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**REPORT TO THE SUBCOMMITTEE ON
INTERGOVERNMENTAL RELATIONS
COMMITTEE ON
GOVERNMENT OPERATIONS
UNITED STATES SENATE**

094934



**Case Studies Of Revenue Sharing
In 26 Local Governments**

ENCLOSURE X

↓ Saco, Maine 0.2795

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

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SUMMARY

At the request of the Chairman, Subcommittee on Intergovernmental Relations, Senate Committee on Government Operations, GAO conducted case studies on general revenue sharing at 26 selected local governments throughout the country, including Saco, Maine.

For the period January 1, 1972, through June 30, 1974, Saco was allocated a total of \$676,356 in revenue sharing funds, or a per capita amount of \$57.92. Of the amount allocated, \$566,065 was received by June 30, 1974, and \$110,291 was received in July 1974. The revenue sharing funds allocated to Saco were equivalent to about 18.8 percent of its own tax collections.

The Chairman's letter listed seven areas on which the Subcommittee wanted information. Following is a brief description of the selected information GAO obtained on each area during its review of Saco.

1. The specific operating and capital programs funded in part or in whole by general revenue sharing in each jurisdiction. Saco had expended \$203,549 through June 30, 1974, with \$96,136 being designated as used for environmental protection, \$60,206 for public transportation, \$21,626 for recreation, \$15,043 for public safety, \$3,404 for general government, \$3,215 for education, \$2,500 for social services, \$194 for financial administration, and \$1,225 for miscellaneous repairs to city property. The city's accounting records showed that, within these use designations, \$26,080 was for operations and maintenance costs including salaries and services, \$81,385 for constructing storm drains, \$60,206 for highway materials, \$14,508 for purchasing a recreation building and equipment, \$11,488 for closing a dump facility, and \$9,882 for school building renovation, protective doors, electrical work, and sewer work.

2. The fiscal condition of each jurisdiction, including its surplus or debt status. An analysis of Saco's general fund balances at the end of its 1969-73 fiscal years revealed a significant increasing trend. The fund balance increased from \$47,046, as of December 31, 1969, to \$395,788, as of December 31, 1973. The city's indebtedness also increased during that period, from \$.5 million in 1969 to \$2.4 million in 1973. The debt ceiling imposed by the State has not limited Saco's financial planning because its applicable outstanding debt is only about 18 percent of the ceiling.

City officials said Saco's current fiscal condition is good; however, its future status depends on such factors as the amount of revenue sharing to be received and inflation.

3. The impact of revenue sharing on local tax rates and any changes in local tax laws, and an analysis of local tax rates vis-a-vis per capita income. Saco's property tax rates remained fairly stable during the period 1970-73. City officials attribute this stability to the revenue sharing program. In addition, revenue sharing has funded postponed capital improvement projects.

The percentage of a family's income that is paid to the city and to the State government varies as family income increases. The tax burden for a family of four went from 10.4 percent of family income to 9.9 percent to 10.3 percent as family income increased from \$7,500 to \$12,500 to \$17,500, respectively.

4. The percentage of the total local budget represented by general revenue sharing. Revenue sharing funds received by Saco through December 31, 1973, totaled \$345,489. Saco did not budget revenue sharing funds in 1972. In 1973 revenue sharing funds accounted for \$218,578, or 15 percent of the city budget and 4.7 percent of the combined city and school budgets. The \$126,911 that had not been budgeted as of December 31, 1973, amounted to 8.7 percent of the city's 1973 budget.

5. The impact of Federal cutbacks in three or four specific categorical programs and the degree, if any, that revenue sharing has been used to replace those cutbacks. Saco has not experienced a significant decrease in Federal aid. Although the amount received decreased from \$501,007 in 1971 to \$267,700 in 1973, this decrease resulted from the impending completion of a sewerage treatment facility under a grant from the Environmental Protection Agency.

6. The record of each jurisdiction in complying with the civil rights, Davis-Bacon, and other provisions of the law. No complaints have been filed against Saco alleging discrimination in its employment practices or in its delivery of services. The city government work force of 95 people did not include any minorities. About 40.4 percent of the city's civilian labor force were female, and about 12.6 percent of the city government work force were female. City officials said Saco has not discriminated in its employment practices. They added that the high level of males in the city government work force resulted from males traditionally applying for non-clerical positions and females for clerical positions. Additionally, the city has a very low employee turnover rate.

GAO identified a construction project, originally budgeted to be funded with revenue sharing funds in 1974, as violating the Davis-Bacon provision. No wage determination study was requested for the construction contract. Prior to contract completion and payment, a city official discovered the omission of a wage determination study and changed the project's funding from revenue sharing to city funding. Most revenue sharing funded projects were undertaken using the city government work force.

The city had complied with the prevailing wage provision of the Revenue Sharing Act.

7. Public participation in the local budgetary process, and the impact of revenue sharing on that process. Saco's normal budgetary process includes holding a public hearing. Although the city published the planned and actual use reports required by the Revenue Sharing Act and made available to the public copies of the proposed budget, revenue sharing had no apparent impact on public participation in the budgetary process.

CHAPTER 1

INTRODUCTION

The State and Local Fiscal Assistance Act of 1972 (Public Law 92-512), commonly known as the Revenue Sharing Act, provides for distributing about \$30.2 billion to State and local governments for a 5-year program period beginning January 1, 1972. The funds provided under the act are a new and different kind of aid because the State and local governments are given wide discretion in deciding how to use the funds. Other Federal aid to State and local governments, although substantial, has been primarily categorical aid which generally must be used for defined purposes. The Congress concluded that aid made available under the act should give recipient governments sufficient flexibility to use the funds for their most vital needs.

