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PM

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
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STATEMENT OF
ELMER B. STAATS
COMPTROLLER GENERAL OF THE UNITED STATES
BEFORE THE
SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS
COMMITTEE ON GOVERNMENT OPERATIONS
UNITED STATES SENATE
ON
THE GENERAL REVENUE SHARING PROGRAM

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MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, WE ARE
HERE TODAY FOR TWO PURPOSES:

- TO PROVIDE YOU WITH A SUMMARY OF THE RESULTS
OF OUR COMPLETED REVIEWS OF REVENUE SHARING, AND
- TO DESCRIBE REVENUE SHARING STUDIES WE PLAN TO
UNDERTAKE.

THE STATE AND LOCAL FISCAL ASSISTANCE ACT OF 1972, POP-
ULARLY KNOWN AS THE REVENUE SHARING ACT, BRINGS A NEW CONCEPT
TO INTERGOVERNMENTAL FISCAL RELATIONS--THE AUTOMATIC, PERIODIC
DISBURSEMENT OF FEDERAL FUNDS TO THE 50 STATES AND TO GENERAL
PURPOSE LOCAL GOVERNMENTS WITHOUT THE EXTENSIVE REQUIREMENTS
FOR ELIGIBILITY AND ADMINISTRATION THAT ARE ATTACHED TO OTHER
TYPES OF FEDERAL ASSISTANCE. DURING THE PRESENTLY AUTHORIZED
5-YEAR PROGRAM A TOTAL OF SOME \$30.2 BILLION WILL BE DISTRI-
BUTED, OF WHICH ABOUT \$13 BILLION HAS ALREADY BEEN DISBURSED.

THE REVENUE SHARING ACT GAVE THE GENERAL ACCOUNTING OFFICE
TWO TASKS:

- TO PROVIDE CONSULTATION TO TREASURY IN ESTABLISH-
ING FISCAL, ACCOUNTING, AND AUDIT GUIDELINES TO
BE FOLLOWED BY RECIPIENT GOVERNMENTS, AND
- TO ASSIST CONGRESSIONAL EVALUATION OF THE PROGRAM
BY REVIEWING THE WORK DONE BY TREASURY, THE STATE
GOVERNMENTS, AND THE UNITS OF LOCAL GOVERNMENT.

IN CARRYING OUT THE LATTER RESPONSIBILITY, WE HAVE THUS FAR COMPLETED TWO MAJOR STUDIES OF THE OPERATION OF THE REVENUE SHARING PROGRAM AMONG STATE AND LOCAL GOVERNMENTS. OUR REPORTS ON THESE TWO REVIEWS WERE ISSUED IN AUGUST 1973 AND APRIL 1974.

REPORT ON STATE GOVERNMENTS

IN APRIL AND MAY OF 1973, ABOUT 5 MONTHS AFTER THE INITIAL REVENUE SHARING PAYMENTS WERE MADE, GAO AUDITORS VISITED EACH OF THE 50 STATE GOVERNMENTS AND THE DISTRICT OF COLUMBIA. OUR OBJECTIVE WAS TO EXAMINE AND REPORT TO THE CONGRESS ON THE STATUS, USES, AND EFFECTS OF THE \$1.7 BILLION WHICH HAD BEEN DISTRIBUTED TO THE STATES AND THE DISTRICT FOR CALENDAR YEAR 1972.

WE REPORTED THAT, AS OF MARCH 31, 1973, THE STATES AND THE DISTRICT OF COLUMBIA HAD:

- AUTHORIZED THE EXPENDITURE OF \$390 MILLION AND EXPENDED \$243 MILLION,
- DEVELOPED REASONABLY DEFINITE PLANS TO EXPEND AN ADDITIONAL \$841 MILLION, AND
- HAD NOT YET MADE SPECIFIC PLANS FOR SPENDING THE REMAINING \$517 MILLION.

OF THE TOTAL AMOUNT AUTHORIZED OR PLANNED FOR EXPENDITURE, WE WERE ABLE TO IDENTIFY THE SPECIFIC USES FOR ABOUT \$958 MILLION. ABOUT \$377 MILLION, OR 39 PERCENT, WAS EARMARKED FOR CAPITAL EXPENDITURES.

WE FOUND THAT THE EMPHASIS ON THE DIRECT USE OF REVENUE SHARING FOR CAPITAL PROGRAMS WAS CAUSED, IN LARGE PART, BY A CONCERN THAT THE PROGRAM MIGHT BE DISCONTINUED. GENERALLY, STATE OFFICIALS EXPRESSED THE VIEW THAT IF THE FUNDS WERE USED TO INCREASE THE LEVEL OF OPERATING PROGRAMS AND, IF REVENUE SHARING WERE LATER DISCONTINUED, SUCH PROGRAMS EITHER WOULD HAVE TO BE CURTAILED OR THE REQUIRED FUNDING WOULD HAVE TO BE PROVIDED FROM STATE SOURCES.

