

TRENDS IN THE FISCAL CONDITION OF CITIES

HEARING BEFORE THE SUBCOMMITTEE ON INVESTMENT, JOBS, AND PRICES OF THE JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES NINETY-EIGHTH CONGRESS FIRST SESSION

DECEMBER 12, 1983

Printed for the use of the Joint Economic Committee



U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1984

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TRENDS IN THE FISCAL CONDITION OF CITIES

MONDAY, DECEMBER 12, 1983

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON INVESTMENT, JOBS,
AND PRICES OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:45 a.m., in room SD-562, Dirksen Senate Office Building, Hon. Paul S. Sarbanes (member of the subcommittee) presiding.

Present: Senator Sarbanes.

Also present: James K. Galbraith, deputy director; and William R. Buechner, professional staff member.

OPENING STATEMENT OF SENATOR SARBANES, PRESIDING

Senator SARBANES. The subcommittee will come to order.

Today, the Subcommittee on Investment, Jobs, and Prices of the Joint Economic Committee is conducting a hearing to examine the fiscal condition of American cities. Each year, the Joint Economic Committee conducts a comprehensive survey of city finances. This year's survey, which is based on responses from 321 cities of all sizes and from all parts of the country, showed that cities expected 1983 to be a year of unmet needs and a year of continuing financial stress.

The report of the committee is this document, "Trends in the Fiscal Condition of Cities: 1981-1983," and this is one in a continuing series of such studies which has been undertaken by the committee in recent years.

Almost two-thirds of all cities surveyed expected to show a deficit in their operating budgets for 1983. This is well above the predictions in 1982, when 43 percent of the cities had deficits. Since many States require their cities to have balanced budgets, a deficit means either higher taxes or poorer services, and many cities face this problem in 1983.

In recent years, of course, help from the Federal Government has declined. Between 1981 and 1983, a time of severe recession, our survey showed that Federal aid to cities declined by 15 percent.

States were not able or did not make up that gap and the cutback left most cities with the problem of adjusting to this era of financial stringency.

Our survey also found that taxes are going up in cities of all sizes. City income tax rates were projected to be almost 20 percent higher in 1983 than they were in 1981, while city sales tax rates were expected to be 5 percent higher.

Finally, many cities have been forced to make severe cuts in services. Our survey found that all categories of cities, except the very largest, had to reduce their social service work forces between 1981 and 1983, and many cities, especially those with already high unemployment rates, had to lay off workers in all categories.

The survey did show that the largest cities, which perhaps were hit by the problem first, seem now to be adjusting in terms of what they expect in their operating budgets, and have adjusted either through higher taxes and/or spending cuts.

The economic recovery to the extent that it carries forward may ease the burden of budget deficits for some cities. But experience has shown that cities sink faster during a recession and come out of it more slowly.

If the Federal Government continues to shift responsibilities onto the shoulders of State and local governments, the future will offer, of course, more deficits, higher taxes at the local levels, and reduced services for lower- and middle-income urban dwellers.

We are very pleased this morning to have three mayors to appear before the subcommittee: Mayor William Donald Schaefer of Baltimore, who has just been inaugurated into his fourth 4-year term, a record in our city; Mayor Melvin Primas of Camden, N.J.; and Mayor Thomas Bass of Hyattsville.

We look forward to hearing from these mayors, with their insights into the budget and tax problems facing our cities and views about how the policies of the Federal Government can be redirected to reduce or address the fiscal problems that they and their counterparts across the country are confronting.

Congresswoman Marjorie Holt of Maryland, who is a member of this committee, is suffering from the flu and regrets very much missing this hearing on the fiscal condition of the cities. She asked me to say that she especially regrets missing the testimony of Mayor Schaefer, whom she joins with so many of us in regarding as the most outstanding big-city mayor in the country. She knows of the mayor's interest in enterprise zone legislation and hopes that he will address that subject in his remarks.

Mayor Schaefer, I think we will start with you. If you would come forward, we would be very pleased to hear from you.

STATEMENT OF HON. WILLIAM DONALD SCHAEFER, MAYOR, CITY OF BALTIMORE, MD.

Mayor SCHAEFER. Thank you very much. I listened to what you were saying and the difficulty is that everything I am going to say, you are much more qualified, in a sense, than I am because you know the city of Baltimore better than I do. You have heard my presentation time after time. So what I am going to do is to go through what you have heard us give so many times.

But some of the things that you said are really important, very important. You said we adjust. That is exactly what we do. If we do not get money from the Federal Government, if we do not get money from the State government, we adjust and we adjust down. We do not adjust up.

As far as deficits are concerned, as you know, we cannot run deficits in the city of Baltimore. We have to balance the budget. And that means that we balance it by cutting out, well, really needed things as far as the cities are concerned.

Again, I would just call to your attention, we still have the poor in the city. They have not been reduced, by any means. I remember a number of years ago, we had 90,000 people on public assistance. We have 90,000 people on public assistance now. Yes, we have been able to move some off public assistance, but they are more and more coming on. And again, calling your attention to something that, again, you know, that only about one-third of the people in the city of Baltimore pay taxes. One-third pay no taxes and one-third pay some tax. That is not enough to even cover the police and the fire protection that they have.

You asked some of the things that I would like to testify before you and other committees over here, particularly on more direct aid to cities of need. And that is one of the highest priorities that we have.

One of the things that concerns us, the priorities of the State. Our Governor's priority, highest priority, I think, right now is cleaning the bay, which is very, very important. We should not lose sight of other areas, such as education, and others where we are very interested.

I have testified continually on the enterprise zone. We are going to be designated as a second enterprise zone under the State law, but we need to pass the Federal law in order to allow the State and Federal, and the State and the local, to work together on the enterprise zone.

It is a pleasure to be here. We will just run through very briefly for your edification—we do not like to start off with all the negatives. We like to start off with the positives. And, as you know, the city of Baltimore, over a period of time starting way, way back, has been a city that's been revitalized, a city that has not given up, a city of hope. One of the very essential ingredients in our position has been, No. 1, the Federal help. And without that, we would not be where we are today. Federal and State help are essential if we are to move forward. It is one of the things that is absolutely essential—general revenue sharing that was just passed, urban development action grants, again, very, very important, Economic Development Administration, interstate transfer program on our highways and the mass transit, job training program, and, of course, the importance of all of these to us are just something that is needed.

That, of course, leads to a stronger community.

Now what has been the result of Federal aid? Revitalized neighborhoods, as you know, Senator, our emphasis has been on neighborhoods and we have done a very fine job in that, again with Federal help. An aggressive, innovative program for manpower training and retraining, we have been very active in retraining people who have lost jobs. And that is one of the important things.

A vibrant downtown—hotels, offices, a whole new tourism and convention business. We have been able to do that and, again, using the tools of the Federal and State governments to get this vibrant downtown.

When you come over to Baltimore, you see this downtown, very attractive, and you think to yourself, well, everything is going well. That

is fine. The accessible base that we have, it is not able to keep up with the amount of poor that we have in the city. While we are making progress, we still have most of the poor located in the city of Baltimore and surrounding areas.

The first important step in the regional transit network is something that we are working on right now. And there was a commitment years ago by the Federal Government to mass transit. I believe, unfortunately, it does not have that same commitment.

Senator, on the way over, one of the very able staff people was talking to me and telling me about the effort to locate the homeless in the city of Baltimore. Now there are a lot of homeless people in the city of Baltimore. And efforts will be made by people who are well meaning to make sure that the city of Baltimore builds more areas for the homeless, that they convert old buildings for the homeless, that they do all sorts of things to aid the homeless.

Now the fallacy in something like that, you will be adding to the burden of an overburdened city in bringing more homeless into the city of Baltimore.

Now that is not that we keep losing faith in the homeless. But what would happen, we will get a converted building for the homeless, the education, the jobs, the police protection, and all the rest will fall on the people of the city of Baltimore who are overburdened with taxes.

So when you are talking about the homeless, an effort must be made to distribute the homeless into areas that can absorb them without adversely affecting the base.

One of the things that I have been reading in the paper, Mr. Meese's statement about no one is hungry in the cities and States in the United States. Now I agree with him that there is no famine in our country. But I think the thing that possibly Mr. Meese—and I know Mr. Meese and I do not think he is a heartless person at all—I do not think he has ever had an opportunity to walk in cities, walk in the cities in the neighborhoods, in the soup kitchens, in the areas where the poor really are located.

And when you talk about a person not starving to death, they are not. And I will cite you a case of a soup kitchen the other day on Washington Boulevard. And I went in, went upstairs, and saw a lot of people working to help the homeless, to help the poor, to help those who really needed a lunch or a dinner, whatever it might be. A woman in her late forties, with a baby on her lap—I walked over to her, as I usually do, and talked to her. And the first thing she says was, I want you to get my husband a job.

Fine. OK. What does he do? He cannot read. He cannot write. He is 55 years of age. She was there because her child would not have had a noon meal if that soup kitchen had not been provided. Now the child was not starving to death by any means, but it was necessary, if that child was to eat at noon, for her to be there. And that is not an unusual occurrence in the city of Baltimore. Again, I am not talking about the city of Baltimore as a place that is so down, that it has all the poor people in the world there. There are people in need in those cities. And what Mr. Meese does not really understand is that it is important to walk in the streets and talk to people in those soup kitchens. Another thing that Mr. Meese says, when people go into soup kitchens, they voluntarily go in. Well, there is nothing wrong with that, you know.

Sometimes, at Christmastime, some senior citizens are so lonely, there is no place for them to go. And it is interesting to know that people can go there and at least talk with someone. And they go in. They do not go in to cheat the government or cheat the people out of a meal.

Well, anyway, you have heard me so many times talking about cities that carry a special burden. Baltimore, a per capita of \$5,842. The rest of the State of Maryland, almost \$9,000. That per capita is very low.

Percentage of the elderly—you are getting into significant percentages as far as the poor are concerned.

The percentage of Maryland elderly—25 percent and, yet, we have 18 percent of the population. But 25 percent of the elderly, the rest around 74 percent.

Percentage of female-headed households—and I guess you have been reading that article. There is a series of articles that appeared in the paper about the plight of the female heads of households. Baltimore has 34 percent, the rest of the State of Maryland, 65 percent.

Percentage of population with fewer than 8 years of education—very important. And you definitely have supported education and you know very well if you do not have an adequate education, you pay for it in social services. You pay for it in prison later on. Baltimore, 32 percent have 8 years. The rest of Maryland, 67 percent.

Public housing—and this is what I was talking about—public housing in the State of Maryland and the city of Baltimore—17,000 units keeping over 50,000 people. You know there is pressure, continual pressure to move people out of public housing and put them into individual homes. It is very difficult to do. Another significant figure, this is important, 43,000 people waiting for public housing in the city of Baltimore. This is where the distribution of the poor and those in need of public housing should be made; 2,127 public housing units in the remainder of the metropolitan area.

