban Institute on New York's capital plant.

I am also working at the present time on an area that I think may be of interest at least to Senator Javits for a consortium of northeast agencies, including the Northeast-Midwest Congressional Coalition and Institute and the Coalition of Northeastern Governors, looking particularly at the water-related infrastructure concerns of the 11 Northeast States.

And I know that you are interested both in New York City and in what comparable problems are in other parts of the country.

I am sorry George Peterson of the Urban Institute, who is directing the overall series of studies couldn't be here today because George Peterson has a much better national view than I have.

Senator JAVITS. He had a family problem.

Mr. GROSSMAN. Right. But I can assure you that in a number of the other older cities of the Northeast, the issues of water supply and distribution as well as how to deal with the serious problems with stormwater that causes combined sewers to overflow—problems such as harbor improvements—are infrastructure problems common to Boston, Providence, Washington, D.C., Philadelphia, New York, and Pittsburgh.

While the individual needs of those cities, both as to financing capability and precise needs, vary, there is a common thread of need for significantly increased investment in the water-related infrastructure.

In terms of New York City, I think I can add relatively little to what has already been said here this morning or certainly to what I have written in the study. But I would like to make the point in terms of the crisis character of New York City's infrastructure problem that, yes, it is a crisis, but it is not a crisis to be measured in terms of days or weeks or imminent collapse of the city's fiscal plant.

I think it is a very sound thing that the city has now recognized and focused much of its capital planning on the infrastructure, but it is important to note that the West Side Highway and even major water main breaks are not necessarily typical of the infrastructure condition of the city.

For example, large water main breaks have occurred over the last 15 years with a frequency ranging from about 1 a year to a maximum of about 7 a year; total water main breaks have ranged between 350 a year and 550 a year. In most years in the last 15, it has been pretty steady at about 400 to 450 breaks a year.

Each individual break is obviously of concern to the people immediately near it. The major breaks can cause devastating damage and stop traffic and the flow of city life, but I think it would be an unfair picture of New York to indicate that it is a sort of a 300-year-old one-horse shay about to collapse and fall into rubble. That, I think, would be an overdrawn picture of the infrastructure.

Yes, there is a crisis, but it is a crisis of years and of decades. And I think the kind of approach that you are proposing to take in your legislation is a sound one that would address that issue over the kind of time terms which it is likely to take place.

I would add to what Chairman Wagner said that it is important to look at the operating budget side of infrastructure as well as the capital investment side. I was unable to get as complete a list as I would like, but for the city's water repair crews, its sewer repair crews, its transit repair crews, it looks as though during the fiscal crisis as if they were cut back at least as far as the average of all city work forces—namely, about 20 percent. And in many cases, the cuts went even deeper, up to 30 and 35 percent.

To some degree, productivity can overcome those cutbacks in work forces, but we don't have magical means of replacing missing maintenance workers.

And while it is complex to try to figure ways to provide Federal aid that would be focused on the maintenance aspects of infrastructure—

probably even more complex than it is on the capital side—I think it is equally deserving of your attention.

Let me finish by offering one other piece of information, again that may already be available to the committee, but as I have been working for the Northeast Consortium, it has come to our attention there are five ongoing Federal efforts that are going to generate over the course of the next 2 to 12 months much of the data that I think will be needed for a good national picture of infrastructure condition.

There is the work that the Urban Institute is doing for the Department of Housing and Urban Development that will shortly result in a series of other case studies of cities like Cleveland and Cincinnati and Dallas and Boston comparable to those that I did for them in New York.

The U.S. Department of Commerce has contracted for a series of studies devoted to public works investment to try and find out what the reasons are for the general decline in investment by States and localities in their public works and their capital plants.

The U.S. Department of Agriculture's Farmers Home Administration is currently conducting the planning for a major national sample survey of the condition of community facilities in the areas outside the metropolitan centers.

The General Accounting Office is currently doing a study of three cities in terms specifically of the condition of water distribution systems. I believe those focused on Washington, New Orleans, and Boston.

And last, the President's Water Policy Task Force is just about to undertake a major series of studies of the water distribution systems issue. I think one of the reasons that a number of studies are focusing on water distribution systems is that, at the present time, there is virtually no Federal assistance available for that specific and vital component of urban infrastructure.

Gentlemen, I would be glad to answer any questions.

Senator JAVITS. Well, Mr. Grossman, I am interested in the time question which you refer to. That is, the whole city isn't going to fall in in your judgment.

However, isn't it true that you have such a cumulative maintenance deficiency in this city as to represent the unacceptable risk? You don't know whether it is going to blow or what will blow because all you know is that the job that needs to be done has not been remotely done. What is your comment?

Mr. GROSSMAN. There is no question, Senator, that we have been living off our infrastructure for all too long a period of time. There is no question that there is a massive need to increase the scale of the investment, particularly in the water system and in the street system.

It seems to me that in terms of the transit system, while there are problems, the level of maintenance has been adequate to assure continued safety. It seems to me in terms of the water system, we are not in danger of an immediate breakdown in the supply system or in the distribution system.

I don't want to seem Pollyannaish, though. I think the complex point that I am trying to make is, yes, absolutely, we must increase the pace of investment, but I think it would be unfair to frighten people into thinking that the streets are about to cave in, the bridges to fall down. I don't think we are in that kind of condition.

There is, yes, a desperate need to increase the level of investment and level of maintenance.

Senator JAVITS. However, these facilities, if the present rate of inadequate maintenance continues to become serious emergencies, within what approximate period of time?

Mr. GROSSMAN. That is unfortunately an area in which we have very little information. And it is one of the things that I think New York City needs to know more about. All cities need to know more about it.

We know perfectly well that we have been replacing, say, our water distribution lines at a rate of roughly once every 300 years. If you calculate the number of miles, roughly 6,000 miles, in the water distribution system we have in the city and the rate at which we have been building new water lines, it is roughly about 20 miles a year.

On the other hand, substantial parts of that water distribution system are well under 100 years old and are in good condition. Other parts, surprisingly, that are over 100 years old are still in apparently sound condition. It would be nice if they could be replaced, but I think it is going to be some time before that can happen even if the funds are available.

You can't dig up all of a going city even in a given year. I think one of the critical issues facing the New York City Planning Commission is going to be trying to locate where infrastructure projects should go as the city increases its pace of construction so that neighborhood life is possible even while streets and sewers and water lines are being replaced.

Senator JAVITS. Thank you very much.

Senator McGovern.

Senator MCGOVERN. Thank you, Senator Javits.

Mr. Grossman, I want to commend you and your colleagues at the Urban Institute for identifying as carefully and as thoughtfully as you have the problems that face us in urban America. And as you know better than most of us, those are problems that affect medium-sized and smaller cities as well.

This morning, as we were viewing some of the problems here in New York City, Comptroller Goldin suggested one of the things we might try to do with the legislation that Senator Javits and I have introduced is try to amend our bill to provide special incentives to cities to take preventive measures first.

In other words, if you can prevent structures, by modest investments now, from beginning serious problems later on, those ought to be the first order of priority.

What is your reaction to that general question that he has raised?

Mr. GROSSMAN. I think to the degree that it can be done, it is a very sound direction. Take, for example, the New York City transit system which contains just an extraordinary array of underground and elevated facilities. To replace that kind of subway in today's dollars would, I think, be impossible no matter what level of Federal mass transit aid were given to New York City.

In fact, with quite substantial amounts of Federal aid, we are incapable of adding even an additional stretch along Second Avenue.

So that clearly investment in maintaining that virtually irreplacable facility would be very, very sound to do. In many cases, it may well be possible to line existing underground tunnels.

One of the city's ambitions, one of the reasons it wants to complete a third major underground water distribution tunnel is not so that it can put the first existing two tunnels out of service. Those two tunnels, we think, have literally hundreds of years of future life if we can close them down for a period of time, reline them to prevent deterioration and decay in the surfaces of the tunnels, replace valves, do the other kinds of major maintenance functions that even a water tunnel ought to have every 40 or 50 years.

So I think it is a very sound direction that we should save where we can the massive invested capital value of our cities. And I think a lot of it has got some very substantial useful lifetime to go.

I think we have to learn more about rehabilitation techniques, about the trade-offs which we know all too little about, between investment, annual investment, and maintenance and ultimate replacement life.

Senator McGOVERN. This morning, while we were inspecting the deterioration of one of the elevated highways, a reporter asked me a question: Why are you and Senator Javits proposing to spend all this money reconstructing and strengthening highways when we can't get any gas anyway?

My answer, I'm not sure was a scientific one, but it was the best I could do. I said that in all probability, as the energy crisis tightens, there will be even more people finding the central cities attractive places in which to live. If we have plenty of gas, people can live 40 miles outside of the city. But as the energy crunch increases, wouldn't you feel as an urban expert that there will be more people finding it attractive to be in the central cities and, therefore, even more strain will be placed on the streets and transit facilities and other superstructures within the city?

Mr. GROSSMAN. I would not only agree, Senator, but add to that that this city and the other major built-up urban centers of the Nation are extraordinarily energy conservative. We use roughly half as much energy per employee or per resident in more extensively developed areas of this Nation. Much more of our journey to work is carried by public transportation than in any other city in the country.

We have terrible problems getting gasoline, but at the same time, we use less of it per worker than almost any other place in the country. So that I think it is good national energy conservation to invest in urban infrastructure.

Senator McGOVERN. Well, thank you very much. I have found your testimony and your answers most helpful.

Mr. GROSSMAN. Did you gentlemen have copies of my study or should I leave this with you?

Senator JAVITS. Would you please.

Thank you very much, Mr. Grossman.

We wish to thank the city of New York and the municipal authorities who made this hearing room available to us and the courtesies of the city which have been extended by its officials.

The hearing is hereby adjourned.

[Whereupon, at 12:15 p.m., the subcommittee adjourned, subject to the call of the Chair.]

DETERIORATING INFRASTRUCTURE IN URBAN AND RURAL AREAS

THURSDAY, AUGUST 30, 1979

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMIC GROWTH AND
STABILIZATION OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:30 a.m., at the Downtown Holiday Inn, Sioux Falls, S. Dak., Hon. George McGovern (member of the subcommittee) presiding.

Present: Senators McGovern and Javits.

Also present: Deborah Norelli Matz, professional staff member; Alan Stone, Senator McGovern's staff; and James O'Connell, Senator Javits' staff.

OPENING STATEMENT OF SENATOR MCGOVERN, PRESIDING

Senator MCGOVERN. I want to open our hearing this morning, first of all, by welcoming to Sioux Falls and to South Dakota our distinguished visitor from New York, the senior Senator from that State, Senator Javits. I think everyone who is familiar with Senator Javits' long years of service in public life will agree he is one of the wisest and most experienced and most articulate Members of the U.S. Senate. I've found increasingly as I've come to know him and watch him and listen to him in the Senate that whenever he speaks on economic and social policy or on policies that affect our foreign relations, you always learn from him. So Senator Javits, we are more than pleased to welcome you to our State.

This morning's subcommittee will explore new ways to help conserve and improve the physical infrastructures of rural communities: Sewers, water systems, bridges, rail beds, and other facilities. This is the second in a two-part series of hearings. Senator Javits and I were together in New York in June for a hearing in which we were looking at the problems of New York Citv and other large cities, and today Senator Javits has been kind enough to return that visit by coming out to South Dakota where we'll be concentrating on what the legislation can do to assist smaller communities of the kind we have in this part of the country.

There is no doubt in my mind that any additional source of capital for the expansion of waste water treatment plants, the repair of crumbling bridges and other facilities will greatly enhance the prospects for economic growth in any State.

We all know that in financing these projects there is some level of sophistication necessary which, unfortunately, some of our rural communities do not possess to the same degree that the larger cities do, and yet the repair and the maintenance of public facilities should not be dependent on sophistication alone. It ought to be dependent on need and our capacity to respond to that.

Our legislation will not only help stimulate new sources of capital to conserve our community and facilities, but it will also help assist in the securing of those loan funds.

I want to stress that from the very beginning of this conservation bank bill that the Senator from New York and I have developed, there's been no partisanship and no regionalism. We've all recognized from the beginning we've had to have broad scale support both in the large cities and in the smaller rural communities if we were to lay a national consensus for our legislation.

Since our investigations began, the concept of conservation of municipal facilities has taken on new force for two reasons. First of all, all of know the inflationary pressure on this country makes it important that we hold down Government expenditures wherever possible, and one way to do that is to repair and conserve existing facilities. It's a lot cheaper to do that than to let them fall into ruin and then have to replace them with new facilities.

Second, we need to conserve materials of all kinds in this country. I think the more the energy problem looms in our awareness, the more we're going to recognize that conservation has to be the way of the future. I think this preventative approach is one w're going to see more and more in various areas of our national, State, and local life.

Now, the particular bill that we have introduced, I might add, is a starting point. This bill isn't written in stone. One of the purposes of this hearing is to get some insights on possible modifications or improvements in the legislation. Senator Pressler, my colleague from South Dakota, has another bill that takes a somewhat different approach and we're going to hear from him in a few minutes. We'll be interested in getting a description of his bill and how we might work together on our common concerns.

In any case, I know we'll have a hearing record that will go a long way toward providing us with knowledge we need, to continue this effort to help our communities. Senator Javits, do you have an opening statement? We'd like to hear from you.

Opening Statement of Senator Javits

Senator Javits. Thank you. I'll be very brief. First, to thank you very much for your gracious welcome. To thank Senator Pressler, my colleague and yours in the Senate, for joining us this morning and to thank the witnesses and those fine people of the State and representatives of the media who have already shown me such gracious courtesy. I equate the morale force and weight of Sioux Falls, 100,000, with New York City, almost 8 million. As far as I'm concerned these are equally essential components of our country whose basic structure needs to be preserved.

