



ALA Washington Newsletter

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 (2) Tax Reform Act of 1986 - General Summary

The first session of the 100th Congress convened January 6, 1987.

Reagan FY 1988 Budget and FY 1987 Rescission Proposals

The first federal budget to exceed one trillion dollars was submitted by President Reagan to Congress on January 5 for fiscal year 1988 which begins October 1, 1987. For the sixth year in a row, the Administration would eliminate Education Department library grant programs. Full details on some programs will not be available until further budget documents are released January 28, but budget figures as known at this time include:

(amounts in thousands)	FY 1987 Appropriation	FY 1987 Proposed Rescission	FY 1988 Reagan Request
LSCA I	\$ 80,000		-0-
LSCA II	22,500	- 22,500	-0-
LSCA III	18,000		-0-
LSCA IV	(automatic 2% setaside of LSCA I, II & III funding)		
LSCA VI	5,000	- 5,000	-0-
HEA II-A	-0-		-0-
HEA II-B	1,000	- 1,000	-0-
HEA II-C	6,000	- 6,000	-0-
HEA II-D	-0-		-0-
ECIA Ch. 2	529,337		529,337
NCLIS	660		731
LC	235,399		271,365
NAL	10,936		12,356
NLM (incl. MLAA)	61,838		64,399
GPO SuDocs	22,256		21,000
NEH	138,490		126,890
Postal rev. forgone	650,000		71,795*

*includes transition funding & free mail for blind only

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The President also proposed on January 5 to rescind (or "unappropriate") all FY 1987 funds already appropriated for LSCA II construction, LSCA VI literacy, HEA II-B training and research, and HEA II-C research library grants. Even if Congress does not approve the rescissions, the request holds up release of funds for 45 legislative days, estimated to expire on March 15. LSCA I and III would have been proposed for rescission, according to Education Department budget documents, except that "the 1987 appropriation is for current year activities, and States have already begun expending the funds."

LSCA II public library construction funds remain available until expended. However, the LSCA II rescission request is of questionable legality according to earlier General Accounting Office opinions, because LSCA II is a mandatory spending provision and not available to the Administration for rescission. Six states so far (ID, MA, MI, NJ, NM, OK) have some or all of their FY '87 public library construction projects approved by the Education Department, with local matching funds committed---but all on hold. Some projects could be endangered by the delay.

HEA II-B fellowship awards were ready to be announced last December but were delayed pending the rescission request. Prompt announcement would have allowed graduate library schools with awards to begin to recruit the best qualified candidates in a timely manner. Due to a similar rescission delay last year, it was May before the schools could gear up to recruit, lessening the effectiveness of the program. Research libraries have spent time and money developing HEA II-C grant proposals, as have public and state libraries on LSCA VI library literacy proposals due February 13.

Questioned at a budget briefing about the proposed increase for adult education literacy programs while literacy programs in LSCA were zero budgeted, Education Department officials indicated a "wholesale" decision to eliminate library programs had been made. Documents repeated these arguments from previous years:

All Federal support for categorical library programs is proposed for termination in 1988. The Public Library Services and Construction programs have accomplished their objective of making public library services available to virtually every community. The Interlibrary Cooperation program has achieved its goal of establishing models to stimulate further expansion of resource sharing. Full responsibility for these State-operated programs should be assumed by State and local governments, which now provide 95 percent of all support for public libraries.

Moreover, there no longer exists a critical shortage of professional librarians, and a Federal presence in this area can no longer be justified. Priority must be given to need-based undergraduate student financial assistance. Research libraries have been strengthened through nine years of Federal support. Other sources of funding are available for research libraries and for research and demonstration projects.

These arguments overlook the continuing need for a modest federal role in helping to equalize the availability and quality of library services for those for whom special outreach or special materials are required, and for assisting libraries to share resources across local, state, and national boundaries through use of new technologies. The Administration's arguments also fail to recognize the total lack of other resources for recruiting minorities to the field, the recent shortage of children's librarians, and the need for continuing education in technological developments.

