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Impact of Antirecession Assistance on 52 Governments: An Update. GGD-78-56; B-146285. May 1, 1978. 36 pp. + 8 appendices (17 pp.) + 3 enclosures (362 pp.).

Report to the Congress; by Elmer B. Staats, Comptroller General.

Issue Area: Intergovernmental Relations and Revenue Sharing: Long-range Improvements in Assistance (403).
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Congressional Relevance: Senate Committee on Finance; Congress.
Authority: Public Works Employment Act of 1976 (P.L. 94-369). P.L. 95-30.

Title II of the Public Works Employment Act of 1976 authorized emergency Federal aid to State and local governments hard hit by recessionary pressures in order to reduce their need to take budgetary actions which would run counter to Federal efforts to stimulate economic recovery. The assistance was designed to be selectively targeted to go only to those governments substantially affected by the recession.
Findings/Conclusions: Officials from 30 of the 52 governments studied believed that their fiscal condition had improved since GAO's previous review in February 1977, and an additional 14 governments had maintained a good fiscal condition. Improvements noted in States were strong revenue gains, due mostly to increased tax revenues from business activity and increases in State fund balances. However, 10 of 21 cities studied were considered to be in fair or poor fiscal condition. Cities' problems were caused primarily by tax base erosion and inflation. Most government officials cited inflation as the major impediment to fiscal stability. Although some effects of the recession continued, major recessionary pressures diminished. Most officials believed that antirecession funds, although representing a small proportion of total revenues, had favorable effects such as preventing tax increases or employee layoffs and enlarging surpluses. Although it is difficult to assess the effect of the funds on governments' budgets, they probably helped 12 governments fill a budgetary gap, permitted 20 to increase expenditures, assisted 4 in maintaining or increasing surpluses, and had compound effects on 15 governments. In spite of these benefits, the program has not effectively met its objective of selectively targeting aid.
Recommendations: The Congress should consider the following alternatives in relation to renewal of the antirecession assistance program: establish a revised program to better achieve the original objective of assisting State and local governments during recessionary periods; if it concludes that it is no longer necessary to provide recession-related assistance

to the governments, let the program expire; use the existing general revenue sharing formula to allocate additional funds each year in order to provide general financial assistance; or establish a new program designed to better target assistance to governments that are experiencing long-term economic decline. (HTW)

6258

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Impact Of Antirecession Assistance On 52 Governments -- An Update

The antirecession program was conceived to aid only governments experiencing substantial recession-related financial difficulties. Most governments GAO visited were perceived by their officials to be in good fiscal health and were not experiencing such problems. Governments in fair or poor financial condition were primarily cities whose problems were attributed to chronic difficulties and inflation.

The program has helped many governments, particularly cities, but has not been effective in meeting its principal objective. Therefore, GAO has identified several alternatives the Congress has when it considers renewing the antirecession program.

This report, requested by the Chairman, Subcommittee on Intergovernmental Relations and Human Resources, House Committee on Government Operations, is accompanied by separate case study enclosures for 15 States, 16 counties, and 21 cities.

UNITED STATES GENERAL ACCOUNTING OFFICE

GGD-78-56

MAY 1, 1978

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-146285

To the President of the Senate and the
Speaker of the House of Representatives

This report, requested by the Chairman, Subcommittee on Intergovernmental Relations and Human Resources, House Committee on Government Operations, updates our July 20, 1977, report on the antirecession assistance program. That study and three other reports issued on February 22, 1978, discussed in detail the impact antirecession payments had on State, city, and county governments as of April 30, 1977, and provided information on how the 1974-1975 recession affected their operations. This report updates that data as of October 31, 1977.

Accompanying this study are three separately bound enclosures describing the financial condition of each government we visited; the major factors influencing its fiscal health; and the status, use, and impact of antirecession payments it received. Each case study was reviewed by the respective State and local officials and their comments were considered in finalizing each study.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

We are sending a copy of this report to the Secretary of the Treasury.

Elmer B. Staats
Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

IMPACT OF ANTIRECESSION ASSISTANCE ON 52 GOVERNMENTS--AN UPDATE

D I G E S T

At the request of the Chairman, Subcommittee on Intergovernmental Relations and Human Resources, House Committee on Government Operations GAO updated its previous study of the financial condition of 52 State and local governments and the impact the extended antirecession program had on their operations. (See pp. 2 to 3.)

Although the antirecession program was conceived to aid only governments experiencing substantial recession-related financial difficulties, most governments GAO visited in November 1977 were perceived by their officials to be in good fiscal health and were not experiencing such problems. Antirecession assistance payments helped many governments, particularly cities, combat other problems, such as chronic difficulties and inflation. The program, however, has not been effective in meeting its principal objective. Therefore, GAO has identified several alternatives the Congress has when it considers renewing the antirecession program.

MOST GOVERNMENTS' FINANCIAL CONDITIONS GOOD AND IMPROVED

Officials from 30 of the 52 governments believed the fiscal condition of their governments had improved since GAO's previous review in February 1977, and an additional 14 governments had maintained their good fiscal health. Although most governments were perceived to be in good financial condition, different trends emerged by type of government. State and county officials generally considered their jurisdictions to be in good financial condition, but several city officials said their governments were experiencing fiscal difficulties which they attributed to long-term economic decline and inflation. (See ch. 2.)

Of the 15 States visited, almost all had improved and were considered to be in good financial condition. Strong revenue gains were experienced due, mostly, to increased tax revenues as a result of an upturn in business activity and inflation. Many State fund balances increased substantially. Decreases were not due to financial difficulties. According to officials, 14 of the 16 counties visited were in good financial condition. Revenues increased due partly to rising intergovernmental aid, and fund balances were stable. Conversely, 10 of the 21 cities GAO studied were considered by officials to be in fair or poor fiscal condition. Although total revenues rose, the cities experienced the smallest growth, and the fund balances of many decreased. Chronic difficulties, such as tax base erosion and inflation, were considered to be the underlying causes of many cities' financial problems.

Persistent inflation, in the form of higher personnel, utility, and other service costs, and other factors such as limitations on taxing authority, were cited by officials from most governments as major impediments to maintaining fiscal stability. Some effects of the recession lingered; however, major recessionary pressures diminished as the economy improved and unemployment decreased.

IMPACT OF ANTIRECESSION ASSISTANCE VARIES

Although antirecession funds generally represented a small portion of a government's total revenues (0.4 percent for the 15 States, 1.0 percent for the 16 counties, and 1.8 percent for the 21 cities), most officials believed the funds had favorably affected overall operations. The assistance had varied results, from preventing tax increases or employee layoffs to enlarging surpluses.

The interchangeable nature of moneys, shifting needs and priorities, changing revenue amounts from various sources, and the relatively small contribution antirecession payments made to the governments' resources impaired analysis of the program's actual effect on governments' budgets. Although these factors prevented any conclusive assessment, GAO found that in the current operating year, antirecession funds most likely helped 12 governments fill a budgetary gap, permitted 20 to increase authorized expenditure levels, assisted 4 in maintaining or increasing surpluses and had compound effects on 15 governments. Iowa did not receive any funds in its current fiscal year. (See pp. 28 to 30.)

As the Congress anticipated, a large portion of antirecession funds reportedly went for salaries. Statistics on the number of employees, however, were hard to obtain or not available for some governments. Although antirecession funds reportedly were used to create or restore many positions, most of the antirecession aid spent for salaries was substituted for other revenues which normally funded the positions. These are reported uses as shown in financial records or described to GAO. Because of the interchangeable nature of government resources, however, these uses may have little or no relation to their actual impact. (See p. 26 to 27.)

Officials from most governments believed that had antirecession funds not been available or the program discontinued, their governments would have had to reduce expenditures or raise taxes. While major recessionary pressures have eased, persistent inflation, chronic difficulties, and various other factors were perceived as posing major impediments to maintaining services. Officials from most governments believed antirecession funds were helping them combat these difficulties.

It is difficult to gauge exactly what would have happened without the antirecession payments. Equivalent tax increases or expenditure reductions may have occurred, expenditures made with the funds may not have been made, or accumulated fund balances may have been used. The percentage antirecession payments comprise of total revenues, how the funds were used, and the financial condition and priorities of each government would collectively influence its ability to adapt should antirecession aid be terminated.

MATTERS FOR CONSIDERATION BY THE CONGRESS

Prior GAO studies and those of other organizations have concluded that the antirecession assistance program is not a particularly effective tool for stimulating the economy during a downturn and has not effectively met its principal objective of selectively targeting aid to only governments substantially affected by the recession. (See ch. 4.) These studies also showed that there is limited evidence that the recession alone caused financial problems which forced governments to take budgetary actions countering Federal efforts to stimulate the economy. GAO has identified four principal alternatives the Congress has when it considers renewing the antirecession assistance program beyond the present September 30, 1978, expiration date.

--To better achieve the original objective of assisting State and local governments during recessionary periods, the Congress could establish a revised program. A better formula for allocating funds is needed to make the program more effective. Also, better measures of the beginning, ending, and severity of a recession could be developed to initiate and terminate the program and to determine the amount of funds to be distributed.

--If the Congress concludes that it is no longer necessary to provide recession-related financial assistance to State and local governments, then it may wish to let the antirecession program expire.

--To achieve a different and broader objective of providing general financial assistance to State and local governments, the existing general revenue sharing formula, which is based in part on fiscal need, could be used to allocate additional funds each year. If, however, the Congress decides to pay additional funds to State and local governments only during recessionary periods, a special triggering device could be included in the Revenue Sharing Act to increase the amount of funds allocated during such periods.

--To better target assistance to governments, particularly certain cities, that are experiencing long-term economic decline, the Congress could establish a new program designed for that purpose alone. A formula measuring long-term decline could be developed to allocate the funds to such governments.

C o n t e n t s

ENCLOSURE

A	Case studies of antirecession assistance in 15 States
B	Case studies of antirecession assistance in 16 counties
C	Case studies of antirecession assistance in 21 cities

CHAPTER 1

INTRODUCTION

Title II of the Public Works Employment Act of 1976, (Public Law 94-369) was passed to help stabilize the national economy by promoting greater coordination between Federal economic policy and budgetary actions of State and local governments during times of economic downturn. Emergency Federal aid to State and local governments hard hit by recessionary pressures was authorized to reduce the need for these governments to take budgetary actions which counter Federal efforts at stimulating economic recovery. The assistance was designed to

--go quickly into the economy, with as little administrative delay as possible;

--be selectively targeted, by means of a formula, to go to only those governments substantially affected by the recession; and

--phase out as the economy improves.

A fundamental premise underlying title II was that the amount and quality of State and local government services should not suffer because of national economic conditions over which these governments have no control. Governments were expected to use antirecession assistance payments to maintain basic services customarily provided.

Initially, the Congress authorized $1.25 billion to be paid State and local governments for the five quarters ending September 30, 1977. Moneys were authorized to be paid as long as the national unemployment rate exceeded 6 percent. Public Law 95-30 renewed the program for an additional year, raised the authorized level by $2.25 billion, and extended the program through September 30, 1978. As of January 9, 1978, $2.5 billion were paid to recipient governments.

The Office of Revenue Sharing, Department of the Treasury, is responsible for administering the antirecession assistance program, including distributing funds to State and local governments; establishing overall regulations for the program; and providing such accounting and auditing procedures, evaluations, and reviews as are necessary to insure that recipient governments comply fully with the law.

PRIOR GAO ANTIRECESSION REPORTS CALLED FOR AN IMPROVED DISTRIBUTION FORMULA

Section 215(a) of title II required that the Comptroller General investigate the impact antirecession assistance had on the operations of State and local governments and report to the Congress by July 21, 1977. To fulfull this requirement, we visited 52 governments (15 States, 21 cities, and 16 counties) and issued a report (GGD-77-76, July 20, 1977) summarizing the impact antirecession assistance had on their operations. We concluded that the antirecession program was helping many needy governments. In some respects, however, the objectives of the Congress were not being met:

--Antirecession assistance had varied effects--from preventing employee layoffs or tax increases to enlarging surpluses.

--Needy governments, especially cities, were receiving assistance on the premise that their problems resulted from the recession. Often their problems sprang primarily from other causes, such as long-term erosion of tax bases and inflation.

--Because many governments receiving antirecession payments were not greatly affected by the recession, assistance probably was not needed to combat recession-related difficulties; but other problems such as inflation did create a need for financial aid in some governments.

As a result of these findings, we concluded that "excess unemployment" as defined in current legislation was not a reliable indicator of the recession's impact on the finances of State and local governments. Although sufficient analysis has not yet been made to identify a better measure, a better formula for distributing funds would make the program more effective.

In another of our reports, entitled "Antirecession Assistance--An Evaluation" (PAD-78-20, dated November 29, 1977), we reached similar conclusions from economic and statistical evidence and discussed certain alternative "triggering" and distribution statistics for the antirecession formula. We stated that the present antirecession formula is not a particularly effective tool for stimulating the economy during a downturn and does not allocate aid in proportion to the needs of State and local governments as measured by recession-induced budgetary disruption. We further stated that excess unemployment is a measure of limited statistical reliability and does not necessarily correspond to a recession's impact on governments' budgets.

Also, three reports issued on February 22, 1978 (GGD-77-69, GGD-77-70, and GGD-77-50), discussed in detail the impact antirecession assistance had as of April 30, 1977, on the 15 States, 21 cities, and 16 counties we visited.

SCOPE OF REVIEW

At the request of the Chairman, Subcommittee on Intergovernmental Relations and Human Resources, House Committee on Government Operations, we studied the financial condition of these same 52 governments and the impact of the extended antirecession program on their operations. To assist the Congress in determining the effectiveness of the program in meeting its stated objectives, we

--examined changes in the governments' financial conditions during their most recently complete and current operating fiscal years as of November 1977, (see app.I) and discussed with officials what they perceived to be the major factors influencing their governments' fiscal health and

--evaluated the status, use, and impact of antirecession assistance on the operations of the 52 governments as of October 31, 1977.

Appendix VIII lists the 52 governments we visited and provides antirecession allocation information. Also, because of the wide diversity in each government's functions and responsibilities, we included in enclosures A, B, and C, a case study of each jurisdiction delineating its financial condition, major factors influencing its fiscal health, and the status, use, and impact of antirecession assistance payments it received.

Financial data in each case study was the best information available at the time of our review and was obtained from the governments' records and reports and from discussions with officials. Since Bureau of Census data was not available for the governments' most recently completed fiscal year, the information in this report may not be strictly comparable with our previous reviews where both Census and government data were used. State and local government officials provided their views on the data and their comments were considered in preparing each case study.

CHAPTER 2

GOVERNMENTS' FINANCIAL CONDITIONS HAVE IMPROVED

Although the antirecession program was conceived to aid governments experiencing recession-related difficulties, most governments visited were perceived to be in good financial condition. (See app. II.) Also, 30 of the 52 governments classified their financial conditions as improved since February 1977, and another 14 had maintained their good fiscal health. In total, fund balances, revenues, expenditures, and employment levels increased, and little incremental debt was incurred.

Patterns of fiscal health emerged by type of government. States and counties generally were considered to be in good financial condition, but several cities experienced fiscal difficulties attributed to long-term economic decline and inflation.

The 15 States as a group had the strongest financial conditions; almost all were good and improved. Strong revenue gains were experienced due, in large part, to increased tax receipts as a result of an upturn in business activity and inflation. Fund balances of many increased substantially, and decreases were not due to financial difficulties. Employment levels rose, and basic service levels of nearly all have been maintained.

The majority of the 16 counties remained in good financial condition. Revenues increased due partly to rising intergovernmental aid. Fund balances and employment levels were stable. Although several counties took some action to reduce employment, only four actually decreased employment, and only one experienced a decline in service levels.

Even though some experienced improvements, 10 of the 21 cities were in fair or poor financial condition. Although total revenues rose, the cities experienced the smallest growth, and the fund balances of many decreased. Many cities took action to reduce employment, and employment levels of several decreased. Basic services of three were adversely affected. Many cities attributed their financial problems to persistent inflation and chronic difficulties, such as decaying tax bases.

STATES ARE STRONG AND IMPROVED

Fourteen States were considered to be in good financial condition; in the past year, 13 of these experienced fiscal improvements, while 1 worsened. The following examples typify the States' financial progress. California's already sound financial condition improved as evidenced by large revenue increases and a $1.8 billion surplus (up 121 percent from fiscal year 1976). Several States, such as New Jersey and Colorado, adversely affected by the 1974-75 recession, currently classify their financial conditions as good due to such factors as improvements in the economy, employment, and industrial growth. Iowa officials believed the State's current fiscal condition, although healthy, had worsened somewhat due to farm-income problems caused by droughts and a drop in grain prices, and an intentional decrease of fund balances.

The remaining State--Louisiana--was viewed as being in only fair financial condition. Officials believed that this resulted primarily because depleting mineral resources (oil, natural gas, and petrochemicals) adversely affected severance tax revenues.

COUNTIES ARE HEALTHY AND STABLE

Officials of 14 of the 16 counties categorized their governments' financial condition as good. Nine of these 14 counties experienced little or no change from the previous year, while the fiscal health of 5 improved. For example, the manager of Fulton County, Georgia, said the county had maintained a strong financial position because of Federal funds, particularly revenue sharing, and because of budgeting policies designed to control expenditures. The continued healthy financial condition in North Carolina's Robeson County was evidenced by revenues keeping pace with expenditures, no new long-term debt, and the county funding services previously financed with Federal money. Riverside County, California, improved its 1976 fair financial condition to good in 1977 and 1978 through greater than expected county-generated revenues, additional Federal funds, and economy measures to limit expenditures.

Officials from the remaining two counties viewed their fiscal health as fair. Lake County, Indiana, officials believed their fiscal health declined because of the continuing property tax freeze, while expenditures were increasing because of inflation and expanded services. Also, problems at the Indiana township level caused increases in the county's debt, and officials believe their financial stability is dependent on Federal funds. Multnomah County, Oregon, officials said the county's financial condition is improving but is "still far from good." An $8 million projected deficit for fiscal year 1977 was avoided due to budget cuts, a policy to spend only 95 percent of budgeted amounts, and new taxes.

CITIES' FISCAL HEALTH VARIES

Officials from 10 of the 21 cities believed their governments were in fair or poor financial condition. Although they noted some lingering effects of the recession, city officials generally cited long-term problems, such as declining population, decaying tax bases, chronic unemployment, large proportions of poor residents, and inflation as the primary causes of their financial difficulties.

Despite continuing problems, 6 of the 10 cities in fair or poor condition managed to improve their fiscal position since February 1977. For example, Detroit's financial condition significantly improved due to a better economy (especially the automobile industry), higher employment, and income tax and intergovernmental revenue increases. Intergovernmental revenues increased 36 percent between fiscal years 1976 and 1977 and represented 36 percent and 40 percent, respectively, of general fund revenues. Detroit's fiscal year 1977 operating surplus was one of only seven attained by that city since 1949. However, Detroit still has problems: a declining population, unrestored services, and an unemployment rate higher than State or national averages. Newark's operating fund surplus more than doubled between 1975 and 1976 and is expected to increase further in 1977. Total indebtedness declined. Despite these improvements, Newark relies heavily on State and Federal aid to finance operations; its major difficulties were caused primarily by a declining tax base and inflation and were compounded by the recession.

Conversely, 4 of the 10 cities in fair or poor condition had experienced a decline in fiscal health according to officials. For example, Miami's city manager, in his 1976 budget message to the city commission, said Miami "is in a state of crisis." Expenditures continued to increase, while revenues lagged because the city's property tax rate was at its ceiling, and real estate values were depressed. Oakland's poor fiscal health was the culmination of a 30-year decline in economic and social conditions. The city's primary problems included a nonexpanding economic base, chronic unemployment, and inflation. New Orleans officials believed their government's financial condition was "unstable" and had undoubtedly worsened since last year. The city's basic problems resulted from an eroding tax base which prevented revenue increases sufficient to keep pace with inflation.

Officials from 11 of the 21 cities reviewed believed their governments were in good financial condition. Five of these cities remained stable since February 1977, five improved, and one city's fiscal posture declined. For example, Salt Lake City officials attributed the city's continued healthy financial condition to conservative financial management, conservative revenue estimates, and expenditure controls. Los Angeles officials pointed to the city's large uncommitted surplus in the reserve fund, less than 10 percent of authorized debt limit being used, no short-term debt, and the highest quality bond ratings as signs of their excellent fiscal health. Honolulu continued to be healthy in spite of a slight decline prompted by inflation, changes in State law, and a legal technicality. (See p. 10.)

FUND BALANCES HAVE REBOUNDED

Various funds are used to finance activities and programs of State and local governments. By far, the most important is the general fund which typically finances most current operations. Of the 52 governments reviewed, 46 had surpluses at the end of both the previous and the most recently completed fiscal years. (See app. V.)

The combined fund balances for the 52 governments increased from $2.6 billion in 1972-73 to $2.8 billion in 1973-74. Fund balances began declining in fiscal year 1974-75 and were down to $1.7 billion in 1975-76. Most governments started increasing their surpluses again in 1976-77 to a high of $2.9 billion--a 75 percent increase over the previous year.

The above trends in fund balances generally parallel the findings of a recent staff report of the Advisory Commission on Intergovernmental Relations:

> "For each of the contractions (the recessions since 1957) expenditures grew more rapidly than receipts, and surpluses fell. Thus, during each contraction, State and local governments added to the income stream increasing aggregate demand. While these rates of change are only rough indications of the fiscal impact of State and local financial behavior, they do point to the conclusion that State and local governments have acted as a stabilizing force over these recessions."

> "(Further) during each contraction, surpluses as a percent of GNP fell, indicating countercyclical behavior."

As shown in the graph on the following page, the States made up the bulk of the fund balance increases. Of the nine which increased their surpluses in 1976-77, eight had risen 100 percent or more. California had the largest dollar increase. Due to substantial revenue gains, its surplus rose over $1 billion in fiscal year 1977.

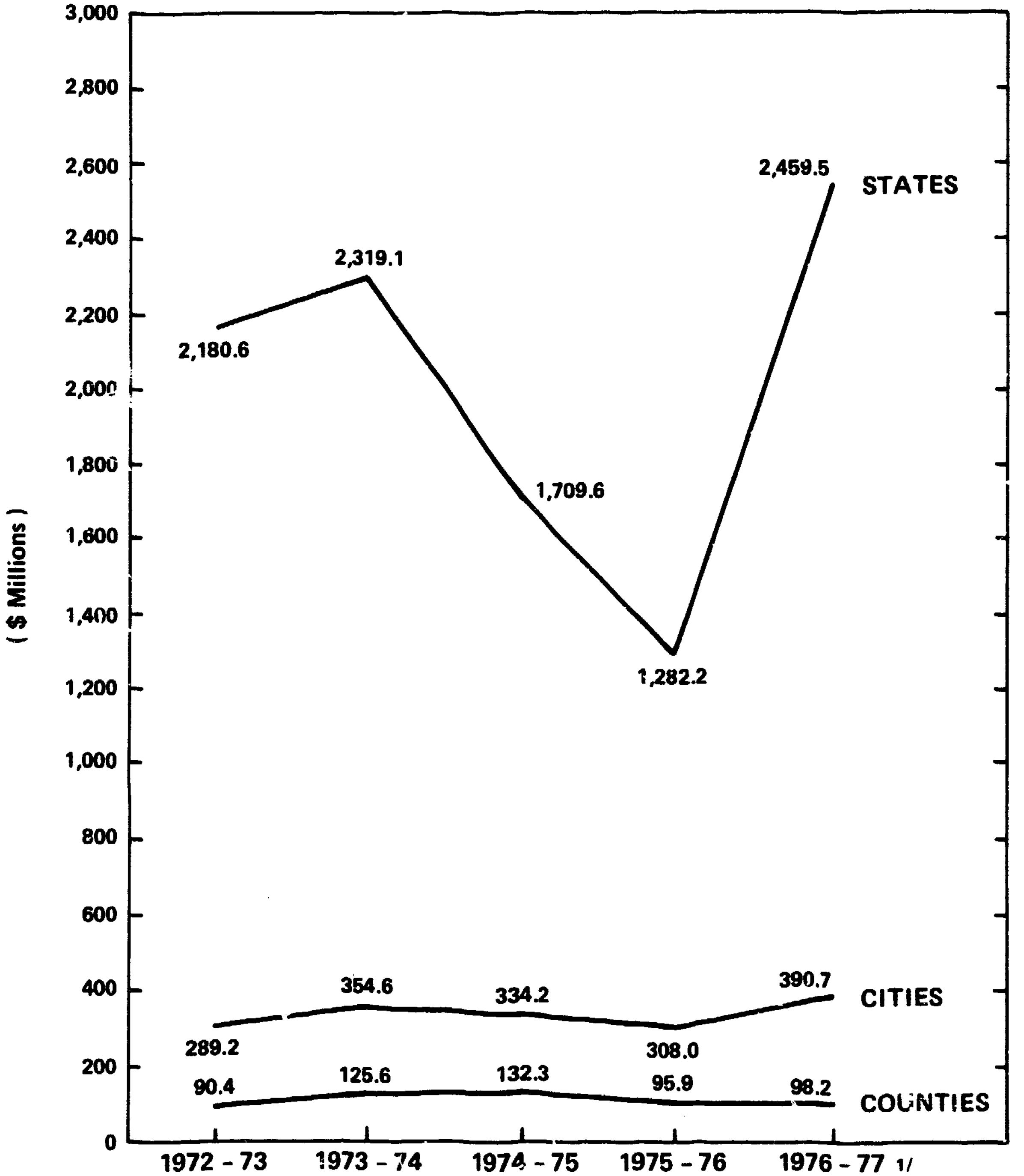
Six States decreased fund balances during the last year; however, the decreases did not result from financial difficulties. Oklahoma and Iowa lowered surpluses considered to be excessive. Colorado reduced its surplus by $18 million to $43.3 million because officials felt smaller reserves would make more funds available for operations while still providing an adequate margin against uncertainties. Virginia's general fund balance decreased from $18.2 million at the end of fiscal year 1976 to $16.6 million as of June 30, 1977. However, a State comptroller's report explained that the latter amount is a midcycle balance of a biennium period and does not reflect a true deficit or surplus condition since revenues and expenses are not appropriated or allotted to balance annually . The projected year-end fiscal year 1978 balance was $45.4 million--a 149 percent increase over the 1975-1976 biennium. New Jersey's operating general fund balance decreased slightly from $137.1 million to $131.7 million between fiscal years 1976 and 1977. However, the unrestricted surplus portion increased $5.3 million during the same period.

New York State had the largest monetary decrease in its fund balance, with a deficit growing from $313.5 million at the end of fiscal year 1976 to $405.0 million at the end of fiscal year 1977. Nevertheless, the $91.5 million deficit increase was a marked improvement over the prior year's operations when the fund balance decreased by $446.8 million, and a surplus is anticipated for the fiscal year 1978 operating period.

Eleven counties' fund balances increased. For example, a $3.2 million increase (about 290 percent) in Nevada's Clark County was due to increases in property and business taxes, licenses, gaming fees, and antirecession assistance.

Five counties' surpluses declined, but these decreases were not always linked to financial difficulties. Alameda County, California, lowered its surplus from $27.7 million in fiscal year 1976 to $13.2 million in fiscal year 1977 by transferring surplus general funds to the capital outlay fund. The fund balance in Massachusetts' Norfolk County decreased from $2.0 million to $1.7 million due to transfers to the county hospital. On the other hand, Lake County's general

TREND IN 52 SELECTED GOVERNMENT'S YEAR-END GENERAL OR OPERATING FUND BALANCES



1/ Equivalent to each government's most recently completed fiscal year as of October 1977. (See app. I.)

fund surplus declined from $1.7 million to $1.4 million at the end of fiscal years 1975 and 1976, respectively, primarily due to increased expenditures, including $500,000 for additional deputies mandated by the courts. Fund balances in Pennsylvania's Allegheny County decreased from $21.8 million in fiscal year 1975 to $16.8 million in fiscal year 1976. Revenues were insufficient to cover inflated expenditures.

Ten cities' fund balances decreased during their most recently completed fiscal year. Seven of these cities--Cincinnati, Evansville, New Orleans, Oakland, Spokane, St. Louis, and Toledo--attributed the decreases to such factors as a failure of revenues to keep pace with expenditures due primarily to inflation, eroding tax bases, chronic unemployment, and, in a few cases, to the recession. Honolulu's fund balance decreased from a $4.3 million surplus to a $5.0 million deficit between fiscal years 1976 and 1977 due to changes in State law reducing property tax assessments, a legal technicality requiring a $10 million write-off against bond anticipation notes, and a $2.3 million revenue shortfall largely due to tax delinquencies and appeals in escrow. According to a Seattle official, the city's general fund balance decreased due to departments spending more than in the past, a smaller effect of inflation on revenues than anticipated, and lower utility revenues because of a mild winter and conservation efforts. The decrease in Providence's fund balance was attributed to several factors, the most important of which was not receiving anticipated tax revenues due to tax abatement actions.

STRONG GAINS IN REVENUES

Of the 51 governments where information was available, almost all had increased revenue collections over their previous fiscal years. Combined total revenues for the 51 governments rose $8.4 billion, or 14 percent. As shown in appendix III, the States and counties had the largest average gains of about 14 and 16 percent, respectively, while cities averaged about 9 percent. Further, most governments achieved budget estimates for their most recently completed fiscal year and nearly all were achieving current year estimates.

Officials attributed revenue gains to an improved economy, inflation, higher intergovernmental funds, and tax increases. Conversely, some officials believed that tax limitations, decaying tax bases, and lingering effects of the recession limited revenue growth.

States benefited from improved economy

Tax revenues increased over 14 percent between fiscal year 1976 and fiscal year 1977 for the States visited. Since tax revenues--primarily sales and income--comprise but three-fourths of total revenues, most States benefited from an improved economy. An upturn in business activity, a revived construction trade, increased employment and personal income levels, and higher costs for goods and services all translated into increased tax collections and were cited as the major factors stimulating revenue growth. As examples:

--During 1976, automobile production increased 26.4 percent, and Michigan's personal income rose 12.4 percent--the largest increase in 23 years. Michigan's personal income and retail sales tax collections both increased about 16 percent in fiscal year 1977.

--In California, although 1976 unemployment was 9.5 percent, employment and personal income increased substantially. Between fiscal years 1976 and 1977, the State's personal income tax collections increased 22 percent, and sales tax revenues 15 percent.

--Virginia experienced a 22-percent increase in corporate income tax revenues due to increased profits.

Only two States increased major tax rates by more than 5 percent during fiscal year 1977. 1/ Maryland raised retail sales and motor vehicle and boat titling taxes from 4 to 5 percent effective June 1977, because of growing expenditures for additional services, such as providing tax relief for the elderly, and offsetting inflation in general. Effective January 1, 1977, Louisiana increased the rates for assessing corporation income from a flat 4 percent to a graduated rate starting at 4 and increasing to 8 percent.

In addition, three States made adjustments to their tax procedures which have resulted or will result in at least a 5-percent increase in revenues for the tax involved, and a fourth added a major new tax. Maryland officials attributed the 5-1/2 percent increase in corporate income tax revenues over budget estimates to legislated tax base increases. In addition to raising corporate tax rates, Louisiana changed the method of assessing individual income tax, effective January 1, 1977, to finance cost-of-living salary increases

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1/ Various other tax increases made by States, counties, and cities are discussed in the enclosed case studies.

for State employees and public school teachers. Oklahoma changed the method of taxing gas and oil production from a per unit basis to a value basis to take advantage of the rising value of oil and natural gas. This adjustment, along with higher prices, caused gross production tax revenues to increase 26 percent. New Jersey's tax revenues soared over 34 percent, primarily because it initiated an income tax. The new revenue source cannot be used for general operating expenses, but instead will fund local education, provide property tax relief, and replace several business taxes.

Although the States' tax revenue increased, several cited unfavorable factors affecting the most recently completed or current fiscal year's revenues. Iowa officials said a bad farm year in 1977 slowed 1978 income tax revenues. Missouri officials cited reductions in Federal spending and the energy crisis as factors which adversely affected their major industries, while Louisiana officials cited severance tax base erosion, e.g. depleting mineral resources, and constitutional limitations on tax rates and fees as unfavorable factors.

Three States cited recession as a factor limiting the most recently completed fiscal year's revenues. All, however, showed signs of improvements. Fiscal year 1977 sales tax collections for Maryland and sales and income tax collections for Virginia were below initial estimates due to a slower than anticipated recovery from the recession. In Maryland the construction industry, which was particularly affected by the recession, has improved, and fiscal year 1978 sales tax revenue is expected to exceed estimates considerably. Officials expect steady economic growth in fiscal years 1978 and 1979. Although Virginia's sales and income tax collections were lower than initial estimates, collections for each tax exceeded revised estimates and fiscal year 1978 first quarter revenue collections exceeded estimates by about $20 million due to the inclusion of military individual income tax witholding, an improving economy, and reduced unemployment. State officials were cautiously optimistic because one-third of total revenues are collected in the last quarter and any significant shortfalls would adversely affect the budget. New York officials stated that the slowing of business activity in the early part of fiscal year 1977 adversely affected revenues. However, they stated that in the latter part of fiscal year 1977 and in 1978, a turnabout is evident as revenues from personal income and sales taxes have returned to normal growth.

County revenues increased due to tax increases and intergovernmental aid

The major income sources for counties were intergovernmental revenues and tax collections (primarily property). These revenues increased about 16 and 12 percent, respectively, during the past fiscal year for the 16 counties visited. County officials attributed most of the rise in intergovernmental revenues to increased or new grants from the Comprehensive Employment and Training Act, revenue sharing, antirecession assistance, Medicaid programs, and State aid. Higher tax collections were usually due to increasing property values, new taxable properties, and/or increased tax rates.

Five counties raised their property tax rate by more than 5 percent during their most recently completed fiscal year, and one added new taxes. In four cases, inflation was cited as the primary factor dictating the need to raise additional revenues. One of the remaining counties raised taxes to offset decreases in Federal funding, and the other increased rates to hire additional deputy sheriffs and expand its court system and mental health services.

All 14 counties that levy taxes 1/ collected higher property tax revenues, but increases were limited by factors such as statutory limits, the need for State approval of tax increases, and delays in reassessing appreciated property. Officials of two counties said recession-related construction slowdowns limited tax base growth but reported that the situation showed signs of improvement. For example, Fulton County building permits dropped in 1975, rose somewhat in 1976 and 1977, but have not yet reached the 1974 level.

Tax limitations and delays in reassessment were highlighted as significant obstacles to increasing revenues. For example, Essex and Cape May Counties, by New Jersey State law, must limit annual property tax revenue increases, with some adjustments, to 5 percent. Comanche County's property tax level has not changed in years due to a ceiling imposed by the State of Oklahoma. State law sets Norfolk and Worcester County property tax rates. Allegheny County has been reasses-

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1/Two counties, Norfolk and Worcester, do not have any taxing powers. The amounts needed to operate the counties are set by the Massachusetts legislature and are raised through assessments on the cities and towns within the counties.

sing one-third of county properties each year, but State law prevents a tax levy on increased valuations until the entire county has been reassessed. Clark County, Nevada, and Bernalillo County, New Mexico, use a 5-year and 10-year reassessment schedule, respectively.

City revenues rose but growth often restricted

While property tax increases and inflation raised the cities' total revenues, tax limitations and decaying tax bases limited revenue growth. For the 21 cities visited, total tax revenues increased about 10 percent and intergovernmental funds about 7 percent during their most recently completed fiscal year.

Property tax is the major tax for 14 cities and a significant income producer for all 21. Rising property values and tax rate increases were the most frequently cited reasons for higher revenues.

Other reasons such as inflation and economic recovery were cited for revenue growth. Twelve cities obtained a large portion of their revenues from general sales taxes, and four relied heavily on income taxes. Although many of these cities experienced some recessionary impact, such as a slowdown in the growth rate, all affected showed signs of improvement. Officials of several cities believed that inflation had, in part, been responsible for revenue increases and that revenues benefited from economic recovery in their respective areas. For example, Phoenix officials cited decreased unemployment sparked by a sharp rise in housing starts as well as retail sales growth as reasons for their city's recovery. Phoenix sales and franchise tax receipts increased 24 percent in 1977, and economic recovery is expected to continue through fiscal year 1978. Toledo's 1977 income tax collections are expected to rise 13.5 percent over 1976, largely due to an improved employment posture, increased weekly earnings, and higher corporate profits.

Four cities raised major tax rates by more than 5 percent in their most recently completed fiscal year. Additionally, Providence increased its property tax revenues by 21 percent largely as a result of its first property revaluation in 16 years. Miami officials cited rising personnel costs as the primary reason for raising fiscal year 1977 property taxes. Boston increased its property tax rate by about 29 percent primarily because debt interest payments and the school budget rose by several million dollars, while State aid and Federal revenue sharing funds declined about $38 million and property valuations decreased about $28 million. Detroit increased its property tax to help counter a projected fiscal year 1977 general fund deficit, which did not materialize due primarily to increased intergovernmental aid. Salt Lake City doubled its franchise tax rate on utility company revenues due to inflation.

Many cities reported that receiving more intergovernmental aid, such as antirecession assistance, community development, and other Federal assistance, caused revenue gains and was instrumental in enabling them to maintain services. Detroit's intergovernmental funds increased by $65 million and its share of operating revenues rose from about 36 percent in fiscal year 1976 to 40 percent in fiscal year 1977. Federal funds comprise 28 percent of Oakland's 1978 budget--up from 18 percent in 1973. About 33 percent of the city's employment is currently funded through Comprehensive Employment and Training Act funds. New Orleans' Federal aid rose from about 29 percent of the 1976 budget to almost 34 percent in 1977.

Two major factors, however, emerged as severely impeding several cities' revenue growth--tax limitations and erosion of tax bases. Several cities stated that some type of limitation, such as State legislative restrictions on total levies or annual increases, hampered their revenue-raising capacity. For example, officials of Detroit and Miami said they have exhausted their legal taxing powers.

Miami officials also cited a construction slowdown as adversely affecting property tax base growth and revenues. Although construction activity recently increased, tax revenues from new construction lag by about 2 years because, we were told, Florida law restricts taxation of new property until it is substantially complete. Miami officials also believe that a tourist trade slump depressed real estate values and increased tax delinquencies from 5 percent in 1976 to 7.6 percent in 1977.

Eleven cities reported that continual tax base decay and related chronic difficulties posed a fiscal dilemma. Declining population, increasing proportions of low income and elderly populace, loss of business, urban decay, and chronic unemployment were repeatedly identified as persistent, complex problems detrimentally affecting both revenue-raising capacity and overall fiscal health. Examples follow:

--Detroit officials believed unemployment was the city's most persistent problem. In 1976 the average unemployment rate was about 14 percent, and through August 1977, it averaged between 10 and 11 percent. In 1976, over 28 percent of the city's population was supported by welfare benefits. Between 1972 and 1976, there was a net loss of 21,000 dwelling units. The city's population declined 12 percent from 1970 to 1975 according to the latest Bureau of the Census statistics.

--In Oakland an estimated 16 percent of the population live in households with incomes below the national poverty level. Unemployment in February 1977 was estimated at 14 percent. Between 1966 and 1974 Oakland's share of its county commercial investment fell from 60 to 23 percent. Since 1969 the city's population declined 15 percent. Oakland had the highest percentage of occupied substandard housing in the Bay area.

--According to the latest Bureau of the Census data, Newark's population declined approximately 11 percent between 1970 and 1975. City residents on public assistance programs have increased in recent years. As of September 1977, Newark's unemployment rate was an estimated 13 percent. Assessed real estate values dropped almost 7.7 percent from 1970 to 1977.

INCREASING COSTS BOOST EXPENDITURES

Primarily because of inflation, total expenditures for all governments generally increased. (See app. IV.) For all 51 governments where information was available, total annual expenditures increased about 9 percent from $59.3 billion to $64.5 billion. States had the largest expenditure increases of 9 percent followed by counties with 8 percent and cities with about 7 percent.

Inflation was the overriding factor cited both for causing increased expenditures and for adversely affecting overall financial health. Increasing costs for salaries and related fringe benefits, utilities, supplies, fuels and equipment were repeatedly pinpointed for increasing expenditures. For example:

--According to officials, Maryland's Department of Personnel fiscal year 1977 expenditures increased almost 25 percent to $223 million and were budgeted to rise another 18 percent in fiscal year 1978 due to a recent pattern of rapid increases in retirement and fringe benefit costs for State employees. Increases in retirement benefits were attributed to spiraling costs and legislative changes. Officials also cited inflation-related expenditure increases in salaries, medical assistance, and higher education, such as a $30 million across-the-board salary increase budgeted for fiscal year 1978.

--Newark officials reported that gas, electric, and oil bills have gone up 400 to 500 percent in the past 3 years. The city's social security contributions increased over $1 million from 1976 to 1977. Pension costs in 1977 were up $3 million from the 1976 level of $11 million.

--Eighty percent of Oakland's operating expenditures were for personnel costs. About 40 percent of this amount represented outlays for police and fire personnel. From fiscal years 1972 to 1978, the number of these employees dropped 5 percent while budgeted salaries and benefits increased 79 percent.

--While Alameda County's employment rose less than 1 percent from fiscal year 1976 to 1977, salaries and benefits grew 8.2 percent during the same period.

In addition to inflation, some officials stated that meeting an increased service demand and providing outlays to fulfill legislative or judicial requirements caused expenditures to rise. For example, the California legislature committed the State to spend $4.3 billion over a 5-year period to equalize per pupil education expenditures. Clark County's 1978 budgeted expenditures for recreation were almost double 1977 actual levels due to new park development.

Increasing population, greater public awareness and participation, and chronic difficulties were frequently cited as factors causing a growing demand for government services. Some lingering effects of the recession were noted; however, decreases in unemployment rates between 1975 and October 1977 1/ in almost all jurisdictions helped to alleviate major recessionary pressures.

EMPLOYMENT INCREASED BUT SOME EFFORTS MADE TO CONTROL COSTS

Overall, the number of personnel employed by the 52 governments increased, although some took action to limit employment costs. Employment for all governments increased by

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1/Based on Bureau of Labor Statistics data for 1975 and 1976 yearly averages and for monthly figures through October 1977.

2.4 percent during the most recently completed fiscal year. (See app. IV.) State employment increased by 3 percent, while counties' and cities' employment changed less than 1 percent. Thirty-seven governments increased employment during this period. Generally, employment accounted for more county and city expenditures than for States. In only 2 States, was employment over 40 percent of total expenditures, while 14 counties and 20 cities had personnel expenses of 40 percent or more.

Although the number of employees generally rose, several governments, particularly cities, tried to control employment. Many imposed hiring freezes or laid off employees. Despite these measures all 15 States and 12 of the 16 counties increased their workforces, while 11 of the 21 cities reduced them. The impact of these reductions on service levels, however, was slight. According to officials, the basic services of only four governments were adversely affected.

DEBT LEVELS AND BOND RATINGS HAVE CHANGED LITTLE

The 52 governments' long-term debt has been stable. Also, bond ratings for 48 governments have not changed from from January 1977, to January 1978; three governments' ratings increased and one declined.

As shown in the following table and in appendix VI, the combined level of long-term debt increased by about 7 percent over the previous year.

Long-term Indebtedness

	Prior fiscal year	Most recently completed fiscal year	Percent change
	(billions)		
States	$23.55	$25.32	7.6
Counties	.73	.76	4.4
Cities	4.49	4.58	2.1
Total	$28.77	$30.66	6.6

However, as a percent of 1-year's revenues, long-term debt for all jurisdictions decreased about three percentage points.

Long-term Debt as a Percent of Revenues

	Prior fiscal year	Most recently completed fiscal year
	(percent)	
States	42	39
Counties	45	41
Cities	95	89
Total	46	43

Use of long-term borrowing varied considerably between and within the different types of governments. As shown above, cities relied more heavily on funds obtained by borrowing.

Some States, cities, and counties had little or no outstanding debt, while others had debt of two or three times total annual revenues. For example, debt levels for Missouri, Oklahoma, and Virginia were less than 10 percent of their revenues and Colorado had no outstanding debt, whereas Connecticut's debt was over 100 percent of its revenue. Lake County, which was in fair financial condition, had long-term debt totaling 18 percent of annual revenues. The average for all counties was about 41 percent. Further, of the 10 cities classified in fair or poor condition, 8 had debt levels less than 75 percent of their last year's revenues while 2 cities in healthy condition had debt levels of 252 and 379 percent.

CHAPTER 3

STATUS, USE, AND IMPACT OF ANTIRECESSION

ASSISTANCE ON GOVERNMENTS' OPERATIONS

The status, use, and impact of antirecession assistance funds varied between and within the different levels of governments reviewed. Measurement of the actual effects and when they occurred was impaired by the interchangeable nature of funds, shifting needs and priorities, changes in other revenue sources, and the relatively small contribution antirecession funds made to total resources. Although these limitations precluded any conclusive evaluation of their impact, the antirecession funds filled budgetary voids, increased expenditure levels, and helped increase or maintain surpluses.

ACCOUNTING STATUS OF ANTIRECESSION FUNDS

The 52 selected governments received over $504.1 million for the first five quarters of the antirecession assistance program. Fifteen States received $349.1 million, 16 counties, $28.3 million, and 21 cities, $126.7 million. Payment for the first two quarters was received in November 1976, the third quarter in early January 1977, and the fourth and fifth quarters in early April 1977 and July 1977, respectively. 1/ Three governments did not receive payments for all five quarters since their unemployment rates fell to or below the 4.5 percent eligibility rate.

- --Iowa received payments for only the first two quarters;
- --Evansville received payments for the first three and the fifth quarters, but not for the fourth; and
- --Fort Worth received payments for only the first three quarters.

As of October 31, 1977, the 52 governments had appropriated about 94 percent of the antirecession funds received

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1/Connecticut and Oklahoma received their first payments in December 1976 and January 1977, respectively. In addition, St. Louis received payment for the first three quarters in January 1977.

for the first five quarters and disbursed 73 percent. Of the amounts appropriated, the 15 States had disbursed 71 percent; the 16 counties, 63 percent; and the 21 cities, 80 percent. (See fig. 1.) See appendix VII for the status of the antirecession payments received for the first five quarters by each government.

REPORTED USES OF ANTIRECESSION FUNDS MAY NOT MEASURE ACTUAL IMPACT

The uses of antirecession assistance payments discussed below and the status of funds described in the previous section were identified by financial records or described to us. As discussed in our earlier revenue sharing reports, 1/ the uses shown in the financial records are solely accounting designations and may have little or no relation to actual use or impact.

The amount of antirecession funds received and the amounts and sources of all other revenues can be identified for each government. However, once funds from different sources are commingled for budgetary purposes, it is often impossible to identify the source of the dollars that fund an expenditure category or specific item. For example, we were unable to determine the amount of antirecession funds actually disbursed in Clark County, because those funds were commingled with funds appropriated from other sources and subsequently lost their identity. Similar situations existed in Los Angeles, Miami, Phoenix, Providence, and the State of Washington.

Whenever a government spent antirecession funds for activities that were, or would have been, financed from local or other revenue sources, considerable latitude existed for use of the funds freed. They could have been used to increase expenditures for other programs, avoid a tax increase, postpone borrowing, increase year-end fund balances, and so forth. For example, Fulton County officials used antirecession funds to pay salaries that would have been paid with revenues from

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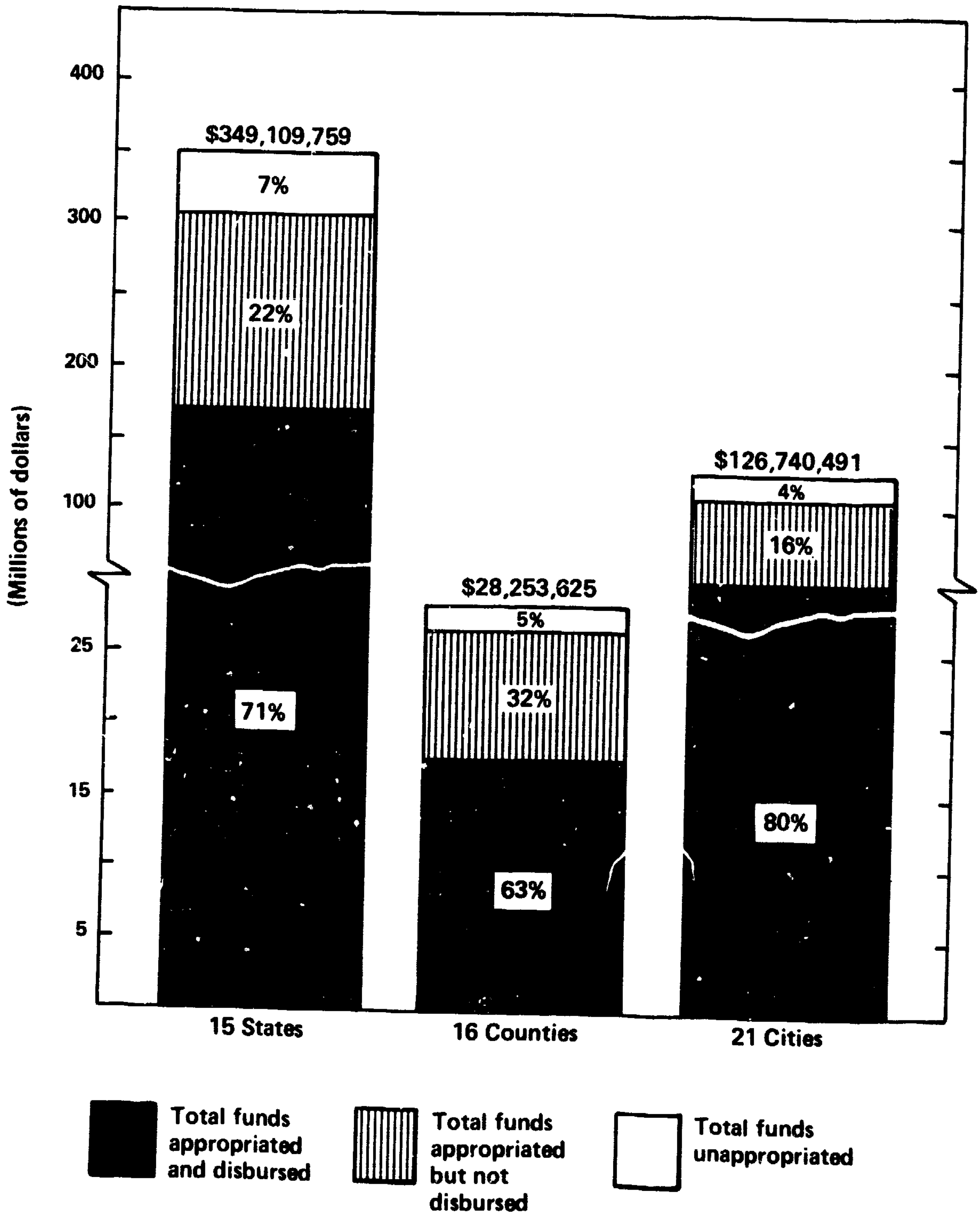
1/"Revenue Sharing: Its Use by and Impact on State Governments," B-146285, Aug. 2, 1973; "Revenue Sharing: Its Use by and Impact on Local Governments," B-146285, Apr. 25, 1974; "Case Studies of Revenue Sharing in 26 Local Governments," GGD-75-77, July 21, 1975; and "Revenue Sharing: An Opportunity for Improved Public Awareness of State and Local Government Operations," GGD-76-2, Sept. 9, 1975.

FIGURE 1.

STATUS OF ANTIRECESSION ASSISTANCE PAYMENTS RECEIVED FOR FIRST FIVE QUARTERS FOR 52 SELECTED GOVERNMENTS AS OF OCTOBER 31, 1977



other sources. The antirecession funds freed county funds which may be used to pay for other services or carried over as unobligated surplus at year-end. St. Louis used antirecession funds for salaries and fringe benefits, and subsequently freed other general revenues for repairs and maintenance expenses and capital projects.

Accordingly, because antirecession funds may make other funds available to assist government services, we cannot directly correlate the uses of antirecession funds to the reported services. The interchangeable nature of funds can nullify the meaningfulness of financial reports which relate specific expenditures to specific sources of revenue such as antirecession assistance.

<u>Reported uses of funds by program or function</u>

As originally legislated by the Congress, governments were to use antirecession funds for basic services. The table on page 24 shows that the 52 governments reported uses for a wide variety of services.

Over 99 percent ($323.1 million) of the antirecession funds appropriated by the 15 State governments reportedly were or would be used for various operations and maintenance expenses. In addition, the 16 counties and 21 cities reportedly had or would have used over 98 percent of their funds for operations and maintenance expenditures of $26.3 million and $118.3 million, respectively. Most of the antirecession funds reportedly were used as follows:

--State governments: public welfare, corrections, health, transfers to other governments, fire protection, and education.

--County governments: health, highways and streets, and parks and recreation.

--City governments: police protection, fire protection, highways and streets, sanitation other than sewage, and parks and recreation.

Antirecession Assistance Funds
Appropriated for Operations and Maintenance Expenses
by 52 Selected Governments as of October 31, 1977

Functional area	Amount States	Counties	Cities	Total
	- - - - - -	- (000 omitted)-	- - - - - -	
Education	$ 15,302	$ ---	$ 319	$15,621
Highways and streets	2,071	3,317	10,177	15,565
Public welfare	75,189	1,170	---	76,359
Hospitals and clinics	5,095	---	396	5,491
Health	57,339	3,880	120	61,339
Police protection	6,500	1,453	57,358	65,311
Fire protection	15,810	325	14,891	31,026
Sewerage	---	6	20	26
Sanitation other than sewerage	---	23	6,116	6,139
Parks and recreation	2,012	2,481	6,142	10,635
Natural resources	2,044	---	---	2,044
Housing and urban renewal	1,040	105	854	1,999
Corrections	60,781	1,528	160	62,469
Financial administration	1,443	384	224	2,051
General control	4,648	557	346	5,551
General public buildings	122	1,059	599	1,780
Libraries	386	79	17	482
Interest on debt	8,425	---	---	8,425
Transfers to other governments	16,770	373	---	17,143
Other	48,106	9,599	20,577	78,282
Total	$323,083	$26,339	$118,316	$467,738

Ten of the 52 governments (3 States, 4 counties, and 3 cities) reported appropriations of antirecession funds for capital outlays. The following table shows by functional area the total funds designated.

Antirecession Assistance Funds
Appropriated for Capital Outlays
by 10 Governments as of October 31, 1977

Functional areas	Amount States	Counties	Cities	Total
Hospitals and clinics	$ 769,956	$ ---	$ ---	$ 769,956
Health	---	52,260	---	52,260
Police protection	---	1,179	---	1,179
Fire protection	---	---	157,000	157,000
Parks and recreation	578,631	41,130	123,421	743,182
Housing and urban renewal	---	921	907,242	908,163
Corrections	716,888	246,168	---	963,056
Financial administration	---	4,600	---	4,600
General control	185	32,987	---	33,172
General public buildings	299,324	---	1,662,573	1,961,897
Libraries	---	12,000	21,032	33,032
Transfers to other governments	7,014	---	---	7,014
Other	---	15,827	---	15,827
Total	$2,371,998	$407,072	$2,871,268	$5,650,338

Reported uses of funds by object class or specific class

As anticipated by the Congress, a large portion of antirecession funds were reported as used for salaries. Most of the 52 governments appropriated a portion of their antirecession funds for either salaries and wages or for across-the-board wage and benefit increases, which collectively accounted for about $259.9 million, or 55 percent of the total funds appropriated.

Forty-one of the 52 governments (12 States, 13 counties, and 16 cities) appropriated at least a portion of their funds in those two categories.

The following table summarizes by object class the antirecession funds appropriated.

Specific Uses of Antirecession Assistance Funds Appropriated by 52 Selected Governments as of October 31, 1977

Object Class	Amount			
	States	Counties	Cities	Total
	--------(000 omitted)--------			
Salaries and wages	$142,941	$11,561	$ 64,781	$219,283
Across-the-board wage and benefit increases	9,769	4,151	26,712	40,632
Supplies and equipment	2,925	759	5,650	9,334
Repairs and maintenance	10	1,228	6,647	7,885
Capital construction/ improvements	1,655	296	2,683	4,634
Debt retirement/ payment of interest	8,425	---	---	8,425
Other (note a)	159,730	8,750	14,713	183,193
Total	$325,455	$26,745	$121,186	$473,386

Note a: Includes those funds which could not be identified to a specific use.

IMPACT OF ANTIRECESSION FUNDS ON OVERALL OPERATIONS

Although antirecession funds generally represent a small proportion of a government's available revenues, officials of most of the 52 governments believed the funds had a favorable impact on services and employment but had little or no impact on tax rates. Officials speculated with mixed views on the impact of the funds on overall operations. For example, officials believed the funds would be used to (1) fill budgetary gaps, (2) increase expenditure levels, (3) maintain or increase surplus balances, or (4) a combination of the three.

Favorable impact on
services and employment

Officials' opinions varied on how antirecession funds affected their governments. The different responses are, perhaps, an indication of the peculiar situation of each government. As shown in the following table, however, more officials believed antirecession funds had a favorable impact on services than on tax rates.

Impacts of Antirecession Funds
on the 52 Governments

	Number of governments			
	States	Counties	Cities	Total
Impact on services				
Favorable	14	12	19	45
Little or none	1	4	2	7
Total	15	16	21	52
Impact on tax rates				
Favorable	5	5	6	16
Little or none	10	11	15	36
Total	15	16	21	52

As shown in the table on page 25, the 52 governments appropriated about $219.3 million, or 46 percent of their total appropriated antirecession funds for salaries and wages. The States appropriated $142.9 million of $325.5 million, or 44 percent; the counties about $11.6 million of $26.7 million, or 43.4 percent; and the cities about $64.8 million of $121.2 million, or 53.5 percent of the total appropriated funds.

Although statistics on the number of positions funded were hard to obtain and unavailable for some governments, officials estimated that more than 22,400 jobs were funded with antirecession funds as of October 31, 1977. These are reported uses as shown in financial records or described to us. Because of the interchangeable nature of government resources, however, these reported uses may have little or no relation to their actual impact. The following table reflects the data available on the number of positions funded with antirecession funds. These positions do not necessarily represent annual employment since some positions were funded for only a limited period.