ONE OF THE MORE NOTABLE FINDINGS FROM OUR REVIEW WAS THAT OVER HALF OF THE STATES' FUNDS WERE BEING DIRECTED TOWARD EDUCATION--OF THE \$958 MILLION PREVIOUSLY REFERRED TO, \$551 MILLION WAS PLANNED TO BE USED FOR THIS PURPOSE. OTHER PROGRAM AREAS RECEIVING LARGE AMOUNTS OF FUNDS INCLUDED:

--HOSPITALS, \$49 MILLION;

--HIGHWAYS, \$36 MILLION;

--RECREATION AND NATURAL RESOURCES, \$98 MILLION;

AND

--CORRECTIONS, \$31 MILLION.

A LARGE PART OF THE \$551 MILLION DIRECTED TOWARD EDUCATION WAS BEING TRANSFERRED BY THE STATES TO LOCAL SCHOOL DISTRICTS FOR THEIR USE.

IN SEVERAL OF THE STATES WHERE THE FUNDS WERE BEING TRANSFERRED TO SCHOOL DISTRICTS THE OBJECTIVE WAS TO RELIEVE TAX PRESSURE AT THE LOCAL LEVEL. FOR EXAMPLE, IN IDAHO WE WERE INFORMED THAT REVENUE SHARING FUNDS THE STATE EXPECTED TO RECEIVE IN FISCAL YEAR 1974 HAD BEEN APPROPRIATED TO SUPPORT THE PUBLIC SCHOOL SYSTEM. THIS ADDITIONAL AID TO SCHOOLS WAS ONE OF THE FACTORS WHICH ENABLED IDAHO TO REDUCE THE SCHOOL DISTRICT PROPERTY TAX CEILING FROM 30 MILLS TO 27 MILLS.

STATE OFFICIALS GAVE US THE FOLLOWING ASSESSMENTS OF THE BROAD FISCAL IMPACT THEY EXPECTED REVENUE SHARING WOULD HAVE IN THEIR STATES.

--IN 18 STATES THE FUNDS WERE EXPECTED TO HELP PERMIT SOME FORM OF TAX RELIEF.

--IN 16 STATES IT WAS EXPECTED THAT THE FUNDS WOULD POSTPONE FUTURE TAX INCREASES.

--IN 14 STATES THE FUNDS WERE EXPECTED TO INCREASE, AT LEAST TEMPORARILY, THE YEAR-END BALANCES AVAILABLE FOR APPROPRIATION.

REPORT ON LOCAL GOVERNMENTS

SHORTLY AFTER WE COMPLETED OUR EXAMINATION OF THE REVENUE SHARING ACTIVITIES OF THE STATE GOVERNMENTS WE BEGAN A REVIEW OF THE USES AND IMPACT OF THE FUNDS ON LOCAL GOVERNMENTS. OVER 38,000 LOCAL JURISDICTIONS--COUNTIES, TOWNSHIPS, AND MUNICIPALITIES--RECEIVE REVENUE SHARING. FROM THIS LARGE UNIVERSE, WE SELECTED 250 GOVERNMENTS FOR INCLUSION IN OUR REVIEW. THE SELECTION INCLUDED:

- THE 50 CITIES AND 50 COUNTIES IN THE NATION THAT RECEIVED THE LARGEST 1972 REVENUE SHARING PAYMENTS,
- THE CITY AND COUNTY THAT RECEIVED THE LARGEST PAYMENT IN EACH STATE, AND
- TWO LOCAL GOVERNMENTS SELECTED RANDOMLY IN EACH STATE FROM THOSE GOVERNMENTS RECEIVING MORE THAN \$10,000 FOR 1972.

THE 250 UNITS OF GOVERNMENT IN OUR REVIEW--124 CITIES, 116 COUNTIES, AND 10 TOWNSHIPS--RECEIVED A TOTAL OF ABOUT \$1.7 BILLION, OR ABOUT 38 PERCENT OF THE \$4.4 BILLION PAID TO ALL LOCAL GOVERNMENTS AS OF JUNE 30, 1973.

WE REPORTED THAT AS OF THAT DATE, 219 OF THE 250 GOVERNMENTS HAD APPROPRIATED \$1.4 BILLION OF THE FUNDS. THE REMAINING 31 GOVERNMENTS HAD NOT AUTHORIZED USE OF ANY OF THE FUNDS.

OF THE FUNDS AUTHORIZED, \$744 MILLION, OR 54 PERCENT, HAD BEEN SPENT. THE CITIES WITH OVER 1 MILLION PEOPLE HAD SPENT THEIR FUNDS FASTER THAN ANY OTHER GROUP OF CITIES. THESE CITIES HAD SPENT 94 PERCENT OF AVAILABLE FUNDS WHEREAS CITIES WITH UNDER 50,000 PEOPLE HAD SPENT ONLY 20 PERCENT. COUNTIES WITH POPULATIONS OVER 1 MILLION PEOPLE HAD SPENT 50 PERCENT OF AUTHORIZED FUNDS WHILE THOSE COUNTIES WITH POPULATIONS UNDER 50,000 PEOPLE HAD SPENT ONLY 25 PERCENT.