ACTION NEEDED: For the last five years of zero budgets, Congress has given strong bipartisan support to library programs. Write to your Senators and Representatives to urge them to once again reject the Administration's FY '87 rescission and FY '88 budget proposals. Tell them exactly how such drastic proposals would affect services in your state, district, or library. Send blind copies to the ALA Washington Office so the office has the benefit of your data, examples and anecdotes.

HEA II-A College Library Resource and II-D Technology Grants

Last October, a revision and extension of the Higher Education Act was signed into law with new library provisions which now need to be funded. In this deficit reduction climate, it is not at all certain that Congress will provide funding for II-A grants for library resources targeted to the neediest colleges, and II-D grants to academic libraries for technology and cooperation.

The II-A grants were last funded for the 1983-84 academic year. Funding committees said they would not provide money again until the program was targeted to need. Based on ACRL-developed need criteria, Congress authorized \$10 million in FY '87 and such sums as necessary for each of the next four years for grants of between \$2,000 and \$10,000 depending on enrollment range to libraries ranking below the norm in their institutional class when scored for both materials expenditures/FTE student and volumes held/FTE student.

For the new II-D College Library Technology and Cooperation Grants, Congress authorized \$5 million for grants of at least \$15,000 for up to three years with a one-third matching requirement for technological equipment for sharing of library resources, consortia and joint use library projects, networking, and other special purposes.

ACTION NEEDED: If congressional funding subcommittees receive few letters, calls, or visits, new or unfunded programs won't even come up for discussion. It's up to interested library constituents, who have immense influence. If the key members are sent numerous letters on II-A and II-D, receive inquiries from other members whose library constituents have written, and are visited at home and on National Library Week Legislative Day (April 7), then II-A and II-D will receive fair consideration in funding for FY '88. Start now with your first letter, and be alert to future calls for action.

GPO SuDocs

An attempt by the Government Printing Office to discontinue hard copy for all dual format (microfiche and paper) documents sent to depository libraries was temporarily headed off due to depository librarians' protests and intervention by the Joint Committee on Printing. The Superintendent of Documents told the Depository Library Council that additional funds were needed, or dual format would end sometime before the end of this fiscal year on September 30, 1987.

The GPO SuDocs budget proposal included no supplemental request for FY '87, and \$21 million for FY '88 compared with the current and insufficient \$22.2 million. GPO plans to request authority to transfer \$3.5 million from sales to SuDocs, which would bring the FY '88 total to \$24.5 million, just barely above the comparable figure of \$23,634,000 for FY '87. The budget request anticipates fewer documents from the agencies, and a lot more publications in microfiche.

ACTION NEEDED: Alert legislators to the importance to constituents of documents in appropriate formats and the necessity of adequate funding for the depository library program.

IRS Lobbying Regulations

The Internal Revenue Service has proposed new regulations, "Lobbying by Public Charities," which apply to nonprofit organizations tax exempt under section 501(c)(3) of the Internal Revenue Code. See the November 5, 1986 Federal Register, pp. 40211-32. The main effect of the new rules is to reclassify more organizational activities and expenses as grass roots lobbying. The result for organizations that exceed their lobbying allowance could be additional excise taxes, loss of tax-exempt status, and therefore possible loss of eligibility for grants and tax-deductible donations.

Comments and requests for public hearings were originally due February 3, 1987. That deadline (see the January 9 FR, p. 802) has been extended to April 3, although apparently the regulations still become final on February 3, and most provisions are retroactive to January 1, 1977. They interpret the Tax Reform Act of 1976, and will affect mainly organizations which choose the expenditure test or "Conable election" of sections 501(h) and 4911. This provision allows certain 501(c)(3) organizations to elect to spend up to 20 percent of their tax-exempt expenditures for lobbying and still retain tax-exempt status. Within this limit, no more than 25 percent may be spent on grass roots lobbying.

The proposed regulations exclude from exempt purpose expenditures amounts paid in connection with the production of income. The exclusion is not limited to expenses of an unrelated trade or business. It rules out all income producing expenses, and could thus decrease the base on which an organization's permissible lobbying expenditures are figured.