On July 8, 1974, the Chairman, Subcommittee on Intergovernmental Relations, Senate Committee on Government Operations, requested us to conduct case studies on general revenue sharing at 26 selected local governments throughout the country. The request was part of the Subcommittee's continuing evaluation of the impact of general revenue sharing on State and local governments. The Chairman requested information on

- the specific operating and capital programs funded by general revenue sharing in each jurisdiction;
- the fiscal condition of each jurisdiction;
- the impact of revenue sharing on local tax rates and tax laws, including an analysis of tax burden on residents of each jurisdiction;
- the percentage of the total budget of each jurisdiction represented by general revenue sharing;
- the impact of Federal cutbacks in several categorical programs and the degree, if any, that revenue sharing has been used to replace those cutbacks;
- the record of each jurisdiction in complying with the civil rights, Davis-Bacon, and other provisions of the law; and
- public participation in the local budgetary process and the impact of revenue sharing on that process.

Saco, Maine, is one of the 26 selected local governments, which include large, medium, and small municipalities and counties as well as a midwestern township.

BACKGROUND INFORMATION
ON SACO

Saco, the 10th largest city of the 22 cities in Maine, was originally incorporated in 1762 as Pepperellboro and in 1805 officially named Saco. Located in the southern portion of the State, Saco encompasses 40 square miles. It is situated on the east bank of the Saco River and extends inland from the Atlantic Ocean for 8 miles. Though basically industrialized, Saco consists of residential areas and includes four beach resort centers along 4 miles of beaches. Most of the beach property is owned by nonresidents. According to the 1970 census, Saco's population was 11,678, which increases by at least 2,000 during the summer season.

Saco's economy is industrially diversified with many industries located in the Saco industrial park. The city's leading industry, the largest metal working facility in Maine, employed approximately 1,100 employees in 1970. Other major industries include metal cutting, electronics, shoe parts, tanning, plastics, and wood products. The per capita income level for Saco residents in 1969 was \$2,260 compared with the Maine per capita income level of \$2,550.

The municipal government consists of a mayor, city council, and city administrator. The city's fiscal year begins on the first day of January and ends on the last day of December. The mayor is elected for a 2-year term and is the chief elected official of the city government. He has few administrative duties, but he presides at all council meetings and casts a vote in case of a tie. The council is composed of seven members each elected for a 2-year term from one of seven city wards. It has all the powers of the city vested in it. The city administrator is the chief administrative officer; he is appointed for an indefinite term by the council. The administrator position was provided for in the new city charter adopted in 1973.

The city provides its residents with education, recreation, fire and police protection, sewerage, sanitation services, and highway and street maintenance, including snow removal. A unique feature regarding the educational system is that the city provides for elementary schooling in city schools, with a private secondary school serving as the city's high school on a contract basis.

REVENUE SHARING ALLOCATION

Revenue sharing funds are allocated according to a formula in the Revenue Sharing Act. The amount available for distribution within a State is divided into two portions--one third for the State government and two-thirds for all eligible local governments within the State.

The local government share is allocated first to the State's county areas (these are geographic areas, not county governments) using a formula which takes into account each county area's population, general tax effort, and relative income. Each individual county area amount is then allocated to the local governments within the county area.

The act places constraints on allocations to local governments. The per capita amount allocated to any county area or local government unit (other than a county government) cannot be less than 20 percent, nor more than 145 percent, of the per capita amount available for distribution to local governments throughout the State. The act also limits the allocation of each unit of local government (including county governments) to not more than 50 percent of the sum of the government's adjusted taxes and intergovernmental transfers. Finally, a government cannot receive funds unless its allocation is at least \$200 a year.

To satisfy the minimum and maximum constraints, the Office of Revenue Sharing uses funds made available when local governments exceed the 145 percent maximum to raise the allocations of the State's localities that are below the 20 percent minimum. To the extent these two amounts (amount above 145 percent and amount needed to bring all governments up to 20 percent) are not equal, the amounts allocated to the State's remaining unconstrained governments (including county governments) are proportionally increased or decreased.

Saco's allocation was not raised to the 20 percent minimum constraint or lowered to the 145 percent maximum constraint in any of the first four entitlement periods (January 1, 1972, through June 30, 1974), but constraints applied to other governments in the State resulted in an increase in Saco's allocation. Our calculations showed that if the allocation formula were applied in Maine without all the act's constraints, Saco's allocation for the period January 1, 1972, through June 30, 1974, would have been \$639,552. However, because these constraints were applied, Saco's final allocation was \$671,065. The initial allocations and payments to Saco for the same period were \$676,356, including

\$110,291 received in July 1974. The payment for the next entitlement period will be reduced by \$5,291, the difference between initial and final allocations.

The following schedule shows revenue sharing per capita and revenue sharing as a percentage of adjusted taxes for Saco; Presque Isle, a city with a population of 11,452 which is close to Saco's population of 11,678; and the two largest cities in Maine, Portland and Lewiston, with populations of 65,116 and 41,779, respectively.

City	Revenue sharing funds received for the period January 1, 1972 through June 30, 1974		
	Received (note a)	Per capita share	As a percent of taxes (note b)
Saco	\$ 676,356	\$57.92	18.8
Presque Isle	724,016	63.22	30.1
Portland	4,583,550	70.39	18.9
Lewiston	2,911,495	69.69	26.5

a/Includes payment received in July for quarter ending June 30, 1974.

b/Fiscal year 1971 and 1972 taxes, as defined by the Bureau of the Census, were used and adjusted to correspond to the 2-1/2-year period covered by the revenue sharing payments.

The 145 percent constraint for the governments in Maine was a total of \$84.17 per capita for the period covered. The 20 percent minimum constraint was \$11.60.

CHAPTER 2

BUDGETING AND PUBLIC PARTICIPATION IN THE

BUDGETARY PROCESS

Saco has a fund structure composed of a general fund, a special fund group, a trust fund, and a general revenue sharing fund.