So you see, almost 18,000 public housing units in the city of Baltimore, and in surrounding areas, just about 2,000. And you know what the tax rate is in our city because you are paying taxes in the city. Ours is double and in some areas triple the amount of taxes all over the State.

Another interesting thing is the fiscal health of the city of Baltimore.

The strain of serving those most in need and least able to contribute. You know, we have brought the population from almost 1 million down to 786,000. But the percentage of the people who left were mostly the people who could afford to pay the taxes and left for the counties where there were shorter taxes. One cent on the property tax rate raises per capita in Baltimore 63 cents, and in the surrounding counties, 93 cents up to \$1.54. There is a very interesting figure on that that my assistant prepared for me. One penny in the city of Baltimore is worth \$470,000. In Montgomery County, that same penny brings in \$1,145,000. Now that is a significant figure between what our penny is worth and what one in Montgomery County, Prince Georges County, \$714,000, Baltimore County, \$758,000.

Again, as in many of the cities like ours, we have 25 percent of our tax base tax-exempt. And this is what you were talking about. We are not allowed to have a deficit.

So when we prepare our budget, we prepare our budget and it must be a balanced budget.

Stringent borrowing practices to insure strong bond rating. Again, you are very familiar with this and I will not spend much time on it; we do not raise our bonding capacity over \$35 million each year and we have held that for about 10 years. So that means that our ability to produce capital projects is limited by inflation.

We have been upgraded by Moody's because of that conservative policy from—we are A-1 and we sell our bonds really at AA.

Senator **SARBANES**. We have, I think, the best bond rating of any large city in the Northeast; is that not right?

Mayor **SCHAEFER**. Again, because of our conservative policy. Our need each year, as I say, is \$35 million, \$15 million self-supporting and \$20 million non-self-supporting. Our needs are about \$168 million for projects backed up, all of which are important.

Senator **SARBANES**. Mister Mayor, I think we ought to get on the record here the difference between the property tax rate in the city and the surrounding jurisdictions, because some assert that the cities could do more. I think it is important to make that comparison, to show that when you are in an environment in which your surrounding jurisdictions have significantly lower tax rates, if you seek to do more, you only undercut your own efforts because you then drive people out of the city and further erode your tax base.

Mayor **SCHAEFER**. There will be a chart on that in just a moment, and we have the Johns Hopkins study we distributed earlier.

Senator **SARBANES**. OK.

Mayor **SCHAEFER**. Well, I will put this chart back for now. Baltimore, 63 to 154. The most significant is our penny being \$470,000 against Montgomery County's \$1.1 million. I also know that some of the surrounding counties are going to reduce their tax rate next year because of a continual increase in the assessable base.

Our tax rate is \$6. The surrounding counties, anywhere from \$2.83 to \$3.50, and some on the Eastern Shore, we will not mention those, but they are about \$1.83 or something like that. But our tax rate in the city of Baltimore, with less ability to pay, is \$6. The surrounding county tax rate is about \$3.50—I believe it is about \$3.50.

I have been corrected. It is \$2.99.

Senator **SARBANES**. So the tax rate in the city is double the tax rate just across the boundary, which, of course, means if you try to do more, you run the risk of driving people out of the city.

Mayor **SCHAEFER**. If we try to do more—we will get to that one I believe on the next chart coming up.

Now you talked about Federal aid. Federal aid is 16 percent of the city budget in 1984. It ranged between 21 and 39 percent of the city's budget in 1975 to 1982. So there is a very, very substantial reduction in the Federal aid on your city budget.

Now when you talk about what we do, we cut back. We reduce in order to absorb that loss of the Federal budget. The same way with State aid. It dropped from \$538 to \$403 million. And I do not expect a tremendous amount of infusion in the State aid. I am hoping for education and transportation this year.

Now what happened? The net effect of the 1984 Federal and State budget, a 26-percent reduction in spending on services, 24-percent increase in revenue via taxes, and our property tax rate remains constant.

If we go much above that \$6, your ability to bring any young person into the city, they just will not come into the city any longer. We must be very careful that the tax rate does not go too far. Our tax rate to meet our needs would be about \$8, \$8.50, or \$9.

How do you do all of this? Well, you've heard me so I will just speak very briefly. What we have done is reduced our work force from 40,000 to 32,000. Now if you look at it strictly from the standpoint of the economy, that is fine. You have taken 8,000 people off. But I would say, of the 8,000 that left, half of them are on welfare. So you are paying for it in a different way, because many of the people that are working in the cities—and I want to be careful how I say this—are unable to find employment in the private sector. There are not that many sanitation workers. There are not that many other workers.

So I would say of that 8,000 reduction, we are paying them in welfare or other efforts. And so, we could use the 40,000 people to do the many things that we have to do.

Some of the things that we have done that you know about, we cut the library 1 month out of 12. In other words, we have library service for 11 months. And she has done a remarkable job. I might say that. The number of trees pruned, 12,000 down to 5,000. A lot of people lost their jobs.

And then there is the cultural area. Instead of being able to help the cultural areas, we started to charge admission.

When you decide that you are going to cut the budget, you set a tax rate. This is not good planning and I know that it is not a good way to work the budget. You set a tentative tax rate. Then you set your priorities in the city. Police—there is no way that you can cut the police force in the city of Baltimore. It is a continual process of educating the people in our city to keep themselves from killing themselves. Sanitation and education.

So you set four priorities and you say, OK, these are the things that we are not going to cut. We are going to let these alone. Every other department must absorb the cuts. So she cuts back 1 month in library service. So that is not what you would call the greatest way to budget cut, but that is the way you do it.

We cannot afford any more cuts in any of the forces that we have because the next reduction has to be in police, fire, sanitation, and education, because the rest of the agencies are right down to where you just forget the agency entirely and just take it out of existence before you start cutting the services that are absolutely essential to a city like ours. And that is what is known as police, fire, sanitation, and education.

How have we been able to make these up? You have sat in with us many times on "Blue Chip-In." "Blue Chip-In," I do not need to describe that one to you. The business community has been, I think, outstanding in the city of Baltimore in working with us. They have just done a marvelous job. The same way with summer jobs. The business community has picked up, not nearly the amount of jobs that we lost because we lost over \$80 million in summer jobs and other things. So we picked up some summer jobs with the business community.

And then we tried something else called the "Wish List," where we publish in the newspaper the needs of the city of Baltimore, the things we wished for.

Now we are going to establish an educational trust fund, not to augment the educational budget, but to find new and innovative ideas and ways to help education. We are going to establish an educational trust fund. And, of course, we support a soup kitchen. This is where I was talking about Mr. Meese.

If you expend a little time—and I have asked all of our staff people to go and spend 1 day in the soup kitchen. When they come back, they can see that those people in there are not just sitting there for recreation. They are there because they need the food. And the ultimate responsibility for all the things we do rests on the city of Baltimore.

And I think the last thing that we want to show you are just some things that we would like done.

One of the things that we must have is something that I think all mayors will agree on, a national policy on cities, on cities like ours, cities in the areas of need. A national policy on cities so that we know where we are going in the future. It is very important. Consistent, reliable funding levels. You cannot have funding levels, one year one level, and then the next year it is something else.

So a projection of at least 3 or 4 years on funding levels is very important.

A sense of hope for our most disadvantaged citizens. People in the city of Baltimore—and you have walked the streets with me all summer long—the thing that they really talk about is, they say, I want a job. Some of them are really sincere. Others have given up hope and have just automatically said, give me a job. Get me a job.

But they have to have a sense that there is a possibility that there is some work.

The other thing is to instill in young people the feeling that there is, after they come out of school, that there is a possibility of getting a job. And that is the most important thing, a sense of hope.

And then targeting of precious resources to the most distressed communities. That is so important.

Some of the cities in the South really do not need much. Some of the cities like ours absolutely need assistance if we are going to take care of the poor that are confined, restricted, made to stay in cities like ours. So that targeting of money to our area is absolutely essential.

And the restoration of the Federal commitment to excellence in education. And you are a strong proponent of education. You talk about education. But there must be a continual commitment to excellence in education in cities like ours. And if not, the youngsters just grow up—cannot read, cannot write—they start off with 2½ strikes against them and they cannot make it.

Renewal of the Federal commitment to the production of low-income housing. Not in the city of Baltimore, necessarily, but in areas that can afford to take low-income housing, from the areas surrounding us and take many, many units of low-income housing, could absorb them and could handle them. If you put all the low-income housing in a city like ours, and we must pick up the fire, police, education, recreation, that is a tax burden and it hurts.

But you need to have a commitment to low-income housing.

And then continued use of industrial revenue bonds, mortgage revenue bonds, and sales leasebacks. Every time the cities find something that they can use as a tool, it should not be taken away from

them. And that is the most important thing. IRB's, and the rest of these mortgage programs are essential to if we are going to move, continue to move forward. And we have bucks in the pipeline.

Now you say, well, they are not really important. But they are important. They are more important to cities like ours and maybe you have to target in the cities of real need, like ours. And they are important.

A commitment to renew the Nation's infrastructure. Again, the bridges in the city of Baltimore, all the problems that we have with the water and the sewage systems in the city of Baltimore. We are doing the best we can. We are not in desperate straits, but we need a commitment to be able to help us with that infrastructure.

And last, a commitment to mass transit. We have always wanted better mass transit. We believe in mass transit, a way to move people. It helps. And we need a strong commitment to mass transit.

Just to summarize, again, I will not say that—no mayor likes to come over and say that the cities are falling apart. We are not falling apart. We are doing well. And we are doing well because of the commitment by the Federal Government, by the State government, by our own people, and by the business community working hard to do something. But we have to have that continual commitment from the Federal and State governments or we cannot continue on.

Thank you.

[The Johns Hopkins University study referred to follows:]

Baltimore and the Maryland Economy

Allen C. Goodman

David L. Puryear

Foreword

As the City of Baltimore and the State of Maryland adjust to substantial reductions in Federal aid, the perennial issue of state aid to the City takes on new importance for both governments. As part of a larger study of this State-aid issue being conducted by the Greater Baltimore Committee, Johns Hopkins University, through its Center for Metropolitan Planning and Research, agreed to contribute a study of the economic and fiscal linkages between Baltimore City and the rest of the State. This report presents our findings that the economic linkages are strong, that the City is in many ways the State's economic and cultural hub, and that the rest of Maryland has a direct self-interest in the fiscal health of Baltimore City. These findings are neither new nor surprising, but they are too often overlooked or taken for granted. The fiscal pressures generated by the current recession combined with cuts in federal aid make it more important than ever to remember the interdependence of the City and the rest of the State.