OF THE \$1.4 BILLION, ABOUT TWO-THIRDS OF THE FUNDS WERE EARMARKED FOR OPERATING AND MAINTENANCE EXPENSES AND ONE-THIRD FOR CAPITAL OUTLAYS. IN CONTRAST, DURING 1971, 16 PERCENT OF

THE GOVERNMENTS' EXPENDITURES WERE FOR CAPITAL OUTLAYS. EMPHASIS ON USE OF THE FUNDS FOR CAPITAL PROJECTS VARIED. As A GROUP, THE CITIES HAD DESIGNATED THE LOWEST PROPORTION, 22 PERCENT OF THE FUNDS FOR CAPITAL USES; COUNTIES, 57 PERCENT; AND TOWNSHIPS, 53 PERCENT. WITHIN THESE GROUPS THERE WERE WIDE VARIATIONS, THE CITIES WITH OVER 1 MILLION PEOPLE HAD AUTHORIZED ONLY 1 PERCENT OF THEIR FUNDS FOR CAPITAL EXPENDITURES, WHILE CITIES WITH UNDER 50,000 WERE USING 80 PERCENT.

OFFICIALS OF THE 183 GOVERNMENTS THAT HAD DIRECTED ALL OR PART OF THE FUNDS TOWARD CAPITAL PROGRAMS, CITED SEVERAL REASONS. THE MOST COMMON REASON WAS AN ECHO OF THE CONCERN EXPRESSED BY STATE OFFICIALS--THAT THE PROGRAM MIGHT NOT BE PERMANENT. ALSO, OFFICIALS OF A NUMBER OF GOVERNMENTS INDICATED THAT THE EASE WITH WHICH THE FUNDS COULD BE USED FOR CAPITAL PURPOSES HAD INFLUENCED THEIR DECISION. FOR EXAMPLE, OFFICIALS IN DES MOINES, IOWA, SAID THAT IN A REFERENDUM THE VOTERS REFUSED TO APPROVE THE BORROWING OF FUNDS TO CONSTRUCT FIRE STATIONS AND THAT REVENUE SHARING WOULD NOW BE USED TO CONSTRUCT THE STATIONS.

THE MAJOR FUNCTIONAL AREAS IN WHICH THE \$454 MILLION WAS BEING USED FOR CAPITAL PURPOSES INCLUDED: RECREATION, \$68 MILLION; HIGHWAYS AND STREETS, \$64 MILLION; PUBLIC SAFETY, \$62 MILLION; GENERAL PUBLIC BUILDINGS, \$61 MILLION; AND ENVIRONMENTAL PROTECTION, \$55 MILLION.

BEST DOCUMENT AVAILABLE

OF THE \$920 MILLION AUTHORIZED BY THE LOCAL GOVERNMENTS FOR OPERATING AND MAINTENANCE EXPENSES, \$532 MILLION, OR ABOUT 58 PERCENT, WAS EARMARKED FOR USE IN THE AREA OF PUBLIC SAFETY, PRINCIPALLY POLICE AND FIRE PROTECTION ACTIVITIES. OTHER FUNCTIONAL CATEGORIES RECEIVING LARGE AMOUNTS FOR OPERATING AND MAINTENANCE EXPENSES INCLUDED PUBLIC TRANSPORTATION, \$130 MILLION; ENVIRONMENTAL PROTECTION, \$84 MILLION; AND HEALTH, \$70 MILLION.

IN ADDITION TO THE GENERAL CONCERN ABOUT THE PERMANENCE OF THE PROGRAM, WE NOTED TWO OTHER UNIQUE FACTORS WHICH INFLUENCED THE DIRECT USES MADE OF THE FUNDS.

OFFICIALS OF 58 OF THE 250 GOVERNMENTS SAID DIRECT USES WOULD PROBABLY HAVE BEEN DIFFERENT IF THE USES WERE NOT RESTRICTED BY THE ACT AND REGULATIONS. THEY INDICATED THE FUNDS WOULD HAVE BEEN USED FOR SUCH THINGS AS DEBT RETIREMENT (NOW ONLY ALLOWED UNDER CERTAIN CONDITIONS) AND FOR EXPENSES RELATED TO EDUCATIONAL ACTIVITIES (AN UNALLOWABLE USE OF REVENUE SHARING BY LOCAL GOVERNMENTS.)

ACCORDING TO OFFICIALS OF 101 OF THE 250 GOVERNMENTS, REDUCTIONS OR POSSIBLE REDUCTIONS IN THE AMOUNT OF AID RECEIVED UNDER OTHER FEDERAL ASSISTANCE PROGRAMS INFLUENCED USE DECISIONS. FOR EXAMPLE, REDDING, CALIFORNIA, ASSUMED FINANCIAL RESPONSIBILITY FOR A NEIGHBORHOOD CENTER WHICH HAD BEEN FUNDED BY THE OFFICE OF ECONOMIC OPPORTUNITY, AND THE CITY INTENDED TO USE REVENUE SHARING FUNDS TO OPERATE THE CENTER IN FISCAL YEAR 1974.