1. General fund--finances city government administration, city services, payments of bonded debt, employee fringe benefits, and county and special assessments. Revenues are from general taxation, bond issues, fines and fees, and State and Federal aid and are deposited in the fund checking account or in short-term certificates of deposit. These deposits mature at established intervals to meet anticipated city expenditures. All city payments are made from the general fund, which in turn is reimbursed by other funds for any expenditures not related to the general fund.
2. Special fund group--consists of the school planning or repair fund, the ambulance fund, and the recreation building fund. The school fund was established with funds from a State school subsidy; most of these funds were expended in acquiring a new school site. The ambulance fund was established to account for the fees received from the use of the city ambulance; these moneys are used for the periodic replacement of the vehicle. The recreation fund was established with the proceeds from the sale of old city school property and finances recreational building needs.
3. Trust fund--consists of various endowment funds donated to the city for specific uses and is administered by the board of trustees.
4. General revenue sharing fund--consists mainly of a checking account and certified warrants for expenditures. The exact contents of this account were still being determined at the time of our review.

RELATIONSHIP OF REVENUE SHARING TO TOTAL BUDGET

Revenue sharing funds received by Saco through December 31, 1973, totaled \$345,489. Saco did not budget revenue sharing funds in 1972. In 1973 revenue sharing funds accounted for \$218,578, or 15 percent of the city budget and

4.7 percent of the combined city and school budgets. The \$126,911 that had not been budgeted as of December 31, 1973, amounted to 8.7 percent of the city's 1973 budget.

Saco's budget and related revenue sharing data for calendar years 1971, 1972, and 1973 are presented below.

<u>Saco</u>	<u>Year ended December 31</u>		
	<u>1971</u>	<u>1972</u>	<u>1973</u>
Operating budget	\$2,071,454	\$2,576,938	\$1,458,873
School budget	<u>2,426,120</u>	<u>2,599,414</u>	<u>3,166,642</u>
Total	<u>\$4,497,574</u>	<u>\$5,176,352</u>	<u>\$4,625,515</u>
Revenue sharing payments received	-	\$62,797	\$282,692
Revenue sharing funds budgeted	-	-	\$218,578
Cumulative revenue sharing payments received but not budgeted	-	\$62,797	\$126,911
Percentage of city budget represented by revenue sharing	-	-	15.0
Percentage of city and school budgets represented by revenue sharing	-	-	4.7

A city official said revenue sharing funds were not included in the 1972 budget because the entitlement payment was not received until December 1972. He also said all of the revenue sharing funds available were not included in the 1973 budget because the city lacked a full-time administrative staff knowledgeable of the revenue sharing program.

Appropriations by department for calendar years 1972, 1973, and 1974 follow.

Function/department	1973			1974	
	1972 budgeted	Budgeted, including revenue sharing appropriations	Revenue sharing appropriations	Budgeted, including revenue sharing appropriations	Revenue sharing appropriations
General government	\$ 139,345	\$ 144,620	\$ 2,098	\$ 150,706	\$ -
Public safety:					
Fire department	135,000	160,743	19,552	188,254	4,200
Police department	180,000	181,910	6,700	220,627	1,600
Other	122,500	132,300	-	139,228	-
Public works:					
Sewers and drains	68,350	129,995	92,995	185,434	35,505
Street department	210,000	215,925	60,000	381,451	142,744
Other	179,591	276,656	-	337,977	41,139
Welfare	24,000	20,500	2,500	38,910	15,500
Education	1,967,644	2,179,101	a/12,000	2,635,011	-
Recreation	46,500	71,808	21,508	98,933	11,979
Indebtedness and capital improvements	142,000	157,000	-	151,250	-
Special assignment	45,150	38,808	-	47,520	-
Unclassified	100,000	154,229	1,225	178,247	-
Miscellaneous (note b)	1,816,272	761,920	-	337,300	-
Total	\$5,176,352	\$4,625,515	\$218,578	\$5,090,848	\$252,667

a/The city appropriated \$12,000 in revenue sharing funds as capital to be used for the renovation of a grade school.

b/Additional State, Federal, and special funds not already included in the departmental budget totals.

PUBLIC INVOLVEMENT IN BUDGETARY PROCESS

Prior to 1974, departmental heads submitted budgetary requests to the city council finance committee for review and approval. The mayor acted as chairman of this committee. After approving these budgetary requests, the committee would submit them to the city council for adoption. Under the new city charter, effective on January 1, 1974, the city administrator prepares and submits to the council the budget for the ensuing year by December 15 of each year. The budget is submitted to the council at required public meetings and is published in the local newspapers. The charter states that the budget shall be approved by the city council by April of the budget year. However, approval of the 1974 budget was delayed until July 1, 1974, because of the city's reorganization under the new charter.

In 1973 revenue sharing funds were budgeted and appropriated separately from the normal budget; however, this process followed the same procedures as those followed for adoption of the city's annual budget.

A 5-year capital program, which may be revised and extended each year, is submitted by the city administrator for city council approval. The program is presented to the council at an open meeting, reviewed at a scheduled public hearing, and later adopted at a regular council meeting.

No unusual steps were taken by Saco to publicize its revenue sharing program. The city published its planned and actual use reports in two local newspapers. Also, copies of the annual budget, including revenue sharing appropriations, were made available to the public at several places in the city.

Local public interest groups seeking funds have participated in the city's budgetary decisions. Several groups have requested funds for community activities, and one group specifically requested revenue sharing funds in 1973. The request was approved with the allocation of \$2,500 to provide home services for individuals with low income, for the elderly, and for the disabled. The proposed 1974 budget included allocations of revenue sharing funds of \$2,500 for home services and \$13,000 for community health services.

Most public interest groups expressed limited knowledge of the revenue sharing program. Their requests for funds did not specify any particular source of such funds. The one group that did request and receive revenue sharing funds said it became aware of the revenue sharing program from a newsletter issued by its national council.