The proposed regulations broaden the definition of both "direct lobbying" and "grass roots lobbying" by including communications to government officials, even if a particular view on legislation is not expressed explicitly, but the communication is "selectively disseminated to persons reasonably expected to share a common view of the legislation." Grass roots lobbying would also include any communication which:

Is communicated in a form and distributed in a manner so as to reach individuals as members of the general public, that is, as voters or constituents, as opposed to a communication designed for academic, scientific, or similar purposes. A communication may meet this test even if it reaches the public only indirectly, as in a news release submitted to the media. If any part of an advertisement constitutes grass roots lobbying, the entire amount expended for, or in connection with, the advertisement constitutes a grass roots expenditure.

Further: "If an expenditure...is made for both grass roots lobbying purposes and fundraising purposes, the entire expenditure will be treated as a grass roots lobbying expenditure."

Providing technical advice or assistance, and providing nonpartisan analysis, study, or research are activities generally not considered lobbying. However, the proposed rules say that presenting the results of nonpartisan analysis "may not be limited to, be directed toward, or otherwise favor in any manner, persons who are

interested solely in one side of a particular issue." Nor may they be "communicated in a form and distributed in a manner so as to reach individuals as members of the general public, that is, as voters or constituents, as opposed to a communication designed for academic, scientific, or similar purposes."

Among the major problems with the proposed regulations are (1) their retroactive application, (2) requiring large expenditures to be counted wholly as lobbying if only a small portion is actually "lobbying", and (3) the difficulty for organizations in interpreting the "selective dissemination" provisions. Finally, IRS claims the proposed rules are not subject to the public review and comment requirements of the Administrative Procedure Act, nor, by implication, subject to the special requirements for rules impacting heavily on small and nonprofit organizations of the Regulatory Flexibility Act.

Literacy

A new program, the VISTA Literacy Corps, has been established and funded at \$2 million for FY 1987, although the Administration has requested no funds for FY 1988. The purpose is for "developing, strengthening, supplementing, and expanding efforts of both public and nonprofit organizations at the local, State, and Federal level to mobilize local, State, Federal, and private sector financial and volunteer resources to address the problem of illiteracy throughout the United States."

The program was included by both House and Senate in reauthorization of the Domestic Volunteer Service Act, a measure (HR 4116) given final congressional approval in October and signed into law October 27 (PL 99-551). Volunteers in Service to America is a corps of volunteers who work full time to assist low-income and disadvantaged Americans. The new program will enable VISTA to expand its current literacy efforts by assigning volunteers to projects and programs that meet VISTA antipoverty criteria and that "provide assistance to functionally illiterate and illiterate individuals who are unserved or underserved by literacy education programs, with special emphasis upon disadvantaged individuals having the highest risk of illiteracy, and individuals with the lowest reading and educational level of competence."

Programs and projects may be administered by a variety of public or private nonprofit agencies and organizations including libraries. The list of priorities in assigning volunteers includes statewide programs, coordination of intrastate efforts, and technical assistance to local efforts.

Authorized levels are \$2 million for FY '87, \$3 million for FY '88, and \$5 million for FY '89, plus an additional \$1 million each year for a component using volunteers to tutor illiterates. The Senate included \$2 million in FY '87 funding for the VISTA Literacy Corps in its version of HR 5233, the Labor-HHS-Education Appropriations Bill; and this amount was carried forward into law through the omnibus continuing resolution (H.J.Res. 738, PL 99-500). In its report (S. Rept. 99-408), the Senate Appropriations Committee explained its "intent that the VISTA volunteers will not be the providers of one-on-one tutoring, but rather will be mobilizers and catalysts in recruiting and training community volunteers, and in providing public education and awareness of the literacy program."

KEY MEMBERS OF CONGRESS - PRELIMINARY

Congressional committee assignments are incomplete; subcommittee assignments are far from complete and none are official. Preliminary or expected assignments as known so far include the following:

Appropriations. Senate Chairman, John Stennis (D-MS); ranking minority member, Mark Hatfield (R-OR). Sen. Don Nickles (R-OK), new member. House Chairman, Jamie Whitten (D-MS); ranking minority, Silvio Conte (R-MA). Rep. Alan Mollohan (D-WV), new member. Handles funding for all programs.

