Mr. WASHINGTON. That is right.

Mr. NELSEN. And the letter that I have here, signed by Mr. Fletcher, Assistant to the Commissioner, for the Commissioner, makes revenue proposals that would meet the budget needs?

Mr. WASHINGTON. That is right, sir.

Mr. NELSEN. Now, as to the suggested increase in the general sales tax; Would this put the City of Washington on a poor competitive position economically with the neighboring communities in Maryland and Virginia?

Mr. WASHINGTON. As far as taxes?

Mr. NELSEN. Yes, sir.

Mr. BACK. Mr. Nelsen, in Virginia, the jurisdictions in Virginia will be at 4 percent rate effective July 1. The State rate goes automatically to 3 percent and assuming that the local jurisdictions still retain their 1 percent rate the Virginia jurisdictions will be at 4 percent. The sales tax rate of Maryland is 3 percent, so to the extent that we compete with Maryland we will be slightly higher than Maryland in sales tax and on a par with the Virginia jurisdiction.

Mr. WASHINGTON. Of course, eliminating food tax to 1 percent.

Mr. NELSEN. I note, for example, your proposed increase of sales tax on restaurant meals and liquor. I can recall the last revenue bill which we authorized. It contained an increase in the cigarette tax. The tax was increased on the assumption that the cigarette revenue would increase, but the law of diminishing returns took hold and as a result the city received less revenue from cigarettes than before in spite of the increase in taxes. Now, is it possible that if the proposed tax on restaurant meals is authorized, you might find the law of diminishing returns taking effect again? Has that been taken into account?

Mr. BACK. Yes, Mr. Nelsen, we have taken that into account, and I believe the record would show that with regard to the cigarette tax, while we did not get the revenue we predicted we would get, we certainly got more than we received before. There are several factors there. As you may recall, the time we testified to that bill there had had been a cigarette bootlegging ring operating on the Eastern Seaboard here and Columbia was one place where you could buy cigarettes and pay our tax and still haul them north and make a nice profit. Steps have been taken to prevent this bootlegging and much of our revenue laws would have been lost by this—as a result of this regardless of the fact that our rate was increased.

It is also true that when our rate was increased from two cents a pack to three cents a pack we did go ahead of the Virginia rate. The Virginia rate is two and a half cents per pack. But far under the Maryland rate which is six cents per pack. The national average is eight cents per pack. So compared nationally, we are certainly low on cigarettes. Food—and I call it—beverages, we do not feel that this additional increase in the sales tax rate will throw us out of competitive position with the surrounding areas.

Mr. NELSEN. Now, most of us on the committee felt reasonably assured that the revenue bill that we passed in the last Congress would take care of increased costs; however, the testimony today indicates that this is not true and that we will need additional revenues as set out in the Commissioners letter in order to meet the increased costs that are proposed in the legislation we are considering.