CHAPTER 3

PROGRAMS FUNDED WITH REVENUE SHARING

Saco was allocated \$676,356 in revenue sharing funds for the period January 1, 1972, through June 30, 1974. Of the amount allocated, \$566,065 was received by June 30, 1974, and \$110,291 was received in July 1974. As of June 30, 1974, interest earned from investment of the funds totaled \$25,513. Of the \$701,869 available for use, Saco has expended \$203,549 and has unliquidated obligations of \$47,228 and unobligated funds of \$451,092.

USES OF REVENUE SHARING

The uses of revenue sharing funds described in this chapter are those reflected by Saco's financial records. As we have pointed out in earlier reports on the revenue sharing program ("Revenue Sharing: Its Use by and Impact on State Governments," B-146285, Aug. 2, 1973, and "Revenue Sharing: Its Use by and Impact on Local Governments," B-146285, Apr. 25, 1974), fund "uses" reflected by the financial records of a recipient government are accounting designations of uses. Such designations may have little or no relation to the actual impact of revenue sharing on the recipient government.

For example, in its accounting records, a government might designate its revenue sharing funds for use in financing environmental protection activities. The actual impact of revenue sharing on the government, however, might be to reduce the amount of local funds which would otherwise be used for environmental protection, thereby permitting the "freed" local funds to be used to reduce tax rates, to increase expenditures in other program areas, to avoid a tax increase or postpone borrowing, to increase yearend fund balances, and so forth.

Throughout this case study, when we describe the purposes for which revenue sharing funds were used, we are referring to use designations as reflected by city financial records.

The reports on the annual audits of the city by registered independent auditors for 1969, 1970, 1971, and 1973 disclosed weaknesses in the city's accounting system. The report for 1973 specifically stated that Federal revenue sharing payments for 1973 were handled inconsistently and were not always properly accounted for. Fiscal accounts were not maintained in a manner sufficient to permit tracing of entitlement funds to an expenditure level adequate to establish that such fund usage had not violated the restrictions and

prohibitions of the Revenue Sharing Act. The auditors believed that the proper implementation of their recommendations would remove most of the problems with city accounting records in time for the 1974 annual audit.

As of December 1974, the city was still involved in establishing new administrative and accounting procedures to provide current and complete fiscal data for all city activities and funds. With the assistance of the newly appointed city accountant, we developed data which city officials agreed fairly represented the actual functional and specific uses of revenue sharing funds.

Functional uses

Through June 30, 1974, the city expended \$203,549 in revenue sharing funds in the following functional areas.

<u>Functional use</u>	<u>Expended</u>
Operations and maintenance:	
Public safety:	
Police	\$ 541
Fire	14,502
Recreation	7,118
Social services for poor or aged	2,500
Financial administration	194
Miscellaneous repair:	
Memorial Field fence	<u>1,225</u>
Total	<u>26,080</u>
Capital outlays:	
Education	3,215
Highways and streets	60,206
Recreation	14,508
Environmental protection	96,136
General public buildings	<u>3,404</u>
Total	<u>177,469</u>
Total	<u>\$203,549</u>

Specific uses

The total funds expended from revenue sharing funds for specific services or capital projects as of June 30, 1974, are presented below.

Operations and Maintenance
Expenditures as of June 30, 1974

	<u>Amount</u>
Public safety:	
Police department:	
Purchase of emergency lighting equipment	\$ 541
Fire department:	
Purchase of oxygen equipment, helmets, protective clothing, and communication equipment	10,376
Fire station repair	4,126
Recreation:	
Summer park employees' salaries	4,001
Purchase of park and recreation center equipment	3,117
Social services for poor, elderly, and disabled individuals	2,500
Financial administration:	
Advertisement of revenue sharing planned and actual use reports	194
Other:	
Repair to Memorial Field fence	<u>1,225</u>
Total	<u>\$26,080</u>

Capital Expenditures as of June 30, 1974

	<u>Amount</u>
Education:	
Primary and secondary schools:	
Materials and construction for grade school renovation	\$ 3,215
Highways and streets:	
Materials for erosion prevention	57,777
Highway upkeep	2,429
Recreation:	
Purchase of building and equipment	14,508
Environmental protection:	
Construction of storm drains	81,385
Closure of a dump facility and study for a new facility	11,488
Sewer work	3,263
General public buildings:	
Installation of protective doors and electrical work	<u>3,404</u>
Total	<u>\$177,469</u>

Plans for unobligated funds

As of June 30, 1974, the city was planning to use \$220,468 of its unobligated revenue sharing funds of \$451,092 in the following manner.

<u>Planned uses</u>	<u>Operations and maintenance</u>	<u>Capital</u>	<u>Total</u>
Public safety:			
Police	\$ 1,000	\$ 600	\$ 1,600
Fire protection	1,000	3,200	4,200
Environmental protection:			
Sewerage and drains	-	34,160	34,160
Sanitation	-	10,285	10,285
Public transportation:			
Streets and highways	30,077	112,667	142,744
Health:			
Health services	13,000	-	13,000
Recreation	9,500	2,479	11,979
Social services for poor or aged.	<u>2,500</u>	<u>-</u>	<u>2,500</u>
Total	<u>\$57,077</u>	<u>\$163,391</u>	<u>\$220,468</u>

The city plans to use the balance of \$230,624 plus anticipated revenue sharing entitlements for a comprehensive citywide sewer master plan, for purchasing and developing the existing Saco industrial park, purchasing heavy equipment, completing sewer and highway projects, and for social services.

ACCOUNTING FOR REVENUE SHARING FUNDS

Prior to July 25, 1973, revenue sharing funds were recorded as part of the general fund and invested in separate certificates of deposit. During July 1973, the city established a separate revenue sharing account consisting of a checking account and certified warrants for expenditures.

The 1973 annual city audit disclosed that fiscal accounts were not sufficiently maintained to account for revenue sharing funds. The auditors recommended that the city accounting function be reorganized and that an accountant be hired.