Labor-HHS-ED Appropriations Subcommittee. Senate Chairman, Lawton Chiles (D-FL); ranking minority, Mark Hatfield (R-OR). House Chairman, William Natcher (D-KY); ranking minority, Silvio Conte (R-MA). Handles LSCA, HEA, ECIA, NCLIS, NLM funding.

Legislative Appropriations Subcommittee. Senate Chairman, Dale Bumpers (D-AR); ranking minority, Charles Grassley (R-IA). Others, Barbara Mikulski (D-MD), Harry Reid (D-NV), Mark Hatfield (R-OR). House Chairman Vic Fazio (D-CA) will continue with same membership as last year. Handles LC & GPO funding.

Budget. Senate Chairman, Lawton Chiles (D-FL); ranking minority, Pete Domenici (R-NM). House Chairman, William Gray (D-PA); ranking minority, Delbert Latta (R-OH). Allocates amounts for budget categories such as education and training, which includes libraries.

House Education & Labor. Chairman, Augustus Hawkins (D-CA); ranking minority, James Jeffords (R-VT). Elementary, Secondary, & Vocational Education Subcommittee Chairman, Augustus Hawkins (D-CA); ranking minority, William Goodling (R-PA). Handles ECIA authorization. Postsecondary Education Subcommittee Chairman not yet known. Handles HEA, LSCA, WHCLIS authorization.

Senate Labor & Human Resources. Chairman, Edward Kennedy (D-MA); ranking minority, Orrin Hatch (R-UT). Education, Arts, & Humanities Subcommittee Chairman, Claiborne Pell (D-RI); ranking minority, Robert Stafford (R-VT). Handles ECIA, HEA, LSCA, WHCLIS authorization.

Senate Governmental Affairs. Chairman, John Glenn (D-OH); ranking minority, William Roth (R-DE). Handles government information, postal issues, civil service, National Archives. Civil Service, Post Office, & General Services Subcommittee Chairman David Pryor (D-AR). House Government Operations. Chairman, Jack Brooks (D-TX); ranking minority, Frank Horton (R-NY). Handles government information, National Archives. House Post Office & Civil Service. Chairman, William Ford (D-MI); ranking minority, Gene Taylor (R-MO). Handles postal, civil service issues.

Joint Committee on Printing. Chairman, Rep. Frank Annunzio (D-IL); Vice Chairman, Sen. Wendell Ford (D-KY). Oversees GPO. Joint Committee on the Library. Chairman, Sen. Wendell Ford (D-KY); Vice Chairman, Rep. Frank Annunzio (D-IL). Oversees LC.

Senate Rules & Administration. Chairman, Wendell Ford (D-KY); ranking minority, Ted Stevens (R-AK). Others, Claiborne Pell (D-RI), Robert Byrd (D-WV), Daniel Inouye (D-HI), Dennis DeConcini (D-AZ), Albert Gore (D-TN), Daniel Moynihan (D-NY), Christopher Dodd (D-CT), Brock Adams (D-WA), Mark Hatfield (R-OR), James McClure (R-ID), Jesse Helms (R-NC), John Warner (R-VA), Robert Dole (R-KS), and Jake Garn (R-UT). Handles Librarian of Congress nomination.

Tax Reform Act of 1986
P.L. 99-514
General Summary

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Association

Mortgage Interest

Interest on mortgages secured by a principal or second residence generally will continue to be fully deductible. However, interest on amounts borrowed after August 16, 1986 which exceed the taxpayer's cost for the residence plus the cost of any improvements will be fully deductible only if used for medical or educational purposes.

Charitable
Contributions

The itemized deduction for charitable contributions is retained, but the tax incentive for giving may be reduced by the lowering of rates and the consolidation of brackets. The untaxed appreciation on gifts of appreciated property will be a preference subject to an alternative (and newly increased) minimum tax. Non-itemizers will no longer be able to deduct charitable contributions after 1986.

