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

Case Studies Of Revenue Sharing
In 26 Local Governments

ENCLOSURE I

Brentwood Borough, Pennsylvania

*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 Brentwood Borough, Pennsylvania.

For the period January 1, 1972, through June 30, 1974, Brentwood Borough was allocated a total of \$300,939 in revenue sharing funds, or a per capita amount of \$21.92. Of the amount allocated, \$270,657 was received by June 30, 1974, and \$30,282 was received in July 1974. The revenue sharing funds allocated to Brentwood Borough were equivalent to about 15 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 in each area during its review of Brentwood Borough.

1. The specific operating and capital programs funded in part or in whole by general revenue sharing in each jurisdiction. Brentwood Borough expended revenue sharing funds totaling \$113,796 as of June 30, 1974, with \$69,326 designated for use in operations and maintenance and \$44,470 for capital items. Operations and maintenance expenses were primarily for borough employees' salaries and for rental of police vehicles. Expenditure of revenue sharing funds for capital items included two jeeps, a street sweeper, an air compressor, a brush chipper, and a fire truck.

2. The fiscal condition of each jurisdiction, including its surplus or debt status. The borough has generally shown a surplus in fund balances during each of the 5 calendar years through 1973. Borough officials stated, however, it is very possible that its current year will end with a deficit.

Borough borrowing procedures and restrictions are set by State law and provide for two kinds of debt--electoral debt, which requires the assent of the electors, and non-electoral debt, which does not. There is no limit on the

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.

Brentwood Borough, Pennsylvania, 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
BRENTWOOD BOROUGH

The Borough of Brentwood is a suburban residential community in Allegheny County south of Pittsburgh. The borough has an area of about 1.4 square miles and a population of 13,732 according to the 1970 census. Although there are no major industries within the borough, it is adjacent to the Pittsburgh industrial area. Most of the residents are employed as blue and white collar workers, including professionals, semiprofessionals, proprietors, managers, craftsmen, or foremen.

Brentwood Borough is operated by an elected mayor-council form of government. The council is composed of seven members, each elected to serve a 4-year term of office. The mayor's term of office is also 4 years.

The borough provides many services to all residents. It contracts with a local sanitation company to collect garbage; maintains most of the community's streets, except several maintained by the State or county; operates a public library; provides police services, including ambulance service; provides fire protection with a volunteer fire company; and operates a recreational facility, Brentwood Park, containing 28 acres. The park has a football stadium, civic center, cinder track, baseball fields, tennis courts, and a number of outdoor basketball courts. A swimming pool and wading pool are available in summer months and an ice skating rink in the winter. Adjacent to the park is a borough building which was renovated for use by senior citizens.

The independent Brentwood Borough school district operates two elementary schools and a high school. The boundaries of the school district coincide with the borough limits. A parochial elementary school is also located within the community.

Public transportation is provided by the Port Authority of Allegheny County through the Port Authority Transit. Sewerage facilities are provided by the Allegheny County Sanitary Authority.

Gas, electric, water, and telephone services are obtained by residents from private companies.

There are no hospitals or clinics within Brentwood Borough.

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.

Brentwood'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 Brentwood's allocation. Our calculations showed that, if the allocation formula were applied in Pennsylvania without all the act's constraints, Brentwood's allocation for the period January 1, 1972, through June 30, 1974, would have been \$244,823. However, because these constraints were applied, Brentwood's final allocations totaled \$300,102. Initial allocations and payments to Brentwood for the same period were \$300,939. This included \$30,282 which was received in July 1974. The borough's payment for the next period will be reduced by \$837, the difference between the initial and final allocations.

The following schedule shows revenue sharing per capita and revenue sharing as a percentage of adjusted taxes for Brentwood; Lower Burrell, a city of 13,654 people, which is close to Brentwood's population of 13,732; and the two largest cities in Pennsylvania, Philadelphia and Pittsburgh, 1,949,996, and 520,117 people respectively.

Revenue sharing funds received for the period
January 1, 1972, through June 30, 1974

<u>City</u>	<u>Received (note a)</u>	<u>Per capita share</u>	<u>As a percent of taxes (note b)</u>
Brentwood	\$ 300,939	\$21.92	15.2
Lower Burrell	304,969	22.34	27.1
Philadelphia	119,024,669	61.04	12.3
Pittsburgh	31,747,119	61.04	16.4

^aIncludes payment received in July 1974 for quarter ended June 30, 1974.