Second, I don't think our people begin to realize the extent of the damage which has already been done by our failure to obtain infrastructure, which Senator McGovern has probably described as the streets, roadways, the conduits under the streets, water, sewage, etcetera. Take one example, it's estimated that one-third of the bridges in the United States are in danger. Two bridges a day actually fail in this country today. We have some 564,000 bridges in the United States of which 407,000 were built before 1975. Other very alarming statistics, for example, are that our present rate of maintenance compared to what maintenace ought to be. We proposed to replace streets at a rate of 150 to 500 years instead of every 40 years, which is what the municipal planners tell us is proper maintenance. The sewer lines require replacement every 100 years. Under our present maintenance practices, because of lack of money, we're replacing them at the rate of up to 800 years. Some of these figures will just appall you even in imagination. Yet that's what we're jeopardizing in terms of billions of dollars of human labor and material which has gone into building this infrastructure and which is now in the gravest danger of falling apart. It will cost, if we can ever afford it, infinite bills to replace.

I consider this one of the most important bills before us because today, notwithstanding the rural settings of many States, every State has city problems analogous to those of the biggest cities, New York, Chicago, San Francisco, Los Angeles, St. Louis, and all the rest. So we have a problem, no doubt about that.

Now, how to meet it? Senator McGovern and I have sought to contrive a way to meet it which takes advantage of modern finance. The most modern finance, in my judgment, in this field counts upon the fact that municipalities may be good for the money, but they simply can't sell the paper which will produce it now. They don't have that kind of credit, or if they can sell it they can only sell it at high rates of interest, which they can't afford. So we propose using the leverage that the Federal Government affords to have this Bank put out its own paper and to accept the paper of municipalities to be able to give a little break in interest rate to those municipalities which are really in even worse trouble than most of the others. In that way the leverage would be some $5 million in municipal paper for infrastructure conservation purposes with the aid of maybe $100 to $200 million in actual expenditure. You just couldn't work any program on as economical basis as that and yet it's entirely practical. So we welcome very much the news of people who have a right to an opinion and who have an expert opinion in this particualr field either for or against the concept which appeals to us very deeply and shows real promise of a real effort to deal with what is a dangerous program now and which is getting very much worse, rather than getting better.

I'd like to say finally, Senator McGovern, that I deeply appreciate your own cooperation with me. I look forward to the cooperation of Senator Pressler and Senator Dole. There's no reason in the world we shouldn't find communication ground for our approach and look forward to the successful consummation of this effort, I might tell you my deep interest was very much wedded, by what we learned, when New York City was before the Congress with deep financial troubles. This vast city of importance to everybody in the United States indeed, in the world, literally sits on a time bomb so obsolete that it becomes the substructure upon which it rests. That's not just true of us but true of many, many cities and towns in the country. I'm here to listen and find out of those in this State as well. Thank you, Senator McGovern.

Senator McGOVERN. Thank you very much Senator Javits. I think that's an excellent description of what we're trying to do with this legislation and sets it in context for our witnesses. I want to get Senator Pressler as early as possible. We'll just hear one of the witnesses for the time being, Mr. Herman Lerdal, from Mitchell, one of South Dakota's most important cities. He's the president of the Mitchell National Bank. Then after his statement we'll call Senator Pressler to the witness stand, before we proceed with the other witnesses. Please proceed in any way you wish, Mr. Lerdal, and then we'll have a few questions for you.

STATEMENT OF HERMAN LERDAL, PRESIDENT, FIRST MITCHELL NATIONAL BANK, MITCHELL, S. DAK.

Mr. LERDAL. Thank you, Senator Javits and Senator McGovern. I'm Herman Lerdal, president of the First Mitchell National Bank, Mitchell, S. Dak. I would like to thank you both for coming to South Dakota to hear our concerns, to find out what our thinking is and to get our comments with regard to this bill. I think I'd be remiss if I did not concur with you, Senator McGovern, that it is the most important city in South Dakota, and I think this would be a good opportunity for me to get this into the record that I concur with you and I am now on record. I hope, that Mitchell is the most important city in South Dakota.

Senator McGOVERN. Please understand that the hearing record, since you're talking to a Senator that represents the whole State, will put in parentheses the word "laughter."

Mr. LERDAL. I think a little good humor is important. Thank you for the opportunity to speak to you today about S. 1049. I think you've called it, "A bill to establish a National Bank for Community Conservation to provide financial assistance to distressed areas for the conservation of existing public capital infrastructure."

I've not had a lot of time to review the bill but in the time I've had in reading and reviewing the bill, I find that I concur that the needs that could be fulfilled if the purposes spelled out in the bill are carried out, are many. I'm going to refer to section 5(c) of the bill and I'd like to quote it:

> It shall be the specific purpose of the bank to encourage and provide financial assistance to local governments for the improvement and conservation of existing physical facilities through rehabilitation and modernization. Financial assistance may be provided to local governments in the form of subsidized and unsubsidized loans, repurchase agreements, and grants.

I think it's a particularly important section. I think it speaks very well for what I understand the intent of the bill to be and I would say that I feel it's well done. It speaks to and says those things which we need in South Dakota and more particularly in Mitchell and the Mitchell community. I believe that the Mitchell community and other communities in South Dakota have needs to improve roads, repair and replace bridges and upgrade and improve water supply systems and needs which are not being met. They are not being met for several reasons. A combination of a shortage of capital and rapidly rising costs have delayed implementation of planned projects. The result being further deterioration of those roads, bridges, sewers, the water systems, and ultimately a higher cost when the projects are rebid the second and third time. I have no quarrel that there is a need for assistance to speed up the implementation of such projects.

I think I'd like to deviate from what I've written to share with Senators Javits and McGovern what I would be doing today if I were not appearing at the hearing, because it would be very important to me. It may not mean much to you in New York or Washington, D.C., but I'd be down on Main Street Mitchell and I'd be walking up and down the street and celebrating because we have a new blacktop street that opened up this morning. If any of you had had a chance to watch TV on our local station last night, you saw a fire truck running up and down with the businessmen sitting on it and waving their hands and saying hallelujah, what a great deal. That celebration came about 1 year late, because we didn't have money enough a year ago to complete a project that had begun 2 years before and that project was a simple one but it became complicated.

The simplicity of the project was to remove the old street, to put in a new sewer and water system, replace the street and put in curb and gutters and sidewalks. When the bids were let 1 year ago, we found that we were short some money. Our good city fathers had to make some different decisions and those decisions were, what do we do? Do we cut back, change the plan?

At that point we were dependent upon Federal assistance and thankful for it. Time did not permit us to redo and revamp the specifications to get our streets fixed 1 year ago. So we rebid and we rebid on different terms and different conditions and we lowered the specifications. The interesting thing to those of us who are fortunate to live in Mitchell was that we spent about the same number of dollars this year but we didn't get the same quality project. Now, I don't have anything against an asphalt street, but engineers tell me that the concrete that we planned a year ago would have been better and longer lasting. I'm not so sure I have anything against the plastic pipe that was put down because, again, I'm not an engineer, but there had been some other plans a year ago, and because we were short of funds, we were unable to fulfill those plans. We revamped, we rebid, we lost 12 months, we spent the same amount of money and don't have quite the same project. We do have a need.

We had a celebration a year ago in Mitchell, and you may think we celebrate peculiar things, but I like to think we're normal and human. We celebrated opening up a new sewage disposal plant. Now, that may not be very important to a lot of people, but in Mitchell it was tremendously important because we had been given a notification that if we didn't get some things done with the sewer system, I don't know what they planned to do in the Federal Government, but facetiously some of us thought they were going to stop up our sewers and we didn't know what we were going to do. Again, it was a case of not having enough at the right time and rebidding and rewaiting.

We've had a sad day in our town within the last week. That sad day was the closing of a major packing plant and a loss of a major employer. I'm not certain that lateness of getting a new sewer had anything to do with the closing of that packing plant, but I know it did not help us keep it because we did not have the facilities to take care of that sewage at an early enough time. Some of that blame we must take as citizens of the community, because some of us may have lacked foresight but conversely we got down to the fact of cold hard dollars and not having them. Each time we postponed it cost more money and more changes were to be made.

I'd like to talk a little bit about farmers in my community, and I depend pretty heavily upon them in my business. They're pretty concerned about our rural bridges. They're concerned that those bridges have been in for a long period of time. We have some very modern people who farm in and around the Mitchell community, and they buy the new and current and updated farm equipment. The old bridges that are serving in our communities and our townships were never made to carry the weight of these tractors that come out with the big wheels that are at least as tall as I am. Our four-wheel drives weigh several tons. That's the way we farm in Mitchell in our community. We're good farmers and big farmers. If you have a big tractor, you pull a big piece of farm equipment behind it and they weigh a lot of pounds. We find that many farmers are finding that they are detouring to get to their fields because the bridge that they have is not strong enough to support the equipment that we need to farm and produce food. It's a big inconvenience, but being the kind of people they are they get the job done.

We find the same thing is true of marketing this product, and I've been out in the fields quite a lot lately. I'm pretty concerned about frost. If either one of you Senators have any control over that, I'd appreciate that probably more than this bill. It can be the best crop that we've ever had in the 11 years I've been in Mitchell if it can be brought to town, but farmers who buy big tractors don't buy small trucks. Even 11 years ago the size of the wagon, the size of the truck that brought the crop to town was an awfully lot smaller than it is now. We find that hauling our livestock to market is no longer with a straight truck, and as I drove over here today, I was passed or I passed semitrailer trucks pulling pups behind them and these came from the farms. I've talked with the local dairy producers, the men who bring milk to town, and they find the size of their trucks, they can't get across some of these bridges.

The needs are real, but I've held to last what I think is the most precious thing we have that we're concerned about as we take them on these rural roads and these rural bridges and that's our schoolchildren. We're very close to the man who has the contract to haul our schoolchildren in the Mitchell school system. We have a standard 40-passenger bus. It's not unusual and it's not unique to our part of the country, and we find that a goodly number of times that he has to reroute and redrive and go around and make a longer trip. There are two things wrong with that. One of them is energy. Even with the cost of fuel going up, we can stand that, we can support that. But it's a case of making young children travel a longer distance, spending more time away from their home and not being able to go the most direct route to and from school.

I think we have some real concerns that we have needs in the community. I hope that you now believe that I know the intent of the bill is good. However, I have some questions if the bill in the present form would provide the assistance where needed in many South Dakota communities? Under the special powers section, section 10, the areas eligible for assistance are spelled out. Now, our State has a population which is slightly more than 650,000 and with those numbers we have some difficulty in meeting that criteria. I believe that the rural areas, which probably would be most in need of assistance, would find it difficult to meet the population requirement of 100,000 persons even by forming a consortium of contiguous local governments.

If I had my chamber of commerce hat with me today, I'd put it on and I hope you'll bear with me when I talk a little bit about our trade territory. Mitchell, in its publicity, says we serve about 100,000 people. just the number of people that's spelled out under section 10 that we need to have. Now, I'd like to tell you what we consider our trade territory. Again, with respect to Senator Javits, Senator McGovern would know these towns, but rather than name the towns I'll talk about distances. The Mitchell trade territory as considered and accepted by those people who run surveys for organizations or companies, Coca-Cola, the implement dealers, for the medical profession, indicate that this is reasonably what Mitchell serves; 35 miles to the east, 35 miles to the north, approximately 65 or 70 miles to the south and then that great expanse to the southwest. the west and the northwest. We find people traveling from 70 to 90 miles to come to the doctor, to buy repairs, to market livestock, to shops.

So I think that if you will consider the great number of cities, counties, townships and villages that we would have to get together to meet the consortium requirement of 100,000 people—I'm not going to go into the western part of the State but, Senator McGovern, you're much more acquainted with the sparse population we have there and I do know they have the same needs there. I would ask consideration be given to reworking or revamping the section that says the requirement is there for 100,000 people.

I concur that there's a safety valve. The safety valve, as I read it, is you transfer the authority to the State to make the application. In my opinion that's not satisfactory. I believe that using that method could lead to political maneuvering and power moves which could be to the disadvantage of some of the most sparsely populated areas which are badly in need of assistance. It is my hope that consideration will be given to setting criteria for qualifications which would give opportunity for the sparsely populated areas to be able to qualify and participate in the program. The bill does address itself to "other distressed areas" but it's in a manner which I believe would not give South Dakota communities the same priorities as the more heavily populated areas. This I believe would be the section of the bill as now written that nearly all of South Dakota would have to depend upon if we were to enter into this program.

My last comment is a question. Senators is it necessary to establish an additional Federal body to serve the recognized needs in our communities or could existing Federal agencies by modification and revision fulfill the needs as described in the bill? My customers, who are primarily farmers and small businessmen, are for the most part very efficient operators. They are concerned with their own operating costs and the cost of operating Government and Government agencies. The rural people in particular have seen cutbacks in the service being provided by the Government for them. I'd like to refer to some of those. The Extension Service has been cut back drastically and has been centralized and we're finding it difficult. The Farm Home Administration has had many changes in their offices and where they are situated and how they are managed. The Small Business Administration is serving bigger areas with less people, and I find that regional offices are being transferred farther away from us rather than being brought closer. If my customers and my friends were inconvenienced as many of them were, they have accepted the reductions in service as "good government" because it cut operating costs. Are there existing agencies that could implement and carry out the fulfillment of the needs set out in this bill?