DURING THE COURSE OF OUR REVIEW, WE CONDUCTED PERSONAL INTERVIEWS WITH ABOUT 750 PEOPLE. WE TALKED WITH LOCAL OFFICIALS INCLUDING MAYORS, COUNTY COMMISSIONERS, TOWNSHIP TRUSTEES, BUDGET DIRECTORS, TREASURERS, COMPTROLLERS, AND CITY AND COUNTY MANAGERS AND ASKED ABOUT THE EFFECTS OF REVENUE SHARING ON THEIR GOVERNMENTS.

WE SUMMARIZED THEIR OPINIONS AS FOLLOWS:

- ABOUT THREE-FOURTHS OF THE 250 GOVERNMENTS WERE USING THE FUNDS IN A MANNER WHICH HAD REDUCED, OR WAS EXPECTED TO REDUCE, LOCAL TAX PRESSURES. FOR EXAMPLE, IN 12 OF THE CITIES WE VISITED, OFFICIALS ATTRIBUTED ACCOMPLISHED TAX REDUCTIONS TO REVENUE SHARING; IN 37 CITIES REVENUE SHARING WAS CREDITED WITH HALTING A PLANNED OR PENDING TAX INCREASE; AND IN 46 CITIES OFFICIALS SAID ONE EFFECT OF THE FUNDS WOULD BE TO SLOW THE RATE OF TAX INCREASES. COUNTY AND TOWNSHIP OFFICIALS CITED SIMILAR EFFECTS ON THEIR TAXES.
- REVENUE SHARING WAS REPORTED TO HAVE A VARIETY OF EFFECTS ON THE LEVEL OF PUBLIC SERVICES DELIVERED BY THE GOVERNMENTS. FOR EXAMPLE, 80 OF THE GOVERNMENTS INDICATED THE FUNDS PERMITTED THEM TO PROVIDE NEW SERVICES. FOR EXAMPLE, PIMA COUNTY, ARIZONA, HAD DESIGNATED \$39,000 TO ESTABLISH A CONSUMER PROTECTION OFFICE AND \$52,000 FOR A NARCOTICS PREVENTION

PROGRAM, COLUMBIA, SOUTH CAROLINA, APPROPRIATED \$50,000 FOR DAY CARE CENTERS TO BE PROVIDED THROUGH A COOPERATIVE ARRANGEMENT WITH THE LOCAL HOUSING AUTHORITY. OTHER GOVERNMENTS REPORTED THE FUNDS PERMITTED THEM MERELY TO MAINTAIN EXISTING SERVICES.

- ABOUT ONE-THIRD OF THE GOVERNMENTS REPORTED TO HAVE EXPERIENCED MORE CITIZEN PARTICIPATION IN PLANNING USES OF REVENUE SHARING THAN IS NORMALLY EXPERIENCED IN THEIR BUDGET PROCESS. IN GENERAL, THE INCREASED PARTICIPATION CAME FROM SPECIAL INTEREST GROUPS REQUESTING USE OF THE FUNDS FOR ACTIVITIES SUCH AS SOCIAL SERVICES, SENIOR CITIZEN PROJECTS, HEALTH AGENCIES, AND LIBRARY ASSOCIATIONS.
- OFFICIALS OF SIX GOVERNMENTS INDICATED THAT REVENUE SHARING HAD BEEN A FACTOR IN CONSIDERING A CHANGE IN THEIR GOVERNMENT'S JURISDICTIONS THROUGH ANNEXATION OR CONSOLIDATION. IN ADDITION, DESPITE THE FACT THAT THERE ARE NO SPECIFIC INCENTIVES IN THE ACT TO ENCOURAGE INTERGOVERNMENTAL COOPERATION, ABOUT ONE-FOURTH OF THE GOVERNMENTS INDICATED THAT REVENUE SHARING HAD ENCOURAGED REGIONAL INTERGOVERNMENTAL PROJECTS OR PROGRAMS. FOR EXAMPLE, SEVERAL COMMUNITIES IN CONNECTICUT HAD AGREED, IN PRINCIPLE, TO USE THEIR REVENUE SHARING

FUNDS TO BUILD AND EQUIP A CLINIC TO BE

OPERATED BY A LOCAL HOSPITAL.

THE PROBLEM IN EVALUATING
REVENUE SHARING

BEST DOCUMENT AVAILABLE

A BASIC PROBLEM ENCOUNTERED IN ATTEMPTING TO ASSESS REVENUE SHARING IS THE QUESTION OF HOW TO IDENTIFY WHAT HAS ACTUALLY HAPPENED AS A RESULT OF THE PROGRAM. IN BOTH OF OUR REPORTS WE HAVE COMMENTED ON THIS DIFFICULTY.