^bFiscal 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.

For Pennsylvania the 145 percent constraint for local governments for the period covered was \$61.02 per capita. Both Philadelphia and Pittsburgh were constrained at the 145 percent maximum. The 20 percent constraint was \$8.41 per capita.

CHAPTER 2

BUDGETING AND PUBLIC PARTICIPATION

IN THE BUDGETARY PROCESS

Brentwood Borough has four major funds--two general funds, a cable television escrow fund, and a revenue sharing fund.

1. General Fund No. 1--is the borough's major operating fund from which the majority of expenditures are made. Taxes are the major source of revenue for this fund; other sources include fees for licenses and permits, fines for violation of borough ordinances and motor vehicle regulations, and rental income from leasing the stadium to the school district.
2. General Fund No. 2--is referred to as highway aid. Revenue is derived primarily from the liquid fuels tax, and these moneys can be spent only for expenses connected with maintaining borough streets, including salaries for street department personnel.
3. The cable television escrow fund--contains payments made by a cable television company when cable television was installed in the community. The money was placed in an escrow savings account to cover contingent liabilities. Because no liabilities have arisen, the borough plans to use this money to construct a bathhouse and renovate the swimming pool.
4. The revenue sharing fund--is used solely to account for the receipt and use of revenue sharing funds.

The borough operates on a calendar year basis as required by State law. Also by State law, the Brentwood Borough school district operates on a July 1 to June 30 basis.

RELATIONSHIP OF REVENUE
SHARING TO TOTAL BUDGET

As of December 31, 1973, Brentwood Borough had received \$210,093 in revenue sharing funds. Of this total, the borough received \$58,022 in 1972 but did not include any of the funds in its 1972 budget. Revenue sharing budgeted in 1973 totaled \$179,811, made up about 14.4 percent of the budget, and included 1-1/2 years of revenue sharing payments. The \$30,282 that had not been budgeted as of December 31, 1973, amounted to approximately 2.4 percent of the borough's 1973 budget.

<u>Brentwood Borough</u>	<u>Completed fiscal periods</u>		
	<u>1971</u>	<u>1972</u>	<u>1973</u>
Borough budget:			
General funds	\$1,371,996	\$1,081,308	\$1,064,730
Revenue sharing fund	-	-	179,811
Total	<u>1,371,996</u>	<u>1,081,308</u>	<u>1,244,541</u>
School district budget	<u>1,780,000</u>	<u>1,935,000</u>	<u>2,355,000</u>
Total	<u>\$3,151,996</u>	<u>\$3,016,308</u>	<u>\$3,599,541</u>
Revenue sharing payments received	-	\$58,022	\$152,071
Revenue sharing funds budgeted	-	-	\$179,811
Cumulative revenue sharing payments received but not budgeted	-	\$58,022	\$30,282
Percentage of borough budget represented by revenue sharing	-	-	14.4
Percentage of borough and school district budgets represented by revenue sharing	-	-	5.0

School district budget data is included in the foregoing table to make the budgets comparable with those of local governments whose responsibilities include operating the local school system. Although independent school districts do not receive revenue sharing funds directly from the Federal Government, the financing of public schools is a major responsibility at the local government level and represents a significant part of the local tax burden.

The following table presents budgets of the borough general funds for calendar years 1972-74 by functional area.

<u>Functional area</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
General government	\$ 89,050	\$ 102,830	\$123,177
Protection to persons and property	276,740	270,980	315,240
Health and sanitation	152,800	160,200	174,200
Highways	146,350	130,100	152,670
Library	20,000	18,181	17,380
Recreation	59,500	47,200	50,050
Debt service	^a 257,168	^a 254,962	58,262
Miscellaneous	79,700	80,277	83,950
Total	<u>\$1,081,308</u>	<u>\$1,064,730</u>	<u>\$974,929</u>

^aIncludes repayment of tax anticipation loans.

PUBLIC INVOLVEMENT IN BUDGETARY PROCESS

The annual budget, which includes the operating and maintenance budget and the capital budget, is prepared in accordance with the Borough code. The borough secretary presents the tentative budget, usually in late October, and at least 30 days prior to adoption, to the borough council for review and comment. At this time, each department head is given an opportunity to comment on the proposed budget. It is revised in accordance with council views and made available for public inspection through notice in the local newspaper. State law requires that the budget be available for public inspection at least 10 days before its adoption but does not require public hearings. We were told that public hearings have not been held for the past several years due to community

residents' lack of interest. Finally, a council meeting is held to adopt the budget. It is adopted by motion of the council and the passage of an ordinance setting forth the tax rates for the fiscal period. The budget must be adopted by December 31 of each year.