Senator Javits, Senator McGovern, thank you for your concerns and your program to provide necessary financial service in this segment of our economy, and to both of you I say thank you for the opportunity to appear before you this morning.

Senator McGOVERN. Thank you very much, Mr. Lerdal. That was an excellent statement. I was thinking that you'd appreciate Senator Javits and I being able to control the frost timeable. Both of us used to serve with a colorful Senator from Oklahoma by the name of Bob Kerr and he used to tell a story about making a speech in Oklahoma City to a group of farmers one night. He was leaving the hall in the darkness. He heard one farmer say to another, "What did you think of the Senator's speech?" The other one said, "Well, it wasn't too bad but I think an inch of rain would have done a lot more good." Since we can't produce that always on the right timetable, this bill is at least a start, I think, in meeting some of the problems that you identified in Mitchell with which I'm thoroughly familiar. I know about the street and water system and sewage system needs of that community. Before I try to respond to the question you raised, I'm wondering if you've reviewed the legislation from the standpoint of the interest subsidy concept and whether you think that is a practical approach.

Mr. LERDAL. I've reviewed it. I would say that I have not reviewed it in depth because the information I received, I received on Monday and have been working on it since. I had to review it in a philosophical manner as well as a practical manner. Philosophical manner gets to be, again, the nature of people who I live with. Some of them have for their entire lifetime been antisubsidies and wanted to stand on their own two feet. Throughout the recent years we have found that that's not been the case. I think that many of the people with whom I now do business would accept this and would recognize that this was one of the ways in which they could accomplish what their needs would be. I would find that it would be more palatable for me to have an interest subsidy than it would be to have an outright grant as part of part of this program.

Senator McGOVERN. There is no grant portion at all, as you know, in this bill. It depends entirely on loans. I was struck by the fact that in reporting on the Mitchell situation, you reported information that I heard repeated several times in other communities around the State and I'm sure Senator Javits has encountered it. Communities have a real definite need but it takes so long to qualify for financing that by the time they get the money in hand, the costs have jumped another 10, 15, or 20 percent and, as you say, there is a lesser product in the end for the same amount of money. I would hope that one of the byproducts of this bill would be to accelerate access to the loan market for communities so we could minimize that danger. Do you see that as one of the possible advantages of it?

Mr. LERDAL. Yes, in many ways. One of them is to be able to bid a job and get it financed, get it in operation under the costs you're talking about. I would say to you Senators that we have seen much upgrading already having been done in many of the programs that we deal with through the Small Business Administration and the Farmers Home Administration that have cut down the timeframe, whereby from the time we make application till the time we either get an approval or a denial has been cut back to the point where it's much more efficient and we can depend upon it. Well, if we take a price today and wait 6 or 8 months, we find that oftentimes we haven't got even enough funds and we've complicated our problem.

Senator McGOVERN. Staff just reminded me that when I say there are no pure grants under this bill, there is a provision that in tandem with a loan you can get up to a 15 percent——

Mr. LERDAL. I was going to ask that on page 26, line 9. I had the question written. Why grants?

Senator McGOVERN. Well, you can't get a grant alone but you can, under the terms of the bill, get up to 15 percent in the form of a grant provided it's in tandem with a loan. Mr. Lerdal, I'm very impressed with your point about criteria under which communities would be helped. You point out that the 100,000 figure, even though it does have various escape valves here including the forming of a consortium in a number of communities or working through the State that could apply for loans for particular communities, that it would still, in your judgment, be cumbersome. There is a further escape valve there that I think you've noticed. It provides that distressed areas which have undergone exceptional deterioration of the infrastructure, as defined by the bank, would qualify. There is no limitation on the size there. That could go down to a community theoretically of 100 people, because there's no limitation at all where there's severe deterioration. Obviously those are the ones that are most in need of help. There would be no size factor at all included there. Nevertheless, I think you've raised a legitimate question and one we'll certainly want to look at carefully in the light in which you've said.

Mr. LERDAL. I brought that item up because I was fortunate to have spent 10 years of my working life in Baltic, S. Dak. The time I worked there we used to sit down over a cup of coffee, we knew who lived in every house and we could count the population. There were 235 people today and then a family moved in and we were up to 240. We were really a pretty small town. When we wanted to get some things done with help on Federal projects, what I found was, we had all the spirit and the spirit was very willing and the flesh was willing but we didn't have the knowhow. So we found that oftentimes when we were in competition for some things that were going to take place, while we like Sioux Falls a great deal, we found that with the expertise and knowhow, unless we went down and joined with them and got the benefits of the people who were here and they were very good to us during the time I was there, we sometimes just did not have manpower or knowledge or money in order to make the proper applications to get these. So even with an escape hatch to take care of the little ones, I have some concern about the size, the population so that the entryway is kept open for those that really need it.

Senator McGOVERN. I want to make one final observation. You asked whether some existing Federal agency can perform the functions of this bank. There may be, but we couldn't find any agency that could do it as efficiently as the structure we are proposing here. If this works out the way we intend, with an input of $200 million in Federal funds we can stimulate capital up to some $5 billion. Now, as Senator Javits said in his opening statement, that's a very efficient turnover and if there's some way we could do it with an existing agency, obviously nobody wants to create a new body. I don't know of any mechanism that's in place at the present time that could stimulate that much conservation capital with such a small outlay of Federal tax dollars, but the question is a good one and one we'll want to review again.

Senator Javits.

Senator JAVITS. I'd like, first, if I may, to answer your questions. As a visitor, I'll answer the questions first. You asked for revamping of section 10(a)(1) which is the priority section. The exemptions that have already been mentioned, especially for the record to call attention to section 10(a)(2)(D) which defines, "Distressed areas which have undergone exceptionally severe deterioration of essential infrastructure, as defined by the bank." So the worst cases could very well be assumed under that section.

As to the rest, I hope you'll understand in drafting this bill we didn't assume we were dealing with every phase of the problem. What we are trying to do is get the worst cases and to try to give assistance which would reach the most people. At the same time being realistic about the fact that in our country you cannot do that and leave out large sections of the country geographically, so we try to make a fair break between the two. For example, I call your attention to section 9(f) which seeks to look after a problem where you have a pocket of poverty in a smaller place. I certainly will reexamine that section, but with appreciation also from the fact that we hope States will do something about this, too.

State planning, for example, for a State like South Dakota perhaps allowing such cities as we finally settle on, whether it's 100,000 or 99,900, to have their own access to this kind of a bank, but otherwise the State having access as a unit could be a very feasible solution and we'll examine very, very carefully what ought to be the breaking point in population, what ought to be the exemptions and what ought to be the facility of the State as a unit applying. I like that idea very much. I've done it in many other bills, even in labor bills, which many people have not noticed that we have turned over administration of many bills, OSHA and many other things to States where States proved themselves capable of administering. So I take it very seriously and only point out to you the other side of the coin which is that it's only one agency. We hope it will be a very important one. Really the amounts of money we are talking about are not great at all considering what's involved.

You've got an interesting situation in the country today. The number of employees of States and municipalities, their budgets, et cetera, begin to have a very appreciable relation to that of the Nation as a lot of financial power in the States themselves. So we'll look that over very, very carefully and sympathetically. Sympathetically not just because I'm a do-gooder; I'm not; because it's only hardheaded to understand that if we're going to get a thing like this done, it will have to have a consensus backing, which means backing from States which are rural in character, as well as backing from States which are urban in character. The reason I was so pleased that Senator McGovern joined is because he guarantees in his own person the reality of a broad appeal for legislation of this kind.

The other question you were asking, why not use an existing Federal agency? There I'm a lot more dubious because you talk about bureaucracy. There's nothing more bureaucratic than one of these established Government departments. I don't care which it is, whether it's agriculture or commerce or housing. To throw it into another bank like the Federal Home Loan or something else, is not really ana'ogous from the point of view of professional expertise, to pass on these loans. The RFC, the Reconstruction Finance Corporation, did exactly this, as a matter of fact, except it had even greater flexibility in that it could guarantee paper or perhaps even lend a certain proportion which this bank would do as well, to lend everything the municipality needed.

The RFC is an excellent prototype of what we're trying to do here in a limited field. I don't know of any other. We'd look but I don't know of any other institution that gives you the benefits of collective credit like this could. I think I mentioned on television a little while ago that it follows the pattern of the World Bank which has been an extremely successful pattern where the Bank takes the paper and issues its own, that gives a lot of flexibility. The benefit of an aggregate, an aggregation of basic assets, and the benefit of centralized credit, with one unit, has it all and also behind it the guarantee of the United States.

Finally, I would like to point out to you that this legislation provides that the stock shall be acquired by borrowers in the hope that we'll phase out and into more of a Ginnie Mae proposition. I have no desire for this agency to continue as a Government agency over a period of time. Hopefully by requiring purchase of stock or with the loan we'll get it mutually owned by the municipalities themselves or the States, if they can take advantage of State status.

You asked, "Why grants?" That's your third question. Senator McGovern has already pointed out that the grant can only come in connection with a loan. The reason: It is an anomaly. I'll be the first to agree for the Bank to make grants. That immediately leads you to think why not a Government agency of some kind? In this case I don't like the idea of a Government agency, for the reason I explained. The grant business relates to the fact that many municipalities are so busted that they don't even have the elementary downpayment. Yet they may be in such dire need that as almost an emergency proposition you have to be able to advance them something in order to get them off the ground. I'm not fixed in concrete on the grants. There doesn't seem to be any real support for them. I'd scrap it.

The main thing is the Bank, and operating as a bank with the criteria and professionalism and the ability to build creditworthiness which is the essential strength of a bank structure with the autonomy. That's why it's so important to cut through the time delays and the bureaucracy, the ability to decide by a board and act in a businesslike way which is represented by a bank and also the leverage which the bank type of operation gives you. I mean the first thing you're going to think of when you talk about a Government agency is they're going to make you long-term loans. The fellow running the bank has to issue a profit-and-loss statement. I believe he's watching your P's and Q's. Those are the compensating factors I submit to you in answer to your questions.

I have one other question I'd like to ask you about. I haven't asked you whether as a banker you consider this feasible? In other words, do you think an operation like this with the kind of leverage we're talking about which isn't very great at all, talking about $100 to $200 million for $5 billion which in round figures is a 2-percent leverage, of course it's awful good paper and it's tax-exempt paper that we'd be taking in. I don't, Mr. Lerdal, expect you to answer this off the top of your head unless you're prepared to. I would deeply value your view as a banker, considering markets, considering marketability of municipal paper today. The purpose for which this would be used is building a set value. After all, it's not an expenditure proposition. We're not going to use it for relief. It's building the assets of the municipality which you make available with this type of facility. What do you think of it in practical terms as a banker?

Mr. LERDAL. I would respond with two thoughts. I think that it could be organized, could be set up and could be functional and it could work. The second is that I think for the State of South Dakota it could be an excellent way to bring more capital into this State. We're not a particularly capital strong State. We're a strong State but we use a lot of capital for the number of people that are here. One of the problems I have in my business, we are constantly looking for ways to bring more capital in to be utilized in our big agricultural community. So I believe, yes, it could be workable and, second, I think it could be an avenue of new capital for South Dakota where we could, if we give up something in exchange, there would be an opportunity for us to get in return that opportunity to knock on the doors and receive capital from other parts of the country, we do this with some of the other major lending agencies which are not banks. The Federal home loan bank, which is, in essence, a competitor does bring some money in, the Production Credit Administration and we get the Federal land bank to provide funds for us and I see the possibility that it could also function in that way.

Senator JAVITS. Thank you. That to me is a very important consideration.

Senator MCGOVERN. Thank you, Mr. Lerdal, for your testimony and also the advice and response to our questions. Senator Pressler is here and, Mr. Lerdal, if you were willing to give up your chair, we'll ask the Senator to take that place at the table but we do thank you for appearing here today. I'm very happy to welcome Senator Pressler to this hearing, because he has been interested in the problems of our rural communities and our communities across the country for a long time. He has an approach that I find well worth taking a look at. Maybe we can get a number of Senators that can agree on a compromise, maybe take a number of these different bills and see if there's some common ground we can find where we can all stand together. In any event, Senator Pressler, we are glad to have you here as a witness today.

STATEMENT OF HON. LARRY PRESSLER, A U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

Senator PRESSLER. Thank you very much, Senator McGovern and Senator Javits. We welcome you to our State, Senator Javits, and we're very happy to have you here. I think the subject is very appropriate in this age of modified austerity when we may very well have to rebuild some of our facilities rather than build new ones. I do know that there are different approaches and different thoughts on this matter and I think we can arrive at a bill that will be very productive. I'm distressed that I would probably have to vote against the bill in its present form, because I'm concerned that South Dakota would not be adequately covered under it. I think Mr. Lerdal has already raised that point, but I do think we could reach a compromise at some point.

Senator Dole and I sponsored a bill earlier this year with a similar objective with different definitions, and probably our bill would be as difficult for big cities to qualify under as it might be for some of our rural and small town areas to qualify under the bill before this committee. I think it's important to note that when I was in the House I became frustrated with some of the agencies making the determinations and it's with that thought in mind that I bring these suggestions.

In the bill (S. 225) Senator Dole and I brought forward we did define rural communities on page 4 of our bill as any community, whether or not incorporated, which is located in a county that is not part of a standard metropolitan statistical area, except that the bank may determine that a community located in a standard metropolitan statistical area is a rural community if it finds that there is a lack of public or private financial resources available for investment in the community and so forth. So under Senator Dole's concept, as I understand it, a rural community would mean anything in South Dakota except Minnehaha County would qualify and Minnehaha would qualify if the Bank made a special determination.