Executive Summary

In order to facilitate the reassessment of Maryland's state aid policies, this study has examined several aspects of Baltimore City's fiscal circumstances. Its key findings include the following:

- Baltimore City has been hit hard by recent economic events:
 - Federal aid to the City has been slashed to less than one-third of its previous levels, a loss of nearly \$300 million annually.
 - State aid has also fallen, although by a smaller amount.
 - The combined impact necessitated an increase in own-source revenues of 24 percent between fiscal 1982 and fiscal 1984 and a simultaneous decrease in spending of 26 percent.
 - These aid cuts to the City have been exacerbated by the impacts of recession and inflation.
- The State of Maryland has an important stake in the City's fiscal health because of the City's role as the State's employment, transportation, and cultural center.
 - In 1980, Baltimore City provided jobs for more than 180,000 people who lived outside the City. This was more than 22 percent of the total employment in the metropolitan area and nearly half (48 percent) of the City's employment. Another 55,000 workers commuted from homes in the City to jobs outside the City, bringing the total number of commuters to 236,093. In other words, nearly 30 percent of the jobs in the entire metropolitan area were held by people who linked the City with the rest of the area.
 - The Port of Baltimore generated nearly 40,000 jobs outside the City, many as far away as western Maryland, according to a 1982 report prepared for the Greater Baltimore Committee.
 - The City is responsible for the construction and maintenance of highway access to the Port of Baltimore. Without efficient access, many port-related jobs throughout the State would soon disappear.

- The City provides substantial subsidies to its arts and cultural institutions despite the fact that more than half the patrons of the 13 largest arts and cultural institutions in Baltimore City were from outside the City (according to a 1976 Johns Hopkins Center for Metropolitan Planning and Research study).
- Baltimore also has special spending needs because of its disproportionate share of the State's poverty and social problems.
 - Baltimore City's residents have a per capita income of \$5,842, less than two-thirds of the \$8,814 level for the rest of Maryland.
 - The City's unemployment rate for 1982 was 11.9 percent compared to only 7.3 percent in the rest of Maryland.
 - The 1980 Census reports that 18.9 percent of the households in the City were below the federal poverty line compared to 5.1 percent of the households in the rest of the State.
 - More than half of the City's housing units are more than 40 years old while only about 1 in 7 units in the rest of Maryland were built that long ago.
 - Compared to the rest of Maryland, Baltimore City has more than twice the proportion of people with eight years or less of education and less than two-thirds the proportion of people with some college.
 - Baltimore has a disproportionate share of population in two groups which are frequent users of social services, the elderly and female-headed households. The elderly proportion of the City's population is one and one-half times its level in the rest of Maryland, while the City's proportion of female-headed households is more than two and one-half times its proportion in the rest of the State.

For all of these reasons, it is in the interest of the State to provide the additional aid needed to permit the City to cope with drastic cuts in federal aid, with the impacts of the recession, and with the special needs of its residents.

Introduction

During the last two decades, virtually every large city in the United States experienced a decline in population and the loss of jobs to its suburbs. Baltimore was no exception. During the same period, many of these cities also experienced substantial downtown revitalization, and again Baltimore was no exception. Indeed, Baltimore's downtown renaissance has been one of the most spectacularly successful. A smaller number of large cities enjoyed a substantial degree of neighborhood stability and Baltimore was again included. At the same time, urban poverty problems and the conditions in some neighborhoods became worse in all of these large cities, including Baltimore. In other words, Baltimore is similar to many other large cities: full of contrasts between its successes and its problems.

In the last two years, however, a new element has entered the situation. Federal aid to state and local governments has been cut dramatically. This affects Baltimore both directly in terms of lost aid and indirectly in terms of aid lost by the State of Maryland which would have permitted the State to do more. Because of the seriousness of this new fiscal problem, and its implications for state aid to the City, this study examines the City's role in the State economy and the extent to which the City and State are economically interdependent. This information is essential if the State is to respond in a responsible way to Baltimore's situation because many City activities and services have important spill-over benefits to people living elsewhere in the State.

The following section provides evidence of the City's fiscal plight and makes it clear that the City has already been forced to tighten its belt drastically. Succeeding sections examine the services Baltimore provides to the rest of Maryland, the key role of the City in generating jobs, and the special needs of the City.

While Baltimore's situation is similar to other large cities, it is very different in many ways from the rest of Maryland. This does not mean that people in Baltimore are somehow different, but only that cities are different than suburban or rural areas and that these differences are economically important. For example, according to the 1980 Census the City of Baltimore had a population density of 10,048 per square mile. By contrast, the rest of the State had an average density of 350 people per square mile. This basic difference affects job patterns, residential patterns, and a variety of public services. Unless we understand the implications of such differences, it is not possible to assess accurately the City's need for or the State's benefits from state aid to Baltimore.

Baltimore's Fiscal Condition

Baltimore, like most other large cities, has been under fiscal pressure for a number of years. As the City loses population it is losing part of its tax base because it no longer receives income taxes from those who move elsewhere. Fiscal pressure also arose from the fact that in earlier years the City's property tax base grew very slowly, much more slowly than inflation increased the cost of City services. More recently, as the City's revitalization has proceeded, property values in the City have more than kept pace with inflation; but just as this trend began to come to the City's rescue, the double burden of a severe recession and federal aid cuts arrived.

In the recession of the mid-1970's, the federal government provided a substantial package of anti-recession fiscal assistance to local governments. In the current recession, however, the federal government has continued to cut local aid, exacerbating an already serious problem. The numbers in Table 1 speak for themselves. In fiscal 1983 Baltimore City received \$134 million in federal aid after averaging \$425 million annually over the previous 8 years. In fiscal 1984, federal aid is expected to rise only to \$159 million, still very far below the pattern of the previous decade. If these numbers are adjusted for the impact of inflation, the difference is even greater.

In fiscal 1984, the State of Maryland also reduced its aid to \$403 million from \$538 million the previous year. The combined impact on the City budget has been enormous. In fiscal 1982 federal and state aid to Baltimore totalled \$1,131 million and accounted for two-thirds of the

Table 1
Trends in Federal and State Aid to Baltimore

		<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
State Aid	Dollars (Millions)	349	409	458	438	456	485	503	557	538	403
	Percent of Total Budget	28%	29%	36%	35%	36%	28%	38%	33%	40%	33%
Federal Aid	Dollars (Millions)	389	513	315	329	317	676	284	574	134	159
	Percent of Total Budget	31%	36%	25%	27%	25%	39%	21%	34%	10%	13%
State and Federal Aid Combined	Dollars (Millions)	738	922	773	767	773	1,161	787	1,131	671	562
	Percent of Total Budget	59%	65%	61%	62%	61%	67%	59%	67%	50%	46%
Total Budget	Dollars (Millions)	1,242	1,426	1,258	1,237	1,252	1,730	1,340	1,675	1,344	1,240

Source: City of Baltimore, Fiscal 1984 Budget in Brief, p. 32.

City's budget. Two years later, in fiscal 1984, the combined aid is only \$562 million, less than half the previous level. If the City had been able to maintain its 1982 spending level of \$1,675 million, this new level of state and federal aid would have covered only one-third of it. In fact, the City's fiscal 1984 budget has shrunk to \$1,240, a decline of 26 percent in just two years.

The loss of \$569 million in federal and state aid between fiscal 1982 and fiscal 1984 has been accommodated by the City only by spending \$435 million less and by increasing the amount financed by the City itself by \$134 million (a 24 percent increase in two years). Thus, from the perspective of residents and businesses in the City, there has been a 24 percent increase in the revenues they provide (via fees, taxes, reassessments, etc.) accompanied by a 26 percent cut in spending on services.

This fiscal problem is not unique to Baltimore but in the absence of a turnaround in federal policy, its resolution is up to the City and the State. There are two important reasons for the State to play a role in resolving this fiscal problem. One is the City's need for help and the other is the self-interest of the rest of the State. The City's stake is obvious, but what does the State have to lose if Baltimore cuts its services even further?

Indeed, the rest of the State has a great deal to lose and we will examine the nature of this interdependence in the next two sections before returning to the question of the City's needs.

Baltimore's Services to Maryland

No large city exists in isolation from its surrounding area. A city's very existence is derived from economic interactions with this area. In the case of Baltimore, the port provided the original impetus for the City's location and the port served a much wider area than the City itself. Later the railroads radiated from Baltimore because of the port and created more interaction between the City and its surrounding area, extending the region served by the port considerably. The City developed as a city because people wanted to locate near the port. Shipping activities generated jobs, and those workers needed to live near their workplace. Eventually Baltimore became not only a shipping port but a manufacturing center located at a shipping port. Each set of port-related jobs also generated jobs for merchants and others serving the port workers and their families. This process eventually led to the metropolitan center that Baltimore is today, with more than 30 times the population density of the rest of the State.

Today Baltimore is still focused around the port, although it is enormously more diversified than in the past. A substantial fraction of the City's economic activity is port-related either directly or indirectly. Of equal importance is the fact that thousands of jobs outside the City, and many more in the City but held by residents of other jurisdictions, are also port-related. Because nearly all of the port's shipping activity occurs in the City, the City's role in providing access to the port is critical to the economy of the whole State. Whether this access is by rail, as it is for coal from western Maryland, or by truck, the City plays an important role in maintaining or improving access.

The City, of course, must repair, resurface, and rebuild roads leading to the port for the sake of its own economy, but the interdependence of the City and the rest of the State via their mutual benefit from the port puts special importance for the whole State on the City's fiscal ability to maintain these roads.

Baltimore is not the only port on the Atlantic coast. From Boston to Savannah, other ports are competing with Baltimore. If the access roads to the Port of Baltimore are too congested, business may be diverted to other ports. In some cases, there is direct conflict between rail freight and truck freight where highways cross the rail right-of-way. This form of congestion could be eliminated by a highway bridge or tunnel over or under the rail lines, but such improvements are expensive.

The potential importance of such improvements is large. In the last two years, two new coal export facilities have been constructed in the Port of Baltimore at a total cost of more than \$300 million. If these facilities were to operate at anywhere near capacity, some rail-highway intersections would be closed to highway traffic for more than half of every hour around the clock as coal trains (many from western Maryland) carried their loads to the piers. This would cause intolerable congestion to residents, businesses, and some other shipping activities.

The City also provides fire protection service to the port, requiring specialized equipment and personnel. Last, but not least, a significant portion of port facilities is State property which pays no property tax. Thus, the City loses revenue which private facilities would generate. The State has provided special assistance to Baltimore in the past for a

variety of special circumstances. Our point here is not whether State aid for either highways or port fire protection is adequate, but rather that the City serves a much larger area and population than itself in providing these services; therefore, the State has a stake in ensuring that the City continues to be able to afford them.

The list of Baltimore's services to the rest of Maryland does not end with port-related activities. The City's early and farsighted investment in a water supply system enables it to provide service to several other jurisdictions in the metropolitan region at a cost far lower than if they had to invest in their own systems. Another important benefit to the rest of the State arises from the concentration of arts and cultural institutions in the City of Baltimore. This important Baltimore role is worth a careful look.