Brentwood Borough has not taken any steps to publicize the revenue sharing program or proposed use of revenue sharing funds other than publication of the required planned and actual use reports. Although there are no minutes of borough council budget meetings, a review of the minutes of the council's regular meetings gave no indication that residents disagreed with the designated use of revenue sharing funds.

Representatives of the Pennsylvania Economy League and the Allegheny County League of Women Voters advised us that their organizations have not participated in the budgetary process of Brentwood Borough. The Pennsylvania Economy League will take part in any government's budget process if requested; however, Brentwood Borough has not requested participation.

CHAPTER 3

PROGRAMS FUNDED WITH REVENUE SHARING

Brentwood Borough was allocated \$300,939 in revenue sharing funds for the period January 1, 1972, through June 30, 1974. Of the amount allocated, \$270,657 was received by June 30, 1974, and \$30,282 was received in July 1974. As of June 30, 1974, interest earned from investment of the funds totaled \$6,789. Of the \$307,728 available for use, the borough had expended \$113,796.

USES OF REVENUE SHARING

The uses of revenue sharing funds described in this chapter are those reflected by Brentwood Borough'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 report, when we describe the purposes for which revenue sharing funds were used, we are referring to use designations as reflected by the borough's financial records.

During the period January 1, 1972, through June 30, 1974, Brentwood Borough expended \$69,326 for operations and maintenance and \$44,470 for capital purposes, a total of \$113,796.

Operations and maintenance expenditures were in the following functional areas (amounts are approximate).

Public safety	\$39,700
Public transportation	1,800
General administration	11,600
Library	4,000
Social services for poor or aged	1,600
Recreation	<u>700</u>
Total	<u>\$69,400</u>

Public safety funds were spent for police protection: salaries (\$26,000), rental of police vehicles (\$13,300), and supplies (\$400). Public transportation expenditures, in the area of highways and streets, were for salaries. General administration expenditures, also for salaries, included the salaries of the borough treasurer and the superintendent of streets. Library expenditures were for the purchase of books (\$2,800) and the salary of a part-time librarian and cataloger (\$1,200). Social services expenditures for the poor or aged were to renovate a borough building for senior citizens. Recreation expenditures were for salaries (\$600) and supplies (\$100).

Capital expenditures were in the following functional areas (amounts are approximate).

Highways and streets	\$29,200
Public safety	12,700
General public buildings	<u>2,600</u>
Total	<u>\$44,500</u>

Capital expenditures for highways and streets included two jeeps, a street sweeper, an air compressor, and a brush chipper. Expenditures for public safety included \$12,000 toward the purchase of a fire truck by the volunteer fire company and installation of automatic garage doors in the firehouse. Expenditures for general public buildings included roof repairs to the senior citizens' building (\$1,200), purchase of a copying machine for the library (\$1,000), and engineering fees in connection with a proposed building (\$400).

As shown above, expenditures of revenue sharing funds benefited all segments of the borough population, except for expenditures which benefited senior citizens exclusively.

Plans for unexpended funds

The borough had budgeted all general revenue sharing payments it received for the period ended June 30, 1974. The following table lists the specific planned uses for \$148,256 of the \$193,932 that was unexpended as of June 30, 1974.

<u>Planned use</u>	<u>Amount</u>
Street improvements	\$ 35,500
Swimming pool	30,000
Salaries	20,628
Sewers	14,000
Municipal building	12,500
Police equipment	12,000
Office equipment	10,000
Sanitation	5,128
Curbing	5,000
Library	<u>3,500</u>
Total	<u>\$148,256</u>

Borough officials advised us that they still plan to use these funds as initially budgeted; however, if an urgent need arose, some portion of the funds could be used to satisfy that need. They stated that any use of the funds for purposes other than budgeted would be subject to council approval.

Some planned uses for unexpended funds are listed below.

Street improvements (\$35,500)

These funds have been designated for widening East Bellecrest Street which is now one lane. To alleviate traffic congestion on other borough streets, by permitting traffic in both directions on East Bellecrest Street, and to improve fire protection, it is planned to make the street two lanes.