Number of Public Service Positions
Funded by Antirecession Assistance
as of October 31, 1977

Positions	States	Counties	Cities	Total
Created	5,122	165	1,308	6,595
Restored	67	25	1,774	1,866
Substituted	12,410	543	1,005	13,958
Total	17,599	733	4,087	22,419

As shown in the above table, the governments used antirecession funds to substitute for other funds for 13,958 positions, or about 62 percent of the more than 22,400 jobs. The governments also used antirecession assistance to fund 6,595 new positions, or about 30 percent, and to restore 1,866 positions, or about 8 percent. The positions funded, however, varied by type of government, which is perhaps a reflection of fiscal need. On a percentage basis, far more of the funds used by cities for employment went to restore or create new positions than States and counties, which in large part, used antirecession funds to substitute for other revenues.

Officials of 9 States, 9 counties, and 14 cities said that antirecession funds had a favorable impact on public employment. Officials of 6 States, 4 counties, and 12 cities believed antirecession funds prevented layoffs of employees.

Impact of funds on governments' budgets

Antirecession payments represented a small portion of each government's total available revenues. For the first four quarters of the program, these funds represented only 0.5 percent of the 52 governments' total selected revenues for the most recently completed fiscal year. Antirecession funds received by the 15 States for the first four quarters ranged from 0.1 to 0.8 percent, or an average of 0.4 percent of total selected revenues. For the 16 counties the range varied from 0.2 to 4.0 percent for an average of 1.0 percent, and for the 21 cities the range was from 0.4 to 3.5 percent for an average of 1.8 percent. (See app. VIII.) Officials of four States, two counties, and three cities commented that antirecession funds were minor compared to their total budgets or that they had had minimal impact on their operations.

Results of our analysis and discussions with officials concerning the impact of antirecession funds on the most recently completed operating year and current operating year budgets are summarized in the table on the next page. Each category is discussed in the following sections.

The budget impacts described in the sections which follow are subjective interpretations that cannot be demonstrated conclusively. They are based on our analysis of the financial operations of the 52 governments and on officials' perceptions of the net impact of the antirecession funds on their budgets and operations.

Some governments used antirecession payments to help balance budgets

For the most recently completed fiscal year, six governments used antirecession assistance funds to fill revenue gaps in their budgets. In the current operating year, 12 governments are also using the funds to fill budgetary gaps. For example, New York used antirecession funds to help reduce anticipated fiscal year 1977 year-end deficits caused by recessionary and chronic inflationary pressures. For Providence the funds helped the city reduce its fiscal year 1977 deficit.

Some governments increased expenditure levels with antirecession funds

For the most recently completed fiscal year, 14 governments used antirecession funds to increase levels of expenditures. In the current operating year, 20 governments are also using the funds to increase expenditure levels.

Impact of Antirecession Funds on 52 Selected Governments' Budgets

Budget year	Impact				
	Filled budgetary gap	Increased expenditure levels	Maintained or increased surplus	Compound (note a)	Total
Most recently completed fiscal year (note b)					
States	3	4	2	4	13
Counties	-	4	3	3	10
Cities	3	6	1	2	12
Total	6	14	6	9	c/35
Current operating fiscal year (note b)					
States	3	7	1	3	d/14
Counties	1	5	3	7	16
Cities	8	8	-	5	21
Total	12	20	4	15	d/51

a/Officials of some governments perceived impacts in more than one area.

b/See app. I.

c/Seventeen governments did not appropriate or disburse any antirecession funds within their most recently completed fiscal year, which often was December 31, 1976, only a short time after receiving the first payment.

d/Iowa did not receive any payments in this year because its unemployment rate was below 4.5 percent.

For example, Multnomah County officials stated that they are using the funds to expand basic services in 24 project areas. In Detroit, funds are being used to increase the level of expenditures in the police department because of increased citizen demands to restore and increase the level of police protection in the community.

Some governments maintained or increased surpluses with antirecession funds

In the most recently completed fiscal year, six governments used antirecession funds to maintain or increase surplus balances. In the current operating year, four governments are also using the funds to maintain or increase surpluses. In Washington State, for example, antirecession funds received in fiscal year 1977 were used for debt service, which displaced State funds already budgeted and increased the State's general fund balance. Comanche County officials appropriated antirecession funds in lieu of revenue sharing funds, thereby enabling the county to retain as unappropriated revenues a corresponding amount of revenue sharing funds.

Funds had a compound effect on some governments' budgets

In the most recently completed fiscal year, antirecession funds had a compound effect on nine governments' budgets. In the current operating year, the funds are having a compound effect on the budgets of 15 governments. For example, in Clark County the funds have given the county the opportunity to increase expenditure levels while also helping to maintain the general fund balance. For some governments, officials stated that antirecession funds were used to maintain levels of basic services which indicates funds are being used to fill budgetary gaps and/or maintain surpluses for future use and/or increase expenditure levels.

OFFICIALS' VIEWS OF PROGRAM VARY

Officials in 49 of the 52 governments believed the antirecession assistance program should continue. However, most governments' officials stated that antirecession funds were used to combat inflation, unemployment, and other chronic problems rather than recession.

Although officials for at least 35 governments believed the program could be improved, their opinions of what improvements were needed varied considerably. Several believed their governments should have more flexibility in using antirecession funds. Some wanted the program's restrictions removed, whereas others recommended the program be combined with other Federal programs like revenue sharing. Other officials would have liked more advanced information on the amount of funds to be disbursed.

Officials of three State governments believed the program should not be continued in its present form. A Florida official stated that some governments did not need Federal money because their revenues were not dependent on employment. A Maryland official believed the program should not be continued during nonrecessionary periods. Iowa officials did not believe their State was getting its fair share of the funds because the State's unemployment rate was below the national average. Although Salt Lake City officials supported continuation of the program, they believed the funds should not go to cities in good fiscal health, including their own.

Officials of at least 37 of the 52 governments believed that factors other than unemployment rates, or in addition to unemployment rates, should be used in determining allocations of antirecession funds. Those officials believed other factors such as population changes, inflation rates, employment levels, financial needs of the governments, taxing efforts, and other economic indicators should also be considered.

Officials from 33 of the 52 governments said that had the antirecession funds not been available or the program discontinued, the governments would have (1) reduced services or expenditures for services, (2) laid off employees, or (3) had to take both actions. Officials from 11 governments believed they would have had to raise tax rates or postpone tax reductions, and two governments indicated they would have reduced surpluses.

CHAPTER 4

CONCLUSIONS AND MATTERS FOR CONSIDERATION BY THE CONGRESS

Although the antirecession program was intended to assist only those governments substantially affected by the recession, many governments not severely affected still received antirecession funds. Additionally, most governments we visited in November 1977 were perceived to be in good financial condition and were not experiencing any recessionary pressures. Even though antirecession assistance has helped improve the recipient governments' fiscal health, the program's principal objective has not been effectively achieved. Accordingly, we are presenting several alternatives to assist the Congress when it considers renewing the antirecession assistance program.

CONCLUSIONS

The antirecession program was proposed because the Congress believed the national recession imposed considerable hardships on State and local government budgets, particularly by creating revenue shortfalls and increased demand for certain services. Also, it was thought that recession-related difficulties were forcing governments to take budgetary actions such as tax increases, layoffs, and basic service reductions, all of which can undermine Federal efforts to stimulate the economy.

Our previous studies and those of other organizations have concluded that the antirecession assistance program is not a particularly effective tool for stimulating the economy and has not effectively met its principal objective of selectively targeting aid to only those governments substantially affected by the recession. Further, these studies disclosed that limited evidence existed showing the recession alone caused financial problems which forced governments to take budgetary actions that counter Federal efforts to stimulate the economy.

Specifically, an Advisory Commission on Intergovernmental Relations staff study concluded that no persuasive evidence exists to prove that State and local taxing and spending policies in the aggregate have undercut Federal attempts to stimulate the economy. During recessions State and local governments have historically maintained or increased their aggregate spending levels by decreasing fund balances.

The results of our previous reviews of the 52 governments support the conclusions reached by the Advisory Commission's staff study. In total, expenditures continued to rise and available surpluses were reduced. Further, many governments that received antirecession payments were not substantially affected by the recession, so that assistance probably was not needed to combat recession-related problems. Although some governments needed to cope with recessionary pressures and many governments made budget adjustments, most adjustments were caused primarily by inflation, chronic difficulties, and other considerations, such as eliminating inefficiencies.

In light of these findings, we concluded that antirecession assistance probably did not differ substantially from revenue sharing for many governments receiving funds, because they were not affected by recessionary problems although their unemployment rates were high enough to qualify for funds. The extent to which a jurisdiction's unemployment rate exceeds 4.5 percent is used as the basis for determining how severely the recession has affected its government, and consequently, how much antirecession assistance the government should receive. However, "excess unemployment" as defined in the current legislation was not a reliable indicator of the recession's effect on a government's financial condition because:

--Anomalies existed; some governments with high unemployment rates were minimally affected by the recession but received large antirecession payments. Conversely, some governments with low unemployment rates had budget difficulties but received less assistance per capita. Many governments with both high and low unemployment rates were not substantially affected by the recession.

--No distinction was made in the act between long-term unemployment and cyclical changes in unemployment. It is imperative to make this distinction for the antirecession program to more effectively accomplish its stated goal of being a countercyclical program, especially since many fiscal problems of the cities visited were caused primarily by chronic difficulties.

--Unemployment was only one of many factors influencing fiscal health. Sensitivity of the tax base, program responsibilities, fund surpluses, and intergovernmental aid collectively influenced the recession's impact. Also, law, governmental policy and practice, managerial ability, and citizen concern affect the fiscal stability of government activities.

--It was a measure of limited statistical reliability.

Because of these factors, we concluded that an improved formula for distributing antirecession funds was essential for the program to be more effective, while recognizing that sufficient analysis had not yet been made to identify better indicators. Additionally, since most governments are now in good financial condition and major recessionary problems have subsided, questions arise as to when funds should be terminated.

Although the recession was not the primary factor motivating many budget adjustments, several governments we visited in early 1977 experienced recession-induced revenue losses, particularly those relying on sales and income taxes, and increased demand for certain services. Now, however, these recessionary pressures have abated as the economy has improved and unemployment has decreased. Some recessionary effects linger, but major recessionary problems have dissipated, and most governments have improved their fiscal postures since February 1977.

Although most governments were in good fiscal health, many expressed concern over their fiscal stability. Most governments emphasized that persistent inflationary pressures in the form of higher personnel, utility, and other costs were major impediments to maintaining service levels. Inflation was a particular problem for certain cities because as inflation increased expenditures, tax bases eroded due to the losses of population and industry. Also, other long-term difficulties, such as chronic unemployment and urban decay, adversely affected revenues without corresponding decreases in the demand for and cost of services. The dilemma facing these cities was how to provide more services to an increasingly larger proportion of citizens that could least afford to pay for them. These cities appeared to have the greatest financial need for the funds.

A recent Department of the Treasury study reached similar conclusions. Its study of the antirecession assistance program and two other economic stimulus programs describes the fiscal burden that would fall on 48 large urban governments if these programs were discontinued. The report does not discuss whether the antirecession program is achieving its principal objective; it does conclude that while the recent economic recovery has assisted both the State and local sectors generally, specific governments, particularly older central cities, continue to be under fiscal stress. The report states that, presently, cities with secularly declining populations, employment, and tax bases are experiencing long-term financial strain and tend to rely more on antirecession funds.

Although certain jurisdictions have more severe problems than others, for every fiscal period each State and local government must make difficult decisions. They must provide adequate services and must assess the level of taxes which will generate revenues sufficient to fund desired service levels. Because most governments must operate on a balanced budget, pressures from inflation, chronic problems, political and legislative considerations, recession, and a myriad of other factors may translate into actions to cut expenditures, use surpluses, or raise revenues.

In this regard, antirecession assistance favorably affected governments' operations since the funds were an addition to total available revenues. The payments are a form of general financial assistance because governments have broad discretion in using the funds. Of the 51 governments that received funds during their current fiscal years, antirecession funds most likely helped 12 fill a budgetary void, allowed 20 to increase expenditure levels, assisted 4 to maintain or enlarge their surpluses, and affected more than one of these areas for 15 governments.

Officials from most governments believed that had antirecession funds not been available or the program discontinued, their governments would have had to reduce expenditures or raise taxes. As indicated earlier, while major recessionary pressures have dissipated, persistent inflation, chronic difficulties, and various other factors were perceived as posing major impediments to maintaining services. Officials from most governments believed antirecession funds were helping them combat these difficulties.

It is difficult to gauge exactly what would have happened without the antirecession payments. Equivalent tax increases or expenditure reductions may have occurred, expenditures made with the funds may not have been made, or accumulated fund balances may have been used. The percentage antirecession payments comprise of total revenues, how the funds were used, and the financial condition and priorities of each government would collectively influence its ability to adapt should antirecession aid be terminated.

MATTERS FOR CONSIDERATION BY THE CONGRESS

We have identified four principal alternatives the Congress has when it considers renewing the antirecession assistance program beyond the present September 30, 1978, expiration date.

--To assist State and local governments during recessionary periods, the Congress could establish a revised program. A better formula for allocating funds is needed to make the program more effective. Also, better measures of the beginning, ending, and severity of a recession could be sought to initiate and terminate the program and to determine the amount of funds to be distributed.

--If the Congress concludes that it is no longer necessary to provide recession-related financial assistance to State and local governments, then it may wish to let the antirecession assistance program expire.

--To achieve a broad objective of providing general financial assistance to State and local governments, the existing general revenue sharing formula, which is based in part on fiscal need, could be used to allocate additional funds each year. If, however, the Congress decides to pay additional funds to State and local governments only during recessionary periods, a special triggering device could be included in the Revenue Sharing Act to increase the amount of funds allocated during such periods.

--To assist governments, particularly certain cities, that are experiencing long-term economic decline, the Congress could establish a new program. A better formula measuring long-term decline could be developed to allocate the funds to such governments.

ENDING DATES OF GOVERNMENTS'

MOST RECENTLY COMPLETED FISCAL YEARS

States	Ending date	Counties	Ending date	Cities	Ending date
Alabama	9-30-77	Alameda, Calif.	6-30-77	Boston	6-30-77
California	6-30-77	Allegheny, Pa.	12-31-76	Chicago	12-31-76
Colorado	6-30-77	Bernalillo, N. Mex.	6-30-77	Cincinnati	12-31-76
Connecticut	6-30-77	Cape May, N.J.	12-31-76	Detroit	6-30-77
Florida	6-30-77	Clark, Nev.	6-30-77	Evansville	12-31-76
Iowa	6-30-77	Comanche, Okla.	6-30-77	Fort Worth	9-30-77
Louisiana	6-30-77	Essex, N.J.	12-31-76	Honolulu	6-30-77
Maryland	6-30-77	Fulton, Ga.	12-31-76	Los Angeles	6-30-77
Michigan	9-30-77	Hennepin, Minn.	12-31-76	Miami	9-30-77
Missouri	6-30-77	Lake, Ind.	12-31-76	Newark	12-31-76
New Jersey	6-30-77	Montgomery, Ohio	12-31-76	New Orleans	12-31-76
New York	3-31-77	Multnomah, Oreg.	6-30-77	Norfolk	6-30-77
Oklahoma	6-30-77	Norfolk, Mass.	6-30-77	Oakland	6-30-77
Virginia	6-30-77	Riverside, Calif.	6-30-77	Phoenix	6-30-77
Washington	6-30-77	Robeson, N.C.	6-30-77	Providence	6-30-77
		Worcester, Mass.	6-30-77	Salt Lake City	6-30-77
				Seattle	12-31-76
				Spokane	12-31-76
				St. Louis	4-30-77
				St. Paul	12-31-76
				Toledo	12-31-76

NOTE: This listing shows the ending dates for each government's most recently completed fiscal year at the time of our review in October/November, 1977. These dates are the basis for appendixes III through VI, which list the latest actual financial data available at that time.

VIEWS OF OFFICIALS ON CHANGES IN GOVERNMENTS' FINANCIAL CONDITIONS

	Current financial condition			Changed from previous review		
States	Good	Fair	Poor	Improved	No change	Declined
Alabama	x			x		
California	x			x		
Colorado	x			x		
Connecticut	x			x		
Florida	x			x		
Iowa	x					x
Louisiana		x				x
Maryland	x			x		
Michigan	x			x		
Missouri	x			x		
New Jersey	x			x		
New York	x			x		
Oklahoma	x			x		
Virginia	x			x		
Washington	x			x		
State subtotal	14	1	0	13	0	2
Counties						
Alameda, Calif.	x				x	
Allegheny, Pa.	x				x	
Bernalillo, N. Mex.	x				x	
Cape May, N.J.	x			x		
Clark, Nev.	x			x		
Comanche, Okla.	x			x		
Essex, N.J.	x				x	
Fulton, Ga.	x				x	
Hennepin, Minn.	x				x	
Lake, Ind.		x				x
Montgomery, Ohio	x			x		
Multnomah, Oreg.		x		x		
Norfolk, Mass.	x				x	
Riverside, Calif.	x			x		
Robeson, N.C.	x				x	
Worcester, Mass.	x				x	
County subtotal	14	2	0	6	9	1
Cities						
Boston		x		x		
Chicago	x			x		
Cincinnati	x			x		
Detroit		x		x		
Evansville	x				x	
Fort Worth	x			x		
Honolulu	x					x
Los Angeles	x			x		
Miami			x			x
Newark		x		x		
New Orleans		x				x
Norfolk		x				x
Oakland			x			x
Phoenix	x				x	
Providence		x		x		
Salt Lake City	x				x	
Seattle	x			x		
Spokane	x				x	
St. Louis			x	x		
St. Paul	x				x	
Toledo		x		x		
City subtotal	11	7	3	11	5	5
Total	39	10	3	30	14	8

NOTE: This appendix provides general categorizations of each government's financial condition at the time of our review in October-November 1977. However, the enclosed case studies should be consulted for more details concerning each government's fiscal health.

APPENDIX III

CHANGES IN REVENUES
(note a)
(000 omitted)

Government	Taxes: Prior fiscal year	Taxes: Most recently completed fiscal year	Taxes: Percentage change	Charges and miscellaneous: Prior fiscal year	Charges and miscellaneous: Most recently completed fiscal year	Charges and miscellaneous: Percentage change	Intergovernmental revenues: Prior fiscal year	Intergovernmental revenues: Most recently completed fiscal year	Intergovernmental revenues: Percentage change	Total selected operating revenues: Prior fiscal year	Total selected operating revenues: Most recently completed fiscal year	Total selected operating revenues: Percentage change	Achieved most recently completed fiscal year revenue estimate?	Achieving current year revenue estimate?
State Government														
Alabama	$ 1,254,944	$ Not available		$1,000,996	$ Not available		$ 686,697	$ Not available		$ 2,942,687	$ Not available		Yes	Yes
California	10,683,812	12,533,676	17.3	668,198	701,454	5.0		Not available		11,352,010	13,235,130	b/ 16.6	Yes	Yes
Colorado	819,540	916,795	11.9	53,294	35,273	(33.8)	316,555	309,072	(2.4)	1,189,389	1,261,140	6.0	Yes	Yes
Connecticut	1,190,859	1,347,095	13.1	287,089	263,241	(8.3)	401,593	443,466	10.4	1,879,541	2,053,802	9.3	Yes	Yes
Florida	[illegible],143,110	3,589,644	14.2	435,778	487,449	11.9	1,080,279	1,253,130	16.0	4,659,167	5,33[illegible]22	14.4	Yes	Yes
Iowa	964,385	1,086,821	12.7	102,595	100,6[illegible]6	(1.7)	28,704	27,871	(2.9)	1,095,684	1,21[illegible]38	10.9	Yes	Yes
Louisiana	1,585,902	1,656,279	4.4	768,520	650,938	(15.3)	846,361	990,483	17.0	c/ 3,200,783	3,297,[illegible]00	c/ 3.0	Yes	Yes
Maryland	1,762,060	1,987,088	12.8	446,7[illegible]	648,787	45.2	699,645	803,599	14.9	2,908,498	3,439,474	18.3	Yes	Yes
Michigan	d/ 2,527,600	2,929,400	15.9	d/ 295,800	264,900	(10.4)	d/ 124,900	141,900	13.6	d/ 2,948,300	3,336,200	13.2	No	No
Missouri	1,379,266	1,536,784	11.4	204,649	202,548	(1.0)	684,205	749,901	9.6	2,268,120	2,489,233	9.7	Yes	Yes
New Jersey	2,231,330	2,998,314	34.4	233,000	255,423	9.6	1,511,886	1,842,112	21.8	3,976,216	5,095,849	28.2	Yes	Yes
New York	9,416,987	10,348,844	9.9	303,428	458,213	51.0	234,913	293,698	25.0	9,955,328	11,100,755	11.5	Yes	Yes
Oklahoma	862,214	989,087	14.7	404,806	454,162	12.2	721,301	757,546	5.0	1,988,322	2,200,794	10.7	Yes	Yes
Virginia	1,734,106	1,995,191	15.1	981,898	1,110,067	13.1	847,413	974,350	15.0	3,563,417	4,079,608	14.5	Yes	Yes
Washington	1,727,200	1,971,300	14.1	605,500	784,600	29.6	708,300	895,300	26.4	3,041,000	3,651,200	20.0	No	Yes
State subtotals (note e)	$40,028,371	$45,886,318	14.6	$5,791,348	$6,417,901	10.8	$8,206,055	$9,482,428	[illegible]5.6	$54,025,775	$61,786,645	14.4	13 Yes; 2 No	14 Yes; 1 No
County Government														
Alameda, Calif.	$119,120	$136,161	14.3	$ 46,942	$ 50,491	7.6	$159,180	$183,918	15.5	$ 325,241	$ 370,571	13.9	Yes	Yes
Allegheny, Pa.	73,906	78,748	6.6	40,595	43,796	7.9	54,045	62,913	16.4	168,546	185,446	10.0	No	No
Bernalillo, N. Mex.	7,143	7,572	6.0	1,910	1,882	(1.4)	6,354	6,820	7.3	15,407	16,275	5.6	Yes	Unknown
Cape May, N.J.	8,572	10,635	24.1	2,609	2,554	(2.1)	6,656	6,438	(3.3)	17,838	19,626	10.0	Yes	Yes
Clark, Nev.	37,615	41,321	9.8	53,576	80,990	51.1	26,174	26,251	0.4	117,365	148,562	26.6	Yes	Yes
Comanche, Okla.	975	999	2.5	328	356	8.5	395	527	33.6	1,698	1,882	10.9	Yes	Unknown
Essex, N.J.	111,578	121,276	8.7	17,972	15,555	(13.5)	38,062	44,545	17.0	167,611	181,376	8.2	Yes	Yes
Fulton, Ga.	54,421	58,512	7.5	8,776	9,033	2.9	15,549	17,246	10.9	78,745	84,791	7.7	Yes	Yes
Hennepin, Minn.	101,459	108,159	6.6	37,327	52,015	39.3	92,378	103,813	12.4	231,164	263,987	14.1	Yes	Yes
Lake, Ind.	32,220	36,619	13.7	5,325	9,250	73.7	40,978	43,266	5.6	78,522	89,134	13.5	Yes (note f)	Yes (note f)
Montgomery, Ohio	33,166	38,[illegible]08	15.8	56,304	74,983	33.2	19,673	28,048	42.6	109,143	141,439	29.6	Yes	Yes
Multnomah, Oreg.	32,109	40,429	25.9	41,771	46,680	11.7	23,772	35,009	47.3	97,652	[illegible]22,117	25.1	Yes	Yes
Norfolk, Mass.	6,196	10,210	64.7	4,538	5,236	15.4	712	916	28.7	11,446	[illegible]	43.0	Yes	Unknown
Riverside, Calif.	53,902	64,170	19.1	13,820	17,338	25.5	87,675	101,657	15.9	155,397	183,[illegible]65	17.9	Yes	Yes
Robeson, N.C.	7,214	9,170	27.1	1,212	1,308	7.9	10,242	11,579	13.0	18,668	22,[illegible]37	18.1	Yes	Unknown
Worcester, Mass.	10,010	11,883	19.0	5,162	5,705	10.5	1,872	1,951	4.2	[illegible]44	19,[illegible]40	14.6	Yes	Unknown
County subtotal	$689,606	$774,272	12.3	$338,167	$417,162	23.4	$583,717	$674,897	15.6	$1,611,487	$1,86[illegible],331	15.8	15 Yes; 1 No	10 Yes; 1 No; 5 Unknown
City Government														
Boston	$ 342,102	$ 438,053	28.0	$ 100,122	$ 94,769	(5.3)	$ 173,365	$ 140,423	(19.0)	$ 615,589	$ 673,245	9.4	Yes	Unknown
Chicago	608,484	635,296	4.4	118,553	130,320	9.9	112,642	116,817	3.7	839,679	882,433	5.1	Yes	Yes
Cincinnati	64,732	69,279	7.0	15,281	14,572	(4.6)	9,864	9,726	(1.4)	89,877	93,577	4.1	No	Yes
Detroit	251,800	273,100	8.4	70,600	95,600	35.3	180,600	245,500	36.0	503,000	614,200	22.1	Yes	Yes
Evansville	10,922	11,032	1.0	2,028	2,397	18.2	7,089	6,794	(4.2)	20,039	20,224	0.9	Yes	Yes
Fort Worth	45,044	49,878	10.7	17,905	18,603	3.6	6,338	6,513	2.8	69,286	74,994	8.2	Yes	Yes
Honolulu	129,807	127,673	(1.6)	34,409	37,158	8.1	52,231	64,316	23.1	216,447	229,147	5.9	No	Yes
Los Angeles	499,548	543,838	8.9	134,199	138,794	3.4	184,960	192,160	3.9	818,708	874,792	6.6	No	Yes
Miami	53,344	61,068	14.5	11,096	11,998	8.1	24,546	26,5[illegible]1	8.2	88,986	99,617	11.9	Yes	Unknown
Newark	96,760	119,046	23.0	57,861	48,614	(16.0)	84,259	88,327	4.8	238,880	255,987	7.2	Yes	Yes
New Orleans	52,268	56,568	8.2	25,838	27,719	7.3	45,406	44,661	(1.6)	123,512	128,948	4.4	Yes	Yes
Norfolk	65,240	68,225	4.6	28,957	30,859	6.6	64,612	64,292	(0.5)	158,809	163,376	2.9	No	Unknown
Oakland	76,398	82,502	8.0	14,101	18,545	31.5	43,902	34,940	(20.4)	134,401	135,987	1.1	Yes	Yes
Phoenix	67,371	78,547	16.6	13,353	14,686	10.0	89,856	99,301	10.5	170,580	192,534	12.9	Yes	Yes
Providence	50,381	57,416	14.0	12,908	11,262	(6.5)	17,528	15,792	(9.9)	80,617	84,471	4.5	No	Yes
Salt Lake City	20,890	24,256	16.3	7,211	7,650	6.9	8,916	8,667	(2.2)	37,017	40,573	9.6	Yes	Unknown
Seattle	67,211	71,970	7.1	19,259	21,144	9.8	13,113	16,759	27.8	99,583	109,873	10.3	No	Yes
Spokane	13,335	14,860	11.4	3,687	3,724	1.0	5,364	6,495	21.1	22,386	25,079	12.0	Yes	Yes
St. Louis	108,803	121,512	11.7	49,669	54,877	10.5	57,317	66,169	15.4	215,789	242,558	12.4	Yes	Yes
St. Paul	42,232	37,431	(11.4)	6,458	6,779	5.0	19,730	23,973	21.5	68,420	68,183	(0.4)	Yes	Yes
Toledo	41,254	44,301	7.4	35,901	40,234	12.0	33,384	37,407	1[illegible].0	110,539	121,942	10.3	Yes	Yes
City subtotals	$ 2,707,926	$ 2,965,851	10.3	$ 779,396	$ 830,304	6.5	$ 1,235,022	$ 1,315,583	6.5	$ 4,722,344	$ 5,131,740	8.7	15 Yes; 6 No	17 Yes; 4 Unknown
Totals (note g)	$43,425,903	$49,646,441	14.3	$6,[illegible]08,911	$7,665,367	10.9	$10,024,794	$11,472,908	14.4	$60,359,606	$68,784,716	14.0	43 Yes; 9 No	41 Yes; 2 No; 9 Unknown

a/Figures may not divide due to rounding.

b/Excludes intergovernmental revenue which was not available for the prior year or the most recently completed fiscal year.

c/Fiscal year 1976 total includes $141 million claim settlement; if this amount were excluded, percentage increases in fiscal year 1977 would be 7.8 percent.

d/15 month data converted to 12 month data.

e/Subtotals exclude Alabama because data not available for most recently completed fiscal year.

f/Applies only to general fund.

g/Excludes Alabama because data not available for most recently completed fiscal year.

CHANGES IN EXPENDITURES AND EMPLOYMENT (note a)

Government	Percentage of personnel services to total selected expenditures	Total selected operating expenditures: Prior fiscal year	Total selected operating expenditures: Most recently completed fiscal year	Total selected operating expenditures: Percentage change	Employment as reported by government: Prior fiscal year	Employment as reported by government: Most recently completed fiscal year	Employment as reported by government: Percentage change
		(000 omitted)					
Alabama	N/A	$ 2,987,966	$ N/A	N/A	30,074	30,707	2.1
California	26	11,197,269	12,519,985	11.8	206,361	213,595	3.5
Colorado	35	1,288,988	1,419,499	10.1	35,079	35,860	2.2
Connecticut	21	1,847,901	1,964,667	6.3	39,190	41,144	5.8
Florida	25	4,758,324	4,887,694	2.7	91,157	92,777	1.8
Iowa	10	1,123,652	1,262,367	12.3	33,094	33,858	2.3
Louisiana	22	3,043,332	3,168,328	4.1	72,531	72,973	0.6
Maryland	N/A	1,919,156	2,082,688	8.5	51,823	52,482	1.3
Michigan	15	4,670,000	5,327,000	14.1	58,618	63,798	8.8
Missouri	70	2,307,787	2,401,536	4.1	67,223	70,098	4.3
New Jersey	22	2,537,300	3,148,600	24.1	59,446	62,203	4.6
New York	25	10,650,985	10,988,362	3.2	175,662	176,498	0.5
Oklahoma	26	2,006,755	2,196,476	9.5	45,831	48,136	5.0
Virginia	34	2,987,353	3,331,960	11.5	80,415	83,673	4.1
Washington	70	2,681,300	3,076,700	14.7	58,833	60,398	2.7
State subtotal (note b)		$53,020,162	$57,775,862	9.0	1,105,337	1,138,210	3.0

a/Figures may not divide due to rounding.

b/Subtotals exclude Alabama because data not available for most recently completed fiscal year.

APPENDIX IV

CHANGES IN EXPENDITURES AND EMPLOYMENT (note a)

Government	Percentage of personnel services to total selected expenditures	Total selected operating expenditures: Prior fiscal year	Total selected operating expenditures: Most recently completed fiscal year	Total selected operating expenditures: Percentage change	Employment as reported by government: Prior fiscal year	Employment as reported by government: Most recently completed fiscal year	Employment as reported by government: Percentage change
		(000 omitted)					
Alameda, Calif.	40	$ 335,387	$ 364,849	8.8	9,723	9,793	0.7
Allegheny, Pa.	43	178,185	192,194	7.9	9,083	8,177	(10.0)
Bernalillo, N. Mex.	56	16,292	15,398	(5.5)	731	769	5.2
Cape May, N.J.	51	17,799	19,404	9.0	683	718	5.1
Clark, Nev.	54	111,481	116,307	4.3	3,238	3,257	0.6
Comanche, Okla.	52	1,353	1,544	14.1	199	215	8.0
Essex, N.J.	58	169,024	180,135	6.5	5,779	6,090	5.4
Fulton, Ga.	40	81,464	82,278	1.0	2,695	2,792	3.6
Hennepin, Minn.	43	216,570	242,541	11.9	5,779	6,633	14.8
Lake, Ind.	23	78,661	89,077	13.2	2,636	2,498	(5.2)
Montgomery, Ohio	52	113,116	115,070	1.7	3,987	3,401	(14.7)
Multnomah, Oreg.	44	92,582	100,933	9.0	2,285	2,379	4.1
Norfolk, Mass.	64	15,164	16,742	10.0	828	879	6.2
Riverside, Calif	52	156,880	173,159	10.4	5,354	5,352	(0.0)
Robeson, N.C.	16	16,225	18,040	11.2	311	333	7.1
Worcester, Mass.	61	19,100	20,668	8.0	919	926	0.8
County subtotal		$1,619,283	$1,748,339	8.0	54,230	54,212	(0.0)

a/Figures may not divide due to rounding.

CHANGES IN EXPENDITURES AND EMPLOYMENT (note a)

Government	Percentage of personnel services to total selected expenditures	Total selected operating expenditures: Prior fiscal year	Total selected operating expenditures: Most recently completed fiscal year	Total selected operating expenditures: Percentage change	Employment as reported by government: Prior fiscal year	Employment as reported by government: Most recently completed fiscal year	Employment as reported by government: Percentage change
		(000 omitted)					
Boston	65	$ 628,197	$ 639,522	1.8	23,464	23,106	(1.5)
Chicago	66	817,719	871,288	6.6	44,080	44,062	(0.0)
Cincinnati	77	92,316	99,624	7.9	8,686	8,114	(6.6)
Detroit	78	523,800	560,700	7.0	15,230	17,663	16.0
Evansville	59	18,708	20,205	8.0	1,844	1,681	(8.8)
Fort Worth	53	68,247	72,715	6.6	4,052	4,071	0.5
Honolulu	59	191,370	210,359	9.9	6,637	6,720	1.3
Los Angeles	83	833,163	882,091	5.9	38,135	37,877	(0.7)
Miami	50	101,050	106,384	5.3	4,254	4,369	2.7
Newark	31	251,036	244,661	(2.5)	9,527	8,693	(8.8)
New Orleans	75	117,648	135,932	15.5	10,346	10,423	0.7
Norfolk	66	162,281	169,825	4.0	9,997	10,155	1.6
Oakland	80	118,099	133,369	12.9	3,572	3,318	(7.1)
Phoenix	54	202,971	239,898	18.2	7,486	7,620	1.8
Providence	67	83,033	87,139	4.9	5,274	5,176	(1.9)
Salt Lake City	71	33,849	36,030	6.5	2,215	2,346	5.9
Seattle	85	104,582	118,162	13.0	8,693	8,556	(1.6)
Spokane	72	22,306	25,248	12.1	1,651	1,640	(0.7)
St. Louis	81	174,393	186,159	6.7	11,905	11,850	(0.5)
St. Paul	40	64,550	70,289	8.9	3,416	3,468	1.5
Toledo	69	91,608	109,196	19.2	3,798	3,828	0.8
City subtotals		$ 4,700,926	$ 5,018,796	6.8	224,262	224,736	0.2
Total (note b)		$59,340,311	$64,542,997	8.8	1,383,829	1,417,158	2.4

a/Figures may not divide due to rounding.

b/Excludes Alabama because data not available for most recently completed fiscal year.

APPENDIX V

GENERAL OR OPERATING FUND BALANCES AT CLOSE OF FIVE MOST RECENT FISCAL PERIODS

Government	At close of fiscal period 1976-77 (note a)	1975-76	1974-75	1973-74	1972-73	Percentage change from 1975-76 to 1976-77 (note b)
	(millions)					
Alabama	$ 13.2	$ 3.6	$ 10.8	$ 13.8	$ 17.0	269
California	1,840.5	832.2	679.7	393.4	663.9	121
Colorado	4[illegible].3	61.2	74.7	98.7	140.6	(29)
Connecticut	73.5	34.7	(70.9)	49.1	70.1	112
Florida	76.0	6.5	0	208.9	207.3	1,063
Iowa	133.6	207.3	260.7	207.1	119.2	(36)
Louisiana	c/98.6	84.3	152.4	152.2	27.6	17
Maryland	64.3	32.2	67.1	67.6	57.3	100
Michigan	c/68.4	28.3	1.6	207.2	184.7	142
Missouri	98.4	48.1	35.6	83.9	92.1	105
New Jersey	131.7	137.1	83.7	392.0	218.8	(4)
New York (note d)	(405.0)	(313.5)	133.3	151.8	147.8	(29)
Oklahoma (note e)	41.8	52.2	170.1	94.6	58.3	(20)
Virginia	16.6	18.2	46.6	120.2	111.7	(9)
Washington	164.6	49.0	64.2	78.6	44.2	231
State subtotals	$2,459.5	$1,282.2	$1,709.6	$2,319.1	$2,180.6	92

a/Equivalent to each government's most recently completed fiscal year as of October 1977. (See app. I.)

b/Figures may not divide due to rounding.

c/Estimated fiscal year 1977.

d/We calculated it from the annual reports of the State Comptroller. Based on discussions with officials of the Comptroller's office, it should be cautioned that while this analysis may show the trend of the accumulated results of general fund transactions, the balances do not represent actual cash balances.

e/The State also maintains a reserve fund which increased from $10 million in fiscal year 1974 to over $79 million in fiscal year 1977.

APPENDIX V

GENERAL OR OPERATING FUND BALANCES AT CLOSE OF FIVE MOST RECENT FISCAL PERIODS

Government	At close of fiscal period 1976-77 (note a)	1975-76	1974-75	1973-74	1972-73	Percentage change from 1975-76 to 1976-77 (note b)
			(millions)			
Alameda, Calif.	$13.2	$27.7	$ 36.1	$ 22.0	$12.7	(53)
Allegheny, Pa.	16.8	21.8	29.2	33.1	26.8	(23)
Bernalillo, N. Mex.	1.3	0.9	2.1	1.5	1.1	37
Cape May, N.J.	1.7	1.7	2.6	2.0	1.4	(1)
Clark, Nev.	4.3	1.1	3.4	6.2	4.2	291
Comanche, Okla.	0.3	0.2	0.1	0.1	0.1	14
Essex, N.J.	6.9	3.4	6.7	8.4	8.2	103
Fulton, Ga.	7.4	4.9	7.6	6.6	6.3	51
Hennepin, Minn.	22.8	21.2	27.3	27.3	17.8	8
Lake, Ind.	1.4	1.7	1.8	0.5	0.2	(20)
Montgomery, Ohio	2.8	2.8	4.2	5.9	2.4	2
Multnomah, Oreg.	5.2	1.0	3.4	4.3	1.7	408
Norfolk, Mass.	1.7	2.0	4.0	c/1.4	c/1.7	(14)
Riverside, Calif.	6.4	1.1	0.0	3.8	3.6	482
Robeson, N.C.	3.5	2.2	1.2	0.5	0.4	61
Worcester, Mass.	2.5	2.2	2.6	c/2.0	c/1.8	16
County subtotal	$98.2	$95.9	$132.3	$125.6	$90.4	2

a/Equivalent to each government's most recently completed fiscal year as of October 1977. (See app. I.)

b/Figures may not divide due to rounding.

c/Estimated due to change from calendar to fiscal year.

APPENDIX V

GENERAL OR OPERATING FUND BALANCES AT CLOSE

OF FIVE MOST RECENT FISCAL PERIODS

Government	At close of fiscal period 1976-77 a/	1975-76	1974-75	1973-74	1972-73	Percentage change from 1975-76 to 1976-77 (note b)
	(millions)					
Boston	$ 33.7	$ (12.6)	$ (17.7)	$ c/ 6.5	$ c/ (4.7)	(d)
Chicago	e/235.8	232.8	220.0	191.6	169.0	1
Cincinnati	4.9	12.7	11.1	9.5	5.1	(61)
Detroit	f/11.8	(36.9)	(16.4)	14.4	12.0	(d)
Evansville	2.2	3.1	4.1	5.3	2.0	(29)
Fort Worth	f/10.9	9.6	7.6	8.2	5.0	13
Honolulu	(5.0)	4.3	17.4	23.5	15.5	(d)
Los Angeles	g/47.9	44.5	43.8	53.4	45.2	8
Miami	h/ 1.0	(0.6)	1.0	4.3	3.6	(d)
Newark	11.7	5.1	6.9	7.6	9.6	131
New Orleans	6.8	13.0	11.4	4.3	3.4	(48)
Norfolk	3.9	1.2	5.2	8.6	3.7	219
Oakland	5.0	9.9	14.1	11.2	3.8	(49)
Phoenix	8.1	4.1	1.7	0.2	3.3	97
Providence	(6.2)	(3.1)	(0.5)	2.4	0.4	(100)
Salt Lake City	3.0	2.9	2.8	2.9	2.7	4
Seattle	4.3	4.7	11.5	8.0	8.4	(8)
Spokane	1.6	1.8	1.9	1.4	0.7	(11)
St. Louis	0.2	2.2	(0.3)	(14.6)	(4.0)	(90)
St. Paul	6.9	6.7	7.0	4.1	2.8	2
Toledo	2.2	2.6	1.6	1.8	1.7	(15)
City subtotals	$ 390.7	$ 308.0	$ 334.2	$ 354.6	$ 289.2	27
Grand Total	$2,948.4	$1,686.1	$2,176.1	$2,799.3	$2,560.2	75

a/Equivalent to each government's most recently completed fiscal year as of October 1977. (See app.I.)

b/Figures may not divide due to rounding.

c/Estimated by us due to change from calendar to fiscal year.

d/Comparison of positive and negative balances does not yield meaningful percentage changes.

e/Includes various funds which support the city's general operations.

f/Unaudited fiscal year 1977.

g/The city also maintains a reserve fund which increased from $26.2 to $37.5 million over this same period.

h/Estimated fiscal year 1977.

CHANGES IN LONG-TERM INDEBTEDNESS

Government	Long-term debt: Prior fiscal year	Long-term debt: Most recently completed fiscal year	Percent change	Total debt outstanding as a percent of total revenue: Prior fiscal year	Total debt outstanding as a percent of total revenue: Most recently completed fiscal year	Bond ratings (note a): Most recent	Bond ratings (note a): Change from prior year (note b)
	(000 omitted)						
Alabama	$ 1,079,362	$ 1,140,143	5.6	37	(c)	Aa	N
California	6,262,713	6,379,622	1.9	55	48	Aaa	N
Colorado	0	0	0.0	0	0	N/A	-
Connecticut	2,377,836	2,402,928	1.1	127	117	Aa	U
Florida	3,133,012	3,629,109	15.8	67	68	Aa	N
Iowa	134,790	130,935	(2.9)	12	11	Aaa	N
Louisiana	1,311,472	1,481,562	13.0	41	45	Aa	N
Maryland	1,710,343	2,065,910	20.8	59	60	Aaa	N
Michigan	1,577,675	1,685,374	6.8	54	51	Aa	N
Missouri	52,845	79,054	49.6	2	3	Aaa	N
New Jersey	1,360,320	1,537,700	13.0	34	30	Aaa	U
New York	3,109,100	3,254,600	4.7	31	29	A	N
Oklahoma	181,035	174,084	(3.8)	9	8	Aaa	N
Virginia	202,485	187,055	(7.6)	6	5	Aaa	N
Washington	1,052,912	1,176,041	11.7	35	32	Aa	N
Total	$23,546,100	$25,324,117	7.6	d/42	d/39		

a/Based on Moody's Investor Service, Inc. bond ratings for January 1977 to January 1978.

b/"U," means bond rating increased, "D," bond rating decreased, and "N," no change in bond rating.

c/Revenue data not available for most recently completed fiscal year.

d/Alabama was omitted from total computations since revenue data not available for most recently completed fiscal year.

CHANGES IN LONG-TERM INDEBTEDNESS

Government	Long-term debt: Prior fiscal year	Long-term debt: Most recently completed fiscal year	Percent change	Total debt outstanding as a percent of total revenue: Prior fiscal year	Total debt outstanding as a percent of total revenue: Most recently completed fiscal year	Bond ratings (note a): Most recent	Bond ratings (note a): Change from prior year (note b)
	(000 omitted)						
Alameda, Calif.	$ 0	$ 0	0.0	0	0	N/A	-
Allegheny, Pa.	359,060	388,136	8.1	213	209	A-1	N
Bernalillo, N. Mex.	13,010	14,245	8.7	84	88	A-1	N
Cape May, N.J.	4,043	6,529	61.5	23	33	A	N
Clark, Nev.	77,609	85,236	9.8	66	57	A	N
Comanche, Okla.	6,559	6,398	(2.5)	386	340	N/A	-
Essex, N.J.	76,169	71,890	(5.6)	45	40	Aa	N
Fulton, Ga.	65,320	65,295	(0.0)	83	77	Aa	N
Hennepin, Minn.	74,925	70,175	(6.3)	32	27	Aaa	U
Lake, Ind.	15,060	16,125	7.1	19	18	A-1	N
Montgomery, Ohio	25,236	27,483	8.9	23	19	Aaa	N
Multnomah, Oreg.	0	0	0.0	0	0	N/A	-
Norfolk, Mass.	3,840	3,455	(10.0)	34	21	Aaa	N
Riverside, Calif.	880	800	(9.1)	1	0.4	Aa	N
Robeson, N.C.	1,745	1,395	(20.1)	9	6	A	N
Worcester, Mass.	8,000	6,260	(21.8)	47	32	Aaa	N
Total	$731,456	$763,422	4.4	45	41		

a/Based on Moody's Investor Services, Inc. bond ratings for January 1977 to January 1978.

b/"U," bond rating increased, "-," bond rating decreased, and "N," no change in bond rating.

CHANGES IN LONG-TERM INDEBTEDNESS

Government	Long-term debt: Prior fiscal year	Long-term debt: Most recently completed fiscal year	Percent change	Total debt outstanding as a percent of total revenues: Prior fiscal year	Total debt outstanding as a percent of total revenues: Most recently completed fiscal year	Bond ratings (note a): Most recent	Bond ratings (note a): Change from prior year (note b)
	(000 omitted)						
Boston	$ 445,811	$ 483,314	8.4	72	72	Baa	N
Chicago	1,086,232	1,041,408	(4.1)	129	118	Aa	N
Cincinnati	200,602	189,700	(5.4)	223	203	Aa	N
Detroit	314,938	291,577	(7.4)	63	47	Baa	N
Evansville	6,589	5,924	(10.1)	33	29	Aa	N
Fort Worth	270,759	284,089	4.9	391	379	Aa	N
Honolulu	213,047	226,278	6.2	98	99	Aa	N
Los Angeles	150,485	135,795	(9.8)	18	16	Aaa	U
Miami	163,252	187,263	14.7	183	188	A-1	N
Newark	171,029	164,307	(3.9)	72	64	Baa	N
New Orleans	230,574	241,425	4.7	187	187	A	D
Norfolk	97,000	116,020	19.6	61	71	Aa	N
Oakland	1,342	1,061	(21.0)	1	1	Aa	N
Phoenix	269,993	329,948	22.2	158	171	Aa	N
Providence	65,532	60,230	(8.1)	81	71	Aa	N
Salt Lake City	23,681	31,641	33.6	64	78	Aaa	N
Seattle	445,533	468,071	5.1	447	428	Aa	N
Spokane	7,432	6,988	(6.0)	33	28	Aa	N
St. Louis	85,904	76,749	(10.7)	40	32	A	N
St. Paul	168,941	171,664	1.6	247	252	Aa	N
Toledo	66,961	68,107	1.7	55	55	Aa	N
Total	$4,485,637	$4,581,559	2.1	95	89		

a/Based on Moody's Investor Service, Inc. bond ratings for January 1977 to January 1978.

b/"U," bond rating increased, "D," bond rating decreased, and "N," no change in bond rating.

APPENDIX VII

STATUS OF ANTIRECESSION PAYMENTS
RECEIVED FOR FIRST FIVE QUARTERS
AS OF OCTOBER 31, 1977

(note a)

Government	Total funds received	Status: Total appropriated: Disbursed	Status: Total appropriated: Appropriated but not disbursed	Status: Total unappropriated
States				
Alabama	$ 6,490,406	$ 3,606,980	$ 2,883,126	$ -
California	88,369,903	32,548,698	33,745,811	22,075,394
Colorado	3,023,615	420,888	1,474,919	1,127,808
Connecticut	11,261,123	11,261,123	-	-
Florida	25,402,766	25,402,766	-	-
Iowa (note b)	790,935	790,935	-	-
Louisiana	11,199,229	5,524,688	5,674,541	-
Maryland	7,395,894	7,244,278	151,616	-
Michigan	37,039,958	37,039,958	-	-
Missouri	4,655,118	1,879,250	2,775,868	-
New Jersey	30,064,500	20,437,886	9,175,225	451,389
New York	104,090,681	87,768,823	16,321,858	-
Oklahoma	3,550,358	1,902,443	1,647,915	-
Virginia	4,574,145	2,546,474	2,027,671	-
Washington	11,201,128	11,201,128	-	-
Subtotal	$349,109,759	$249,576,318	$75,878,850	$23,654,591
Percent of funds received	100	71	22	7
Counties				
Alameda, Calif.	$ 6,033,530	$ 1,990,373	$ 4,043,157	$ -
Allegheny, Pa.	3,414,659	2,913,033	501,626	-
Bernalillo, N. Mex.	975,606	886,161	89,445	-
Cape May, N.J.	484,968	230,194	254,774	-
Clark, Nev.	1,498,121	1,091,153	-	406,968
Comanche, Okla.	91,078	88,594	2,484	-
Essex, N.J.	4,349,446	4,349,446	-	-
Fulton, Ga.	2,942,490	2,182,739	5,885	753,866
Hennepin, Minn.	938,470	930,459	8,011	-
Lake, Ind.	638,176	196,111	442,065	-
Montgomery, Ohio	535,924	441,792	94,132	-
Multhomah, Oreg.	2,367,514	743,761	1,364,942	258,811
Norfolk, Mass.	91,835	73,050	-	18,785
Riverside, Calif.	2,730,577	875,242	1,855,335	-
Robeson, N.C.	855,240	423,193	432,047	-
Worcester, Mass.	305,991	235,907	-	70,084
Subtotal	$ 28,253,625	$17,651,208	$ 9,093,903	$1,508,514
Percent of funds received	100	63	32	5

Cities				
Boston	$ 8,360,347	$ 6,530,885	$ -	$ 1,829,462
Chicago	25,275,526	25,275,526	-	-
Cincinnati	4,098,316	2,753,015	-	1,345,301
Detroit	26,220,860	26,220,860	-	-
Evansville (note c)	151,670	31,118	57,063	63,489
Fort Worth (note d)	354,521	354,521	-	-
Honolulu	4,265,226	4,104,589	160,637	-
Los Angeles	16,592,542	4,642,594	11,949,948	-
Miami	4,129,338	4,129,338	-	-
Newark	8,263,039	7,487,372	775,667	-
New Orleans	6,300,018	3,790,365	1,116,658	1,392,995
Norfolk	1,281,790	120,381	728,774	432,635
Oakland	3,986,267	2,276,956	1,709,311	-
Phoenix	2,353,608	2,353,608	-	-
Providence	1,983,704	1,983,704	-	-
Salt Lake City	565,626	424,773	-	140,853
Seattle	2,978,831	2,100,000	878,831	-
Spokane	1,003,014	296,222	408,189	298,603
St. Louis	6,312,849	4,588,839	1,724,010	-
St. Paul	830,246	830,246	-	-
Toledo	1,433,153	1,219,099	163,461	[illegible]93
Subtotal	$126,740,491	$101,514,011	$ 19,672,549	$ 5,553,931
Percent of funds received	100	80	16	4
Total	$504,103,875	$368,741,537	$104,645,302	$30,717,036
Percent of total funds received	100	73	21	6

a/This is the status of the funds as shown in financial records or as described to us. Because of the interchangeable nature of government resources, however, they may have little or no relation to the actual impact.

b/Iowa received allocations for only two quarters as its unemployment fell below 4.5 percent.

c/Evansville only received payments for the first three and fifth quarters because its unemployment rates were at or below 4.5 percent.

d/Fort Worth only received payments for the first three quarters because its unemployment rates were at or below 4.5 percent.

ANTIRECESSION ALLOCATIONS

FOR THE FIRST FOUR QUARTERS

Goverment	1974 per capita income	Antirecession funds received for the first four quarters	Per capita antirecession funds (note a)	Antirecession payments as a percentage of most recently completed fiscal year total selected revenues
		(000 omitted)		
States				
Alabama	$3,624	$ 4,530	$ 1.25	c/0.2
California	5,114	64,739	3.05	0.5
Colorado	4,884	1,918	0.75	0.2
Connecticut	5,348	8,240	2.66	0.4
Florida	4,815	20,191	2.44	0.4
Iowa (note b)	4,628	791	0.28	0.1
Louisiana	3,545	7,569	1.99	0.2
Maryland	5,299	4,655	1.13	0.1
Michigan	4,751	28,178	3.09	0.8
Missouri	4,254	2,670	0.56	0.1
New Jersey	5,237	19,984	2.73	0.4
New York	4,903	71,424	3.95	0.6
Oklahoma	3,983	3,139	1.16	0.1
Virginia	4.701	2,546	0.51	0.1
Washington	4,864	7,825	2.20	0.2
Subtotal		$248,399		0.4
Counties				
Alameda, Calif.	$5,341	$ 4,593	$4.21	1.2
Allegheny, Pa.	4,924	2,249	1.48	1.2
Bernalillo, N. Mex.	4,256	601	1.66	3.7
Cape May, N.J.	4,557	263	3.65	1.3
Clark, Nev.	5,052	1,091	3.30	0.7
Comanche, Okla.	3,852	76	0.72	4.0
Essex, N.J.	5,239	3,058	3.47	1.7
Fulton, Ga.	5-218	1,556	2.68	1.8
Hennepin, Minn.	5,700	648	0.71	0.2
Lake, Ind.	4,722	420	0.77	0.5
Montgomery, Ohio	4,902	369	0.63	0.3
Multhomah, Oreg.	5,228	1,718	3.24	1.4
Norfolk, Mass.	5,605	73	0.12	0.4
Riverside, Calif.	4,445	1,982	3.75	1.1
Robeson, N.C.	2,705	595	6.40	2.7
Worcester, Mass.	4,472	236	0.36	1.2
Subtotal		$ 19,528		1.0

APPENDIX VIII

Cities				
Boston	$4,157	$ 6,471	$10.16	1.0
Chicago	4,689	19,704	6.36	2.2
Cincinnati	4,517	2,753	6.67	2.5
Detroit	4,463	19,931	14.93	3.2
Evansville (note d)	4,244	88	0.66	0.4
Fort Worth (note d)	4,527	355	0.99	0.5
Honolulu	5,065	3,160	4.48	1.4
Los Angeles	5,277	12,696	4.66	1.5
Miami	4,416	3,267	8.95	3.3
Newark	3,348	5,851	17.21	2.3
New Orleans	4,029	4,507	8.05	3.5
Norfolk	4,233	828	2.89	0.5
Oakland	5,034	3,015	9.11	2.2
Phoenix	4,942	1,756	2.64	0.9
Providence	4,337	1,559	9.28	1.8
Salt Lake City	4,933	425	2.50	1.0
Seattle	5,800	2,189	4.49	2.0
Spokane	4,499	688	3.95	2.7
St. Louis	4,006	3,893	7.42	1.6
St. Paul	4,931	575	2.05	0.8
Toledo	4,571	950	2.58	0.8
Subtotal		$ 94,661		1.8
Total		$362,588		0.5

a/Based on July 1, 1975 estimated population.

b/Iowa received allocations for only two quarters as its unemployment rate fell below 4.5 percent.

c/Based on prior year data since most recently completed fiscal year data not available.

d/Only received payments for first three quarters because their unemployment rates were at or below 4.5 percent.

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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Impact Of Antirecession Assistance On 52 Governments -- An Update

ENCLOSURE A

Case Studies of 15 State Governments

GGD-78-56-A

MAY 1, 1978

Contents

INTRODUCTION

At the request of the Chairman, Subcommittee on Intergovernmental Relations and Human Resources, House Committee on Government Operations, we updated our previous study of the financial condition of 52 State and local governments and the impact the extended antirecession program had on their operations.

This enclosure includes a case study for each of the 15 State governments we visited delineating each jurisdiction's financial condition, major factors influencing its fiscal health, and the status, use, and impact of antirecession assistance payments it received.

Financial data in each case study was the best information available at the time of our review and was obtained from the governments' records and reports and from discussions with officials. Since Bureau of the Census data was not available for the governments' most recently completed fiscal year, the information in this report may not be strictly comparable with our previous reviews where both Census and government data were used. State and local government officials provided their views on the data and provided comments which we considered in preparing each case study.

STATE OF ALABAMA

Alabama covers a land area of 51,060 square miles and, as of July 1, 1976, had an estimated population of 3,665,000--an increase of 50,000 over 1975.

Traversed by navigable waterways emptying into Mobile Bay and the Gulf of Mexico, Alabama has abundant natural resources; principally coal, iron, limestone, oil, and gas. For the past two decades the State's economy had been shifting away from agriculture and towards industry. Manufacturing, agriculture, and natural resources all contribute significantly to the State's economy.

In 1976 Alabama's per capita income was about $5,106 or about 10.6 percent above the previous year. Unemployment decreased from 110,200 in June 1976 to 92,500 in June 1977, and the unemployment rate also decreased from 7.3 percent to 6.0 percent.

The Department of Industrial Relations Annual Planning Report projected Alabama's economy to have a moderate sustainable rate of growth in fiscal year 1978. Increased demands for consumer goods and services were expected to bring about boosts in trade, finance, and services. In addition, manufacturing industries, particularly in the nondurable sector, were expected to fare well during fiscal year 1978. The State's favorable industrial climate was expected to attract new industries and to encourage expansion of existing facilities. The unemployment rate is expected to decrease to about 5.8 percent.

The State budget officer said that the Alabama State government consists of about 165 different departments, agencies, boards, bureaus, and commissions. Basic services are provided by the Departments of Health, Education, Pension and Security (Welfare), Public Safety, Board of Corrections, and the Highway Department.

FINANCIAL CONDITION SOUND

The State budget officer said that the State is fiscally sound and resilient. He attributed this condition to a State law which prohibits deficit spending and to the State's industrial growth which has provided increased revenues.

We could not compare 1977 total revenues and expenditures with those of the previous year because Alabama's final figures for fiscal year 1977 were not available.