ALTHOUGH I HAVE BRIEFLY OUTLINED HOW THE STATE GOVERNMENTS AND THE 250 SELECTED LOCAL GOVERNMENTS WERE USING THEIR REVENUE SHARING FUNDS, IT MUST BE RECOGNIZED THAT SUCH DATA MERELY SHOWS WHERE THE FUNDS ARE DIRECTLY EXPENDED AND MAY NOT SHOW WHAT THE GOVERNMENT HAS BEEN ABLE TO ACCOMPLISH BECAUSE OF THE PROGRAM. THE ACTUAL EFFECT OF THE PROGRAM ON A GOVERNMENT AND ITS CITIZENS COULD BE MUCH DIFFERENT THAN THE EFFECTS INDICATED BY THE GOVERNMENT'S FINANCIAL RECORDS AND RELATED REPORTS.

BECAUSE OF THE WIDE DISCRETION THAT RECIPIENTS HAVE IN USING THE FUNDS, REVENUE SHARING REPRESENTS MERELY AN ADDITION TO THE TOTAL RESOURCES AVAILABLE TO A GOVERNMENT FOR EXPENDITURE. REVENUE SHARING, AID FROM OTHER GOVERNMENTS, AND A GOVERNMENT'S OWN RESOURCES CAN OFTEN BE USED TO PROVIDE THE SAME SERVICES. THIS CREATES AN ENVIRONMENT WHERE FUNDS CAN BE EASILY DISPLACED OR SUBSTITUTED. IN OTHER WORDS, A GOVERNMENT THAT USES ITS REVENUE SHARING TO PAY POLICE SALARIES CAN USE ITS OWN FUNDS, WHICH WOULD HAVE BEEN USED FOR THESE SALARIES, FOR SOME OTHER PURPOSE.

THEREFORE, WHEN A RECIPIENT USES REVENUE SHARING FOR ANY PURPOSE, THERE ARE A VARIETY OF CONSEQUENCES WHICH ARE NOT NECESSARILY REFLECTED BY THE DIRECT USES OF THE FUNDS: (1) ITS OWN FUNDS MAY BE USED TO FINANCE OTHER PROGRAMS, (2) IT MAY BE RELIEVED OF THE NEED TO RAISE TAXES OR INCUR DEBT, (3) IT MAY BE ABLE TO REDUCE TAXES, (4) OR THERE MAY BE A COMBINATION OF THESE OR OTHER CONSEQUENCES. SUCH CONSEQUENCES ARE INHERENT IN THE BUDGETARY DECISIONMAKING PROCESS.

BECAUSE BUDGETARY CHOICES AMONG COMPETING PROGRAMS AND DECISIONS REGARDING THE METHODS FOR FINANCING A GOVERNMENT'S BUDGET ARE TYPICALLY MADE BASED ON TOTAL RESOURCES AVAILABLE TO THE GOVERNMENT, IT IS EXTREMELY DIFFICULT, AND PROBABLY IMPOSSIBLE IN MANY CASES, TO OBJECTIVELY IDENTIFY THE EFFECTS OF REVENUE SHARING. AN OBJECTIVE IDENTIFICATION OF EFFECTS IS FURTHER COMPLICATED BY SUCH FACTORS AS CHANGING PRIORITIES AND NEEDS, CHANGING AMOUNTS OF RESOURCES AVAILABLE TO A RECIPIENT FROM ITS OWN SOURCES, AND THE RELATIVELY SMALL CONTRIBUTION THAT REVENUE SHARING MAKES TO TOTAL STATE-LOCAL RESOURCES.

TO ILLUSTRATE, ASSUME THE POLITICAL LEADERS OF A CITY ARE AWARE OF BROAD BASED CITIZEN SUPPORT FOR EXPANDING THE CITY'S SOCIAL SERVICES, AND THEY THEREFORE ELECT TO APPROPRIATE ALL THE CITY'S REVENUE SHARING FUNDS FOR A NEW SOCIAL SERVICE PROGRAM. THE CITY'S ACCOUNTING RECORDS AND FINANCIAL REPORTS WOULD REFLECT THAT THE FUNDS WERE USED FOR THE NEW PROGRAM. THE KEY QUESTION IN THIS SITUATION IS WHAT WOULD

HAVE HAPPENED IF THE CITY HAD NO REVENUE SHARING FUNDS. IF THE FUNDS FOR THE NEW PROGRAM WOULD HAVE BEEN PROVIDED IN THE ABSENCE OF REVENUE SHARING, BY REDUCING THE FUNDING OF OTHER CITY PROGRAMS, INCREASING TAXES, OR USING AVAILABLE SURPLUS, THEN THE NET EFFECTS OF REVENUE SHARING ARE NOT IN THE AREA OF SOCIAL SERVICES. IN THIS CASE, THE EFFECT OF REVENUE SHARING FUNDS WOULD HAVE BEEN TO NEGATE THE NEED TO REDUCE OTHER CITY PROGRAMS, HALT A TAX INCREASE, OR MAINTAIN THE EXISTING LEVEL OF THE CITY'S SURPLUS.