Swimming pool (\$30,000)

The swimming pool needs renovation. The State Health Department advised the borough that the pool cannot be used after 1974 unless improvements are made; therefore, the borough plans complete renovation of the pool and the construction of a bathhouse.

Sewers (\$14,000)

The borough sewer system is old, requiring frequent repairs, and this money has been set aside to upgrade it.

Plans for future revenue sharing receipts

The borough council approved a budget of \$112,574 representing estimated funds to be received during the 12 months ending June 30, 1975. The budget authorizes expenditures of about \$94,600 for capital purposes and \$18,000 for operations and maintenance in the following functional areas.

Capital expenditures

Public safety	\$64,000
Public transportation	20,000
Environmental protection	7,500
Libraries	<u>3,063</u>
Total	<u>\$94,563</u>

Operations and maintenance expenditures

Recreation	\$15,000
Social services for poor or aged	<u>3,011</u>
Total	<u>\$18,011</u>

ACCOUNTING FOR REVENUE SHARING FUNDS

Brentwood Borough established a separate fund for recording financial transactions involving revenue sharing moneys. A separate bank account was also established for depositing and expending these funds. Funds are deposited by either the borough treasurer or secretary. Usually, only a portion of the funds is kept in the account; most

are invested in certificates of deposit for periods of either 30 or 90 days. The treasurer is responsible for investing the funds and redeeming the certificates when matured. Investment of funds must be approved by the borough council.

Each transfer or expenditure of revenue sharing funds is made by check drawn against the revenue sharing account. Each check must have three signatures. Five individuals are authorized to sign: the mayor, treasurer, secretary, president, and vice-president of the borough council.

Under the borough's accounting system, no obligations are recorded. Normal expenditures are recorded when bills are approved for payment by the council at the regular semimonthly meetings. Revenue sharing expenditures differ in that bills need only be approved for payment by the mayor, the superintendent of streets, or the chairman of a council committee, depending upon who requested the services or materials. Although the council does not have to approve these bills for payment, it is aware of the expenditures because planned uses for the funds are discussed at the council's regular meetings, with approval given to the committee to act.

AUDITS OF REVENUE SHARING

The only audit of revenue sharing funds was made by independent auditors as part of the borough audit for the year ended December 31, 1973. The audit was basically a financial audit of all borough accounts except the earned income tax. The auditors prepared a statement of the revenue sharing account and reconciled the account as of December 31, 1973. The audit report contained no indication that a review of the borough's compliance with the Revenue Sharing Act and related regulations had been made.

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 Act 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.

Brentwood Borough does not have a written policy regarding nondiscrimination in employment. A borough official stated that the borough's employment philosophy is to consider all qualified applicants for employment; the council makes the final selection.

The Pennsylvania Human Relations Act prohibits discrimination because of race, color, sex, religious creed, ancestry, age, or national origin. This act created the Pennsylvania Human Relations Commission in the Department of Labor and Industry. The commission is composed of 11 members appointed by the Governor with approval by two-thirds of the senate for a term not to exceed 5 years. Some of the powers and duties of the commission are

- to initiate, receive, investigate, and rule upon complaints charging unlawful discriminatory practices and
- to hold hearings, subpoena witnesses, take testimony, and require production of records pertaining to complaints.

After investigating a complaint, the commission must notify the parties of its ruling, which is subject to appeal. The commission's rulings in cases favoring the complainant are enforceable by court order.

Comparison of local government
work force and civilian labor force

According to the 1970 census, the civilian labor force of Brentwood Borough totaled 5,869, of which 3,697, or 63 percent, were male and 2,172, or 37 percent, were female. These workers were predominantly white. Because of the low number of minorities, the Bureau of the Census did not analyze them in its labor force statistics.

As of June 30, 1974, the borough government employed 32 full-time employees, all of whom were white. Appendix I shows a breakdown by department, job category, and sex. Appendix II shows a similar breakdown of new employees hired and promotions during the 12 months ended June 30, 1974.

A comparison of the civilian labor force in Brentwood with the borough government work force disclosed that:

- All borough government employees are white, corresponding to the makeup of the civilian labor force.
- Although males comprise 63 percent of the civilian labor force they represent 91 percent of the borough government work force.
- The police department and the street and park department have no female employees, although females comprise 37 percent of the civilian labor force.

Borough officials stated that, whenever a position is vacant, a public notice of the vacancy is made and employment applications are solicited. The borough council interviews and evaluates each applicant and determines who will be offered employment.