I know that under the bill before us, as Mr. Lerdal has pointed out, on page 21 of that bill, there is a qualification for distressed areas which have a population in excess of 100,000 persons. We normally wouldn't have any of those distressed areas which have such a population, that is, barring a drought or some major disaster. Distressed areas which have a population of less than 100,000 persons could establish a consortium. We probably couldn't qualify under that provision. The next point is distressed areas which have a population of less than 100,000 persons, for which the State submits an application. There again, I am bothered because small States seem to lose out. There's the business that the Senator writes a letter and the delegation comes in.

There's a feeling of great uncomfortableness in the Governors of small States. That has been expressed to me on many occasions when I was in the House on the Education and Labor Committee, when that sort of language was in any bill to protect the rural States. Distressed areas which have undergone exceptionally severe deterioration of essential infrastructure, as defined by the Bank, once again must depend on the Bank to come through for them. Our experiences with many of these Federal programs, at least in the education area with which I'm fairly familiar, suggests that if we don't have it in the law, we have a problem.

Of course any legislation is open to suggestion as these things move along; Senator McGovern said this bill is not locked in stone. I would suggest a section (E) that would be very similar to criterion No. 4 on page 4, if we could do that, to include the word rural community. Of course, we are pleased to have Senator Javits here because he's out here listening and getting a point of view from South Dakota, but we could get the term rural community to mean any community, whether or not incorporated.

We have some communities and I believe some counties yet that are not incorporated and, there again, we might have a problem. Now, one flaw in the bill's definition of covered communities, my staff tells me, is that the definition may leave out some cities and areas between 50,000 and a 100,000. That might not happen if the bill accepts enough leeway, but it is another suggestion for change based on the bill that Senator Dole and I sponsored that has similar objectives.

With those suggestions I might conclude by commending Senator McGovern and Senator Javits.

In the next 20 years it appears that we are going to have a period of what I classified last year as modified austerity. We'll be prosperous but not so prosperous that we'll have the Federal funds that were around in the sixties. When revenue sharing comes up for renewal in 1981, I'll support it. All these Federal programs are getting harder to fund and certainly the concept of rebuilding and rehabilitating some of the existing structures is a very important one.

I might also say that technical assistance is something to consider. Many of our small cities and units of government do not have lawyers and accountants or persons with training in how to apply for these programs. Of course, we have the very fine regional planning districts and we have Congressmen and Senators' offices that help out as much as much as they can, but many big cities have at least two or three people who make it their full-time business to look for Federal grants. The city of Los Angeles has a full-time office. The State of Texas has a full-time office that looks for Federal aid for the State. There are two or three other cities that have full-time offices in Washington to search for and to work with the congressional delegations in searching for aid. Sometimes we're at a disadvantage in these rural and small town areas. That's why I would like the two Senators present and the committee to consider writing into the law a provision for what we call rural communities and for communities smaller than a standard metropolitan statistical area. That suggestion is given in the most constructive sense.

I want to thank you both for being here and I want to thank the other witnesses for being here and for sharing their thoughts.

[The bill S. 225, introduced by Senators Dole and Pressler, follows:]

96TH CONGRESS
1ST SESSION

S. 225

To create a rural economic development bank to assist in rural community and agricultural development by making financial, technical, and other assistance available for the establishment or expansion of commercial, industrial, and related private and public facilities and services, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JANUARY 25 (legislative day, JANUARY 15), 1979

Mr. DOLE (for himself and Mr. PRESSLER) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

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A BILL

To create a rural economic development bank to assist in rural community and agricultural development by making financial, technical, and other assistance available for the establishment or expansion of commercial, industrial, and related private and public facilities and services, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Rural Economic Development Bank Act of 1979".

FINDINGS AND PURPOSE

SEC. 2. (a) The Congress finds that—

(1) the economic development of rural communities is essential to balanced national growth;

(2) many rural communities are in urgent need of economic development;

(3) such development can be assisted by the establishment or expansion of commercial or industrial enterprises and related public and private services and facilities;

(4) existing rural financial institutions do not have adequate resources to satisfy the capital needs for investment in rural development; and

(5) creation of a rural development bank will attract and support additional private investment in rural communities.

(b) It is the purpose of this Act to stimulate the economic development of rural communities by—

(1) providing financial assistance for the establishment and improvement of commercial, industrial, and agricultural facilities that increase job opportunities in such communities, supporting private and public development facilities, and housing related to rural development projects financed under this Act;

(2) encouraging private investment in such facilities;

(3) bringing together investment opportunities, public and private capital, and capable management;

(4) making available technical and other supportive assistance to aid rural economic development; and

(5) seeking to achieve these purposes through the establishment of a borrower-owner rural development bank, which will aid private investors, financial institutions, and public agencies to finance rural development projects.

DEFINITIONS

SEC. 3. As used in this Act—

(1) The term "commercial or industrial facility" means a fixed place of business, in or from which a manufacturing, processing, assembling, sales, distribution, storage, service, or construction business is carried on.

(2) The term "supporting private or public development facility" means an element of infrastructure, including recreational and cultural facilities, typically developed and owned by a public agency or private utility, or other service or facility made available to the public which is necessary to support economic development activities under this Act.

(3) The term "housing necessarily related" means housing of all types in or near a rural community which will provide living quarters for the personnel of any new or expanded commercial or industrial facility if the governing body of the political subdivision in which development assisted under this Act will be undertaken, certifies that there exists a need for additional housing in or near the development.

(4) The term "rural community" means any community, whether or not incorporated, which is located in a county that is not part of a standard metropolitan statistical area, except that the bank may determine that a community located in a standard metropolitan statistical area is a rural community if it finds that (i) there is a lack of public or private financial resources available for investment in the community, (ii) assistance under this Act is necessary for the continued economic development or redevelopment of such community, and (iii) the community is essentially rural in nature.

ESTABLISHMENT OF BANK

SEC. 4. There is hereby created a corporation to be known as the Rural Economic Development Bank (hereinafter referred to as the "bank") which shall be an instrumentality of the United States Government, and shall be subject to the provisions of this Act.

DIRECTORS AND OFFICERS

SEC. 5. (a) The bank shall have a Board of Directors consisting of seventeen individuals who are citizens of the United States of whom one shall be elected annually by the Board to serve as Chairman. Members of the Board shall be selected as follows:

(1)(a) Except as provided in paragraph (b) of this paragraph and paragraph (4) of this subsection, the President of the United States shall appoint, by and with the advice and consent of the Senate, seven members of the Board who shall be officials or employees of the Government. The terms of directors so appointed shall be for four years, except that the terms of such directors first taking office shall expire as designated by the President at the time of appointment, four at the end of two years, and three at the end of four years after such date. Any director appointed to fill a vacancy occurring before the expiration of the term for which his predecessor was appointed shall be appointed for the remainder of such term. At the discretion of the President, any individual who ceases to be an official or employee of the Government during his term as director may, notwithstanding that fact, complete his term.

(b) Whenever all class A stock issued under section 6(a) of this Act is retired, all replacement appointments of these seven members thereafter shall be made by election of the holders of class B stock.

(2) The President of the United States, by and with the advice and consent of the Senate, shall appoint six members of the Board from among representatives of the private sector. Of the six persons so appointed, three shall be from among representatives of business and finance, one from among representatives of organized labor, one from among representatives of community development organizations and one from among representatives of the general public. The terms of directors so appointed shall be for four years, except that the terms of such directors first taking office shall expire as designated by the President at the time of appointment, three of the members at the end of two years, and three at the end of four years after such date. Any director so appointed to fill a vacancy occurring before the expiration of the term for which his predecessor was appointed, shall be appointed for the remainder of such term and shall be chosen from

among representatives of the same category as his predecessor.

(3) Four members of the Board will be elected by holders of class B stock. The terms of elected directors will be for four years, except that the terms of such directors first taking office shall expire as designated by the President at the time of appointment of directors under paragraphs (1) and (2), two of the members at the end of two years, and two at the end of four years after such date.

(4) At the first annual meeting of the Corporation after the amount of class B stock issued and outstanding exceeds the value of class A stock issued and outstanding, three of the members of the Board appointed by the President under subsection (a)(1) and two of the members of the Board appointed by the President under subsection (a)(2) shall, in accordance with the regulations of the Board, be subject to replacement by directors elected by the class B stockholders.

(b) The President, by and with the advice and consent of the Senate, shall appoint a president of the bank. The president of the bank shall be the chief administrative officer of the bank and shall perform all functions and duties of the bank, in accordance with the general policies established by, and subject to the general supervision of, the Board, and shall engage such other officers and employees as the bank deems necessary to carry out its functions. The appointment of the president and not more than two vice presidents may be made without regard to the provisions of title 5, United States Code, governing appointments in the competitive service, and they may be paid without regard to the provisions of chapter 51 and subchapter III of chapter 53 of such title relating to classification and General Schedule pay rates. The president of the bank shall be an ex officio member of the Board of Directors and may participate in meetings of the Board, except that he shall have no vote except in case of an equal division. No individual other than a citizen of the United States may be an officer of the bank.

(c) Members of the Board may receive up to $200 for each day or part thereof spent in the performance of their official duties, which compensation, however, shall not be paid (1) for more than seventy-five days (or parts of days) in any calendar year, (2) to any Board member who is a full-time officer or employee of the United States, or (3) if such payment is otherwise prohibited by law. In addition, such members shall be reimbursed for necessary travel, subsistence, and other expenses incurred in the discharge of their official duties without regard to the laws with respect to allowances which may be made on account of travel and subsistence expenses of officers and employed personnel of the United States.

CAPITALIZATION OF BANK

SEC. 6. (a) Subject to the provisions of this section, the bank is authorized to issue from time to time and to have outstanding class A capital stock of an aggregate purchase price not to exceed $1,000,000,000. Shares of such stock shall be nonvoting and without par value.

(b) The Secretary of the Treasury is authorized to and shall subscribe for and acquire on behalf of the United States, as an initial investment in the stock of such bank to begin financial assistance operations, upon request of the Board of Directors, the class A capital stock of the bank of a total purchase price of $1,000,000,000. The subscription of the United States shall be paid as follows:

(1) Not more than 20 per centum shall be paid at the time the bank is organized, as provided for in an appropriation Act, and shall be available as needed by the bank for its operations.

(2) The remaining 80 per centum shall be paid on call by the bank only when required to carry out the provisions of this Act, except that not more than 20 per centum of the total amount may be called in any fiscal year, as provided for in an appropriation Act.

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The Secretary of the Treasury is authorized and directed to pay the subscription of the United States to stock of the bank from time to time when payments are required to be made to the bank. For the purpose of making these payments, the Secretary of the Treasury is authorized to use as a public-debt transaction $1,000,000,000 of the proceeds of any securities hereafter issued under the Second Liberty Bond Act, and the purposes of which securities may be issued under that Act are extended to include such purpose. Payment under this paragraph of the subscription of the United States to the bank and repayments thereof shall be treated as public-debt transactions of the United States.

(c) In addition, the Board of Directors is authorized from time to time to issue to the public and have outstanding class B stock of an aggregate purchase price not to exceed $1,000,000,000, or such larger amount as may be approved in an appropriation Act. Shares of such stock shall be non-voting until such time as the amount of such stock issued and outstanding exceeds the aggregate amount of class A stock issued and outstanding.

(d) In providing for the issuance of class B stock, the Board is authorized to require a person receiving financial assistance from the bank to purchase a minimum number or amount of class B shares, but in no case shall such minimum amount exceed five per centum of the amount of the loan, loan guarantee, or other assistance provided by the bank.

(e) Stock and other securities issued by the bank pursuant to this section and section 7 shall be exempt securities under section 3 of the Securities Act of 1933 (15 U.S.C. 77c).

(f) When a person receiving financial assistance from the bank that holds class B stock pays off its indebtedness to the bank, its class B stock may be redeemed in cash at par value: *Provided,* That such class B stock may in the alternative be used as a credit to extinguish final indebtedness at par value. Class A stock held by the Secretary of the Treasury may be retired at any time, subject to approval of the Board, and shall be retired each year to the extent of the availability of earnings in accordance with the provisions of this Act.

(g) The earnings of the bank shall be determined in accordance with approved accounting principles and practices, as established by the Board subject to examination under policies of the General Accounting Office. Earnings shall be distributed as follows:

First, not less than 10 per centum of net earnings for the year shall be paid into the reserve fund of the bank until said reserve fund shall equal 150 per centum of outstanding stock.

Second, not less than 10 per centum of net earnings for the year shall be paid into the capital surplus fund of the bank.

Third, not less than 10 per centum of net earnings shall be used for retirement of class A stock and other evidences of indebtedness of the bank held by the Secretary of the Treasury.

Fourth, dividends shall be paid on class B stock, at a rate not exceeding the average cost to the bank of funds obtained through issuance of bonds, debentures, and other evidences of indebtedness in its funding operations.