AS I HAVE ALREADY INDICATED, WE ATTEMPTED TO DEAL WITH THIS PROBLEM THROUGH INTERVIEWS WITH STATE AND LOCAL OFFICIALS. THIS APPROACH HAS AN OBVIOUS SHORTCOMING IN THAT A STATE OR LOCAL OFFICIAL CAN ONLY PROVIDE A SUBJECTIVE JUDGMENT AS TO THE EFFECT OF THE PROGRAM ON HIS GOVERNMENT.

IN FACT, OFFICIALS OF NEW YORK STATE EXPRESSED THE OPINION THAT IT IS INHERENTLY IMPOSSIBLE, EXCEPT IN UNUSUAL CASES, TO DETERMINE THE ACTUAL EFFECTS OF REVENUE SHARING. THEY POINTED OUT THAT BECAUSE REVENUE SHARING FUNDS ARE A RELATIVELY SMALL PART OF TOTAL AVAILABLE RESOURCES, THE DESIGNATION OF ANY PARTICULAR EXPENDITURE AS BEING MADE POSSIBLE BY REVENUE SHARING IS AN "ACADEMIC" EXERCISE.

THESE INHERENT DIFFICULTIES RAISE SOME BASIC QUESTIONS ABOUT THE ACT WHICH WE ARE PLANNING TO EXAMINE IN GREATER DETAIL.

RESTRICTIONS

THE ACT PLACES SEVERAL RESTRICTIONS ON THE USES OF THE FUNDS. WHILE STATE GOVERNMENTS MAY SPEND THE FUNDS FOR ANY LEGAL PURPOSE, LOCAL GOVERNMENTS MUST SPEND THEIR FUNDS WITHIN

ONE OR MORE OF THE "PRIORITY EXPENDITURE" CATEGORIES. A PROGRAM OR ACTIVITY WHICH DISCRIMINATES BECAUSE OF RACE, COLOR, SEX, OR NATIONAL ORIGIN MAY NOT BE EITHER WHOLLY OR PARTIALLY FUNDED WITH REVENUE SHARING; LABORERS AND MECHANICS EMPLOYED BY CONTRACTORS OR SUBCONTRACTORS TO WORK ON A CONSTRUCTION PROJECT FOR WHICH 25 PERCENT OR MORE OF THE PROJECT COSTS ARE PAID WITH REVENUE SHARING FUNDS MUST NOT BE PAID LESS THAN PREVAILING RATES AS DETERMINED BY THE SECRETARY OF LABOR UNDER THE DAVIS-BACON ACT; AND SO FORTH.

IN OUR RECENT REPORT ON LOCAL GOVERNMENTS, WE POINTED OUT THAT WHEN THE FUNDS ARE SPENT FOR ACTIVITIES THAT WOULD HAVE BEEN FINANCED FROM THE RECIPIENTS OWN SOURCES, CONSIDERABLE LATITUDE EXISTS FOR USE OF THE LOCAL FUNDS THAT ARE SO FREED.

EXCEPT FOR A RESTRICTION, IN CERTAIN SITUATIONS, ON THE INDIRECT USE OF THE FUNDS TO MEET THE MATCHING REQUIREMENTS UNDER OTHER FEDERAL PROGRAMS, THE ACT AND REGULATIONS DO NOT RESTRICT THE USE OF LOCAL FUNDS FREED BY REVENUE SHARING. THEREFORE, EXCEPT FOR THE MATCHING PROHIBITION, COMPLIANCE WITH THE RESTRICTIONS BY LOCAL GOVERNMENTS CAN BE LARGELY A BUDGETING AND ACCOUNTING EXERCISE WITH LITTLE SUBSTANTIVE EFFECTS. FOR EXAMPLE, EL PASO COUNTY, COLORADO, TRANSFERRED ABOUT \$135,000 OF ITS REVENUE SHARING FUNDS TO THE SHERIFF'S DEPARTMENT AND COUNTY JAIL. THE TRANSFER FREED THE COUNTY'S OWN FUNDS TO PAY FOR SALARIES IN THE CLERK'S AND RECORDER'S OFFICE. THIS ACTION WAS TAKEN BECAUSE EL PASO COUNTY OFFICIALS

RESOLUTION

DID NOT THINK THAT EXPENSES OF THE CLERK'S AND RECORDER'S OFFICE WERE WITHIN ONE OF THE "PRIORITY EXPENDITURE" CATEGORIES SPECIFIED BY THE ACT.

BASED ON OUR REVIEW, WE EXPRESSED THE OPINION THAT THE "PRIORITY EXPENDITURE" REQUIREMENTS ARE ILLUSORY AND THAT THE OTHER REQUIREMENTS OF THE ACT APPLICABLE TO THE DIRECT USES OF THE FUNDS CAN APPARENTLY BE AVOIDED EITHER BY (1) BUDGETING REVENUE SHARING FUNDS IN A MANNER WHICH WILL REDUCE POTENTIAL COMPLIANCE PROBLEMS OR (2) DISPLACING FUNDING SOURCES.