In April 1974 Saco hired a city administrator and an accountant. New administrative and accounting procedures were implemented to provide for investing revenue sharing funds in certificates of deposit at competitive rates. Matured certificates and interest earned were to be reinvested or transferred to the revenue sharing checking account to maintain a balance sufficient to meet expenditures for 30 days. Revenue sharing fund expenditures were to be accounted for by the city accountant in the same manner as other funds; all expenditures were to be identified by a certified warrant forwarded to the city treasurer for payment. The revenue sharing warrants were to be paid from the general fund account, with the revenue sharing fund reimbursing the general fund.

As of December 1974, the city accountant was making adjusting entries to clarify the contents of the revenue sharing account. Certified public accountants will conduct the 1974 annual city audit at the end of the year to determine the success of the new accounting procedures and the status of city funds.

AUDITS OF REVENUE SHARING

Federal revenue sharing funds were audited by registered independent auditors as part of the annual audit of all city funds for fiscal periods 1972 and 1973. The city council requested a report on the handling of revenue sharing funds for calendar year 1973. The report stated that the city's method of accounting for funds did not meet the requirements of the Revenue Sharing Act. The report dealt only with financial

matters and did not cover other compliance provisions. The auditors recommended establishing a separate revenue sharing fund, employing a full-time accountant, and reorganizing the accounting system.

CHAPTER 4

COMPLIANCE PROVISIONS

OF THE REVENUE SHARING ACT

The act provides that, among other requirements, each recipient shall

- create a trust fund in which funds received and interest earned will be deposited. Funds will be spent in accordance with laws and procedures applicable to expenditure of the recipient's own revenues;
- use fiscal, accounting, and audit procedures which conform to guidelines established by the Secretary of the Treasury;
- not use funds in ways which discriminate because of race, color, national origin, or sex;
- under certain circumstances, not use funds either directly or indirectly to match Federal funds under programs which make Federal aid contingent upon the recipient's contribution;
- observe requirements of the Davis-Bacon provision on certain construction projects in which the costs are paid out of the revenue sharing trust fund;
- under certain circumstances, pay employees who are paid out of the trust fund not less than prevailing rates of pay; and
- periodically report to the Secretary of the Treasury on how it used its revenue sharing funds and how it plans to use future funds. The reports shall also be published in the newspaper, and the recipient shall advise the news media of the publication of such reports.

Further, local governments may spend funds only within a specified list of priority areas.

For purposes of this review, we gathered selected information relating to the nondiscrimination, Davis-Bacon, and prevailing wage provisions.

NONDISCRIMINATION PROVISION

The act provides that no person in the United States shall, on the ground of race, color, national origin, or sex, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity funded in whole or in part with general revenue sharing funds.

At the time of our review, Saco did not have a formal policy regarding hiring, conditions of employment, job classification, promotions, or nondiscrimination in employment, except for union contract requirements. The new city charter provides for establishing a personnel policy; policy adoption was awaiting city council action.

The Maine Human Rights Commission was established in July 1972. It is the only agency responsible for enforcing civil rights in the specific areas of employment, housing, public accommodations, and receipt of credit. The commission is required to seek corrective action whenever a complaint is filed by an individual or a violation is identified by the commission. Initially, corrective action is sought between the commission and the defendant. If this approach fails, the commission files a discrimination charge in State court and represents the plaintiff. The State commission and the U.S. Equal Employment Opportunity Commission, Boston district office, maintain a mutual referral listing of discrimination complaints filed with either agency. No record of employment discrimination complaints against Saco are on file with either the State commission or the Equal Employment Opportunity Commission.

Comparison of local government
work force and civilian labor force

According to the 1970 census, the total minority population in Saco was 24. The census did not show how many of them were included in the civilian labor force of 4,614 persons.

The city government employs no minorities. A comparison of the total civilian labor force with the city government work force follows.

	<u>City government work force</u>		<u>Civilian labor force</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Total	<u>95</u>	<u>100.0</u>	<u>4,614</u>	<u>100.0</u>
Male	83	87.4	2,752	59.6
Female	12	12.6	1,862	40.4

During the year ended June 30, 1974, the city hired two males and one female. Additionally, five male employees were promoted during this period.

City officials stated that Saco has not discriminated in its employment practices. They also said the city has few members of minority groups, and many of these are employees of private concerns and were either relocated or recruited from elsewhere by their employers. Moreover, Federal and State civil rights enforcement agencies have no record of employment complaints filed against the city.

We were told that the high level of males in the city government work force results from the fact that males traditionally have applied for nonclerical positions and females for clerical positions. Additionally, we were told that the city has a very low employee turnover rate.

Officials from the State, city, and community organizations could not identify any civil rights organizations active in Saco.

Services and capital projects

We did not identify any obvious discriminatory practices affecting individuals or groups regarding the location of capital projects or services provided with revenue sharing funds. The city and the Maine Human Rights Commission have not received any complaints regarding discrimination in public services, location of capital projects, or funding of social services. Further, we did not find any administrative orders or judicial decrees against the city involving the use of revenue sharing funds.

DAVIS-BACON PROVISION

The Revenue Sharing Act provides that all laborers and mechanics, employed by contractors and subcontractors to work on any construction project of which 25 percent or more of the cost is paid out of the revenue sharing trust fund, shall be paid wage rates which are not less than rates prevailing for similar construction in the locality as determined by the Secretary of Labor in accordance with the Davis-Bacon Act, as amended.

Office of Revenue Sharing regulations implementing this provision require that contracts exceeding \$2,000 shall contain a provision stating the minimum wages to be paid

various classes of laborers and mechanics as determined by the Secretary of Labor. Further, the contract shall stipulate that the contractor shall pay wage rates not less than those stated in the specifications, regardless of any contractual relationships alleged to exist between the contractor and such laborers and mechanics. A further contract stipulation is that there may be withheld from the contractor so much of accrued payments as considered necessary by the contracting officer to pay to laborers and employees the difference between wage rates required by the contract and rates actually received.