OPERATIONS AND POWER OF THE BANK

SEC. 7. (a) In order to carry out the purposes of this Act, the bank is authorized to—

(1) make, participate in, or guarantee loans for real or personal property or for working capital to any individual, association, partnership, corporation, or public agency, including a cooperative, for the establishment, expansion, or preservation of any commercial or industrial facility, housing necessarily related thereto, or a supporting private or public development facility which is to be established or is located in or near a rural community;

(2) make, participate in, or guarantee loans, including interim financing, for the construction or im-

provement of such facilities to building contractors, subcontractors, or other persons engaged in such work;

(3) provide technical assistance to State and local governments in the preparation and implementation of comprehensive rural community development projects and programs, including the evaluation of priorities and the formulation of specific project proposals, and charge appropriate fees for such assistance;

(4) undertake research and information gathering, and to facilitate the exchange of advanced concepts and techniques relating to rural community growth and development among State and local governments;

(5) develop criteria to assure that projects assisted by it are not inconsistent with comprehensive planning for the development of the community in which the projects to be assisted will be located or disruptive of Federal programs which authorize Federal assistance for the development of like or similar categories of projects;

(6) seek to bring together investment opportunities in such facilities, capital, and capable management; and

(7) carry on such other activities as would further the purposes of this Act.

(b) To obtain indirect participation by private and public financial sources, the bank is authorized to—

(1) issue such obligations as it may determine on a competitive, negotiated or other basis at the discretion of the Board of Directors;

(2) invest funds not needed in its financing operations in such property and obligations as it may determine;

(3) purchase and sell securities or obligations it has issued or guaranteed or in which it has invested;

(4) guarantee securities in which it has invested for the purpose of facilitating their sale; and

(5) purchase and sell loans originated by private financial institutions to borrowers for rural development purposes consistent with the purposes of this Act.

(c) Whenever necessary to meet contractual payments of interest, amortization of principal, or other charges on the bank's own borrowing, or to meet the bank's liabilities with respect to similar payments on loans guaranteed by it, the bank may call an appropriate amount of the unpaid subscription of the United States in accordance with section 6(b)(2).

(d) If the bank finds that a default on financing provided by it may be of long duration, the bank may call an additional amount of such unpaid subscriptions for the following purposes—

(1) to redeem prior to maturity, or otherwise discharge its liability on, all or part of the outstanding principal of any loan guaranteed by it with respect to which the debtor is in default; or

(2) to repurchase, or otherwise discharge its liability on, all or part of its own outstanding borrowings.

(e) The bank is authorized to establish a principal office and branch offices in such locations as it may determine. It may establish regional offices and determine the location of, and the areas to be covered by, each regional office. It may make arrangements with public or private organizations at the regional, State, and local levels, including banking organizations and other financing institutions, to act as agents or otherwise to assist the bank in the conduct of its business.

(f) To carry out the foregoing purposes, the bank shall have such additional powers as are necessary or appropriate in carrying out this Act.

OPERATING PRINCIPLES

SEC. 8. The operations of the bank shall be conducted in accordance with the following principles:

(1) The bank shall undertake its financing, technical assistance, and other operations on such terms and conditions and for such fees as it considers appropriate, taking into account the requirements of the enterprise, the risks being undertaken by the bank, the benefits to

the rural community or to the residents of such communities, and the conditions under which similar financing might be available from private investors.

(2) The bank shall maintain such liaison or consultation with other departments, agencies, or instrumentalities of the Government as may be necessary to insure that its operations are carried out in a manner which will supplement and not duplicate the operations and functions of any other department, agency, or instrumentality of the Government.

(3) The bank shall consult with and shall seek to encourage local banking and other financial institutions to participate in its financing and other activities.

(4) The bank shall, to the extent feasible, give emphasis in its activities to providing financing and other assistance to facilities owned in whole or in part by residents of rural communities or to facilities in which such ownership is made available to such persons.

(5) The bank shall seek to revolve its funds by selling its loans, loans guaranteed by it, and other investments to private investors whenever it can do so on satisfactory terms.

(6) The bank shall be subject to the Government Corporation Control Act (31 U.S.C. 841 et seq.) in the

same manner and to the same extent as if it were included in the definition of "wholly owned Government corporation" as set forth in section 101 of that Act (31 U.S.C. 846).

(7) The bank shall pay, as an operating expense, a return out of gross income, at a rate determined by the Board, not to exceed 5 per centum per annum, on the amounts of outstanding class A subscriptions actually paid into the bank.

(8) The bank shall adopt such bylaws as may be necessary for the conduct of its business and the management of its affairs and may adopt such additional rules and regulations as are necessary and appropriate for carrying out the provisions of this Act.

LIMITATIONS ON FINANCING

SEC. 9. (a) The bank shall not provide financing or other assistance for any commercial or industrial facility, supporting public or private development facility, or housing necessarily related, unless it determines that—

(1) other public or private financing could not be obtained on reasonable terms and conditions;

(2) adequate arrangements have been made to insure that the proceeds of any loan or other financing are used only for the purpose for which the financing

was provided, with due attention to considerations of economy and efficiency;

(3) the borrower or other recipient of financing has adequate equity or other financial interest in or income from the facility to insure his or its careful and businesslike management of the projects;

(4) the governing body of the city or, as appropriate, the governing body of the county, parish, or other political subdivision in which the facility is located or is to be established, or an agency or other instrumentality of such political subdivision designated by such body, has certified to the bank its approval of (A) the establishment of the facility at the particular location, (B) the proposed standards of construction and design, and (C) provisions for the relocation of any residents or businesses to be displaced; and

(5) the establishment, expansion, or preservation of the facility in the particular location will contribute to the level of economic opportunity for residents of the community and contribute to the general development of the community.

(b) The bank shall not provide financing for any commercial or industrial facility which has been relocated from one area to another, except that this requirement may be waived by the Board of Directors if it determines (1) that the establishment of such facility in the new location will not result in an increase of unemployment in the area of original location or in any other area where the enterprise conducts business operations, or (2) that such facility is not being established in the new location with any intention of closing down the operations of the enterprise in the area of original location or in any other area where the enterprise conducts its operations.

EXEMPTION FROM TAXES

SEC. 10. Except as specifically provided in this act, the bank, including its capital and reserves or surplus and income derived therefrom, shall be exempt from Federal, State, municipal, and local taxation, except taxes upon real estate held, purchased, or taken by the bank under the provisions of this Act. The security instruments executed to the bank and the bonds, obligations, debentures, issued under the provisions of this Act shall be deemed and held to be instruments of the Government of the United States, and as such they and the income derived therefrom shall be exempt from Federal, State, municipal, and local taxation.

ANNUAL REPORT

SEC. 11. Not later than one hundred and twenty days after the close of each fiscal year the bank shall prepare and submit to the President and to the Congress a full report of its activities during such year.

AMENDMENTS RELATING TO FINANCIAL INSTITUTIONS

SEC. 12. (a) The sixth sentence of paragraph Seventh of section 5136 of the Revised Statutes, as amended (12 U.S.C. 24), is amended by inserting before the comma after the words "or obligations, participations, or other instruments of or issued by the Federal National Mortgage Association or the Government National Mortgage Association" the following: ", or obligations of the Rural Economic Development Bank".

(b) Section 5200 of the Revised Statutes, as amended (12 U.S.C. 84), is amended by adding at the end thereof the following:

"(15) Obligations of the Rural Economic Development Bank shall not be subject to any limitation based upon such capital and surplus.".

(c) The first paragraph of section 5(c) of the Home Owners' Loan Act of 1933, as amended (12 U.S.C. 1464(c)), is amended by inserting before the semicolon in the second proviso following "stock of the Federal National Mortgage Association" the following: "; or in obligations of the Rural Economic Development Bank".

Senator McGovern. Thank you very much, Senator Pressler. With regard to protecting the interests of rural communities, I think your suggestion is certainly well worth consideration. We don't use the word "urban or rural" in this bill. We've tried to avoid categories insofar as possible but to insure fair treatment to all by insisting that on the Bank Board you would have to have representatives of rural communities. The bill makes a provision for a Board to make the determination as to which communities are the priority ones in terms of need. Sitting on that Board would be representatives of the rural communities as well as the middle sized and larger communities, so that may speak to some of the concerns that you expressed here.

With regard to your own bill, I haven't had a chance to study it in detail as of yet, but there are some things that concern me. I would just like to express two or three concerns and then you can respond in any way you see fit. As I understand your legislation, it would appear to me that it duplicates some of the existing programs for economic development. Your legislation does create a new Federal bureaucracy to do the job given to existing agencies. For example, we now have the Economic Development Administration in the Commerce Department that makes loans and loan guarantees to both public and private enterprises for economic development purposes. It's not quite clear to me why we need a new agency to deal with these economic development concerns. Perhaps some amendment of the existing programs is in order, but I don't really see the case for setting up a new agency to handle that aspect of the program.

Also, it's not clear to me in the bill that you and Senator Dole have offered how these loans are going to be judged. For example, does a company that's operating under bad management qualify for a loan as easily as one that's well managed? Are you going to provide 100 percent of the amount needed for expansion, thus enabling firms with physical or management problems to secure full financing for ventures that may or may not be sound? Also, I'm wondering if you've considered whether there would be a dollar limit on these loans? Would large firms be just as eligible as the smaller type of firm as the kind we have in abundance in this part of the country? Those are some of my concerns and I'd be interested in any general reaction you'd have.

Senator Pressler. I'll be happy to respond. First of all, the Economic Development Agency and many other agencies have not been responsive to rural areas. We've been struggling to get them to be more responsive and, in deed, maybe an amendment would be more corrective. In terms of a new agency, I think probably both bills are very similar in that area. I'm certainly not in the business or eager to create new agencies, but I think the two bills have similar overlapping objectives in that area. In terms of making judgments on loans, there would be 17 individuals on the Board of this particular Bank, and I suppose the decisions on loans would be very similar to decisions made in both bills.

The Dole bill does allow in some instances private companies to become involved, for example, in housing and in other areas, which would encourage use of our free enterprise system in more cases. Also, in terms of limitation of loans, another point that you raised, the 17 members of the Board of Directors of the Bank could set such limitations. So I think the two bills are similar in those respects. The criticisms of the Dole bill might be very similar to criticisms that could be raised of your bill. My purpose is really not to say that one bill is necessarily better than the other, but I would like to reiterate that I do think we should try to write in a provision using the word "rural," explicitly, because I think that under your bill I'm fearful that most of the aid would go to communities over 100,000 people.

Senator McGovern. Thank you, Senator Pressler.

Senator Javits. I'd like to express my pleasure in having Senator Pressler here helping us. I know it's only going to promote our mutual opportunities. I'd like to point out to Senator Pressler, just for myself, I never had any question about its applicability to rural settings when I introduced the bill orginally for Senator McGovern and myself on May 1. Remember, we had testified, on this matter in August of the preceding year, before Moorhead's committee in the House while we were preparing.

I said on page S. 5103 of the Congressional Record:

> Mr. President, one or the most insidious and perilous problems of distressed urban and rural areas in the United States has been the inexorable deterioration that has taken place in their public infrastructure.

I'm thoroughly with you on that proposition and I'm confident we can work it out. I have no problem with that. What does trouble me, Senator, is not so much Senator McGovern's and my ability to satisfy yourself and Senator Dole upon the acceptability and eligibility of settled places in rural settings, but the extent to which you would be willing to see your bill, as it were, merged into our concept because the two are so different.

So my question would be this: Would you feel that what you would do is to take out such parts of your bill as related to infrastructure and these problems we are considering, which is a fairly narrow focus so critically important, and work with us and develop a bill on that subject while still going on with your own, or would you feel that you would you want to kind of transform the whole thing in one ball of wax personally?

I wouldn't be prepared to try to develop a bill which dealt with commercial and industrial facilities, housing, and so on, because the thrust of Bob Dole and yourself in your bill was that you think the rural areas have been neglected for economic development so you wanted to have a bill which was zeroed in on that subject. That expressed dissatisfaction with the EDA; that is, the Economic Development Administration, the Farmers Home Administration, lots of things. I don't think we were prepared to bite off quite that much. I just wonder because that's the main question to me. I have no doubt that we, and you, will get together if you're willing, to take that out of your bill and work it with us and go right ahead with your bill, but I wouldn't want to get it tied into such a big package as you have.

Senator Pressler. Let me respond by saying I think you've made a very good point. I'm certainly willing to assist and I'm here to make suggestions on legislation and certainly with that change to provide for rural areas, that would be very acceptable to me. But in the whole rehabilitation, whether housing or whatever, our statistics show that rural areas in terms of poverty, in terms of bad housing, in terms of substandard housing, are probably worse than many urban areas. I have some statistics that show 40 or 50 percent substandard housing in many counties.

Since the end of World War II we've almost had a subconscious national policy of moving people into our big cities. In our small towns, including my home of Humboldt, the main streets are devastated. This has been a combination not only of agricultural policies but also of interest rates on loans, allocations by the Federal Government, transportation policies, all across the board. So Senator Dole and I wanted to bring together a bill that would provide a way to enrich rural and small town areas to take the pressure off the big cities.

France, for example, has kept people living in rural areas, and small towns with national policies similar to Senator Dole's concept. So that's our thinking behind it and that's the feeling of a lot of constituents out here, and that may be quite contrary to many of the directions we're going in.

Second, so many of these legislative formulas that are to be applied by HEW, do not fit adequately rural needs and problems. We have strongly felt that rural areas and small town areas have been left out or unfairly have gotten smaller amounts. Now, in this State, granted, our Indian reservations receive very high formula allocations and they should and I'm for that and support that. Frequently the average statistics you see for South Dakota on Federal programs are not typical of many of our counties. We have a lot of poverty among the elderly, substandard housing, water systems that are obsolete.

My town of Humboldt struggled trying to rebuild a water system that has rusted. A great deal of rehabilitation is needed in rural areas. It's something that doesn't get much attention. That was the intention of our bill. I'm here to testify more on your bill, but certainly, if we could have a section (E) or if we could have some kind of a provision so we could be sure some of the money would go to rural areas, I would be delighted. I know it's been pointed out that some of the board members might be from rural areas. I'd just be more convinced if we had it in black letter law.