Although actual information was not available, the State budget officer said that the State achieved budget estimates for each major revenue category in 1977 and anticipated no problems in achieving 1978 estimates. He said revenues from sales and income taxes were higher than anticipated because these two taxes are highly sensitive to inflation. Sales tax revenue increased from $356 million in 1976 to $407 million in 1977--a difference of $51 million or 14 percent; and income tax revenue increased from $280 million to $331 million--a difference of $51 million or 18 percent. Alabama received Federal funds of $687 million in 1976 but information was not available to show the total amount of Federal funds received by the State in 1977.

The State budget officer said that expenditures for basic services have been increasing, and there were no cutbacks in services in 1976 and 1977 and no cutbacks are anticipated in 1978.

The State budget officer said Alabama has about 900 funds (about 300 operating funds and about 600 transfer accounts). Accordingly, we were able to determine the balance of the State's two major funds, the general fund and the Alabama Special Educational Trust Fund (ASETF). The fund balances for these two operating funds were as follows.

Fund	Actual balance 9/30/76	9/30/77	Percent increase
	($000 omitted)		
General fund	$ 3,577	$ 13,197	269
ASETF	38,272	74,475	95

The State budget officer said that the general fund balance was much higher than expected due to windfall revenue increases from the Tennessee Valley Authority and insurance premium taxes. He estimated that the Tennessee Valley Authority revenue was about $8 million more than expected and insurance premium tax revenue was about $3 million more than estimates.

The State budget officer said the ASETF balance was higher than originally estimated for 1977 because revenue sources for the fund--primarily sales, income, and utility taxes--are sensitive to the effects of inflation. Therefore, ASETF revenues generally have kept pace with increased fund expenditures.

State projections for the fiscal year ending September 30, 1978, show that balances of the two principal operating funds will decrease:

Fund	Actual balance 9/30/77	Projected balance 9/30/78	Percent change
	($000 omitted)		
General fund	$13,197	$ 7,000	(46.9)
ASETF	74,475	62,382	(16.2)

The general fund balance will be reduced to $7 million in fiscal year 1978 because of the cost of medicaid and welfare programs. The State budget officer said the State tries to maintain about a $10 million balance in the general fund. However, they have experienced some problems maintaining this balance because there has not been a major tax increase for general fund revenues within the past 18 years, and revenues (primarily licenses and fees) earmarked for the general fund are not inflation sensitive, whereas expenditures from the general fund are inflation sensitive. These factors adversly affect the general fund balance even though total revenues have been increasing on a yearly basis.

The ASETF balance is expected to decrease because of anticipated expenditures for capital improvements.

The State budget officer said that some State programs have funding problems because over 90 percent of the State's revenue is earmarked or pledged to specific funds and uses. As a result, the State legislature cannot easily move revenues from one fund to another. The general fund, in particular, may experience some problems because some of its revenue sources are inelastic, while its expenditures are elastic.

The State's long-term debt increased during fiscal year 1977 as follows:

	Long-term debt ($000 omitted)		Percent increase
Bond	1976	1977	
General obligation	$ 130,414	$ 174,029	33.4
Revenue	948,948	966,114	1.8
Total indebtedness	$1,079,362	$1,140,143	5.6

The legal counsel for the Finance Department said that the increase in indebtedness resulted from the issuance of

$61.9 million in bonds for capital improvements, including a new prison, a mental health facility, bridge construction, dock facilities, and school construction projects in 1977. On November 1, 1977, the State issued $40 million in bonds to match Federal funds for interstate highway construction and planned to issue an additional $15 million in bonds in February 1978 for dock facilities.

The counsel said the increase in the State's total indebtedness has not been detrimental to the State's overall financial condition because revenues have continued to increase. However, he questioned whether the State will be able to issue more highway bonds because the revenues supporting such bonds have become stagnant.

Moody's Investor Service, Inc.'s latest quality rating of Alabama's general obligation bonds was Aa--the same rating as the prior period.

Changes in services provided or in capital projects

The State budget officer said that the State has not relinquished authority to another level of government for providing any services. Conversely, the State has assumed responsibility for administering all courts above the municipal court level--called the "unified judicial system." The State appropriated about $20 million for the "unified judicial system" in 1978; the court management, however, estimates that it will take about $25 million to operate the system. The State is also assuming additional responsibility for the law enforcement planning agency.

State officials said there were no delays in the start of construction of budgeted capital projects in 1977 and no delays are anticipated during 1978.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

State officials said that the most significant factor affecting the State's fiscal health and revenue-raising capacity is the number of new industries moving into the State. A report compiled by the Alabama Development Office showed the following announced industrial development in the State in 1976:

number of new and expanding plants	1,228
jobs to be created	12,225
capital to be invested	$1.6 billion

State officials attributed 1977's increase in tax revenues to:

- --the State having a graduated income tax,
- --additional sales tax collected due to inflation, and
- --new and expanded industry.

Generally, officials believed the most significant factors affecting expenditure levels are increased demand for services, inflation, and salary increases.

The State budget officer said there were no major budget adjustments during 1977. The only major tax rate change which occurred since 1963 was a utility tax rate increase--which occurred in 1969. He said that there has been no change in the level of basic services, although there has been an increased demand for such services.

The number of State employees increased from 30,074 in fiscal year 1976 to 30,707 in 1977, or an increase of about 2.1 percent. The State personnel director said that the increase was not significant and was probably due to normal growth and temporary employment.

The State laid off 15 employees in 1977. The State budget officer and the personnel director said that the number of layoffs was not significant and the delivery of basic services was not affected by such layofs.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

As of September 30, 1977, Alabama had received $6,490,406 in antirecession payments and had earned interest of $32,726 from investing these funds. Under Alabama law, all grants received are automatically appropriated for their intended purposes. As of the above date, the State had allocated $6,214,250 in antirecession funds to various State agencies. Officials of these agencies told us in October 1977 that about $3,600,000 of this amount had been spent. As of September 30, 1977, the State had an unencumbered balance of $308,882 (including earned interest) in antirecession funds which had not been allocated to any program or function.

The following shows the amount of antirecession funds allocated to each program or function:

Program or function	Amount
Board of Correction	$3,100,000
Alabama Special Mental Health Fund	1,000,000
Interest on Debt (General Fund)	600,000
Conservation and Natural Resources (Parks Division)	500,000
Public Safety	500,000
Health Department/Medical Services Administration	420,000
Financial Administration	81,000
Office of Minority Business Enterprise	13,250
Total allocated	$6,214,250

Of the $3.6 million disbursed as of October 1977, 67 percent was for salaries and fringe benefits, 17 percent for interest on bonds, and 11 percent for medicare premiums. The remaining 5 percent was disbursed for several different categories.

The State budget officer said that antirecession funds did not have a significant effect on the State's total budget, which is about $2 billion annually. However, he said that the funds had a significant effect in the program areas in which they were used because these departments were in a "financial crunch", and antirecession funds were used to "plug-the-gap" between the funds appropriated and the funds needed due to inflation. Several departmental officials stated that without antirecession assistance, some employees would have been laid off.

STATE OF CALIFORNIA

California had an estimated population of 21,670,000 in January 1977. The State's industries include agriculture, mining, contract construction, manufacturing (including aerospace and aircraft), transportation, trade, finance-insurance-real estate, services, and government. Per capita income was $6,573 in 1975, $7,151 in 1976, and is expected to rise to $7,943 in 1977.

The State government includes a State Supreme Court, a bicameral legislature, and several executive units. The latter include the Governor and several other constitutional officers and their offices, independent boards and commissions, and agencies headed by cabinet-level secretaries.

The State provides a broad range of basic services including education and libraries, transportation, public welfare, health and health care facilities, housing, corrections, employment, fire and highway police protection, agriculture, general control, resource conservation and development, parks and recreation, and local assistance. Primary budget emphasis has been placed on local assistance, education, transportation, corrections, general control, and police protection.

FINANCIAL CONDITION IS STRONG

The assistant director of finance said California has been financially strong in its current and most recently completed fiscal year. Officials believed the State's already sound fiscal health had improved since our prior work in February 1977, basing their views on several factors, including high revenue collections, the reduction or elimination only of programs considered ineffective or duplicative, a large and growing operating budget surplus, and the lack of a need for short-term borrowing to meet cash flow requirements.

Revenues have grown considerably

Revenues from the State's own sources grew 17 percent from $11.4 billion in fiscal year 1976 to $13.3 billion in fiscal year 1977. Furthermore, the State exceeded its revenue estimates by 9 percent in fiscal year 1977 and was exceeding current estimates by 9 percent as of October 31, 1977.

Major revenue sources--personal income, bank and corporation, and sales taxes--have grown and generally exceeded estimates. Personal income tax collections for 1977 were up 22 percent from 1976; bank and corporation tax collections increased 28 percent; and sales tax collections grew 15 percent. Current year collections for each of these taxes were also exceeding estimates. The increases in these major revenues were attributed to inflation and economic growth. Information was not available concerning total intergovernmental revenues.

Expenditures showed continued growth

Expenditure levels increased 12 percent during fiscal year 1977 from $11.2 billion to $12.5 billion and are expected to increase 11 percent to $13.9 billion in fiscal year 1978. These increases were attributed to legislative changes for new or expanded programs, inflation, expanded workloads, and increased tax relief. Overall, the normal level of basic services increased. For example, education expenditures increased 15.7 percent during 1977 due to inflation and legislative changes to institute new local assistance programs or expand existing ones. (See p. 10.) A 10.4 percent increase for police protection was attributed to increased personnel services and inflation. Funding was reduced in a few departments in fiscal year 1977, but only for programs considered ineffective or duplicative.

Fund balances increased and debt remained constant

The State's general fund surplus has been growing since 1974. In 1977 the surplus rose $1 billion to $1.84 billion and is expected to increase to $2.35 billion at the end of 1978. The finance director stated that inflation and economic growth have been responsible for the high revenue collections which have resulted in the increasing operating surpluses.

Debt levels have not changed substantially since 1976. The State's general obligation bonds have received an Aaa rating by Moody's Investor Service, Inc. throughout the most recently completed fiscal year and into the current year. According to the State bond officer, short-term borrowing has not been necessary because the State has sufficient cash to offset temporary cash flow problems.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

The assistant director of finance stated that the primary factors affecting the State's fiscal health are inflation and economic growth. Inflation has increased the earnings of taxpayers and sales tax collections while economic growth has increased private sector employment and thus stimulated the State's major tax bases.

Factors affecting revenue raising capacity

State officials cited inflation, personal income levels, and the number of people employed as the primary factors affecting revenue collections over the last two years. Personal income levels determine the base for the personal income tax and business activity on which the other major taxes are based. The strength of the State's overall economy, that is, the ability of the economy to create new jobs, influences the major taxes in the same way.

Historically, personal income has risen about six to eight percent annually, and in 1977 rose about 10 percent. Furthermore, the economy generated about 400,000 new jobs in 1976 and a similar increase in employment is expected this year. The inflation rate, historically about two percent annually, rose to double-digit rates in the mid-1970's. For these reasons overall revenue collections have consistently increased over prior years and have exceeded projections.

Several factors affect expenditure levels

The assistant director of finance stated that expenditure levels have been affected by several factors, including legislative changes, inflation, personnel costs, and increased welfare payments.

Legislative changes to institute new local assistance programs or expand existing ones have caused increased expenditures. For example, recent State legislation commits California to provide an estimated $4.3 billion over the next 5 years to school districts under a new program to bring expenditures per pupil in less wealthy districts closer to expenditure levels in more affluent districts.

Inflation has increased the cost of goods and services. Although a 5 percent price increase on most governmental costs was allowed in the 1977 budget, some items were much higher. For example, budget increases for natural gas purchases were 22 percent in the most recently completed year and 42 percent in the current year.

State employee merit adjustments and overall pay increases have driven up expenditures. Salary and wage costs represented about 83 percent of total expenditures (excluding local assistance) in fiscal year 1977. During 1978, State civil service employees are to receive a 7.5 percent pay increase.

Payments to welfare recipients have increased. We were informed the number of claims has increased because of liberalized eligibility requirements. State officials also said that demand for a few services--such as corrections, finance, parks and recreation, and health services--has expanded, and administrative costs have increased for some services. Also, demand has declined for highway construction and unemployment insurance claims. The assistant director of finance told us changes in demand and administrative costs had no significant effect on the State's overall financial condition.

Officials said the State had not relinquished responsibility for providing services to other governmental units. However, officials noted the State had assumed responsibility for some local program costs. State legislation enacted in 1973 requires the State to reimburse local governments for increased program costs on certain State-mandated programs. These costs have doubled for fiscal years 1977 and 1978, and are currently budgeted at $72 million.

Budget adjustments not a factor of fiscal health

There were no changes to major tax rates in fiscal year 1977, nor were there any service cutbacks. Funding for highway construction was reduced, but this was due to a declining demand for new highways, increased construction costs, and a relatively stable revenue source--the gasoline tax.

Overall employment increased 3.5 percent from 206,400 to 213,600 during fiscal year 1977. Employment under the Comprehensive Employment and Training Act (CETA) increased from 907 to 1,292 during the same period, representing less than one percent of total employment. There were some layoffs, hiring freezes, and attrition in various departments in fiscal year 1977. For example:

--One hundred fifty temporary employees were laid off in the Education Department because demand for their services declined.

--The Department of Benefit Payments instituted a hiring freeze when the State eliminated unused salary funds from the department's budget. The department had been returning these allocations for several years.

--The Department of Rehabilitation instituted a hiring freeze due to increased program delivery costs.

There were some delays in capital construction starts, but they resulted from such nonbudgetary considerations as changes in project scope or specifications, environmental impact requirements, and bids higher than filed estimates. For example, 19 transportation projects totaling $6.0 million were delayed in fiscal year 1977 for such reasons as environmental impact requirements and lawsuits involving condemnation proceedings. In terms of project starts, the State plans to spend about $91.7 million for the construction of State office buildings over the next three years. A program budget analyst told us the earmarking of the large amount of funds for future construction underscores the State's strong fiscal health.

Unemployment is a long-term problem

State officials cited chronic unemployment as a long-term problem. For several reasons, including a high incidence of two-worker families, and youth and elderly participation, California's work force has expanded at a faster rate than the economy has created jobs. Thus, the State's unemployment rate--7.8 percent in June 1977--tends to stay above the national average.

STATUS, USE, AND IMPACT OF ANTIRECESSION PAYMENTS

For the first five quarters (July 1976 through September 1977), the State of California received $88.4 million in antirecession payments. As of October 31, 1977, $66.3 million had been appropriated and at least $32.5 million had been disbursed. California had received $64.7 million through April 1977 and thus met the six-month appropriation deadline established by Treasury Department regulations. All appropriated funds are expected to be spent by December 1978. Uses for unappropriated funds from the July and October payments have been proposed, and the funds are expected to clear the State's supplementary appropriation process by December 31, 1977.

State reports funds used for operations and maintenance

California appropriated $66.3 million of its antirecession funds for operations and maintenance primarily in health, education, fire protection, employment services, hospitals, and corrections. About $23.9 million (36 percent of appropriations) was earmarked for deferred maintenance on public buildings and migrant labor housing.

Most of the appropriated antirecession funds will be applied to salaries and subcontracts, (55.8 percent and 34.0 percent respectively). Nearly 10 percent of the funds are to be used for such operating expenses as travel and per diem, printing, rent, and training.

The State paid about 7,516 persons with antirecession funds, of whom about 4,800 were still employed as of October 31, 1977. Most of these employees (4,066) worked full-time. About 53 percent of them (2,521) were newly hired with program funds, while the remaining 47 percent (2,279) had been on the State payroll before participating in the program.

Antirecession funds have impacted on unemployment and expenditure levels

Although California reported $1.8 billion in general fund surplus and reserves as of June 30, 1977, officials said it was unlikely the State would have used its funds for the projects funded with antirecession assistance. The chief deputy director of finance said if the State had reduced its fiscal year 1977 surplus, it would have funded items of higher priority, such as property tax reform and relief, and mental health needs. Officials noted that antirecession payments had a beneficial effect on employment and were used to increase the authorized level of expenditures.

STATE OF COLORADO

Colorado has a diversified and healthy economy. During 1976 and 1977, the State's population grew at a rate of about 2 percent annually to stand at an estimated 2,690,000 residents. For that same period, employment grew at the rate of 4.4 and 3.3 percent, respectively. Personal income increased 10.4 percent over the previous year, and similar growth is expected in 1978. Colorado's September 1977 unemployment rate was about 5.8 percent.

Seventy-nine percent of Colorado's workers are employed in the private sector. Major employment areas are the trade and service industries while utilities, transportation, finance, insurance, real estate, construction, and mining employ sizable groups.

Annual budget appropriations are made by the legislature for operation of the various departments within the executive branch. Major services include education, income maintenance, health and medical care, institutional care, corrections, law enforcement and adjudication, promotion and regulation of agriculture and commerce, parks and recreation, and general administration.

FINANCIAL CONDITION IS SOUND

State officials stated that the fiscal health of the State government is quite good. Over the past 2 years, the economy of the State has continued to recover from the effects of the 1974-75 recession, and the governments's fiscal health has improved correspondingly. State officials believe this recovery is now leveling off at about 11 percent annual growth in State revenues.

Recent legislation limits annual increases in the State's general fund expenditures to 7 percent over the previous year. This limitation applies through fiscal year 1983. Because most State services are paid by general fund revenues, and salary increases and inflationary pressures are expected to consume most of the permitted increase in spending, State officials believe there will be little opportunity to improve existing services or add new ones during the effective period of the limitation. Population growth coupled with the spending limitation could result in a decrease in per capita general fund expenditures. According to the law, surplus general fund revenues, after holding 4 percent in reserve, are to be used for property tax relief. A projection of these various factors shows a gradual increase of general fund surplus and property tax relief of $661 million during the next 5 years. State officials are unsure whether it will be possible for the government to hold to the 7 percent limitation on expenditure increases; however, if it is held to, a decrease will result in the overall level of services provided.

Revenues growing at a healthy pace

The two largest sources of revenue for the State of Colorado are the sales and individual income taxes which depend heavily on the health of the State's economy. Construction activity which is another important factor affecting the State's economic health is currently very strong and is expected to contribute to a strong growth in the economy and income during 1978. Revenue collections for fiscal year 1977 exceeded mid-year estimates by about $6 million, and sales and individual income taxes showed growth rates of 12 percent and 9 percent, respectively. Current year revenue collections are very close to estimates; and, overall increases of 12 and 19 percent are anticipated in sales and individual income taxes for the year. Officials believe these increases reflect continued recovery from the effects of the 1974-75 recession as well as the State's strong retail sales and housing markets.

State officials told us that Colorado generally does not have long-term or chronic problems which adversely affect the Government's fiscal health.

Summary data on the amount of Federal funding that was received for general fund activities indicated that revenue sharing and antirecession funds increased from $26.0 million in 1976 to $29.8 million in 1977. However, other Federal funds decreased from $290.5 million to $279.3 million. Overall, Federal supporting funds decreased about 2 percent. State officials told us that each year substantial amounts of State revenue must be used to replace declining Federal funds.

Budget provides for maintaining existing level of services

Budgeted expenditures for fiscal year 1978 are 11 percent greater than actual expenditures for 1977. Four departments received budget cuts ranging from 4 to 17 percent of the previous year's actual expenditures. The 1977 budgeted expenditures were 10 percent greater than actual 1976 expenditures, and four departments also received budget cuts. Most budget reductions reflect the elimination of positions; State officials said the overall level of services was maintained. The budget cuts were in staff departments, not departments which provide direct services.

The State government has not changed authority for providing any services between the levels of government during the current or prior operating years.

A variety of cash funds are maintained by the State government with most basic services being financed with general fund revenues. The unrestricted general fund balance at the end of the current operating year is expected to exceed that of last year by about $23 million, rising to about $66 million. This will reverse the trend of the past 2 years when unrestricted general fund balances decreased by about $13.5 million during fiscal year 1976 and by almost $18 million during fiscal year 1977 to make additional revenues available for operations while still providing an adequate margin against revenue uncertainties.

Colorado has very limited authority to incur either long-term or short-term general obligation debt and has no such debt outstanding. State agencies issue revenue bonds which are not general obligation debt, and fees and user charges are committed to retire such bonds.

Funding for capital projects in the current year has declined by approximately $19 million from that of the previous year because major projects have essentially been completed. Also, no projects have been delayed during that period. When new projects are approved, sufficient funds are appropriated to cover the full cost of construction. Therefore, a shortage of funding in subsequent years would generally not cause a delay in projects already approved. During the most recently completed operating year, 13 capital projects valued at $31.5 million were started; and, an additional 9 projects valued at $12.6 million will be started during the current year.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

The two factors most likely to impact on Colorado's fiscal health are the national economy and the strength of the State's construction industry. The two primary revenue sources, sales and individual income taxes, are directly responsive to changes in the State's economy. The construction industry is considered the most variable factor within the State's economic mix; and although it may not be the State's most important industry, it is more likely to impact on the State's economy during periods of economic change.

During the most recently completed and current operating years, no increases were made to the general revenue tax bases. Cigarette and liquor taxes have been increased and an existing severance tax has been replaced by a new tax; the additional funds, however, have been reserved for special applications. Cigarette taxes were raised $.05 per pack to partially fund an income tax credit for homeowners equal to 10 percent of their property taxes. The liquor tax was increased to provide additional funds for new and existing alcohol treatment programs. The new severance tax replaced an existing tax on oil and gas production, and covered additional resources not included under the existing tax.

Inflation has the greatest impact on expenditures

Officials said that antinticipated inflation rate of about 6 percent and the 7 percent ceiling on expenditure increases, are expected to have the greatest impact on expenditure levels. Other factors include mandatory annual salary increases for State employees and increased demand for services resulting from population growth.

The State has not experienced a significant increase in the demand for any particular service during the current or previous fiscal year. It is not possible for the State within its budget, to provide 100 percent of the services requested each year. The actual services provided and the levels of those services reflect the priorities established during the legislature's budget deliberations. In the current and previous operating year, funds have been provided essentially to maintain services.

State employment has increased slightly

The chart below shows State employment for the two most recent operating years, and the current year.

Employee count as of	Full time employees	Total employees
June 1976	35,079	50,168
June 1977	35,860	53,388
September 1977	35,603	54,608

Overall employment has increased since June 1976, but in the current year there are fewer full-time employees than at the end of fiscal year 1977. Total employment, including part-time and temporary workers, is higher. These fluctuations in employment have not adversely affected the provision of services. Staffing cutbacks were generally made in administrative rather than direct service positions.

STATUS, USE, AND IMPACT OF ANTIRECESSION ASSISTANCE

The funds received in fiscal year 1977, which amounted to 0.1 percent of general revenues, were appropriated by executive order of the Governor and were not considered by the legislature in its budget appropriations. In November 1977, the State was notified by the Office of Revenue Sharing that this procedure for appropriating antirecession payments was not in compliance with Federal regulations. Therefore, the State has agreed that in the future all such funds will be appropriated by the legislature.

As of October 31, 1977, $1,952,042 had been appropriated by executive order. This amount represented the first four quarterly payments plus accrued interest. In most cases, the appropriated funds are being used to restore staff positions cut from the current year's budget by the legislature and to pay operating expenses not adequately funded in departmental budgets. Departmental officials told us that approximately 79 full and part-time or temporary positions are being maintained with antirecession funds. Layoffs would probably have resulted if the funds were not available.

Of the $1,952,042 appropriated, $433,240 had been disbursed as of October 31, 1977. The tables on the next page show the distribution of funds by program and object class.

DISTRIBUTION BY PROGRAM

Program	Amount Disbursed	Amount not disbursed	Total
Education	$ 5,233	$ 102,767	$ 108,000
Public Welfare	340,434	198,806	539,240
Hospital & Clinics	31,871	66,375	98,246
Corrections	12,674	593,245	605,919
Financial Administration	---	371,904	371,904
General Control	42,709	117,291	160,000
General public buildings	---	7,500	7,500
Transfers to other governments	---	57,233	57,233
Other	319	3,681	4,000
Total	$433,240	$1,518,802	$1,952,042

DISTRIBUTION BY OBJECT CLASS

Program	Amount disbursed	Amount not disbursed	Total
Salaries/wages	$243,948	$ 986,261	$1,230,209
Supplies & equipment	185	---	185
Repairs & maintenance	---	7,233	7,233
Operating expenses	29,107	370,308	399,415
Assistance payments	160,000	---	160,000
Decisions pending	---	155,000	155,000
Total	$433,240	$1,518,802	$1,952,042

STATE OF CONNECTICUT

Connecticut is bordered by Long Island Sound, New York; Masachusetts; and Rhode Island. The State is highly urbanized with a 1976 population density of 641.1 persons for each of its 4,862 square miles. The State's 1976 population is estimated to by 3,117,000 persons, and it ranks 15th in the nation in urban population.

Connecticut's per capita personal income of $7,356 increased 8.7 percent over 1975, and ranked third among the 50 States in 1976. Approximately 60 percent of total personal income is from wages and salaries; however, income from this source has been declining relative to other major sources of income, primarily property.

Connecticut's economy is diverse with manufacturing still the most important economic factor within the State followed by service-related industries.

Manufacturing is diversified, with transportation equipment the dominant industry, followed by fabricated metal products, non-electrical machinery and electrical machinery. Recently, Connecticut has ranked from 4th to 6th among all States in total defense contract awards.

Members of the General Assembly are elected biennially in even numbered years. The Governor and Lieutenant Governor are elected as a unit and serve 4-year terms. The Common Pleas Court judges are appointed to 4-year terms while the Superior Court judges and Supreme Court justices serve 8-year terms.

CURRENT FINANCIAL CONDITION IS CONSIDERED HEALTHY

Connecticut's financial condition is viewed as healthy for fiscal years 1977 and 1978, and has improved since our review in February 1977. The State's bond rating with Moody's Investor Service, Inc. improved from A-1 to Aa in October 1977, and remained the same in January 1978. The State has had a surplus for each of the past two fiscal years and is projecting another for fiscal year 1978.

Total general revenues for 1977 increased by 9.3 percent, and are exceeding 1978 estimates. Revenues from the State's own sources increased from $1.48 billion to $1.61 billion between fiscal years 1976 and 1977. Most of this increase came from three tax sources--sales taxes, corporation taxes, and public service corporation taxes.

The sales tax, Connecticut's major revenue source, increased $40.8 million to $584 million, primarily due to an improved economy. The corporation tax increased $58.5 million to $201.7 million because of the improved economy and a change in tax collection dates. The public service corporation tax increased $38.5 million due primarily to a change in tax collection dates.

Intergovernmental revenue increased 10 percent during 1977, rising to $443 million. The most significant increase in these funds was for public assistance which increased by $32.6 million.

Total general operating expenditures increased 6.3 percent to $1.96 billion in fiscal year 1977. The major increases, other than intergovernmental grants, occurred in welfare, nonfunctional departments, and corrections.

Welfare expenditures increased about $23 million, or 5.6 percent. Officials stated that $6.5 million of the increase was caused by increased caseloads for aid to families with dependent children, and $10 million was attributed to increased medical assistance payments required under Title 19 of the Social Security Act. The remaining $6.5 million was due to several factors, including inflation. The budget director stated that the increase in welfare costs was not an effect of the recession, but the result of people becoming more knowledgeable of the welfare system.

Nonfunctional departments, a "catch-all" function used by the legislature, increased $47.6 million or 14.2 percent. Officials stated that debt service related to past deficits accounted for over $32 million of the increase. Another $10 million went to the State employees retirement system in an attempt to make the system self-supporting. The system had not been properly funded in the past.

Expenditures for the Department of Corrections increased $7.5 million, or 21 percent. Officials stated that $5 million of the increase occurred in the Department of Children and Youth Services, most of which was due to the transfer of functions from the mental health services group of the Health and Hospitals Department. The remaining $2.5 million went for the establishment of a halfway house program, the expansion of work release and drug addiction programs, overtime and salaries for new employees.

Connecticut is limited to maintaining an operating surplus of $1 million. As a result, year-end surpluses must be spent. For example, the State showed an operating surplus of $73.5 million for 1977 which was disposed of as follows: $53 million for the bond retirement fund, $19.5 million reserved for 1978 operations, and $1 million to carry forward as unappropriated surplus. Connecticut's 1976 surplus of $34.7 million was disposed of by transferring $33.7 million to the bond retirement fund and retaining $1 million as unappropriated reserves. The State is projecting a surplus of about $52.7 million for 1978. State officials said the major reason for the surpluses of recent years is the continuing improvement in the State's economy.

Connecticut's total debt has remained relatively constant, decreasing slightly from $2.2 billion in 1976 to $2.1 billion in 1977. The State has issued $150 million in long-term bonds in 1978, but no other long- or short-term borrowing is anticipated. The State's bond rating was upgraded from A-1 to Aa by Moody's Investor Service in October 1977. Moody's cited the recent surpluses and stated that finances had shown steady improvement, and future operations were expected to be stable.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

The fiscal health of the State is dependent on four factors: a strong economy, a good bond rating, conservative budgeting, and a legislative policy to restrict appropriations and spending.

The Secretary, Office of Policy and Management, stated that the strong economy has produced operating surpluses in each of the last two years and a surplus is also projected for the current year. The bond rating, also an indication of fiscal health, affects the interest rate of a government's bonds. Connecticut's bond rating was recently upgraded to Aa. Another factor, the conservative budget philosophy, provides a "cushion" for unforeseen expenditures. The State also has a legislative policy to hold down appropriations. In this regard, State agencies have adopted a standing policy to spend below their appropriations. This policy has contributed to the surpluses of recent years.

The Secretary cited two major factors affecting revenue-raising capacity--personal income and the level of Federal intergovernmental revenue. In regard to personal income, he said that personal income directly relates to the State's major source of tax revenue, the sales and use tax. As personal income rises, revenues from the sales and use tax also rise.

According to officials, the most significant factors affecting expenditures were personnel costs, inflation, legal actions, and public pressure. Personnel costs are the major expenditures of the State. The Secretary added that these expenditures will further increase due to recent collective bargaining agreements and pay raises. Inflation has increased the State's expenditures about 6-10 percent per year over the last three years. Pay raise demands are indirectly related to inflation because these demands accelerate as inflation "chews up" the salary increases. Legal actions such as legislative or court decisions also affect expenditures. For example, a recent court decision mandating that the State make an effort to equalize basic education expenditures between "rich" and "poor" towns will cost the State about $90 million. Public pressure, the fourth factor, affects expenditures by increasing costs such as welfare benefits.

Budget adjustments

There have been no major budget adjustments during fiscal year 1977. The sales and use tax remained unchanged at 7 percent, and the State did not cut basic services or layoff employees.

Total full-time employment increased by 1,954 employees during 1977. The budget director stated that traditionally the State has had many unfilled positions, but in 1977 the improved fiscal health of the State enabled them to fill many of these positions.

Connecticut did not delay any capital projects during 1977. Expenditures for capital projects declined during 1977 due to the Governor's policy to set an annual ceiling of $200 million on bond sales for capital projects.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

Connecticut received $13,964,546 in antirecession funds for the first six quarters of the program, and as of October 31, 1977, had disbursed $13,660,907. Antirecession funds amounting to $9.75 million were disbursed by grants to Connecticut's 169 cities and towns. The remaining amount was disbursed as follows.

Function	Amount disbursed
Department of Community Affairs	$ 1,622,897
Department of Environmental Protection	1,310,000
Department of Aging	210,000
Department of Mental Retardation	399,871
Department of Commerce	300,000
Department of Labor	60,000
Office of Policy and Management	8,819
Total	$ 3,911,587

About $3 million of the above funds were disbursed for salaries and wages. The remaining funds were disbursed for supplies and equipment and capital construction. The State programs employed a total of 493 new employees and 32 former Comprehensive Employment and Training Act positions which probably would have been eliminated.

Antirecession funds were used to aid local governments and to expand existing levels of expenditures.

STATE OF FLORIDA

Florida is located in the Southeast corner of the United States and covers 54,136 square miles of land area. In 1977, its population of 8,717,334 ranked eighth in the Nation and first among the Southeastern States.

Florida's primary industries are tourism, construction, retail trade, and services. The State Economist said that in fiscal year 1977 the State's per capita income was $6,306. Florida's unemployment rate has continued to improve since 1975 when it had risen to 11.1 percent. As of the first quarter of fiscal year 1978, it was down to 6.6 percent.

Florida's system of State government is different from virtually all other States because the Governor shares the responsibility for administering the State programs with an independent cabinet of six elected officers. Each cabinet member heads up a department and can be re-elected term after term. A cabinet member's vote is equal to the Governor's in matters that come before them as members of ex officio boards.

Services provided by the State government include education, law enforcement, highway safety, health and rehabilitation, and the regulation of business and agriculture.

FINANCIAL CONDITION IS IMPROVED

The assistant State budget director said that Florida's financial condition had improved since our review in February 1977. The State originally projected a 3.5 percent increase in tax revenues in fiscal year 1977. However, total revenues increased 14 percent and the State's general revenue fund balance increased by $69 million.

The assistant State budget director said that Florida's financial condition for the first quarter of fiscal year 1978 was looking good and showing steady growth. He explained that the State's projected revenues were on schedule but added that not enough time had passed to draw firm conclusions.

The State Economist said that revenue changes indicated a slow economic recovery from the recession during calendar years 1975 and 1976, but in 1977 the economy showed strong gains which have continued into 1978.

Revenues showed sharp gains

About 77 percent of the State's total fiscal year 1977 revenues came from its own sources--primarily from general revenue and unemployment compensation taxes. In fiscal year 1977, revenues from these two sources exceeded those of the previous year by $447 million or about 14 percent. Practically all tax categories exceeded budget estimates. The largest of the general revenue taxes was the sales tax, which accounted for 26 percent of total revenue.

Sales taxes had the largest dollar volume increase--$144 million, a 12 percent increase. A State research economist attributed this increase primarily to growth in the State's population and in per capita income. Florida does not have a personal income tax.

Unemployment compensation tax revenues increased $98 million or 66 percent over the previous year. This increase was attributed to a higher tax rate resulting from the State's extremely high unemployment rates during the preceding 3 years. Since the State's unemployment rate has been decreasing, officials estimate a 39 percent drop in unemployment compensation revenues in fiscal year 1978.

Income from motor vehicle license taxes increased $76 million or 42 percent over fiscal year 1976. About $31.4 million of the increase was due to a change in collection procedures. Officials believe 1978 revenues will be lower due to the procedural change.

The balance of the increase in revenue from its own sources--$179 million--was generated from 12 other sources, e.g., insurance premium tax, motor fuel tax, and corporation income tax.

The State Economist said that in June 1977, the State Legislature increased the beverage tax, the cigarette tax, and the severance tax rates because of a general growth in services provided by the State and because inflation had eroded the State's purchasing power. Also, the legislature passed a law requiring all notes secured by Florida real property to have documentary stamps. The State estimated that these legislative actions will generate an additional $129.7 million during fiscal year 1978.

Florida received about $1.3 billion or 23.5 percent of its fiscal year 1977 revenues from intergovernmental sources. This was an increase of 16 percent over the previous year and resulted from a general growth in Federal programs.

Expenditures showed mild increases

Florida's operating expenditures increased $129 million or 3 percent in fiscal year 1977--less than 1 percent below the amount budgeted. The State projected a 10.3 percent increase in expenditures for 1978. The two largest changes in 1977 were an increase of $150 million in expenditures for education and a decrease of $194 million in expenditures for unemployment compensation. State officials attributed the increase in education expenditures to inflation and an increase in student enrollment and the decrease in unemployment compensation to the State's improved employment rate. Florida's unemployment rate dropped 1.6 percent in fiscal year 1977.

The assistant State budget director said that Florida had not relinquished any authority for providing services but had assumed responsibility and cost for municipal courts because the State could more effectively administer this service. The transfer of authority was authorized in 1973 for accomplishment by the end of fiscal year 1977.

Operating fund balances and indebtedness increased

The 1977 balances in the general revenue and the trust fund accounts increased from $6.5 million to $76 million and from $776 million to $796 million, respectively, over the previous year. A State official said that the balances increased because of inflation and its effect on the sales tax, and improvements in the general economy.

Florida has two general classes of bonds--full faith and credit bonds and revenue bonds. Full faith and credit bonds are generally used to fund capital improvements or new facility construction. Revenue bonds are used to fund projects such as toll roads that will generate the revenue for debt repayment. Since fiscal year 1972, Moody's has consistently rated Florida's full faith and credit bonds Aa.

Florida's long-term bond indebtedness, including accumulated interest payable, increased $496 million or 15.8 percent in fiscal year 1977. The assistant executive director, State Board of Administration, said that this increase resulted primarily from the following:

(1) Interest on bond indebtedness--$196 million.

(2) Sale of public education bonds--$75 million.

(3) Sale of pollution control bonds--$105 million.

(4) Sale of environmental conservation bonds--$120 million.

Florida's short-term indebtedness did not change significantly during 1977.

Capital expenditures increased

Florida's capital expenditures increased $46 million or about 23 percent in fiscal year 1977. The senior budget analyst said that this increase resulted primarily from the growth in prison population, which has almost doubled during the past 4 years. He explained that the State used about $30 million to expand existing correctional facilities and to build new facilities.

The senior budget analyst advised us that the State's three major Departments--Education, Offender Rehabilitation, and Health and Rehabilitation Services--had delayed five major construction projects during fiscal years 1977 and 1978. These delays were generally attributed to problems in selection of an acceptable site and program problems.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

The assistant budget director said that the major short-term factors affecting Florida's financial condition, in priority order, are as follows:

(1) Employment--because general revenue and the volume of sales activity vary with the employment rate and the availability of personal income.

(2) Inflation--because it erodes the purchasing power of revenue.

(3) Recession--because it causes the economy to sag and unemployment to increase.

The assistant budget director said that Florida's long-term financial condition depends primarily on the energy outlook and on the diversity of Florida's economy. Tourism is one of Florida's largest industries and is directly affected by the availability of fuel. If the fuel supply is short, Florida's financial condition will suffer. If fuel is plentiful, its economy will prosper. Also, Florida needs more diversity in its industry to produce higher employment and additional revenues. More industrial diversification would also help alleviate recessionary effects because some types of industry are not affected by recessions.

Factors affecting revenues and expenditures

The State Economist said that inflation and the state of the economy were the primary factors affecting the government's revenue raising capacity. He further stated that the state of the economy involves several factors, such as the level of employment, per capita real personal income, number of housing starts, and number of tourists.

The State budget director said that factors affecting expenditures include increased population, inflation, and recessionary pressures. The demand for increased services depends on the characteristics of the population. For example, an increase in school age children increases the need for educational services. Florida's most recent increases in services have been in the areas of prisons, mental health, and post high school education. Inflation decreases the purchasing power of revenues thereby increasing the level of expenditures. Closely related to inflation in importance are recessionary pressures which reduce economic activity and available revenues, and cause additional services to be provided.

Increases in State employment levels

Florida's average monthly employment increased by 1,620 employees or 1.8 percent in fiscal year 1977 and by 1,121 employees or 1.2 percent in the first quarter of fiscal year 1978. State budget officials said that most of these changes occurred in the Offender Rehabilitation Department and resulted from an increase in the State's prison population.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

As of November 30, 1977, Florida had received and disbursed \$31.1 million in antirecession funds, of which \$25.4 million was received for the first five quarters. The State had also received \$385,918 in interest from investing the antirecession funds and had disbursed \$230,560 of that amount. The assistant budget director said that the State expects to disburse the remaining interest by the end of the fiscal year. All antirecession funds had been appropriated within 6 months after receipt.

The antirecession funds were used to pay employee salaries in major penal institutions and in the Office of Assistant Secretary for Operations and Regional Administration in the Department of Offender Rehabilitation. The assistant budget director said that these salaries were for continuing full-time positions and included no new hires or rehires.

The assistant budget director said that the receipt of antirecession funds enabled the State to reduce the amount of its fiscal year 1978 tax increases by about $25 million. The State Economist added that the funds together with the tax increases allowed the State to fund expenditure levels to meet the growth in basic services.

STATE OF IOWA

Iowa ranks 25th in size among the States, and has a population of about 2,870,000. Per Capita income increased by 6 percent in 1976, to $6,439 while the 1976 unemployment rate of 4 percent was fourth lowest in the nation.

Iowa's economic base has become increasingly nonagricultural, but agriculture still remains a major economic factor in their economy. In 1976, Iowa led the nation in cash receipts for livestock and was second for all farm commodities. Although less than 15 percent of all Iowans are employed in agriculture, nearly one-third of manufacturing employees are in businesses directly related to agriculture (i.e. farm machinery and food processing). Two-thirds of all the employment is in the nonmanufacturing industries. The construction industry was a leading force in the State's economic recovery of 1976, its value increasing more than 40 percent.

Iowa's services are categorized into the following budget areas: State department, education, human resources (health and welfare), transportation and law enforcement, and natural resources.

FINANCIAL CONDITION IS HEALTHY BUT GENERAL FUND POSITION HAS WEAKENED

State officials believe that the State government has been fiscally healthy and sound during fiscal year 1977 and the current operating year. Officials attribute the State's healthy condition to judicious budgeting in conjunction with the constitutional limit on the State's debt. However, they also acknowledge that the financial position of the general fund has weakened since our prior review, due to the droughts and the decline in grain prices in 1976 and 1977, and the State legislature's decision to reduce the general fund balance. The legislature considered the general fund surplus of $260.7 million at the end of fiscal year 1975 to be excessive, and thus, have been intentionally reducing the general fund balance at the rate of about $60 million per year. The projected balance of $21.3 million at the end of 1979 concerns some State officials.

Major revenue increases related to inflation and farm income

In 1977 and 1978, three sources of revenue--individual income taxes (42.5 percent), sales taxes (24.6 percent), and corporation income taxes (8.2 percent)--made up about 75 percent of the general fund revenues. Another major source of

State revenues is the motor vehicle fuel tax. Revenues from this source are used solely for the construction and maintenance of Iowa's highways and therefore are not general fund revenues.

Individual income tax receipts increased by 13 percent in 1977. State officials attribute the increase to higher wages and farm income. They expect an increase of 12.1 percent in 1978 due to a combination of initial taxation of military pay, farm prices, crop size, and inflation. Actual receipts exceeded estimates by about 1 percent in 1977 and for the first quarter in 1978.

Sales tax receipts for 1977 were up 12.2 percent. Officials stated that this was because of the higher cost of goods (inflation) and the increased spending by farmers. Receipts for 1978 were expected to rise another 6 percent, mainly due to inflation. Actual receipts in 1977 and the first quarter of 1978 were within 1 percent of estimates.

Corporation income taxes for 1977 increased by 16.4 percent. This was attributed to a growing industrial community and high levels of spending by farmers. Receipts for 1978 were projected to increase by 16.8 percent mainly because of a new requirement for paying taxes on quarterly estimates. These receipts, however, were running behind estimates by 1.7 percent whereas fiscal year 1977 receipts exceeded estimates by 7 percent.

While motor vehicle fuel tax receipts have been up to expectations, the receipts have not kept pace with the skyrocketing highway costs; and in 1977 a special $12 million appropriation was made from the general fund to the road use fund. However, officials do not expect an increase in the motor vehicle fuel tax rate before 1980.

Federal funds received by Iowa decreased 0.6 percent in 1977 and are expected to increase 2.7 percent in 1978. Within specific programs, however, the State has had to assume part of the funding due to the withdrawal of Federal funds. The Community based corrections, aid to dependent children, medical assistance, and various health-science research programs at Iowa's universities are notable cases where Federal funds were cut and the State was forced to provide the additional money to continue the services.

<u>Inflation and assumed responsibilities increased expenditures</u>

Total general fund operating expenditures for 1977 increased 12.3 percent to $1.3 billion and were expected to increase by 8.7 percent in 1978. According to State officials, the major identifiable increases were in tax credits, health and welfare expenditures, and correctional services. These increases were related largely to inflation and, to a lesser degree, to the State assuming financial responsibility for programs formerly funded by other levels of government.

About 40 percent of the 1977 increases in total expenditures were due to major increases under the agricultural land and homestead tax credit programs. These tax credits afford landowners State subsidized relief from high local property taxes, a large portion of which is related to inflation. The amount of the 1978 tax credits will be about the same as 1977.

About 7 percent of the expenditure increase in 1977 and about 26 percent in 1978 were related to the State's medical assistance and aid to dependent children programs. The major factors causing the increases were inflation in 1977, and inflation and an increase in the State rate of matching funds in 1978.

The current retirees allowance program accounted for about 3.7 percent of the 1977 expenditure increases. The program, due partially to the spiraling inflation of the past several years, was deemed inadequate by the legislature, and thus upgraded. The program is to be funded at about the same level in 1978.

Another 2 to 3 percent of the increases in 1977 and 1978 were in the community based corrections program. While part of the increases in 1977 went to replace Federal funds, the increases primarily reflect the State's decision to provide better services and meet the increased demand.

Debt rose slightly

The State's only indebtedness is in revenue bonds issued by Iowa's Department of Transportation and the Board of Regents which governs the State's universities. The State's last general obligation bonds--$1.3 million outstanding on June 30, 1976--were retired on December 1, 1976. These bonds had been rated Aaa by Moody's Investor Service, Inc. The only activity in fiscal year 1977 and 1978 was a $15.5 million Board of Regents bond issue. The June 30, 1977 debt balance for the Department of Transportation declined from $8.7 million to $8.4 million, while the balance for the Board of Regents increased from $126 million to $135 million.

Reduced surplus balance may impact on capital projects

Iowa's past ability to fund capital projects out of current operating revenues indicates financial health. Appropriations for capital projects in fiscal years 1977 and 1978 were $26.6 million and $24.4 million respectively. The current levels of capital project funding, however, are considerably below the levels of 1974 and 1975 and future levels may decrease even further due to the State legislature's decision to reduce the general fund surplus. Officials explained that, as part of its intentional decrease of the general fund surplus, the legislature allocated funds to recurring programs. Since the projected 1979 general fund balance may be too low to permit continued spending at current rates, the legislature may cut capital projects to a minimum in order to continue funding current service levels.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

State officials identified several factors as having a siginficant effect on Iowa's 1977 and 1978 fiscal health. The factors by priority are as follows:

Revenues	Expenditures
1. Inflation	1. Inflation
2. Farm income	2. Total revenues
	3. Federal requirements

Long-term inflation was identified as helping revenue but hurting expenditures. On revenues, inflation and related higher wages increase the State's individual income tax revenues. Also, higher prices result in more sales tax revenues. On expenditures, inflation increases the costs of every department and in each cost category--salaries, supplies, etc. It also caused the State to assume a greater financial responsibility for local programs.

Farm income, somewhat unpredictable, and total available revenues, are interrelated. Officials stated that a good farm year (like calendar year 1975) increased not only individual tax revenues (in FY 1977, due to a lag) but also sales and corporate tax revenues. On the other hand, a bad farm year (like calendar year 1977) which was caused by droughts and a drop in grain prices, was cited as a reason for slowed 1978 revenues. Because of the State's debt limit, available revenue is viewed as a continuing concern affecting the level of expenditures.

Federal standards and court mandates pertaining to special education programs and the upgrading of mental health facilities were believed to be unreasonable and too expensive. In general, State officials believe that many Federal requirements have been unnecessary and impractical for Iowa.

State officials said that there were slight increases in the demand and administrative costs for basic services. The increases, however, stemming from inflation more than anything else, did not significantly influence Iowa's fiscal health.

No major budget adjustments

Iowa's State government has not had any tax rate changes in several years. Only two changes affected the major tax revenues since fiscal year 1976. Military personnel now have to pay individual income taxes, and corporations now pay estimated income taxes quarterly. The combined result of these changes is expected to provide a $16.5 million increase in 1978 general fund revenues.

Basic service levels have remained relatively stable, although there were improvements in penal, rehabilitation, health, and other social services. These improvements were partly due to court mandates to meet licensing requirements and partly due to the State's decision to provide better services to its citizens. Highway construction and maintenance is the only area in which services declined. This was due primarily to skyrocketing costs in labor and highway maintenance materials.

State government employment levels have also been fairly stable since 1976, with increases being less than 3 percent per year. State officials said there were no hiring freezes and no significant layoffs.

The amount appropriated for capital projects was almost $50 million in 1975. In fiscal years 1976 through 1978, appropriations for capital projects were between $20-$26 million, and in 1979, capital projects are expected to be reduced to about $5-$10 million because of the reduction to the general fund surplus.

State officials believe that revenues beyond Iowa's taxing and borrowing authority will not be needed to meet forecasted expenditures. Future budgets (particularly for capital projects and highways) will be tight due to the low general fund surplus, but basic services are not in danger of being cut.

STATUS, USE, AND IMPACT ANTIRECESSION FUNDS

Iowa received a total of $790,935 in antirecession funds and used them as part of a 1977 supplemental appropriation to the medical assistance program. The payments were only 1.4 percent of the medical assistance appropriation and only 0.03 percent of the total State budget. The funds were made available as medical payments to needy individuals and to intermediate health-care facilities. There was no impact on the State government's employment level.

State officials told us they would have provided the same level of medical assistance funds and services regardless of the antirecession payments. They stated that the antirecession funds had a minimal impact on Iowa. At most, the funds helped combat the inflationary increases in their medical assistance program.

STATE OF LOUISIANA

Louisiana's estimated population was 3.8 million as of July 1975. Personal income in 1976 totaled $21.1 billion, and per capita income increased 9.8 percent from $4,904 in 1975 to $5,386 in 1976.

Louisiana operates on a fiscal year ending June 30. Its industrial investment during 1976 exceeded $1.1 billion, of which about $798.3 million (72 percent) was in petroleum refining and petrochemicals. Louisiana has 27 of the 100 largest oil fields and 18 of the 50 largest natural gas fields in the United States. Its petroleum refining ranks third in the nation.

Natural resources continue to be the State's leading source of revenue. Agricultural products are also a major source of revenue. Forestry has developed into a multi-billion dollar industry providing an annual payroll of over $336 million. Tourism is Louisiana's third largest industry. Aggregate tourism revenue in 1976 totaled about $1.35 billion and directly generated 52,000 jobs.

FINANCIAL CONDITION IS FAIR

Louisiana's financial condition is considered by the State budget director to have been "healthy" in fiscal year 1977 and to be "so-so" in the current operating year.

The principal reasons offered for these assessments were as follows:

--The 1977 ending balance in the general fund was a healthy surplus.

--The decline in severance taxes started to level off in 1977, inflation had a salutary effect on general sales tax revenues, and corporation income tax revenues grew more than expected.

--It is anticipated that revenues in 1978 will not continue to increase at rates comparable to those in prior years.

Revenues increased from $3.20 billion in 1976 to $3.30 billion (3 percent) in 1977, and expenditures increased from $3.04 billion to $3.17 billion (4 percent) during the same period. These increases reflect the current inflationary trend. The five major sources of revenues, excluding Federal grants, are severance, sales, motor fuels, individual income, and corporation income taxes.

According to the budget director, the recession had very little, if any, effect on State revenues generated from its own sources. Revenues from each of the five major sources exceeded budget estimates in 1977, and State records show that sales, individual income, corporation income, and gasoline tax collections at September 30, 1977, were exceeding corresponding collections at September 30, 1976. Severance taxes, however, were slightly behind 1976 collections.

Severance tax revenues decreased from $558 million in 1976 to $496 million (12 percent) in 1977. The decrease in revenues was attributed to 1976 revenues being inflated by a nonrecurring windfall of $40 million (part of a $141 million claim settlement) and lower production because of depletion of the mineral resources (oil, natural gas, and petrochemicals) in 1977.

Sales, motor fuels, individual income, and corporation income tax revenues showed increases of 14, 5, 14, and 9 percent, respectively, from 1976 to 1977. Inflation was the principal reason offered for these increases.

Intergovernmental revenues increased from $846 million in 1976 to $990 million in 1977. Federal grants, the State's largest single source of revenues, accounted for $130 million of this increase. These grants, by department, are shown in the following table.

	Amount (000)		
	Received		
Department	1976	1977	Increase
Office of the Governor	$ 19,713	$ 54,962	$ 35,249
Transportation and Development	160,499	197,532	37,033
Health and Human Resources	305,848	347,634	41,786
Education	172,313	183,012	10,699
All other	13,785	19,019	5,234
Totals	$672,158	$802,159	$130,001

The budget director attributed the increase in Federal grants primarily to the release of impounded Federal funds for transportation (highway construction) and education, and additional Federal funds for social services.

Total expenditures increased from $3.04 billion in 1976 to $3.17 billion (4 percent) in 1977. The budget director believed this increase reflected the current inflationary trend.

Significant changes in expenditures were noted for the Department of Transportation and Development which decreased from $536 million in 1976 to $511 million (5 percent) in 1977. A department official stated that this decrease resulted from a $10 million saving in an austerity program which terminated nonessential engineers, streamlined projects, and centralized functions; an $11 million decrease caused by a change in method of accounting for year-end expenditures; and a $4 million decrease in construction projects caused by inclement weather.

Expenditures for corrections, which were less than 2 percent of total expenditures, increased from $33 million in 1976 to $48 million (45 percent) in 1977. A Department of Corrections official stated that this increase was caused by inflation, a U.S. District Court mandate to upgrade the prison system to a minimum level, and an increase in inmates from several parish prisons.

The general fund balance increased from $84.3 million at June 30, 1976, to an estimated $98.6 million (17 percent) at June 30, 1977. Factors contributing to this increase were unexpected revenues of about $28 million in mineral bonuses, increased sales tax revenues, decelerated decline in severance tax revenues, and nonuse of $2 million which had been funded for a fire ant eradication program.

As of January 6, 1978, the projected balance at June 30, 1978, is a $9.6 million deficit. This projected budget deficit was caused by $15.5 million for a special education program that was appropriated during a special session of the legislature. The budget director was confident, however, that this balance would be a surplus at June 30, 1978. The State originally projected deficits for 1976 and 1977, but ended both years with surpluses. He added that beginning fund balances are always included in subsequent budgets.

Outstanding indebtedness increased from $1.311 billion in 1976 to $1.482 billion (13 percent) in 1977. State budget and bond commission officials attributed this increase to the increased demand for capital projects in highway programs, health care facilities, and higher education.

Louisiana has not had any problems in obtaining financing. Bonds for long-term financing are sold only in a favorable market; and because ample funds have been available, the State has not had to resort to short-term financing.

Louisiana's general obligation bonds were rated Aa by Moody's Investor Service, Inc., in January 1978. There have been no changes in these ratings since February 1975.

Activity in Louisiana's capital projects program indicated strength in the State's fiscal health. It has more than 600 approved projects totaling about $500 million with $340 million budgeted for capital outlay in 1978. Our review disclosed 12 projects valued at $14 million that had been delayed. Of these, only one delay was related to funding and this was due to a change in project priorities. Currently, all 12 delayed projects have been funded.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

The budget director stated that the major factors affecting the State's fiscal health are the depletion of its natural resources and the continued operation of the petrochemical industry. The severance tax on natural resources is the largest source of the State's own revenue. The resources are being depleted at a rate greater than the discovery of additional resources. On the favorable side, the petrochemical industry provides a steady year-round level of employment for a large segment of the State's population.

The budget director said that unless additional revenue-raising measures are adopted, Louisiana will be in serious financial condition in the near future. He pointed out that in addition to the depletion of natural resources, a number of taxes, including individual income and automobile license fees, are limited by the State constitution and the bases cannot be changed easily. Other factors affecting revenues are inflation, which significantly affects taxes such as sales, tobacco, and motor fuels, and the political climate.

Louisiana has had difficulties raising its tax rates because a two-thirds majority is required in both the House of Representatives and the Senate to enact tax legislation. Also, tax measures can only be considered in even-numbered years unless the legislature calls itself into special session in odd-numbered years.

The major factors influencing expenditures are statutory payments to local governments--about 75 percent of the budget goes to local governments. The State supports the court system and a large portion of the costs for firemen and law enforcement. The State also has a program whereby it shares certain tax revenues with local governments. Other factors affecting expenditures are Federal requirements necessary to maintain eligibility for Federal support and decreasing Federal grants resulting in increasing State costs to maintain programs.

The demand for services increased noticeably during 1977 and 1978--waiting lists developed for admission to vocational and mentally retarded schools and day care centers; high unemployment caused more people to seek assistance from social services programs; and the U.S. District Court ordered the State to upgrade its prison system. The demand for these increased services, excluding the prison system, has not been met.

The budget director said that Louisiana has had to assume the responsibility for continuing services in mental health, alcohol and drug abuse, and special education programs in local governments after Federal funds were withdrawn. The State has not relinquished responsibility to any other government for providing any services.

Budget adjustments

Effective January 1977, Louisiana revised its individual income tax tables resulting in individuals paying more taxes and increased the rates for assessing corporation income taxes to finance cost-of-living salary increases for State employees and public school teachers.

The corporation income tax rate was changed from 4 percent of net income to 4 percent on the first $25,000, 5 percent on the next $25,000, 6 percent on the next $50,000, 7 percent on the next $100,000, and 8 percent on all net income in excess of $200,000.

No new taxes or statutory limitations on existing taxes have been imposed during 1977 and 1978, and none are planned.

According to the budget director, Louisiana has not been forced to curtail or eliminate any essential basic services. However, normal levels of some services have been affected to some extent because of the current inflationary trend. Funds for social services and highway and State building maintenance programs have been restricted.

Full-time public employment increased from 72,531 on June 30, 1976, to 73,159 on September 30, 1977. The budget director said that no significant number of State employees had been laid off during 1976 and 1977.

According to the budget director, Louisiana's long-term financial problems relate primarily to the depletion of its natural resources. The largest source of the State's self-generated revenues is tied to income from mineral resources, principally oil and natural gas, which are being depleted at a rate greater than the discovery of additional resources. Unless alternate revenue-raising measures are adopted, Louisiana will be in a serious financial posture in the near future.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

Louisiana received $11,199,229 for the first five quarters of the antirecession program. As of October 31, 1977, all of these funds had been appropriated and $5,524,688 had been disbursed.

The sixth-quarter payment totaling $4,410,867 was received in October 1977. These funds had been appropriated before they were received. The budget director said that all antirecession funds received in fiscal years 1977 and 1978 will be disbursed by June 30, 1978.