The city failed initially to comply with the wage determination requirements of the provision in one instance--a construction project financed with revenue sharing funds. This project was included in the 1974 city budget approved July 1, 1974. Originally, this project was to have been completed by city employees but, because of its complexity, the city decided to award a contract for completing it. No wage determination was made. After the city administrator discovered the omission, he changed the project's funding from revenue sharing to city funds before the project was completed and payment was made.

A city official said a number of nonunion contractors are available who offer low labor rates and who are capable of handling city contracts. He stated that obtaining a wage determination from the Department of Labor requires too much time and, in order to save money, the city will continue to finance construction projects with city funds.

PREVAILING WAGE PROVISION

The Revenue Sharing Act provides that certain recipient employees whose wages are paid in whole or in part out of the revenue sharing trust fund shall be paid at rates which are no lower than the prevailing rates for persons employed in similar public occupations by the recipient government. The individuals covered by this provision are those in any category where 25 percent or more of the wages of all employees in the category are paid from the trust fund.

City employees are employed at wage rates established either by union contract or by the city council annually. The city does not have a civil service system based on merit or wage schedules. Wages for a class or category of city employees paid from revenue sharing funds are at the same rate as those employees paid from other funding sources.

CHAPTER 5

FINANCIAL STATUS

TREND OF FUND BALANCES

The city has a general fund, revenue sharing fund, trust fund, and a special fund group; each has separate sources of revenue. The general fund is the principal fund for the operation and administration of the city government. The fund balances for the years 1969-73 are presented below.

<u>Period ended</u> <u>December 31</u>	<u>Unappropriated fund balances</u>			<u>Special</u> <u>fund group</u>
	<u>General</u>	<u>Revenue</u> <u>sharing</u>	<u>Trust</u>	
1969	\$ 47,046	\$ -	\$793,885	\$62,358
1970	87,660	-	822,337	92,468
1971	86,579	-	904,227	89,656
1972	248,491	62,791	943,911	17,956
1973	395,788	167,361	977,884	20,706

Year-by-year accumulation of the general fund surpluses resulted from the fact that actual tax receipts exceeded estimated revenues and that annual expenditures were below appropriated amounts. Unappropriated surplus funds have been used to cover tax abatements and losses, reduce departmental overdrafts, and, in 1 year, redeem \$12,000 of bonds payable.

The trust fund consists of endowment funds which have been increased by capital appreciation and retention of earned income. The income earned can be used only for activities specified by the endowment trust provisions.

The special fund group is composed of the school planning, ambulance, and recreation funds. These are self-supporting funds used to maintain specific activities.

Retirement plan

Saco had a retirement income plan from 1971-73, available to all city employees. Although this plan was terminated in December 1973, seven retirees are still receiving benefits. Because the plan is not fully funded, the city will have to make payments to the retirees when the fund is depleted.

The balances in the Saco retirement income plan follow.

<u>Period ended</u>	<u>Balance</u>
December 31, 1971	\$36,399
December 31, 1972	48,211
December 31, 1973	48,654
June 30, 1974	20,647

Saco joined the Maine State Retirement System in December 1973. Membership was made available to all city employees as of December 1973, and was required for all employees employed after that date. The plan provides for any prior service by city employees. This cost is being amortized over a 30-year period, with Saco paying for this liability annually. The plan is reported to be actuarially sound.

INDEBTEDNESS

Each year the city appropriates general fund revenue for the payment of its indebtedness. Following is the outstanding debt for the period 1969-73.

<u>Year</u>	<u>Outstanding debt</u>
1969	\$ 500,599
1970	419,341
1971	1,040,583
1972	958,000
1973	2,444,500

The outstanding debt represents bonding issues covering school, sewer, and sanitary district construction in Saco.

Borrowing procedures

Authorization for a bonding issue must be approved by the city council. After approval, the city solicitor and a bonding agent prepare the legal bonding document. A private bonding agent was used until 1973, when the State formed the Maine Municipal Bonding Bank for selling municipal bonding issues. Bonds issued by Saco had a Moody's Investors Service, Inc., rating of "A" for the periods 1965-66 and 1971-74; no ratings were available for the period 1967-70. A rating of "A" is the third highest given by Moody's and applies to bonds considered as upper medium-grade obligations.

The city's voters approve or reject proposed bond issues at scheduled elections. After voter approval the issue is put out for bids. City officials said Saco has not had any voter rejection of bonding issues or incomplete subscription offering.

Borrowing restrictions

City tax anticipation notes are restricted at any one time to an aggregate amount of not more than 80 percent of the tax levy of the preceding fiscal year. Temporary loans are to be paid back within the same fiscal year out of tax receipts. Funds borrowed for permanent improvements to city property must be within the limits fixed by the State at 15 percent of \$90 million--the State-adjusted assessment for city taxable property. As of December 31, 1973, the city's outstanding debt was \$2.44 million, or about 18 percent of the \$13.5 million debt limit.

TAXATION

Major taxes levied

The major sources of city tax revenue were from

- a real estate tax, levied on the assessed value of real property at a rate of 38.30 mills;
- a tax of 21.75 mills, levied on the assessed value of industrial and commercial stock and livestock;
- a tax of 38.30 mills, levied on the assessed value of personal property, consisting of industrial and commercial machines and equipment, watercraft, motors, boat trailers, business furniture and fixtures, farm tractors, utility trailers, and snowmobiles; and
- an excise tax of not more than 24 mills and not less than 5 mills (these rates take depreciation into account), levied on motor vehicles, aircraft, and house trailers.

The amount of real estate and personal property tax to be levied each fiscal year is derived from the approved annual budget expenditure. In 1973 real estate was assessed at 70 percent of fair market value. Personal property was assessed at 100 percent of fair market value. Excise taxes are assessed on the factory list prices for motor vehicles, aircrafts, or house trailers.

Maine has a revenue sharing program funded with 4 percent of the gross revenues from State income and sales taxes. The State has been distributing this additional revenue to its cities and towns since 1972.