I offered some amendments on Small Business Administration legislation. I wanted the word "rural" in the SBA legislation so I can go back to that agency and say: "Look, we're not getting our share." I think that's very important to a State such as this in any piece of legislation. So I'm perfectly willing to work with you in making the changes that might be necessary.

Senator JAVITS. That's entirely satisfactory to me, Senator. The only thing I didn't want to do is try to carry your bill or any versions of it, because it would be quite beyond us and would break the back of this. There are enough people in the Senate who sympathize with you on rural problems. You could easily kill off this bill with that position even though you may not succeed. It seems we have no problems whatever getting together on the basis of your working with us on the limited focus that we have; with complete, full liberty to you to go ahead with your bill except for that part which would fit into the infrastructure, governmental infrastructure concept. We will apply our minds to that, with you.

Senator MCGOVERN. Thank you, Senator Javits, and thank you, Senator Pressler, for your appearance this morning. Our third witness today is Mr. John Scheltens, the city engineer of Hot Springs, S. Dak. Mr. Scheltens, you can proceed in any way you see fit.

STATEMENT OF JOHN P. SCHELTENS, CITY ENGINEER, HOT SPRINGS, S. DAK.

Mr. SCHELTENS. Thank you, Senator McGovern. Thank you, Senator Javits, and welcome to South Dakota. I hope your visit here is a pleasant one and profitable on. I am the city engineer for Hot Springs and our community is in southwestern South Dakota with a population of 5,000; a rural town. We deal with these problems you're speaking of, or at least I do, on a day-to-day basis. Every day these problems confront me, the phenomenal sum of work and money it takes to rectify these situations.

Hot Springs had its beginning in the early 1880's having its natural resource of warm spring water flowing through the middle of town. The community flourished as a resort and health spa. By 1890 Hot Springs was a prosperous community with multiple improvements to include a modern water distribution system and a public electric power station. Hot Springs had street lights, hard surfaced sidewalks, municipal parks and even a golf course. The city grew strong during its early existence, installing public infrastructures that would serve the community for many years to come. Of an interesting note many of these improvements were funded through local assessment districts.

Major public improvements came to a grinding halt in the early 1930's as the Depression swept the country. Life in Hot Springs, as in all communities throughout the country, was tough, There was no money for public improvements. The city had to make do with which it had. Strictly O. & M., and very little of that.

Since the Depression very few major capital improvements have been made. An era of conservatism has prevailed; not due so much as to desire or choice as to necessity. Economic growth and prosperity in rural agricultural areas is very limited, especially in the sparse grasslands of western South Dakota. Most of our major public infrastructures being used today were constructed prior to 1930. These structures are very old and in an advanced stage of decay. To improve these existing resources so that they are reliable and functional will cost tremendous dollars in capital outlay for the city. Let me illustrate this through only one of our municipal infrastructures:

A public water supply system is one of the most necessary and important infrastructures; it is a lifeline of the community in the literal sense of the word. Many of the water mains in Hot Springs were constructed prior to 1930. These mains are not only decaying from rust and corrosion from the outside but strangulating on the interior due to massive mineral deposits over the years.

Many areas of the city are severely anemic due to the hardening of these arteries. Beneath the city of Hot Springs are 29.55 miles of water main distribution pipes. Of this 17.69 miles are less than 4 inches in diameter providing inadequate water service not to mention extremely poor to nonexistent fire protection. Upgrading these mains alone, not including the rusted and decayed service lines leading from them into the individual home, would cost $1,167,000. Of the remaining 11.86 miles of larger diameter pipe, 2.2 miles is severely decayed and would require a cost of $425,000 to replace. Our pump supply house was built in 1929 and is in desperate need of attention to the tune of $150,000.

In the city of Hot Springs there are approximately 150 fire hydrants; 30 percent of these are mechanically defective, unreparable antiques only decorating the street corners; another 30 percent have such low flow output due to constricted mains that makes them totally ineffective for fighting fires. This is a deplorable situation especially since Hot Springs has one of the best volunteer fire departments in the State.

Senator McGOVERN. Did the limitations on that water delivery system contribute in any way to the inability of the city to put out the fire at the Evans home?

Mr. SCHELTENS. Yes, sir, that is correct. Although that was an extremely large fire, it's debatable, of course, on such a large fire whether any sufficient amount of water could put it out, but it certainly did contribute to the situation.

To make a long story short, just with the municipal water system alone, to bring the existing water distribution system up to snuff would cost $2,569,000. Considering the other necessary infrastructure improvements of sanitary and storm sewer, streets, bridges, and drainage control, constitutes a staggering $16 to $20 million, let alone considering police and fire protection and other subsequent infrastructures to a community. These figures are not for the new or future growth of the city, but for the existing decaying public utilities and services. A study by the sixth district of local government shows that with impending energy impact of Fall River County, Hot Springs could expect by 1985 to incur an additional $14 million in energy impacted expenses on public facilities.

The condition of public infrastructures in Hot Springs is not a sole exception. Exact and similar conditions are found in practically all rural towns in South Dakota and I suspect throughout the Nation. This presents a deplorable and almost inexcusable condition of our communities. We are not speaking of the condition of secondary or supplemental structures, but of the primary basic utilities and facilities necessary to the health and welfare of the community. It is a crime to have let our communities wither to their present conditions. We have no excuse except to argue over the dollars. The technology, the resources, the manpower, and the knowledge are there. We have only to use them.

Funding of these capital resources appears to be our only real problem and indeed in Hot Springs this has been a real dilemma. The tax base in Hot Springs is poor to begin with. More than 50 percent of the population is on fixed income, a large number of retired individuals. Of the property taxes collected the city receives only about 19 percent of the total. Another 19 percent goes to the county and approximately 62 percent to the school system. With only 19 percent of the total tax dollar, the city must strive to maintain 95 percent of the services that citizens require on an everyday basis such as water, sewer, streets, fire, and police protection, et cetera. The money available here is inadequate at best to fund the necessary O. & M. costs, yet alone consider major capital improvements.

Nonetheless the city must undertake repair and upgrade of its infrastructures lest it will die. During the past several years the citizens have become more increasingly aware of the needs to upgrade their community. Recently various programs by the Farmers Home Administration and the Department of Housing and Urban Development have been highly utilized to assist in revitalizing our burden.

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The city must be able to use all its resources to help itself. The city has extended itself into registered warrants at the local banks to help save its resources. The water department is indebted in municipal revenue bonds for the next 40 years. Yet our facilities are decaying before us. Attempting to repair 50 years of neglect is going to take a long time, a lot of hard work and a lot of money.

Citizens are willing to defray a large proportion of these expenses through special assessment districts, and a district process is one of the most fair and economically acceptable means of funding public improvements. A citizen can have a new street or water main installed in front of his home and the immediate cost distributed over a 10-year or longer period at a moderate interest rate. He can see exactly where his tax dollar is going because it directly benefits him. Recently, however, the funding of special assessment districts has become very difficult. The capital money is needed immediately. Local banks are either somewhat hesitant to buy the bonds or are financially unable.

On behalf of the mayor, the council, and the citizens of Hot Springs, I would like to express our support of the legislation introduced by Senator McGovern and Senator Javits to establish a National Bank for Community Conservation. We see this legislation as a "bootstrap" program which would provide another route, another means of loan assistance to cities who want to do something about these problems. One of my only concerns about the project has already been expressed and that is the prerequisites of 100,000 people or over. I do not fully understand that because the problems in our smaller communities as well as our larger communities are the same, the same financial staggering amounts it's going to take and they'll need equally as much assistance as the larger communities. If a smaller community less than 100,000 undertakes these expenses and applies for the loans, I see no reason why the 100,000 population criteria should be in there.

The other point that I care to address is the grant part of the program—and that is that the grant in this particular program—I don't know if it's really all that necessary. I think it would be more beneficial to expand the revenue sharing process that has been going on for a number of years and has proven to be quite successful in administrative costs and in implementation. It allows the local communities to make decisions on what to do with the money, because nobody is more aware of the local problems and how to spend their money than the local citizens and the local government. Thank you, Senators.

Senator McGovern. Thank you very much, Mr. Scheltens. I think what we'll do is go ahead and hear from the other three remaining witnesses and then we'll question you as a panel, if that's agreeable. We will now hear from Mr. Tom Callan, who is a county commissioner of Sanborn County, representing South Dakota County Commissioners Association. Mr. Callan, I want you to know you are now looking at a Sanborn County landowner.

STATEMENT OF TOM CALLAN, COUNTY COMMISSIONER, SANBORN COUNTY, S. DAK., AND SECRETARY-TREASURER, SOUTH DAKOTA COUNTY COMMISSIONERS ASSOCIATION

Mr. Callan. Thank you, Senator. I'm Tom Callan and I'm representing the South Dakota County Commissioners Association. I wish to thank you, Senator Javits and Senator McGovern, for the opportunity to testify here in South Dakota on bill S. 1049 creating the National Bank for Community Conservation.

Certainly there is a need for such a financial tool in the county I serve and certainly the Bank could be a useful tool in the total picture of rural development in our State.

While South Dakota does have at present and usually has a very low unemployment rate according to the national average, we suffer an outmigration of our youth. An example of this situation is apparent in the U.S. Department of Commerce report in January of 1979. From the third quarter of 1977 to the third quarter of 1978 this State's labor force increased only 1.7 percent versus the national average of 3.2 percent. In the same report it was shown that employment was increased by 1.3 percent—the lowest State rate in the Plains region—compared to an increase in the United States rate of 4.1 percent—a threefold lag in South Dakota.

I mention these statistics because they plainly show a need for better job opportunities in our State. But directly related to job opportunity is the condition of the community. In this bill it is called "infrastructures." That is, sewage disposal systems, transportation facilities, water and waste systems, heating, cooling, lighting, health and safety, et cetera. I believe we can all agree that when industry chooses areas for location, expansion or relocation, one of the most influential factors considered by management is the infrastructure of the community itself. I'm sure that community infrastructure will increase even to a greater degree in the future because of the impact of inflation on community and area services. Therefore, if our State is to progress and improve our quality of life, and expand opportunities for our children, we must provide an environment that will draw industry to provide jobs. This bill would provide local and State governments a tool to help accomplish this mission.

The executive director of planning district III is also here with me today and will testify more fully on the needs of area III.

In addition to being a useful tool in rural development, I note some other provisions in the bill that I personally like. They appear on page 7, line 15 under "Organization of the Bank."

Of the 15 members of the Board of Directors, 4 members come from the public, 2 Governors serve and 2 members are elected to serve from the National Association of County Officials as well as 2 mayors. Certainly this should result in excellent and broad-based input to the management of the Bank. I believe this structure properly addresses a universal complaint that governmental decisions are not always made with broad-based considerations.

A broad-based advisory committee is provided at the national level but more importantly in my view is the 18- to 25-member Advisory Council to the 3-member management panel that manages each regional office of the Bank. Again, this provides for local representation that will keep the agency aware of local considerations.

And third, Federal agency representations on the Board at the national level should be a coordinating force that would help simplify the spaghetti plate of Federal programs that are available at the local level. These programs now require a high degree of expertise to administer. There are, because of cost factors, few experts at the small town and county levels of government.

Therefore, because there is an urgent need for a financial tool like the National Bank for Community Conservation, and because it should, with the recommended structure in S. 1049 be cognizant of local issues and considerations, and finally to simplify not only the Bank's but the other agencies' program delivery. I wish to be recorded as supporting S. 1049.

I do have some questions or suggestions.

One, page 12, lines 11 through 20 describe the Regional Advisory Committee. I suggest that language be added to insure that there is at least one advisory member from each State in the region. This could easily be done because up to 25 advisory members are recommended. That way each State would be guaranteed at least one member on the Regional Advisory Committee.

Two, page 20, lines 20 through 22; the bill states that such a small portion of the area is composed of contiguous territory and has a population of at least 100,000 persons.

May I ask what would happen to a county in South Dakota with only 4,000 people? Could they qualify if three of the four criteria were met?

Thank you, gentlemen.

Senator McGovern. Thank you very much, Mr. Callan, for your statement. As I said to Mr. Scheltens, we'll get to your questions here in just a moment. Mr. Rex Winter and Mr. Herman Tushaus are here from the third planning district. Mr. Winter, do you have a statement?

STATEMENT OF REX WINTER, CHAIRMAN, EXECUTIVE BOARD, PLANNING AND DEVELOPMENT DISTRICT III, YANKTON, S. DAK., ACCOMPANIED BY HERMAN TUSHAUS, DIRECTOR

Mr. Winter. Thank you, Senator. I'm Rex Winter from Armour, S. Dak., a small businessman. I don't want to dispute Mr. Lerdal's claim that Mitchell is the most important city in South Dakota. Being a former resident I have to agree with him. I will say that Armour is one of the most important small towns in South Dakota, especially if you're sports minded and in particular a basketball fan. I'm also a country commissioner from Douglas County, fourth district Douglas County, which consists of the city of Armour. I'm the chairman of the third planning district and probably for Mr. Javits' benefit I should say that the planning district in South Dakota, there are six, and they are formed on the county lines and as nearly possible equal in population throughout the State. Ours is the third planning district which is considered southeast central South Dakota. We are pleased to be able to submit this testimony to the Joint Economic Committee in support of S. 1049 entitled the "Community Conservation Act of 1979."