Arts and Culture

A 1975-76 study of arts and cultural institutions by The Johns Hopkins Center for Metropolitan Planning and Research surveyed the 13 largest such institutions in Baltimore. As Table 2 indicates, 8 of the 13 institutions had more non-City residents than City residents among their audiences. Even where non-City residents were a minority of patrons, there was still a benefit to the rest of the State from these Baltimore institutions. In fact, when all 13 institutions are combined, more than half (51 percent) of their patrons lived outside Baltimore City.

Because the primary goal of arts and cultural institutions is not economic but cultural enrichment, the policies legitimately pursued by these institutions often lead to budget deficits. It is seldom possible for these

Table 2
Residential Locations of Patrons at Selected
Baltimore City Cultural Institutions, 1976

	<u>Baltimore City</u>	<u>Other</u>	<u>No. of Responses</u>
Arena Players (Turner Auditorium)	86.7%	13.3%	212
Arena Players (CCB)	78.2	21.8	315
Baltimore Museum of Art (Main)	50.4	49.6	274
Baltimore Museum of Art (Downtown)	46.7	53.3	279
Baltimore Opera (Lyric)	42.1	57.9	377
Baltimore Symphony (Lyric)	40.6	59.4	425
Baltimore Zoo (Druid Hill)	38.3	61.7	299
Center Stage	43.8	56.2	411
Maryland Institute (Decker Gallery)	67.8	32.2	210
Peabody Institute	64.9	35.1	287
Peale Museum	30.4	69.6	232
Theatre Project	46.7	53.3	484
Walters Art Gallery	35.9	64.1	685

Source: Joint Committee on Cultural Resources, In Search of a Regional Policy for the Arts, Phase II, Center for Metropolitan Planning and Research, Johns Hopkins University, Baltimore, 1976. Table 3.

institutions to avoid these deficits without establishing admission prices that would put them out of the financial reach of most of the population, especially the City population.

Since requiring these institutions to cover their budget deficits on their own is counterproductive, it falls on other institutions to supply the necessary funds. Some funds have come from the private sector, but most of the funds which keep arts and cultural institutions solvent come from federal, state, and local governments. This is consistent with the idea that as a matter of public policy the arts and other cultural institutions should be available to every citizen.

The earlier Johns Hopkins study also examined the available record of financial support for these same institutions. It found that Baltimore City had provided a far larger share of non-federal aid than all other local governments together and a far larger share than it was "using" according to Table 2. Table 3 shows the level of funding by Baltimore City and other local governments to the studied institutions for fiscal year 1973. Of the institutions studied, the City of Baltimore allocated almost \$1.9 million to subsidize the arts. Nearly \$1.8 million of this went to institutions with more than half their patrons living outside the City. The counties of Anne Arundel, Carroll, Harford, and Howard combined with Baltimore County to contribute \$103,500 to these same institutions in fiscal year 1973. There has been a significant improvement in this ratio in the last ten years, but the fact remains that the City is spending money for public services enjoyed by thousands of non-City residents.

It is worth noting that the City incurs other cuts in connection with these institutions in addition to direct subsidies. They provide police,

Table 3
Local Public Subsidies for Baltimore
Cultural Institutions in 1975

	<u>Baltimore City</u>	<u>Other</u>
Arena Players	\$ 0	\$ 0
Baltimore Zoo	910,114	0
Baltimore Museum of Art	634,724	0
Baltimore Opera	0	1,000
Baltimore Symphony	170,000	57,000
Center Stage	29,500	10,000
Maryland Institute	61,502	0
Peale Museum	89,891	0
Peabody Institute	0	0
Theatre Project	0	0
Walters Art Gallery	<u>25,000*</u>	<u>35,000</u>
Total	\$1,920,731	\$103,000

*Does not include any funds for capital program to build new wing.

Source: David Cwi and Albert Diehl, In Search of a Regional Policy for the Arts, Phase I, Center for Metropolitan Planning and Research, Johns Hopkins University, Baltimore, 1975. Table VII.9.

fire and other routine municipal services, but do not receive any property-tax revenues from these non-profit organizations. A 1977 study, also conducted by the Johns Hopkins Center for Metropolitan Planning and Research, estimated the costs to Baltimore City of eight cultural institutions. They concluded that the City provided \$952,000 worth of services to these eight institutions and lost between \$60,000 and \$100,000 in foregone property taxes. Furthermore, the cost of special police services such as traffic control for large events is not included in these totals. Thus, arts and cultural institutions do represent both a drain on the City's fiscal resources and a benefit to many non-City residents.

More recent examinations of both patronage and public financial support for these cultural institutions (by the Citizens Planning and Housing Association in 1981 and by the Greater Baltimore Committee in 1983) indicate that little change has occurred since the Johns Hopkins studies. A majority of patrons still come from outside the City and despite some increased support from the suburban counties, the City still provides the vast majority of local public support for these institutions.

Baltimore's Jobs

In many ways the most fundamental and basic linkage between Baltimore City and the rest of the State is the extent to which the City and its suburbs form a single labor market. There are two major dimensions to this linkage. First, although the population of Baltimore City has fallen both absolutely and as a percentage of the State population, it remains a potent job generator for the rest of the State. Second, the Port of Baltimore is also a major source of employment for the rest of the State; and, in fact, for much of the Middle Atlantic region.

In 1980, Baltimore City provided jobs for more than 180,000 people who lived outside the City (see Table 4). This was more than 22 percent of the total employment in the metropolitan area and nearly half (48 percent) of the City's employment. Another 55,000 workers commuted from homes in the City to jobs outside the City, bringing the total number of commuters to 236,093. In other words, nearly 30 percent of the jobs in the entire metropolitan area were held by people who linked the City with the rest of the area.

Another way to look at these commuter flows is as a net contribution of more than 125,000 jobs to the State's economy, above and beyond the 252,000 jobs held by City residents. Furthermore, the trends during the 1970's were toward greater economic and employment interdependence. The number of workers who commuted into the City rose from 136,000 to 180,964 between 1970 and 1980. This increase of 44,664 more than offset the decline in the City held by City residents, so that total employment in the City rose by more than 10,000 jobs.

Another dimension of the City's employment linkages is the Port of Baltimore. A recent study conducted for the Greater Baltimore Committee by

Table 4
Residence and Workplace
1970 and 1980

<u>Location of Residence</u>	<u>Location of Workplace</u>	<u>1970</u>		<u>1980</u>	
		<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
City	City	231,239	32.0	196,995	24.6
Suburb	Suburb	282,469	39.1	368,615	46.0
Suburb	City	136,300	18.9	180,964	22.6
City	Suburb	<u>72,713</u>	<u>10.1</u>	<u>55,129</u>	<u>6.9</u>
TOTAL		722,721	100.0	801,703	100.0

Note: Individual percentages do not add to 100.0 due to independent rounding.

Booz, Allen, and Hamilton* attributed nearly 79,000 Maryland jobs to the port. Nearly 24,000 of these jobs were generated directly at the port. More than half were generated outside Baltimore City, and more than 10 percent were generated outside the Baltimore City-Baltimore County-Anne Arundel County region.

In addition to the jobs that were directly generated, over 55,000 were indirectly generated by the port. If these jobs were distributed similarly to direct jobs, almost 29,000 jobs were generated by the port outside Baltimore City.

A more recent study of the linkages between port facilities and economic development by the Johns Hopkins Center for Metropolitan Planning and Research provides further evidence in support of these results. Looking specifically at the handling of coal, corn, wheat, oil and automobiles, a total of 14,497 jobs were generated in the Baltimore metropolitan area in 1981. The suburban share of these jobs was 44.5 percent, or approximately 6,451 jobs. This is, in fact, an underestimate of the number of jobs since it does not include jobs generated outside the metropolitan area.

Thus, the role of Baltimore City in the State's economy is substantial and the degree of economic interdependence requires the State to pay very careful attention to the City's fiscal health and ability to finance its public spending needs. The City is also unique in the State with respect to its spending needs and these are the focus of the following section.

*The Economic Impact of the Port of Baltimore, Booz, Allen and Hamilton, Inc., for The Greater Baltimore Committee, Inc., March 1982.

Baltimore's People

In addition to the special economic role of the City as the State's employment, transportation, and cultural center, Baltimore also differs from the rest of Maryland because it has a disproportionate share of the State's poverty and social problems. The evidence for these City differences is not particularly surprising -- the 1980 Census merely confirms what most of us already knew. But, because these differences are so often taken for granted, it is worth summarizing them here.

Baltimore City's residents have a per capita income of \$5,842, less than two-thirds of the \$8,814 level for the rest of Maryland (see Table 5). This disadvantage has two impacts on the City's fiscal position. First, it means the City receives considerably less in income tax revenues per capita than their jurisdictions. Second, it means that there is greater demand for many social services.

Two other measures of economic well-being provide additional evidence of the City's problem. The unemployment rate for 1982 was 11.9 percent in the City, compared to only 7.3 percent in the rest of Maryland. Similarly, the 1980 Census reports that 18.9 percent of the households in the City were below the federal poverty line while only 5.1 percent of the households in the rest of the State were below the poverty line. All three of these measures indicate a wide differential in the economic conditions of people in the City and those in the rest of the State.

The contrast between the City and the rest of Maryland is equally stark in housing. More than half of the City's housing units are more than 40 years old while only about 1 in 7 units in the rest of Maryland were built that

Table 5
Income and Unemployment Comparisons:
Baltimore and the Rest of Maryland

	<u>Per Capita Income (1979)</u>
Baltimore City	\$5,842
Rest of Maryland	8,814
Entire State	8,259

	<u>Unemployment Rate (1982)</u>
Baltimore City	11.9%
Rest of Maryland	7.3
Entire State	8.2

	<u>Poverty (1979)</u>		
	<u>Number of Families</u>	<u>Percent of Area Total</u>	<u>Percent of State Total</u>
Baltimore City	35,751	18.9	43.6
Rest of Maryland	46,261	5.1	56.4
Entire State	82,012	9.3	100.0

long ago (see Table 6). Some older housing units are well maintained and have retained their value, but many others have not. One indicator of the extent to which older housing is no longer desirable is its vacancy rate. Here, too, the City compares unfavorably with the rest of Maryland. With 43.9 percent of the State's older housing units, the City has 52.1 percent of the older units that are vacant. Once again the evidence indicates that the City has fewer resources and greater needs than the rest of the State.

The City's population is not as well educated as that of the rest of Maryland. Compared to the rest of Maryland, Baltimore City has more than twice the proportion of people with eight years or less of education and less than two-thirds the proportion of people with some college (see Table 7). With 18.7 percent of the State's population, the City has 32.6 percent of its least-educated population and only 11.5 percent of its best-educated population.

Finally, the City of Baltimore has a disproportionate share of population in two groups which are frequent users of social services, the elderly and female-headed households. As Table 8 indicates, the elderly proportion of the City's population is one and one-half times its level in the rest of Maryland, while the City's proportion of female-headed households is more than two and one-half times its proportion in the rest of the State.