Appendix I shows that two borough departments, the police and the street and park departments, consist entirely of male employees numbering 27 of the 32 employees in the total borough government work force. A borough official advised that women have applied for employment in the police department but not in the street and park department. The borough has received four employment applications from women within the past several years. One application was for the position of patrolman, but the applicant was not offered employment because her test score was too low. The other applications were submitted for a desk clerk position, but they were also rejected because the women did not have the proper credentials or did not live within the borough.

A representative of the Pennsylvania Human Relations Commission advised us that no discrimination-in-employment complaints have been filed against Brentwood Borough from December 31, 1971, to October 31, 1974. Also no civil rights suits have been filed against the borough involving the use of revenue sharing funds in employment.

We contacted two area public interest organizations to determine if they had any reports or views on employment practices of Brentwood Borough. A representative of the Allegheny County League of Women Voters stated this group did not have any reports on discriminatory employment practices in the borough, and added that they could not express an opinion as to whether sex discrimination occurs there. A discussion with a representative of the Allegheny County Council on Civil Rights disclosed that this group has not looked at the manner in which the borough used revenue sharing funds.

Services and capital projects

The services and capital projects funded by revenue sharing were provided and located in such a manner that there was no obvious discrimination on the basis of sex, race, or color.

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.

From the inception of the revenue sharing program through June 30, 1974, Brentwood Borough funded one construction project with revenue sharing funds. This project involved replacing the roof of a public building used by senior citizens. The total cost of the project was \$1,235 and was financed entirely with revenue sharing funds.

A borough official felt that the Davis-Bacon requirements would have no effect on whether the borough used revenue sharing funds or other funds to finance construction projects. The reason cited was that the Pittsburgh area is heavily unionized which would result in having to pay prevailing wage rates for any construction undertaken.

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.

The borough accounting system did not show which employees were paid with revenue sharing funds or which pay periods were affected. Funds were transferred from the revenue sharing account to the general operating fund, and payroll expenditures were made from the latter. As a result, it was not possible to determine if the borough complied with the prevailing wage provision.

CHAPTER 5

FINANCIAL STATUS

TREND OF FUND BALANCES

The following table shows results of operations and cumulative fund balances for each of calendar years 1969-73.

	<u>General fund</u>	<u>Revenue sharing fund</u>	<u>Cable television escrow fund</u>	<u>Other funds</u>
Fund balance, Dec. 31, 1968	\$ 38,176	\$ -	\$ -	\$5,793
1969 surplus or deficit (-)	<u>21,177</u>	-	-	<u>-5,713</u>
Cumulative fund balance	59,353	-	-	80
1970 surplus	<u>26,216</u>	-	-	<u>8</u>
Cumulative fund balance	85,569	-	-	88
1971 surplus or deficit (-)	<u>-12,937</u>	-	<u>31,746</u>	<u>-7</u>
Cumulative fund balance	72,632	-	31,746	81
1972 surplus	<u>31,944</u>	-	<u>1,816</u>	<u>163</u>
Cumulative fund balance	104,576	-	33,562	244
1973 surplus	<u>10,434</u>	<u>120,451</u>	<u>1,723</u>	<u>8</u>
Fund balance, Dec. 31, 1973	<u>\$115,010</u>	<u>\$120,451</u>	<u>\$35,285</u>	<u>\$ 252</u>

Borough officials stated that, although the borough had been operating with a surplus for the past several years, it is very possible that its current year will end with a deficit. A borough official advised us that the revenue sharing program has greatly helped the borough's fiscal condition by permitting expenditures for needs which arose but were not contemplated when the budget was prepared.

Brentwood Borough has two pension funds, the police pension fund and the employee pension fund. The following table shows yearend balances for the funds for 1969-73.

<u>December 31</u>	<u>Police pension fund</u>	<u>Employee pension fund</u>
1969	\$ 79,359	\$25,669
1970	99,199	28,281
1971	231,640	29,920
1972	272,417	30,218
1973	307,711	41,388

In 1971, the old police pension fund was converted to a new fund. All insurance policies included in the old fund were redeemed and the proceeds used to set up a new pension fund. The substantial increase in the size of the fund during 1971 was due primarily to conversion, although the borough did contribute about \$34,000 to the fund during the year. Before creation of the new pension fund, the fund assets were not shown at current market value but at cost.

The balances shown for the pension funds include employee contributions which are refundable if the employee ceases to work for the borough. Refunds are made to separated borough employees regardless of their length of employment. Therefore, the fund balances shown are not entirely available for payment of retirement benefits.