We are an association of city, county, and tribal governments serving local government planning and development needs for some 64 units of general purpose local government. Our governing board consists of 23 local government representatives, most of whom are locally elected office holders. I believe, Senators, that you have our statement in front of you, and it's on our letterhead and at the footnote at the bottom of the paper that you'll see the list of counties we represent and the towns we represent, these towns with a voting membership as according to our bylaws.

The area encompassed by our association includes 97,000 people and extends over 7,900 square miles, or about the same land area as the State of New Jersey. Our communities are small with 41 of the total of 51 having less than 1,000 population. That's covering the entire area of the State of New Jersey with a population of less than this State we're meeting in.

We feel confident that we are qualified to comment as to the appropriateness of the proposed act for helping to meet the capital investment needs of local public facilities. Each year we cooperate with local governments in planning and developing some $3 million in local capital improvement projects. Much of this is completed with debt financing.

I give you that background to qualify ourselves as being able to submit testimony to this committee, and for some of the technical aspects of it I'm turning this back now to our executive director, Herman Tushaus.

Mr. TUSHAUS. Thank you, Mr. Winter. Senators, I'm happy to be here today. We agree with the finding, and the act that there's a definite need for loan assistance for rehabilitating upgrading local capital facilities. As Mr. Winter pointed out, we represent 12 of the 67 counties in this State, a relatively small portion of the State, and we were fortunate in 1975 to have a study done by the U.S. General Accounting Office of our 12-county area. That study looked at the role of the Federal Government in financing public facilities locally. It served its purpose in reporting to the Congress the need for Federal assistance and maybe this bill is an outgrowth of that report. It served a second purpose. It brought to the attention of the 64 local governments the task that was facing them, that of financing capital improvements locally. Based on that recognition our local governments every year put together a sort of survey of need. I would just like to quote some of the total figures in that survey. For city streets alone, this is primarily upgrading, we figure it will cost $14 million. City water systems need to be upgraded, and we estimate that will cost $12 million. City sewer another $10 million and waste-water treatment facilities $24 million for a total of $60 million for upgrading or about $6,000 for every man, woman, and child in the 12-county area. Recognizing that staggering total, we call this thing a wish list knowing full well we'll never be able to fulfill these needs in the foreseeable future.

We have another wish list statewide. I'd like to ask Rex Winter to comment on that.

Mr. WINTER. As a county commissioner concerned with county roads, he asked me to comment on this paragraph. Another wish list which faces all South Dakotans is the maintenance and upgrading costs of our county road systems. For example, we submit current figures provided by the State of South Dakota Department of Transportation on bridge replacement costs for bridges eligible for aid under the Federal aid secondary system. There are a total of 866 bridge structures in this system and 84 of them are in need of replacement at a cost of $15,600,000. At the rate funds are made available to counties for bridge replacement, it will take 8 to 10 years to replace the bridges which should be replaced now. Under the off Federal aid system there are another 433 bridges which need replacement now at an estimated cost of $53 million and there is only $2,500,000 available this year. At this rate, it will take our counties 25 years to replace these bridges. Altogether, there are 4,300 of these bridges and to replace all of those in need of replacement it will cost an estimated $197 million in 1979 dollars.

Mr. TUSHAUS. We've given you some figures to emphasize the need for loan assistance. Those figures by themselves are staggering enough. But when we consider that the Federal Government and State government, through legislation and rules and regulations, has laid upon us other responsibilities, that total up to several more million dollars of investment it becomes even more impressive. I would like to illustrate by way of noting that the Federal Water Pollution Control Act of 1968 and the Clean Water Act of 1977 have required that we clean up our discharges from our water treatment facilities. The estimated costs, according to EPA, for the entire State of South Dakota is $160 million in 1978 dollars. The water is supposed to be cleaned up, the construction and rehabilitation is supposed to be completed by 1985. We will not meet that deadline. At the rate of $16 million a year available through EPA it will take until 1990 and then some in order to achieve the goals of that Clean Water Act. So, there's a definite need imposed on us by Federal-State legislative mandate. Other examples of that can be found in the flood insurance program where we have to clean up our flood ways, the Resource Conservation and Recovery Act of 1976 and the Safe Drinking Water Act of 1974. It's logical, then, for us to look to the Federal Government for guidance and assistance in helping to meet these rehabilitation needs. We, therefore, support the proposed legislation which we think will to some extent address this need.

We believe our local governments are making commendable progress. We think we need some help, however. Therefore, we look forward to S. 1049 and its implementation. We think there are some commendable provisions in the bill. We have some suggestions for changes. We'd like to go into those at this point.

On page 15 of the bill, lines 1 through 7, you provide for a minimum of 2 years' eligibility. We think that's a good provision and we strongly support it recognizing the paperwork and the time element just applied to that factor alone. A second commendable provision, page 15, line 15, when we consider rural areas is allowing for a measurement of distress based on the deficit in employment. Some of the other witnesses have testified already that we do not have high unemployment in this State but we do have a very slow growth in total employment. We think that is very indicative of the economy in the State and the measurement of distress. We, therefore, support that eligibility requirement.

We are more concerned about the 10,000 population figure since we have in our State, only 8 towns of 10,000 population or more and there are about 260 communities. We know that applies only to areas within jurisdictions, but we would like clarification on that. A parallel bill to S. 1049 is the National Public Works and Economic Development Act that has already passed the Senate. That bill provides, similar to this one, the identification of "pockets of distress." They have not at this point in the bill assigned a population number to that definition. However, people from the Economic Development Administration are thinking of 10,000 population. We agree, again, with getting down the unemployment rate and eligibility and that you allow the Governor to come up with a rate of unemployment.

With our small sized communities, the standard formulas just do not work. They don't have the large numbers upon which you can apply standard formulas. If the Governor has the discretion to develop formulas, we think that would be helpful. We agree with the priority system on page 21, line 8, that's been discussed here earlier. We do think you may want to consider adding one somehow to give emphasis to rural areas. It may be based on the relative degree of distress expressed maybe as a percentage. In that way one can avoid mentioning rural or urban. Just say it's related to the degree of distress on a comparative basis.

A final provision of the act which we recommend a minor change in is that rather than just the Department of Housing and Urban Development and Department of Commerce, you may want to include the Department of Agriculture, the Environmental Protection Agency and the title V regional commissions as well as the Appalachian Regional Commission. This would be on page 26, line 24, where loan assistance requests are referred to other agencies who may have grant help.

This concludes our formal comments. We would welcome questions. Thank you.

[The prepared statement of Mr. Winter follows:]

Prepared Statement of Rex Winter

We are pleased to be able to submit this testimony to the Joint Economic Committee in support of S. 1049, the "Community Conservation Act of 1979".

We are an association of city, county and tribal governments serving local government planning and development needs for some 67 units of general purpose local government. Our governing board consists of 23 local government representatives, most of whom are locally elected officeholders.

The area encompassed by our association includes 97,000 people and extends over 7,900 square miles, or about the same land area as the State of New Jersey. Our communities are small with 41 of the total of 51 having less than 1,000 population.

We feel confident that we are qualified to comment as to the appropriateness of the proposed act for helping to meet the capital investment needs of local public facilities. Each year we cooperate with local governments in planning and developing some $3 million in local capital improvements projects. Much of this is completed with debt financing.

The proposed act makes note of the need across the Nation for capital investment in rehabilitation, upgrading, repair and renovation of local public facilities. We are in full agreement with this finding and would like to point to the need in South Dakota and the 12-county area which we represent (there are 67 counties in South Dakota).

In 1975 the U.S. General Accounting Office surveyed our 12 counties for the purpose of determining the extent to which Federal programs were helping solve capital improvement and other needs in an area typical of the Midwest—Great Plains States. While that study was important in serving the purposes for which it was set up, it performed another useful purpose for our local governments. For the first time for many of them, it brought into focus the extent of the financial problem facing them with respect to local facilities.

Each year now, we update a survey of expenditure needs for local capital facilities—our public investment plan. Examples of investment needs for our one tribal government, our 51 town and cities and our 12 counties include these:

City streets	$14, 412, 000
City water systems	12, 000, 000
City sewer	10, 400, 000
Municipal wastewater treatment facilities	24, 000, 000
Total	[1] 60, 812, 000

[1] Or $6,260 per capita for the 97,000 persons in our 12-county area.

We fondly refer to this as our "wish list" recognizing full well that we will never be able to fulfill these needs in the foreseeable future.

Another wish list which faces all South Dakotans is the maintenance and upgrading costs of our county road systems. For example, we submit current figures provided by the State of South Dakota Department of Transportation on bridge replacement costs for bridges eligible for aid under the Federal aid-secondary system. There are a total of 866 bridge structures in this system and 84 of them are in need of replacement at a cost of $15 million. At the rate funds are made available to counties for bridge replacement, it will take 8 to 10 years to replace the bridges which should be replaced now. Under the off-Federal aid system there are another 433 bridges which need replacement now at an estimated cost of $53 million and there is only $2.5 million available this year. At this rate, it will take our counties 25 years to replace these bridges. Altogether, there are 4,300 of these bridges and to replace all of those in need of replacement it will cost an estimated $197 million in 1979 dollars.

These figures are staggering to us when we examine our ability as local governments to raise revenue and when we look at our ability to incur further debt. The problem is compounded, however, when we consider additional replacement and upgrading costs placed on us by State and Federal mandates.

I am referring here to rehabilitation and upgrading costs for locally controlled capital facilities which are mandated by Federal or State law and regulations. The example which immediately comes to mind is that of upgrading our wastewater treatment facilities in order to meet requirements of the Federal Water Pollution Control Act of 1968, as amended by the Clean Water Act of 1977. According to provisions of this act, some 359 wastewater facilities (wastewater and water treatment systems currently discharging polluted water) must be upgraded by 1985 at an estimated cost of $160 million in 1978 dollars. The same act, however, provides financial aid for this purpose. But, at the rate it is being made available ($16 million in 1979) and taking inflation into consideration, it will be at least 1990 before we meet the goals of the Clean Water Act. As local governments, we face similar mandated expenditures for upgrading in such areas as drinking water treatment facilities (Safe Drinking Water Act of 1974), solid waste disposal (Resource Conservation and Recovery Act of 1976), and storm water drainage facilities (Flood Insurance Act of 1974 and the Clean Water Act).

In our judgement, then, it is only proper to look to the national level for guidance in arriving at a system for financing the rehabilitation and upgrading of local public capital facilities, We, therefore, support S. 1049.

The National Bank for Community Conservation holds promise for supplementing local government efforts. There are 51 municipal governments in our 12-county area with a combined population of 55,971. There long-term indebtedness for 1977–78 was $6,577,000 or $118 per capita. This does not include indebtedness for other public facilities like schools and hospitals and is sizable when one considers that fully 1 in 5 of all families are at or below the poverty level compared to 1 in 10 for the Nation.

We believe our local governments are making commendable progress in upgrading public facilities through debt financing and the National Bank proposed in this act would be a welcomed helping hand in this effort.

There are several provisions of the act which stand out as promising elements of a much needed public investment assistance program for local governments.

The first one which comes to our attention is the provision (page 15, lines 1 through 7) which provides for a minimum eligibility period of 2 years. This is a very commonsense approach, given the normal amount of time consumed in paperwork associated with capital facilities development.

A particularly good provision when considering rural areas is the method proposed in the act (page 15, line 15) for measuring distress based on the deficit in employment growth as compared to other areas. We generally find that our young people do not stay long if there are no job opportunities; hence, a measurement of distress based only on the employment rate itself does not provide a complete picture of the economy of most rural areas.

We are generally supportive of this and the other criteria proposed in the act for determining eligibility. You may want to consider, however, using populations of less than 10,000 when considering eligibility for other distressed areas which are encompassed by a local government with a population of 50,000 or more. We make this observation because we see the opportunity for linking loan assistance under this act with financial assistance provided for under provisions of the National Public Works and Economic Development Act which is currently under consideration by the Congress. This act (NPWEDA) allows for "pockets of distress" to be identified in otherwise ineligible jurisdictions without setting a minimum population requirement.

We agree with the provision for assigning unemployment rates in cases where such rates are not normally computed for the jurisdiction (pages 18–19, item (6) Assignment of Rates). Our experience is that the unemployment rates or rates of growth for employment are not available for all but two of the 51 communities in our area. Therefore, we are encouraged by the provision proposed in the act for handling this situation.

We agree that provision should be made for giving priority to projects (page 21, line 8) and, in addition to those considerations proposed in the act, section 10(a)(2), thought should be given to adding a consideration based on the relative degree of distress as defined in section 9(b) Method of Determination.

The provision in the act dealing with the encouragement of funding by other Federal departments is commendable (page 26, line 24). We propose that it can be logically expanded by including such other departments as the Environmental Protection Agency, U.S. Department of Agriculture, Department of Transportation and other regional entities such as the Appalachian Regional Commission and the title V regional commissions.

This concludes our comments on the proposed Community Conservation Act of 1979. We thank you for this opportunity.

Senator McGovern. Thank you very much. I think you've given us a number of thoughtful suggestions. We'll certainly look at them very carefully. Our final witness is Mr. Dave Wentzlaff of the South Dakota Farmers Union, who is testifying on behalf of President Ben Radcliffe.

STATEMENT OF DAVE WENTZLAFF, DIRECTOR, LEGISLATIVE SERVICES AND ADULT EDUCATION, SOUTH DAKOTA FARMERS UNION, ON BEHALF OF BEN H. RADCLIFFE, PRESIDENT

Mr. Wentzlaff. My name is Dave Wentzlaff. I live in Huron and I'm currently director of legislative services and adult education for the South Dakota Farmers Union. I'm here today to present this statement on behalf of the Farmers Union and our president, Ben Radcliffe. President Radcliffe would have liked to have presented this statement himself, but due to a meeting of the board of directors of National Farmers Union, he was unable to be here.