Table 6

Housing Comparisons:
Baltimore and the Rest of Maryland

Housing Units More Than 40 Years Old (1980)

	<u>Number</u>	<u>Percent of Area Total</u>	<u>Percent of State Total</u>
Baltimore City	152,210	50.3	43.9
Rest of Maryland	194,301	15.6	56.1
Entire State	346,511	22.4	100.0

Housing Units More than 40 Years Old and Vacant (1980)

Baltimore City	13,192	4.4	52.1
Rest of Maryland	12,148	1.0	47.9
Entire State	25,340	1.6	100.0

Table 7

Education Comparisons:
Baltimore and the Rest of Maryland

Eight Years or Less (1980)

	<u>Number</u>	<u>Percent of Area Population</u>	<u>Percent of State Population</u>
Baltimore City	134,194	28.8	32.6
Rest of Maryland	277,408	11.1	67.4
Entire State	411,602	16.5	100.0

Some College (1980)

Baltimore City	100,856	21.7	11.5
Rest of Maryland	772,496	37.9	88.5
Entire State	873,352	35.0	100.0

Table 8
Family Structure Comparisons:
Baltimore and the Rest of Maryland

	<u>Elderly* (1980)</u>		
	<u>Number</u>	<u>Percent of Area Population</u>	<u>Percent of State Population</u>
Baltimore City	100,357	12.8	25.4
Rest of Maryland	293,999	8.6	74.6
Entire State	394,356	9.4	100.0
	<u>Female-Headed Households (1980)</u>		
Baltimore City	61,461	32.5	34.8
Rest of Maryland	115,309	12.7	65.2
Entire State	176,770	16.1	100.0

*Age 65 and over.

Conclusions

This study has examined Baltimore City's linkages to the Maryland economy in order to provide a better understanding of the difficult issue of State aid to the City. The combination of recession and federal aid cuts has put enormous fiscal pressure on Baltimore City. The rest of the State receives benefits from a variety of services including highway access to the port and the availability of cultural institutions. As a result, the State has a very real stake in ensuring that the City is able to afford those services.

The employment linkages between the City and the rest of Maryland are also very strong. Baltimore employers generate more than 180,000 jobs for non-residents and the port, located primarily within City limits, generates thousands of jobs outside the City as well. It is clear from this evidence that there are substantial benefits to the State of Maryland from the continued fiscal and economic health of Baltimore City.

In addition to its contributions to the Maryland economy, Baltimore City also has a unique set of fiscal needs. Some of these arise directly from its role as high density urban hub of the State. For example, the City's fire department requires special equipment to deal with fires in taller buildings. Furthermore, the City's population density is too high, even in the outlying areas, to rely on volunteer fire personnel. Such differences stem directly from the high density inherent in its role as an employment, transportation, and cultural center, and they impose costs on its budget.

Baltimore City has another kind of special fiscal need as well, arising from the circumstances of its population. Like other major central cities,

Baltimore has a lower per capita income, a higher unemployment rate, a higher incidence of poverty, an older housing stock, a less educated adult population, and a higher proportion of both elderly and female-headed households. Because of this, the City has greater demands for many social services, and a smaller tax base to pay for them.

This study has not addressed the issue of the State aid the City currently receives or of how much aid the City "should" receive for any particular function or activity. Rather, it has focused on the facts that federal aid cuts have put the City in a very difficult fiscal position; that there are significant benefits to the rest of the State from the City's role as the State's economic and cultural center; and that therefore the State cannot afford to ignore the fiscal pressures facing the City. In the absence of renewed federal help, Baltimore City will need substantial new state aid if it is to sustain its role as the dynamic economic hub of the Maryland economy.

Senator SARBANES. Thank you very much, Mr. Mayor, for a very effective presentation.

Mr. Mayor, if you would take a seat just a minute. I would like to ask you a couple of questions before we move on to the other witnesses. There is some concern that cities have allowed their infrastructure to deteriorate in response to the fiscal pressures which they confront.

In other words, one way to solve the short-run problem is to defer maintenance. Of course, that builds up a long-run problem. How serious do you think that is, from your own experience? To what extent has that happened? And if it has happened, to what extent can cities meet their infrastructure problems on their own, as opposed to having involvement at the Federal level?

Mayor SCHAEFER. Let me cite the Hanover Street Bridge. We knew that the Hanover Street Bridge was having some difficulty. When the Hanover Street Bridge really got in trouble and it lifted itself, we had to shift all the other capital projects into an emergency situation to take care of the Hanover Street Bridge, and that is what we are in.

We have a program, but our needs are far in excess of the moneys that we can afford to put into the infrastructure. Again, you get back to the basic—excuse me, it is the Russell Street, not the Hanover Street Bridge I am referring to.

No mayor defers essential services, hoping that some day he will get Federal funds. That is not done. You run your priorities and you set as much money aside as you possibly can to maintain your infrastructure.

So the answer to that is no, no mayor does that.

Senator SARBANES. What is your view of how willing the States are to fill the gap resulting from cutbacks in Federal aid?

Mayor SCHAEFER. I can only talk about our own State. It is not by way of criticism, because I think our relationship with our surrounding jurisdictions is at an all time high. I think there is more understanding of people on the eastern shore and western shore on the plight of the city. And I say that because in some of the western parts of our State, they are beginning to suffer some of the things that we have had for years—unemployment, loss of industry in the area, and they are seeing the great difficulty.

I do not think the State will make the commitment necessary to really help the cities meet their obligations. The priorities that the Governor has and his high priority, as I say, is cleaning the bay. And I think that is a very admirable high priority.

Right beside his doing the bay, there has to be an equal commitment to education. Right beside that is an equal commitment to transportation. And right beside that, from our standpoint, is an equal commitment to take care of the poor people that are located in certain subdivisions.

I do not know whether that is going to happen.

Senator SARBANES. Of course, the declining population of the large cities weakens your political strength in the State legislatures as well, does it not?

Mayor SCHAEFER. It weakens our position in the State legislature. The surrounding counties that have most of the money can sort of dominate. Exactly true. But, again, Senator, the ones who are left in

the city are most of the people that need that extra assistance. And that is where our difficulty comes in.

Yes, when we lose State senators, our position is no longer as strong as when you were there. Absolutely not.

Senator **SARBANES**. In the 1974-75 recession, Congress created a program of public service jobs in order to be of assistance in that circumstance, and many cities used that program to maintain their services.

This last time, when we went into this very deep 1981-82 recession, the administration was adamantly opposed to such a program and we were not able to enact it.

Had such a program been in effect, could you have found useful work in the city for the unemployed? The allegation was made that those jobs were really "make-work" jobs and we encountered fierce resistance from the administration in terms of reenacting a similar program this last time.

Mayor **SCHAEFER**. Senator, one of the things that we suggested to Senators and Congressmen, Members of Congress, come to Baltimore and take a look at the programs that we have. We did not make work with those public service employees. Every employee that we have money for, I think, let us just say 95 percent so it will not be 100 percent—let us just say that—95 percent were doing productive work and they did not take the place of other work, other members of our work force.

What we tried to do is find things for public service employees that would help us make life better for the people in the city of Baltimore, and the jobs that we put them in were not make-work jobs, and we would like to see that program. It is a very effective program.

And, incidentally, Senator, what we did, we tried to train people in those jobs so that when the public service money was finished, they had an opportunity to possibly go into private employment. And the Johns Hopkins study shows that we were successful at that.

Senator **SARBANES**. Mr. Mayor, some city officials, at least in other cities, have said that the city did not feel the impact of the Federal cutbacks that much. Now that has not been true, I think, in the large cities. But they went on to make the point that the individuals in the city, many of them were feeling these cutbacks. And I assume that you have experienced a double blow—one, the city, in terms of money coming into its budget to address certain problems; but beyond that, to what extent is it your perception that the people living in the city, and as you have underscored, many of them are the poor, have themselves been further impacted because the cutbacks affect directly programs upon which they rely, whether it be health care or feeding programs, or so forth?

Have you perceived that?

Mayor **SCHAEFER**. Well, there are two ways, two answers to that. First of all, in some of the wealthier subdivisions—I will put it that way—they were able to set their Federal money aside and use it not for programs, but had to help their budget.

In other words, all they did was take the money, put it in a pot, and use it for some other purpose. We did not have that luxury. As we got the money, we used the money to help people. It directly affected people in health service. We are providing health services at the present

time. We are providing just everything that the Federal Government gave us money for, but we are providing less service.

Now the other side of the coin is we are doing very well, working very well with the private sector. But there is a limit to how far you can go in the private sector. And, in my opinion, we are very close to the stretching point as far as Baltimore is concerned in asking the private sector to pick up any slack, I guess, is a good enough word—in aiding the poor.

What I would like to see, and the most important thing, I guess, would be a jobs program, really, not a make-work jobs program, but we could handle in the city of Baltimore, we could employ a tremendous amount of people in productive things in the city of Baltimore.

As you know, when you walk along the streets, and all people say to you, I want a job. At least half of them really mean it, really want to work. And there ought to be a way to find something for them to do.

Senator SARBANES. Mr. Mayor, the National Journal, in its issue of November 12, discussed the fiscal condition of our large cities. For the 25 biggest cities, they indicated what percentage of the city's budget came from their real property tax. According to them, in Baltimore, it is 37 percent, which put the city not quite at the top, but very close to it, among those 25 cities. It puts you in the top five in terms of reliance on the property tax.

Could you outline for us the other sources of the city budget?

Mayor SCHAEFER. Federal and State grants. Those are where we get the money.

Senator SARBANES. In our instance, there is no other major local source?

Mayor SCHAEFER. No.

Senator SARBANES. I guess the piggyback on the State income.

Mayor SCHAEFER. Piggyback and we get some money from admissions tax, but not enough to really make that much difference.

Again, when you get down to that property tax, getting to the property tax, 34 percent, if we had to make up all the deficits on our sources of revenue, our property tax, as I say, would go up \$8 to \$10.

Senator SARBANES. We appreciate your testimony very much; it is very helpful. Thank you very much, Mr. Mayor.

Mayor SCHAEFER. Thank you.

Senator SARBANES. Continue the good job you are doing.

I see Mayor Primas of Camden is here. We are pleased to have you. And Mayor Bass is also here. If both of you gentlemen would come forward, we will take you together.

Mayor Freeland is not going to be able to join us because of the death of a close friend. He is serving as a pallbearer in the funeral this morning. Therefore, he will not be able to be with us.

Mayor Bass, if you will go ahead. Then we will hear from Mayor Primas, and then we will address questions to both of you.

STATEMENT OF HON. THOMAS L. BASS, MAYOR, CITY OF HYATTSVILLE, MD.

Mayor Bass. Senator, I am Mayor Bass of the city of Hyattsville, Md. I have served in elected office in Hyattsville for 12 years, the last

5 as the mayor of the city. I would like to address some of the problems facing our municipality.

As mayor of a small city, one of the most pressing problems I face is our city's financial health.

Between 1970 and 1980, the population of Hyattsville declined by 16 percent. Population decreases generally have a negative impact on the amount of revenue that government receives.