Each year, an actuary reviews the borough's pension funds to determine if they are fully funded and actuarially sound. The last reviews showed that (1) the police pension fund had a sufficient level of funding to pay retirement and other benefits as provided by the plan and (2) the employee pension fund needed a borough contribution of \$10,000. The borough made the contribution from the general fund.

INDEBTEDNESS

Brentwood Borough has three bond issues outstanding, all of which are general obligations. These bonds, having a combined original issue value of \$950,000, were for constructing and renovating recreational facilities and constructing a municipal building. The following table shows the bonded debt outstanding at yearend for 1969-73.

<u>December 31</u>	<u>Bonded debt outstanding</u>
1969	\$485,000
1970	450,000
1971	415,000
1972	380,000
1973	345,000

Borrowing procedures

Pennsylvania's Local Government Unit Debt Act contains the process that must be followed to authorize the issuance of bonds. This act states that, whenever the governing body of any local government determines that it is advisable to make an increase in the debt, with the assent of the electors, the governing body shall adopt an ordinance signifying such determination and calling for an election. The election must be advertised in a public newspaper. This type of debt is known as electoral debt. The act also provides for non-electoral debt, which is debt authorized by the governing body but not presented to the electors for approval. Non-electoral debt is authorized by means of an ordinance with the affirmative vote of the majority of members of the governing body.

The last bond issue was made by Brentwood Borough in 1969 with the assent of the electors. The latest edition of Moody's Bond Record does not show a bond quality rating for Brentwood Borough. According to a borough official, the borough has not attempted or contemplated a bond issue within the last 3 years.

Borrowing restrictions

The Local Government Unit Debt Act also contains the legal restrictions on borrowing by the borough. This act

specifies that there is no limit upon the amount of electoral debt which can be incurred by a local government. The act states that no local government shall incur any new nonelectoral debt if the new debt plus any other net nonelectoral debt would cause the total nonelectoral debt to exceed certain percentages of the borrowing base. In the case of Brentwood Borough, nonelectoral debt, with minor exceptions, is not to exceed 250 percent of its borrowing base. The "borrowing base" is defined as the annual arithmetic average of total revenues for the 3 full years ended prior to the date of incurring the nonelectoral debt. Brentwood Borough had \$45,000 of nonelectoral debt as of December 31, 1973. If the borough had decided to increase its nonelectoral debt during 1974, the debt could have been increased to over \$2 million under provisions of the act.

The act also limits the use of proceeds from debt issues. It states that the proceeds of electoral debt shall be kept in a separate account and shall be invested and used only for the project approved by the electors. However, the proceeds can be used for another purpose if approved by the electors through another election. In the case of nonelectoral debt, the proceeds can only be used as mandated in the authorizing ordinances. Similarly, these purposes can be changed at any time through adopting other ordinances.

A local government is empowered to borrow money, by resolution of its governing body, in anticipation of the receipt of current taxes and other revenues. This type of borrowing is called tax anticipation notes and is another form of nonelectoral debt. The limitations on nonelectoral debt do not apply to tax anticipation notes. However, no local government can authorize or issue tax anticipation notes in any year in an amount exceeding 85 percent of current taxes and other revenues. In addition, the maturity date of these notes cannot extend beyond the last day of the year of issue.

TAXATION

Major taxes levied

Brentwood Borough and the independent Brentwood Borough school district each levy two major taxes--a real property tax and an earned income tax.

The real property tax is levied on any dwellings and/or land within the borough. The amount of tax paid is determined by multiplying the assessed value of the property by the millage rate determined by the taxing authority. The assessed value is based on the appraised fair market value of the property, which in Allegheny County is 50 percent of fair market value. The Allegheny County board of property assessment, appeals and review determines property assessments. Annually, the board notifies the borough and the school district of property assessments within the borough. The following table shows the millage rates of the borough and school district for 1969-73.

<u>Year</u>	<u>Brentwood Borough</u>	<u>Brentwood Borough school district</u> (in mills)
1969	16	36
1970	16	36
1971	15	36
1972	15	44
1973	15	44

Under the Local Tax Enabling Act, an earned income tax is levied on residents and nonresidents. Earned income includes wages, salaries, commissions, fees, and tips (earned income of persons on active military service is exempt). The tax rate is 1 percent of gross earned income and has remained constant for the past 5 years. The receipts from this tax are divided between the borough and the school district.