IT IS CLEAR THAT A VARIETY OF RESTRICTIONS AND REQUIREMENTS CAN BE IMPOSED AND ENFORCED ON THE DIRECT USES MADE OF REVENUE SHARING. HOWEVER, UNLESS IDENTICAL REQUIREMENTS ARE IMPOSED ON ALL OR A MAJOR PART OF A RECIPIENT'S OTHER REVENUES, THE ACTUAL EFFECTIVENESS OF SUCH RESTRICTIONS IS DOUBTFUL; PARTICULARLY, IN THOSE GOVERNMENTS WHERE REVENUE SHARING IS A RELATIVELY INSIGNIFICANT PART OF TOTAL RESOURCES.

WE FEEL THAT IT IS TOO EARLY IN THE PROGRAM TO REACH A FIRM CONCLUSION OR MAKE ANY RECOMMENDATIONS REGARDING THE RESTRICTIONS. AS PART OF OUR FUTURE WORK, WE INTEND TO MONITOR THE COMPLIANCE EFFORTS OF THE OFFICE OF REVENUE SHARING AND ATTEMPT TO ASCERTAIN WHETHER SUBSTANTIVE RESULTS ARE BEING REALIZED FROM THE RESTRICTIONS.

PUBLIC DISCLOSURE

STATE AND LOCAL GOVERNMENTS ARE REQUIRED TO PREPARE PERIODIC REPORTS OF THEIR PLANNED AND ACTUAL USES OF REVENUE SHARING. THE ACT ALSO REQUIRES THAT THE REPORTS BE PUBLISHED IN A NEWSPAPER HAVING GENERAL CIRCULATION WITHIN THE GEOGRAPHIC AREA OF THE GOVERNMENT.

ONE EXPECTATION WAS THAT THE CITIZENS OF EACH RECIPIENT GOVERNMENT WOULD HOLD OFFICIALS OF THEIR GOVERNMENT ACCOUNTABLE FOR USES OF THE FUNDS. PUBLICATION OF THE USE REPORTS WAS INTENDED TO ASSIST IN ACHIEVING THIS OBJECTIVE.

THE USE REPORTS DESCRIBE THE BROAD FUNCTIONAL AREAS (PUBLIC SAFETY, ENVIRONMENTAL PROTECTION, ETC.) IN WHICH THE FUNDS ARE BUDGETED AND EXPENDED. AS I HAVE ALREADY SUGGESTED, THE EARMARKED USES OF REVENUE SHARING DOES NOT NECESSARILY PROVIDE AN ACCURATE PORTRAYAL OF WHAT IS ACTUALLY BEING ACCOMPLISHED BY A GOVERNMENTS' USE OF THE FUNDS.

AT THE PRESENT TIME, WE ARE STUDYING ALTERNATIVES TO THE PRESENT SYSTEM OF PUBLIC DISCLOSURE IN AN EFFORT TO SUGGEST POSSIBLE IMPROVEMENTS TO THE CONGRESS. THIS EVALUATION IS BEING CONDUCTED AT 21 SELECTED GOVERNMENTS LOCATED THROUGHOUT THE COUNTRY.

BECAUSE BUDGETARY DECISIONS ARE TYPICALLY MADE BASED ON TOTAL AVAILABLE RESOURCES, IT IS PROBABLY UNREALISTIC TO EXPECT THAT THE CITIZENRY CAN MAKE AN INFORMED JUDGMENT FROM A REPORT WHICH DESCRIBES THE EXPENDITURES ACCOMPLISHED WITH A PART, OFTEN A VERY SMALL PART, OF TOTAL RESOURCES. IT MAY BE

THAT FOR PUBLIC DISCLOSURE PURPOSES, USES OF REVENUE SHARING SHOULD NOT BE REPORTED SEPARATELY FROM USES OF OTHER RESOURCES AVAILABLE TO A GOVERNMENT,

CRITERIA USED TO ESTABLISH
ELIGIBILITY

GENERAL PURPOSE LOCAL GOVERNMENTS AS DEFINED BY THE BUREAU OF THE CENSUS FOR STATISTICAL PURPOSES, RECEIVE REVENUE SHARING FUNDS. A LARGE NUMBER OF GOVERNMENTS WHICH MEET THE CENSUS DEFINITION OF GENERAL PURPOSE PERFORM VERY LIMITED SERVICES, OFTEN ONLY A SINGLE FUNCTION. IN SOME STATES THERE APPEAR TO BE TRENDS THAT CERTAIN GOVERNMENTS HAD BEEN DECLINING IN IMPORTANCE, WERE EXPERIENCING DECLINING REVENUE BASES, AND GRADUALLY WERE LOSING RESPONSIBILITIES TO OTHER LEVELS OF GOVERNMENT.

WE ARE PRESENTLY STUDYING THE IMPACT THAT THE ADDITIONAL FUNDS PROVIDED BY REVENUE SHARING MAY HAVE ON THESE GOVERNMENTS AND SUCH TRENDS. OTHER GROUPS ARE ALSO INQUIRING INTO THE SAME AREA.

I HOPE THAT THE RESULTS OF SUCH STUDIES WILL BE OF ASSISTANCE TO THIS SUBCOMMITTEE AND TO THE CONGRESS IN EVALUATING THE CRITERIA PRESENTLY USED TO ESTABLISH REVENUE SHARING ELIGIBILITY.