Measured in constant dollars, in which inflation is factored out, city operating revenues between 1978 and 1983 declined by 8 percent.

Levels of property tax revenues are primarily responsible for the drop in the revenue base. Measured in constant dollars, property tax revenues declined by 12 percent over the past 5 years.

The declining yield of property tax revenue was caused in part by declining real property value. Real property value dropped 22 percent during the 5-year period as measured by the constant dollar. This, and the fact that the property tax remained steady, contributed to declining yields of revenue.

Fixed costs have risen, which imply that Hyattsville has lost some flexibility in its financial situation. The city is facing a trend which shows a decline in property tax and a large decline in the unappropriated fund balance.

If this trend continues, the city will be forced to either raise property taxes or reduce basic services to our residents.

General revenue sharing has provided financial assistance to small municipalities, such as ours. However, in Hyattsville, we find it difficult to depend on these funds for ongoing programs since the Congress has to reappropriate these funds every 3 years.

As a result of this procedure, I have allocated revenue sharing funds to "capital equipment," such as trucks, street repairs, computer programs, police radios, and so forth.

If I depended on these revenue-sharing funds for general operating funds, I would be forced to cut the service supported by revenue funds or increase local taxes if these funds were not reappropriated by Congress.

It should be pointed out that revenue sharing has remained constant over the past several years, while inflation has increased by approximately 37 percent. The net result is that while we are receiving the same amount of revenue-sharing dollars, our buying power has been reduced by 37 percent.

Our city has also been approved for community development block grant program since 1977. Our primary goals have been to rehabilitate the city's older housing stock. This has been primarily to the benefit of senior citizens, which comprise close to 20 percent of our population in the city. And this program has been very successful.

However, I do question one procedure that the Government uses. As a small city with relatively small grants, I do not understand why HUD requires several monitoring and auditing inspections each year. One such monitoring visit included seven personnel from the Philadelphia office and this audit took approximately 1 week. It appears that this procedure is a waste of Government manpower and money.

I would like to suggest that the auditing requirements be made by an independent auditing firm in the private sector following Govern-

ment guidelines and procedures, thus saving money that could be used back in the CDBG program itself.

The downtown commercial district in Hyattsville, in particular along the U.S. Route 1 corridor, has a unique character. One of the oldest downtowns in Prince Georges County, it has a high concentration of commercial structures.

The idea of revitalizing the older downtown area of the city is exciting to many of our residents and elected officials. This revitalization effort could be a reality today if Hyattsville qualified for Government assistance.

At present, the major source of funding for redevelopment of older commercial areas is the urban development action grant. Present Federal regulations require that a town or city must be distressed and have high unemployment to be eligible to receive these funds.

At the present time, HUD does not have clearly defined rules and regulations pertaining to the UDAG program. I'd like to give you an example.

Our city is in the process of attempting to revitalize business along the Route 1 corridor, as I mentioned earlier. The city has an old vacant armory which was built in 1918 as a miniature replica of the Windsor Castle in England and is on the National Register of Historic Places. The city was successful in getting the armory property under contract with a local Washington developer. The developer was seeking assistance with funding sources. One of our municipal neighbors was UDAG certified and they agreed to submit a UDAG application of the armory project.

We contacted HUD and were advised that this project was eligible for UDAG funding. After preparing the application and expending several thousand dollars, the application was submitted to HUD Regional Office, where it was reviewed and approved. The application was then forwarded to HUD Central for review and final approval.

Much to my surprise, HUD Central rejected the application for the armory project because we were too far from our UDAG-certified neighboring municipality. It is difficult for me to understand why HUD would advise you that a project is eligible and then permit a municipality to spend several thousand dollars and then tell you that your application is not eligible.

If rules and regulations are not uniformly applied, then there is no need for regulations at all.

I would like to see a modified version of UDAG, wherein an older community with a declining commercial area would be UDAG eligible without high unemployment.

If this is not feasible, then consideration should be given to establishing a program that would permit towns and cities to borrow Federal money at low interest rates for revitalization projects.

The city of Hyattsville faces a real challenge with funding its current and future capital projects. Major project priorities are: streets, sidewalks, curbs, public buildings, parks, and recreation facilities.

The city of Hyattsville officials are expecting fiscal 1984 to continue to be a difficult time and that while the recovery on the national economy will improve conditions somewhat, it will not be enough to overcome such basic problems for cities as high interest rates, inadequate

local tax bases and sources of revenue, the high cost of energy, employee salary demands, and difficulty in attracting new jobs to our city.

I strongly recommend your support for the passage of legislation creating a "Capital Budget and Infrastructure Program" for local governments. At the very minimum, this program should take the form of low interest or revolving loan program.

I have submitted a reprint of an article from the Washington Post that goes into some detail on this armory project that I mentioned earlier.

That is the extent of my remarks, Senator. I do not know that my statement has made it clear enough that we do appreciate and we do rely on the assistance that we get from the Federal Government. Our problems are not nearly of the magnitude of those of Baltimore City, but I feel like if some of our smaller problems are not addressed now, they could grow in the future.

The infrastructure problem is a problem to us that, when you set your priorities in your budget, you have your employees to take care of, you have your programs to take care of, and oftentimes, your trucks, your automobiles are not replaced, your streets are not fixed.

This is where I have been using the Federal moneys, in these areas, trying to keep rolling stock in our streets, roads, that kind of thing, upgraded. And we are depending on it and like I have mentioned, our spending power in that area is declining since the dollar is remaining the same over the last several years.

Senator SARBANES. Thank you very much, Mayor Bass. I think we will hear from Mayor Primas now, and then I will address questions to both of you.

[The article referred to follows:]

HYATTSVILLE ARMORY SOLD FOR DEVELOPMENT AS RETAIL MALL

(By Jim Brady)

Hyattsville officials this week announced the sale of the city's one and only castle—the granite walled Armory building overlooking Rte. 1—for conversion into a shopping mall that city leaders hope will transform their business district as well.

Hyattsville is the hub of northern Prince Georges County, but it has suffered for years from a down-at-the-heels image, generated to a large extent by the blocks of car lots, vacant storefronts and undistinguished shops that commuters pass each day along Route 1.

Community leaders have been waiting for a break, a project that would get their redevelopment plans rolling. With the sale of the Armory building, "It can be done, and it will be done," according to Mayor Tom L. Bass.

"The catalyst we needed was to get some major project going," Bass said. "We've been working on this [revitalization] for years. But the banks, the people with the money, they said, 'You have to have a project, you need a project.' Well, this one's for real, and the money's there, and it's going to be done."

The 20,000-square-foot interior will be turned into a mall of shops, at least one restaurant, and an auditorium, according to plans by the developer, David Shikles, who is buying the former National Guard station for an undisclosed amount from Bromwell Fireplace Equipment Co. Conversion will begin in September and is expected to take six months, according to Helen Payne, an assistant city administrator in charge of economic development.

She said officials hope it will touch off the economic revival they have been planning in Hyattsville's downtown. "I hope we will get an office building or two and a parking deck; the armory is part of the whole rebirth. It's the beginning," she said.

A \$10,000 state grant and matching funds from the city went to pay Payne's salary as the city's Main Street [development] coordinator and also to hire the National Development Council, a Washington consulting firm. Maryland's Economic and Community Development department hired the same firm to sell Hyattsville to entrepreneurs, financiers and land owners, Bass said.

"They like to put deals together," Bass said. "They brought the buyer in on this one."

A previous prospect, although gushing with enthusiasm, couldn't get the financing, Bass said. That was last summer, and Klaus Schuermann, a Corpus Christie, Tex., developer, had wanted to put in shops, a restaurant and a performance hall, according to Bass.

The project Schuermann envisioned apparently was picked up on by Shikles, who even wants to use the name that Schuermann coined: "Castle on the Hill," according to a large sign in front of the massive structure.

It really was built as a castle—its design was taken from blueprints for the Windsor Castle when the National Guard built its Hyattsville bastion in 1917. Blocks of granite were swung into place, leaving narrow windows in the towers that guard the intersection of Jefferson Street and Rte. 1.

The armory building was used by Company F of the Maryland National Guard until the 1960s. It then stood vacant until 1975, when it was sold to Bromwell Fireplace Equipment Co. for offices and storage, according to Gertrude McCamley, Hyattsville city clerk.

But the sturdy and defensive character of the structure will present somewhat of an encumbrance as builders attempt to make it more accommodating and less dungeonesque.

"It's awkward, the way it's built, for retail business," Bass said. "It's going to take tremendous effort to make it accessible to the public, with that big stairway in front."

Shikles plans to open up entrances on the side of the building next to a city parking lot.

Bass said the city is willing to do whatever necessary to make the conversion possible, for seeing the building come to life would mean more to the city's 12,700 residents than simply having a place to shop.

Most of the city as they know it is a collection of turn-of-the-century Victorian homes tucked among the trees on tidy streets in quiet residential neighborhoods. The city last year was awarded a spot on the National Register of Historic Places—the first area chosen from all of Prince Georges.

Bass said that city residents are specially bothered when outsiders mutter ugly things about their town, because they are aware of what others don't see: the quality of their residential neighborhoods.

The neighborhoods are "really beautiful, and that's not reflected in the business area," Bass said. "That's why our people are involved: to try to get the business area looking as good as the residential area. It's a matter of pride."

With other municipalities struggling to revive their downtowns, Hyattsville has made use of special resources such as the University of Maryland School of Architecture on the nearby College Park campus. Students get academic credit rather than money, and Hyattsville gets models, charts and maps essentially for free.

Senator SARBANES. Mayor Primas, please proceed.

STATEMENT OF HON. MELVIN R. PRIMAS, JR., MAYOR, CITY OF CAMDEN, N.J.

Mayor PRIMAS. Thank you very much, Senator. I appreciate the opportunity to appear before you today to testify on the subject of fiscal condition of American cities.

I am Melvin R. Primas, Jr, mayor of the city of Camden, N.J., a city of approximately 85,000 people.

Camden is an older industrial waterfront community located on the Delaware River, across from Philadelphia, Pa. The city's social, economic, and fiscal problems are typical and similar to many of the com-

munities in the Northeast and Frost Belt region of the United States that are experiencing changes in residential patterns, older infrastructure base, and decreases in the private sector property base.

IMPACT OF NATIONAL FISCAL POLICIES IN CAMDEN

Recently, I testified before the House Subcommittee on Domestic Monetary Policy, on the subject of how national monetary and fiscal policies have combined to exert a negative influence on Camden over the last 2 years. Specifically, I focused on the impact of national economic policies on us at the local level since 1981, in human, as well as economic terms.

With your permission, Senator, I would like to summarize some of those comments for this subcommittee, since they address the fiscal condition of my city in a very direct way.

UNEMPLOYMENT

In late 1981, citywide unemployment in Camden was approximately 12.5 percent. It is now 19.7 percent and even worse among minority youth, which is about 40 percent, and minority female youth, over 60 percent. Since minorities comprise approximately 75 percent of the population of Camden, this increase in unemployment since 1981 is a very disturbing impact of new national economic policies for us in Camden.