Receipts from major taxes and State revenue sharing for the years 1969-73 follow.

<u>Year</u>	<u>Real estate and personal property tax rate</u>	<u>Real estate and personal property tax receipts</u>	<u>Excise tax receipts</u>	<u>State revenue sharing receipts</u>
1969	\$33.00	\$1,892,730	\$116,990	(a)
1970	37.00	2,259,566	137,551	(a)
1971	39.00	2,503,979	147,046	(a)
1972	39.00	2,552,355	168,614	\$69,891
1973	38.30	2,632,641	199,617	74,782

a/Not applicable.

Taxing limitations

Saco has no statutory limitations on its taxing authority. It receives tax revenues from all sources allowed by city charter and State laws.

City officials believe Saco's financial condition to be good. Revenue sharing has provided funding for postponed capital improvement projects and has stabilized the property tax rate. City officials stated that without revenue sharing the city council would not have approved hiring a city administrator and full-time accountant, establishing a new accounting system, and undertaking postponed capital expenditures. The city's future financial status depends on such factors as the amount of revenue sharing to be received, whether the program will be continued, the extent of inflation, and whether and how postponed expenditures will be financed. The city administrator said the city is to receive \$100,000 less in revenue sharing in 1975, and any cuts in the city's revenues would result in reduced city services. The city plans to use its surplus funds and the balance of its revenue sharing funds to meet budget requirements for 1975.

Family tax burden

We calculated the 1973 city and State tax burden of residents of Saco by assuming such things as level of income, size of family, and value of real property holdings for three hypothetical families. Each of the three families depicted below had four family members, had income solely from wages earned by the head of the household, and owned a home having a market value equal to 2-1/2 times that of the annual income. The annual incomes of families A, B, and C totaled \$7,500, \$12,500, and \$17,500, respectively. Families A and B each owned one automobile and used 1,000 gallons of gasoline. Family C owned two automobiles and used 1,500 gallons of gasoline. Household furnishings were the only personal property items owned by these families.

<u>Tax</u>	<u>Family A</u>	<u>Family B</u>	<u>Family C</u>
City:			
Real estate	\$503	\$ 838	\$1,173
Auto excise	<u>41</u>	<u>43</u>	<u>55</u>
Total	<u>544</u>	<u>881</u>	<u>1,228</u>
State:			
Income	28	110	235
Gasoline	90	90	135
Sales	<u>118</u>	<u>167</u>	<u>211</u>
Total	<u>236</u>	<u>367</u>	<u>581</u>
Total	<u>\$780</u>	<u>\$1,248</u>	<u>\$1,809</u>
Total as percentage of income	<u>10.4</u>	<u>9.9</u>	<u>10.3</u>

Additionally, residents and nonresidents of the State are subject to a State use tax of 5 percent on meals and rented living quarters; a cigarette tax of 14 cents per pack; and an alcohol tax not to exceed 80 percent of the cost of the delivered liquor to the State liquor warehouse, with an additional 75 cents tax for each gallon of wine containing more than 14 percent alcohol by volume.

CHAPTER 6

OTHER FEDERAL AID

FEDERAL AID RECEIVED

Excluding revenue sharing, the total amounts of Federal aid received by Saco during calendar years 1971-73 and the estimated amounts for 1974 are presented below.

	<u>Year ended December 31</u>			
	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974 (est.)</u>
Department of Health, Education, and Welfare: Office of Education	\$153,827	\$123,694	\$131,366	\$163,000
Department of the Interior: Bureau of Outdoor Recreation	-	-	8,352	-
Department of Justice: Law Enforcement As- sistance Adminis- tration	-	2,314	-	4,300
Department of Labor: Concentrated employ- ment program	-	2,000	2,000	-
Emergency Employ- ment Act	11,880	79,053	70,282	70,000
Environmental Protec- tion Agency: Federal Water Quality Act: Sewerage treat- ment	335,300	423,600	55,700	100,000
Department of Housing and Urban Develop- ment: Federal Disaster Assistance Ad- ministration	-	15,995	-	-
Total	<u>\$501,007</u>	<u>\$646,656</u>	<u>\$267,700</u>	<u>\$337,300</u>

DECREASE IN FEDERAL AID
AND IMPACT ON RECIPIENT

A city official said Federal aid programs have not been significantly reduced. Except for the sewerage treatment project that is being completed, Saco has not had a significant reduction in any Federal aid program.

CHAPTER 7

SCOPE OF REVIEW

We interviewed officials of Saco and reviewed accounting, administrative, and other official records. We also contacted representatives from local public interest groups as well as Federal and State commissions involved with nondiscrimination matters. Our work was limited to gathering selected data relating to areas identified by the Subcommittee Chairman.

Officials of Saco reviewed our case study, and we considered their comments in finalizing it.