Taxes

State and local income taxes will continue to be deductible as itemized deductions. State and local sales taxes will no longer be deductible, which could affect future support for education and libraries in those states which rely heavily on the sales tax for revenue.

Professional Expenses
and Miscellaneous
Deductions

Under the new law certain miscellaneous itemized deductions and unreimbursed employee business expenses which were formerly deductible in full will be deductible only to the extent that in the aggregate they exceed 2% of adjusted gross income. The types of expenses which are subject to the new 2% floor include dues to professional associations, employment-related education, subscriptions to professional journals and magazines, fees to attend professional conferences and seminars and 80% of unreimbursed business-entertainment expenses for the production of income such as safe deposit box fees, legal and accounting fees, and investment counsel fees.

GENERAL STRUCTURAL CHANGES

Tax Rates Under the new law the top individual tax rate will be 38.5% in 1987; 15% and 28% brackets will apply in 1988 with a 5% surcharge in certain income ranges.

Standard Deduction The existing zero bracket amount will be replaced with a standard deduction of \$5,000 for joint returns and \$3,000 for single individuals for 1988 and will be indexed in subsequent years. Zero bracket amounts for 1987 will be \$3,760 for joint returns, \$2,540 for individuals.

Personal Exemption The new law increases the personal exemption from \$1,080 to \$1,900 in 1987, \$1,950 in 1988 and \$2,000 in 1989. The exemption will be indexed in subsequent years.

Capital Gains The net long-term capital gains deduction is repealed by the new law so that such gains will be taxed at the same rate as ordinary income. In 1987, however, net long-term capital gains of individuals will be taxed at a maximum rate of 28%.

ITEMIZED DEDUCTIONS

Personal Interest No deduction will be allowed after full phase-in for personal or consumer interest such as interest on car loans or credit card interest. This provision will be phased in over four years so that 65% of such interest will be deductible in 1987, 40% in 1988, 20% in 1989 and 10% in 1990.

EMPLOYEE BENEFITS

TAX-EXEMPT FINANCING

401(k) Cash or
Deferred
Arrangements

Under the new law 401(k) plans will not be available to tax-exempt organizations. Plans adopted prior to July 2, 1986 are "grandfathered," however.

Individual Retirement
Accounts

The \$2,000 IRA deduction will be phased out for married persons where either spouse is covered by a qualified retirement plan and the couple's income on a joint return is between \$40,000 and \$50,000. For single persons the deduction is phased out in the adjusted gross income range of \$25,000 to \$30,000. Earnings on amounts deposited in IRA's will continue to accumulate on a tax-deferred basis.

Section 403(b)
Annuities

Beginning in 1987, the new law reduces from \$30,000 to \$9,500 the annual limit on the amount of elective deferrals that can be made under a Section 403(b) annuity program maintained by certain tax-exempt entities. Beginning in 1989, coverage and nondiscrimination rules generally applicable to other types of qualified plans will be applied to 403(b) annuity programs. Also beginning in 1989, withdrawals from Section 403(b) annuity programs before age 59-1/2 will be permitted only for death, disability, separation from service or financial hardship. Distributions on account of separation from service or financial hardship prior to age 59-1/2 generally will be subject to an additional 10% tax.

Deferred Compensation

Beginning in 1987, the maximum annual deferral under an unfunded deferred compensation plan maintained by a tax-exempt institution is generally limited to the lesser of \$7,500 or 33-1/3% of the employee's compensation, reduced by any amounts contributed to a 401(k) plan or to a Section 403(b) annuity on behalf of the employee. New minimum distribution rules will go into effect in 1989.

Tax-Exempt Financing

The Tax Reform Act added numerous technical restrictions on the issuance of tax-exempt bonds. In general, compliance with these restrictions may make the issuance of tax-exempt bonds by libraries more expensive than such an issuance would have been under prior law but should not otherwise curtail the ability of a library to obtain funds through bond issues. The lowering of individual tax rates under the Act might also cause tax-exempt bond financing to become more expensive because individual investors will demand a higher rate of interest to compensate for reduced tax advantages from investment in tax-exempt bonds.

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