HOUSING

The administration's cuts in new and substantial rehabilitation funding for multifamily rental housing incentives have hit Camden residents and the housing stock hard. As unemployment increased, the demand for assisted housing has increased, at the same time that the supply of affordable rehabilitated units has been drastically cut by the administrator's fiscal policies. The average waiting time for assisted housing in Camden is 3 to 4 years, as a direct result of the decrease in newly rehabilitated private and public housing rental units available in our city.

Another measure of housing performance, the number of single-family homes placed back on the active marketplace, has also suffered from increased unemployment among homeowners, as well as renters, in Camden.

The rate of foreclosures and defaults in Camden has increased dramatically since 1981. This is especially true for young households and first-time homebuyers, many of whom Camden has encouraged to move into the city with special city incentives.

In 1983, the HUD-owned inventory of FHA-foreclosed properties stands at 470, a welcome decline from 700 in 1981. However, the number of FHA properties in default—often the precursor to foreclosure—is 1,098 this year, a large increase over 1981.

On a net basis, the change in FHA-owned housing stock in use has worsened since 1981. Even with dramatic city efforts, the number of new defaults and foreclosures due to the recession has wiped out the gains made in putting vacant units back into active use.

Similarly, the city's success in selling about 300 city-owned vacant housing properties has not been able to keep up with the number of

"in rem" tax foreclosures by the city. City foreclosures have totaled about 600 this year to date, or roughly double the housing stock put back into service by the city in the same year.

Overall, the housing picture in Camden, both rental and homeownership, appears to have suffered in at least three ways from current Federal fiscal policies.

One, drastic budgetary cuts in housing incentives for multifamily rental housing rehabilitation, which have virtually eliminated the supply of additional rental units that are affordable to low and moderate income households in Camden.

Two, increases in the demand for assisted housing, resulting from the economic recession and Federal fiscal cuts in jobs, job training, and economic development.

And three, increases in default rates among single-family households, many of whom are first-time homebuyers in Camden.

There are, of course, welcome exceptions to this general picture, such as the city's recent success in securing a HUD urban development action grant to restore and recycle vacant housing units in the Berkely Historic District of Camden. However, these types of success stories cannot compensate for the overall impact of administration fiscal policies which have halted rental housing supply, increased demand for low-cost housing, and increased displacement of first-time homebuyers.

INFRASTRUCTURE

Over 70 percent of the city's sewer lines are over 50 years old and 64 percent were built in or before 1900, over 80 years ago. Accident rates, ruptures, maintenance costs, and repair time are increasing with this older infrastructure, which is critical to retaining existing firms and attracting new industry to Camden.

However, the capital resources available for this type of heavy infrastructure cost are disappearing, as a direct result of the Federal fiscal policies which have encouraged cuts in EPA, EDA, UMTA, and similar public works programs. These cuts are occurring at a time that the local resources have been diverted to social services and municipal operating costs that have increased from the recession.

In earlier testimony, I have called attention to the "double whammy" impact that Federal fiscal cuts are taking on my city, in human, as well as economic terms. The double whammy refers to the combined impact of Federal fiscal cuts in the capital housing and infrastructure program resources, coupled with the unprecedented increases in local need for both capital and operating costs at the local level.

To give you one example, the largest growing portion of the municipal budget is our municipal welfare. In the State of New Jersey, and in the city of Camden, the municipal welfare is separate from aid to families with dependent children, which is run by the county.

In 1981, the city budgeted approximately \$450,000 for municipal welfare and that represents a 25-percent share. The State of New Jersey picks up the remaining 75 percent.

This year, in 1983, the city will expend \$1,150,000 for that same line item. It has increased last year in the same proportion.

As noted in a recent study by the Joint Economic Committee, entitled "Trends in the Fiscal Condition of Cities: 1981-1983," November

1983, many cities confronting increased social service costs of the recession have reacted by shifting local resources from infrastructure to help fund current operating budgets, and by postponing sorely needed capital improvements for housing, infrastructure, and other typical municipal capital needs.

This is happening in Camden just like it is happening every place else.

TAXES

Since 1981, local property tax rates in the city have been increased by 88 percent, up to a current level of \$12.40 per \$100 of assessed valuation. That includes both the county and the local school rate.

Most of this increase was required for us to stay afloat as a community, in the midst of large fiscal cuts in available State and Federal revenue sources. At the same time, however, we are limited by State tax cap limitation in New Jersey, which sets a maximum effective property tax rate.

Thus, we cannot continue to look toward property tax resources to solve our future local fiscal revenue needs. This is especially true of Camden, where per capita property assessments have not increased as much as other cities with larger, more diversified economic base.

TAX RATES—"WHERE THE BUCK STOPS"

In many ways, the local tax rate in Camden is where the buck stops for current "supply-side" economic theory. As mayor of the city of Camden, I am being asked—or, rather, told—to absorb these combined fiscal burdens of new social services and unemployment costs resulting from Federal budget cuts and, at the same time, to continue to meet basic municipal services and capital budget needs, such as education, police, fire, and capital repairs and infrastructure replacements.

I know that it is my job to maintain local fiscal responsibility in Camden, but I also know firsthand that the practical end result of current Federal fiscal policy is increased local taxes, as shown below. Federal tax cuts and budget cuts in jobs, job training, housing, health, infrastructure, and economic development.

Increased local unemployment and resulting increased social services fiscal burdens on local communities like Camden.

Shifts away from capital spending priorities to help fund local social service and increased operating costs of older, unreplaced capital infrastructure.

Delays in necessary infrastructure repairs and replacements.

Continued outmigration of private firms from older cities with inadequate infrastructure.

Decreases in local private investment tax base.

Increases in local tax rates, necessary to support increased social services and municipal operating costs created by recession.

Further decreases in the local private investment and employment.

ENCOURAGING NOTES

In the midst of this overall fiscal picture, there have been some encouraging examples of success stories at the local level, and recent initiatives by the U.S. Congress that deserve to be commended.

NEW RENTAL HOUSING PROGRAM FOR SUBSTANTIAL REHABILITATION AND
NEW CONSTRUCTION

Given the obvious need for a Federal commitment to multifamily rental housing, the recent enactment of a new competitive grant program for multifamily rental housing loans and grants is a step in the right direction. Although the dollar amount appropriated is minimal compared to earlier section 8 funding levels, I commend the Congress for seeking a lower cost solution to the problem of affordable rental housing supply in cities like Camden.

The experimental nature of this program should allow future increases in Federal commitment if this program proves to be as promising as it looks for attracting new private investment in central city locations.

URBAN DEVELOPMENT ACTION GRANTS

This program, administered as a competitive loan and grant incentive for targeted central cities, has proven to be extremely efficient in attracting maximum private investment funding, for a minimal "front-end" Federal investment in the cities.

In Camden, the UDAG program has been indispensable in encouraging new private investment to take place in locations of the city which are higher cost, compared to suburban locations and has recently been responsible for creating 75 new permanent jobs and a new nursing home—the first in the city of Camden in over a decade.

U.S. ECONOMIC DEVELOPMENT ADMINISTRATION

Despite the statements of the administration that EDA should be abolished, I strongly would make a case to the economic community that the programs EDA and UDAG deserve to stay alive, for very good reasons.

First, they address basic capital needs necessary for retaining and attracting private investment and employment in older central cities and regions;

Second, they give cities like Camden breathing space to meet some of their highest capital priorities, during a period of dwindling local capital budgets, due to increases in social service costs; and

Third, they are specifically targeted for relatively distressed communities which meet threshold eligibility criteria set by Federal legislation and administrative guidelines.

GENERAL RECOMMENDATIONS

My general recommendation on how to improve Federal fiscal policy relating to my city is to be more evenhanded, both in terms of spending and tax policy.

In spending policy, I recommend that we inject more fairness and commonsense into our decisions on how to allocate national spending between defense versus domestic needs. This is a simple prescription, but one that just recognizes the need for a sense of national priorities and good judgment in fiscal policy.

A Nation as great as ours cannot afford to ignore its most important national asset—our quality of life and domestic strength. Perhaps the best measure of a nation's true strength is its internal health and happiness, as well as its external defense.

In tax policy, I would recommend a serious reconsideration of the validity of supply-side economic theory which calls for continued declines in available tax resources beginning in fiscal year 1985, when the tax indexing experiment begins.

Mr. Chairman, I do not claim to be a professional economic theorist, but I do claim to be very knowledgeable about the practical impact of Reaganomics over the last 2 years in Camden, N.J. The best test of any economic theory is the acid test—will it work and can it deliver on its promises?

On both counts, Reaganomics flunks the test, at least in Camden. It fails to meet its declared goals of decreased taxes and increased employment. And instead, has created the opposite impact in Camden—increased taxes and decreased employment.

As it relates to Federal tax policy, I would suggest that the Congress and the economic community think seriously about postponing or canceling the projected tax-indexing experiment. Unless specific spending cuts in nonessential programs can be implemented, I fail to see how further tax cuts are warranted, in the light of a \$200 billion deficit in the immediate future and the serious impact of further budget cuts in domestic programs critical to cities like Camden.

Finally, I would call attention to the fact that there is a certain irony in the fact that cities are being asked to bite the bullet at the local level, where we are perhaps least equipped to handle further budget cuts, while administration fiscal policies continue to argue for further tax cuts and more defense spending increases—a fiscal policy which is headed straight in the direction of unprecedented Federal deficits of over \$200 billion.

This is simply not a responsible national fiscal policy and one that will not work.

It is my hope that what you have heard today will convince you of the need for reversal in our current national fiscal policy of supply-side Federal tax cuts, increased defense spending, and decreasing commitment to domestic needs. The only end result of such a policy appears to be increasingly large Federal deficits, together with continued threats to the economic and social viability of our central cities.

I have every confidence that this subcommittee, and an increasing number of professionals in the academic and business community, as well as citizens and policymakers, are coming to the same conclusion. I look forward to working closely with this subcommittee in lending all the help and insight I can toward the refinement of a new fiscal policy for the late 1980's.

Senator Sarbanes, I want to thank you for giving me the opportunity to speak to you this morning and I believe you are truly to be commended for your attention to this topic and for examining the relationship between national fiscal policy and local fiscal conditions in our central cities.

And before I conclude, I had the opportunity to hear Mayor Schaefer's comments to you. He indicated that he felt that most mayors would take the position that he took.

I just wanted to go on record as indicating that I do support the list that Mayor Schaefer presented to you. The problems of Baltimore are the problems of Camden, as they are of many of the older central cities.

Thank you.

Senator SARBANES. Gentlemen, we want to thank you both for very perceptive statements.

Just for the record, Mayor Bass, what is the population of Hyattsville in the 1980 census?

Mayor BASS. 12,700.

Senator SARBANES. And what was it in the 1970 census; do you recall?