The State is using $8 million of the antirecession funds to expand existing services with 400 new positions in the Department of Corrections. According to the budget director, current plans are to use $160,000 to save 32 custodial positions at a State university, and all remaining funds, received and anticipated, to pay salary increases to State employees. All services financed by these funds are permanent and recurring and will have to be financed with State funds if the antirecession program is discontinued.

Revenue collections exceeded budgeted expenditures, and antirecession funds were used to increase the level of authorized expenditures in fiscal year 1977. Also, some of the antirecession funds were held as appropriated reserves pending disbursement.

According to the budget director, revenue collections are falling behind budget estimates in fiscal year 1978, and antirecession funds are being used to plug the gap. The shortfall is not considered to be significant.

STATE OF MARYLAND

Maryland ranks 42d among the 50 States in geographic area and 18th in population, estimated on July 1, 1976, to be 4,144,000. Maryland's population per square mile in 1970 was 396.6, making it the 5th most densely populated State.

The largest nonagricultural employment sectors in Maryland during 1976 were government (25 percent), wholesale and retail trade (24 percent), services (20 percent), and manufacturing (15 percent). Contract construction accounted for 6 percent of nonagricultural employment.

Principal manufacturing industries in Maryland include food and related products, primary metal products, electrical machinery, transportation equipment, chemicals and allied products, machinery (excluding electrical), and printing and publishing. Per capita personal income for Maryland in 1976 was $6,880 which was 7.6 percent higher than national per capita income and 8.6 percent higher than the State's 1975 level.

The State has a bicameral legislature, the General Assembly, composed of the Senate and House of Delegates. The General Assembly meets annually for a 90-day session. The Executive branch includes four officials elected on a statewide basis for 4-year terms: the Governor, Lieutenant Governor, Comptroller of the Treasury, and Attorney General. The State Treasurer is elected by the General Assembly for a 4-year term. The Judicial Branch includes the trial courts of limited and general jurisdiction as well as the appellate courts.

MARYLAND'S FINANCIAL CONDITION IS GOOD

State officials described Maryland's overall financial condition in very positive terms. At the time of our review, inflation and recession were not viewed as major problems, and although inflation is expected to influence the State economy in 1978 and 1979, steady economic growth is expected. The October 1977 sale of $139,330,000 in State general obligation bonds was cited as an important sign of financial health. The interest bid of 4.69 percent was the lowest interest rate received by Maryland since February 1974. Moody's Investor Service, Inc., gave the bonds an Aaa rating. Revenues for 1978 were exceeding estimates and a considerable general fund surplus was expected.

The State's financial condition is healthy and has improved since our prior review in February 1977. The construction industry, the business segment most affected by the recession, was picking up and the 1977 summer building season was good. Also, the unemployment rate dropped from 7.1 percent in the first quarter of calendar year 1977 to 5.3 percent in the third quarter. Finally, a large projected increase in the general fund surplus for 1978 is considered positive evidence of the State's good financial health.

Revenues showed unexpected increases

Actual 1977 revenues were higher than expected primarily because of economic growth in the last fiscal quarter which was reflected in higher employment, personal income, and retail sales; higher than expected State lottery revenues; and retail sales tax and motor vehicle and boat titling tax rate increases in the last month of the fiscal year.

Four revenue sources--retail sales and use tax, real and personal property tax, corporation income tax, and individual income tax--contributed over half the 1977 revenue from Maryland sources.

While actual 1977 revenues for the four taxes showed no large deviations from budgeted 1977 estimates, they all exceeded 1976 actual revenues by approximately 8 percent or more. Sales tax revenue was 11.1 percent higher than in 1976 but fell 1.8 percent below estimates. This reflects low retail sales growth in 1976 and sluggish growth in the first half of 1977 which turned strong the last 3 months due primarily to increased employment and personal income. It also reflects the June 1977 sales tax rate increase. The 1978 sales tax revenue is expected to exceed considerably the original estimates. The 1977 property tax revenue increased 21 percent over 1976 and was attributed equally to a tax rate increase and assessment growth which was believed to reflect inflation. Corporation income tax revenue, which was 9.7 percent higher in 1977, was due to the legislated tax base increase and to higher corporate profits and general economic growth. The 1977 individual income tax revenue increase of 10.9 percent was attributed to increased employment and personal income.

Budgeted 1978 revenues are higher than actual 1977 revenues. For example, the original 1978 budgeted sales tax revenue estimate was about 30 percent over actual 1977 revenue. About 25 percent of this increase is explained by the sales tax increase from 4 to 5 percent and the remaining 5 percent represented expected economic growth.

According to an official, however, figures for the first 3 months of 1978 show about 11 percent growth rather than the projected 5 percent. The 1978 budgeted corporation income tax revenue was a modest 3 percent over actual 1977; while individual income tax revenue was budgeted almost 9 percent over 1977 revenue. Through October 1977, these revenues are higher than expected.

Intergovernmental revenues increased 14.9 percent in 1977 but still fell 5.3 percent below budgeted estimates. Although funds are expected to continue increasing in 1978 and 1979, officials stated that inflation is cutting the purchasing power of Federally supplied funds and the State has been forced to absorb the difference in order to maintain the same level of services.

Expenditures increased

Total operating expenditures increased 8.5 percent in 1977 to $2.1 billion, with the general fund expenditures accounting for about $1.8 billion of this total. The major increases occurred in public assistance, corrections, personnel, Medicaid, and State transfers to other governments for education. Public assistance expenditures in 1977 increased approximately 9 percent over 1976 due to a large increase in the State-funded general public assistance caseload. A larger prison and parole population was believed responsible for a 12.5 percent corrections expenditure increase in 1977. The Department of Personnel expenditures in 1977 increased almost 25 percent over 1976 and are budgeted in 1978 to rise approximately 18 percent above 1977 expenditures. These increases were attributed to the pattern, in recent years, of rapid increases in retirement costs and fringe benefits for State employees. State aid to other governments for education increased about 9.9 percent. Officials stated that this aid has been increasing at an annual rate of 7 to 10 percent.

Normal levels of services have not changed and the State has not relinquished authority to another level of government for providing services. The State did assume additional responsibilities and costs for providing services previously provided by other governmental units. In 1977, Maryland assumed responsibility for 18 projects initially funded with Federal funds and in 1978 plans to assume responsibility for 16 additional projects. These projects include 23 Law Enforcement Assistance Administration demonstration projects.

Fund balances increased

Maryland's four operating fund categories increased in 1977. The general fund surplus of $64 million was double the $32 million surplus of 1976 and was considered primarily a reflection of unanticipated revenues due to the improved economy. The special fund's balance rose 89 percent or $53.8 million in 1977. Most of the increase was attributed to transportation construction funds left over because spending by the Department of Transportation was lower than expected in 1977. A 12 percent fund balance increase ($4.6 million) in the annuity bond fund was attributed to the additional property tax and from repayments and the excess of transfers from State agencies. The increase was not considered significant. Officials were not sure why the Federal funds balance rose approximately 190 percent ($16.9 million) in 1977, but one official believed that a timing difference between receipts and expenditures could have been the cause.

In November 1977, the projected 1978 general fund surplus was revised to $128 million, double the $64 million surplus in 1977. This unexpected surplus projection is attributed to an economic upturn in Maryland which increased sales and income tax revenue and to higher than expected State lottery revenues. The higher than expected revenues reflect an improving trend in employment and higher consumer spending levels and was considered to be positive evidence of the State's fiscal health.

The Board of Revenue Estimates recommended that some of the revenues be used to reduce the State property tax rate and to fund some capital expenditures on a "pay-as-you-go" basis. At the time of our review, the Acting Governor was considering using the surplus for (1) a property tax decrease by increasing the general fund contribution to bond debt service, (2) an increase in the individual income tax standard deduction, (3) "pay-as-you-go" capital projects, (4) increased aid to local governments for education, (5) State employee pay raises, (6) increased aid to families with dependent children, and (7) the State pension system.

Increased indebtedness

The State's indebtedness, defined by officials as general obligation bonds issued and outstanding, increased about 21 percent in 1977. An official explained, however, that a more accurate picture would be presented by including a July 1, 1977, bond sale in 1976. With this adjustment, the change in indebtedness would be about 10 percent. The increase in 1977 was attributed to increased general obligation bond sales together with a comparatively small amount of redemptions. The increased bond sales were caused by a need for more capital construction funds and a favorable market. It was also pointed out that recent bond sales, which were rated Aaa by Moody's Investor Service, Inc. have been based on a more extensive and expensive capital program than in previous years.

The State has no short-term debt other than the usual trade credit. Increasing use of general fund revenues for general obligation bond debt service is viewed positively by officials. In 1977, the property tax contributed 38 percent of the total debt service and general fund revenues contributed 46 percent. The remaining 16 percent came from miscellaneous sources.

MAJOR FACTORS AFFECTING FISCAL HEALTH

Maryland officials stated that the most significant factors, in order of priority, affecting the State's fiscal health in fiscal years 1977 and 1978 were personal income, retail sales, corporate income, and general economic growth (e.g., employment, construction activity).

The State's revenue-raising capacity depends primarily on four interconnected factors--level of employment, personal income, consumer confidence, as reflected in the level of spending, and citizens' acceptance of tax increases. The level of employment affects personal income and personal income affects the level of spending. The principal sources of State-generated revenue are the individual income tax, which accounted for about 30 percent of 1977 revenues, and the retail sales tax, which accounted for about 17 percent. The individual income tax is a function of personal income and the retail sales tax is a function of the level of spending. Maryland has not experienced any major difficulties with citizens' acceptance of higher State taxes or user charges, but the June 1, 1977, sales tax increase did meet a great deal of resistance in the legislature and passed the Senate by a margin of only one vote.

According to State officials, the most significant factors affecting expenditures are prior year's level of expenditures, estimates of current year's revenues, inflation, and recession.

Prior year's expenditures are a base point upon which to operate when preparing the current year's budgeted expenditures and, thus, they have an important short-term influence on the level of expenditures. Current year revenue estimates play an equally important role in affecting the level of expenditures since State law requires a balanced budget and appropriations, therefore, may not exceed estimated revenues and surplus.

Inflation and recession were viewed as longer term factors affecting the levels of expenditures but were not considered major problems during the period of our review.

Effective June 1, 1977, the State increased the retail sales and use tax rate and the motor vehicle and boat titling tax rate from 4 to 5 percent. These taxes were increased to meet the increased 1978 expenditure forecasts in areas such as education, police protection, Social Security and retirement programs, hospitals, aid to handicapped children, and tax relief for the elderly. On July 1, 1976, the property tax rate was increased from 21 cents to 23 cents per $100 of assessed value due to the general increase in capital projects and the high interest rate on bonds. Also, a legislative change expanded the base of the corporation income tax tax by requiring the inclusion of certain non-business interest and dividend income.

During 1977, the number of State employees listed in the Department of Personnel data processing system increased by 659 to a total of 52,482 employees. A Maryland official indicated that this increase resulted primarily from normal growth in existing programs. There were no significant layoffs and normal levels of basic services have been maintained.

A State official said that spending on capital projects is more a reflection of what was authorized in prior years than a reflection of the current fiscal health of the State. He said economic conditions caused few, if any, changes in the level of capital projects authorized or started. We were informed that in 1977 some capital projects were accelerated in order to provide employment opportunities.

State officials informed us that in 1977 there were delays in some transportation projects because of a reduction in the rate of growth in gasoline tax revenue, which is the principal financing source for these projects.

The 1976 General Assembly reduced the State's borrowing authorization for capital projects because it was felt to be too ambitious. The 1974 and 1975 General Assembly authorized about $424 million and $370 million, respectively, in general obligation bonds and the State believed that this was an unaffordable level. Therefore, to prevent a deterioration in the State's financial condition, the capital program was reduced to less than $200 million and has remained at that level.

According to a State official, Maryland's only long-term chronic problem is the financing of retirement benefits for State employees and local employees who receive retirement benefits from the State.

The State maintains four separate principal retirement programs. The State's retirement programs were originally designed to provide for contributions of 50 percent by the employees and 50 percent by the State. Over the years, inflationary factors and legislated changes resulted in the failure of the employees' contribution to be sufficient to provide an annuity which would fund half of the anticipated retirement amounts. Accordingly, legislation was enacted under which the State makes supplementary payments in addition to the actuarial funded amounts to supplement the employee contributions on a pay-as-you-go basis. In addition, the State provides for additions to pension benefits, on a pay-as-you-go basis, to reflect changes in the consumer price index.

The major problems with the present retirement system are spiralling costs and excessive retirement benefits when combined with benefits provided by the Social Security system. Legislation to correct these problems is being prepared for the 1978 General Assembly.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

The State of Maryland received approximately $4.7 million in antirecession assistance funds in 1977 and expects to receive about $6 million in 1978. All antirecession funds were appropriated by the State to pay for salaries and wages of personnel in the Department of Public Safety and Correctional Services.

The $4.7 million in antirecession funds received in 1977 and the $6 million in antirecession funds expected to be received in 1978 are minor when compared to the total budget appropriations of $3.5 billion in 1977 and $3.9 billion in 1978. The deputy secretary for budget and fiscal planning said that antirecession assistance money had very little impact on 1977 and 1978 budgetary actions of the State. The antirecession funds had no effect on tax rates but may have increased slightly the levels of correctional services provided by the State in 1977 and 1978. The antirecession funds may have also had a slight impact on State employment since the funds were used to fill 67 vacant and 108 new correctional, probation, and parole positions during 1977 and 1978.

The deputy secretary said that since the State knew before preparing the supplemental budget for 1977 and the 1978 budget that Maryland would receive antirecession funds, it is impossible to say with certainty whether the additional funding for the wages and salaries for correctional personnel would have been budgeted without the funds. The positions may have been budgeted in any event since additional correctional officers were needed to sustain basic services which the State was already providing.

The deputy secretary said that without the antirecession funds for needed correctional services, Maryland probably would not have had as much money available for other purposes. The State may not have paid as much money to local governments for housing State prisoners and the State's prior years' backlog of unpaid Medicaid bills probably would not have been reduced as much.

STATE OF MICHIGAN

The automobile industry and its related supply and customer firms dominate the Michigan economy. The State is both the research and administrative headquarters for the industry, resulting in the location of a disproportionate share of high wage and high skill jobs, and the clustering of research and supply firms in Michigan. The demand for automobiles and related capital goods rises and falls sharply over short periods of time. As a result, Michigan has a highly cyclical economy with periods of high wages and rapidly rising employment separated by periods of layoffs, short work weeks, and general recession.

The estimated population of Michigan, as of July 1, 1976, was 9,104,000. Significant State economic indicators as of September 30, 1977, were:

Michigan labor force	4,111,200
Number employed	3,817,100
Number unemployed	294,100
Unemployment rate	7.2%

Michigan per capita income for 1976 was $6,975 and total State personal income was $65.5 billion.

The Governor, as chief executive officer, provides program and policy direction for the Executive Branch and recommends the State government budget, and statutory changes for legislative action. The Michigan constitution establishes legislative power in a Senate and House of Representatives, which enact laws, levy taxes, and appropriate funds for the support of public institutions and State government administration.

As of October 1, 1977, Michigan had approximately 63,800 employees responsible for providing the following types of services:

--protection of persons and property;

--economic development, environment and recreation;

--intellectual development and education;

--human services; and

--direction and support services.

FINANCIAL CONDITION IS IMPROVING

In March 1977, State officials considered Michigan's overall fiscal health to be "improving but still serious due to a cash flow problem." The problem exists because large payments, such as school aid, are due early in the month and major tax revenues are received after the 15th of the month. To cope with this situation, the State has delayed payments or portions of payments until revenue has been collected. In spite of the cash flow difficulties, the State expects a $68.4 million surplus for the general purpose portion of its general fund for the fiscal year ending September 30, 1977. The year-end general fund general purpose balance is considered a good indicator of overall financial strength because this portion of the State budget is subject to the greatest discretion and flexibility by the State Legislature. During the prior fiscal year, ending September 30, 1976, a somewhat smaller surplus--$28.3 million--was achieved.

In November 1977, State officials characterized Michigan's financial condition as "generally good and improving through fiscal year 1977 ending September 30, 1977." However, they concluded that some deterioration is expected during 1978. Their November 1977 analysis of projected general fund - general purpose revenues and expenditures shows a possible deficit of $3.5 million due, in part, to the need for additional school aid and enactment of legislation for new programs such as a home heating fuel assistance program for elderly and low-income citizens, and a program to reimburse Michigan farmers whose contaminated animals must be destroyed because they were accidently fed a toxic chemical. The projected deficit also assumes that single business tax and Michigan lottery revenues will be lower than originally anticipated. State officials still consider the cash flow problem "serious" because negative cash balances are projected for the combined general and school aid funds throughout 1978.

The Michigan constitution requires the government to balance expenditures with available revenues. Therefore, if 1978 general purpose revenues do not improve over current projections, the Governor may have to reduce planned expenditures by executive order. State officials concluded that it is highly unlikely that tax rates would be increased to improve projected revenues.

Revenues showed strong gains

Total general fund-general purpose revenues increased from about $2.9 billion in 1976 to an estimated $3.3 billion in 1977, a 13 percent growth.

Revenues from the State's own sources which are available to the general purpose portion of the general fund have increased from about $2.8 billion in 1976 to about $3.2 billion in 1977. The budgeted amount for 1978 was about $3.7 billion.

Revenues from the three major tax sources--personal income, sales, and single business taxes--have shown healthy increases from 1976 to 1977. Amounts discussed below concern revenues available to the general purpose portion of the general fund. For example, gross sales tax receipts for fiscal year 1977 were $1.2 billion. By Michigan law, 25 percent, or $305 million, was available to general fund-general purpose. This represents an increase of about 16 percent over 1976 collections. Sales tax revenues available to the general purpose portion of the general fund are expected to increase 10 percent in 1978. Estimated retail sales tax revenues exceeded budgeted amounts for 1977 by about $7 million (just over 2 percent), and State officials are optimistic that the 1978 budget estimate will be achieved.

Michigan's personal income tax rate was increased from 3.9 to 4.6 percent May 1, 1975, to compensate for the January 1, 1975, repeal of the four percent retail sales tax on take-home food and prescription drugs. Effective July 1, 1977, the personal income tax rate was to have reverted to 4.4 percent unless the State Legislature approved extension of the 4.6 percent rate. Because of the need to maintain the level of revenue from this tax, the Legislature approved the extension of the tax rate. Personal income tax revenue increased 16 percent in 1977, to $1.3 billion, and is expected to increase to about $1.5 billion in 1978. State officials said these increases were primarily in response to the revival of automobile production. Estimated personal income tax revenues exceeded budget estimates for 1977 by about $10 million (less than one percent) and State officials are optimistic that the 1978 budget estimate will be achieved.

Since January 1, 1976, Michigan has had a new single business tax which replaced the previous system of State business taxes except for several minor levies. The single business tax (2.35 percent) is a value-added tax. According to State officials, the new tax has not increased aggregate business tax collections. However, it does provide greater revenue stability by removing the highly volatile corporate income tax from the tax structure. Fiscal year 1977, was the first complete year that reflected the change in the tax structure.

Estimated single business tax revenue available to the general purpose portion of the general fund for 1977 failed to meet the budget estimate. Only about $685 million of the budgeted $741 million was received. State officials said the shortfall was primarily due to the lack of past experience upon which to project revenue for the new tax. For 1978, the State originally budgeted $770 million as revenue from the single business tax. However, as of October 31, 1977, officials have reduced the budgeted amount by $20 million. They indicated they are still experiencing difficulty in accurately predicting revenue from this new tax.

Intergovernmental revenues

Federal intergovernmental revenue available to the general fund-general purpose portion of the State budget is expected to increase from about $124.9 million in 1976 to $141.9 million in 1977, a 14 percent increase. A State official concluded that the main reason for the increase is the receipt of antirecession payments. Assuming receipt of about $25 million in antirecession payments, the State expects intergovernmental revenues to total about $140.7 million in 1978, or just slightly below the 1977 total.

Expenditures showed large increases

State financial reports prepared for the State Legislature do not break out general fund-general purpose expenditures. However, they do show that total general fund (general purpose plus special purpose) expenditures increase about 14 percent--from $4.7 billion to $5.3 billion--during the same period.

State officials said the loss of revenue during the 1974-75 recession prevented the State from expanding or initiating new programs and services and caused a "pent-up-demand" for these services which could not be addressed until revenues improved. As the Michigan economy improved in 1976 and 1977, revenues increased significantly and the State funded these new and expanded programs and services.

Michigan has not relinquished authority to other levels of government for providing services. On the other hand, the State has provided financial assistance to Detroit for support of the Detroit Historical Museum, Detroit Public Library, Detroit Institute of Arts, public health care, the pension liability of the city's Department of Transportation, and Detroit General Hospital. The assistance was expected to total $27.8 million in 1977. For 1978, about $10.9 million has been recommended for Detroit's Historical Museum, Public Library, and Institute of Arts, and $200,000 for reopening the Michigan State University Museum to the public.

Fund balance unstable and indebtedness increased

State officials said the year-end general fund-general purpose balance is considered a good indicator of overall financial strength because this portion of the State budget is subject to the greatest discretion and flexibility by the State Legislature. The fund balance for 1977 was estimated to be $68.4 million, an increase of about $40 million over the 1976 balance. The $68.4 million surplus in 1977 represents about 2 percent of the total ($3.3 billion) general fund-general purpose revenues expected that year. In 1978, however, a deficit of $3.5 million is projected, due, in part, to revised school aid requirements and enactment of new programs, coupled with the current prediction that single business tax and Michigan lottery revenues will be lower than originally anticipated. If general purpose revenues do not improve over current projections, the Governor may have to reduce planned expenditures.

The general obligation debt will have decreased from $573.5 million at the end of 1976 to $496.5 million at the close of fiscal year 1978 as the result of scheduled debt retirement. However, during 1977, non-general obligation debt increased when special authority revenue bonds and notes were sold. Because of this action, total long-term debt increased about $107.5 million between September 1976 and September 1977. Michigan has had no problems obtaining long-term financing. Moody's Investor Service, Inc., rated Michigan's general obligation bonds Aa, unchanged from the January 1977 rating.

The State periodically issues short-term general obligation notes in anticipation of tax receipts to assure adequate cash for operating expenses. During fiscal year 1976, Michigan issued such notes, totaling $200 million, and repaid them within the fiscal year as required by the constitution. The State is currently contemplating issuance of $200 million in short-term notes in January 1978 to help it through its continuing cash flow problems.

Delayed capital projects

State capital outlay expenditures supported by the general fund have decreased over the past several years due to the lack of revenue. During 1977, money was not available to fund many critical projects including modernization of correction and mental health facilties, expansion of the number of beds in State prisons, expansion of State office space, and construction of medical school facilities. Therefore, only $22.3 million (general fund-general purpose revenue) was recommended to continue ongoing projects. An additional $60.3 million was recommended for general fund-general purpose projects. The State Legislature appropriated only $63.5 million of the $82.6 million recommended for capital outlay. About $53.9 million of the $60.3 million recommended for special purpose projects was planned to be financed by a $370 million construction bonding program recommended by the Governor to help meet building needs.

For 1978, only $18.9 million general fund-general purpose revenue was recommended for ongoing projects and $16.0 million was recommended for general fund-general purpose projects. At the time of our review, the State Legislature had not approved the capital outlay budget for 1978.

In August 1976, the Legislature authorized the creation of the State building authority to sell revenue bonds totaling $400 million to support major construction needs. However, due to delays in establishing the constitutionality of the State building authority, the first block of revenue bonds (totaling about $80 million) will not be sold until January 1978.

State officials concluded that construction project delays could be viewed as a weakness in the State's overall financial condition.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

State officials concluded that the most significant factors affecting the State's fiscal health, in order of priority, are total personal income, auto production and sales, total employment, and Federal aid. They also stated that the factors significantly affecting the State's revenue-raising capacity, in order of priority, are total personal income, auto production and sales, total employment, and consumer spending. The improvement or deterioration of these factors impacts directly on the collection levels of the State's major tax revenues--retail sales tax, personal income tax, and single business tax.

The most significant factors affecting expenditures, in order of priority, are, highly cyclical economy, "pent-up-demand" for programs and services postponed during recessionary periods, and inflation.

Delays in starting needed capital projects, and delays in providing improved staffing and care at mental health and correction facilities were cited as adverse situations resulting from the State's cyclical economy. Further, recession and resulting unemployment increases the demand for services in the areas of public welfare and unemployment security administration. Inflation increased slightly from 5.4 percent in 1976 to a projected 6 percent in 1978.

Major budget adjustments

The State did not make any significant budget adjustments during 1977 or the current operating year. Major tax rates remained unchanged, basic service levels were maintained, and no significant layoffs were made. The number of State employees increased from 58,618 in 1976 to 63,798 in 1977.

The State recently enacted legislation designed to attack two major problems which historically have been detrimental to Michigan's economy--cyclically low revenue and high unemployment. The budget stabilization section allows the State to set aside revenue during prosperous years to be used later during poor economic years. The amount paid into or out of the fund will be determined by the annual growth rate of Michigan personal income, adjusted for government transfer payments and inflation. If the annual growth rate in adjusted personal income is greater than 2 percent, money is paid into the fund and if a negative growth occurs, money is paid out. For 1978 only, the annual growth rate must exceed 4 percent. This means that the initial amount paid into the budget stabilization fund will approximate $74.7 million in 1978.

The act could help reduce high unemployment levels by allowing a specified portion of the fund to be appropriated for the purpose of creating employment opportunities in the State. The amount of the fund that can be appropriated depends on the unemployment rate and can be made every quarter if the unemployment rate is excessively high. For example, if the unemployment rate is 8 percent to 11.9 percent during a given quarter, 2.5 percent of the fund balance can be appropriated during the following quarter. If the unemployment rate is 12 percent or more, 5 percent of the fund balance can be appropriated for job-creating purposes.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

Michigan received $37,039,958 in antirecession funds applicable to the period July 1, 1976, through September 30, 1977, and has appropriated and disbursed all the money for wages and salaries in the Mental Health Department. A breakdown of positions funded, however, was not available. State officials said the antirecession funds were disbursed within the required 6 months. The $6,963,848 payment received in October 1977, brought the total funds received to $44,003,806.

Although antirecession assistance has been officially appropriated for State mental health institutions, the $44.0 million has been received as general purpose revenue, and thus benefits any program or service financed by the general fund. Antirecession revenue, in effect, has freed Michigan tax dollars for expenses ranging from education to public health, mental health, social services, corrections, and the State police.

STATE OF MISSOURI

Missouri, the 19th largest State in area, ranked 15th in 1976 with a population of 4,778,000. Total personal income in 1976 was $28.5 billion or $5,963 per capita. The State's largest source of income comes from manufacturing followed by wholesale and retail trade and government.

In September 1977, the State's unemployment rate was 4.8 percent compared to a high of 7.6 percent in June 1975. During the 1974-1975 recessionary period, the State experienced a downturn in auto production. Missouri ranks second to Michigan in the number of auto workers. Also affected were the shoe, garment, and construction industries.

The State government was reorganized in 1974 into 14 departments that administer and provide such basic services as highways, social services, public safety, mental health, higher education, elementary and secondary education, and labor and industrial relations.

FINANCIAL CONDITION IS GOOD

State officials believed their government's financial condition was good. Revenue increases for fiscal year 1977 exceeded expenditure increases, and the general fund balance doubled. Inflation increased tax receipts, and although inflation affected expenditures, the State kept expenditures below estimated revenue. Employment increased, most basic services were maintained, and capital project appropriations doubled. Long-term general obligation bond indebtedness increased, but the State continues to hold an Aaa rating by Moody's Investor Service, Inc. The State did not relinquish authority for any basic services.

A State official attributed their financial condition to conservative financial management practices. He expressed concern about the next 18 months and believed the State was recovering from the recession slower than other States.

Revenues exceeded expenditures

Between fiscal years 1976 and 1977, revenues increased 9.7 percent from $2.3 billion to $2.5 billion while expenditures increased 4.1 percent from $2.3 billion to $2.4 billion. The surplus in the general fund doubled from $48.1 million to $98.4 million. A budget and planning official attributed the larger fiscal year 1977 fund balance to a concerted effort by legislators and State officials to keep appropriations below expected revenues.

The fund balance is expected to decrease to $74.4 million in fiscal year 1978 because of large capital project expenditures.

The State's tax revenue increased from $1.4 billion to $1.5 billion between fiscal years 1976 and 1977. Major sources of tax revenue have been from sales, individual and corporate income, and motor fuel taxes as shown below.

Tax	Fiscal year 1976	Fiscal year 1977	Increase amount	Increase percent
	------------(in millions)------------			
Sales	$ 530.5	$ 592.6	$ 62.1	11.7
Individual income	401.6	462.0	60.4	15.0
Corporate income	77.0	94.2	17.2	22.3
Motor fuel	204.8	213.5	8.7	4.2
Subtotal	$1,213.9	$1,362.3	$ 148.4	12.2
Total taxes	$1,379.3	$1,536.8	$ 157.5	11.4

Sales and individual income tax revenue increases were caused by inflation and an economic upturn, while the motor fuel tax revenue increased because people consumed more fuel.

Actual tax receipts exceeded estimates in fiscal year 1977. In his fiscal year 1977 budget message, the Governor said the actual increases were not anticipated and attributed most of these to growth in sales, corporate, and individual income taxes. Estimated tax receipts for fiscal year 1978 exceed actual tax receipts for fiscal year 1977 because of economic and State personal income growth. A budget and planning official believed this estimate will be achieved.

Between fiscal years 1976 and 1977, intergovernmental revenue increased 9.6 percent, from $684.2 million to $749.9 million. Increases were in elementary and secondary education, health services, highway safety, social services, Medicaid, and food stamp programs. Significant increases are occurring in the Comprehensive Employment and Training Act program where receipts were $20.0 million in 1976 and are expected to reach $82.0 million in 1978.

Expenditures for basic services increased from $1.9 billion to $2.1 billion as shown on the following page.

	Fiscal year 1976	Fiscal year 1977	Amount	Percent
	------(in millions)-----			
Elementary and secondary education	$ 576.3	$ 610.8	$ 34.5	6.0
Social services	505.0	584.2	79.2	15.7
Highways	392.1	369.8	(22.3)	(5.7)
Higher education	234.3	245.6	11.3	4.8
Mental health	126.6	131.5	4.9	3.9
Public safety	62.1	66.9	4.8	7.7
Labor and industrial relations	50.2	55.9	5.7	11.3
Total	$1,946.6	$2,064.7	$118.1	6.1

State officials viewed inflation as a major cause for expenditure increases, especially elementary and secondary education.

In social services, public safety, and labor and industrial relations, the increases also reflected additional receipts of Federal funds. Highway expenditures decreased because of contractor stikes and inclement weather.

Bond indebtedness and capital project authorizations increased

Between fiscal years 1976 and 1977, the State's long-term general obligation bond indebtedness increased from $52.8 million to $79.1 million because the State issued water pollution control bonds totaling $31.5 million. An accounting official stated there have been no problems in selling long-term bonds because of Missouri's Aaa rating by Moody's Investor Service, Inc. He stated the interest rate on the water pollution control bonds was 4.38 percent, the lowest rate obtained by any State.

Capital project appropriations more than doubled between fiscal years 1977 and 1978, from $61.9 million to $138.8 million. No capital projects were delayed because of fund limitations. State officials believed this condition demonstrated fiscal strength.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

A budget and planning official stated Federal policies, energy, and loss of manufacturing jobs affect revenue-raising capability. Federal policies reducing defense spending impact on the State's largest source of revenue-- manufacturing-- especially the aircraft industry. Also, realignments of military troop strengths and base closures have affected fiscal health. Energy, particularly its effect on consumers buying fewer full-size cars, had a negative effect. Outdated plants are being replaced outside the State, and manufacturing jobs are being lost.

Although inflation benefited the State through increased tax collections, it also was the primary factor increasing expenditures for basic services. For example, in public safety, travel expenses, office supplies, and dock rental, costs increased 10 percent. In social services, Medicaid costs increased 17.6 percent, food costs increased 9.0 percent, and utilities and fuel costs increased 20 percent. In labor and industrial relations, office rental at two locations increased 12.1 and 34.7 percent.

State officials believed that increased demands for services affected expenditures, but stated these demands were met with available resources. In public safety, as an example, greater road usage has increased the need for highway safety and patrol services. In labor and industrial relations, more information is being requested by State legislators and local governments.

Except for pay raises and Federal requirements for social services and elementary and secondary education, State officials believed that administrative costs had not changed.

Major budget adjustments precluded by controlling expenditures

The State purposely held expenditures below expected revenue to enhance its fiscal health. This effort was a factor in precluding any major budget adjustments.

Effective July 1977, an increase in the sales tax rate from 3 to 3 1/8 percent was approved by voters, and the additional receipts are earmarked for conservation purposes. There were no additional tax increases. A budget and planning official stated that the Governor is committed to no tax increases, and expenditures would be controlled to stay within expected revenue.

State employment was estimated to have increased by 4 percent between fiscal year 1976 and 1977. A State official said the increase was necessary to comply with Federal requirements, to start legislative-enacted programs, and to expand existing services.

Capital projects were not delayed because of fund limitations. Actual appropriations more than doubled. Also, the State had not relinquished any authority to provide basic services.

Basic services were maintained, except in some areas where the quality of services was lowered. For example, in higher education, libraries bought fewer books and reduced hours and the number of librarians. And, in labor and industrial relations, the number of field investigations of unemployment insurance claims was reduced, and job counseling and placement suffered because of insufficient staff.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

Antirecession assistance funds are being used to alleviate State needs in areas such as capital construction and public welfare. The State has used antirecession funds to free general revenue sharing funds for other uses.

The status of the first five quarterly payments was as follows.

	Amount (in millions)
Funds received	$4.7
Funds appropriated	$6.0
Funds disbursed	$1.9
Unobligated funds	$2.8

A budget and planning official stated that more antirecession funds have been appropriated than has been received in anticipation of future antirecession assistance payments. These appropriations were made by June 29, 1977, within 6 months of receipt of the funds.

Antirecession assistance funds of $1.9 million were used primarily for public welfare purposes to meet the State's share of nursing care costs for the aged, blind, and disabled which had risen beyond fiscal year 1977 estimates. The remaining appropriations were for capital improvements, grants to local governments, winterization projects, and personnel services. Normally, nursing care payments, capital improvements, and grants are provided from general revenue and revenue sharing.

Antirecession assistance appropriations by function and related object class were:

Function	Object class	Amount (in thousands)
Public welfare	Other (nursing care)	$1,868.8
Transfers to other governments	Other (sewer construction and water supply)	1,000.0
Housing and urban renewal	Supplies and equipment	1,000.0
Hospitals and clinics Local parks and recreation General public buildings	Capital construction and improvements	2,135.2
Highways and streets	Salaries and wages	27.3
Total		$6,031.3

Most antirecession funds increased year-end surplus

In relation to overall fiscal health, the antirecession assistance funds have had little effect. Funds received were less than a quarter of 1 percent of total revenue and slightly more than 1/3 of 1 percent of general fund revenue. Most of the antirecession assistance funds satisfied needs that otherwise would have been met with general revenue and revenue sharing funds, thereby enhancing the State's good financial condition, and in effect, adding to the existing surplus. These funds replaced other State funds in meeting normal operating costs for capital improvements, grants to local governments, and nursing care. If antirecession assistance funds had not been received, these obligations would have been met with other State funds. Antirecession assistance funds totaling $1 million were commingled with other Federal funds to winterize homes, and the antirecession funds expanded the winterization program beyond budgeted levels.

STATE OF NEW JERSEY

New Jersey is the fourth smallest State in the Union, occupying a land area of only 7,505 square miles. More than 7.4 million people reside on this land mass, making New Jersey the eighth most populated State with the greatest intensity of urbanization of any State.

New Jersey is located in the Mid-Atlantic region of the nation in the center of a concentration of buying income, retail sales, and production. New Jersey's 1976 per capita income of $7,381 ranked second only to Alaska and was 15 percent above the national average. New Jersey's Department of Labor and Industry attributes the high per capita income to a high concentration of research and corporate headquarters operations, an above-average share of manufacturing jobs, a favorable mix of industries within its manufacturing sector, and a highly productive labor force. State officials in the Budget and Accounting Division viewed New Jersey's high transfer payments from the Federal Government, namely for Medicaid and Welfare, as additional factors contributing to New Jersey's high per capita income.

The constitution prohibits New Jersey from maintaining its operations by means of deficit financing, therefore, an annual surplus balance is normal.

In terms of money spent, the five major services provided by New Jersey are: education, public assistance, transportation, hospitals, and public safety.

FINANCIAL CONDITION IMPROVED

Officials believe the State's financial condition in fiscal years 1977 and 1978 was very good, especially in comparison with fiscal years 1975 and 1976. New Jersey's economic status generally follows that of the nation with a few month's lag time, so the growth the State has been experiencing in fiscal years 1977 and 1978 is roughly equivalent to the growth of the national economy. New Jersey's unemployment rate dropped slightly and the State's surplus for fiscal year 1977 was larger than had been anticipated. In addition, the State balanced its budget in fiscal year 1978 without adding or increasing any taxes.

The State's two major sources of revenue for general operations are its sales and use tax and corporation business tax. Another major source of revenue collected by the State, but unavailable for use to support general State operations, is the gross (personal) income tax.

The sales and use tax revenues increased from $829 million to $905 million between fiscal years 1976 and 1977, and were budgeted to increase about 7 percent in 1978. State officials attributed the increased revenues to an improving economy.

The corporation business tax consists of a net income tax and a net worth tax and is measured by that portion of the corporation's net income and net worth allocable to operations in New Jersey. Revenues from the corporation business tax rose 12.4 percent from $431.9 million to $485.5 million between fiscal years 1976 and 1977, and exceeded budgeted revenues by about 7 percent. Revenues were budgeted to increase about 23 percent in 1978, and although first quarter collections were only 9 percent of the $597 million budgeted for the year, State officials said that it is normal for those revenues to remain low until the last quarter of the fiscal year. The tax is due 3 1/2 months after the close of a corporation's fiscal year and most corporations end their fiscal year as of December 31.

Effective July 1, 1976, the State enacted a gross personal income tax. Proceeds from this tax are dedicated for the funding of local educational systems, property tax relief, and the repeal of several business taxes and cannot be used to support general State operations.

Revenues from the gross income tax for fiscal year 1977 amounted to approximately $656 million. The State's original fiscal year 1977 budget did not include revenues from the gross income tax because the tax was not officially enacted until July 8, 1976. Revenues for the first quarter of fiscal year 1978 amounted to about $182 million or 23 percent of the $792 million anticipated for the year.

Intergovernmental revenues

New Jersey's revenues from the Federal Government increased from $964.4 million to $1,240.3 million between fiscal years 1976 and 1977. The $276 million increase is primarily due to increases of $150 million for highway construction and maintenance, $47 million for child nutrition programs, and $40 million for Medicaid payments.

Expenditures increased substantially

General operating expenditures experienced a 24 percent increase between 1976 and 1977. The following schedule illustrates these increases by program category.

Category	General operating expenditures 1977	1976	Difference	Percentage change
Protection of persons and property	$ 174.0	$ 155.0	$ 19.0	12.3
Physical and mental health	215.6	202.0	13.6	6.7
Education and intellectual development	1,477.7	1,144.2	333.5	29.1
Community development and environmental management	92.6	85.3	7.3	8.6
Economic development and income protection	574.4	512.7	61.7	12.0
Transportation	155.4	163.3	(7.9)	(4.8)
General government affairs	458.9	274.8	184.1	67.0
Total general operating expenditures	$3,148.6	$2,537.3	$611.3	24.1

The most significant changes occurred in education and intellectual development and in general government affairs, primarily because of enactment of the gross income tax. Prior to the enactment of the gross income tax in fiscal year 1977, the State funded 29 percent of local educational systems. However, with the enactment of the gross income tax, the State is required to fund 40 percent. The $184.1 million increase in general government affairs resulted primarily from expenditures of $164 million for property tax relief.

The State has not relinquished authority for providing services to another level of government. Conversely, through the gross income tax, the State has assumed more of the responsibility and cost for funding the educational system in local municipalities.

Changes in operating fund balances and indebtedness

New Jersey always has had an annual unrestricted surplus balance in the general State fund because the State constitution does not permit deficit spending.

At the conclusion of fiscal year 1977, the State had a surplus fund balance of $131.7 million, a decrease of about $5.4 million from 1976. The unrestricted portion of the balance, however, rose $5.3 million to stand at $101.1 million. This does not include $11 million in antirecession assistance received for January and April 1977 which was deferred to fiscal year 1978. Officials stated that the deferral was made because the expenditure level for 1977 had already been established, and the State was preparing the 1978 budget when the funds were received.

New Jersey's bond rating is excellent. Moody's Investor Service, Inc. currently rates the State with a Aaa bond credit rating, upgraded from Aa in May 1977. The investing service cited positive actions together with the basic strength of the State's economy, its debt policies, and financial stability as factors causing the upgraded rating.

State officials advised us that there are no legal limitations on the amount of indebtedness the State can incur. However, the State constitution prohibits the legislature from authorizing debt when total outstanding debt would exceed 1 percent of total appropriations for the year unless the proposed authorization is approved by a majority of the legally qualified voters at a general election.

In fiscal year 1977, the voters approved two bond proposals totaling $150 million. One of the proposals for beaches and harbors totaled $30 million. The other for $120 million was to refinance an existing debt for New Jersey's College of Medicine and Dentistry.

The New Jersey Annual Fiscal Report for 1976 shows that the State has authorized over $2.0 billion in bonded debt. As of March 31, 1977, this amount rose to $2.2 billion. Of this total authorization, $1,538 million was issued and outstanding; $434 million remained unissued; and $269 million had been retired as of March 31, 1977.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

State officials believe the improved national economy and increasing per capita income to be the most significant factors favorably affecting New Jersey's fiscal health during fiscal years 1976 and 1977. Officials are also hopeful that the January 1, 1978, repeal of the State sales tax on the purchase of manufacturing machinery, apparatus, or equipment and on services on goods to be shipped out of State for use out of State will favorably affect the State's future financial condition by encouraging business expansion.

Negative factors affecting the State's financial condition are inflation and the unemployment level in the State.

New Jersey's unemployment level is usually higher than most other States and has been a chronic problem.

Factors affecting revenue-raising capacity and expenditures

The most significant factor affecting New Jersey's revenue-raising capacity is the national economy and its effect on sales activity. Increasing sales activity is important because it affects revenues from the sales tax and corporation business tax, two of the State's largest sources of revenue.

The New Jersey legislature can raise or implement new taxes without public referendum. The legislature, however, has not used its taxing authority to increase revenues from a major tax since fiscal year 1975. Although the gross income tax was enacted in fiscal year 1977, revenues from it cannot be used to fund normal State operations.

New Jersey's revenue-raising capacity is the primary factor affecting the State's level of expenditures since the State cannot operate with deficit spending and thus must limit expenditures to the amount of revenues received. Inflation has also had an effect on the State's expenditures by causing increases in purchase costs. In addition, the State has implemented spending caps which limit any 1-year increase in the State operating budget.

The demand for basic services provided by the State has been increasing in recent years, particularly for public transportation, unemployment compensation, welfare, Medicaid and social services for day care, abused children, and senior citizens. New Jersey has been increasing its coverage in these areas to the extent funds are available.

Administrative costs to cover the increases in basic services being provided have risen due to overall increases in salaries and employee benefits and the need to add personnel to investigate welfare fraud and environmental regulation violations.

Major budget adjustments

The State has not experienced any major budget adjustments since fiscal year 1976 when it was forced to make significant cut backs on funds for State police and mental health programs due to recessionary pressures.

Net employment by the State of New Jersey increased by 2,736 between fiscal years 1976 and 1977. There were 484 layoffs or positions eliminated in the State during fiscal year 1976 and only 20 in fiscal year 1977.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

As of July 11, 1977, the State received $30,064,500 for the first four payments of the program. All but $451,389 of the State's first four payments had been appropriated as of October 31, 1977, and over $20 million had been disbursed which indicates that the State is generally appropriating and disbursing funds within 6 months of receipt. The remaining amount was appropriated on December 1, 1977.

The first four payments were appropriated for the following items.

Item	Amount appropriated	Percent of total
Salaries/wages	$15,765,000	53.2
Across-the-board wage and benefit increases	6,600,000	22.3
Subtotal - wages	$22,365,000	75.5
Supplies and equipment	30,000	0.1
Fuel and utilities at State colleges	1,363,111	4.6
Services other than personnel	155,000	0.5
Medicaid	5,700,000	19.3
Total	$29,613,111	100.0

As can be seen from the above schedule, most of the funds were used for wages (75.5 percent) and Medicaid payments (19.3 percent).

The funds used for positions provided jobs for 690 people in the following five areas.

Area	Full-time positions
Education	66
Highways	83
Parks and recreation	83
Corrections	333
Judiciary	125
Total	690

New Jersey officials stated that fiscal year 1977 antirecession funds were used to restore and maintain the State's basic services. In fiscal year 1978, antirecession funds were used to slightly expand existing services. According to officials, if the funds had not been available in fiscal years 1977 and 1978, the State would have had to layoff employees and cut back on some basic services.

STATE OF NEW YORK

Located in the northeast part of the United States, New York State covers 49,576 square miles with a 1976 population of 18,084,000. The State's average unemployment rate for 1976 was 9.5 percent. A budget official informed us that in January 1977, the rate was 10.2 percent, and it decreased to 7.5 percent in October 1977.

New York's economy is diverse with a large share of the nation's wholesale-retail trade, finance, insurance, transportation, communications, and service employment, and a small share of the nation's farming, mining, and manufacturing activity. In 1976, 75.9 percent of the State's nonagricultural workforce was employed in services, manufacturing, government, and retail trade.

New York City accounts for 40 percent of the State's population and a substantial portion of its economic base. Upstate communities vary widely in wealth, but overall, the State's level of personal wealth is relatively high, compared with the nation as a whole.

However, there has been a weakening in the State's economy in the last decade. A State official informed us certain manufacturing facilities have recently relocated to other States for various reasons of which high taxes and aging facilities seem prevalent. This trend appears to have been partially offset recently due to the State's efforts to assist corporations and, according to one State official, due to proposed tax changes.

The State has a centralized administrative system with most executive powers vested in the Governor. The Governor, Lieutenant Governor, Comptroller, and Attorney General are elected in statewide elections every four years. Of these officials, the Governor and the Comptroller have principal responsibility for the State's financial operations. The Comptroller is the State's chief auditor and fiscal officer.

The State Legislature is composed of a 60-member Senate and a 150-member Assembly, all elected for 2-year terms.

Planning, budgeting, and reporting of State financial activity is performed on the cash basis.

In general, the services provided by the State include

--aid to localities (which includes education, social services, and State revenue sharing);

--State operations (which include support of the State university, mental hygiene, correctional facilities, tuition assistance and salaries of State employees); and

--capital projects (which include State highways and recreational areas).

FINANCIAL CONDITION IS GOOD

The deputy director of the budget considers New York's financial condition during fiscal year 1978 to be good and now stable. This is an improvement from 1976 when the State, according to him, was near financial collapse. He attributed the State's good financial condition to a return to normal revenue growth and reduced expenditure growth, particularly in welfare costs. Our review of the State's revenues and expenditures was limited to those comprising the general fund.

Revenues increased substantially

Total general fund revenues, excluding certain adjustments, increased from $10.0 billion to $11.1 billion between fiscal years 1976 and 1977, and are conservatively budgeted to increase about 1.9 percent in fiscal year 1978. (The State's fiscal year ends on March 31). General fund expenditures increased from $10.7 billion to $11.0 billion in 1977 1/ and were budgeted to increase 4.7 percent in 1978. This rate of growth is less than the growth experienced during previous fiscal years when expenditures increased at the rate of a billion dollars a year.

The State's revenue from its own sources increased 11.2 percent in fiscal year 1977 and is estimated to increase 2.3 percent in 1978. Revenues from personal income tax increased 14.6 percent (from $3.9 billion to $4.5 billion) between fiscal years 1976 and 1977. More than $200 million of the increase was attributable to a deferral of refunds, ordinarily payable in 1977, into 1978. An assistant chief budget examiner said that personal income in the State was up 6 percent and unemployment was down. In addition, a $64 million adjustment in 1976 to a special reserve for

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1/These amounts do not include $382 million in 1977 for payments of borrowings used to finance the prior year's cash deficit. Had we done so, the increase in 1977 expenditures would have been 6.9 percent rather than 3 percent.

paying tax refunds contributed to the increase. According to the deputy director of the budget, the State is exceeding the budgeted 1978 personal income tax revenues.

Sales and use taxes increased 3.2 percent ($2.15 billion to $2.22 billion) between fiscal years 1976 and 1977. The State made an adjustment in collection procedures which caused a one-time increase of $87 million in 1976 receipts. Adjusting the 1976 receipts by the $87 million shows a growth of 7.6 percent for 1977. An assistant chief budget examiner attributed the increase to a betterment in the State's economy: the State came out of the recession, people had more disposable income and spent more.

For 1978, the State is projecting an 8.6 percent increase due to a change in collection procedures (a nonrecurring gain of $25 million), increased efforts to collect delinquent taxes, and a general inflation in prices.

Business taxes including the corporate franchise tax increased 12.6 percent ($1.7 billion to $1.9 billion) between fiscal years 1976 and 1977. An assistant chief budget examiner attributed the change to businesses selling their inventories. Nevertheless, the State fell 1.7 percent short of its budget. The 1978 budget has a 4.6 percent increase over actual 1977 revenues of $1.9 billion because continued growth in business activity is expected.

Revenues from consumption and use taxes increased 1.9 percent ($1.284 billion to $1.308 billion) between fiscal years 1976 and 1977. The assistant chief budget examiner said the increase is not a significant indication of trends and is likely a result of increased personal incomes.

Other tax receipts increased 13.5 percent ($336 million to $381 million) between fiscal years 1976 and 1977 due to increases in large estate payments. In addition, housing starts increased collections from real estate transfer taxes. Actual 1977 receipts exceeded the budget by 10.8 percent due to the lottery's reintroduction and sales growth. The 1978 budget anticipates 31 percent less than actual 1977 collections due to anticipated decreases in estate and gift taxes brought about by changes in the Federal tax laws and by decreased lottery receipts.

Miscellaneous revenue increased 33 percent between fiscal years 1976 and 1977 due to increased receipts from sales of abandoned property. The assistant chief budget examiner stated that legislative changes reduced the dormancy periods for several types of such property. Collections for 1978 are also exceeding projections.

Total intergovernmental revenues increased from $4.51 billion to $6.35 billion between 1976 and 1977. Of these revenues, only revenue sharing and antirecession assistance funds are general fund revenues. Funds from revenue sharing and antirecession assistance increased 25 percent ($235 million to $294 million) between fiscal years 1976 and 1977. The assistant chief budget examiner said the increase was due to increased revenue sharing and the unexpected anti-recession assistance payments. In 1978, the State projected a 14.5 percent decline in intergovernmental revenues, primarily because the budget does not contain antirecession payments.

Expenditures increased

General fund expenditures increased from $10.65 billion to about $10.99 billion between 1976 and 1977 and are budgeted to increase an additional 3.7 percent in 1978. A State budget official said these increases reflect higher costs due to inflation, particularly educational and medical services costs. Also increasing expenditures were new projects such as the new water pollution and solid waste recycling facilities and a new mental hygiene program.

Some expenditures declined. New highway projects were postponed; support for the State university was reduced; and the ineffective drug treatment program was terminated.

Changes in fund balances and indebtedness

The State's general fund balance declined 29.2 percent ($313.5 million deficit balance in 1976 to a $405.0 million 1/ deficit balance at the end of fiscal year 1977) because the State incurred an operating deficit of $91.5 million. A State official noted, however, that the State's financial condition improved over the previous year which had an operating deficit of $446.8 million.

As of October 31, 1977, the State had almost $3.5 billion in short-term debt. However, by the end of fiscal year 1978, short-term debt is expected to be reduced to approximately

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1/Calculated by GAO from the annual reports of the State Comptroller. Officials from the Comptroller's Office cautioned that while this analysis may show the trend of the accumulated results of general fund transactions, the balances do not represent actual cash balances.

the March 31, 1977, amount of $568 million. This is due to laws requiring the payment of short-term debt within 1 year from the date of issue.

The State's general obligation bonds were rated A by Moody's Investor Service, Inc., in January 1978, unchanged from the prior year rating.

Services increased

The deputy director of the budget said the State has not relinquished authority to another level of government for providing services, but it has assumed a share of local court costs and intends to eventually absorb all court costs. In addition, the State increased its level of support to the City University of New York. This assumption of costs was prompted by the city's fiscal problems.

Capital projects delayed

According to the deputy director of the budget, the State has delayed many capital projects due to insufficient funds resulting from the financial community's lack of confidence in State securities. At present, the State is committed to financing only those projects started in prior years.

The State's capital construction expenditures from the general fund have declined from $617 million in fiscal year 1976 to $540 million in 1977 and are projected to be $494 million in 1978. According to the deputy director, the bulk of these monies is directed to the Department of Transportation for construction and maintenance of the roadways. We were informed that the State university, hospitals, and nursing homes have ample space for current and projected needs. However, the sale of securities is slow, causing delays in environmental and mass transportation projects. These delays cause the State to enter only into projects that are partially funded by Federal grants, and even with the Federal grants available, some projects still have not gotten beyond the drawing board.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

State officials gave us positive and negative factors which affect the State's fiscal health.

The deputy director of the budget expects an operating surplus by the end of 1978. He also stated that the State's check of past expenditure growth, particularly the reduction in welfare costs, is of utmost significance.

Factors which adversely affect the State's fiscal health that the deputy director mentioned are:

--Recession in 1975.

--The slowing of business activity in 1976 and in the earlier part of 1977 as indicated by lower employment levels (chronic unemployment). (Although the unemployment level decreased in 1978, it is still above the national average.)

--The exodus of business from the State due to high taxes, militant unions, and aging plants. (This exodus seems to have slowed in 1978 due to proposed tax reductions and State assistance to businesses.)

The deputy director indicated that the recession was the most significant revenue raising hinderance in fiscal year 1976. A turnaround is evident in fiscal years 1977 and 1978 due to revenues from personal income tax and sales and use taxes returning to normal growth levels. The deputy director said the Governor plans to reduce taxes and, hopefully, to convince businesses to stay in New York.

An assistant chief budget examiner said the State is affected by inflation due to increases in costs of fuel, food, supplies, medicine, equipment, clothing, and salaries. For example, State University energy costs alone increased $25 million above their 1977 levels.

The deputy director of the budget said the State is extremely affected by recession-related problems. This was evident in fiscal year 1976 and the early part of 1977 when the State's economy slowed, workers were laid off, and demands for social services increased. Welfare costs increased as the unemployed exhausted their benefits. Although costs increased, the rate of increase was slower than in previous years, and in fiscal year 1978, welfare costs actually declined. One State official told us that he could not say precisely when the demand reached its peak or what the demand's precise effect on administrative costs was, but he said the processing of inordinate numbers of claims increased costs.

A State official informed us that total personal services (salaries, pensions, and fringe benefits) amounted to almost $2.8 billion in 1977, about 25 percent of total expenditures and 83 percent of general fund expenditures for State purposes.

A State official said no major tax changes or new taxes have been approved by the legislature, but the corporate franchise tax and bank tax surcharges of 20 and 30 percent, respectively, were extended in fiscal year 1978 and calendar year 1977, respectively. Effective January 1, 1977, a 2.5 percent surcharge on the personal income tax was removed.

In January 1975, the State employed 184,012 people in permanent positions. In December 1976, the number was reduced to 174,333, a reduction of 9,679 employees primarily due to a hiring freeze effective January 1975 and to layoffs. We were informed that the freeze was an attempt to halt the past expansion of State agencies.

As of November 1977, the number of employees in permanent positions rebounded to 178,674. State agency programs with increasing employment levels were social services, corrections, youth, transportation, general services, and health. Reductions subsequent to the 1977 hiring freeze were directed at drug abuse, the State university, and transportation services. The drug abuse program was cut back because the program over-expanded rapidly with no corresponding improvement in drug use reduction. The State university staff was reduced in line with the stabilized student enrollment level. Transportation employment levels declined because of project postponements as noted elsewhere in this report.

An assistant chief budget examiner insists that no services were cut when employee levels were reduced, even in the area of drug abuse which he said was ineffective and did not provide the intended service.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

New York State received $104,090,681 for the first five quarters and $32,688,091 for the sixth quarter payment, a total of $136,778,772.

We were told by an assistant chief budget examiner that $87,768,823 of the funds for the first five quarters were disbursed as of October 31, 1977. The remaining $16,321,858 has been appropriated and would be disbursed by March 31, 1978.

Use of funds

An assistant chief budget examiner said funds from the first three quarters, approximately $49 million, were spent as part of the State's share of New York City's welfare costs incurred during the last quarter of 197C. As of October 31, 1977, a total of $87,768,823 was spent, mainly on welfare and aid to counties, municipalities, and quasi-government agencies.

The table below shows the functional areas where funds were utilized.

Function	Amount
Public welfare	$71,612,989
Transfer to other governments	15,949,160
Education	133,545
Other	57,549
General public buildings	14,363
Crime prevention	1,217
Total	$87,768,823

An assistant chief budget examiner stated that antirecession funds assisted the State in maintaining services in 1977, and in 1978 the funds helped expand services previously planned but not funded. He could not specify the impact the funds had on the State's employment levels.

The deputy director of the budget said the antirecession funds made a significant impact on reducing the fiscal year 1977 year-end deficit which was caused by recession and chronic inflation. Without the funds, the State's debt would have been higher, which would cause the State in turn to issue more short-term tax anticipation notes to cover its operations. In 1978, the funds allowed the State to fund projects that were approved but delayed due to funding problems. Without the funds, the projects would have been delayed still further.

The deputy director of the budget believes the program should be continued. The Governor plans to use antirecession funds as one source to enable him to provide tax relief on personal and corporate income tax and other taxes. He believes non-restrictive Federal aid is most beneficial to State operations.

STATE OF OKLAHOMA

Oklahoma is a south central State with total area of 69,919 square miles and a population estimated on July 1, 1976, at 2.77 million. Per capita personal income in Oklahoma for 1975 was $5,250. Oklahoma's unemployment rate declined from 5.1 percent in June 1977 to 3.7 percent in November 1977.