TAX DATA USED TO
ALLOCATE FUNDS

TAXES IMPOSED BY A UNIT OF GOVERNMENT, AS DEFINED BY THE BUREAU OF THE CENSUS, IS ONE FACTOR USED IN THE ALLOCATION

FORMULAS TO DETERMINE THE AMOUNT OF REVENUE SHARING FUNDS THAT A GOVERNMENT IS ENTITLED TO RECEIVE.

THE AMOUNT OF CENSUS-DEFINED TAXES RAISED BY A GOVERNMENT MAY NOT BE AN EQUITABLE INDICATOR OF THE TOTAL REVENUE EFFORT OF A GOVERNMENT'S CITIZENS BECAUSE (1) REVENUES OBTAINED BY CHARGING USERS FOR SERVICES ARE NOT CONSIDERED TAXES, (2) PROFITS OBTAINED FROM A GOVERNMENT-OWNED UTILITY OR OTHER ACTIVITY ARE NOT CONSIDERED TAXES EVEN WHEN USED FOR GENERAL GOVERNMENT PURPOSES, AND (3) TAXES COLLECTED BY SPECIAL DISTRICTS THAT OVERLAP OR ARE WITHIN A GOVERNMENT'S BOUNDARIES ARE NOT APPORTIONED TO GENERAL-PURPOSE GOVERNMENTS THAT ARE ENTITLED TO RECEIVE REVENUE SHARING FUNDS.

CONSEQUENTLY, THE AMOUNT OF REVENUE SHARING FUNDS ALLOCATED TO A PARTICULAR AREA DEPENDS SOMEWHAT ON THE METHODS USED BY THE LOCAL GOVERNMENT TO RAISE REVENUES AND THE STRUCTURE OF LOCAL GOVERNMENT IN THE AREA. WE ARE ATTEMPTING TO IDENTIFY AND EVALUATE THE EXTENT TO WHICH INEQUITIES MAY RESULT AND THE EXTENT TO WHICH GOVERNMENTS MAY BE UNINTENTIONALLY ENCOURAGED TO CHANGE THEIR METHODS OF RAISING REVENUES. THIS IS AN EXTREMELY COMPLEX SUBJECT WITH NO SIMPLE SOLUTION. HOWEVER, IF OUR REVIEW PRODUCES INFORMATION THAT WOULD ASSIST IN EVALUATING THE PRESENT DATA BASE USED TO ALLOCATE THE FUNDS, WE WILL REPORT OUR OBSERVATIONS TO THE CONGRESS.

FUTURE PLANS

WE ARE CURRENTLY CONSIDERING STUDIES OF SEVERAL OTHER ASPECTS OF THE PROGRAM. THESE INCLUDE:

- A REVIEW OF THE ADEQUACY OF THE OTHER DATA USED TO ALLOCATE REVENUE SHARING FUNDS.
- AN ANALYSIS OF THE AMOUNTS DISTRIBUTED TO LOCAL GOVERNMENTS AND THE VARIOUS IMPACTS THE CONSTRAINTS HAVE ON THE ALLOCATIONS WITHIN DIFFERENT STATES.
- A REVIEW OF THE COMPLIANCE EFFORTS AND AUDITS OF THE OFFICE OF REVENUE SHARING, INCLUDING AN ASSESSMENT OF AUDITS UNDERTAKEN BY STATE AND LOCAL AUDIT ORGANIZATIONS AND INDEPENDENT PUBLIC ACCOUNTANTS. THE EXTENT TO WHICH WE BECOME DIRECTLY INVOLVED IN CONDUCTING COMPLIANCE REVIEWS OF RECIPIENT GOVERNMENTS WILL DEPEND ON OUR ASSESSMENT OF THE OVERALL COMPLIANCE PROGRAM MOUNTED BY THE OFFICE OF REVENUE SHARING.
- A STUDY OF USES AND IMPACT OF REVENUE SHARING ON INDIAN TRIBES AND ALASKAN NATIVE VILLAGES.
- A SURVEY OF PROBLEMS POSED BY THE PROHIBITION AGAINST THE INDIRECT USE OF REVENUE SHARING FUNDS TO MEET MATCHING REQUIREMENTS OF OTHER FEDERAL PROGRAMS.

--A STUDY OF POSSIBLE CHANGES TO THE ACT WHICH
MIGHT FURTHER ENCOURAGE COOPERATION AMONG
GOVERNMENTAL UNITS.

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TO SUMMARIZE, OUR WORK TO DATE HAS PROBABLY RAISED MORE
QUESTIONS THAN IT HAS ANSWERED. I AM HOPEFUL, HOWEVER, THAT
THE OBSERVATIONS AND INFORMATION FROM OUR COMPLETED AND FUTURE
REVIEW EFFORTS WILL BE OF ASSISTANCE TO THE CONGRESS IN
EVALUATING THIS NEW APPROACH TO FEDERAL ASSISTANCE.