Mayor BASS. 15,000.

Senator SARBANES. And Mayor Primas, in Camden, 85,000 was the 1980 census?

Mayor PRIMAS. In 1980 it was actually 84,910. In 1970 it was 102,551.

Senator SARBANES. So you are both mayors of cities that have lost, each of you has lost about 20 percent of your population in that decade.

I wonder if you each would address the reasons for that, as you see them.

Mayor PRIMAS. In the case of Camden, Camden is an older city. We have become the hub for the poor in all of south Jersey. Consequently, during that period of time, as in the prior 10 years, and if you wanted to look at the statistics for 1960, when the population was 117,000, it was even more dramatic.

It became a situation where those who could afford to leave central city chose to do so. And you will see that our decline is a direct relationship to increases in the county of Camden, which are the surrounding communities.

Senator SARBANES. Mayor Bass.

Mayor BASS. Again, our problems are not as drastic as the larger cities. Our decline in population is mainly because of families getting older. We have a large number of single-member households. And I think I mentioned earlier, our 20-percent senior population tends to be the basis for our decline in population. We have quite a few mostly widows living alone, by themselves, in the city.

Senator SARBANES. One reason we were anxious to have testimony from cities the size of yours is that a finding of this study is that the expected impact of what has been occurring at the Federal level is really working its way down, in a sense, toward smaller and medium-sized cities in the country. The big cities were apparently affected very quickly by it, and have had to accommodate as a consequence over the last couple of years. But it is really working its way right down.

As this report said, over 60 percent of the cities, and now you are talking about a lot of the smaller sized cities, are expecting deficits and so forth.

So they are facing some very bleak times as far as this study indicates.

Mayor Bass, regarding one point you made, let me just say that, at the end of the last session, the Senate passed the uniform Federal audit legislation, which was supported by the National Association of Counties and the League of Cities. It is designed to simplify and standardize Federal audits. It does not pick up on your suggestion to the ex-

tent of going to the private sector for it, but it would try to address at least part of the problem that you were talking about.

I think there is some sensitivity to that problem here.

I would like to hear from both of you on the extent to which you have been paying less attention to your infrastructure and how serious you see that problem in your respective cities.

Mayor PRIMAS. Well, in Camden, it is a significant problem. As I mentioned in my testimony, Camden is an older town, once a very industrial town. And part of the other reason why our population is declining has been the development of suburban industrial parks. So many of the jobs have left Camden over the past 20 years.

We are now in a mode of trying to revitalize our city and what we are finding, as we are trying to attract businesses back to the city, our infrastructure is not in place. I can give you a very real example.

Camden is a port city, which you may or may not be aware of. We were recently—we have a local businessman who is constructing a 112,000 square foot warehouse facility to attract commodities. He bought a parcel of ground from the local South Jersey Port Corp. The city sewer line bisected the site. The only way that he could go forward was he had to agree to rebuild the sewer line for the city, at his expense, because the city did not have the funding available to replace the sewer line.

It has become an increasing problem as we try to develop both our waterfront and the industrial portions of town, attracting businesses in without a sufficient infrastructure.

We were also very successful over the past 60 days in securing a Federal grant in the amount of \$1 million to help with our water system for a water storage tank. But that only begins to address the problem.

The infrastructure has been neglected over the years. I was interested in your comments about mayors may be deferring maintenance on their infrastructure for operating expenses. And I agree with Mayor Schaefer—you do not do that unless you have to.

As it relates to maintenance, there is not a lot of maintenance that you can do on brick sewers. Most of the sewers in our city are still brick. Consequently, we have caveins all over the place that need actual repairing.

The city just does not have the ability to go to the financing market to fund new infrastructures either in water or sewer or roads.

I believe that that is a national problem and it is going to need attention from the Federal Government. If the businesses and the residents of Camden had to rely on the local government to provide the funding for improving the water, sewage, and the infrastructure, it will be many a year before that can happen, which further compounds the problem.

Senator SARBANES. Mayor Bass.

MAYOR BASS. In our case, we are lucky in that we do not have the responsibility for the sewer and water lines. That is the bicounty agency in the Montgomery-Prince Georges area. However, as far as the streets and sidewalks are concerned, we are responsible for those. Some years back, there was not a regular routine maintenance program on these facilities and they did deteriorate quite a bit. Hyattsville is

coming up on 100 years old, so we are an older city and some of our streets are that old.

So when we get into a maintenance program on them, sometimes it entails a complete reconstruction. So the work that we do tends to be very expensive. I have attempted to have a routine maintenance program, but, again, as Mayor Schaefer pointed out, there are times when you have to shift those to an emergency situation, and we have the same problem in Hyattsville.

Senator SARBANES. Which of the Federal programs have you found work best in your respective cities, or have you had the most satisfaction in working with?

Mayor PRIMAS. I would think, in our case, certainly the UDAG program, the EDA programs. And, ironically enough, we got a great deal of help from the old CETA program.

We talked about public service employment just a little while ago. Prior to becoming mayor of Camden, I served on the city council for 8 years. When I first became involved with the city council, the city had over 2,200 municipal employees, many of which were CETA at the time. Today, we have 965. So that we were able to supplement the city work force for essential services through that public service employment program. I think that that is probably one of the most sorely missed and needed programs that we have experienced, because it had a double effect—not only were we providing better services and adequate services to the residents and taxpayers, but we were also providing employment to many of those persons who are now collecting welfare and public assistance.

Senator SARBANES. Mayor Bass.

Mayor BASS. We use the revenue-sharing program, of course, and the community development block grant program. The CDBG program has been very useful to us in helping the older residents of our community keep their houses up to county code and, at the same time, that program has provided employment opportunities for several people and different job categories in the city, from construction jobs to office staff to administration.

So that probably has been our most successful program.

Senator SARBANES. What have been your experiences in terms of county and State assistance in meeting your problems?

Mayor PRIMAS. The problem is the ability to find it. In talking with the county board of freeholders, which are responsible for county government, they have not been in a position to provide additional funding. As a matter of fact, in New Jersey, where we are losing some of our Federal funding to the county, and that is a real problem in Camden because, overall, Camden County is a fairly affluent county. And we lost, as an example, over \$400,000 in aid last year from the Federal Government to the county. It just did not filter its way back into the municipality.

And as it relates to the State, they have their own fiscal problems. And while they may have been able to provide some assistance, they have not been able to fill the gap.

Senator SARBANES. Mayor Bass.

Mayor BASS. Similar in our own case. The State and county both have their own fiscal problems. Although they are supportive, Prince

Georges County, as I am sure you know, they are under a tax-limiting citizens' initiative that has been voted in twice, I believe. As the county cuts back on their programs, it seems that we are pressured by our citizens to pick up some of those programs or supplement the county.

So as Mayor PRIMAS mentioned, they are on the bottom of the list when it comes to the services and we are in the same situation. It gets down to the municipal level and there is no one for us to pass it on to. We have to tell people, no, or pick up the service. And that is the problem that we are running into more and more every day.

Senator SARBANES. What is your situation compared with the immediate jurisdictions around you? Would you comment on the dilemma Mayor Schaefer faces which he outlined, that if he seeks to do more, he may end up doing less because he drives away what tax base he still has by the higher tax rates.

Mayor PRIMAS. Sure. We are involved in the exact same situation. In one tax increase, as I mentioned, we had to raise property taxes by 88 percent, just in order to remain a solvent community. And we are at the point now where the tax collection rate is one of the lowest in the States—in the State of New Jersey. We collect approximately 86 percent of our tax levy. Our rate is, I believe, either the first or second highest in the State of New Jersey at \$12.40 per \$100 of assessed valuation.

So we look at the surrounding municipalities—

Senator SARBANES. What percentage rate do they assess property in terms of its market value?

Mayor PRIMAS. It is currently at 50 percent.

Senator SARBANES. Mayor Bass, how about your situation?

Mayor BASS. In our county, I believe we are about the fourth highest in terms of overall tax effort in the city. As you know, the county has their tax rate and we pay the county tax rate as well as the municipal tax rate.

Senator SARBANES. When you add those two together, what does it come to in Hyattsville?

Mayor BASS. In Hyattsville, roughly \$3.50 per \$100. And I believe in the next—you know, the county continues to go down because of the tax-limiting amendment. Ours in the future will be going up. I think I mentioned earlier our tax rate has not gone up in the recent past, but we anticipate that in the next few years it will go up.

Senator SARBANES. Just one or two final questions. What is your sense of whether your situation is getting worse or better? Do you have any feel for that, in terms of how the economic climate affects you?

Mayor PRIMAS. Currently, I think it is getting worse. When we look at the unemployment, the housing, and just the dollars coming into the municipality, I think that Camden—I think we have a unique opportunity to actually revitalize the city. But that is going to be hampered if we have to continue to raise property taxes and to try to fill the gap locally as a result of the Federal cutbacks.

And while I think we are at the threshold of some real opportunity, if we cannot get Federal assistance in the many pressing problems that we have, then the future looks bleak for cities like Camden.

I happen to be very optimistic about our future and believe that with the kind of partnership that has to emerge, a partnership involving the State government, the county government, the Federal

Government, the local government, the business community, I think that we then have an opportunity.

Right now, I would have to say that our position is worsening.

Senator SARBANES. Mayor Bass.

Mayor BASS. It has been reported in several publications that the economy is getting better, but it appears that that is not affecting us yet. Our costs are still going up every year. So in that regard, our buying power, our spending power would be eroding, which would create a worsening situation for us.

We have been getting into some of the programs that Mayor Schaefer spoke about, bringing private industry in to help out. Although we do not have that large a business area, we have utilized some of the businesses to help with senior citizens programs such as providing transportation, vans for transporting senior citizens and things like this.

But without that help from the private sector, it appears that we are worsening.

Senator SARBANES. Well, gentlemen, you both have been very helpful. Is there anything that either of you would like to add?

Mayor PRIMAS. I guess I would be remiss if I did not add that in Camden, there are poor people. We do have soup kitchens. People are there for food. We do have homeless. We do have a problem with shelter. And if any of the administration officials would like to visit Camden to see that, we would be very happy to show them that.

But I just thought it was important to let you know that that situation does exist in Camden. And as Mayor Schaefer indicated, I do not believe that those people are there for entertainment. They are there for food and nourishment.

Mayor BASS. Senator, I would just like to thank you for the opportunity to appear before you today and I know you will be as much help as is possible to be. You have been in the past and I am looking forward to working with you in the future.

Senator SARBANES. We want to thank both of you. Mayor Primas, I think Mr. Meese is receiving a lot of open invitations from both cities and rural areas across the country. His statement simply did not reflect what is actually happening in the nation.

Mayor PRIMAS. No.

Senator SARBANES. I am hard put to explain that statement under any interpretation.

We thank the witnesses very much for coming.

The subcommittee is adjourned.

[Whereupon, at 11:12 a.m., the subcommittee adjourned, subject to the call of the Chair.]