Agriculture, petroleum-related production, and the Federal Government are the State's largest sources of income. Several large oil companies are located in Oklahoma.

Oklahoma's governmental organization is modeled after the Federal government with three major branches--the legislative, executive, and judicial. The legislature has two houses--a House of Representatives and a Senate.

The basic services offered by the State are classified into ten functions: general government, legal and judiciary, education, libraries and museums, health services, social services, public safety and defense, transportation, regulatory services, and natural resources.

FINANCIAL CONDITION IS EXCELLENT

State officials believe that Oklahoma's financial condition is excellent. Revenues have increased faster than expenditures and surplus/reserve funds have increased. The effects of inflation, and especially higher oil prices, have helped more than hurt Oklahoma's financial condition. These conditions were present during our review completed in February 1977 and have improved with increases in the price of oil and natural gas, the resulting stimulation of activity in Oklahoma's oil industry, and the accompanying increase in tax revenues.

Revenues exceeded expenditures

In fiscal year 1977, Oklahoma's expenditures increased $190 million, or 9.5 percent, while revenues increased about $212 million, or 10.7 percent. State officials attributed the revenue increases to inflation and expansion of Oklahoma's economy.

Four of the major taxes levied by the State provided about 76 percent of fiscal years 1976 and 1977 tax revenue. These four taxes are shown on the following page.

	Fiscal Year		Increase	
	1976	1977	Amount	Percent
	(000)	(000)	(000)	
Income tax	$228,221	$261,445	$ 33,224	15
Sales tax	168,909	190,764	21,855	13
Gross production tax	150,071	189,180	39,109	26
Gasoline excise tax	103,481	108,413	4,932	5
Subtotal (selected taxes)	650,682	749,802	99,120	15
Total Taxes	$862,214	$989,087	$126,873	15

Income and sales tax revenue increases were attributed to inflation and economic expansion as was gross production tax revenue which increased at nearly twice the rate of income and sales taxes. The modest increase, 5 percent, of gasoline excise tax was attributed to the 55 mile per hour speed limit and cars with better gas mileage.

The 26 percent increase of gross production tax revenue was a direct result of higher natural gas and oil prices and an adjustment in the application of the excise rate. In fiscal year 1976, oil was taxed at 1/4 of 1 cent per barrel produced and natural gas at 5/100 of 1 cent per 1,000 cubic feet (MCF) produced. Both rates were changed to a slightly higher single rate of .085 of 1 percent of value in fiscal year 1977. A tax official said that this change was made to take advantage of the rising value of oil and natural gas.

The overall estimate of general revenue fund revenues was exceeded by 3 percent in fiscal year 1977, and first quarter collections for fiscal year 1978 exceed collections of 1976 and 1977 by 46 percent and 22 percent, respectively.

In 1977, intergovernmental revenues increased about $36.2 million, or 5 percent, from about $721.3 million to about $757.5 million. Of this amount about $668 million, or 88 percent of the intergovernmental revenues were receipts from the Federal Government. The increase in Federal receipts was in Comprehensive Employment and Training Act, school lunch, and medical assistance funds. Medical assistance funds increased from zero in fiscal year 1976 to over $119 million in 1977. These increases were partially offset by a $27.4 million decrease in funds to the Oklahoma Employment Security Commmission.

Expenditures for all functions increased

Expenditures for basic services increased by about $188.4 million, from $1,982.8 million in fiscal year 1976 to $2,171.2 million in fiscal year 1977, an increase of 9.5 percent as shown below.

Function	Fiscal Year 1976	Fiscal Year 1977	Increase Amount	Increase Percent
	--------(000 omitted)--------			
General Government	$ 61,222	$ 69,597	$ 8,375	13.7
Legal and Judiciary	13,669	16,083	2,414	17.7
Education	758,414	860,689	102,275	13.5
Libraries and Museums	3,708	4,010	302	8.1
Health Services	53,582	59,044	5,462	10.2
Social Services	716,114	749,457	33,343	4.7
Public Safety and Defense	62,575	82,173	19,598	31.3
Transportation	257,104	268,404	11,300	4.4
Regulatory Services	22,787	23,330	543	2.4
Natural Resources	33,585	38,378	4,793	14.3
Subtotal	1,982,760	2,171,165	188,405	9.5
Total expenditures	$2,006,775	$2,196,476	$189,701	9.5

Officials attributed the increases in expenditures primarily to inflation, some salary increases, and demand for expansion of services. They said that this was especially true of the public safety function (correctional institutions) where demand and need are the primary factors for the increase.

State budget officials said that they have not relinquished authority for providing any services, however, they have assumed responsibility and costs of some programs provided at local levels due to limitations of funding available to county and municipal governments and increasing demands for services. Examples of such programs were the training costs for police and law enforcement officers and cost-of-living increases for school district maintenance personnel and county health employees.

Fiscal health improved

The general revenue surplus has decreased substantially from fiscal year 1975 to 1977. Officials said that the legislature decided to reduce the surplus largely through capital expenditures rather than increase operational funds. Officials said that the large surplus of 1975 was the result of low revenue estimates. Since that time estimates of revenues have been better and the legislature appropriated more of each year's revenue leaving a smaller surplus.

In addition to the surplus, the State maintains a general revenue fund reserve. This reserve has increased substantially in the last 4 years from $10 million in 1974 to over $79 million in 1977 due to legislative changes in the method of computing the reserve and the need for more of a reserve to even out the cash flow of the general revenue fund. The reserve and surplus, considered together, increased by $13.9 million from 1976 to 1977.

Bonded indebtedness decreased

Long-term indebtedness decreased during fiscal year 1977 by about $7 million from $181 million to $174 million due to debt retirement or cancellation. The State cannot incur short-term debt.

The State has not attempted to borrow money in the last two fiscal years, but has a $76 million refunding issue of general obligation bonds in fiscal year 1978. The State's general obligation bonds have had an Aaa rating by Moody's Investor Service, Inc., since 1975.

State officials informed us that no approved capital projects were delayed due to fiscal constraints during fiscal years 1977 and 1978. However, they stated that many desirable projects are deferred each year. The officials stated that funding for essential basic services of the State receives first priority in the budget with capital project requests funded from remaining available resources. They said that the State's financial condition has never allowed for funding of all proposed capital projects each year, but they added this was not an indicator of weak fiscal health.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

State budget officials said that inflation, economic expansion, and increased oil and natural gas prices were the most significant factors affecting their financial health.

The most significant factors affecting revenue-raising capacity, according to State officials, were inflation, economic expansion, continued net immigration, steadily increasing per capita income, an increase in oil and natural gas prices, a relatively low level of unemployment, an expanding industrial base, and a generally stable economy. These factors all contribute to the enhancement of revenue potentials; however, the decline in agricultural prices, unless adequate support levels are provided, would reduce these potentials in future years.

The most significant factors affecting the level of expenditures are funds available, inflation, need, and demand.

State budget officials said that the prior year's level of services have been maintained but the amount of expansion is limited to the extent of funds available. The officials said that there have been increases in administrative costs in all areas and all levels of State government in the maintenance of normal levels of basic services. These cost increases can be attributed largely to inflation and affect fiscal health in that they may prevent or delay needed expansion or improvements in essential services, programs, or capital projects.

State budget officials said that there were no major budget changes or adjustments during fiscal years 1976 and 1977 other than to shift needed funds where demand and inflation required. For example, additional funds were provided to the education and the public safety functions. They said that these are normal adjustments made for each budget.

State officials said that there were no major tax changes in fiscal years 1977 and 1978, just minor adjustments in the taxing system or rates such as the changing of the oil and natural gas excise rates to a single rate which also changed the excise tax from a "per unit" tax to a value tax. They said that this will increase tax revenue some but not enough to have a major impact.

State budget officials said that normal levels of basic services have not been affected. They said that they have not been forced to cut or relinquish any services other than cuts on expiration of specific exclusively grant-funded programs.

A State official informed us in general, that the State government has had no major layoffs, hiring freezes, or other personnel actions associated with the recession. Oklahoma's full-time equivalent (FTE) employees increased during fiscal year 1977 by about 2,300 or 5 percent. State officials gave the following reasons for the increase:

--a general increase at all State educational institutions due to increasing enrollment and added services, and

--social services employees increased due to adding staff to county welfare offices, schools for the mentally retarded, juvenile court facilities, and penal institutions.

Oklahoma's capital projects funding decreased from about $76 million in 1976 to about $64 million in 1977. Officials attributed the decrease to less general revenue surplus funds available for such activity. They said that occasionally capital projects have been used to control the amounts committed to operational increases so that levels of services will not be inflated unrealistically to the point that they cannot be supported by the normal growth of revenues in succeeding years. For example, in 1975, when the $170 million surplus became available, Oklahoma chose to reduce the balance through general fund capital projects expenditures, rather than increase operational funds. Officials said that as the surplus is reduced the amount of capital projects is reduced until the State returns to an annually manageable level of capital project expenditures.

Officials said that inflation is the State's only identifiable long-term problem. The only other concern is that approximately 32 percent of the State's total revenues come from Federal sources. They said that unless there is a drastic curtailment of these funds, there is no reason to believe that State needs would be beyond the State's tax or borrowing authority.

State officials said that antirecession funds are being used to maintain basic services, to support current levels of employment with cost-of-living increases, and to offset the effects of inflation. For example, since 1967 labor costs for improving roads have risen 92 percent, asphalt cost has risen 150 percent and costs of excavation are up 538 percent. He said that asphalt has risen from $12 per ton to $20 in just the last 3 years.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

The antirecession assistance funds received by the State in the first five quarters of the program have been appropriated within the six-month limitation. The status and use of these funds as of October 31, 1977, was as follows.

Status of antirecession funds	First four quarters (000)	First five quarters (000)
Funds received	$ 3,139	$ 3,550
Funds appropriated	3,139	3,550
Funds disbursed	1,902	1,902
Funds not disbursed	1,237	1,648
Total funds accounted for	$ 3,139	$ 3,550

The antirecession assistance funds were appropriated to three agencies. The mental health and health departments received fixed amounts and the transportation department appropriation bill allocated all remaining antirecession assistance funds not allocated to the other two departments. A State official said that this appropriation procedure was used so that all antirecession funds could be appropriated within the six-month requirement without additional legislative action. The status of funds through the fifth quarter's payment was as follows.

Department	Appropriation (000)	Amount disbursed (000)	Balance 10/31/77 (000)
Health	$ 875	$ 277	$ 598
Mental health	1,625	1,625	-0-
Transportation	1,050	-0-	1,050
Totals	$3,550	$1,902	$1,648

By object class and function, all antirecession funds spent as of October 31, 1977, were for salaries and accompanying benefits. Remaining antirecession funds will be spent throughout fiscal year 1978.

Health department officials said they funded 48 existing full-time positions with antirecession funds. A mental health department official said they funded 1,283 full-time equivalent (FTE) positions with their antirecession funds. Officials of the two health agencies said that the antirecession funds may have displaced State funds that the agencies may have received anyway but probably insured funding at current levels.

State budget officials agreed with health agency officials' comments and added that without antirecession funds the overall level of funding for all State agencies would have been lowered by the amount of the antirecession funds because the funds were considered part of the total funds available for all agencies.

The antirecession funds had no effect on fiscal year 1977 because the funds were not appropriated until June 1977 for use in fiscal year 1978. Overall, the effect on the current fiscal year's budget was minimal, probably increasing authorized expenditures slightly.

COMMONWEALTH OF VIRGINIA

Virginia comprises 40,817 square miles and is ranked thirty-sixth in area. It is divided into five distinct regions--a coastal plains, a piedmont plateau, the Blue Ridge Mountains, the Shenandoah Valley, and the Appalachian plateau region.

The 1976 population was estimated at 5,032,000, of which 2,306,000 comprised the civilian labor force. In 1975, non-agricultural employment accounted for about 97 percent of the civilian labor force, headed by government (Federal, State, and local), and followed, in turn, by manufacturing and wholesale/retail trade.

The 1976 total personal income was over $31.9 billion, reflecting a 10.9 percent increase over the prior year. Per capita income was $6,341, approximating the national average of $6,399.

The Commonwealth government consists of three separate branches: legislative, executive, and judicial (Supreme Court). The legislative power is vested in the General Assembly which has the ultimate responsibility and authority for levying taxes and appropriating revenue. Executive power is vested in the Governor, who, as the chief executive officer, has responsibility for preparing and submitting to the General Assembly a budget to cover the financial operations of the Commonwealth for each biennium (2 years). After the budget bill is passed, it becomes the appropriations act which is implemented and administered by the Executive Branch.

The Governor is required to maintain a balanced budget. If necessary, he must reduce expenditures and withhold allotments of appropriations in order to prevent any expenditures in excess of estimated revenues. Basic services are provided for such functional areas as education, health and welfare, administration of justice, resource and economic development, general administration and legislation, and transportation.

FINANCIAL CONDITION IS HEALTHY AND IMPROVING

Officials believe the financial condition of the Commonwealth government is healthy and improving, a significant change from our prior review in February 1977, when the General Assembly was in the process of eliminating a $102.6 million deficit projected over the biennium ending June 30, 1978. Since that time the Commonwealth economy has improved, revenues are flowing in better than anticipated, and unemployment has continued to drop.

Revenues rose sharply

Total revenues for fiscal year 1977 rose about 14.5 percent, while revenues from the Commonwealth's own sources showed an increase of 14.3 percent over the prior year. Three major taxes--sales and use, individual income, and corporation income--generate the bulk of the Commonwealth's general fund revenue. The sales and use tax and the individual income tax showed healthy increases over 1976 collections even though they did not achieve the initial budgeted estimates. The sales and use tax revenues increased 10.7 percent, and the individual income tax revenues rose 16.2 percent. These increases exceeded revised estimates, and were attributed to an improving economy and decreasing unemployment. Corporation income tax revenues, which exceeded budgeted estimates by 17.9 percent and actual 1976 collections by 22 percent, were aided by increased corporate profits resulting from the upswing in the economy.

In addition, collections for these three taxes for the first quarter of 1978 exceeded 1977 collections by about $61 million and were attributed to the improving economy and reduced unemployment.

Intergovernmental revenues showed a 15 percent increase over the prior year. An official attributed the increase to greater participation by the Commonwealth in Federally-funded programs.

Expenditure increases reduced through budget cuts

Fiscal year 1977 operating expenditures increased 11.5 percent over 1976 expenditures but fell about 9.3 percent short of estimates as a result of a 6-percent budget reduction ordered by the Governor. The reduction was ordered because the economy did not improve as quickly as expected.

According to an official, the only significant increases in expenditures were in the areas of Administration of Justice and transportation, which showed increases of about 58 and 29 percent, respectively. A major expansion program in the Department of Corrections accounted for most of the increase in Administration of Justice, while the increase in transportation was attributed to increased highway construction activity on projects deferred from 1976 due to a shortfall in highway revenue funds.

Changes in fund balances and indebtedness

In discussing Virginia's ending general fund balance, it is important to note that the Commonwealth has a 2-year budgetary cycle, and the June 30, 1977, balance is a mid-cycle balance. This balance is of little analytical value since revenues and expenditures are not appropriated and allotted to balance annually. Thus, the results do not show a true deficit or surplus status. Nonetheless, the ending balance at June 30, 1977, was about $16.6 million or about $1.6 million less than 1976. The projected balance at June 30, 1978, was listed at about $45.4 million. The factors contributing to the improved projected surplus balance are the increased revenue collections, reversions of the previous year's unexpended appropriations, and the Governor's budget reduction.

Total debt outstanding, which stood at $202.5 million at the end of 1976, was reduced to about $187 million at the end of 1977. The voters recently approved a general obligation bond issue of $125 million, which, if sold, would raise the indebtedness to about $312 million--minus any debt service--as of June 30, 1978. Moody's Investor Service, Inc. rates the general obligation bonds of the Commonwealth of Virginia as Aaa, the same as in the prior year.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

Commonwealth officials said that unemployment and inflation are the most significant factors affecting the fiscal health of the government.

According to one official, the Commonwealth's revenue-raising capacity is mostly affected by its economic condition. A growth of about 12 percent annually is expected. Unemployment adversely affects this expected growth and as it increases, individual income and sales/use tax revenues decline.

Other factors affecting revenue raising capacity include comparisons of tax rates with those of other States and changes in tax collection patterns. Also, recent legislative action to accelerate collections of individual income tax withholding and sales/use taxes is expected to provide a windfall from interest earned on deposits.

Inflation is the major factor affecting expenditures and, due to its uncertainty, is considered to be a long-term problem affecting the Commonwealth government. A Commonwealth official said an overall inflation rate of about 6 percent is included in the budget preparation although some services have higher or lower rates.

Budget adjustments

There have been no major tax rate increases during the last 4 years, because the Governor has generally opposed any increases. However, there were some minor tax rate changes on beer and alcoholic beverages during 1977. Basic services have not been cut, and there has been no noticeable increase in demand for services since the recession began to taper off and decline during the latter half of calendar year 1976. The Commonwealth government has not assumed or relinquished any responsibility for providing services to other levels of government.

Despite the continuation of the hiring freeze implemented in fiscal year 1976, total employment increased slightly between the end of calendar year 1976 and September 1977, with the main increase showing up in corrections where about 375 positions had been filled. No significant layoffs have occurred.

Although no approved capital projects have been deferred, requests for some projects have been, and basic services have been affected in areas such as corrections and mental health where overcrowding is a major problem. Also, the quality of higher education could have improved if general fund revenues had been available. The passage of the recent $125 million bond issue is intended to fund top priority projects needed to improve the level of basic services provided.

The deferral of these requests is not viewed as a weakness in the government. The government is considered to be financially sound with revenues increasing as the economy continues to improve.

STATUS, USE, AND IMPACT
OF ANTIRECESSION FUNDS

As of September 30, 1977, the Commonwealth government had received about $4.5 million in antirecession payments. The funds were used to pay the salaries of about [illegible] positions in the Department of Corrections. The General Assembly has appropriated all funds to be received through June 30, 1978, to the Department of Corrections for the purpose of supporting employment of essential staff and minimizing possible layoffs.

At the time of the appropriations, the revenues were falling short of initial estimates and the funds were used to plug the revenue gap. In comparing the antirecession funds received with the total budget, one official said the overall impact was minimal, although the funds came at a time when additional revenues were needed to counteract the revenue shortfalls.

STATE OF WASHINGTON

Washington is comprised of approximately 66,600 square miles located at the northwest corner of the contiguous United States. Washington had an estimated population of 3,661,975 as of April 1, 1977, an increase of 2.5 percent over the previous year. Principal industries in the State include forest products, metals and machinery, aerospace, and food products.

Washington's economy is doing well. Recent economic trend reports noted the following improvements. In September 1977, employment in Washington was 5.7 percent above the year-ago level, compared with a national 3.8 percent rise. Also, unemployment dropped from 8.5 percent in June 1976 to 7.1 percent in July 1977 (unadjusted); housing starts for 1977 through August approached a 60,000 unit annual rate, up 24.5 percent from the comparable 1976 pace and easily was outdistancing the previous record year of 1968; retail sales for 1977 through midyear were up 19.6 percent over the prior year--nearly double the national rate of gain; and real personal income in Washington increased 6.3 percent between the first quarters of 1976 and 1977, compared with the 4.1 percent increase for the United States.

Another report stated that the economic outlook for Washington State for 1978 is also bright with strong gains expected in the aerospace sector. It noted that the lumber industry will have ample markets in 1978, and wholesale and retail trade is expected to receive strong support from a healthy national economy and from an expanding tourist trade.

Washington's State government is modeled after the Federal government with the Governor acting as the chief executive. Washington's budget is based on a biennium. Its total budget for the most recent biennium, which ended June 30, 1977, approached $6.9 billion, primarily for five basic areas--education, human resources, general government, transportation, and natural resources and recreation. Education and human resources accounted for an estimated 89 percent of the general fund expenditures for the biennium.

FINANCIAL CONDITION IS GOOD

State officials said that their financial condition was good during 1977. The general fund, which one official described as a good indicator of the State's financial condition, ended 1977 with a balance of about $165 million, an increase of almost $100 million over the balance at the end of the previous biennium in 1975. The State finance committee said that this condition was caused mainly by increased consumer spending resulting in more sales tax revenue and actual expenditures being less than anticipated. Part of the surplus is expected to be used up during 1978 with the remainder being used by the end of 1979.

The State's financial condition is expected to tighten in 1978 because underestimated public school enrollments will cost an extra $21 million and the State is taking over full funding and phasing out the local special school levies for basic education. Officials estimated that Washington will spend about $100 million more in 1978 as the first step in assuming the full funding process. These factors, along with the removal of sales tax on most food items (effective in 1979), have the State watching its finances closely. Officials said that in 1978 they are receiving more sales and property tax revenues than expected, but some of the other tax revenues are lower than anticipated.

Revenue increases

State officials told us that business activities and consumer spending increased in 1977 causing tax revenues associated with these activities to increase significantly. The retail sales and use tax revenue was about 18 percent higher in 1977 than in the previous year and about 7 percent over the amount budgeted. This increase was due to a tax rate increase in June 1976 from 4.5 percent to 4.6 percent and increased consumer spending. State officials estimated that the sales tax revenue in 1978 will increase about 10 percent over 1977 due to the continued high level of consumer spending. Revenue from the business and occupation tax, another major State tax, increased 18 percent in 1977 but was about 1.4 percent below the amount budgeted. Part of the increase was due to a 6 percent surtax. Business and occupation tax revenue is expected to increase around 8.5 percent in 1978.

In addition to taxes associated with business activities, other tax revenues also increased in 1977. Property tax increased about 7 percent in 1977 over the previous year and is expected to increase almost 9 percent in 1978. The increase in 1977 was 2 percent over the amount budgeted. According to State officials, these increases were due to the higher property values caused by inflation and more property investment.

Revenue from the motor vehicle fuel tax increased 3 percent in 1977 and is expected to increase about 29 percent in 1978. The increase in 1977 is 7 percent greater than what was budgeted, and was caused by a higher level of fuel consumption. The projected increase in 1978 is attributable to an increase in the motor vehicle fuel tax rate from 9 cents to 11 cents per gallon and a higher fuel consumption rate. After December 31, 1977, the rate becomes variable ranging from 9 cents to 12 cents per gallon.

Intergovernmental revenues, which accounted for about 25 percent of total State revenue, increased by 26 percent in 1977 but were still 9 percent below the amount anticipated. In 1978, funds are expected to be about 9 percent below the 1977 level.

Expenditures increased sharply

Expenditures increased 14.7 percent during 1977, and are expected to increase about 11.7 percent in 1978. Officials said the increases occurred primarily in the human resources and education areas and were attributable to inflation and increases in the population.

The director of fiscal management said that real expenditure levels (excluding inflation) for basic services have not increased over the last 7 years, and no new services have been added except those necessary to maintain Federal funding. These new services, along with changes in the population mix, have resulted in shifts among the services. For example, as handicapped education funding is increased, other education levels are cut back.

State officials told us that Washington had neither assumed nor relinquished any basic service responsibilities from or to other levels of government during 1976 or 1977. As the result of a court ruling, however, money for basic education programs cannot be provided from local school levies, and the State will therefore assume more responsibility for funding basic education programs beginning in 1978. Officials said that State expenditures for basic education programs in 1978 and 1979 are expected to increase about $100 million each year and possibly $250 million in future years when they have full responsibility.

Outstanding debt increased, but remained a constant percent of total revenue

A State official said that the State normally issues new debt twice a year with the amount dependent on interest rates and future needs. In 1977, the State's year-end debt increased about 12 percent and is expected to increase about

6 percent in 1978. These debt increases are considered part of normal State operations and total debt has remained about a constant percentage of State revenue. Washington's bonds were rated Aa by Moody's Investor Service, Inc. in January 1978, unchanged from the prior year.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

Officials said that Washington State has no serious long-term fiscal problems. The most important factors affecting their financial health in 1977 and 1978 were inflation and personal spending. The removal of the sales tax on most food items (effective in 1979) and the State's commitment to phase-in full funding of basic education casts some uncertainties on the State's current financial health but are not expected to have any long-term consequences. These conditions, however, especially the removal of the sales tax on most food items, are causing the State to watch current expenditures. The Governor issued an executive order curtailing State employment and is calling for reduced expenditures by closely monitoring State employee overtime, consultant contracts, and all purchasing and State travel.

According to State officials, the only significant economic factor affecting revenue-raising capacity is personal spending (which includes the effects of both inflation and higher real consumption) because the retail sales and use tax and the business and occupation tax accounts for about half the State's general fund revenue. Officials stated that other taxes (e.g., property, motor vehicle fuel tax, etc.) are not as sensitive to economic conditions as the sales tax.

The most significant factor affecting expenditures was inflation. A State economist said that continued inflation, especially in oil and gas prices, has caused State expenditures to increase in recent years (1976, 1977 and 1978). Officials noted that another factor affecting expenditures is population changes. Underestimating school enrollment and taking on full funding for basic education has affected expenditure levels in 1978.

The State is required by law to have a balanced budget and its fiscal health is good. Demands for services have been increasing mainly in the areas of social and health services and education. Officials stated that in some areas (primarily corrections and education for the handicapped), the State does not have the money to provide all of the services levels demanded, but it provides what services it can while maintaining a balanced budget. These increases in demand are caused by changes in the population (overall increases as well as component mix) and requirements to expand services for certain types of people, such as more emphasis on services for the physically handicapped.

Budget adjustments were made by temporarily increasing sales and business and occupation taxes for the last month of 1976 and for 1977. In 1977, these temporary taxes were extended for 1978-1979. Also, in 1977 expenditures were $44.5 million lower due mainly to an executive order curtailing new staffing and reducing allotments for expenditures, and a budgetary adjustment shifting expenditures to the next biennium.

The sales tax rate was increased from 4.5 percent to 4.6 percent in order to help support the local school systems after many local school levies failed, while a 6 percent surtax was added to the business and occupation tax to help offset increased expenditures for general government caused by inflation. The motor vehicle fuel tax was increased in 1978 from 9 cents to 11 cents per gallon to offset inflationary increases in construction costs and to keep State funds at a level where the State would not lose Federal grants for lack of matching monies. After December 31, 1977, the tax becomes variable, ranging from 9 cents to 12 cents per gallon. No taxes have been decreased or new ones added in 1977 or 1978.

Public employment in 1977 increased 2.7 percent and is expected to increase another 1.3 percent in 1978. Human resources and natural resources were the two functional areas with major increases in 1977. A State official said that the natural resource and recreation employment increased to patrol commercial fishing areas and to meet public demand and use of recreation facilities. The public passed a bond for recreation in 1972 to restore recreation services to a level previously enjoyed and the program has been gearing up to this level. He said that the increased employment in human resources includes such areas as correctional, disability, and income maintenance.

Capital expenditures increased 38.5 percent from $282.1 million in 1976 to $390.7 million in 1977. The State estimated that capital expenditures will increase 10 percent in 1978 to $429.6 million. The major increases in 1977 were in the areas of transportation and education, while in 1978, increases are planned in the human resources and natural resource areas. A State official said that these increases are normal, and that no projects have been delayed in 1977 or 1978. The State has little control on capital expenditures in the transportation and education areas because dedicated school funds and Federal funds make up the majority of the capital expenditures.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

Washington received $11,201,128 in antirecession funds for the first five quarters of the program. Officials said these funds were deposited in their general fund. Since there is no specific accounting made for the antirecession funds after they are deposited, it is impossible to tell exactly when they are spent. However, in order to satisfy Federal requirements to appropriate or obligate the funds within 6 months after their receipt, the State assigned $7,824,654 received for the first four quarters to certain interest payments coming due within the time limitation. The remaining $3,376,474 was appropriated by the State for its adult corrections and rehabilitation program. The State also appropriated all additional antirecession payments it expects for 1978 and 1979 for this program.

State officials said that the accounting usage of the funds going to adult corrections and rehabilitation will show 464 positions being funded. They said that most of these positions would have been funded by State revenue if antirecession funds had not been available. Because of this displacement effect, it would be hard to determine how many positions were actually saved by antirecession monies.

All antirecession funds received in 1977 were used for debt service. Because the funds were not received until November 1976, which was after the appropriations were made for the 1975-1977 biennium, the funds were used in a manner which did not require legislative approval. Officials said that expenditures for debt service met these criteria. They noted that since these funds displaced State funds budgeted for debt service, the effect was to increase their general fund balance by that amount. The funds were used to finance activities for the 1977-1979 biennium.

The State anticipates that approximately $22 million will be received during the 1977-1979 biennium from antirecession funds. This money has been appropriated for the adult corrections and rehabilitation program. Officials said that the impact of antirecession funds on their budgets is hard to determine because no one can tell what action the legislature would have taken without the receipt of the funds. They said that either the overall appropriated level of State expenditures would be $22 million lower or taxes would have been raised sufficiently to cover the extra $22 million. They stated that no assumptions can be made about the specific effect on adult corrections and rehabilitation since, in all likelihood, this program would have been funded in its entirety regardless.

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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Impact Of Antirecession Assistance On 52 Governments -- An Update

ENCLOSURE B

Case Studies of 16 County Governments

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MAY 1, 1978

Contents

INTRODUCTION

At the request of the Chairman, Subcommittee on Intergovernmental Relations and Human Resources, House Committee on Government Operations, we updated our previous study of the financial condition of 52 State and local governments and the impact the extended antirecession program had on their operations.

This enclosure includes a case study for each of the 16 county governments we visited delineating each jurisdiction's financial condition, major factors influencing its fiscal health, and the status, use, and impact of antirecession assistance payments it received.

Financial data in each case study was the best information available at the time of our review and was obtained from the governments' records and reports and from discussions with officials. Since Bureau of the Census data was not available for the governments' most recently completed fiscal year, the information in this report may not be strictly comparable with our previous reviews where both Census and government data were used. State and local government officials provided their views on the data and provided comments which we considered in preparing each case study.

ALAMEDA COUNTY, CALIFORNIA

Located on the eastern shore of San Francisco Bay, Alameda County occupies an 820-square mile area. The 1976 population was 1,094,300, up slightly from the prior year. Alameda ranked second in population among the counties in the northern Coastal region and fifth among all counties in California.

Currently, Alameda is the fourth ranking county in the State in manufacturing. The leading products are processed foods, passenger cars and trucks, and office equipment. County unemployment varied between a high of 13 percent in July 1976 and a low of 10.4 percent in March 1977.

The county government consists of a number of executive departments (under the administrative supervision of the Board of Supervisors), the Superior Court, and the municipal and justice courts. Department heads are either elected by the people or appointed by the Board of Supervisors. The county's services include highway construction and maintenance, law enforcement, public health, and public assistance (welfare). The county superintendant of schools is responsible for special programs in education such as the mentally retarded and juvenile education services. The education districts within the county are responsible for general education.

FINANCIAL CONDITION IS GOOD

According to county officials, Alameda is in good financial condition and has been so since the spring of 1977. Their opinions are based on revenue increases, sizeable fund balances, no outstanding debts, and a conservative fiscal policy.

From fiscal year 1976 to 1977, county revenues increased 14 percent from $325.2 million to $370.6 million. Actual collections exceeded estimates by 4 percent, primarily from gains in property taxes and intergovernmental revenues.

Due to increased assessment values and a minor ($0.01) tax rate increase, property tax revenues rose 14 percent from $113.6 million in fiscal year 1976 to $129.2 million in 1977. Property taxes represented 95 percent of the county's tax revenues and 35 percent of its total revenues.

Intergovernmental funds increased by $24.7 million, or 16 percent, from fiscal years 1976 to 1977 primarily due to higher funding for State and Federal programs, new programs such as antirecession assistance and State treatment for alcoholism, and increases in social service caseloads.

Alameda County's total expenditures increased 9 percent during the fiscal year 1976 to 1977 period from $335.4 million to $364.8 million. Alameda officials believe the increase was due mainly to inflation.

Alameda continues to generate substantial surpluses which are used primarily for financing capital improvement projects. The year-end unencumbered balance of the county general fund increased from $1.3 million in fiscal year 1972 to $13.2 million in 1977. Although the fund balance increased over this 5-year period, it decreased by 53 percent from a fiscal year 1976 total of $27.7 million because of a $14.5 million transfer from the general fund to the capital outlay fund.

The aggregate year-end unencumbered fund balance for all county funds (including special revenue funds and the intergovernmental fund) increased steadily from a 1972 level of $2.9 million to $45.9 million in fiscal year 1977. The increase in the fiscal year 1977 fund balance over the fiscal year 1976 balance was $7.3 million or 19 percent. County officials stated that revenue sharing, antirecession payments, reserves for capital construction, greater efficiency in county operations, and a conservative fiscal policy led to the increases in the fund balances.

No bond ratings exist for the county because Alameda has not attempted to secure long-term debt. According to one county official, no bonds have been issued since the 1930's. The county has been operating on a pay-as-you-go and lease-purchase basis for financing capital projects.

During fiscal years 1976 and 1977, expenditures for new and on-going capital projects totaled about $18 million. Officials indicated that the recession had no delaying effect on the county's capital projects. Some projects were postponed due to non-fiscal reasons. For example, one official said a pre-trial detention facility was delayed due to political considerations.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

County officials do not believe their government was materially affected by the recession. We were informed that demand for services has increased in health care, public assistance, and public protection. One such example is the Medi-Cal Program which experienced increased case loads and benefits, coupled with a fixed level of State funding. However, county officials could not provide any evidence of carry-over effects of the recesssion on their current operations.

The property tax, believed by officials to be the most important revenue, represented 35 percent of the county's total revenues for fiscal years 1976 and 1977. Escalating housing prices substantially increased county assessment values and property tax revenues.

There were no major changes in the tax rate or method of assessment for property taxes during fiscal years 1977 and 1978. The county's property tax rate increased $0.01 in fiscal year 1977 to $3.11 per $100 of assessed value. However, the rate was reduced to $3.0[illegible] in fiscal year 1978.

County expenditures have increased mainly because of inflation. For example, salaries and benefits for employees increased by 8.2 percent during fiscal year 1977 which added $12.4 million to total expenditures.

A County official also noted that administrative costs have increased. Inflation in salaries and the cost of supplies were noted as the main reasons. We were informed the county has not assumed additional responsibilities nor relinquished existing responsibilities for providing services.

Alameda County has not laid off any employees since 1972. A hiring freeze was in effect from April through July 1977 for management and nonmanagement personnel to generate a larger cash balance for fiscal year 1978. A hiring freeze is still in effect for management personnel.

The county's total full-time equivalent employees rose slightly from 9,723 in fiscal year 1976 to 9,793 in fiscal year 1977 and to 9,903 in fiscal year 1978. The Comprehensive Employment and Training Act provided funding for about 214, 100, and 149 positions respectively, during the 3-year period.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

As of October 31, 1977, Alameda County received $6,033,530 in antirecession assistance payments. The total amount was appropriated within 6 months in accordance with Office of Revenue Sharing regulations. There were $1,990,373 in disbursements and $3,188,076 in obligations. The remaining $855,081 was appropriated but unobligated.

Alameda County used antirecession funds for programs previously funded by revenue sharing and county funds. County officials stated that no new programs were started, and as a result, the antirecession payments were used to finance existing programs such as community health and social services.

Antirecession payments were not used for salaries or wages for county positions. However, we were informed that new jobs were funded with antirecession payments through contracts for community services.

Officials said the funds had virtually no impact during the most recently completed fiscal year ending June 30, 1977. If the funds had not been received, the county's fund balances (primarily the revenue sharing fund) would have been lower.

We were informed that fiscal year 1978 antirecession funds are indirectly affecting the property tax rate, capital projects, and basic services. The moneys are again being designated for community service contracts. County officials stated that if antirecession payments were eliminated during this fiscal year, the property tax rate would not have been decreased or there would be cutbacks in planned capital projects or services.

ALLEGHENY COUNTY, PENNSYLVANIA

Allegheny County covers 728 square miles in western Pennsylvania, and with a population of about 1.5 million, is the second largest county in the State. The county has 130 municipalities, each with its own governmental structure.

The county is a key manufacturing center for steel, aluminum, tin plate, electrical goods, chemicals, glass, cement, paint, and food products. It contains the corporate headquarters of 32 major corporations and banks. Pittsburgh is the county seat and largest municipality.

A three-member board of commissioners establishes legislative and executive policy and manages the county government. The commissioners are elected for 4-year terms and are responsible for adopting a final budget, levying taxes, appointing department heads, approving all contracts and expenditures, incurring debt, and selling county property.

Allegheny County provides services such as health, environmental protection, welfare, parks, roads, and educational and cultural activities. In addition, the Allegheny County Institution District (ACID) provides care for the aged, the dependent, the indigent ill, and the mentally disabled.

FINANCIAL CONDITION IS HEALTHY

The county's chief clerk and budget director both stated that the county's financial condition is healthy. The chief clerk stated this condition has not changed since our prior review completed in February 1977.

During 1975 and 1976, operating revenues increased at a faster rate than operating expenditues. The same trend is anticipated for 1977 (the county operates on a calendar year basis). The end-of-year total county and ACID fund balances increased from $10.9 million in 1975 to $53.8 million in 1976. During the same period, total county general funds declined from $21.8 to $16.8 million.

Fiscal operations of Allegheny County

The county handles its finances through three general classes of funds; appropriation, bond, and special. The appropriation funds are used to finance operating and debt service costs; the bond fund finances capital improvement projects; and the special funds finance a variety of specialized programs sponsored by the Federal and State governments. The

Institution District has a similar group of funds to account for its financial activities.

Changes in revenues and expenditures

Operating revenues come from three major sources; taxes, charges, and intergovernmental revenue. Allegheny County's only major tax source, the real estate tax, has been collected at approximately 95 percent of levies. County revenue by major sources for the last two completed years (1975 and 1976) and budgeted revenues for the current year are shown below.

Source of revenue	1975 Actual	1976 Actual	1977 Budgeted
		(millions)	
Taxes	$ 73.9	$ 78.7	$111.2
Charges	40.6	43.8	39.1
Intergovernmental transfers	54.0	62.9	87.2
Total	$168.5	$185.4	$237.5

The county's 1976 operating revenue of $185.4 million represents a 10-percent increase over 1975 revenues. Significant factors behind this growth include increases in real estate assessments, county user charges, and revenues from intergovernmental sources.

The 1977 budgeted operating revenues as compared to the 1976 actual operating revenues show a 28.1 percent increase primarily due to a 5-7/8 mill rise in the real estate tax rate. Increases in 1977 intergovernmental revenues are attributed to additional State funding for community colleges and health services and the first Federal antirecession assistance payments.

Revenue collections for 1977 from real estate, personal property taxes, and user charges have been approximating the budgeted amounts. However, actual intergovernmental revenue collections were falling short of the 1977 budget by $45 million as of September 30, 1977. While much of this could be received by the end of the year, the county's chief accountant believed budgeted estimates were high.

The county's operating expenditures have been steadily increasing. Generally, operating expenditures include child care, senior citizen care, health, hospital, interest on debt, maintenance of parks and roads, and airport operation.

In 1975, total operating expenditures were $178.2 million, in 1976 $192.2 million, an increase of 7.9 percent. Budgeted 1977 expenditures totaled $234.6 million, a projected increase of 22.1 percent over 1976.

Officials stated that inflation accounts for the major portion of operating expenditure increases as it has affected salaries, utility costs, food costs, and institutional placements in both 1976 and 1977. Increases in 1977 expenditures are also attributable to improvements in administrative offices and information systems. Additionally, wages for road and park employees which have been paid, in part, from the commissioners' bond account as recently as May 1976 are now being paid from the county fund. This policy change increased the county's operating expenditures.

The most significant expenditure changes in the 1977 budget occurred in the Kane Hospital, Department of Mental Health and Mental Retardation, and community college. The following chart reflects these increases.

Basic service	1976 Actual	1977 Budget	Increase 1977 budget over 1976 actual
Kane Hospital	$20,311,282	$27,710,572	$7,399,290
Department of Mental Health and Mental Retardation	15,905,768	20,649,000	4,743,232
Community College	14,100,002	16,720,000	2,619,998

Hospital expenditures rose because of growth in salaries, employment, and supplies. Greater use of community services and group homes caused rising mental health expenditures. Increased enrollment and an expanded curriculum accounted for the rising community college expenditures.

In 1976 county employment decreased by 110 employees in the works department and 99 employees in the parks department, mostly because of layoffs. Expenditures in the works department were reduced accordingly; however, operating expenditures in the parks department increased because the county had to fund the parks department from an operating account instead of the previously used bond account.

Changes in fund balances and indebtedness

The county controller's annual reports show the following unencumbered fund balances for 1972 through 1976.

Class of funds	1972	1973	1974	1975	1976
	(millions)				
Appropriation accounts	$23.3	$32.3	$18.0	$ 9.5	$14.4
Special accounts	12.7	9.7	10.5	6.9	8.5
Bond accounts	9.5	8.3	7.9	(18.7)	26.1
Institution District (all funds)	4.8	2.1	11.3	13.2	4.8
Total	$50.3	$52.4	$47.7	$10.9	$53.8

The county's chief clerk believed that the year-end cash balances more clearly demonstrate the county's healthy financial condition. The following table shows yearly cash balances reconciled to the above unencumbered fund balances.

Unencumbered Cash Balances Reconciled

to Unencumbered Appropriation Balances

Class of funds	1972	1973	1974	1975	1976
	(millions)				
Appropriation accounts	$10.5	$15.6	$ 9.4	$ 4.3	$ 1.6
Special accounts	13.0	10.3	11.3	8.0	9.5
Bond accounts	0.6	4.7	4.2	(8.8)	19.2
Institution District (all funds)	5.2	0.8	4.0	3.0	2.9
Unencumbered cash balances--all funds	$29.3	$31.4	$28.9	$ 6.5	$33.2
Revenue accrued and uncollected					
County funds	19.0	18.5	16.5	16.2	18.7
Institution district funds	2.0	2.4	2.3	2.2	1.9
Short-term loan outstanding at 12/31/75				(14.0)	
Difference not reconciled	-0-	0.1	-0-	-0-	-0-
Total unencumbered appropriation balances	$50.3	$52.4	$47.7	$10.9	$53.8

The county's chief clerk stated that the changes in the county's operating funds could not be easily attributed to specific reasons. We did learn that only for 1976 about $8.4 million in tax revenues were shifted from the Institution District general fund to the county because of the county's need for additional revenue. However, the Institution District's expenditures were not reduced. In 1976, the District's expenditures exceeded revenues by about $9.4 million, and its fund balances decreased by $8.4 million.

The increased balance in the bond account between 1975 and 1976 is due to the issuance of $54.6 million in general obligation bonds for capital improvement projects.

Listed below is the county's outstanding net debt as of December 31, 1975, 1976, and projected for 1977.

	1975	1976	1977
Long-term	$359,059,983	$388,136,205	a/$381,147,992
Short-term (bond anticipation notes)	14,000,000	- 0 -	- 0 -
Total	$373,059,983	$388,136,205	$381,147,992

a/The 1977 projection does not take into consideration offsetting credits. Therefore, in part, it is gross debt, not net debt.

The county has had no problems obtaining either long-term or short-term financing. Long-term debt has been incurred for capital projects and community development. State law limits the county's basic debt to 300 percent of its average revenue for the last 3 years.

The Moody's Investor Service, Inc. bond rating in January 1978 was A-1, unchanged from the prior year. The two 1976 bond issues had the same rating.

Responsibility for providing services

County officials stated that although the county has entered into several third party contracts to provide services, it has not relinquished its authority and responsibility in those instances.

The chief clerk and budget director stated that the county has not been required to assume the cost or responsibility for programs from other levels of government in 1976 or 1977.

Capital projects not delayed

During 1976 and 1977, the county did not delay any capital projects because of financial problems. Normal delays associated with bid acceptance, development and approval of plans, were experienced in 1977. County officials do not believe that these delays are signs of financial weaknesses.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

The chief clerk believes inflation is the major long-term problem affecting the county's fiscal health. Favorable indicators are the county's capacity to raise revenue, the adequately funded pension system, good bond ratings, taxpayers deligently paying taxes, and the ability to borrow money. He mentioned that a recently amended State law which pertains to assessment of real estate property is a short-term problem which may force the county to return $3 to $5 million to taxpayers because the entire real estate tax base was not reassessed before applying the 1977 rate.

Factors affecting revenue raising capacity

County officials provided the following factors which they believe affect revenue raising capacity.

--A Pennsylvania law regarding real estate taxes was recently amended to include Allegheny County. Under this law, the county will not be able to levy taxes on reassessed property valuations until the entire county has been reassessed.

--Inflation has caused higher real estate values but because of a poor assessment system, tax levies have not increased at the same rate.

--The county's tax base has increased only slightly because of very little new construction.

--To increase the personal property tax base, Allegheny County used Internal Revenue Service (IRS) tapes during 1974, 1975, and 1976 to identify county residents who own taxable personal property. However, IRS no longer provides these tapes.

Factors affecting expenditures

The major factors affecting county expenditures in recent years have been

--inflation,

--State-mandated improvements at the county-operated hospital,

--increased bridge maintenance, and

--additional State health service requirements.

Increased demand and administrative cost for services

County officials stated that the demand has increased for parks, community development, child welfare, prisons, and health. Service costs have increased because of inflation, hiring additional upper level administrators, and establishing better administration.

Major budget adjustments

No major changes were made to the 1977 budget between initial preparation and approval by the commissioners.

Allegheny County increased its real estate tax levy for 1977 from 15-1/2 mills to 21-3/8 mills--an increase of 37.9 percent. The county fund received 10-7/8 mills, the Institution District received 2-3/4 mills, and the bond and interest fund received 7-3/4 mills. Under State law, Allegheny County could legally impose up to 16-3/8 additional mills; but the limit does not apply to the bond and interest fund.

The county's chief accountant explained that the 1977 real estate tax rate increase was vital because revenues were not keeping pace with expenditures which the chief clerk attributed to wage settlement increases, higher costs for institutionalized patient care in other than county-operated facilities, utility cost increases, and upgrading of the county hospital.

Changes in county government employment

The number of full-time equivalent employees as of

October 1975 was 9,083 and as of December 1976 was 8,177; by September 1977, the number increased to 9,266.

According to the budget director, the 1976 decrease of 906 full-time equivalent employees included 576 layoffs, 355 of which were released from the works, parks, and property and supplies departments. All employees laid off were offered positions in 1977. County officials stated that the layoffs did not affect basic service levels because the county re-organized its personnel and had some functions performed differently.

The increase of 1,089 full-time equivalent employees by September 1977 took place primarily in Kane Hospital or as a result of Comprehensive Employment Training Act (CETA) funds. The budget director said hospital employment was increased after 1976 Federal studies showed deficiencies which required corrective action. The director of Allegheny County's CETA fiscal department said that many people were hired under CETA in 1977 because of the increased funds available.

STATUS, USE, AND IMPACT OF ANTIRECESSION ASSISTANCE PAYMENTS

All antirecession funds received for the five quarters beginning July 1976 were appropriated in the 1977 budget. These funds totaled $3,414,659, and were appropriated to three departments for wages.

The sixth quarter antirecession funds were received in October 1977. Of the $716,631 received, $85,341 was appropriated in the 1977 budget. The budget director said the balance will probably be appropriated in the 1978 budget.

Designated uses of funds

All antirecession funds disbursed as of September 30, 1977, were used for wages in three departments. A county representative said all funds anticipated as 1977 revenues have been obligated for use in similar fashion.

Department	Amounts disbursed as of 9/30/77
Property and Supplies	$ 331,266
Parks	1,332,816
Works	997,326
Total	$2,661,408

Impact of funds on employment

County records did not show the number of employees that were retained, rehired, or newly hired with antirecession funds. However, based on an average salary for county employees of approximately $10,000, we estimated that the $3.5 million antirecession funds which were to be expended during 1977 would pay for 350 full-time positions.

On May 1, 1976, an across-the-board pay increase became effective as a result of a new union contract which provides for automatic across-the-board increases each May for 3 years. The county government had agreed to these salary increases 6 months before antirecession funds were received.

Overall impact of funds

Antirecession assistance has kept the 1977 real estate tax increase from being higher. The $3.5 million appropriated antirecession funds were 1.5 percent of the $234.6 million total budget and 4.3 percent of budgeted wages and salaries for 1977.

Antirecession funds were responsible, in part, for limiting the extent of the real estate tax increase which was required to combat inflation, among other purposes, and county officials believe the program should be continued. Antirecession funds were used to avoid a larger tax increase and maintain the existing service levels by supplementing the county's payroll.

BERNALILLO COUNTY, NEW MEXICO

Bernalillo County, located in central New Mexico, contains approximately one-third of the State's population and is its major commercial and financial center. The county's population has increased 19 percent from 315,774 persons in 1970 to an estimated 376,600 persons in 1976 and is projected to increase to about 579,690 by 1990. Albuquerque, which is the county seat and the State's largest city, had 77 percent of the county population in 1970 and 83 percent in 1976.

Bernalillo County's economy has expanded significantly in the past decade from one primarily dependent on Federal Government installations to a diversified, industry-oriented community. The percentage of nonagricultural employment by industry in the county for 1976 was 26 percent wholesale and retail trade; 23 percent government; 23 percent services and miscellaneous; 10 percent manufacturing; 7 percent contract construction; 6 percent finance, insurance, and real estate; and 5 percent transportation and utilities. Per capita income increased from $2,863 in 1969 to $5,414 in 1975.

The policy making body for Bernalillo County is an elective board of five county commissioners which meet twice monthly and governs such matters as county roads, land, and fire departments; approves budgets for various departments; and decides other matters concerning county government. A county manager is appointed by the Board as administrator of its policies. Bernalillo County operates on a fiscal year ending June 30.

FINANCIAL CONDITION IS HEALTHY

Officials view the county's financial condition as being generally healthy since fiscal year 1975 and has not changed since our prior review was completed in February 1977. Officials said the county government can meet its present obligations and has substantial borrowing power for capital projects. Primary revenue sources are property tax, revenue sharing, and motor vehicle fees.

Total revenue collections exceeded budgeted revenues by 11 percent and county expenditures by 6 percent in fiscal year 1977. Officials expect about the same situation for fiscal year 1978, even though the initial conservatively-projected budget for 1978 shows revenues exceeding expenditures by only 5 percent. Officials said that total revenue collections for fiscal year 1978 were difficult to project based on collections as of October 31, 1977, because the bulk of revenues collected by the county are received from property taxes which are due in December.

For fiscal year 1978, the county originally budgeted a 15 percent increase in revenue from property taxes because of a recent reassessment of property values which considerably increased the county's taxable property value. However, in 1977, the New Mexico State Legislature placed a 10-percent limitation upon annual increases in valuation of property for property taxation purposes. Therefore, officials anticipate a potential property tax revenue loss of over $300,000 because of the 10-percent limitation, but they expect this loss to be more than offset by other revenues, such as collections of delinquent property taxes and refunds, which were not included in the 1978 budget.

Officials expect fiscal year 1978 intergovernmental revenues to be essentially the same as those received in fiscal year 1977. For fiscal year 1978, an official estimated increased revenue from the Federal antirecession and revenue sharing programs should offset decreased revenue from the title II and VI programs of the Comprehensive Employment and Training Act (CETA). The county intends to discontinue the CETA title II program as of December 31, 1977, because officials decided that they no longer needed this program.

The county estimates about a 10-percent increase in expenditures for fiscal year 1978, which officials attribute to the annual inflation of about 10 percent.

Some increase in fund balances and indebtedness

The general fund balance generally shows an increasing trend because revenues continue to exceed expenditures. General fund revenues were 8-percent greater than expenditures for fiscal year 1977. Year-end balances in the debt service funds have also increased from property tax revenues in order to redeem increased long-term bond payments due the first day of the next fiscal year.

Long-term indebtedness of the county increased from $13,010,000 on June 30, 1976, to $14,245,000 on June 30, 1977, because of two new bond issues; a general obligation refunding bond issue which reduced the repayment period from 20 to 10 years, and a general obligation bond issue to finance the construction of a county juvenile detention home. Moody's Investor Service, Inc. quality ratings for all general obligation bond issues of the county were A-1 from 1976 through

January 1978. The county has no problems obtaining long-term financing.

County assumed new responsibility but delayed no capital projects

The county has not assumed or relinquished responsibility for providing services, except that under 1977 State legislation the county will become liable for unemployment compensation payments of about $100,000 per year beginning January 1, 1978. The Finance Director said the State has been responsible for these payments in the past.

The county started 15 capital projects in fiscal years 1977 and 1978 with none delayed because of financing difficulties. According to officials, this indicates strength in the county's overall financial condition.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

Officials view existing State statutes, continued Federal financial assistance, increased public demand for county services, and inflation as the most significant factors affecting the county's fiscal health for fiscal years 1977 and 1978. Because property tax, the primary source of revenue, is regulated by the State, the most significant factor affecting the county's revenue raising capacity is the New Mexico State law which placed a 10-percent limitation on property value increases per year for property taxation purposes. Also, the State, not the county, sets property tax rates. The county's tax levy of 6 mills, for general operating purposes, has remained unchanged since 1975.

Property tax is the only tax that the county collects. Property reevaluation is only done every 10 years, so the tax is not responsive to inflation. Other taxes, such as gasoline and cigarette taxes, as well as motor vehicle fees, are collected by the State and apportioned to the county. While inflation directly influences these taxes, they represent only a small part of county revenue.

Federal assistance is important because of its major contribution to income. Revenue sharing provided about 22 percent of the county's total revenue for fiscal years 1976 through 1978; and, CETA funds provided 5 percent of total revenue for fiscal years 1976 and 1977.

The most significant factors affecting expenditures are: continuing inflation at an annual rate of approximately

10 percent; growing county population with a corresponding increase in demand for services such as fire and police protection, road maintenance, and social services; and increasing public awareness of the availability of county services making it difficult to cut normal services. According to the county manager, salaries have been affected by inflation as evidenced by recent labor negotiations. The county has provided normal levels of basic services during fiscal years 1977 and 1978.

The county's employment level has remained relatively stable. Full-time equivalent employment, not including CETA funded positions, was 731 in 1976, 769 in June 1977, and increased to 777 as of October 31, 1977. CETA-funded personnel decreased during the same period. The county provided for more efficient operations by reorganizing and consolidating county activities and functions, such as the fire and sheriff departments, to meet the increased demand for services caused by the population growth.

STATUS, USE, AND IMPACT OF ANTIRECESSSION FUNDS

As of October 31, 1977, the county had appropriated all of the $975,606 antirecession payments received for the five quarters beginning July 1, 1976. All antirecession payments have been spent by the county within the required 6 months.

Of the $886,161 antirecession funds disbursed, 86 percent was used for salaries and wages including $575,000 for a pay raise. The other $183,075 spent for salaries and wages funded 1 new full-time position, and 30 full-time positions that were previously paid from CETA funds.

Officials believe the overall impact of antirecession funds has been to maintain basic services already in existence and to increase authorized levels of expenditures.

Officials believe the antirecession program should be continued to assist the county in paying the increased costs of maintaining basic services at normal levels. If antirecession payments would not have been made to the county in fiscal years 1977 and 1978, the county manager said that probably most of the 30 employees previously funded under CETA would have been laid-off, which would have reduced the level of expenditures and services provided in police and fire protection. In the event the antirecession program is discontinued, the county manager stated that all county departments would have to evaluate their programs for potential cut-back in services, for reduction of some full-time employment to part-time employment, and for increased contracting-out for services.

CAPE MAY COUNTY, NEW JERSEY

Cape May County comprises 454 square miles in southern New Jersey, and contains 16 municipalities and an estimated population of 71,851. Cape May Court House is the county seat.

The county is bounded on three sides by water. Its most striking characteristic is the almost total dependence of its economy on resort and tourist trade. The county has little heavy industry, and its manufacturing industries are small. County agriculture has declined steadily over the years, and the fishing industry has decreased because of pollution and competition from foreign fleets.

Cape May County is governed by a five-member board of chosen freeholders who are elected for 3-year terms. The board is responsible for enacting the annual budget expending funds as appropriated in the budget, and designating the functions of county committees, officers, department heads, and personnel.

County services include bridge and road maintenance, park and recreational facilities, various health and mental retardation programs, and judiciary and regulatory elements. The county's fiscal year coincides with the calendar year.

FINANCIAL CONDITION IS HEALTHY

The county's director of revenue and finance, an elected freeholder, considered the financial condition of the county as being healthy and improved since the start of our last review in January 1977. An indication of the improvement can be seen in the construction that has started on seven new motels.

The director of revenue and finance stated that other indicators of the county's healthy financial condition are: bond ratings have been upgraded, no problems were experienced in borrowing funds, only 25 percent of the borrowing limitation had been utilized, and the operating fund surplus had been healthy and constant over the years. In addition, good financial health is indicated by the upturn in real estate activity, increased Medicaid allowances for institutionalized patients at the county's nursing home, and growing revenue from additional cases being processed in the county courts.

Changes in revenues and expenditures

New Jersey requires all local governments to balance the budget and prohibits deficit spending for current operations. Exclusive of Welfare board operations, for 1976, county revenue was $16.1 million, whereas total expenditures were $15.7 million. The county budget for 1977 projects revenue and expenditures of $17.8 million.

The county's revenue and operating expenditure percentage increases are shown below.

Year	Basis of comparison	Percent of increase Revenue	Percent of increase Expenditures
1976	1976 actual to 1975 actual	10	9
1977	1977 budget to 1976 actual	6	12

The 1976 revenue increase was mainly due to growth in property tax revenue which comprised fifty-four percent of the county's 1976 revenue. The county had increased the tax rate by 12 percent or $.0537 per $100 in assessed valuation. The tax rates had decreased each year from 1971 through 1975. According to the director of revenue and finance, the property tax increase was primarily needed for county salary increases and to offset State funding cutbacks. In 1976, the State did not furnish any funds to the county under the Motor Vehicle Fund, Collateral Inheritance Tax, and State Health Aid programs, a loss of about $386,000. At the same time, 94.6 percent of the total increase in 1976 expenditures was attributed to increases in salaries and benefits.

The 1977 budgeted increase in expenditures over 1976 actual is mainly due to increased personal services, new programs, payments on new financing, and rising salaries.

The major source of county generated revenue is property taxes. County revenue from its own sources are shown below.