The following table shows revenues from each major tax during the five most recently completed fiscal periods.

<u>Year ended December 31</u>	<u>Brentwood Borough</u>	
	<u>Real property</u>	<u>Taxes Earned income</u>
1969	\$453,597	\$186,121
1970	574,878	182,475
1971	545,138	195,642
1972	529,411	193,111
1973	531,325	221,644

Brentwood Borough School District

Year ended June 30	Taxes	
	Real property	Earned income
1970	\$1,027,007	\$181,653
1971	1,265,576	188,040
1972	1,289,514	194,140
1973	1,552,801	216,000
1974	1,570,795	227,209

Taxing limitations

The borough's taxing authority is granted by State law through the Borough code and the Local Tax Enabling Act. The code authorizes the borough council to levy and collect a tax on real property, not to exceed 30 mills, for general purposes. The code also authorizes the levy of additional millage for specific purposes, such as pensions, local library, firehouse, etc. The current borough levy is 15 mills, of which 1/2 mill is designated for the local library.

Taxes commonly levied by local governments under the Local Tax Enabling Act include the earned income, per capita, real property transfer, mercantile license, business privilege, amusement, occupational privilege, occupation, and mechanical devices taxes. The borough does not levy all taxes authorized by this act.

The school district is authorized to tax real property under the Public School Code of 1949, as amended. The tax rates permitted are

- an annual tax on all taxable real estate not to exceed 25 mills for general purposes,
- an unlimited tax on all taxable real estate for payment of the teaching and supervisory staff,
- an unlimited tax on all taxable real estate for the payment of rentals and similar purposes, and
- an annual per capita tax on each resident over 18 years of age of not more than \$5.

The current tax rate on real estate for school purposes is 44 mills. The per capita tax is not levied. The school district is also authorized to levy those taxes permitted under the Local Tax Enabling Act.

Family tax burden

Using 1973 tax rates, we calculated the amount of major taxes which a family of four, at three different income levels, could expect to pay to the borough, county, school district, and State government, as shown in the table below.

<u>Assumptions</u>	<u>Family</u>		
	<u>A</u>	<u>B</u>	<u>C</u>
Annual income (all wages)	\$ 7,500	\$12,500	\$17,500
Value of house	18,750	31,250	43,750
Value of personal property (all furniture)	1,500	2,500	3,500
Market value of car	1,700	1,800	2,300
Gallons of gasoline consumed annually	1,000	1,000	1,500

The following table shows the tax burden for these families.

Tax	Family		
	A	B	C
Borough:			
Real property	\$ 13.78	\$ 22.97	\$ 32.15
Earned income	<u>37.50</u>	<u>62.50</u>	<u>87.50</u>
Total	<u>51.28</u>	<u>85.47</u>	<u>119.65</u>
School district:			
Real property	40.42	67.37	94.32
Earned income	<u>37.50</u>	<u>62.50</u>	<u>87.50</u>
Total	<u>77.92</u>	<u>129.87</u>	<u>181.82</u>
County:			
Real property	<u>14.24</u>	<u>23.74</u>	<u>33.23</u>
Total	<u>14.24</u>	<u>23.74</u>	<u>33.23</u>
State:			
Income	172.50	287.50	402.50
Sales	66.00	106.00	146.00
Gasoline	<u>80.00</u>	<u>80.00</u>	<u>120.00</u>
Total	<u>318.50</u>	<u>473.50</u>	<u>668.50</u>
Total	<u>\$461.94</u>	<u>\$712.58</u>	<u>\$1,003.20</u>
Total as percentage of annual income			
	<u>6.2</u>	<u>5.7</u>	<u>5.7</u>

Brentwood Borough residents are subject to other State and local taxes. If a borough resident works within the boundaries of Brentwood, an annual occupational privilege tax of \$10 per person is assessed. This tax is divided equally between the borough and the school district. The Commonwealth of Pennsylvania levies a tax on the use of utilities, such as electric and telephone service, called the Pennsylvania sales tax for education. This tax, having a rate of 6 percent, is similar to the State sales tax but is earmarked for education. The Commonwealth also taxes cigarettes at 18 cents per pack or \$1.80 per carton and liquor at approximately 25 percent.

Allegheny County assesses county residents a tax of 4 mills on the market value of their personal property which consists of corporate stock, mortgages, judgment notes, debentures, and promissory notes. Cars, furniture, and personal effects are not considered personal property for purposes of this tax.