I want to thank you, Senator Javits and Senator McGovern, for holding a hearing in South Dakota on S. 1049. South Dakota is one of the most rural and sparsely populated States in America and, as such, suffers from a credit shortage that delays, if not actually prevents, a steady-paced rural development effort.

I would like to point out some reasons why we support S. 1049.

First, the "share purchase" concept of the Bank for Community Conservation, or the requirement that borrowers become shareholders, complements some farmer-oriented credit banks like the Federal land bank and the PCA. This type of structuring has a proven track record, and certainly the extra credit injected into the agricultural industry has been responsible, at least in part, for the fact that American farmers are the most productive in the world.

Second, the impact of inflation has caused communities to reject proper maintenance or to postpone the construction of items necessary to the economic growth of the community. Inflated facility maintenance costs or new capital outlays have a severe impact on taxes, not only on agricultural land, but also on city property. South Dakota has one of the highest property tax rates in the Nation. The creation of this Bank would, at least to some extent, recognize the applicant's ability to pay, and the Farmers Union has always supported that concept in Federal financing.

Third, the needs for community and area improvements in rural areas are extensive. Industry is needed to support job demands, and industries will generally give greater consideration to locations with excellent community facilities than to those rural areas with deteriorating accommodations. I would remind you that the present cost-price squeeze in farm commodities has become so intense that many of our farmers and their wives have been forced to seek off-farm/ranch employment in order to hold onto their farms and ranches. So, as a farm and ranch organization, we too, are deeply concerned about job opportunities in our State.

Fourth, we like the broad-based advisory representation, as provided in the regional structure of the Bank, but we would recommend that there be a minimum of one representative from each State on the regional advisory council.

Fifth, double-digit inflation has become almost a fact of life and, unforunately, may be here to stay. Since construction of new facilities is going to prove prohibitive in many cases, it becomes a necessity for communities to follow a program of scheduled maintenance in order to keep old facilities in good repair. As State, county, and city budgets have become increasingly strained, scheduled, adequate maintenance emerges as the only practical alternative available.

Sixth, the imminent loss of the Milwaukee Railroad has plunged South Dakota into a transportation crisis of major proportion. One possibility for affording the State the continued necessary rail service would be the formation of local railroad associations or cooperatives which would operate branch lines. For these groups to be successful viable transportation alternatives for our rural communities, they will need an adequate source of credit. The Bank for Community Conservation envisaged in S. 1049 could be part of the solution of that need.

Seventh, with the disastrous energy and transportation situation we now find ourselves in, we need loans to help such endeavors as the repairing of bridges, roads, and streets, the maintenance of highways, and rejuvenation of our rail system.

The South Dakota Farmers Union wholeheartedly endorses the concepts embodied in S. 1049 and urges its quick passage and enactment.

Thank you very much for the opportunity to appear before you today to give the views of the South Dakota Farmers Union.

Senator McGOVERN. Thank you very much. I think there are a number of excellent suggestions in that statement of yours. As you know, I've been especially concerned about the loss of rail service in this State. I think we've persuaded the Department of Agriculture to provide us credit funds to keep at least a sizable part of the branch lines functioning in the State. We have also additional funding through the Department of Transportation for the main line, but I quite agree with you sufficient rail service is crucial to everything we've been talking about here today, in all of these communities.

I just want to make a few observations about what has been said by the panel, and then I'll yield to my colleague, Senator Javits. I'd like to stress to all of the witnesses that we have to face the political facts of life when we try to get a bill like this through the Congress of the United States. I'd like to draft a bill that was just purely for South Dakota and get 49 other States to vote for it, but I've been around there a long time and I know that it doesn't work that way. You have to strike a compromise that nobody is entirely happy with. If Senator Javits had written this bill for New York City, it would be quite different than the bill we've got before us. So what we've tried to do, and I want to stress this to my friend, Senator Larry Pressler, is not to write a South Dakota bill, although we'd like that, but to try to write one that can pass in the Senate of the United States.

We've been working on this legislation now for a couple of years. We gave rather lengthy testimony over in the House of Representatives last year. They suggested that we give a little further thought to refining and modifying the bill, talk to people in both rural and urban areas. So this is what we've come back with. Having said that, I want to stress that what I said at the beginning is true. We were going to listen very carefully and read the written testimony in the record here. I think there are some suggestions that have been made that perhaps Senator Javits will seriously consider without making any commitments here this morning. I do think there have been some insights that have been offered that may improve the bill and make it a little more acceptable in the rural States.

As I see Senator Pressler's bill, I see that primarily as an economic development bill. It has a somewhat different purpose than our legislation which is a more specifically targeted bill aimed at community facilities. It's not primarily a bill to promote economic development but to lay the basis for sound facilities, water, sewers, streets, bridges, things of that kind rather than to bail out private industry and private businesses; that is another matter, a perfectly legitimate concern but probably not within the purview of this bill.

I want to say to Senator Javits that we're deeply grateful that a man as busy as he, has traveled this far. It is much easier for me to get on an airplane and fly up to New York, but he had to fly most of yesterday to get out here. We'll have to devote the balance of the day getting back. So we're very grateful to him.

Years ago when we first started the Select Committee on Nutrition and Human Needs, Senator Javits was the ranking representative on that committee and I was the ranking Democrat as chairman. We teamed up on a number of bills, school lunch bills, child nutrition programs, special programs for women, infants and children, and other kinds of special feeding programs. That experience convinced me of the wisdom of finding an influential urban Republican as a partner because we never lost. We won every time we offered a bill. We used to beat the standing committees and other committees time after time on the Senate floor because we had a broad base. I think we can say that's one of the great success stories in American politics. There aren't very many hungry people in America any more. There were 25 or 30 million when we started these nutritional efforts.

In more recent efforts Senator Dole has taken Senator Javits' position on that committee, so now we get a lot of Dole-McGovern bills that are passing. But in any event, I think the same approach might work with regard to doing something about these deteriorating infrastructures. As Mr. Scheltens and others have said, they often represent a community disgrace. It's nobody's fault in particular, other than it's just a lot easier to postpone repairing those water lines and sewage and streets. You have to pay the people that are working. You have to pay the sanitary people and the street people and the clerks and the auditors but it's easy to postpone painting the bridge or taking care of the rust problem or the sedimentation problems and things like that that are destroying these facilities.

I think all of you, in endorsing this bill, including Mr. Lerdal, my fellow townsperson from Mitchell, have made it clear that you'd like to see some modifications made and we'll keep these suggestions very much in mind as this legislation works its way through the legislation mill. I'd like now to yield to Senator Javits.

Senator JAVITS. Thank you. May I, too, thank the witnesses. You've been tremendously enlightening and added to my education enormously. I thank you very much. I do have some questions of each of you. I'd like to start in the order in which we actually had the testimony—with Mr. Scheltens first. Mr. Scheltens, I got the implication in your testimony, correct me if I'm wrong, that you saw a real lack in Federal programs which concern themselves with new facilities, new sewer treatment facilities, new water treatment facilities, but do nothing to conserve the old. Therefore, I ask: Does this bill, to you serve a unique purpose, to wit, preserve existing facilities—so much less expensive, so much more logical, so much less disruptive—which is relatively unserved today?

Mr. SCHELTENS. That's true, Senator. A number of the programs we've utilized address their special conditions and usually from the standpoint of providing facilities we don't have as opposed to doing something about the facilities we do have. There is nothing wrong with any of those particular Federal programs. They've been very helpful to Hot Springs and I'm sure many communities throughout the country. But our biggest dilemma is not for the new people coming into our community as much as it is for the old people who have lived there for many years and paid thousands of tax dollars, and the things they really want most from a local government are good streets and good water and good fire protection and the reason they live in that community.

Senator JAVITS. Thank you. Mr. Callan, you said something that hits me very hard. You spoke of suffering from an outmigration of our youth. Now, I didn't want to get into a big discussion with Senator Larry Pressler, my friend, but one thing his bill doesn't take care of is that famous World War I syndrome: How are you going to get them down on the farm after they've seen Paree? That's exactly what this problem is. That's why I think what we're trying to do here is critically important because you're going to keep the people you've got, which is priority No. 1. You're losing them fast enough in terms of the young and the enterprising. You have to make life more valuable, more comfortable, more considerate. Then you also have a chance to get some back, if you get new people relocated.

You know, I come from the biggest city in the United States. I can tell you there is a big crosscurrent working here of people who were just getting exhausted from city living, its responsibilities, the drain it takes on energy and the motion. If they saw and if they knew about all alternatives, I think more and more would be willing. We're now getting, for example, an extension of the metropolitan area of New York as far out as 100 miles or more which is unheard of because it used to be, oh, almost a fixed limit of 50; 50 was really going a long way. People now are commuting to the outer reaches of Long Island which is a part of our metropolitan area and taking 1½ hours a day each way.

I'm not suggesting for a moment that you're necessarily going to be an attraction to New York, but I don't see why not. Many have settled in the West, many in Colorado. I'm suggesting that this business goes to pretty basic things. The first thing is to keep your people here, who are here now, you know, the young children who are growing up. Do I get that as a deep concern as far as you're concerned for your particular county commissioners?

Mr. CALLAN. I agree with you, Senator. I think by the use of this bill it would become law, for instance, if in the economic development, if the municipalities and counties and so forth would be able to utilize that money to increase the capabilities to induce more industry into the communities, it's bound to help your outmigration and so forth.

Senator JAVITS. Thank you. You've asked a question and I'd like to answer it. You asked what's going to happen to a county in South Dakota with only 4,000 on this criterion of a part of an area being distressed. We have to have some criteria. I think we'll have to look it over again very carefully. I noticed there was an indication here that 10,000 seems to be kind of an accepted standard. That doesn't necessarily have to be true in this case. You know, it's the old story, whenever you set a limit, petty larceny is generally $25 in many States and suppose a fellow steals $25.03 or steals $24.98, it's always a problem. But we'll look it over very, very carefully.

Mr. CALLAN. Thank you, Senator.

Senator JAVITS. Turning now to Mr. Winter and Mr. Tushaus, I found your statement, which covers a rather broad range on the whole, considering the nature of this community and of people, very interesting. It was you who mentioned, I think, or Mr. Tushaus, the fact that in searching around for a criterion under the National Public Works and Economic Development Act for "pockets of distress" they, too, were playing around with 10,000. Was I correct in that?

Mr. WINTER. Yes.

Senator JAVITS. I don't think there would be any problem about dealing with other departments such as you suggest in the act. Your suggestion for relative degree of distress as a method of determination may very well be the way to tie in rural communities, in other words, to go along with Senator Pressler and rural communities provided we set some criterion as to the relative degree of distress.

The reason I say that is: One of the things Senator McGovern instructed me about this bill, as we heard it today, was the criterion of whether the local community was doing all it could to help itself. I think we're going to have to set that as an element of judgment by the bank. The maintenance of local effort becomes very important in all of these considerations in that that, too, just like distress should be a criterion on the minus side. Maintenance of efforts should be a criterion on the plus side. You'd want even a distressed community to be able to to a lot more to help itself than it is, so I got that implication from your testimony. The other that I found interesting—I want to be sure I've got the right person on this testimony. I think perhaps it came in the last statement about these assessment districts. Who testified to that?

Mr. SCHELTENS. I did.

Senator JAVITS. That's important because you can't get financing even for self-help. That gets pretty tough.

Mr. SCHELTENS. We presently have some area of town that is in serious need of sewer mains. The people in the area petitioned to council they wished to establish a district and to pay for it. Council accepted the petition. I've drawn up the plans for it. The plans have been approved and ready to go, but we are unable at the present time to obtain the financing necessary. Even though the people are willing to pay their fair share, the local bank at present is not willing to underwrite the bonds necessary.

Senator JAVITS. There's no other place you can get it?

Mr. SCHELTENS. Not that I'm aware of.

Senator JAVITS. That certainly should be an element of eligibility for this Bank. There again we may be able, just for the sake of the staff, to consider the rural community as very eligible where you have a simple financing problem and yet no way to finance it, and it's perfectly good paper with adjoining property owners willing to take a relatively short obligation. Those obligations are generally 10 years, so that's a very good suggestion.

Finally, may I say to Mr. Wentzlaff, we appreciate your testimony very much for your support of the idea for mutualizing this enterprise, when and if we can, through the stock ownership concept. That's a borrowed technique from the rural co-ops and I think a very good one. By the way, a number of the agencies in Washington that grant mortgage loans are now almost all owned by people who have used their grants and gradually bought in. One of those stocks is listed on the New York Stock Exchange. One of the stocks of these companies is listed on the New York Stock Exchange, so I'm glad you find that notion very congenial. Senator McGovern, I deeply appreciate this opportunity. It's been tremendously enlightening to me and will help us materially in this legislation. It is a hard trip and I'm glad I came. Thank you, sir.

Senator MCGOVERN. We're glad you came, too, Senator. We're going to host you for lunch in a little bit, but I do want to again thank all of the witnesses who traveled here to testify today. I think we made an excellent hearing record this morning. We want to thank the members of the press who have stayed with us throughout the morning and also the court reporter who has recorded it for 2½ hours without a break and who has inspired us all. In any event, thanks to all of you for being on hand this morning and the hearing is now adjourned.

[Whereupon, at 12 noon, the subcommittee adjourned, subject to the call of the Chair.]

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