	1975 Actual	1976 Actual	1977 Budgeted
	(millions)		
Property taxes	$ 8.5	$10.6	$11.8
Miscellaneous	2.6	2.5	2.0
Total	$11.1	$13.1	$13.8

The county has no uncollectible or delinquent property taxes. The tax collector in each municipal government within the county is responsible for collecting the county's portion of property taxes and for submitting the full amount due. Uncollectible property taxes would be absorbed by the municipal governments in their share of the property tax.

Although the county's operating expenditures have increased over the past years, revenues have been keeping pace and budget estimates have been achieved. According to the director of revenue and finance, the county's 1977 revenue collections are currently equal to and, in some instances, ahead of schedule.

There were no significant changes in intergovernmental revenue for 1976 and 1977 when antirecession assistance payments are excluded from the 1977 budget.

Changes in fund balances and indebtedness

The county's operating fund balances have decreased slightly over the past 3 years as follows:

Year	Fund balances
1975	$1,680,452
1976	1,669,209
1977 (estimated)	1,635,802

The county's indebtedness for 1975, 1976, and 1977 was:

Year	Indebtedness (000 omitted)
1975	$4,543
1976	7,029
1977 (estimated)	7,079

The increase in the 1976 balance was due to a new bond issuance on September 1, 1976, to finance the county's new correctional center construction.

Under New Jersey laws, the county's borrowing is limited to 2 percent of its assessed property value. As of December 31, 1976, the county's remaining borrowing authority, after allowing for bonds and notes authorized but not issued, was $29.7 million

The county's bond rating of A by Moody's Investor Service has remained unchanged from 1976 to January 1978, however, the rating has increased from the 1970 Baa rating.

County officials stated that the upgrading of bond ratings is an indication of the county's improved financial condition.

According to the director of revenue and finance, the county has not relinquished authority to another level of government for providing public services. However, they have assumed the responsibility for programs that were provided by the State, particularly in programs for juveniles, such as the Youth House and the Juvenile In-Take Service.

The county, in 1976 and 1977, had no delays in the approval or start of new capital projects due to financial problems. County officials feel this is an indication of the county's financial strength.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

The county's director of revenue and finance believes the favorable factors affecting the financial condition of the county are: borrowing limitations set forth by the State, State law which requires the budget to be on a "pay as you go" basis, good money management, and a conservative board of freeholders who constantly stress economy to the county department heads.

According to the director, the most significant factors affecting the county's revenue raising capacity in 1976 and 1977 were: the increased property tax rate, new construction and property reassessment, greater Medicaid payments to the county nursing home, and larger court revenues.

New Jersey passed a law, effective January 1, 1977, which generally limits any tax increases by counties to 5 percent over the amount levied the previous year. Since the major portion of county-generated revenue is from taxes on real property, this law could hamper the county in raising property taxes. In 1977, the county's property tax was increased to its limit.

According to the director of revenue and finance, the most significant factor affecting the county's expenditures is inflation, as it affects salaries and energy costs. The demands for services over the years have increased and the cost to administer the services has grown likewise because county employment has risen steadily along with personal services costs. There were no layoffs in the last six years. Shown on the next page are the number of full-time employees and cost for personal services for 1975, 1976, and 1977.

Year	Number of full-time employees	Cost of personal services (millions)
1975	683	$ 8.7
1976	718	9.8
1977 (Budgeted)	785	10.4

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

As of October 31, 1977, the county appropriated the $484,968 it received during the first five quarters of the antirecession program. These funds were appropriated in two increments; the first, second, and estimated third quarter payments in the amount of $230,194 were appropriated on March 1, 1977, when the 1977 budget was adopted. Funds totaling $254,774 equalling the balance of the fourth quarter payment and the fifth quarter payment were appropriated by resolutions to the budget on October 26, 1977, to pay employee salaries of the county's Department of Roads and Bridges and the county nursing home. The funds appropriated on March 1, 1977, have been disbursed. Funds for part of the second appropriation wer disbursed on November 18, 1977.

According to the director of revenue and finance, the antirecession payments received for the sixth quarter will be used to pay 1978 salaries; however, it has not, as yet, been determined which department will receive them.

Most of the funds appropriated in March were used to pay the salaries of all the employees on the payroll of the Department of Roads and Bridges from the pay period ended March 25 through the pay period ended June 3. The balance of $4,014.32 was used to pay part of the salaries of employees of Roads and Bridges in two subsequent pay periods. However, according to the director of revenue and finance, the funds actually helped finance the 1977 salary increase which was negotiated with the the union in May 1977, retroactive to January. He stated that approximately 720 county employees were eligible for a $500 annual salary increase. The director added that this salary increase was not included in the 1977 budget because the size of the increase was not known.

According to the director of revenue and finance, the first appropriation of $230,194 was used to plug the gap created by the cutback in State funds budgeted for Roads and Bridges, and without the antirecession funds, about 30 county employees would have been laid off. He said no new positions were funded by antirecession funds.

The director of revenue and finance made the following comments regarding the impact antirecession funds have on the county's operation.

--The funds help to take off the cutting edge of inflation. The county cannot combat inflation with property tax increases because of the State law which places a ceiling on such tax increases.

--Antirecession funds have had a positive impact on the county's operation in fiscal year 1977. The funds had no effect on fiscal year 1976 because the county's fiscal year ends on December 31. The funds had no impact on the tax rate because the county was taxing at its established ceiling. However, the funds helped to stabilize services and employment.

--Had the funds not been available in 1977, the county would have been forced to lay off employees and cut back basic services; and if the program is discontinued, the county would probably have to make these adjustments.

CLARK COUNTY, NEVADA

Clark County, with a 1973 population of 307,145, has more people than any other county in Nevada. Its total land area is 7,927 square miles, and the county seat is located in Las Vegas. The county is governed by an elected seven-member Board of Commissioners.

The county provides the following basic services: administrative, judicial, institutional youth services (including child welfare), parks and recreation, public safety (including police and fire protection), public works, health, hospital, social services for indigents, roads, and libraries.

The major employers in the county are hotels and gaming, retail sales, and government (local, State, and Federal). Clark County's unemployment rate has been consistently higher than the national rate. A Nevada State economist attributed this primarily to large influxes of people with backgrounds in the manufacturing industry, which makes up only a small portion of the total payrolls in the county.

CURRENT FINANCIAL CONDITION VERY HEALTHY

Officials of Clark County's Comptroller Division and the county manager's office told us that the county's financial position has improved from "so-so" in fiscal years 1975-1977 to very healthy in fiscal year 1978. Comptroller Division officials said the county was "treading water" financially in fiscal years 1975 and 1976 due to the effects of inflation and the recession but was able to meet these problems with the aid of Federal funds and county controls on hiring and capital expenditures.

Comptroller Division officials said that the general fund ending balance or surplus provides the best measure of the county's financial condition. The general fund surplus decreased from $6.2 million in fiscal year 1974 to $1.1 million in fiscal year 1976 but increased to $4.3 million at the end of fiscal year 1977.

An auditor of the certified public accounting firm that audits the county's financial statements said the increase in the county general fund was primarily due to larger than anticipated revenues from business licenses and gaming fees, increased property tax revenues, and the antirecession assistance received. He and a Comptroller Division official attributed the increase in business licenses and gaming fee revenues to the continued strong growth in the gaming industry. The increase in property taxes was due primarily to higher assessed valuation on residential homes.

According to the assistant comptroller and the acting budget director, the county's financial conditon is projected to be very healthy in fiscal year 1978, primarily due to the increase in property tax revenues.

Changes in revenues and expenditures

Clark County officials believe the county had been under pressure to scrutinize expenditures which were increasing at a greater rate than revenues in recent years. However, between fiscal years 1976 and 1977, revenues grew 26.6 percent while operating expenditures rose 4.3 percent, thereby strengthening the county's financial position. The revenue growth was due primarily to inflation's impact and the county's economic growth.

At the start of fiscal year 1978, expenditure growth was expected to exceed that of revenues, but revenue collections are better than initially expected, and the financial outlook for the county is very healthy.

Revenue outlook good

Revenues increased 27 percent in fiscal year 1977 over 1976, and are expected to increase 16 percent in fiscal year 1978. In fiscal year 1977, significant revenue increases resulted from taxes and charges and miscellaneous. County officials attributed the increases in these county-generated revenues to inflation and overall county economic growth. The following table summarizes the revenues during this period.

	1976 (Actual)	1977 (Budgeted)	1977 (Actual)	1978 (Budgeted)
	(in millions)			
Revenue from own sources:				
Taxes	$ 37.6	$ 40.3	$ 41.3	$ 45.6
Charges & Miscellaneous	53.6	61.8	81.0	72.5
Intergovernmental Revenue	26.2	21.8	26.3	53.6
Total revenue	$117.4	$123.9	$148.6	$171.7

Taxes

Tax revenues in fiscal year 1977 exceeded fiscal year 1976 collections and budgeted 1977 income by about $4 million and $1 million, respectively. The major taxes providing revenue for the county are property, (ad valorem), motor fuel, and motor vehicle privilege taxes. Collectively, these three taxes accounted for over 98 percent of the tax revenue collected in 1977, and 27 percent of total revenues. The following table shows the county's revenues from these major taxes.

	1976	1977 (millions)	1978 (1st qtr.)
Property	$29.0	$31.8	$15.6
Motor vehicle fuel	5.9	6.3	1.7
Motor vehicle privilege	2.3	2.6	.7
Totals	$37.2	$40.7	$18.0

The property tax is the primary revenue source for the county. Officials said taxable property (including realty, personal property, etc.) is assessed at 35 percent of fair market value and is currently reassessed on a 5-year cycle. They said the county rate did not change in fiscal years 1976-1978.

A Comptroller Division official said the rate of change in property tax revenue is the best indicator of how well the county is doing in raising revenues. In fiscal year 1977, property tax revenue increased 9.5 percent due to higher total assessed valuation caused by inflation, market pressure, and new construction. An 11 percent increase in property tax revenue is normal, however, the lower increase in fiscal year 1977 was primarily due to the effect of the decline in the rate of new construction during the recession.

In fiscal year 1978, the county expects property tax revenues to increase by 11.5 percent or $3.6 million.

The motor vehicle fuel tax is a major county revenue source. The total State tax is 8 cents per gallon sold, with the county receiving 2 1/2 cents and also sharing a portion of 1 cent with the county's incorporated cities.

The annual amount of the motor vehicle privilege tax is 4 cents on each $1 of valuation for each vehicle. Privilege taxes are collected for each county by the State. They are distributed monthly to local governments within the county in the same ratio as all property taxes levied in the previous fiscal year.

Charges and miscellaneous revenues

Charges and miscellaneous revenues accounted for 55 percent of the revenues in fiscal year 1977 which exceeded the prior year's actual collections and the 1977 budgeted amounts by $27 million and $19 million, respectively. The increase was primarily due to the sale of $13 million in bonds for the airport not included in budget estimates; the sale of $5 million in debentures for construction of an advanced wastewater treatment plant; increased airport operating revenues; increased hospital operating revenues due to the utilization of more hospital beds and a room rate increase; and higher than anticipated general fund revenues due to a number of factors, including an unanticipated growth in building permits and other fees related to new construction. No significant or new user charges were imposed in fiscal year 1977, and none are planned for fiscal year 1978.

Intergovernmental revenue

Intergovernmental revenue remained essentially the same in fiscal years 1976 and 1977 although actual collections in fiscal year 1977 exceeded budgeted by over $4 million because not all of the State and Federal grants were known at the time the budget was prepared. Fiscal year 1978 intergovernmental revenue is expected to double the 1977 actual collections because of a $27.3 million Federal grant for construction of an advanced wastewater treatment plant.

Expenditures keep growing

Total expenditures increased from $124.1 million to $128.8 million, or 4 percent, between fiscal year 1976 and 1977. Total expenditures are expected to increase to $193.1 million, or 54 percent, in fiscal year 1978 due primarily to a large Federal grant for construction of an advanced wastewater treatment plant. The following table summarizes both general operating and capital projects expenditures during this period.

	1976 (Actual)	1977 (Budgeted)	1977 (Actual)	1978 (Budgeted)
		(in millions)		
General operating expenditures	$111.5	$118.9	$116.3	$137.9
Capital projects expenditures	12.6	25.1	12.5	60.2
Totals	$124.1	$144.0	$128.8	$198.1

Operating expenditures which increased 4 percent in fiscal year 1977 over fiscal year 1976, are expected to increase 19 percent in fiscal year 1978. Officials attributed these increases primarily to inflation and growing demand for services due to overall county growth.

Parks and recreation budgeted expenditures in fiscal year 1978 were almost double the 1977 actual expenditures. According to Comptroller Division officials, this increase was due to new park development.

At the start of fiscal year 1977, the State decided to assume authority for providing aging services in order to better control the operation. Previously, this service was funded primarily by State grants to the county, although the county was spending about $100,000 yearly. In fiscal year 1978, however, the county undertook greater financial responsibility for police services.

At the end of fiscal years 1976 and 1977, total debt outstanding was about $77.6 million and $85.3 million, respectively. The fiscal year 1978 estimated ending balance is about $80 million. A schedule of these fiscal year ending balances by type of debt follows.

	1976	1977	Estimated 1978
		(in millions)	
Bonds payable	$70.8	$81.9	$77.7
Loans payable	6.8	3.4	2.3
Total	$77.6	$85.3	$80.0

The major change in debt outstanding occurred between fiscal years 1976 and 1977 and was primarily due to the sale of $13 million of airport bonds. Other changes were caused by normal redemptions or payments and refunding.

No problems in long or short-term financing

A Comptroller Division official said the county did not have any significant problems in obtaining long or short-term financing during fiscal year 1977, and the county does not anticipate obtaining loans or selling bonds in fiscal year 1978.

The Comptroller Division official said a hospital project was to be funded with the issuance of revenue supported general obligation bonds without the vote of the people, but an attorney took the county to court alleging the county's action was unconstitutional. The legal action caused the sale to be cancelled; however, the State Supreme Court later ruled that the county could issue revenue supported general obligation hospital bonds without voter approval.

A bid has been let for the county hospital expansion project which is being funded with interim short-term financing pending the issuance of bonds, according to a Comptroller Division official. The delay in obtaining long-term financing has had no impact on provisions of basic services. He also said no delays in capital projects are planned for fiscal year 1978.

Comptroller Division officials stated that the only capital projects started by the county in fiscal year 1977 and planned for fiscal year 1978 were those financed mostly by Federal funds.

Moody's Investor Service, Inc. municipal bond rating for the county's general obligation bonds in January 1978, was A, unchanged from the prior year.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

County officials said the major factors affecting the financial conditon of Clark county are chronic long-term inflation, economic growth and increasing population, and the 5-year property tax assessment period. They told us that inflation and economic growth and increasing population are the most significant factors affecting the level of expenditures in fiscal years 1977 and 1978 but said it is extremely difficult to distinguish which of these two factors is most significant.

Comptroller Division officials said salary increases, which can be partly attributed to inflation, have been a major factor in weakening the county's financial position. They said that although there is no identifiable inflation rate for county services, the normal rate of increase due to both inflation and growth has been about 11 percent.

Economic growth and increasing population have both a short-term adverse and long-term favorable effect on the county's financial condititon. The most notable short-term problem is the increased demand for services which causes expenditure increases. Also, as noted previously, the county's share for the metropolitan police rose $1.5 million due to population growth. The long-term effect occurs indirectly through revenue increases such as property taxes and business fees.

The 5-year property tax assessment period is the only significant factor affecting the county's revenue-raising capacity. Because properties are not taxed at the current market value, the county must wait for property tax revenue to catch up to the increases in expenditures resulting from inflation and growth, which creates a revenue gap in some years.

County officials said no basic services have been cut in fiscal years 1977 and 1978 due to expenditure increases caused by inflation and county growth. The county did, however, tighten up on expenditures in fiscal year 1977 through a hiring freeze and by restricting departmental and capital expenditures.

A county personnel officer told us that the hiring freeze reduced the county's regular employment, excluding Comprehensive Employment and Training Act hires, by 171, from June 30, 1977, to October 31, 1978. He said there were no layoffs and positions left vacant by attrition were not filled. In addition, a number of departments had positions unfilled with no particular effect on basic services.

According to county officials, although the overall demand for services had increased in fiscal years 1977 and 1978 as a result of county growth, there had been no abnormal changes in administrative costs. They said the only noticeable increased demand was for court and police services which is attributable to the high crime rate and the associated costs such as the court reporters and witness and attorney fees.

STATUS, USE, AND IMPACT OF ANTIRECESSION ASSISTANCE FUNDS

As of October 31, 1977, Clark County had received a total of $1,878,887 in antirecession assistance payments for the first six quarters as shown below.

Period	Date received	Amount
1st and 2nd Quarters	November 22, 1976	$ 490,000
3rd Quarter	January 10, 1977	287,103
4th Quarter	April 11, 1977	314,050
5th Quarter	July 12, 1977	406,968
6th Quarter	October 12, 1977	380,766
Total		$1,878,887

Comptroller Division officials told us the county did not earn interest on the payments.

The first four quarterly payments totaling $1,091,153 had been appropriated as of May 17, 1977. A Comptroller Division official said the fifth-quarter and sixth-quarter payments would be appropriated within the 6-month deadline, but the county had not designated the areas in which these payments would be applied. As of May 23, 1977, all monies appropriated had been transferred to the designated funds for spending. Comptroller Division officials told us that most of this had been spent.

Because of the county's accounting methods for the funds, we were unable to determine the amount of antirecession assistance payments actually spent. The payments were commingled in the expenditure accounts with appropriations from other sources, and thereby lost their identity.

Comptroller Division officials told us they consider antirecession assistance payments as spent after (1) a designated expenditure account has received the appropriation increase, and (2) monies in the account have either been expended or encumbered in an amount equaling or exceeding the appropriation increase. In effect, after the appropriation increase, the very next payments made from an expenditure account are considered to be from antirecession assistance payments even though other appropriations are, and have been, in the account.

Functional uses of payments

The county manager reported that the first four quarterly antirecession assistance payments totaling $1,091,153 had been designated for the functions listed below.

Function	Amount
Corrections	$ 510,771
Fire	267,000
Financial and General Administration	158,814
Public Works	60,472
Libraries	31,845
Parks and Recreation	25,541
Police	18,451
General Public Buildings	18,259
Total	$1,091,153

All of the monies listed above are designated for operations and maintenance expenses except $12,000 which was identified as capital outlay for books.

Specific uses and impact of antirecession payments

In fiscal year 1977, antirecession payments were used to increase authorized levels of expenditures; however, the funds also resulted in some rise in the ending general fund balance and releasing county funds to purchase equipment. This resulted because total revenues in the county general fund exceeded total general expenditures by $3.97 million and were enough to meet all expenditures without the antirecession payments.

Comptroller Division officials told us that fiscal year 1978 revenues are being collected on line to meet budgeted expenditures and that revenues may exceed estimates in some categories. One official said the antirecession payments will help the county protect its general fund surplus and possibly result in the expansion for basic services in the institutional youth service function.

As of October 31, 1977, the county had appropriated the first four antirecession assistance payments for use as shown on the next page.

Use	Amount	Percent
Salary wage increases	$ 661,039	61
Supplies and equipment	68,000	6
Professional services	343,269	31
Library support	18,845	2
Total	$1,091,153	100

Most of the appropriated antirecession assistance payments will be used for salaries. Salaries were a high priority use in fiscal year 1977 because the county did not budget for salary increases that were later mandated by arbitration. Antirecession assistance payments will pay for these increases. One official told us that although the county is not increasing its staffing size, the payments will allow the county to avoid staff reductions--without this assistance the county would not have replaced some employees lost through attrition. We could not determine the positions funded by antirecession payments because they cannot be traced to expenditures for specific positions.

Views of officials

Comptroller Division officials told us that although the antirecession payments had some impact on the county, they had little affect on budgetary actions (defined by Comptroller Division officials as the process leading to the final approved budget). They said the receipt of antirecession payments was uncertain when the 1977 budget was being prepared, so use of the funds was not considered. The fiscal year 1978 budget included about $290,000 of antirecession payments which was the estimated third quarter payment (actual payment was $237,103).

Comptroller Division officials told us that for fiscal year 1977, the antirecession assistance payments allowed the county to maintain a "status quo" on levels of employment and services provided. The officials said the payments had no impact on taxes levied. One official said the payments also helped increase the general fund ending balance.

Comptroller Division officials also noted that without the payments there would have been a dramatic cutback in library expenditures in fiscal year 1977. They said such cutbacks would have affected library service to the public.

For fiscal year 1978, the payments have given the county more latitude so that the expansion of services in the institutional youth services might be considered with the fifth and sixth payments, according to a Comptroller Division official. He said the payments will also help protect the ending general fund balance.

According to Comptroller Division officials, the county would have been able to maintain basic services in fiscal year 1978 if the antirecession program had been discontinued. One official said that so far fiscal year 1978 has been one of the best for the county, and the outlook for fiscal year 1979 is also very good.

COMANCHE COUNTY, OKLAHOMA

Comanche County is located in the center of southwest Oklahoma's dairy, beef cattle, and wheat belt. The entire Fort Sill Military Reservation, which supports about 45,000 military personnel and their dependents, is located in Comanche County. The county's unemployment rate was 5.5 percent for November 1977.

Lawton, the county seat, is the State's third largest city with a population of about 81,000 and is a retail trade and service center, ranking third in the State in total dollar amount in both of these areas in 1972.

Comanche County is governed by a board of three commissioners and county department officials such as county clerk, county assessor, sheriff, etc., all of which are elected positions. The basic services provided by the county are road maintenance, law enforcement, social services, and general county services. The primary revenue sources are the ad valorem (property) tax, fees, and intergovernmental revenue.

FINANCIAL CONDITION IS GOOD

County officials believed their government's financial condition was good when Federal assistance is included. The county's operating expenditures were below revenues for fiscal year 1977 and the general fund balance increased about 14 percent. The county's employment rose, basic services were maintained, and long-term debt decreased as scheduled. The county did not relinquish authority for any basic service.

A county official attributed their good financial condition to a prohibition against deficit financing for operations, and limiting the budget to only 90 percent of estimated revenues from own sources.

Changes in revenue and expenditures

From fiscal year 1976 to fiscal year 1977, revenue from the county's own sources increased about 4 percent, from about $1,303,000 to about $1,355,000, and total general fund revenues rose about 11 percent from about $1,697,603 to about $1,882,046 due to tax base growth and increased fees and revenue sharing funds and the addition of antirecession assistance. At the same time, general fund operating expenditures grew nearly 14 percent from about $1,353,000 to $1,544,000 plus a 95 percent rise in capital expenditures from approximately $186,000 to about $362,000. The majority of the capital expenditure increase was financed with revenue sharing funds.

The county's major revenue from its own sources is the property tax, with fees, fines, and intergovernmental revenue making up the remainder of the revenue for general operating expenditures.

Revenue source	Fiscal Year 1976	Fiscal Year 1977	Increases Amount	Increases Percent
Property tax	$ 974,850	$ 998,972	$ 24,122	2.47
County fees and miscellaneous receipts	328,231	356,069	27,838	8.48
Intergovernmental:				
revenue sharing	394,522	451,184	56,662	
antirecession	-0-	75,821	75,821	33.58
Total	$1,697,603	$1,882,046	$184,443	10.86

Actual tax receipts exceeded estimated tax revenue for fiscal year 1977 and other general fund revenue exceeded estimates by a large percentage. County officials attributed the tax revenue increase to county property growth. The increase in county office fee receipts was attributed, by a county official, to growing new construction and property sales.

The fiscal year 1978 estimated tax revenue exceeds the actual fiscal year 1977 receipts by about 5.5 percent. Other revenue was estimated at less than the fiscal year 1977 actual receipts. A county official stated that the county collects about 97 percent of tax levies, but they can only budget at 90 percent of estimated revenues.

Intergovernmental revenue for the general operating fund increased from about $395,000 in 1976 to about $527,000 in 1977 due to more revenue sharing funds and the receipt of antirecession assistance funds.

The county's general fund operating expenditures by basic services were as shown on the following page.

Function or program	Fiscal year 1976	Fiscal year 1977	Increase Amount	Increase Percent
	(000 omitted)			
Law enforcement	$ 526	$ 632	$ 106	20
County general services	605	620	15	3
Social services	55	67	12	22
Other	168	229	61	37
Subtotal	$1,354	$1,549	$ 195	
Less reimbursements	1	5	(4)	
Total	$1,353	$1,544	$ 191	14

County officials viewed inflation as the largest single factor causing the expenditure increases.

Fund balance increased while outstanding indebtedness decreased

The county's general fund balance increased during fiscal year 1977 from nearly $244,000 to about $256,000 (about 14 percent). County officials attributed the rise to total revenue growth and budgeting only 90 percent of estimated revenues while at the same time achieving approximately a 97 percent collection rate.

Long-term indebtedness decreased in fiscal year 1977 in accordance with scheduled maturities from $6.559 million to $6.398 million. The county has not borrowed or attempted to borrow money since 1974. The last rating published by Moody's Investors Service, Inc. for Comanche County was in 1974 at which time the county's general obligation bonds were rated "A." The county has not planned any capital projects in recent years and none were delayed.

The county has not assumed or relinquished to another government the responsibility for providing any services.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

County officials stated that inflation is the most significant factor affecting the government's fiscal health and level of expenditures. They believed it has increased most costs about 10 percent a year with some items, like road oil, tripling in cost over the last six years.

County officials believed that there has been no noticeable increase in demand for services except in the sheriff's office. This did not have a significant effect on the county's fiscal health.

The officials stated that the State's limit on the county's mill levy for the general fund is the most significant factor affecting revenue-raising capacity. Because of this restriction, the county tax levy for the general fund has not changed in years.

Total county employees increased about 8 percent in fiscal year 1977, due to a greater workload resulting from growth in the county according to officials.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

As of September 30, 1977, the county had received $91,078 in antirecession funds for the first five quarters of the program. All of these funds had been appropriated by October 31, 1977, and $88,594 had been disbursed.

The antirecession assistance payments were generally being used by the county for expense items which would normally have been paid out of the general fund. The first five payments were appropriated and expended as follows.

Function or program	Amount appropriated	Amount disbursed	Balance
Law enforcement	$ 16,808	$ 16,808	-
General operations	39,145	36,661	$ 2,484
General public buildings operation and maintenance	29,695	29,695	-
Other uses	5,430	5,430	-
Total	$ 91,078	$ 88,594	$ 2,484

The following shows the use of antirecession funds by object class.

Object class	Amount
Salaries and wages	$ 18,820
Other personnel costs (fringe benefits)	39,900
Supplies and equipment	2,815
Maintenance and repairs	4,442
Operations (utilities)	12,737
Other	12,364
Total	$ 91,078

The antirecession funds were used to fund one new position and to pay the salaries for nine other positions for one month each. These were previously paid out of revenue sharing or grant funds. These funds were not used to rehire previously laid-off employees or to save positions or jobs.

County officials informed us that had antirecession funds not been available in the most recently completed fiscal year and current fiscal year, the same level of basic services would have been maintained but the county's surplus would have been reduced.

Overall impact

In relation to overall fiscal health, the antirecession assistance funds have made a relatively small contribution to county's total resources.

Comanche County did not use their antirecession payments to increase either the fiscal years 1977 or 1978 budget. Comanche County's budget is based on revenues from its own sources and only these revenues are appropriated. Although available, antirecession assistance and general revenue sharing are held as unappropriated reserves. When revenues from the county's own sources are not sufficient to meet the level of expenditures being incurred, a supplemental appropriation of general revenue sharing funds is normally made to cover the impending deficit. Antirecession funds have been used in essentially the same manner. Comanche County simply appropriated the antirecession funds in lieu of general revenue sharing funds. As a result, the antirecession assistance enabled the county to retain, as unappropriated revenues, a corresponding amount of general revenue sharing funds.

ESSEX COUNTY, NEW JERSEY

Located in northeastern New Jersey, Essex County is a compact industrial and residential section of the State, covering about 127 square miles with a 1977 population of about 932,000. Average unemployment for 1976 was 12.5 percent, but it had declined to 9 percent by October 1977.

Essex County has only 1.5 percent of New Jersey's land area, but it provides 16.5 percent of all manufacturing employment, 25 percent of all non-manufacturing employment, and 47 percent of the employment in banking, insurance, and real estate.

Essex County government is directed by a nine-member Board of Chosen Freeholders and a County Supervisor. The Freeholders have a term of 3 years, with three Freeholders elected each year, to insure the continuity of the governing body. The County Supervisor also holds a 3 year term and has veto power over resolutions adopted by the Board of Chosen Freeholders.

The county operates the criminal and civil courts as well as the prosecutor's and sheriff's law enforcement offices, administrates county hospitals, maintains roads, and provides assistance for the aged, disabled, and needy. The county also provides funds to semi-autonomous agencies, such as the Welfare Board, Essex County College, and the Vocational School Board all of which provide services to Essex County residents.

FINANCIAL CONDITION OF ESSEX COUNTY IS HEALTHY

County officials consider Essex County's financial condition for 1976 and 1977 to be generally healthy and unchanged from our February 1977 review.

The Director of the Board of Chosen Freeholders and the Assistant County Treasurer attributed this fiscal health to strict financial regulation by the State. They also said 20 of the 21 municipalities in Essex County are financially strong.

Changes in revenues and expenditures

Essex County's total revenue increased approximately 8 percent from 1975 to 1976 and is budgeted at $179.1 million in 1977. Expenditures also increased approximately 6.5 percent from 1975 to 1976 and are budgeted to stay at about 1976 levels in 1977. The increase in revenue and expenditures have had no noticeable effect on the county's financial condition according to the Assistant County Treasurer.

Inflation was the major reason for increased expenditures according to officials, but recession has also had an effect because there has been an increased demand for a few basic services.

The major increase in revenues was in real property taxes which increased by 9.6 percent from 1975 to 1976 ($108.5 million to $119 million). The increase was caused by a 5.8 percent increase in the tax rate and an increase in taxable land assessments due to recent development. The Assistant County Treasurer stated that the tax rate was raised to provide revenue to offset spiraling inflation costs.

Revenues from the county's own sources increased

Revenues from the county's own sources were up about 5.6 percent and accounted for 75 percent of total revenues in 1976, with 67 percent coming from taxes.

The real-property tax is Essex County's primary revenue source, accounting for 98 percent of the county's 1976 own source tax revenues.

The county normally surpasses its budgeted revenues, and this is not unusual because the State limits budgeted amounts to what was actually received in the prior year. In the most recently completed year (1976), Essex County surpassed its estimates for each major revenue category, a total increase of 6.5 percent or $11,035,693. For the first 9 months of 1977, the county is achieving its projected revenues and will most likely surpass them.

Intergovernmental revenues increased

Intergovernmental revenues increased by 17 percent over 1975 ($38 million to $44.5 million). CETA funds showed a sharp rise from $4.9 million in 1975 to $11.1 million in 1976 partly because unexpended 1975 CETA funds of $1.9 million were apportioned to 1976. A $3 million increase in the State's share of the county's hospital costs also contributed to the overall increase in intergovernmental revenues. Federal revenue sharing payments rose slightly from $7.7 million in 1975 to $8.1 million in 1976. Intergovernmental revenue represents about 25 percent of the 1976 total county revenues.

Expenditures increased

Overall, 1976 expenditures increased by 6.5 percent over 1975. Educational costs rose sharply from $8.1 to $10 million. This increase according to the Assistant County Treasurer, was a result of the opening of a new vocational school equipped to handle the handicapped, and the absorbtion of a portion of the community college expenses formerly paid for by the State.

Unclassified expenditures (grants) increased 31.5 percent ($8.7 million to $11.4 million) over 1975. The Assistant County Treasurer attributed this to the fact that several developing grants in 1975 became on-going grants in 1976 and required greater expenditures.

Operating fund balance and indebtedness stable

There have been no significant changes in the operating fund since 1974. Year-end surplus balances have ranged from $3.4 million to $6.9 million and indicate that the county is funding current operations with current revenues.

Essex County's total indebtedness from 1975 to 1976 decreased by 2 percent ($77.7 million to $76.2 million) and is anticipated to decrease by 6 percent in 1977.

The change in indebtedness occurred primarily because about $10 million of serial bonds reached maturity and no long-term debt has been incurred since 1975.

The county has borrowed less than half of its statutory limit. Moody's Investors Services, Inc. rated Essex County bonds "Aa" in 1976, 1977, and January 1978.

The county has not relinquished authority to another level of government to provide services in any area according to county officials; however, the county has had to assume partial responsibility and costs from the State for sheltering criminals in county correctional centers.

Capital project activity was limited in the county during 1976 and 1977 and project starts and delays were inconclusive as indicators of fiscal strength.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

Essex County officials described both the positive and negative factors affecting the county's health. The positive factors are:

--the growth in the county's suburbs creating additional taxable properties;

--the mandated controls that allow the county to only forecast revenue up to what they received the prior year, because it limits the amount of planned expenditures by the county; and

--the industrial growth taking place in western Essex County.

County officials stated that inflation and recession have negatively affected the county's fiscal health. Both have been increasing the cost of services. These officials feel that migration of the poor to Newark in Essex County creates additional demands for welfare, medical care, and other basic services.

Essex County officials stated that there are three sigificant hinderances to their ability to raise revenues.

--the State has placed a 5 percent limitation on property tax increases;

--Essex County does not have the authority to levy an income or sales tax; and

--the county administrators cannot change the fees charged for services, such as registering a deed. These are set by the State and can be changed only by legislative action.

Factors affecting expenditures

Essex County's Assistant Treasurer said increased expenditures are due primarily to inflation, not to the offering of increased basic services or to increased demand for basic services. The cost of supplies, food, medicine, equipment, clothing, and salaries have increased, in his opinion, at about the same rate as inflation.

The Director of the Board of Chosen Freeholders stated that although the recession has affected expenditures slightly because it has caused an increase in the demand for certain basic services, such as correctional services. There has not been a major demand increase, nor has the slight increase significantly affected the county's fiscal health.

The Assistant County Treasurer stated that most of the county's administrative expenses are salaries and related personnel costs. Salary expenses and fringe benefits in 1976 accounted for 58 percent of total expenditures.

Budget adjustments

The Assistant County Treasurer informed us that there have been no new taxes levied by the county. However, the real property tax rate was increased by 5.8 percent in 1976 and 4.1 percent in 1977. Effective January 1, 1977, the State imposed a 5 percent per year limitation on increases in real property tax for a 3 year trial period.

Essex County has moderately increased the number of its employees as shown by the following table.

Years	Average employees	Number of new employees	Total employees	Percent of change
1975 to 1976	5,779	311	6,090	5.4
1976 to 1977	6,090	207	6,297	3.4

The Assistant County Treasurer stated that employment was increased to staff the new county jail. In addition, the county hospital required additional staff in order to keep its accreditation. About 10 percent of all employees were funded by the CETA program

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

As of November 21, 1977, Essex County had received $5,680,449 in antirecession payments and earned $23,314 in interest on these funds.

The $4,372,760, including interest received for the first five quarters, was expended within the 6-month limitation. The sixth quarter funds of $1,331,003, received in October, will be appropriated in the 1978 budget and will be expended in the first quarter of 1978 according to the Assistant Treasurer.

The Assistant County Treasurer informed us that antirecession funds for the first five quarters paid salaries at the county hospital. This freed other county funds for an across-the-board wage and benefit increase for all county workers.

A county official stated that the funds permitted the county to avoid layoffs. He also noted that the funds enabled the county to maintain current levels of services and employment. In his opinion, if antirecession assistance had not been received, the county, because of State limitations on tax increases, would have had to cut back on current levels of services and employment.

FULTON COUNTY, GEORGIA

Fulton County covers a 523-square mile area in north-central Georgia including most of Atlanta. The county had an estimated population of 607,900 in April 1977. Industry is diversified and includes major airlines and various manufacturing and retail businesses. Construction activity decreased in 1975 but showed slight gains in 1976 and 1977. Per capita income was $5,218 in 1974.

Fulton County's unemployment rate has improved since the antirecession program began but still remains high changing from 10.6 percent for the first program quarter (July-September 1976) to 8.2 percent for the fifth quarter (July-September 1977).

The county has a commission-manager form of government. The commission consists of seven elected commissioners who appoint a county manager to act as chief executive officer. The Board of Commissioners levies taxes; adopts capital improvement programs; authorizes county bond issues; and, through budget approvals, sets the level of services provided by each county department. Basic services include police and fire protection, court systems, medical and social services, sanitation, road and bridge maintenance, water and sewer systems, and recreation services. The county's fiscal year ends December 31.

FINANCIAL CONDITION IS GOOD

Fulton County is in good financial condition and has remained so since our prior review. The county maintained, and in some cases expanded, services during 1976 and 1977 without significantly raising taxes. Additionally, the county's latest estimates for 1977 show that the general fund balance has increased $1.8 million since 1975.

Other indicators of the county's financial health were also good. The county's other operating fund balances generally increased or remained constant, and county officials considered them to be in sound condition. Indebtedness decreased during 1976 and 1977, and county employment increased somewhat even though a hiring freeze was in effect. County officials also said that the county did not have to delay any capital projects in 1976 or 1977 due to insufficient funds.

The county manager said the county had maintained a strong financial position through the years because budgeting policies and practices enabled county administrators to control expenditures. The county manager also told us that Federal funds--particularly general revenue sharing--contributed to the county's good fiscal health during the past few years.

Increased revenues and expenditures

Fulton County general operating expenditures increased during 1976 and are estimated to continue rising in 1977. However, revenues generally kept pace with expenditures because of increased property values, improved tax collections (current and delinquent), and greater revenues from the Federal Government.

In 1976, revenues exceeded expenditures by about $2.5 million, a significant improvement over fiscal year 1975 when expenditures exceeded revenues by about $2.8 million. A county official said that the favorable balance in 1976 was due to increased revenues from property taxes and general revenue sharing.

The county's latest estimates for fiscal year 1977 show expenditures exceeding revenues by about $705,000. However, the county will still enter fiscal year 1978 with an unappropriated cash surplus of about $6.7 million.

Revenues from own sources

The county's primary revenue source is a real and personal property tax. Collections increased from $53.1 million in 1975 to $57 million in 1976. The county projects an increase to $59.6 million in 1977. Total revenues were $84.8 million in 1976, and the county's latest estimate for 1977 was $85.3 million. However, the latest estimate did not include about $4.4 million that was in the general revenue sharing and antirecession trust funds when the estimate was made. The county does not classify this as revenue until it is transferred to the general fund.

Actual revenues exceeded budget estimates in 1976, and the county's latest revenue estimates exceeded the original budget estimates in 1977. The county's budget law generally restricts the amount of revenue that can be anticipated for the coming budget year to the level of actual current year revenues.

Intergovernmental revenues

Intergovernmental revenues totaled $17.2 million in 1976 and an estimated $16.5 million in 1977. General revenue sharing funds made up about 71 percent of the intergovernmental revenues in 1976 and about 56 percent in 1977.

The county deposits general revenue sharing payments in a trust fund account and transfers them to the general fund as needed. If the county does not transfer all the available funds in one year, it will carry them over for use during the next year. The drop in revenue sharing funds from 1976 to 1977 occurred because the county used most of the available revenue sharing funds in 1976 and, as a result, did not have as much to carryover in 1977. However, the county anticipates using only $6 million of the $9.2 million available in 1977.

Expenditures for basic services increased

The county generally increased basic service expenditures, such as welfare, police protection, parks and recreation, and sanitation. Health was the only basic service which showed a decline during the 1976-77 period, and this drop did not diminish services. In 1976, actual expenditures for health decreased slightly from the 1975 level. The decrease was caused primarily by efficiencies resulting from changes in the way the county delivered health services to indigent persons in north Fulton County.

County officials said the county had not cut any basic services in 1976 and 1977. To the contrary, the county enhanced service levels through

--increased expenditures in the food stamp program due to a Federally-mandated certification drive,

--reinstituted a police helicopter program for search and rescue missions,

--added a solid waste transfer station to improve its solid waste disposal capabilities, and

--increased expenditures in the parks and recreation department because of added facilities.

County officials said that the recession caused no noticeable increase in demand for services. The officials said that the changes occurred because of normal growth, the county's desire to maintain the same service levels, and, in the case of the food stamp program, increased Federal emphasis.

According to county officials, Fulton County did not relinquish any service programs to another level of government because of funding problems, nor did it assume responsibility for any programs.

Operating fund balances increased

Fulton County's operating funds consist of the general fund, airport fund, water and sewerage revenue fund, and fire district fund.

The 1976 year-end balances for the general fund and fire district fund were significantly higher than the 1975 year-end balances. The 1976 year-end general fund balances rose $2.5 million or 51 percent. A county official said the increase was due to growth in tax receipts and general revenue sharing funds. The fire district fund balance increased from $570,490 in 1975 to $900,154 in 1976--a 58 percent improvement. According to a county official, the rise in the fire district fund resulted from delaying the planned purchase of equipment until a study on fire protection in the county's unincorporated areas was completed.

By law, the balance in the water and sewerage fund remains at a constant $100,000--a county official said that funds above that amount are transferred to non-operating water and sewerage funds. The 1976 airport fund balance decreased by $53,000 or 7 percent. A county official said that the decline was primarily due to less Federal funds for the airport. The official did not view the drop as a problem and thought the fund would remain self-supporting in 1977, as it had since 1972.

Indebtedness decreased

Fulton County's long-term debt consists of general obligation and revenue bonds. The county can issue up to $3 million in general obligation bonds each year without a voter referendum. Each year since 1971, the county has issued the maximum amount. The county has not issued any revenue bonds since 1975.

There was little change in the county's total outstanding long-term debt in 1976. Projections for 1977 show a small decline in long-term indebtedness due to increased retirement of revenue bonds.

The county obtains short-term financing to pay its debts until it starts receiving taxes in July of each year and is required by law to pay short-term debts by mid-December.

County officials stated that the county had not experienced any problems obtaining short- or long-term financing. Fulton County's general obligation bonds have a good rating. Moody's Investor Service, Inc. rated them Aa from 1976 through January 1978.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

County officials told us that the factors having the most effect on the county's fiscal health during 1976 and 1977 were inflation, tax base erosion, a construction slowdown, and slower population growth. The slow growth rate and tax base erosion limited the county's revenue-raising capacity, while inflation generally increased expenditures. Officials told us that the construction and population growth rates showed signs of improvement during 1977.

Officials said that Fulton County had experienced some tax base erosion because the local rapid transit authority had purchased some taxable property for construction of a rapid transit system, and the City of Atlanta had converted some commercial property into a park.

The county manager believed that rapid transit construction would have a short-term effect because businesses would open again around the transit system when it was completed. The official said that the conversion of the taxable property to a park was permanent.

Officials said that the recession apparently affected commercial and residential construction in the county because building permits dropped in 1975. The trend has reversed because building permits increased somewhat in both 1976 and 1977; however, the permits have not yet reached the level issued in 1974.

County officials cited inflation as the most significant factor affecting expenditures, primarily through higher costs of materials, supplies, and equipment. It had minimal effect on county salaries. During the 1976-77 period, the county had only one across-the-board pay raise of 4 percent; however, officials expect another 4-percent salary increase in 1978.

No major budget adjustments

In 1976, Fulton County lowered the property tax rate by about one-half mill. In 1977, the county raised the tax rate by a similiar amount. The tax rate change was made primarily to offset other actions in the tax approval process--such as increased property value assessments--so that the county could maintain the desired tax revenue growth.

The county's total employment increased during 1976 and 1977 because of new hires under the Comprehensive Employment and Training Act (CETA). The number of non-CETA employees decreased during this period. Fulton County has been under a hiring freeze since October 1975. The county manager, however, has authority under the freeze to fill positions that are necessary to maintain an acceptable level of service to the public. No employee layoffs occurred during 1976 and 1977, and none were anticipated for 1978. The following table shows employment trends since 1975.

	As of December 31		As of September 30
	1975	1976	1977
County funded	2,649	2,573	2,373
CETA funded	46	219	433
Total employees	2,695	2,792	2,806

Fulton County started several capital projects in 1976 and 1977. No projects were delayed for lack of funds.

Overall, county officials were optimistic about the county's fiscal health. Even though the officials cited some factors which have had, and may continue to have, a negative effect on the county's fiscal health; they believed that if the overall economy remained good, the problems were not significant enough to keep the county from remaining fiscally sound in the foreseeable future.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

Fulton County primarily used antirecession funds to supplant its own funds, thereby increasing the unappropriated general fund balance for 1977. County officials said that antirecession funds helped the county maintain a sound financial position during 1977 and will enable the county to enter 1978 in better condition.

Fulton County had received a total of $3,690,814 in antirecession funds as of October 31, 1977. The total available funds consisted of $3,610,431 in antirecession payments for the first six quarters, and $80,383 in interest thereon.

The county had spent or obligated $2,222,881 as of October 31, 1977. The remaining $1,467,933 was unappropriated as of that date. All but $152,405 of the funds were used to pay salaries that the county would have paid from other revenues had antirecession funds not been available.

The county disbursed or obligated the funds received for the first four quarters within the required 6-month time limit. The unappropriated funds were from the fifth and sixth quarter payments. A county official said these funds would be used to pay salary expenses in the same departments and same manner as in 1977.

Through October 31, 1977, Fulton County had used antirecession funds in four functional areas and six departments, as follows:

Function/department	Amount disbursed or obligated
Corrections:	
Clerk of Superior Court	$ 432,800
Jail	542,450
Police protection:	
Sheriff's department	$ 551,426
Police department	146,405
General public buildings:	
Public buildings	$ 543,800
Sewerage:	
Public works department	$ 6,000 a/
Total	$ 2,222,881

a/ Obligated but not disbursed as of October 31, 1977.

The county used the funds that it had disbursed or obligated as of October 31, 1977, to pay salaries, purchase a helicopter, and pay a public works consultant.

Most of the funds ($2,070,476) paid salaries for the sheriff's department, jail, public buildings, and clerk of the superior court. The county did not identify the specific individuals' salaries paid, nor did it use the funds to hire new employees. The funds were transferred to the departments' salary accounts to help pay total salary costs thereby supplanting other county funds that would have been used.

The antirecession funds paid for about 50 percent of the four departments' total salary costs through October 31, 1977. Using an average salary for each department, the antirecession funds will pay the annual salaries of about 194 employees: 64 in public buildings, 48 in jail, 44 in the sheriff's department, and 38 in the clerk of superior court.

In June 1977, the county spent $146,405 of the antirecession funds to purchase a helicopter, which they had previously leased, for police search and rescue missions. The county had originally budgeted the police helicopter program for only about 6 months in fiscal year 1977. The officials said that plans to discontinue the program were based on the anticipated funding "crunch" in 1977 and a questionable need for the program. However, they said the program was not discontinued because attitudes changed about the need for the program after a major air crash north of Atlanta, and the funding problem did not materialize.

The county used $6,000 in antirecession funds to pay for a consultant's services in the public works department.

County officials said that it was difficult to identify the specific effect antirecession funds had because of the way the county used them (i.e. to supplant other county funds). The officials stated, however, that the funds helped the county maintain employment levels and the same types and levels of services.

Fulton County has not used antirecession funds to hire new employees, add new services, or expand existing services. The county used the funds primarily to pay salaries that would have been paid from other revenue sources. The antirecession funds, in effect, freed other county funds that will either be used to pay for services or be carried over as unobligated surplus at year-end.

HENNEPIN COUNTY, MINNESOTA

Hennepin County is located in east-central Minnesota, covering a 609-square mile area and containing 46 municipalities, including the city of Minneapolis. The county's 1976 population was estimated at 916,545 with per capita personal income of about $5,700. Major industries include finance and banking, retail trade, food processing, grain merchandising, electronics, manufacturing, construction, and transportation.

The county, Minnesota's largest local governmental unit, is directed by an elected seven-member board of commissioners serving 4-year staggered terms. The board is responsible for overall county operations, including policy and budget formulation. The county administrator, appointed by the board, is responsible for the county's day-to-day operations. The county administers health and social services, municipal and district courts, highways, and libraries. Other responsibilities include public safety, veterans' service, disaster planning, environmental control, and property tax collection and assessment. The county's fiscal year is on the calendar year basis.

FINANCIAL CONDITION IS VERY HEALTHY

The principal management analyst said Hennepin County's financial condition was very healthy as indicated by the

--Aaa bond rating from Moody's Investors Service, Inc.;

--county's position below their debt limit; and

--broad revenue base.

The analyst said the county's financial condition has not changed since our previous review in February 1977. Moody's revised the county's general obligation bond rating from Aa to Aaa in 1977. This latter rating remained the same through January 1978. A Moody's Investor Service, Inc. official said the improved rating was under consideration for 2-3 years, and he provided the following reasons for the revision:

--The debt burden is manageable and the county does not foresee new bond issues.

--The bond redemption rate is rapid.

--The pertinent financial ratios are good.

--The county government's management is professional.

--The county has a large tax base and a diversified economy.

Significant changes in revenues and expenditures

The budget reports and financial statements differed in the method of data accrual and presentation and the inclusion of certain organizations' financial activities. As a result, we could not compare financial reports directly with budgets to analyze significant changes between budgeted and actual revenues and expenditures. Therefore, we used the financial statements to identify changes between 1975 and 1976 actual financial data and budget reports to identify percentage changes between the budgeted and actual financial data during the period 1976 and 1977.

Hennepin County's total revenues rose about $32.8 million (14.1 percent) between 1975 and 1976. A budget analyst attributed increased actual revenues primarily to increased property taxes, higher medical charges and volume, and expanded program services and rates. The analyst attributed the increased operating expenditures primarily to inflation and to new and expanded program services, staffing, and program caseloads. The analysts attributed decreased capital expenditures primarily to project changes, difficulty obtaining municipal approvals, late bid scheduling, and completing major building projects initiated in previous years.

Revenues from own sources

About 60 percent of Hennepin County's total revenues were derived from its own sources in 1975 and 1976, according to the financial statements.

Property tax revenues

The financial statements showed that, although the proportion of property taxes to total revenues declined from about 37.0 to 34.7 percent from 1975 to 1976, property tax revenues increased by about $6.2 million (7.3 percent) to $91.7 million in 1976. The budget report showed 1976 property tax receipts at about 3.8 percent above those budgeted. Property taxes budgeted for 1977 were about 7.8 percent above the 1976 receipts. The principal management analyst said the 1977 increases were planned and were partially due to anticipation that the State would fail to meet the reimbursement formulas to the county, totaling about $5.3 million. The principal management analyst said property tax bears the burden when revenues from other sources are not achieved, and the 1976 property tax collection rate was comparable to previous years.

The following schedule shows the trend in property assessed valuations, levies, and delinquencies during the period 1972 to 1977 for Hennepin County excluding the park reserve district and the municipal building commission.

Calendar year collectible	Assessed valuations (000s)	Tax assessment (000s)	Tax rate Percentage
1972	$1,020,992	$73,957	a/ 7.2
1973	3,280,692	79,876	2.4
1974	3,541,322	88,710	2.6
1975	3,578,965	99,742	2.8
1976	3,926,649	103,371	2.6
1977	4,231,474	120,793	2.9

Calendar year collectible	Tax rate per $1,000 of assessed value	Delinquent at year-end	
		Amount (000s)	Percentage
1972	$72.44	$2,161	2.9
1973	24.35	2,199	2.8
1974	25.70	3,002	3.4
1975	27.87	2,762	2.8
1976	26.33	2,929	2.8
1977	28.55	b/	b/

a/Pursuant to statutes enacted by the 1971 Minnesota Legislature, Hennepin County revised assessed valuations subsequent to 1971 from approximately one-third of estimated market value to estimated full market value.

b/Not available as of 11/1/77.

During the period 1973 though 1977, tax rates showed generally an upward trend. The delinquency rate was constant at 2.8 percent from 1973 through 1976 except for an increase of 0.6 percent in 1974. The chief accountant said the recession may have impacted on the property tax collection.

No major legislation was passed in 1976 to significantly change tax rates or assessment methods for property taxes. In 1977, the State passed the Omnibus Tax Act directed primarily toward easing the sharp property tax increases projected for 1978. Part of the act changed the property tax structure to ease the tax burdens on homeowners and farmers. The classification percentages applied to the market value of urban and farm homesteads were reduced for calculating assessed value for taxes.

A senior management analyst said the change shifted property taxes toward the commercial and industrial property owners since the methods for assessing property values remained unchanged.

No significant limitations were enacted in 1975 and 1976 on property taxes. The 1971 Minnesota Legislature had enacted a levy limitation on property taxes which restricted increases to 6 percent per capita each year using 1970 as the base year. Exemptions to this limitation under a special levy category included welfare costs and payments on bonded debt. The 1977 Omnibus Tax Act removed certain costs previously exempted under the special levy category and subjected them to the levy limitation. In Hennepin County, approximately $10 million of these costs were subjected to the limitation for 1978 including

--administrative costs of public welfare programs,

--costs of an expanded county court system, and

--increased cost of pension programs.

The senior management analyst said the State was attempting to limit property taxes through these restrictions. Hennepin County's tax levies have been below the levy limitation by $9.3 million and $15.1 million for 1976 and 1977, respectively. The principal management analyst said the political and economic climate provides pressures against increasing property taxes because

--taxes are extremely high already and growing, and

--public awareness through the political arena provides pressure to hold the line.

Charges and miscellaneous revenues

The financial statements showed that charges and miscellaneous revenues increased in 1976 by about $14.7 million (39.3 percent) over 1975 receipts of about $37.3 million. The principal management analyst said the increased revenues were primarily due to expanded program services and patient rate increases at the medical center as follows:

--Operation of a central food facility.

--Patient rate increases due primarily to inflation and to additional staffing.

The budget report showed charges and miscellaneous revenues budgeted for 1977 at about 22.9 percent above 1976 receipts. The increases were primarily due to increased fees, rates, and volume as indicated:

--Rates at the medical center were increased about 17 percent.

--Medical service volume was projected to increase.

--Sheriff department fees were increased and also fees to the public for tax and other records to cover cost of service provisions.

Intergovernmental revenues

Significant county revenues are received from other governmental units based on various distribution or cost sharing formulas. The financial statements showed that about 39.3 and 37.8 percent of the county's revenues were derived from intergovernmental sources for 1975 and 1976, respectively. Although the proportion declined, intergovernmental revenues increased by about $8.9 million (9.9 percent) to $99.7 million in 1976.

The budget report showed 1976 intergovernmental actual revenues at about 2.5 percent below those budgeted. The principal management analyst said the State failed to reimburse the county for about $3 million in welfare costs because of insufficient State appropriations.

Under the 1975 Omnibus Tax Act, the State raised its share from 50 percent to 90 percent of the non-Federal portion of medical assistance cost, providing property tax relief of about $14.6 million in 1976; however, Hennepin County was exempted from future State formula aids which amounted to about $7 million in 1975.

The county budgeted 1977 intergovernmental revenues at about 18.3 percent above the actual 1976 receipts. The principal management analyst said the increased intergovernmental revenue budget was primarily due to

--greater assistance standards in the welfare programs, such as the general assistance program, to cover inflationary costs increases; and

--expanding caseloads in the welfare programs.

The analyst said revenues in 1977 from the Federal and State governments were being received at a rate comparable to previous years.

Expenditures increased

The budget director and principal management analyst said inflation was the most significant factor affecting the increased total expenditure levels which rose about $19.6 million between 1975 and 1976. The senior management analyst said the county's inflation rate was about 8 percent annually during the period July 1974-77.

The demand for services has gradually increased in some programs during 1976-77. The various reasons given for changes in expenditures included inflation, expanded or new services, and recession. The $1.2 million increase budgeted for 1977 transportation costs was primarily due to inflation.

Significant expenditure increases for 1975, 1976, and the 1977 budgeted public safety and judiciary programs were attributed to:

--inflation;

--additional staffing for the new jail;

--new county criminal procedure within the public defender and county attorney offices;

--budgeted 1977 salary increases;

--added services assumed by the county from Minneapolis for the adult corrections facility workhouse; and

--greater county funding for contracted programs previously funded by the Law Enforcement Assistance Administration.

Health program expenditures rose $2.5 million between 1975 and 1976, with various changes in the lower division programs. The 1977 budget increased these expenditures by $20 million (31.5 percent) over actual 1976 expenditures. Inflation was one major factor causing this growth. Other reasons were

--full-year operation of the new medical center;

--heavier usage and increased cost of the 1975 State-mandated general assistance medical program;

--new mental health programs in 1976 and 1977;

--increased pressure on county mental health pr grams because the State was deinstitutionalizing mental health; and

--greater environmental health costs for the Dutch elm disease.

Actual expenditures for the social economic assistance programs grew $7.6 million (7.7 percent) from 1975 to 1976. The budgeted 1977 increase was about $8.3 million (7.8 percent). Various factors contributed, but primarily inflation, larger staffing for improving program quality control, and caseload growth were responsible for pushing up costs. Officials believe that the increased caseloads in income assistance to those people whose unemployment benefits have terminated indicates the recession's effect. The monthly average caseloads rose from 5,352 in 1975 to 6,464 in 1976, and about 6,523 in 1977. Part of the increase was due to the recession and part to better outreach to the community.

Decreased responsibility to provide service

The principal management analyst said that under recent legislation, the State will begin administering the medical assistance payment program instead of the county. He believed the State thought it could administer the program more efficiently.

Changes in fund balances and indebtedness

The aggregate total funds balance increased about $1.5 million (4.0 percent) from December 31, 1975, to December 31, 1976, as follows:

Fund	Amount 1975	1976	Change	Percent
	(millions)			
Operating	$21.2	$22.8	$1.6	7.5
Revenue sharing	2.3	3.9	1.6	72.1
Revolving	3.4	3.7	.3	7.1
Capital	6.1	3.3	(2.8)	(45.6)
Debt service	4.5	5.3	.8	16.6
Total	$37.5	$39.0	$1.5	4.0

The principal management analyst said the only significant changes were the greater Federal revenue sharing amounts received in 1976 with less transferred to other funds, and the decrease in capital projects funds attributed to spending available funds for capital projects.

The analyst said the total fund balances showed no significant change in the county's financial condition.

No general obligation bonds were issued in 1976. In 1977, the county redeemed $16,750,000 of general obligation bonds primarily through the sale of $16,300,000 of refunding bonds bearing a lower interest rate. No other short- or long-term financing was incurred during the period 1976-77.