CITY GOVERNMENT WORK FORCE

SACO, MAINE

JUNE 30, 1974

Function/job category	Male				Female				Total			
	White	Black	Other	Total	White	Black	Other	Total	White	Black	Other	Total
All functions:												
Officials	19	-	-	19	-	-	-	-	19	-	-	19
Professionals	-	-	-	-	-	-	-	-	-	-	-	-
Technicians	-	-	-	-	-	-	-	-	-	-	-	-
Protective service	31	-	-	31	-	-	-	-	31	-	-	31
Paraprofessionals	4	-	-	4	2	-	-	2	6	-	-	6
Office/clerical	-	-	-	-	10	-	-	10	10	-	-	10
Skilled craft	29	-	-	29	-	-	-	-	29	-	-	29
Service/maintenance	-	-	-	-	-	-	-	-	-	-	-	-
Total	<u>83</u>	-	-	<u>83</u>	<u>12</u>	-	-	<u>12</u>	<u>95</u>	-	-	<u>95</u>
Percent	<u>87</u>	-	-	<u>87</u>	<u>13</u>	-	-	<u>13</u>	<u>100</u>	-	-	<u>100</u>
Administration:												
Officials	3	-	-	3	-	-	-	-	3	-	-	3
Professionals	-	-	-	-	-	-	-	-	-	-	-	-
Technicians	-	-	-	-	-	-	-	-	-	-	-	-
Protective service	-	-	-	-	-	-	-	-	-	-	-	-
Paraprofessionals	2	-	-	2	1	-	-	1	3	-	-	3
Office/clerical	-	-	-	-	7	-	-	7	7	-	-	7
Skilled craft	-	-	-	-	-	-	-	-	-	-	-	-
Service/maintenance	-	-	-	-	-	-	-	-	-	-	-	-
Total	<u>5</u>	-	-	<u>5</u>	<u>8</u>	-	-	<u>8</u>	<u>13</u>	-	-	<u>13</u>
Percent	<u>38</u>	-	-	<u>38</u>	<u>62</u>	-	-	<u>62</u>	<u>100</u>	-	-	<u>100</u>
Fire protection:												
Officials	4	-	-	4	-	-	-	-	4	-	-	4
Professionals	-	-	-	-	-	-	-	-	-	-	-	-
Technicians	-	-	-	-	-	-	-	-	-	-	-	-
Protective service	13	-	-	13	-	-	-	-	13	-	-	13
Paraprofessionals	-	-	-	-	-	-	-	-	-	-	-	-
Office/clerical	-	-	-	-	2	-	-	2	2	-	-	2
Skilled craft	-	-	-	-	-	-	-	-	-	-	-	-
Service/maintenance	-	-	-	-	-	-	-	-	-	-	-	-
Total	<u>17</u>	-	-	<u>17</u>	<u>2</u>	-	-	<u>2</u>	<u>19</u>	-	-	<u>19</u>
Percent	<u>89</u>	-	-	<u>89</u>	<u>11</u>	-	-	<u>11</u>	<u>100</u>	-	-	<u>100</u>
Police protection:												
Officials	4	-	-	4	-	-	-	-	4	-	-	4
Professionals	-	-	-	-	-	-	-	-	-	-	-	-
Technicians	-	-	-	-	-	-	-	-	-	-	-	-
Protective service	18	-	-	18	-	-	-	-	18	-	-	18
Paraprofessionals	-	-	-	-	-	-	-	-	-	-	-	-
Office/clerical	-	-	-	-	-	-	-	-	-	-	-	-
Skilled craft	-	-	-	-	-	-	-	-	-	-	-	-
Service/maintenance	-	-	-	-	-	-	-	-	-	-	-	-
Total	<u>22</u>	-	-	<u>22</u>	-	-	-	-	<u>22</u>	-	-	<u>22</u>
Percent	<u>100</u>	-	-	<u>100</u>	-	-	-	-	<u>100</u>	-	-	<u>100</u>
Streets and highways:												
Officials	4	-	-	4	-	-	-	-	4	-	-	4
Professionals	-	-	-	-	-	-	-	-	-	-	-	-
Technicians	-	-	-	-	-	-	-	-	-	-	-	-
Protective service	-	-	-	-	-	-	-	-	-	-	-	-
Paraprofessionals	-	-	-	-	-	-	-	-	-	-	-	-
Office/clerical	-	-	-	-	1	-	-	1	1	-	-	1
Skilled craft	20	-	-	20	-	-	-	-	20	-	-	20
Service/maintenance	-	-	-	-	-	-	-	-	-	-	-	-
Total	<u>24</u>	-	-	<u>24</u>	<u>1</u>	-	-	<u>1</u>	<u>25</u>	-	-	<u>25</u>
Percent	<u>96</u>	-	-	<u>96</u>	<u>4</u>	-	-	<u>4</u>	<u>100</u>	-	-	<u>100</u>

	Male				Female				Total			
	White	Black	Other	Total	White	Black	Other	Total	White	Black	Other	Total
Parks and recreation:												
Officials	2	-	-	2	-	-	-	-	2	-	-	2
Professionals	-	-	-	-	-	-	-	-	-	-	-	-
Technicians	-	-	-	-	-	-	-	-	-	-	-	-
Protective service	-	-	-	-	-	-	-	-	-	-	-	-
Paraprofessionals	2	-	-	2	1	-	-	1	3	-	-	3
Office/clerical	-	-	-	-	-	-	-	-	-	-	-	-
Skilled craft	1	-	-	1	-	-	-	-	1	-	-	1
Service/maintenance	-	-	-	-	-	-	-	-	-	-	-	-
Total	<u>5</u>	-	-	<u>5</u>	<u>1</u>	-	-	<u>1</u>	<u>6</u>	-	-	<u>6</u>
Percent	<u>83</u>	-	-	<u>83</u>	<u>17</u>	-	-	<u>17</u>	<u>100</u>	-	-	<u>100</u>
Sewage treatment:												
Officials	2	-	-	2	-	-	-	-	2	-	-	2
Professionals	-	-	-	-	-	-	-	-	-	-	-	-
Technicians	-	-	-	-	-	-	-	-	-	-	-	-
Protective service	-	-	-	-	-	-	-	-	-	-	-	-
Paraprofessionals	-	-	-	-	-	-	-	-	-	-	-	-
Office/clerical	-	-	-	-	-	-	-	-	-	-	-	-
Skilled craft	8	-	-	8	-	-	-	-	8	-	-	8
Service/maintenance	-	-	-	-	-	-	-	-	-	-	-	-
Total	<u>10</u>	-	-	<u>10</u>	-	-	-	-	<u>10</u>	-	-	<u>10</u>
Percent	<u>100</u>	-	-	<u>100</u>	-	-	-	-	<u>100</u>	-	-	<u>100</u>

- GAO note: 1. Total minority population of Saco is 24--2 blacks and 22 other minority group individuals. Civilian labor force statistics for these individuals were not available.
2. The jobs in this appendix were categorized by the city using Federal Equal Employment Opportunity Commission definitions.

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