A borough official stated that, if revenue sharing funds were not received the real property tax rate would have to be raised about 4 mills. The 4-mill increase would be about \$148,000 annually based on a total assessed real property value of \$37 million. The official added that revenue sharing funds have permitted the borough to keep taxes at the same level and to maintain the existing level of services provided to borough residents. A reduction or discontinuance of revenue sharing funds might force the borough to increase taxes and/or reduce the level of services to the community.

CHAPTER 6

OTHER FEDERAL AID

Borough officials stated that Brentwood Borough has not received any Federal aid other than revenue sharing during the 3 years ended December 31, 1973. Currently, the borough is attempting to obtain Law Enforcement Assistance Administration funds.

CHAPTER 7

SCOPE OF REVIEW

We discussed the general revenue sharing program with Brentwood Borough officials, including the mayor, the president of the borough council, and the treasurer and obtained their comments regarding the impact of the program upon borough operations. We also examined borough financial records and audit reports pertaining to revenue sharing. Our work was limited to gathering selected data relating to areas identified by the Subcommittee Chairman.

The following organizations were contacted and presented their views on Brentwood Borough's use of revenue sharing funds:

- Pennsylvania Human Relations Commission.
- Allegheny County Council on Civil Rights.
- Allegheny County League of Women Voters.
- Pennsylvania Economy League.

We also contacted officials of the Brentwood Borough school district and the Allegheny County board of property assessment.

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

BOROUGH GOVERNMENT WORK FORCEBRENTWOOD BOROUGH, PENNSYLVANIAJUNE 30, 1974

	<u>Male</u>		<u>Female</u>		<u>Total</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
All departments:						
Officials/administrators	3	10	-	-	3	10
Protective service	15	47	-	-	15	47
Service/maintenance	9	28	-	-	9	28
Office/clerical	<u>2</u>	<u>6</u>	<u>3</u>	<u>9</u>	<u>5</u>	<u>15</u>
Total	<u>29</u>	<u>91</u>	<u>3</u>	<u>9</u>	<u>32</u>	<u>100</u>
Police department:						
Officials/administrators	1	6	-	-	1	6
Protective service	15	88	-	-	15	88
Office/clerical	<u>1</u>	<u>6</u>	-	-	<u>1</u>	<u>6</u>
Total	<u>17</u>	<u>100</u>	-	-	<u>17</u>	<u>100</u>
Street and park department:						
Officials/administrators	1	10	-	-	1	10
Service/maintenance	<u>9</u>	<u>90</u>	-	-	<u>9</u>	<u>90</u>
Total	<u>10</u>	<u>100</u>	-	-	<u>10</u>	<u>100</u>
Tax office:						
Officials/administrators	1	33	-	-	1	33
Office/clerical	<u>1</u>	<u>33</u>	<u>1</u>	<u>33</u>	<u>2</u>	<u>67</u>
Total	<u>2</u>	<u>67</u>	<u>1</u>	<u>33</u>	<u>3</u>	<u>100</u>
General office:						
Office/clerical	-	-	<u>2</u>	<u>100</u>	<u>2</u>	<u>100</u>

GAO note: 1. The jobs in this appendix were categorized by the borough using Federal Equal Employment Opportunity Commission definitions.

2. All borough employees are white.

BRENTWOOD BOROUGH, PENNSYLVANIAGOVERNMENT NEW HIRES, YEAR ENDED JUNE 30, 1974

<u>Job category</u>	<u>Male</u>		<u>Female</u>		<u>Total</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
All departments:						
Office/clerical	1	50	-	-	1	50
Service/maintenance	<u>1</u>	<u>50</u>	-	-	<u>1</u>	<u>50</u>
Total	<u>2</u>	<u>100</u>	-	-	<u>2</u>	<u>100</u>
Police department:						
Office/clerical	<u>1</u>	<u>100</u>	-	-	<u>1</u>	<u>100</u>
Street and park department:						
Service/maintenance	<u>1</u>	<u>100</u>	-	-	<u>1</u>	<u>100</u>

GOVERNMENT PROMOTIONS, YEAR ENDED JUNE 30, 1974

<u>Job category</u>	<u>Male</u>		<u>Female</u>		<u>Total</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
General office:						
Office/clerical	-	-	2	100	2	100

GAO note: 1. The jobs in this appendix were categorized by the borough using Federal Equal Employment Opportunity Commission definitions.

2. All employees above are white.

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