Changes in public employment

Since Hennepin County does not maintain employee numbers by full-time equivalent positions, we calculated the number based on the total hours worked by county employees during the years 1975 and 1976. The number of full-time equivalent employees increased between 1975 and 1976, to 6,633 or by about 14.8 percent.

Most increases were attributed by the analyst to new responsibilities assumed by the county, such as responsibility for operating an adult correction facility, staffing for the new medical center, and additional staffing to meet State requirements for the renovated jail.

A senior management analyst said the increase in only one program's number of employees was, in part, related to the recession. The welfare program increased by about 16 full-time equivalent positions because of additional caseloads and the need for improved quality controls. The senior management analyst said about 80 percent of the staff increase was hired to handle the additional caseloads, part of which he believed was caused by the recession.

In 1976, the county transferred 30 employees from the overstaffed pilot city health center to the new medical center. The staff reductions did not affect provisions of the basic services.

Significant changes in capital projects

A senior management analyst, said that although the capital improvement program had construction delays, none of the delays were due to lack of funds. He said capital project expenditures were about $8.4 million below budget in 1975. Building and highway construction projects were curtailed during 1975 for various reasons, including changes in program philosophy and delays incurred in letting bids. The senior management analyst said funding was no problem, as evidenced by the increase of unappropriated funds from about $1.6 million at the outset of 1975 to about $6.1 million at the end of the year. About $5 million in bonds had been issued for libraries in 1975, much of which remained unspent.

Budgeted expenditures in 1976 were about $22.8 million compared to the actual expenditures of about $16.6 million, down about 27.1 percent. Six new capital building projects were approved in the 1976 budget at a total estimated cost of about $3.4 million. About $1.2 million of this was budgeted for expenditure in 1976. However, only one of these building projects, budgeted at $73,000, was started in 1976. Highway construction expenditures were also less than anticipated mainly due to project changes, difficulty in obtaining municipal approvals, and late bid scheduling. At the end of 1976, unappropriated capital funds totaled about $3.3 million, down from about $6.1 million at the beginning of the year.

In 1977, capital expenditures were budgeted at about $17.7 million compared to budgeted expenditures in 1976 of about $22.8 million. A senior management analyst said the decrease was due to the county board of commissioners' desire to complete previously approved and funded projects and fewer major projects needed to be constructed.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

The prinicpal management analyst identified the following factors, listed by priority, affecting the financial condition of the county.

Long- or short-term (LT/ST)	Factors (all negative)
LT	Inflation
LT	High growth rate of taxes in relationship to personal income. a. State and Federal income taxes. b. Property taxes.
LT	Demand or mandate to provide human services exceeds capabilities and financing.
ST	Federal audit exceptions.
ST	State shortfalls in funding.
LT	Suburbanization of industry and middle-to-upper income people.
ST	Recession.

Factors affecting revenue-raising capacity

The following factors affect county revenues.

Positive/negative	Factors
Negative	Inability or unwillingness of Federal and State governments to provide adequate financial aid for mandated programs, particularly those that are income distribution programs, e.g., welfare programs.
Negative	Public pressure to hold down taxes.
Positive	Continuous development and redevelopment in the county.
Positive	Willingness of the State government to assume greater responsibility for sharing costs, e.g., welfare, corrections, courts.
Negative	Declining growth rate in the tax base.

Factors affecting expenditure levels

The following factors affect county expenditures.

Positive/negative	Factors
Negative	Inflation
Negative	Increased demand for, and mandates to provide service.
Negative	Seemingly uncontrolled growth in Federal and State regulations, and the frequent changes in these regulations.
Positive	Willingness of the State government to relieve Hennepin County of the responsibility to provide some services. a. State takeover of welfare payments. b. Placement of certain services with a metro-wide government.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

Hennepin County received antirecession assistance payments totalling $938,470 during the period July 1976 through September 1977. The disposition of these funds as of October 31, 1977, excluding interest, was as follows:

Antirecession funds received for five quarters ending September 30, 1977

Total funds received			$938,470
Total appropriated:			
Disbursed		$930,459	
Not disbursed:			
Obligated	$8,011		
Unobligated	-		
		8,011	
Total			$938,470

The senior program analyst said the non-disbursed funds will be spent by the end of the sixth quarter, December 31, 1977. The county's sixth quarter payment, $142,794, will also be disbursed during the sixth quarter. All funds will have been expended within the required 6-month period.

The Hennepin County Board of Commissioners obligated the funds to be used for salaries, wages, and fringe benefits in the highway maintenance program. The antirecession funds paid the salaries of 207.7 full-time equivalent substitute positions which were previously paid from other county revenues.

The principal management analyst said the funds basically assist the county in combating inflation and in holding down property taxes. Since the funds are not significant, the effect upon inflation and property taxes is minimal. Without the funds, the county would have had to cut back on services and/or increase property taxes.

LAKE COUNTY, INDIANA

Lake County, covers 514 square miles in northwestern Indiana. Crown Point, the county seat, is about 35 miles southeast of Chicago, Illinois. Lake County's 1976 population was estimated at 545,500. Per capita income for 1975 was estimated at $5,581, up more than 5 percent from the prior year. Lake County's average monthly unemployment rate was 6.6 percent in 1976, down from 8.1 percent in 1975.

The industrialized northern part of the county includes Gary, Hammond, and East Chicago, three of the ten largest cities in Indiana. More than one-third of the 200,000 jobs in Lake County are in the steel mills. The central portion of Lake County is one of the most rapidly growing residential and commercial areas in Indiana; the southern portion of the county is agricultural.

Lake County is governed by an elected three-member Board of County Commissioners who administer county business. An elected seven-member council appropriates funds for use by the county and its officers. Lake County's basic services are provided by the Highway Department, Welfare Department, Sheriff's Office, County Courts, and homes for the convalescent, indigent, and juveniles.

FINANCIAL CONDITION FAIR BUT HAS DECLINED

During our prior review completed in February 1977, Lake County officials expressed differing views concerning their government's financial stability, although they did agree there was no financial crisis. Currently, they are much more concerned about the financial outlook and stated that the county government's financial condition is fair but has clearly deteriorated.

County officials indicate that the property tax, the primary source of local revenue, is approaching its revenue-raising limit because of a State-mandated tax freeze. At the same time, county expenditures are continually increasing because of inflation and expanded county services. Also, the general and welfare fund balances are low and financial problems at the township levels have caused the county's outstanding debt to grow. County officials maintain that their financial stability has been and will continue to be dependent largely upon the receipt of Federal funds.

Total expenditures in 1976 increased 13 percent to $89,077,000, while total revenues increased 14 percent to

$89,134,000. The $57,000 addition to fund balances compares to a $138,000 deficit in 1975. A primary reason for the fund balance improvement is that actual Federal receipts exceeded Federal fund expenditures by $1,835,000. When these Federal receipts are excluded, total expenditures are $1,777,000 more than revenues.

<u>Changes in revenues have come from a number of factors</u>

From 1975 to 1976 the county's property tax revenues rose 14 percent, to $36.6 million. An 8.5 percent tax rate increase and a 4.1 percent rise in taxable property values contributed to the increase. According to county officials, the higher tax rate for 1976 was needed to provide for three new county courts; court mandated increases in both deputy sheriffs and the county court's budgets; and an increase from one to three community mental health centers.

The property tax rate payable in 1976 was the highest since the State-mandated tax freeze in 1973. The sizeable increase in 1976 was made possible by two factors. The 1975 rate was considerably lower than the maximum composite or frozen tax rate established by the State. In 1976 the county taxed at the maximum composite rate. Also, in 1976 the State allowed some components of the composite tax rate to be excluded from the frozen rate. These rates then were raised.

Budgeted property tax collections for 1977 were estimated at less than actual 1976 tax collections. Although the county still taxed at more than 99 percent of the maximum rate, there was a 4 percent decrease in the tax rate. Three factors caused this decrease; a surplus in the welfare fund, a State requirement that one of the two tax rate components excluded from the 1976 composite rate be included in the 1977 rate, and the State and county failed to provide a levy for the cumulative bridge fund in 1977.

The county's other local revenues come from fees, interest, refunds, etc. These other revenues went from $5.3 million in 1975 to $9.2 million in 1976. Comparable data was not available for 1977. One large 1976 increase, up from $1.9 to $2.2 million, was due to expanded operations at the convalescent home.

The county is very dependent on intergovernmental revenues. Most of these revenues, $27 million of $43.3 million in 1976, came from a State-distributed mix of State and Federal monies for welfare. Intergovernmental revenues in 1976 increased $2.3 million over 1975. Part of the increase was related to a $1.8 million increase in State gasoline tax receipts for three special road projects. In 1977, the gasoline revenues went back down but the overall intergovernmental revenues were expected to increase at least $1.1 million. Most of the increase was in welfare monies and from Federal Comprehensive Employment and Training Act (CETA) funds, general revenue sharing, and antirecession assistance programs.

Expanded services and inflation have increased expenditures

The county's 1976 total expenditures of $89.1 million were up $10.4 million over 1975. Increases were $4.4 million or 21 percent in the general fund, $3.1 million or 8.5 percent in the welfare fund, and $2.9 million or 14 percent in the remaining funds. Estimates for all 1977 expenditures were not available for a full comparison with 1976 actual expenditures. On the basis of available comparable data, general fund expenditures increased 11 percent and welfare fund expenditures 6 percent for 1977.

The 1976 general fund increase in expendituress of $4.4 million included a $1 million increase for the courts, jail and government center. County officials attributed this to increased services and inflation. Also the sheriff's office spent $500,000 for added deputies mandated by the courts, and the convalescent center spent $250,000 more in its expanded facility.

Increased welfare expenditures were attributable to annual cost-of-living adjustments in salary scales, increased employee fringe benefits, and inflationary pressures on supplies, insurance, utilities, etc. According to a welfare department official, the department's caseload increased in 1976 and declined in 1977 but staffing levels have been stable for 3 years.

The $2.9 million increase in 1976 in expenditures of other funds reflected the authorized construction of a new mental health center and an increased distribution of supplemental school tax funds. Also, the highway fund, the road and street fund, parks and recreation fund, and the public employees retirement fund experienced inflationary increases.

General and welfare fund balances are low

Lake County's total fund balances were $25.3 million at the end of 1976. However, only $1.4 million was in the adjusted general fund balance; a 20-percent decrease from 1975. Also, the net increase of $57,000 in total fund balances in 1976 was due entirely to a sizeable increase in the welfare fund balance. The welfare fund balance was intentionally reduced in 1977.

The county had no estimates on the 1977 year-end fund balances. However, there were indications the 1977 financial situation had deteriorated. An official said all 1977 general fund monies were appropriated. During 1977, supplemental appropriations were made from revenue sharing funds, anti-recession funds, and transfers from other funds. Also, the Welfare Department's finances had reached a point where the city was considering a several million dollar bond issue to help pay for 1978 operating expenditures.

Lake County may reach its legal limit on outstanding debt

Outstanding debt has increased from $15.1 million at the end of 1975 to $17.1 million as of October 1977. The increase resulted from new bond issues to finance township poor relief. In December 1977, county officials informed us an additional $3.5 million poor relief issue had been approved. Also, the county may need bonds for the Welfare Department as mentioned above.

According to county officials, a State-imposed property tax freeze prevents townships from raising enough annual revenues to pay for poor relief assistance. When this happens the county must issue poor relief bonds. The bonds are repaid out of a tax levied in the recipient township. However, the county is underwriting the liability and this brings it that much closer to its legal limit on outstanding debt. Moody's Investor Service, Inc. rated Lake County's bonds A-1 in January 1978, unchanged from the prior year.

The county's legal debt limit is 2 percent of the net assessed valuation for the county. As of October 1977, the county debt was 59 percent of this $28.8 million limit. With added poor relief bond issues and a possible issue for welfare operations, county officials are concerned about reaching the debt limit.

Lake County has absorbed some services

Lake County has absorbed some services from other governments but has not relinquished the responsibility for any services. Two municipal courts were closed and their functions absorbed by the county. Also the county is expanding its mental health services as the shift from State hospitals to community mental health centers takes place.

<u>Capital spending has been sufficient to maintain basic services</u>

In 1976 and 1977 all major capital project appropriations in Lake County were made out of Federal revenue sharing funds. This practice will be continued in 1978. A county official said there are some potential projects, such as court and jail expansion, that have not been approved because of insufficient funding. However, he maintained that basic services have not been adversely affected by inability to fund any capital projects.

In 1974, the county government moved into a new multi-purpose center in Crown Point. A new juvenile center was added in 1977. Other separate capital projects started in 1976-77 included a court house, a parking structure, and a waste treatment plant.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

County officials identified four factors as having the most significant effect on Lake County's overall fiscal health in fiscal years 1976 and 1977. Listed in the order of significance, these factors were a property tax freeze, inflation, tax base erosion, and unemployment/recession.

In 1973, the Indiana General Assembly enacted a property tax freeze at the 1973 composite tax rate. All components of the county tax rate except bonded debt and community mental health (in 1976) came under the composite rate freeze. According to county officials the freeze prevented the needed increases in the property tax rates payable in 1976 and 1977.

Starting in 1978 the tax rate freeze will be replaced with a freeze on the tax levy, i.e., the rate times the net assessed value of the taxable property. According to county officials, there has been an annual 5 percent increase in net taxable property values. They expect this trend to continue through 1979 since the tax levy freeze also provides a 5 percent 1978 increase over the previous highest levy, and an 8 percent increase in 1979. However, officials are concerned because under the current law the increases will not be allowed after 1979.

According to county officials, inflation increases expenditures but does not help with revenues. The frozen rates coupled with the lack of property value reassessment since 1969 has precluded inflation from helping property tax revenues. On the expenditure side, salaries, highway maintenance, the convalescent home, the sheriff's office, and the courts have all been affected. Without the Federal CETA, general revenue sharing, and antirecession assistance programs, the county would have had to reduce expenditures some time ago.

County officials believe that the property tax base is also being seriously eroded. Officials stated that property in Gary is being abandoned, some apartment house owners have stopped paying taxes, and the county is unable to sell the property. In addition, in a current case the courts are being asked to rule on whether personal property shipped out of State should be taxable. County officials stated that an adverse decision would significantly affect not only future revenues but past revenues through appeals.

Unemployment and the recession were viewed as related problems. Officials believe that recession caused a curtailment in activity at the steel mills; this caused unemployment which led to tax delinquencies. The CETA program has significantly increased since 1975 and has helped fund county government positions. The resultant increases in administrative costs have been met with Federal funds.

County officials identified the same significant factors affecting revenues and expenditures, as affecting overall fiscal health, for the same reasons and in the same general order. The ranked factors are shown below.

Revenues	Expenditures
(1) Tax freeze	(1) Tax freeze
(2) Tax base erosion	(2) Inflation
(3) Unemployment/recession	(3) Unemployment/recession

Major financial and budget adjustments related to factors other than the recession

The major financial and budget adjustments in 1976 and 1977 were in employment levels for existing services and in allocations between component property tax rates. Increased employment levels were made possible through Federal funding. These and the other adjustments were not directly related to recession-induced demands They were mostly related to new areas of emphasis, changes in jurisdictional responsibilities, and the employment level adjustments which follow fluctuations in revenues.

In 1977, the county government had about 2,900 full and part-time employees. This was about 250 employees more than in 1975. The 1977 employees included 281 CETA positions, up 93 positions over the 1975 level. A CETA program official told us that new positions were in various county departments and offices. Non-CETA funded positions were down 3 percent, or 80 positions in 1976, and up 10 percent, or 241 positions in 1977. At least 75 percent of the non-CETA increase in 1977 was funded with Federal revenue sharing and antirecession assistance funds.

In 1976 most of the county departments and offices experienced decreased employment. The net decrease of 138 positions included a decrease of 58 CETA positions. The largest non-CETA decreases came as a result of phasing out a tuberculosis clinic (30) and reducing summer employees at the fairgrounds (29). The largest 1976 increase was a court-mandated increase in the sheriff's deputies (45). In 1977, with an increase in Federal funds, most departments and offices maintained or increased their employment. There was an increase of 151 CETA-funded positions. The largest non-CETA 1977 increases were 82 positions at the convalescent home to staff a new wing, and 21 positions at the prosecutor's office to deal with fathers not meeting requirements for child support.

County officials stated that the tax freeze has caused and will continue to cause financial and budgetary adjustments. They believe that with the tax freeze and continued inflation, the county cannot raise sufficient revenues on its own. They stated that these financing problems underscore the need for continued Federal subsidies through CETA, general revenue sharing, and the antirecession program.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

All of the $650,337 of antirecession funds, which Lake County received for the first five program quarters, were appropriated within 5 months of receipt. As of October 31, 1977, $199,861 had been disbursed, and another $226,800 had been obligated.

The antirecession funds were appropriated to 15 different departments or offices classified under the following four functions: general government (69 percent); health and welfare (16 percent); streets, roads, and public works (10 percent); and courts, jails, and detention centers (5 percent). The cost categories were personnel services (46 percent); insurance premiums (36 percent); contractual services (16 percent); and supplies and property (2 percent).

The personnel service costs were related to the hiring of 126 employees, 98 part-time and 28 full-time. Seventy-two positions were previously funded with other revenues. The antirecession program, in effect, provided substitute funding for these positions. The remaining 54 positions were new hires. None of these positions were related to prior layoffs, nor added demands caused by recessionary pressures.

The nonpersonnel costs were mainly related to initial budget deficiencies. For example, the funds originally budgeted for insurance premiums (workmen's compensation, vehicles and equipment, etc.) were nearly depleted by September 1977 when antirecession funds were appropriated. Also, 64 percent of the contractual services were for the renovation of the Gary courthouse because the funds normally used to maintain the property could not absorb this expense.

The antirecession funds did not affect Lake County's pre-1977 budgetary decisions and appropriation ordinance. Six special appropriation ordinances were passed in March through October 1977 to authorize the increased expenditure levels.

Antirecession funds were used in 1977 to complement and maintain existing services. The antirecession funds were used because of a budgetary squeeze caused by the tax freeze and inflation. County officials maintain that continued assistance is needed to finance these or similar activities in fiscal year 1978.

MONTGOMERY COUNTY, OHIO

Montgomery County, established in 1803, ranks fourth in population and thirty-sixth in total area among Ohio's 88 counties. In 1975, an estimated 591,700 people resided in the county which contains thirteen townships, ten cities, and ten villages in a 465-square mile area. The largest city and county seat is Dayton. The 1974 estimated per capita income in Montgomery County was $4,902.

Montgomery County possesses only those powers delegated by State statute or fairly implied from its delegated powers. The major governing body is an elected three-member Board of County Commissions (Board) which acts as the legislative and budgetary authority for the county.

The Board has management responsibility for mandated and discretionary services including a water and sewer facilities network, solid waste disposal facilities, parks and recreational activities, county-wide planning functions, welfare, and an animal kennel.

Other county boards and commissions operate facilities for retarded citizens and for mental health, provide services and care for dependent children, and provide public defender services. Separate tax levies finance some services and the general fund supports the balance.

Independently-elected officials perform other county functions which are financed primarily by the county general fund. These include the county auditor, county treasurer, prosecuting attorney, county recorder, county sheriff, county engineer, clerk of courts, county court judges and Common Pleas Court judges.

An appointed county administrator directs and supervises the activities of departments responsible to the Board. He is responsible for coordinating the activities of all county officials and boards in preparing the county budget.

FINANCIAL CONDITION IS IMPROVED

County officials said the financial condition of Montgomery County was good and has improved significantly each year since 1975 when expenditures exceeded revenues. This improvement was accomplished by controlling and frequently monitoring the rate of expenditures and by reducing costs through various actions including a 1976 layoff of 55 employees, a moratorium on hiring new employees, and a reduction in the number of persons receiving general relief.

County officials anticipated a general fund surplus of about $500,000 for the fiscal year ending December 31, 1977.

Montgomery County's revenues and expenditures for all funds during 1975 and 1976 were as follows.

	1975	1976
	(in millions)	
Total revenues	$109.1	$141.4
Total expenditures	119.3	121.5

Revenues include taxes, licenses, fees, and transfers from other governmental units, and expenditures include capital and operating expenditures.

Increase in revenues

County officials attributed the increased revenues during 1976 to financing for capital projects in the sanitation department, money borrowed for a land purchase, a new Federal grant, increases in existing Federal grants and programs, and a State overpayment for public assistance. The increased revenues during 1976 strengthened the county's financial condition by increasing fund balances.

The major taxes levied by Montgomery County are property taxes and a sales tax. The following shows that actual revenues from these taxes are increasing and property tax collections have generally exceeded budget estimates.

	1975		1976		1977
	(millions)				
	Budget	Actual	Budget	Actual	Budget
Property tax	$16.7	$18.1	$18.0	$19.7	$18.6
Sales tax	Not available	7.1	8.2	8.2	8.0

County officials conservatively estimate revenues; therefore, actual revenues are normally greater than budget estimates. County officials said the 1977 actual tax revenues would also exceed the budget estimates.

The property tax revenue increase resulted from new construction. Sales tax revenues rose because merchandise costs increased. The property and sales tax rates did not change during 1975 through 1977.

A county official said the atmosphere for obtaining voter approval of tax levies appeared to be improving. He said that in 1975 and 1976, many tax levies, including one to construct and operate a new county home, were defeated. In 1977, voters approved several tax levies, including a county-wide one-mill levy for the mental retardation program.

Increase in expenditures

The county's expenditures increased about 2 to 4 percent during 1976 and 1977 primarily because existing service costs grew due to inflation and other factors, and new services were added. County officials said inflation was the most significant factor affecting expenditures and overall fiscal health during 1976 and 1977 and provided the following examples showing the inflationary impact on operations.

Expenditure	1975 Actual	1976 Actual	1977 Budget request
Hospitalization	$1,485,608	$2,014,857	$2,236,650
Telephone rate increase	425,386	519,450	554,691
Insurance, taxes, etc.	3,602,157	4,708,668	5,374,493
Maintenance of prisoners	117,406	491,741	627,464

Other items which increased the county's cost of operation are as follows:

--Wages and salaries rose 4.7 percent or $.30 an hour, whichever was greater.

--The State legislature increased the contributions to the Public Employees Retirement System. Effective July 1, 1977, the county's contribution was increased 2 percent to 13.95 percent of payroll costs.

--Under a State plan, the county's welfare share expands 20 percent each year.

--The county's two incinerators do not meet revised Federal air pollution emission standards. As a result, the county must correct the problem or convert to another solid waste disposal method. Several alternatives were being considered.

--The cost of utilities increased because of the cold 1976-77 winter.

County officials said they have not relinquished responsibility for providing any basic services but have assumed more responsibilities, such as the following.

--The Ohio General Assembly forced the county to provide public defender's services. The county anticipated only partial reimbursement for 1977.

--The county must pay for three judges which were added by the State legislature.

--The county began administering a program under which the elderly and people on fixed incomes receive State financial assistance payments.

To offset the increase in costs, the county reduced employment and the number of persons on general relief. As of October 31, 1977, Montgomery County had 3,521 employees or 466 fewer than as of December 31, 1975. Although the county laid off 55 employees in March 1976, attrition, resulting from a hiring freeze, caused most of the reduction. County officials said non-essential positions were eliminated and the excess personnel were transferred to essential positions as vacancies occurred. They said no basic services were eliminated and the reduction of employees minimally affected the level of basic services provided.

General relief payments are made to persons ineligible for other kinds of welfare or unemployment compensation. The county reduced the number of persons on general relief by limiting the period of payments to two months and requiring persons to reapply for assistance after a 6-month period. Previously, persons could be on general relief indefinitely.

Changes in fund balances

The year-end fund balances were:

	1974	1975 (in millions)	1976
General fund	$ 4.2	$ 2.8	$ 2.8
Other funds	22.1	13.4	33.3
	$26.3	$16.2	$36.1

County officials said the fund balances at the end of 1977 would be about the same as 1976.

A county official said the changes in the year-end fund balances resulted from normal operations except for a $7 million State overpayment. This overpayment caused the Public Assistance Fund to be considerably higher at the end of 1976.

The method of refunding the overpayment had not been determined.

The President of the Board said the Board controls the general fund but has less control over the other funds, which include the Board of Education, the District Board of Health, Public Assistance, Motor Vehicle and Gasoline Tax, Regional Planning Commission, bond retirement, sanitary revenue and construction funds.

Financing of capital projects and indebtedness

Montgomery County did not finance capital projects from its general fund during 1976 and 1977 because funds were not available but began capital projects using other funds. Since capital projects are approved on a funds-available basis, no approved projects were delayed. Funded projects included park acquisition and development, water facilities, road improvements, and partial renovation of a county-owned building. A county official said these projects would not have been accomplished without outside financial assistance, such as Federal grants.

The county's indebtedness increased about $7.7 million during 1976. Two of the new debts were $1.0 million for a land purchase and $9.5 million for a water project. A county official said the total indebtedness would decrease during 1977. The county has maintained a bond rating of Aaa on its general obligation bonds since 1974.

STATUS, USE, AND IMPACT OF ASSISTANCE PAYMENTS

Montgomery County received $612,982 in antirecession assistance payments for the period July 1976 through October 1977. As required by Office of Revenue Sharing regulations, the county appropriated each quarter's antirecession payments within six months of receipt. As of October 31, 1977, $441,792 was disbursed for salaries, wages, and utilities. The balance of $171,190 was appropriated for utilities payments.

The disbursed antirecession payment funds were used as follows:

Program	Expense	1976	1977	Total
Sheriff	Salaries & Wages	$102,565	$	$102,565
Parks and Recreation	Salaries & Wages	47,636		47,636
General Public Buildings	Utilities	59,208	232,383	291,591
Total		$209,409	$232,383	$441,792

The salaries and wages paid with the antirecession payments covered selected pay periods and eliminated the need to use the general fund to finance an additional increase in the budgets for the Sheriff and parks and recreation. The antirecession payments were also used to pay for utilities which increased as a result of the 1976-77 winter.

The antirecession payments were used to maintain basic services normally financed by the general fund. As such, the antirecession payments had no impact on the tax rates or the number of county employees. The assistance payments were used to maintain the county's general fund balance. If the assistance payments had not been available, a county official said there may have been a general fund deficit for the year, and they would not have been able to grant an employee pay raise.

MULTNOMAH COUNTY, OREGON

Multnomah County is Oregon's smallest but most populous county. Its total area is 470 square miles; and its 1976 population was 553,000, of which 382,000 resided in Portland, Oregon's largest city. According to a Portland Chamber of Commerce official, the county's economy is well diversified. The major industries are electronics, lumber and wood products, and food processing. Statistics provided by Oregon State Employment officials show the county's unemployment rate has decreased from 8.1 percent in October 1976 to 7.0 percent in October 1977.

Multnomah County is a general-purpose municipal corporation which operates under a 1967 home-rule charter that assigns legislative authority to a five-member board of commissioners and administrative responsibilities to the chairman of the board. Multnomah County's total gross budgets for fiscal years ending June 30, 1976, 1977, and 1978 were $103,286,201; $115,443,429; and $131,537,571, respectively. Multnomah County provides a wide array of basic governmental services to the public, such as health, justice, and roads.

FINANCIAL CONDITION IS IMPROVING

Multnomah County officials said the county's financial condition is improving but still far from good. An official said that although the county has done well financially in the last two years, they still believe that because of future committments their condition is not healthy. The official said the county cannot use debt to finance capital projects and must build up cash surpluses. He foresees two projects in the immediate future which will drain these surpluses. Furthermore, the county is not certain that the recent prosperity will continue in the future.

In 1977 a series of financial policies were adopted to limit expenditures, excluding grants, to an annual growth rate of 8 percent and to change from a modified cash basis of accounting to a modified accrual basis. An $8 million deficit that was projected for fiscal year 1977 did not occur because of $2 million in budget cuts, three new taxes, and a policy to spend only 95 percent of budgeted amounts. Actual 1977 revenues exceeded expenditures by $16.9 million because revenues were $6.7 million over the amount budgeted and $10.2 million budgeted expenditures were not expended, including $6.7 million dedicated to specific programs such as the Medicaid Demonstration Project and capital projects. An additional $2 million in revenue sharing money is held in a sinking fund for the 8 percent planned growth in expenditures in 1978.

In fiscal year 1977, total revenues increased about 25 percent over the previous year's revenues while expenditures rose only about 8 percent. The revenue increase was about 6 percent more than the amount budgeted. Expenditures, however, were about 9 percent less than budgeted. As a result, during fiscal year 1977, revenues exceeded total expenditures by about 16 percent. According to the budget director, all revenues are being collected as projected in the fiscal year 1978 budget.

Property tax, a major revenue source, accounted for about 30 percent of 1977 total revenues. In 1977, property tax revenue increased 14 percent, which was 3 percent higher than budgeted. A 4 percent increase over fiscal year 1977 actual property tax revenues is budgeted for 1978. A Multnomah County official said that new taxes levied on business income, gasoline, and motor vehicle rental provided additional revenues of about $3.9 million in fiscal year 1977.

Between fiscal years 1976 and 1977, intergovernmental revenues increased from $23.8 million to about $35.0 million or nearly 47 percent. This increase was primarily due to additional Federal funds for CETA ($2.8 million) and the Medicaid Demonstration Project ($6.2 million) and raised the Intergovernmental revenues proportion from 24 percent to 29 percent of the county's total revenue. Multnomah County budgeted a 13 percent growth in the revenues in 1978, due primarily to a $3.3 million increase in State funding and a $2 million increase in Federal funds for antirecession assistance.

Actual expenditures in fiscal year 1977 were about 9 percent less than budgeted but about 8 percent more than the actual expenditures in the previous year. Expenditures increased primarily in justice and health services. For 1978, total expenditures are budgeted to exceed 1977 actual expenditures by 25 percent.

Multnomah County's general fund year-end balance increased about $4.2 million in fiscal year 1977. A county official said this increase is largely due to new taxes and accounting changes. The general fund is one of the two main operating funds; roads is the other. Since the county has no long-term debt, these balances are used to finance future capital projects and may also be needed for emergencies. For example, a scheduled jail relocation is expected to deplete most of these fund balances by fiscal year 1980.

A county official said that while no large capital projects have been cancelled during the last few years, there have been delays due to the engineering backlog which was created by placing a higher priority on preparing public works projects funded under title I of the Public Works Employment Act. Since capital projects are funded by current operating funds and grants, the budget director does not believe that any of the delays reflect unfavorably on the financial strength of the county. None of the delays were due to financial problems.

A Multnomah County official said that the county has not assumed responsibility for services previously provided by another government nor relinquished responsibility for any services.

MAJOR FACTORS INFLUENCING
FISCAL HEALTH

Officials told us that inflation was a major factor affecting the county's financial condition. A significant positive factor, however, is the tighter financial controls recently implemented to avoid expanding operating levels beyond the county's revenue capacity.

The budget director said that significant factors affecting revenues during the current and previous fiscal years are:

--The need for new revenue sources to pay for the widening range of government functions the State channels through county government.

--Property taxes, other than special levies, are limited by State law to an annual 6 percent increase.

The major factors affecting expenditures, according to county officials, are:

--Inflation, as shown by increased personnel costs. Personal services represented 42 percent of total actual expenditures in fiscal year 1977.

--Increased government functions channeled by the State through county government.

Officials said that demand has increased for the county to support a variety of community activities and health and justice services. They said the county does not have the money to meet these demands but is trying to finance some with antirecession funds.

Between November 1975 and July 1976, county employment decreased from 2,403 to 2,247. A county official said that this decrease was due to 38 layoffs, a hiring freeze, and cuts in budgeted positions that were imposed in anticipation of voter disapproval of new taxes. The county's budget director said that this decreased the county's service levels. Voters, however, approved the new taxes, and in August 1976, the county resumed hiring. As of September 1977, county employment increased to 2,421 (excluding 178 CETA employees). County officials said that service levels have remained about the same since the end of fiscal year 1977.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

Multnomah County had received $2,979,431 for the first six quarters of the antirecession program. Of the $2,367,514 received for the first five quarters, the county had appropriated $2,108,703 as of October 31, 1977, as follows:

	Appropriation	
	Amount	Percent
Parks	$ 848,059	40
General control	538,245	25
Other	308,903	15
Police protection	111,000	5
Housing and urban renewal	105,920	5
Health	100,001	5
Libraries	58,000	3
Financial administration	38,575	2
	$2,108,703	100%

A Multnomah County official said that antircession money is being disbursed or obligated within 6 months of receipt as required. The county official said that plans for future funds are being prepared which emphasize additional jobs and employee benefits.

A Multnomah County official said that all projects funded with antirecession funds expanded the county's basic services. For example, as of October 31, 1977, 24 projects have been approved and funded with antirecession funds including home winterization and crime prevention for the elderly, nursing home assessment, and circuit court evidence management. The official said that if antirecession funds are discontinued, then each project will be cut unless it has become important enough to replace some other budget item.

As of October 31, 1977, approximately $1.6 million has been allocated for salaries for 66 employees. The remaining $544,000 was appropriated for supplies and equipment ($436,000), repairs and maintenance ($58,000), and construction ($50,000).

NORFOLK COUNTY, MASSACHUSETTS

Norfolk County covers 408 square miles in eastern Massachusetts with a 1975 population of 620,346. Quincy, the only city in the county, contains about 14 percent of the population. The county's economic base is distributed among and integrated with the Boston, Brockton, and Providence-Pawtucket-Warwick Standard Metropolitan Statistical Areas.

According to Massachusetts Department of Commerce and Development data to be published later this year, 10,728 firms employed an average of 167,345 persons and had an annual payroll of $1,684,584,963. The following industries accounted for 83 percent of total employment: wholesale and retail trade (34 percent), manufacturing (29 percent), and service industries (20 percent). Manufacturing contributed most to the county in terms of payroll with 778 firms reporting a combined annual payroll of $621,176,470 and combined average employment of 48,663 persons. Estimated per capita income for Norfolk County in 1974 was $5,605.

Norfolk County is an administrative arm of the State. The State approves the county budget, and by so doing, establishes the amount of the tax assessment to the local governments. Major county operations include the court system, jail and house of correction, county agricultural school, and the county hospital.

FINANCIAL CONDITION IS HEALTHY

An official said that the current financial condition of the county is healthy, citing the county's Aaa bond quality rating, small outstanding capital debt, and low per capita county tax cost as reasons for this view. This condition has remained the same since our February 1977 visit. The county needs no additional borrowing authority. No new capital projects were delayed or started in fiscal year 1977; however, two had been completed.

Revenues for fiscal year 1977 exceeded those of fiscal year 1976 by 43 percent. No predictions could be made for fiscal year 1978 because the State legislature has not yet approved the budget. The assessment rate was revised in January 1977 to be effective in fiscal year 1978, but no significant changes will occur in the total assessment base. Revenue-raising capacity has not changed.

The demand for services has increased. For example, the county is considering opening the courts at night due to an increased caseload. Budget requests for fiscal year 1978 were up $6 million from fiscal year 1977, and about 64 percent of the total budget request was for personal services. Expenditures increased by about 10 percent from fiscal year 1976 to fiscal year 1977. The largest part of this increase was for court expenses and judicial salaries, the county agricultural school, the jail and house of correction, and the registrar of deeds.

The county's unappropriated balance decreased 14 percent from fiscal year 1976 to 1977. The portion relating to the county hospital decreased by about 80 percent. An official said that hospital losses of about $3 million in recent years have required special assessments.

Long-term debt decreased $385,000 (10 percent) from fiscal year 1976 to fiscal year 1977. The county has had no problems obtaining long- or short-term financing. A county official stated that the Moody's Investor Service, Inc. bond quality ratings for Norfolk County were Aaa in 1976 and remained unchanged through January 1978.

The county has not assumed or relinquished responsibility for providing any services.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

Officials viewed the major factors affecting fiscal health as the increasing cost of court expenditures, performing work in certain county departments which is also performed at the State and local level, and delays by the State legislature in approving the budget which requires the county to borrow money for operations. Once the budget is approved, the county has no difficulty in raising revenues. The county is authorized by the State to collect an assessment from the municipalities based on an equalization and apportionment schedule prepared by the State.

Inflation has a greater effect on county expenditures than recession. An official stated that inflation occurred in the form of increased salary and fringe benefits and rising prices of goods and services. Administrative costs, except for salaries, have not increased significantly.

The number of full-time county employees rose about 6 percent from 1976 to 1977. The increases occurred mainly at the hospital, jail and court offices. Comprehensive Employment and Training Act employees, which are accounted for separately, numbered 24 in fiscal year 1976, 29 in fiscal year 1977, and 62 in November 1977.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

As of October 31, 1977, the county had received 6 quarterly antirecession payments totalling $101,735, of which $73,050 had been appropriated. The remaining $28,685 will be appropriated when the State legislature approves the 1978 budget.

In fiscal year 1977, salary increases for county employees were appropriated in a supplemental budget. The funds also reduced the tax assessment to cities and towns. One official said the pay raises would have been made anyway; but without the funds, the tax assessment would have been greater.

RIVERSIDE COUNTY, CALIFORNIA

Riverside County, with an estimated 1976 population of about 540,000, is the eleventh largest of California's 58 counties. Located in Southern California, it comprises 7,200 square miles, almost as large as the State of New Jersey. The economy of Riverside County is well-balanced, including agriculture, industry, and tourism. Business forecasts predict continuing rapid development and expansion of the economic base and a 5 percent increase in the median family income over the 1977 level of $15,655. Construction activity is expected to decrease some from the 1977 levels when housing permits increased 50 percent.

The county is governed by a five-member Board of Supervisors, each elected from a separate district. Nine other officials, including the auditor-controller and assessor, are elected. A county administrative officer and 30 other appointed department heads assist in managing the county. In addition to the departments, the Board of Supervisors governs five types of county-wide districts, the largest being the flood control district. The county provides a wide range of services including public protection, public ways and facilities, health and sanitation, public assistance, and parks.

FINANCIAL CONDITION IS GOOD

County officials told us that the county's financial position improved from fiscal years' 1975 and 1976 fair status to good in fiscal year 1977. The auditor-controller said the county's financial condition is slightly better in fiscal year 1978.

The county's general fund uncommitted ending balance or surplus, which is a good measure of fiscal health, indicates the government's improved financial condition. In fiscal year 1975, the effects of inflation and the recession reduced the general fund surplus to $44,000 from the $3.8 million balance in fiscal year 1974. The balance rose to $1.1 million in 1976 and in fiscal year 1977, the county's financial condition improved greatly as the general fund surplus rose to $6.4 million. This increase of over $5 million resulted from greater than expected county-generated revenue, additional Federal funds, and belt-tightening measures to limit expenditures.

The auditor-controller rated the county's financial condition in fiscal year 1978 as slightly better than 1977 because of the higher beginning uncommitted operating fund balance, higher than expected revenue collections, and a large increase in property tax assessments.

Fiscal year 1977 revenue and expenditure data reflect the improved financial condition noted by county officials. Total revenues grew 17.9 percent due to increases in property taxes, revenue from construction and real estate activity, and intergovernmental revenue. Total expenditures were up only 9 percent due to the county's efforts to limit expenditures.

In fiscal year 1978, growth in expenditures was expected to exceed that of revenues by 8 percent, necessitating the planned use of some of the general fund surplus created in fiscal year 1977; but because revenue collections are higher than expected, the county's financial outlook is still good.

Revenue outlook good

In fiscal year 1977, revenues exceeded the budget estimates and prior year's collections for each major revenue category as shown below.

	Fiscal year 1976 actual	Fiscal year 1977 Budgeted	Fiscal year 1977 Actual
		(in millions)	
Revenues from own sources:			
Taxes:			
Property	$ 47.55	$ 55.47	$ 56.41
Sales and use	4.51	4.83	5.32
Other	1.84	2.08	2.44
Charges and miscellaneous	13.82	15.60	17.34
Total revenue from own sources	$ 67.72	$ 77.98	$ 81.51
Intergovernmental revenue	87.68	99.69	101.66
Total revenues	$155.40	$177.67	$183.17

The auditor-controller told us that based on the first quarter trends of fiscal year 1978, Riverside County is achieving revenue estimates and may exceed estimates in sales tax revenue by $1.5 million.

Taxes

The two major taxes levied by the county are property and sales taxes. These taxes accounted for 95 and 96 percent of taxes raised in fiscal years 1976 and 1977 and contributed about 32 and 34 percent of the budget for the respective years. The taxes are expected to generate similar tax revenues in fiscal year 1978.

Property taxes accounted for about 88 percent of tax revenues during fiscal year 1977. Taxable property is assessed at 25 percent of full market value and rates are levied per $100 of assessed value. Real property has been reassessed once every 4 years.

Of the total tax revenues increase of $10.3 million in fiscal year 1977 over 1976 collections, property taxes accounted for $8.8 million. This increase resulted from a higher property assessment and a tax rate increase of $.29, or 11 percent, and was attributed to inflation and expanded services mandated primarily by the California Legislature. For fiscal year 1977, the Board of Supervisors identified $2.4 million in added costs resulting from new State-mandated activities and $4.7 million because the State has decreased its share of program costs.

Fiscal year 1978 budget figures anticipate only a 6 percent increase in property tax revenues due to a $.38, or 13 percent, decrease in the tax rate. Revenues in this area are still increasing, however, due to a 20 percent increase in the assessed valuation. Other less significant factors contributing to the decision to reduce the tax rate were department heads' efforts to minimize fiscal year 1978 expenditures, using fund balances to finance fiscal year 1978 budget, and increased income anticipated from other revenue sources.

Beginning with fiscal year 1974, the maximum tax rate which may be levied by any county in California for general purposes must be the combination of all county-wide property tax rates levied for such purposes in either fiscal years 1972 or 1973. An alternate method provides for a maximum tax rate computation based on annual population changes, changes in the cost of living, and assessed valuation. The county used the alternate method to calculate the following tax rate limits.

	1976	1977	1978
Maximum tax limit 1/	3.725	4.010	4.034
Actual county levy general purposes	2.629	2.920	2.541
Percentage of tax rate to tax limit	71	72	62

1/ The tax rate applicable to debt service is exempt from the limit.

The local sales tax on tangible personal property remained at 1 percent during the fiscal years 1976, 1977, and through September 30, 1978. The county receives 1 percent of taxable sales in the unincorporated areas of the county but no more than .3 of 1 percent of the taxable sales in the incorporated cities.

Charges and miscellaneous

In fiscal year 1977, revenues from charges and miscellaneous revenues increased $3.5 million over fiscal year 1976 and $1.7 million over the 1977 budgeted. These increases were due to a general improvement in the economy and an increase in building construction and real estate sales. A small (3 percent) decrease was budgeted for fiscal year 1978 because the fiscal year 1977 growth in this category was not expected to continue. No significant attempts were made to raise user charges in fiscal years 1977 and 1978.

Intergovernmental revenue

Intergovernmental revenue accounted for over 55 percent of the total revenue collected by the county in fiscal years 1976 and 1977, and is expected to account for over 57 percent in fiscal year 1978. Intergovernmental revenue comes from two sources--State and Federal. They provided the following revenue in fiscal years 1976 and 1977.

	Fiscal years		Increase	
	1976	1977	Dollar	Percentage
	(in millions)			
State	$48.43	$ 52.78	$ 4.35	8.98
Federal	39.25	48.88	9.63	24.54
Totals	$87.68	$101.66	$13.98	15.94

The increase between fiscal years 1976 and 1977 generally occurred to cover added program costs. There was no significant difference between fiscal year 1977 budgeted and actual intergovernmental revenues.

Intergovernmental revenues are expected to increase 15 percent in fiscal year 1978. The increase is primarily the result of new programs funded with dollars from public works, land-in-lieu, housing and urban development, and revenues provided to cover added program costs.

Expenditures

Between fiscal years 1976 and 1977, total expenditures increased 9 percent, from $162 million to $176 million. Total expenditures for fiscal year 1978 are expected to increase to $207 million or by 18 percent. The following table summarizes operating and capital expenditures for these fiscal years.

Expenditures	1976 Actual	1977 Budgeted	1977 Actual	1978 Budgeted
		(in millions)		
Operating	$156.88	$173.36	$173.16	$201.37
Capital	5.21	2.63	3.07	6.01
Totals	$162.09	$175.99	$176.23	$207.38

Growth in operating expenditures attributed to inflation

Operating expenditures increased in fiscal year 1977 primarily due to inflationary increases in wages, supplies, and administrative costs; and the expected rise in fiscal year 1978 expenditures were mostly attributed to the same problem.

Operating expenditures for fiscal year 1977 were 0.1 percent less than budgeted. The only significant difference between budgeted and actual operating expenditures in fiscal year 1977 was in public assistance which increased by about $2 million. The Deputy Director of Administration, Department of Public Social Services, said they underestimated these expenditures.

Although efforts were made to keep expenditures at a minimum, such as a hiring freeze in fiscal year 1977, normal levels of basic services were not affected in fiscal year

1977 or 1978. Also, Riverside County has not assumed responsibility for providing services previously provided by other governmental units, nor has the county relinquished any authority to provide services.

Capital expenditures

Capital expenditures decreased 41 percent from $5.2 million in fiscal year 1976 to $3.1 million in fiscal year 1977. The decrease primarily resulted from the county allocating fewer Federal revenue sharing funds in fiscal year 1977 to construction and land acquisition since these funds were needed for operating expenditures. In fiscal year 1978, appropriations for this category increased to $6 million as the funding situation was less stringent due to surpluses in fiscal year 1977 and property tax assessment increases.

The county started four major capital projects in fiscal year 1977 and two major capital projects in fiscal year 1978 valued at $4,642,661 and $1,760,571, respectively, generally with Federal revenue sharing, public works funds, and joint powers lease purchase bonds.

No major construction projects receiving funding were delayed in fiscal year 1977 and none are planned for fiscal year 1978. According to the county administrative officer, several projects are always in the planning stages and several of these were not begun since the county did not commit adequate funding from its own sources and was not successful in obtaining Federal funding. The county administrative officer said the start or delay of capital projects does not indicate a strength or weakness in the county's fiscal health.

Debt structure good

Riverside County's debt position is good. At the end of fiscal year 1977, total general obligation debt was less than 1 percent of the statutory debt limit. No general obligation bonds or short-term debt were issued in fiscal year 1977 and none are anticipated in fiscal year 1978. Moody's Investor Service, Inc. rates the county general obligation bonds high quality (Aa) as of January 1978, unchanged from the prior year. The debt to revenue ratio remained at less than 1 percent in fiscal years 1976 and 1977, and per capita debt was $1.51 in fiscal year 1977.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

County officials stated that (1) inflation, (2) increased program costs resulting from Federally-mandated programs and more importantly State legislative actions, and (3) increasing demand for services are the major factors negatively affecting the fiscal health of Riverside County. These first two areas are also considered the major long-term problems facing the county. Inflation affects all areas of the budget, salaries as well as supplies. For example, between 1972 and 1976, accounting clerk salaries rose 31 percent and the cost of police cars rose 40 percent primarily as a result of inflation.

Additional county expenditures are required because the State does not adequately reimburse the county for services. For example, according to county officials, California does not maintain its proportional contribution to partnership programs such as Medi-Cal. The county identified $4.7 million required expenditures resulting from this problem in fiscal year 1977. Also, the county identified $2.4 million in fiscal year 1977 costs needed to implement State-mandated programs which, according to statutes, would have little or no financial impact on the county. The county officials estimated that the tax rate could have been reduced $.41 (14 percent) if they did not have these burdens.

According to county officials, the third factor, increasing demand for services has been growing steadily over several years. Due to efforts to control expenditures, this rising demand was not reflected in budget appropriations. Officials stated that over the last several years demand for services has increased most in police protection, judicial services and health care.

According to county officials, factors related to the property tax, which accounts for about 69 percent of revenue from their own sources, were the primary factors affecting the county's revenue-raising capacity. They noted the following factors as being significant.

--Taxpayer's ability to afford increasing tax levies.

--Property tax base growth.

--The general economic trend.

The first two factors are interrelated. Although the assessed valuation of property has been increasing, thereby providing a broader base from which to collect revenue, the total tax levy has been consistently increasing, creaating a greater tax burden on property owners. For example, although the assessed valuation increased 20 percent in fiscal year 1978, allowing the county to reduce its tax rate, the property tax levy increased $3.6 million, placing an increased burden on homeowners.

The general economic trend affects the county's revenue to a smaller degree. For example, during the recessionary period sales tax revenue was about $200,000 less than expected; however, during fiscal year 1977 sales tax revenue was about $500,000 above budget estimates due to an improving economy.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

As of October 31, 1977, the county had received and appropriated the first six quarterly antirecession payments totaling $3,480,256 and interest of $79,822. Since the sixth payment had been recently received (October 11) we analyzed the first five quarterly payments totaling $2,730,577. These payments had been designated for use in the following functional areas.

	Expended or obligated	Appropriated but not disbursed	Total
Highways and streets	$ 379,726	$ 500,000	$ 879,726
Police protection	275,000	0	275,000
Correction	9,000	0	9,000
Financial administration	75,000	0	75,000
General control	35,000	0	35,000
Courts	96,000	0	96,000
Parks	31,572	0	31,572
General public buildings	23,044	0	23,044
Public welfare	0	950,000	950,000
Contingencies - not yet allocated to specific functions	0	356,235 a/	356,235
Totals	$ 924,342	$1,806,235	$2,730,577
Percentage of total	33.9	66.1	100

a/On December 20, 1977, this amount along with the antirecession funds from subsequent periods was allocated to various county departments.

The following schedule identifies the specific uses of the antirecession funds for the five quarters of payments.

	Disbursed or obligated	Appropriated but not disbursed	Total
Salaries for positions	$ 644,616	$ 0	$ 644,616
Repairs and maintenance	279,726	500,000	779,726
Wage and benefit increaes	0	356,235	356,235
Other (AFDC-categorical aids)	0	950,000	950,000
Totals	$ 924,342	$1,806,235	$2,730,577

The fiscal year 1977 funds appropriated for salaries were used for two reasons--first, to maintain salaries of current employees and second, to add new employees in positions which were authorized but unfilled due to insufficient appropriations.

The county added 29 new full-time employees who replaced personnel lost through attrition. The following schedule lists these by department.

Program/function	Full-time positions (New hires)
Parks and recreation	10
Financial administration	13
General public buildings	5
Other - correction	1
Total	29

County officials could not estimate how many layoffs would have occurred if antirecession funds had not been available-available. However, the hiring freeze implemented in fiscal year 1977 made layoffs a remote possibility since the freeze helped create a fund balance in the salary account.

Public employment, after remaining relatively unchanged in fiscal year 1977, is beginning to grow. County officials attributed the lack of growth in fiscal year 1977 to the hiring freeze mentioned previously. As of October 1978, employment had risen about 4 percent, from 5,947 to 6,188. The auditor-controller stated that this increase was possible due to the improved financial condition and additional Federal funds from the Comprehensive Employment and Training Act.

Funds used to maintain basic services

Our review of the county documents indicates that the $2,730,577 will be used to maintain basic services. Of this amount, $1,000,851 will be used to pay for salaries and across the board salary increases. The remaining $1,729,726 will go to the Aid to Families with Dependent Children budget unit to help fund the county's portion of current welfare benefits rather than add new benefits, and for repairs and maintenance.

Views of officials on the impact of antirecession funds

The county administrative officer stated that antirecession funds have had a large impact on the county in the most recently completed fiscal year and the current year. He said the funds have affected tax levies, levels of service, and employment. Use of the funds in the initial budget process in fiscal year 1978 allowed the Board of Supervisors to keep the tax levy to a minimum. Also, as indicated previously, the county hired 29 people as a result of having received the funds.

The county administrative officer said if the funds had not been available, the county would have either raised the property tax levy to make up the loss or reduced services by the appropriate amount. Considering the policy of the Board of Supervisors, they would probably cut services since they are committed to keeping the tax rate as low as possible. If the program is discontinued, the county will have to take similar measures: increase taxes, layoff people, or reduce rates of service.

Impact of antirecession funds on Riverside County's total budgetary operation

The county was categorized in our previous review as collecting revenues on line to meet budgeted expenitures and antirecession funds were used to increase the authorized level of expenditures; however, this only partially occurred. For example, the county appropriated antirecession funds in fiscal year 1977 for salaries ($590,000) on the basis that initial appropriations had not been sufficient. However, salary expense accounts receiving the funds had large year-end balances which were returned to the general fund surplus. The table on the next page more clearly demonstrates this condition.

Department	Account	Amount appropriated	Account balance at year-end
Assessor	salary	$ 60,000	$ 40,174
Elections	salary	10,000	12,233
Municipal Court-Desert	salary	25,000	5,508
Road Department	special dept. expense	279,726	1,416,551

The auditor-controller agreed that this was the net effect of the funds. Another factor which probably contributed to this fund balance condition was the hiring freeze. On March 22, 1977, one month after the initial fund appropriation the Board of Supervisors instituted a hiring freeze in order to increase the year-end fund balance. The county administrative officer agreed that this had a large effect on salary account balances and prevented the county from using the salary contingency fund.

The best classification of antirecession fund impact on the current fiscal year (1978) is that revenues are being collected on line to meet budgeted expenditures and the funds are being used to maintain the authorized level of expenditures.

drawn primarily from taxes. She explained that the city is required by statute to budget for a zero general purpose funds ending balance; however, Phoenix, historically, has achieved a fund surplus.

The budget analysis administrator said that during fiscal year 1977, city officials had projected a deficit for fiscal year 1978 following the repeal of the sales tax increase and, to avoid this deficit, made a concerted effort to achieve a general purpose funds surplus by the end of fiscal 1977. The resulting $10.7 million surplus was primarily due to the following factors:

--the ending 1976 surplus was actually $2.5 million greater than anticipated;

--belt-tightening efforts during 1977 reduced budgeted expenditures by $4.8 million; and

--revenues were $3.3 million over those expected in 1977 including $1.8 million in antirecession assistance that had not been budgeted.

In September 1977, based on two months actual data, the city projected a general purpose funds surplus of $2.2 million at the close of fiscal year 1978. This change from the planned zero balance occurred primarily because the $10.7 million surplus at the end of 1977 was $2.1 million more than anticipated. The budget analysis administrator says that operating revenues are coming in stronger than anticipated and she expects the general purpose funds surplus at the end of 1978 to be higher than the $2.2 million estimate. She said that city officials consider this a sign of a healthy financial condition.

Long-term debt structure good

The city has maintained a sound credit rating during fiscal years 1977 and 1978 which has allowed it to finance capital projects at low interest rates, without approaching its legal debt ceiling. Due to the city's sound credit rating, bond sales continue to receive very favorable low interest rates. The city's general obligation bonds were rated Aa by Moody's Investor Service, Inc., in January 1978, unchanged from 1977.

The total debt outstanding increased from $270 million to $330 million between fiscal years 1976 and 1977, or about 22 percent. The increase is due to $71 million in bond sales, primarily general obligation and revenue bonds, offset by $11 million in bonds retired during fiscal year 1977. About

Officials attributed the county's financial health to conservative management.

Changes in revenues and expenditures

Total revenues and expenditures rose more than 18 percent from fiscal year 1976 to 1977. Revenues approximated expenditures each year.

Revenues from own sources increased 24.4 percent over the prior year, and exceeded the fiscal year 1977 budgeted amount by 20.4 percent. Three major categories of revenue comprise this grouping, and the actual comparisons are illustrated below.

Revenue source	Revenues as a percent increase Over prior year	Over budget
Property tax	31.8	18.4
Sales tax	7.9	12.9
Charges and miscellaneous	7.9	44.0

An official said the property tax growth was the only abnormal increase over the prior year. This resulted from a property tax rate increase from $.97 to $1.20 per $100 of assessed value. The county manager said more revenues were needed to counter inflationary effects and to make the county less dependent on Federal funds. The commissioners believed it was unwise to rely on intergovernmental revenues to finance county services such as refuse collection.

For fiscal year 1978, the property tax was decreased to $1.15 per $100 of assessed value because the county anticipated increases in property listings and intergovernmental revenues. Officials said it was too early to predict if current year revenue estimates would be met, but they believed they would.

Intergovernmental revenues increased from $10.2 million in fiscal year 1976 to $11.6 million in fiscal year 1977 (13 percent). Various intergovernmental revenue categories changed, but the most significant were in the Comprehensive Employment and Training Act and antirecession assistance funds. The county manager commented that changes in these categories had a small impact on the county government since little of the revenue in these categories was actually used in county government. Most were transferred to other governments within the county.

	Actual 1976	Actual 1977	Difference	Percent change
	(000's omitted)			
Revenue from own sources:				
Sales and franchise taxes	$ 36,726	$ 45,645	$ 8,919	24
City property tax	26,994	28,715	1,712	6
Other taxes	3,652	4,187	532	15
Charges and miscellaneous	13,353	14,686	1,333	10
Public enterprise fund	42,503	46,747	4,244	10
Total revenue from own sources	$123,228	$139,980	$16,752	14

About $4.2 million of the $8.9 million increase in sales and franchise taxes resulted from a one-time gain from a sales tax increase applied during November 1, 1976 to February 15, 1977. The sales tax increase was repealed by the voters. A $3.5 million rise was anticipated in sales and franchise tax revenues based on the present coverage and tax rate, from utility rate increases, and continuing improvement in the economy.

The public enterprise revenues rose $4.2 million primarily because of increased water sales receipts and better than expected airport concession revenue. The water sales growth was mainly due to a water rate increase.

The city is achieving the fiscal year 1978 revenue estimates. The city assumed that all tax rates and fee structures, except for a 5 percent increase in the water system rate, would remain the same, and the current growth rates of major revenue sources will continue.

Revenues from intergovernmental sources

Intergovernmental revenue collections rose $9.4 million from $89.9 million in fiscal year 1976 to $99.3 million in 1977. The increase included about $4.4 million in State shared taxes, and net Federal funds rose about $5.0 million. The higher State shared taxes were primarily due to population growth and continued economic improvement.

In fiscal year 1977, Phoenix received $8.0 million additional Federal grants for public housing, community development, and antirecession assistance payments while funds for Federal revenue sharing and urban mass transit decreased by $1.5 million and $3.2 million, respectively. The reduction in revenue sharing primarily reflects a prior entitlement period adjustment caused mainly by revised adjusted taxes created by the Arizona property tax relief law for 1974. The urban mass transit revenue decreased in fiscal year 1977 because the city did not receive any new capital grant awards.

The intergovernmental revenues budgeted for fiscal year 1978 exceeded actual collections in 1977 by $26.9 million or 27 percent. Intergovernmental revenues accounted for 73 percent of the total change in operating revenues during this period. The most significant increases were in the Comprehensive Employment and Training Act (CETA) program and in community development block grants which amounted to $12.8 million and $5.3 million respectively. The increase in the community development funds includes additional grants for fiscal year 1978 as well as grants for 1977 projects that were carried over.

Operating expenditures increased

For fiscal year 1977, the city's actual operating expenses of $239.9 million were $16.7 million (6.5 percent) lower than the budgeted amounts of $256.6 million. The largest reduction was due to a hiring freeze which affected most major expense categories. In 9 of the 10 major expense categories, actual expenses were less than budgeted. Capital improvement expenditures accounted for $4.3 million or 26 percent of the reductions, primarily because the city did not use $3.3 million of aviation operating funds for capital improvements in order to carry over a larger operating balance to the next fiscal period.

Total general expenditures increased from $203 million in fiscal year 1976 to $239.9 million in 1977, about 18.2 percent. The city manager attributed this increase to inflation, which has significantly affected the cost of providing city services; a higher level of pay-as-you-go capital improvements; as well as budget additions for police, fire, and other essential services. The consumer price index listed in the Phoenix annual financial report shows that consumer prices were 7.5 percent higher in fiscal year 1977 than in 1976.

The major expenditure increases were police protection, transportation, and capital improvements paid with operating funds. The police expenditures rose $5.3 million primarily because of additional personal and contractual services

WORCESTER COUNTY, MASSACHUSETTS

Worcester County covers 1,576 square miles in central Massachusetts and had a 1975 population of 640,058. Worcester, the largest city, contains about 27 percent of the county population.

According to Massachusetts Department of Commerce and Development data to be published later this year, 11,325 county firms employed a total of about 199,100 persons with an annual payroll of about $1.9 billion. The following industries accounted for 86 percent of total employment: manufacturing (43 percent), wholesale and retail trade (24 percent), and service industries (19 percent). Manufacturing firms contributed most to the county economy with 1,349 firms reporting a combined annual payroll of $989 million and combined employment of about 85,600 persons. Estimated per capita income for Worcester County in 1974 was $4,472.

In Massachusetts, most basic services, such as general education, police and fire protection, and sewerage are provided by the cities and towns. Counties are administrative arms of the State which approves county budgets and establishes the amount of the tax assessment to the local governments. Worcester County is administered by a three-member board of commissioners elected for 4 years. Major county operations are the court system, jail and house of correction, and chronic disease hospital.

FINANCIAL CONDITION IS HEALTHY

Officials view the county's financial condition as having been generally healthy in fiscal years 1976 and 1977. They said the county can meet its present obligations and has sufficient borrowing power.

Fiscal year 1977 revenues ($19.5 million) exceeded those for fiscal year 1976 ($17 r llion) by 14.6 percent. Officials estimated the fiscal year 1978 expenditures at more than $23 million, but the budget had not yet been approved by the State legislature. However, the rate and method of assessment to the cities and towns are not expected to change in 1978.

Expenditures increased 8 percent from fiscal year 1976 to 1977. The largest part of this increase was for court expenses and judicial salaries, the jail and house of correction, the contributory retirement system, and the hospital. The county also had to contribute more to the jail operating costs because of a reduction in Federal revenue sharing funds. According to officials, expenditures were higher because of salary and fringe benefit increases, not increases in service demands. The year-end operating surplus increased 16 percent because more funds are being held in reserve by the county government primarily due to the increase in revenues.

Long-term debt decreased from fiscal year 1976 to 1977. Bonds are expected to be issued in 1978 for construction and improvements of county courthouses. The Moody's Investor Service, Inc. quality ratings for all county general obligation bond issues were Aaa in 1976 and have remained unchanged through January 1978. The county began two capital projects in fiscal year 1977. The county has had no problems obtaining long- or short-term financing.

The county has not assumed or relinquished responsibility for providing any services.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

Officials view the increasing costs of goods and services and ordinary cost of living raises as the most significant factors affecting the county's fiscal condition. Raising revenues is accomplished by the county assessing the amount of the approved budget on the cities and towns using a State formula.

The most significant factors affecting expenditures were cost-of-living increases for county employees and rising prices of goods and services. There were no substantial changes or cuts in service in 1977. Administrative costs increased due to salary raises for judges and clerks.

The county's employment level has remained relatively stable from fiscal year 1976 to fiscal year 1977, with 919 full-time employees in 1976 and 926 in 1977, the increases being court and hospital employees. Comprehensive Employment and Training Act employees are accounted for separately; and there were none in October 1976, 41 in June 1977, and 65 in October 1977.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

As of October 31, 1977, the county had received $350,678 in antirecession funds. Of this amount, $235,907 had been appropriated, according to a county official, for employee pay raises. The remaining $114,771 will be appropriated when the State legislature approves the 1978 budget.

Officials believe the overall impact of antirecession funds has been to maintain basic services and to provide cost-cf-living increases without having to increase the assessments on the cities and towns.

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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Impact Of Antirecession Assistance On 52 Governments -- An Update

ENCLOSURE C

Case Studies of 21 City Governments

GGD-78-56-C
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Contents

INTRODUCTION

At the request of the Chairman, Subcommittee on Intergovernmental Relations and Human Resources, House Committee on Government Operations, we updated our previous study of the financial condition of 52 State and local governments and the impact the extended antirecession program had on their operations.

This enclosure includes a case study for each of the 21 city governments we visited delineating each jurisdiction's financial condition, major factors influencing its fiscal health, and the status, use, and impact of antirecession assistance payments it received.

Financial data in each case study was the best information available at the time of our review and was obtained from the governments' records and reports and from discussions with officials. Since Bureau of the Census data was not available for the governments' most recently completed fiscal year, the information in this report may not be strictly comparable with our previous reviews where both Census and government data were used. State and local government officials provided their views on the data and provided comments which we considered in preparing each case study.

BOSTON, MASSACHUSETTS

Boston covers 45 square miles within the nation's seventh largest metropolitan area and had a 1975 population of about 638,000. The city's 1976 average unemployment rate was 10.7 percent.

The city's economy has shifted from textiles to machinery and small parts manufacturing. Boston today is a leading wholesale, financial, and banking center with significant activity in education, medicine, and research.

The city government has a mayor as chief executive officer, a nine-member city council, and a five-member school committee having general charge of the public schools. All are elected by popular vote. The mayor, elected for a 4-year term, appoints department heads, boards, and commissions that assist in carrying out the executive functions.

The city council, the members of which are elected at large for 2-year terms, can enact ordinances and adopt orders which the mayor can approve or veto. By a two-thirds vote, the council can enact ordinances and orders over the mayor's veto except those for borrowing or appropriating money.

The mayor and city council are also the county commissioners (governing board) of Suffolk County. County expenditures, net of certain State reimbursements, are paid by the city although the county also includes the cities of Chelsea, Revere, and the town of Winthrop. Expenditures for county purposes are about 4.7 percent of total general fund expenditures.

The Boston school committee, as are all school committees in Massachussetts, are autonomous bodies. The city council must appropriate, and the mayor must approve the school department's budget.

FINANCIAL CONDITION IS IMPROVED

The supervisor of budgets considered Boston's financial condition to be fair and improved. He said there is a renewed interest in the city's commercial property and greater public confidence in Boston.

Boston's general revenue fund finances the major portion of city operations, providing over 90 percent of fiscal year 1976 and 1977 total operating revenues. The balance comes from Federal or State grants for specific purposes with some additional amounts from other sources.

In fiscal year 1977, the city collected general fund revenues of $673.2 million ($658.2 million on a cash basis) which were 4 percent greater than budgeted and 9.4 percent higher than 1976 actual collections.

Meanwhile, total fiscal year 1977 expenditures and encumbrances in the general revenue fund were $639.5 million ($633.4 million net). Therefore, unlike 1976, which had a deficit, total general revenue fund income exceeded total general revenue fund expenditures by $33.7 million in fiscal year 1977.

Several factors contributed to the fiscal year 1977 surplus. Property tax rates, the city's main tax, were raised 28.6 percent. This was the first increase since 1972. The primary reasons were because of an anticipated fiscal year deficit and the continued decline in assessed taxable property of about $28 million. Officials said the reasons for the tax increase include higher required interest payments of about $13 million on city debt, an increased school budget of about $10 million, a decrease in Federal revenue sharing available, and decreased State aid of about $29 million. Property tax collections were $426 million, which was nearly 30 percent higher than prior year collections.

The city also cut fiscal year 1977 budgeted expenditures by reducing anticipated police overtime associated with school desegregation, planning administrative economies, allowing attrition of employees, and underbudgeting payroll requirements in anticipation of antirecession assistance. However, because of increased school department costs, required police arbitration awards, and higher group insurance premiums, total net expenditures were still $9.6 million greater than in fiscal year 1976.

The expenditures would have been greater, but in December 1976, the mayor ordered a city-wide hiring freeze and restricted all overtime expenditures. Estimated savings of these actions were $7.6 to $10 million in the final six months of the fiscal year.

Actual fiscal year 1977 general fund revenues from the State were about $124 million; 13.7 percent above estimates but $8 million less than 1976 totals. The biggest reduction was $15.8 million for reimbursements for school construction projects. The supervisor of budgets said that the 1976 payment for this had been much higher because the State had paid for projects completed in previous years.

Federal revenues were higher in fiscal year 1977. Revenue sharing rose from about $21.3 million in 1976 to nearly $23 million in fiscal year 1977. However, the city had used $41 million from the revenue sharing fund in 1976 and had only $26.7 million available for financing 1977 operations. The general fund also received $9.5 million for fringe benefits previously paid by the city for Comprehensive Employment and Training Act (CETA) and other Federally funded progrms.

According to Boston's financial records, the general revenue fund balance has been as follows:

General Revenue Fund Balance
(Thousands)

End of fiscal year	Amount
1974	30,484
1975	23,780
1976	38,342
1977	80,024

A part of the fund surplus derives from a comparison of actually collected to estimated revenues. When actual revenues exceed estimates, the difference is counted as part of the fund surpluses. However, according to a State official, this surplus cannot be appropriated unless it exceeds the remaining taxes collectible as of June 30--the end of the fiscal year.

Boston's general debt limit is established at 2 1/2 percent of taxable property valuation as last equalized by the State. The city can authorize additional debt up to twice that amount with State approval. As of October 1977, the city had outstanding and authorized but unissued debt subject to the general debt limit in the aggregate amount of 87.1 million. This was 2.4 percent of the recent equalized valuation of the city.

The city has many general-obligation debt categories which are exempt from the general debt limitation. Net debt increased about $41 million in 1977 (about 9.4 percent) to $471.8 million at the fiscal year's end. The city issued $75 million to finance public works projects, urban redevelopment, and school projects. The city had no problem obtaining long-term debt or short-term financing, although 1977 interest rates were higher than in the current year. Moody's Investor Service, Inc. rated Boston's general obligation bonds Baa in January 1978, the same as in the previous year.

A city official said that they have not relinquished authority to another level of government for providing any services. He did complain of the State Legislature passing laws mandating that the city furnish services without providing State funding for these programs.

Expenditures for capital improvements in fiscal year 1977 and 1978 decreased after they had been rising in 1975 and 1976. Expenditures for capital improvements were about $92.1 million in fiscal year 1975, $108.9 million in 1976, and $59.5 million in 1977. Total capital disbursements are estimated not to exceed $50 million in fiscal year 1978. An official said that from the 1920's into the 1960's there was a hiatus in new construction, and the city has been trying to catch up. However, he said that the city wants to reduce, or at least not increase, the bonded debt. Furthermore, many new construction projects have been completed.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

A city official said that the favorable factors affecting the city's financial condition are the renewed interest in commercial property in the city and an increased confidence in Boston. Boston's long-term problem is a high property tax rate, and a city official said that the people in the city cannot afford a further increase in the rate which is now $252.90 per $1000 of assessed property value. He said that rather than pay taxes some property owners may abandon their property. Also, he said that a high tax rate has a depreciating effect on property, but that Boston has only the property tax available to it.

The short-term problem mentioned by this official is that the city cannot afford to add to the bonded debt but needs new schools. He said that the city plans to retire about $41 million of the bonded debt this year but has about $65 million of additional capital improvements "on the drawing board." An official said that every effort is being made not to issue new debt in excess of the amount redeemed during the year.

According to a city official, the most significant factors affecting the level of expenditures are inflation, then recession. He believes that the city is becoming more affected by the recession. To combat this, the city has developed "make work programs." He said that these programs are to train young people for jobs with the city or outside.

The official said that required collective bargaining has increasd expenditures. Also, he said that starting on July 1, 1978, the city must pick up the cost of unemployment insurance. This, he said, is going to force the city to cut back on the use of temporary employees. He cited the case of school-crossing guards who work only a few hours each day while the schools are in session and who would be eligible to collect unemployment insurance during the summer vacation period.

We were told that demand for services has increased. The greater demands are for better rubbish collection, rodent and pest control, and better inspection to detect and correct sub-standard housing. Because of the harsh winter in this area, extensive street repairs are necessary. We were also told that street lighting improvements are in great demand to reduce street crime.

The supervisor of budgets said that because of the increase in the tax rates and Federal revenue sharing, normal levels of basic services have not been affected.

Reports furnished by the personnel division showed a decrease in permanent personnel for the city and county (except for the school department) of 675 between June 30, 1976, and June 30, 1977. A city official said that this reduction was the result of a committment made by the mayor for a city-wide hiring freeze, effective December 15, 1976.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

The four antirecession assistance payments received in fiscal year 1977 have been appropriated and disbursed. Of the $6,470,579 received, $6,230,885 was spent in that year. The fifth payment, amounting to $1,889,818 was received on July 11, 1977. On August 10, 1977, an appropriation of $300,000 was made and these funds have since been spent for personnel services in the fire department. The sixth payment, amountng to $1,684,791 was received on October 12, 1977. On October 30, 1977, the balance remaining unappropriated was $3,652,236.

Reported uses of antirecession funds

The antirecession funds appropriated and disbursed have been used to pay personnel costs for the following services.

Police Department	$2,548,250
Fire Department	300,000
Building Department	61,750
Printing Section	805,000

Housing Inspection Department	52,135
Parks and Recreation Department	2,663,750
Traffic and Parking Department	100,000
	$6,530,885

A city official said that the antirecession assistance funds allowed the city to maintain high levels of service and employment without an even greater tax increase in fiscal year 1977. We were told if the antirecession funds were not available, there would have been a layoff of 521 employees in critical city departments with decreased services in fiscal years 1977 and 1978.

Discussions with city officials indicated that the impact of the antirecession payments was to avert city employee layoffs. Revenues are being collected on line to meet budgeted expenditures, and the antirecession payments were used to increase the authorized level of expenditures.

We were told that to cover these expenditures by general revenue fund appropriations would have necessitated an increase in the tax rate which the city does not want to do. They would have increased the appropriation deficit, which under Massachussetts law, must be funded from the next year's taxes.

CHICAGO, ILLINOIS

Chicago is the nation's second largest city, with a 1975 population of about 3,099,391. Chicago covers 228 square miles in the center of a 3,719-square mile metropolitan area of about 6,982,900 people. The 1974 per capita income for the city was $4,689 compared to the Chicago metropolitan area's per capita income of about $5,408.

Chicago's economy is one of the nation's most diversified, and is a leading producer of steel, telephone equipment, appliances, electrical machinery, plastic products, and diesel engines. Its historical balance between industry and commerce, durable and nondurable goods, and white-collar and blue-collar employment renders it less vulnerable to economic recessions than many other areas.

City residents are served by seven governmental bodies each of which levies its own taxes and is separately accountable. These include the City of Chicago, Chicago Board of Education, Cook County, and four others. The city government power is concentrated in a mayor and a council of 50 aldermen. The mayor, with council approval, appoints members of the Board of Education, Park District, Housing Authority and other special boards and commissions. Major services which the city administers are police, fire, health, sanitation, street maintenance and improvements, and a human resources program.

FINANCIAL CONDITION IS STRONG

Chicago officials believe their government's overall financial condition has been reasonably strong during the most recently completed and current operating years. They also stated that the 1977 financial condition has improved since our prior review in February 1977. An increase in the general fund surplus is expected because more antirecession funds were received than anticipated.

City officials warned that Chicago would have future financial problems if the antirecession program is discontinued. Without these or other Federal funds, the city will probably have to reduce services or increase property taxes.

General government operations expenditures in 1976 increased 6.6 percent to $871 million while general government operations revenues increased only 5.1 percent to $882 million producing a slight combined government operations fund balance increase.

Revenues increased due to various factors

Three revenue sources comprised about 64 percent of the 1976 general government operations revenues received from the city's own sources. These are property taxes (42 percent), sales tax (12 percent), and municipal public utilities tax (10 percent).

For the city's largest single revenue source, property taxes, the upward trend was the least significant. In 1976, revenue from property taxes increased only about $800,000 or 0.2 percent. In 1977 revenue from property taxes is estimated to increase by about $7.8 million or 2.4 percent. City officials told us that the property tax revenues were not very sensitive to inflation. The 1977 increase was attributed to legally mandated increases in the property tax components which pertain to debt service, city relief, and pensions.

Collections from the 1 percent sales tax, the second major revenue source, were up 6.6 percent or $5.5 million in 1976, and 1977 receipts are estimated to rise another 4.5 percent. City officials attributed the upward trend to increased sales and inflation. In 1976, actual receipts exceeded estimated revenues by about 5.4 percent.

Municipal public utilities tax receipts for 1976 increased by $8.4 million or 12.5 percent. Actual revenues exceeded estimates by 11.2 percent. This tax is collected from users of natural gas, electricity, and telephone services. In 1977, receipts are expected to rise another 3.7 percent. City officials explained the upward trend in collections was due to the utlities receiving large rate increases the last few years and customers using more energy due to the extremely cold weather. This tax depends on the gross revenue of utilities.

City officials indicated that Chicago would meet its overall revenue estimate for 1977, even though there would be a shortfall for the employer's expense tax, offset by unanticipated municipal public utilities tax revenues.

Federal and State funds received by the city increased by 9.2 percent or $27.5 million in 1976. The increase included a $4.2 million rise in the State motor fuel tax distribution and a $23.3 million growth in Federal and State grants for specific programs. The latter grants were not available for general government operations. A city official said the only changes in Federal funds for general government operations in the last few years have been the antirecession program and the extended revenue sharing program. Revenue sharing funds actually decreased .03 percent from 1975 to 1976 and are expected to increase about $3.5 million or 4.6 percent in 1977.

Salary raises and inflation increased expenditures

Total 1976 general government operations expenditures increased 6.6 percent, or about $53.6 million, over 1975 levels. Expenditures are expected to rise 7.0 percent in 1977.

According to city officials, these increases were caused by salary increases and inflation. They said that salary increases most heavily affected police, fire, and general government services. Total personal service costs accounted for 66 percent of the 1976 total operating expenditures.

No significant changes in fund balances

The net year-end balance of the funds supporting general government operations increased about $3 million or 1.3 percent in 1976. According to city officials, this increase was due to an increase in the city's contribution to the pension funds.

Indebtedness decreased

The city has both long-term and short-term indebtedness. Long-term debt includes general obligation bonds and revenue bonds. Short-term debt is primarily tax anticipation notes and warrants. The short-term debt remained nearly the same in 1976, but the long-term debt decreased 4.1 percent. According to city officials, the city retired more bonds than they sold in 1976.

The city has experienced no problems in obtaining either long-term or short-term financing. Moody's Investor Service, Inc. rated the city's bond issues as Aa in January 1978, the same as in the previous year.

Basic services generally unchanged

The city's level of basic services has generally remained stable. The exception is human resources programs which are generally funded by categorical grants from the Federal government. The city has not transferred any of its responsibility for providing basic services to another government. However, the city is doing more in the mental health area because the State is phasing out of this area.

Chicago sold $30 million of general obligation bonds in 1976 to start four capital projects. In 1977, $62.5 million of bonds were sold to finance five capital projects. According to city officials, there were no financing problems which caused delays in these projects. The city has a large list of capital projects it would like to begin if funds were available. However, the city has not had to cut back any budgeted capital projects due to revenue shortfalls.

MAJOR FACTORS INFLUENCING
FISCAL HEALTH

City officials identified inflation and population changes as the first and second most significant factors affecting the city's overall fiscal health. They also listed these and several other factors as significantly affecting expenditures and revenues. In addition, they emphasized the important favorable impact that Federal funds, and local economic and political factors, have on overall operations.

According to city officials, inflation has caused a constant erosion of the city's purchasing power and continues to compound the problems associated with it. Because the city's revenue growth has not been able to keep pace with inflation, the city is continually faced with the problem of maintaining, and improving where possible, services with fewer constant dollars. Even with productivity improvements the city's revenue has not been able to keep up with inflation's effects.

The change in the city's population characteristics has a twofold effect, according to city officials. Middle class families are moving to suburban locations and are replaced by lower income families. The new residents require more services, and contribute less in the way of tax dollars. The city recognizes its obligation in this situation and attempts to provide the services which are required with the limited revenue available.

City officials list, in priority order, the following as the significant factors affecting expenditures and revenues.

EXPENDITURES

1. Inflation (unfavorable, chronic problem)
2. Changes in population (unfavorable, chronic problem)
3. Recession (unfavorable, temporary)

4. Chronic unemployment (unfavorable, chronic problem)
5. Energy crisis (unfavorable, chronic problem)
6. Tax base erosion (unfavorable, chronic problem)
7. Local economic or political factors (favorable)

REVENUES

1. Inflation (favorable) (sale tax)
2. Tax base erosion (unfavorable) (property tax)
3. Energy crisis (favorable) (utility tax)
4. Recession (unfavorable) (sales tax)
5. Loss of business (unfavorable)
6. Changes in population (unfavorable)
7. Chronic unemployment (unfavorable)
8. Local economic or political factors (favorable)

Officials also emphasized the importance of Federal assistance and local economic and political factors to the city's overall fiscal health. They stated that with inflation, Federal assistance has played an important part in the city's budgetary planning and has helped to provide necessary services and balance the budget. As favorable local economic and political factors they cited the:

--strong stable government with competent administrators;

--coordination and support from all the major interests in the city, i.e., finance community, labor (unions), commerce and industry, religion, etc.;

--large increase in the service industry to somewhat offset the loss of manufacturing industry;

--very strong, viable and growing downtown community; and

--only a slight property tax increase over the past decade.

Since 1975 Chicago has instituted only one new tax, and has only slightly changed the property tax rate. The new tax, the automatic amusements tax, is expected to generate about $1.2 million of revenue for the city in 1977.

The city has not changed its level of basic services except for increases in the human services programs which are primarily funded by categorical grants.

City employment levels remained fairly stable in 1975 and 1976, decreasing only 0.04 percent in 1976. City officials said there were no hiring freezes and no significant layoffs.

Officials feel that continued changes and declines in population and increased inflation will cause them continual or long-term financial problems. To overcome these problems, city officials stated that Federal funding must be maintained or increased, or either property taxes will have to be increased or services will have to be cut back.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

Chicago received $25.3 million in antirecession assistance payments for the first five quarters of the program. All of the funds were disbursed within the 6 month expenditure limitation. In October 1977, Chicago received a 6th quarter payment totaling $3.9 million.

The city included estimated revenues of $18 million for antirecession payments in the 1977 approved budget and annual appropriation ordinance. The $18 million was authorized for any expenditure and was not specifically related to any function, program, or object class.

Subsequently, the city designated a budgeted $18.1 million cost-of-living salary increase for the police and fire departments as the use for antirecession payments. Still later, when actual antirecession payments exceeded the $18 million budget estimate by $7.3 million, the city offset the additional funds against previously budgeted police and fire department salaries.

Antirecession payments were not used to fund any new positions or to rehire any former employees. However, the antirecession payments had a dual impact on Chiago's budgetary actions.

First, the budgeted $18 million of antirecession payments allowed the city to maintain current levels of basic services and employment without having to increase property taxes. Second, the $7.3 million of unbudgeted antirecession payments were used to displace the city's budgeted revenues in paying for budgeted expenditures. City officials stated that the unbudgeted amounts should increase the city's surplus and thereby improve its financial condition.

CINCINNATI, OHIO

Cincinnati is in the heart of a large transportation and industrial center located in southwestern Ohio on the Ohio River. The city had an estimated 1975 population of 412,564 which is less than its 1970 population of 452,524.

More than 200 national and international firms are located in the area. The major firms are engaged in all facets of business and industry providing a major center for wholesaling, retailing, and manufacturing. These firms are among the nation's leaders in the production of soap and food products, chemicals, building materials, cosmetics, electronic equipment, jet engines, steel-mill products, and many other diversified items.

Cincinnati, which was founded in 1788 and incorporated in 1819, has a council-manager form of government with home rule powers. The nine-member city council is elected at large by voters in the city's 26 wards for a two year term. The council operates on a committee system and elects one of its members as mayor to preside at council meetings and to serve as the official city leader for ceremonial purposes. In addition, the council appoints a city manager who is charged with running the day-to-day city government operations. The city provides such services as fire and police protection, street maintenance, garbage collection, health, and parks and recreational services.

FINANCIAL CONDITION IS HEALTHY AND IMPROVED

The city operates on a calendar year basis. During 1975 and 1976, revenues failed to keep pace with expenditures causing the city to take budgetary actions to reduce 1977 expenditures. Those measures kept the 1977 budgeted expenditures at about the same level as 1976.

In 1976, revenues fell short of expenditures and caused layoffs, a hiring freeze, budgetary cuts, and the use of $6 million of the general fund's unappropriated surplus. Because of the budgetary actions taken, officials categorized 1976 as a "so-so" financial year.

The current financial condition of the city is said to be "healthy" especially when compared to the prior year. Although a hiring freeze still exists, revenues are expected to meet and even exceed expenditures, resulting in an increase in the general fund's unappropriated surplus. The surplus, according to officials, is necessary for balancing the 1978 budget.

The city's general fund revenues increased between the years 1975 through 1977 but at a much slower pace than expenditures. Because of budgetary actions, however, 1977 reflects a change in this trend. Revenues increased 4.1 percent between 1975 and 1976 and are expected to increase 3 percent in 1977. Expenditures, however, increased almost 8 percent between 1975 and 1976 but are budgeted for about a one percent decrease in 1977.

Revenues increased

Cincinnati's own revenue sources derive more than 50 percent from an income tax and about 19 percent from property taxes. In 1975 through 1977, revenue collections met or exceeded budget estimates in all but 1976 when income tax collections were $3.1 million less than estimated. However, the total revenues collected in 1976 were only $760,000 less than estimated because property taxes and other collections exceeded budgetary estimates.

Officials explained that the finance department had been criticized for its conservative income tax revenue estimates in the past and in 1976 was pressured into making a more liberal projection. The 1976 income tax budget estimate was based on an expected overall 12 percent increase in salaries throughout the city. Salary increases of only 7.8 percent. combined with a noticeable decline in urban population, were blamed for the $3.1 million short-fall. Officials expect to meet their 1977 income tax budget estimate.

Property tax collections increased 10.5 percent between 1975 and 1976 due to a 1975 reappraisal of real property. A reappraisal takes place on a sexennial basis to adjust the assessed value of real property to 35 percent of fair market value. There were no changes in rate or method of assessment during the 1975 reappraisal. The 1977 estimate of property tax revenues is about 1.2 percent less than the amount collected in 1976. Officials said the reduction represents an allowance for reappraisals due to the significant number of appeals pending resolution. They explained that after each reappraisal, collections increase significantly the first year, decrease due to appeals during the second year, and each year thereafter show a constant rate of increase.

Intergovernmental revenues decreased slightly in 1976. Reduced State funding accounted in part for the reduction.

Receipts from State taxes which are collected by the State and refunded to the city declined about $600,000 in 1976. The city, in the last several years, has used Federal revenue sharing funds to subsidize its operations. Beginning in 1977, the city started using its antirecession funds to further subsidize operations.

In total, current year revenue collections are expected to meet or exceed budget projections. As of September, collections were about $3 million over budgeted projections. Officials said that leveling off of inflation, increased capital expenditures by public and private sources, stabilization of the economy, and the city's return to conservative revenue estimations will enable attainment of budgeted revenues.

Expenditures expected to decrease

General expenditures for 1976 increased about 8 percent above 1975 but are expected to decrease by 1.5 percent in 1977. When compared to 1975, operating expenditures for various services fluctuated widely in 1976. For example, the departments of building, inspection, and public works showed decreases because some program elements were financed with other funds. Building and inspection financed its demolition program with the community development funds causing a reduction in its operating expenditures. Public works transferred $1.9 million of its street and bridge repair and neighborhood improvement operating costs to capital improvements expenditures.

The rise in expenditures was blamed on inflation which increased the cost of personal services, supplies, and material. For example, in 1976, employees received a 7 percent salary increase, employee pension and insurance costs rose $1.3 million, police and firemen pension costs grew $.8 million, hospital care costs increased $1.1 million, and workmen's compensation expenditures were up $.6 million.

Surplus decreased

The total unappropriated operating surplus at the beginning of 1976 was more than $23 million, but at the end of the year, the balance was less than $18 million. City operations in 1976 required the expenditure of more than 23 percent of the surplus.

The significant changes in unappropriated surplus balances occurred within the general, water works, and permanent improvement funds. The general fund had the greatest change decreasing from about $8.8 million to $2.5 million because revenues failed to keep pace with expenditures. In addition, a proposed income tax rate increase was defeated by the voters in 1976. The water works fund surplus balance decreased from $2.7 million to $.7 million due to construction of a new water purification plant. The permanent improvement fund surplus balance increased more than 50 percent. The city is currently building up that fund until sufficient revenues are available to repair city buildings.

Estimates of the total operating surplus balances at the end of 1977 were not available. However, officials told us that the general fund is estimated to have a $3.2 million surplus at the end of 1977. They said this increase will result from conservatively estimating 1977 revenue collections, substantial savings being realized as a result of personnel cutbacks in 1976, and continuation of a hiring freeze.

Outstanding debt is not a problem

Between 1975 and 1976, the city retired $2.3 million more in bonds and notes than were issued which resulted in about a one percent decrease in the total debt outstanding. Debt outstanding for the current fiscal year is expected to rise about 2 percent as the city will issue $3.5 million more bonds than it will retire. A recent Ohio Supreme Court ruling lifted a State-imposed ceiling on unvoted debt. The ruling, in effect, increased the city's unvoted debt limit by $34.1 million. There are no immediate plans to incur the additional debt allowed.

Officials said they have not experienced any problems selling bonds or notes. Moody's Investor Service, Inc.'s rating for the city's general obligation bonds has risen from "A-1" in 1976 to "Aa" in 1977 and 1978. Current plans are to use Federal revenue sharing funds for one-time capital projects in 1978.

Capital projects being deferred due to lack of funds

Capital expenditures are approved on a fund available basis which precludes the delay of approved projects because of funding problems. However, a lack of funds has caused project deferrals. Currently, only projects which provide technological improvements or deferred maintenance are approved because of the limited funds available.

In the last two years, the city has deferred a substantial number of projects. In 1976, 55 projects costing about $11 million were deferred. In the city's 1977-79 capital plan, an additional 44 projects costing about $62 mil-million are being deferred including new fire stations, neighborhood improvements, bridge rehabilitation, street repairs, landslide prevention and correction, and city hall renovation. The city manager said the deferral of capital projects shows a financial weakness. He told us that because of the lack of funds, the city has been unable to make some capital improvements which would reduce the cost of operations.

Acceptable city services have been maintained

Generally, officials agreed that acceptable basic service levels have been maintained in spite of layoffs and other budgetary actions which took place in 1975 and 1976. During that period, a large number of positions were eliminated which resulted in layoffs within the fire and police protection, parks and recreation, and public works service areas. Changes such as eliminating a trash set-out service and decreasing the fire-pumper truck crew from the average 4.5 to a three or four-man crew were also employed. The changes in services and the increased level of Federally-funded employees were cited as factors which enabled the city to maintain basic services at the current level.

Officials noted increases in the demand for police protection and parks and recreational services. The increased demand for services was attributed to increased emphasis on serving the elderly, high youth unemployment, and strong community groups. The demands were countered with increased park and recreational activities. The city increased its youth program activities. Existing youth centers, which were initially scheduled to be closed because new centers had been built, had to be left open.

The city has not assumed responsibility for providing any basic services from other governmental units. However, some services previously provided by the city have been or are being transferred. Management and control of the University of Cincinnati and the general hospital were transferred to the State in 1977. In addition, operation of the municipal court system is being transferred to Hamilton County. Long-range city planning documents also recommend that the city consider transferring its parks and recreation facilities and programs, and health services, to the county.

Increased Federally-funded
employees for the city

The number of city employees dropped from 8,686 in 1975 to 8,114 in 1976. Reductions in city employment became necessary in order to balance the 1977 budget after voters defeated the proposed income tax rate increase in 1976. The reduction of 572 employees was achieved by laying off 421 permanent and seasonal employees and by imposing a hiring freeze which left 151 positions vacant. The major layoffs by service area were as follows.

Service area	Number
Police protection	150
Fire protection	80
Waste protection	93

During 1977, the city's labor force increased by 504 to 8,618 employees even though the hiring freeze was still in effect and there was an attrition of 335 city-funded employees. A rise in Federally-funded employees acounted for the increase. The percentage of city employees funded by the Comprehensive Employment and Training Act doubled between 1976 and 1977. As of October 1977, only four city employees had been laid off.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

Inflation was cited as the most significant factor adversely affecting the city's financial status. It was identified as a long-term problem and the cause for increased expenditures because of higher costs for materials, supplies, and personal services. One official said the cost of equipment doubled, and diesel fuel increased about 300 percent during 1974 and 1975.

We were told that while expenditures increase at about the rate of inflation, the city's revenues tend to only increase at about half that rate. Income tax receipts, which account for about 50 percent of the city's revenues, are the only revenues that increase at a rate near that of inflation.

Officials said inflation has been a problem for several years and will continue to affect the city as long as it remains above three percent. They said the city's expenditures have probably grown at about the same rate as the national average.

Other problems they noted were the deterioration of older, established residential areas and the loss of business and industries--both of which have contributed to the stagnation of property tax revenues. In addition, the loss of income tax receipts results from high unemployment, loss of population, and changes in the make-up of the city's population. Officials said the city's population contains a high degree of poor, unskilled, and elderly citizens. They also said the people leaving the city were individuals who were significantly contributing to the city's revenues, and an increasing percentage of those citizens remaining are individuals who contribute less revenues but require more city services.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

Cincinnati has received six quarterly antirecession payments amounting to $5,272,317. All funds received for the first four quarters, $2,753,015, were appropriated and disbursed within the required six-month time frame to pay salaries and wages for police and fire personnel for the first two pay periods after the appropriation action. The fifth and sixth quarterly payments, amounting to $2,519,302, were unappropriated as of October 31, 1977. The city also plans to use these funds for salaries and wages of police and fire personnel. The funds are expected to be appropriated in December 1977 and expended in 1978.

The city's antirecession funds maintained but have not increased the level of city employment. No new positions have been made available, and none of those laid off were reinstated with antirecession funds. However, the necessity for further reductions in city personnel has been delayed as a result of those funds. One official estimated that 80 employees were being retained for each $1 million of antirecession funds received. Based on this estimate, about 220 employees would have been laid off if antirecession funds had not been available.

Officials said the overall impact of the funds resulted in a balanced budget because the antirecession funds were used to "plug the gap" between revenues and expenditures, thereby enabling the city to avoid reductions in services and personnel.

Officials said that the antirecession funds are being used to combat several problems which hamper the city's financial condition. Inflation is the primary target. Inflation's continuing growth rate is seen as a long-term problem resulting in costs outstripping revenues. Other chronic problems of unemployment, declining urban population, and the stagnation of the property tax receipts were also cited as significant deterrents to the city's financial health.

Officials stated that Federal revenue sharing and antirecession funds allow the city the flexibility needed for coping with its financial problems and suggested that other Federal programs should be provided on a similar basis. Officials said the city has become increasingly more reliant on the two programs and believed they should be continued. In fact, a five-year budget projection indicates that the city could incur deficits if antirecession funds are discontinued.

DETROIT, MICHIGAN

Detroit is the largest city in Michigan and ranks sixth in the United States, with a 1976 population of approximately 1,325,000. The population of Detroit has been declining since 1950 when it was 1.8 million. Immigration to the city has failed to keep up with out-migration to the suburbs. The city has an area of 139.6 square miles and is located in Wayne County, the third most industrialized and populated county in the nation. Founded in 1701, Detroit is the oldest city in the midwest, officially becoming a city in 1815. Located on the Detroit River, it's a major link in the Great Lakes shipping pattern and is a major port city.

Detroit grew because of the economic strength of the automobile industry. High wage factory jobs, requiring little education and relatively low-level skills, attracted many people. However, in recent years, decentralization and changing demands on the automobile industry have precipitated permanent layoffs and economic dislocation of many residents resulting in the highest sustained unemployment level of any major United States city. In 1976 the labor force of Detroit was estimated to have averaged approximately 504,000 persons. Of that number, an average of 70,000 were unemployed for an annual rate of 13.9 percent. Through August 1977, unemployment was averaging between 10 and 11 percent.

The University of Michigan projects Detroit's annual average 1980 unemployment rate at 12.4 percent if there is no national economic downturn, and a 20 percent rate if another recession occurs. These projections assume no large-scale Federal program to reduce unemployment. City officials believe that Detroit's single, most persistent problem is unemployment.

Detroit's welfare caseloads began increasing in the latter years of the 1960's, but accelerated in 1970 when eligibility requirements were relaxed. This upward trend has continued into 1977. Only in 1973 when employment was high due to the record production of automobiles was there any decrease. In 1976, 380,000 or over 28 percent of Detroit's population was supported by welfare benefits. However, the State of Michigan is responsible for funding and administering all general relief and similar welfare programs so the city bears no financial responsibility for such programs.

The median household effective buying income in 1976 was $14,432 compared to $13,781 nationwide based on Sales Management and Marketing Magazine's, Annual Survey of Buying Power.

This is a marketing statistic equivalent to disposable personal income.

The estimated value of new non-residential construction has shown a favorable trend in recent years. In 1976, there were 699 buildings started with a value of $108.4 million, compared to 646 with a value of $168.8 million in 1975 and 798 with a value of $59.4 million in 1974. New residential construction has been relatively inconsequential; just 28 buildings with a value of $13.7 million in 1976. Conversely, there was a net loss of 21,000 dwelling units from 1972 through 1976 due to demolition.

Detroit has a mayor-council form of government. The legislative authority is vested in the city council of which the president is the member receiving the most votes in elections held every 4 years. The mayor, who is the chief executive and administrative officer, is elected at the same time as council members.

Services covered by the general fund include cultural, health, civic center, public lighting, environmental protection and maintenance (e.g. solid waste disposal and street maintenance), physical and economic development (except for housing), public protection, and recreation. Major services covered by separate enterprise funds include airport, automobile parking, hospital, public housing, public transportation, sewerage and water.

All financial data pertaining to the operations of the city's funds used in this report covering fiscal 1977 are subject to final audit by the city's auditor general. The city's fiscal year ends on June 30. Our analysis concentrated on the operations of the general fund, covering fiscal years 1976, 1977, and 1978.

FINANCIAL CONDITION IS FAIR AND IMPROVED

Detroit officials believe that the city's financial condition was fair in fiscal year 1977 but were split in their opinion on fiscal year 1978 with a finance official viewing it as healthy. Each official believes the city's financial condition had improved since fiscal year 1976. Positive reasons cited by both officials were a better economy especially in relation to the auto industry, a lower unemployment rate, and increasing municipal income tax receipts. A negative factor cited by both was a continuing population decline. Other negative reasons given by the budget official were that, except for police protection, services cut in fiscal years

1975 and 1976 have not been fully restored; unemployment continues to be higher than State or national averages; only 7 years since 1949 have had an operating surplus, one of which was 1977; and the current fiscal year (1978) will probably be a break-even situation achieved through controlling expenditures.

Revenues increased faster than expenditures

General fund operating revenues increased by 22 percent and operating expenditures by only 7 percent from June 30, 1976 to June 30, 1977. The principal reasons for increased revenue were higher than expected income tax collections due to a rapid economic recovery; increased utility user's tax collections; higher sales and charges for services; new support from the State and Federal governments; and increases in some existing intergovernmental revenues. The city began fiscal year 1977 with expenditures budgeted at minimum operating levels for most programs to counter the effects of a growing operating deficit. Wherever possible, service restorations were made during the year with the increasing revenues but the year closed with an operating surplus of about $11.8 million.

Comparisons of selected revenue and expenditure items in the initial fiscal year 1978 budget with actuals for the year ending June 30, 1977, indicate significant increases in both categories.

Increases in locally-generated revenue

Locally-generated revenue in the general fund increased from $322.5 million for fiscal year 1976 to $368.6 million for 1977. The increase consisted primarily of $15.0 million from utility user's tax, and $24.9 million from charges and miscellaneous revenues. No significant increases in tax revenues were forecast in the initial budget for fiscal year 1978. City officials said that budget estimates are being achieved for all locally generated revenues.

City income tax revenue replaced property taxes as the number one revenue source in fiscal 1977. This revenue was $124 million or 20.2 percent of total operating revenues as compared with $109 million for the prior year. City officials said that the increase was due to economic recovery and inflationary effects on taxable income. City officials believe that the budget estimate of $124.9 million for fiscal year 1978 will be exceeded by $4.0 million to $4.5 million. They stated that tax collections exceeded initial budget estimates in fiscal year 1977 because of conservative estimates of the strength of the economic recovery.

City income tax rates have remained unchanged since October 1, 1968. Because the rates are controlled by State law, city officials do not anticipate any changes.

Property tax revenue has been about $116 million for each of fiscal years 1976 and 1977 and is projected at about the same level for fiscal 1978. While there was a three mill property tax increase beginning fiscal 1977, there was no revenue increase because business inventories were removed from the tax rolls; the real estate portion of the tax base continued to erode; and tax delinquencies increased slightly. General fund taxes have been at the State-mandated limits from fiscal years 1976 through 1978.

Business inventories were removed from the tax rolls as part of a State business tax reorganization. However, the city is being compensated with intergovernmental revenues for the loss through shared proceeds from the new State single business tax.

Utility user's tax revenue increased from $24.8 million in 1976 to $30.4 million in fiscal year 1977. This greater than anticipated increase partially reflects the abnormally high energy consumption during the severe 1976-1977 winter. City officials believe that the 1978 budget estimate of $32.8 million will be achieved. This tax is also at the State-mandated limit and annual revenue increases resulted from higher energy costs.

Charges and miscellaneous revenues from the city's own sources provided $95.6 million for fiscal year 1977 compared to $70.6 million in fiscal year 1976. It consists of licenses, permits, and inspection charges; fines and forfeits; revenue from use of assets; service sales and charges; sales of property and other assets; compensation for losses; and contributions and transfers. Most of the increase occurred in sales and charges for services. Electricity sales by the public lighting department increased $6.5 million, due to higher fuel costs to generate electricity. Also, a new collection fee of one percent of property taxes brought in $2.9 million.

Significant increase in intergovernmental revenue

Intergovernmental revenues increased from $180.6 million in fiscal year 1976 to $245.5 million in 1977. The fiscal year 1978 budget forecasts further increases in these revenues which comprised 35.9 percent of total general fund operating revenues in fiscal year 1976 and 40 percent in fiscal year 1977. Intergovernmental revenues exceeded the city's combined income and property tax revenues in fiscal year 1977.

A major portion ($96.9 million) of the $245.5 million in fiscal year 1977 was State revenue sharing from income, sales, intangibles, and the new single business taxes it collected. Annual State revenue sharing increases can be generally attributed to changes in distribution formulas and/or increased tax collections at the State level. Approximately $121.3 million is anticipated from these sources in fiscal year 1978.

A State equity package--a new revenue source in fiscal year 1977--helps finance various city facilities which benefit the general State population. The city received about $28 million in 1977 and anticipates receiving $20.1 million in fiscal year 1978. Most of these funds are being allocated to the city's library, transportation, and hospital funds. City officials said that the equity package is funded on a year-to-year basis and may not continue in 1979 because of the fiscal year 1977 general fund operating surplus.

The Federal government share of the $245.5 million is at least $91.5 million--revenue sharing $40.7 million, antirecession $17.4 million, and Comprehensive Employment and Training Act (CETA) $33.4 million. City officials anticipate slight increases in Federal revenue sharing and CETA grants in fiscal 1978. They said the budget amount of $31.6 million for antirecession funds in fiscal 1978 was overestimated by $5.5 million.

Expenditures are increasing

The city's general fund operating expenditures were $560.7 million for the year ended June 30, 1977, compared to $523.8 million for the prior year. For fiscal year 1977, personal services (salaries, fringe benefits, etc.), comprised almost 78 percent of total operating expenditures.

To counter the effects of a declining economy and inflationary pressures which led to a $36.9 million deficit in the general fund by June 30, 1976, the number of personnel positions in the initial fiscal year 1977 budget were reduced to a minimum operating level. City budget officials informed us that all the services covered by this budget were considered basic services. In presenting this budget to the city council, the mayor stated that:

> "***To achieve savings of this magnitude requires cutbacks that can only be temporary, because they threaten basic city services."

We selected seven departments, which made up 80 percent of total operating expenditures in fiscal year 1977, to compare actual expenditures from year-to-year and to compare actual with initial budget. The following table compares fiscal years 1976 through 1978 including CETA funded expenditures.

Detroit Budget and Expenditures
For Selected Departments
(million)

Department	1976 actual	1977 budget	1977 actual	1978 budget
Police	$173.8	$180.7	$190.0	$232.1
EPM a/	76.8	84.0	85.6	94.9
Fire	59.4	63.9	64.0	71.1
Health	34.2	35.6	36.4	46.6
Public lighting	26.0	32.9	36.6	37.1
Recreation	24.6	33.1	29.5	39.0
CED b/	6.6	9.2	8.6	9.4

a/Environmental Protection and Maintenance includes street maintenance, solid waste, building maintenance, city engineer's office and vehicle maintenance.

b/Community and Economic Development.

Budget officials responsible for these departments stated that the increase in actual expenditures from fiscal years 1976 to 1977 generally reflects some restored services, salary and cost-of-living increases, and rising fuel costs in the public lighting department. All laid off employees including police were recalled by June 30, 1977. Much of the police rehiring was accomplished with antirecession funds which were not in the initial budget for fiscal year 1977, which accounts for much of the budget overrun. The budget underrun in the recreation department for fiscal year 1977 is primarily related to two grant funded programs that did not materialize.

Budget officials said the increases in the fiscal 1978 budget generally relate to more restored services, expanded services, and personal services cost increases. The budget called for hiring and training 600 additional police. Recreation department staff is being expanded to provide a service level not available for years. The budget also includes equipment purchases such as fire trucks and street sweepers.

Other factors indicate an improved financial condition

There are other factors that indicate that Detroit's financial condition has improved. The general fund has gone from an operating deficit of $36.9 million on June 30, 1976, to an operating surplus of $11.8 million (unaudited) on June 30, 1977. However, budget officials believe that the general fund will break even or run a small deficit in 1978.

The significant improvement in the general fund's operating balance was primarily caused by new intergovernmental revenues and unanticipated increased income tax revenues due to a rapidly expanding economy. The operating surplus was accomplished even though some of the services cutback in fiscal years 1975 and 1976 were being restored during fiscal 1977.

As a result of their improved operating balance, the city has not incurred any short-term debt in the form of general tax anticipation notes for fiscal year 1977 and does not contemplate any for fiscal year 1978. Furthermore, recent general obligation bond sales, which can only be used for capital improvements, were at a much lower rate of interest--6.85 percent compared to a prior rate of 9.78 percent. City officials attribute the lower interest rate to the city's improved financial position. However, there has been no change in Moody's Investor Service, Inc. Baa rating of the city's general obligation bond quality. General obligation bond sales dropped in fiscal year 1977 due to court cases preventing their sale; and now that the cases are resolved, a surge in sales is occurring in fiscal year 1978.

City officials said that no capital projects were delayed in fiscal years 1977 and 1978 due to financial reasons. State law limits the amount of general obligation bonds which can be budgeted in a given year to approximately 0.5 percent of the city's State equalized valuation. This provided for a capital budget in the general fund of $30.3 million in fiscal year 1977 and a budget of $28.5 million in fiscal 1978.

City officials said that the city has not relinquished authority to another level of government for providing services with the exception of freeway patrol which is now done by the State police rather than the city.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

Detroit officials cited several significant factors which influence the fiscal health of the city government. These factors have a negative influence and appear to be long-term problems. These factors were

--chronic high unemployment;

--loss of population, especially the more affluent, due to a poor quality school system and the fear of crime;

--inflation which is brought on from a national level; and

--lack of industrial growth and diversification of the industrial base (too dependent on auto industry).

The city's revenue-raising capacity appears to be seriously hampered by the following factors cited by officials

--all major taxes are at the State-mandated limits and it is not economically feasible to increase them, reduction would be desirable but the city cannot afford to lose the revenues;

--property tax base erosion; and

--chronic high unemployment which affects income tax revenues.

City officials said that the most significant factors affecting expenditures were inflation and increased energy costs. With respect to inflation, over 80 percent of city employees are represented by bargaining units; therefore, agreements with these units which provide for cost-of-living increases and percentage-of-base increases every year have a significant inflationary impact on expenditures. For example, the average cost-of-living adjustment per employee effective July 1, 1977, was $603. Furthermore, the city's largest union covering 8,476 employees recently ratified a contract providing approximately 4.4 percent annual wage increases for the next 3 years. Other major unions are expected to obtain similar wage increases.

According to officials, it is not possible to measure the demand for services. The city is not responsible for general relief and similar welfare programs, which would be very sensitive to economic fluctuations.

The only tax rate change which occurred during fiscal years 1977 and 1978 was a three mill property tax levy increase for refuse collection and disposal effective in 1977. Prior to fiscal year 1977, Detroit had been the only municipality in Michigan not permitted under State law to levy this tax. Although refuse collection and disposal was being provided under the existing levy, the additional revenue was needed to help counter the growing general fund deficit which had reached $36.9 million by the end of fiscal year 1976.

Expanded services and rehired employees to restore services accounted for the basic service changes in fiscal years 1977 and 1978. This was accomplished primarily through increased income tax collections from the rapid economic recovery, new sources of intergovernmental revenue (e.g. antirecession assistance), and increases in existing intergovernmental revenues.

The changes in public employment levels best illustrate the effect of the financial recovery. The departments in the general fund began fiscal year 1977 with a minimum operating level of 15,230 full-time equivalent budget positions (including CETA and other grants). By the start of fiscal year 1978, the budget contained 17,663 positions.

STATUS, USE, AND IMPACT OF ANTIRECESSION ASSISTANCE

Antirecession funds allowed Detroit to restore basic services--primarily police protection--which had been cut to balance the budget for fiscal year 1977. For the current year, 1978, the funds are primarily being used to continue the restored level of police protection and expand the police force. This increased police protection responds to the community's concern for the crime problem which was highlighted by the nationally publicized Cobo Hall incident in the summer of 1976.

To describe the impact that antirecession payments have had on their budgetary operations for both the past and current fiscal year, officials said that revenues were being collected on line to meet budgeted expenditures and antirecession funds were used to increase the authorized level of expenditures.

The city's initial budget for the past fiscal year (1977) was approved prior to establishment of the assistance program. When antirecession assistance was received, the city amended its budget to increase authorized expenditure levels primarily to rehire police personnel who had been laid off to balance the initial budget. Major sources of revenue were generally collected on line with initial budget estimates for fiscal 1977. The only exception was a year-end surge in municipal income tax receipts which caused revenues to exceed initial estimates by about 11 percent.

As for the current fiscal year (1978), the city considered antirecession funds during the budget deliberations and incorporated the funds into the initial approved budget. Gauging what would have occurred without the funds is difficult since a multitude of options are available.

Of the $31.9 million in antirecession payments received through October 31, 1977, the city had disbursed $31.3 million of which $27.1 million or 86 percent had been disbursed for police protection. These funds have been used to recall 646 police on layoff in fiscal year 1977 and continue their employment into fiscal year 1978. It has also been used to hire 908 new police including 500 who were hired late in fiscal year 1977 and whose continued employment is being supported by antirecession funds in fiscal year 1978. The police force is at its highest level since the 1930's.

Detroit favors continuation of antirecession program

Detroit in its 1977 "Moving Detroit Forward" plan summed up the financial situation in Detroit as follows:

> "Detroit's tax revenues have fallen far short of need. Their inelasticity becomes more critical in periods of rapidly rising costs. The present period of inflation has accelerated price increases and the recession further stunted revenue growth. These elements have combined to create an unmanageable revenue shortage which can only be rectified with Federal and State assistance."

City officials said that if antirecession funds had not been available in fiscal year 1977 it would have been difficult to rehire the police who were on layoff. After the Cobo Hall incident, rehiring would probably have occurred but at the risk of incurring a deficit. In the current year, if funds had not been available, some employees would still be on layoff, there would be 700 fewer police officers, less repairs in public housing projects, and some housing projects may have been closed. Increasing tax rates would not have been feasible. All tax rates (income, property and utility users) were at their legal maximums when the funds were received and have remained at the maximums. With a tax effort approaching four times the average of Michigan cities, Detroit officials believe they can ill afford to increase present, or to impose additional, taxes.

EVANSVILLE, INDIANA

Evansville, with a population of 136,165 is located about midway between Indianapolis to the north and Nashville, Tennessee, to the south. The five-county area around Evansville has about 450 industries employing over 36,000 workers. Unemployment dropped from 6.8 percent in 1976 to 4.4 percent in the third quarter of 1977. The city is the economic center for the surrounding coal and oil producing areas. Per capita income was $4,244 in 1974.

The city government consists of a nine-member common council, an elected mayor, and appointed boards who are responsible for all city operations. Basic services provided by the city are public works, health, police and fire protection, parks and recreation, redevelopment, building inspection, bus and stadium operation, street lighting, and city administration.

FINANCIAL CONDITION IS VERY GOOD TO EXCELLENT

City officials regard Evansville's current financial condition as very good to excellent because basic services are being maintained while property taxes, which are the major revenue source, are being held constant. The city's financial condition has not changed since our last review in February 1977. The budget for 1978 is less than the 1977 budget due to a reduction totaling about $790,000 in Federal and State revenue sharing funds. However, Evansville was able to reduce the 1978 budget to compensate for the decline in revenues without reducing basic services.

Evansville operates on a calendar year basis. Total revenues and expenditures increased during the years 1975 through 1977. However, during each of these three years, expenditures exceeded revenues. Surplus funds of about $.9 million in 1975, $1.3 million in 1976, and an estimated $1.3 million in 1977 were used to fill the gaps. Total revenues and expenditures for Evansville were:

	1975	1976	1977
	(Actual)		(Estimated)
Total revenues	$20,038,568	$20,223,892	$20,337,276
Total expenditures	$20,989,637	$21,528,296	$21,638,208

Property taxes are Evansville's main revenues from its own sources. Evansville collected 99.8 percent of its budgeted property taxes in 1976 and is having no problems collecting those budgeted for 1977. Evansville lowered the property tax rate from 4.13 in 1975 to 3.906 in 1977. Property tax revenues increased 1 percent from 1975 to 1976.

Intergovernmental revenues declined during 1975 through 1977, but the decrease was not considered significant because the city's ability to provide basic services was not affected. The deputy controller said the city has no control over the actual amounts of intergovernmental revenues it receives.

Although there were significant changes for some basic service expenditures from 1975 through 1977, the overall increase in total expenditures was less than 15 percent. In 1976, the main expenditure increases were for capital projects, personnel, and utilities. In 1977, personnel costs showed the largest increase. Inflation was the main factor causing the expenditure growth.

The city did not experience any organized demands for increased services during 1975 through 1977 or assume any services previously provided by another governmental unit. However, in 1976, the city relinquished its court system to the county government to improve court efficiency.

As previously discussed, Evansville used about $3.5 million in surplus funds to fill the gap between revenues and expenditures during 1975 through 1977. The actual surplus balance at the end of fiscal year 1977 was not available. The deputy controller told us that as a result of the surplus decline, future budgets will be tighter and therefore the city must operate more economically to avoid reducing basic services.

Evansville's only debt is for bonds issued to finance capital projects. The city's outstanding bond balances changed from $6.6 million in 1975 to $5.9 million in 1976 due to principal repayment. In 1977, the balance increased to $7.2 million after additional bond sales. Two bond issues were sold during the last 3-year period. In 1975, $1.2 million in bonds were sold for construction of a swimming pool and roller skating rink which were completed in 1976. In 1977, $2 million in bonds were sold for construction of an ice skating rink and for zoo improvements. The projects funded in 1977 are to be completed in 1978.

The city's bonds were rated Aa by Moody's Investor Service, Inc. in 1978, the same as in our prior review. The deputy controller said the city has no problems selling bonds. The city's legal limitation for indebtedness, which is 2 percent of total assessed value, is not a city problem because current outstanding indebtedness is well below that limit.

Capital expenditures, other than for park projects, totaled $2.3 million in 1975 and $1.3 million in 1976. The 1977 budget provides for $248,500 in capital expenditures. The deputy controller said approved projects have not been delayed and that Evansville is meeting its needs for capital expenditures.

Total employment, including full-time, part-time, and Comprehensive and Employment Training Act (CETA) employees, declined from 1,844 in December 1975, to 1,681 in 1976, to 1,649 in 1977. Reliable statistics on the number of part-time employees were not readily available. The number of CETA employees declined from 278 in June 1975, to 240 in 1976, to 228 in 1977. Employment statistics were not strictly comparable over the three-year period. No layoffs occurred during the period.

The official said that some positions were eliminated by attrition in 1977 because the city planned to cut about 150 positions from the 1978 budget as a result of the reduction in revenue sharing funds coupled with a needed salary raise. The officials told us that none of these personnel cuts had or will have any effect on basic services.

MAJOR FACTORS AFFECTING FISCAL HEALTH

The deputy controller believes that good management is the major favorable factor affecting the city's fiscal health. He said that evidence of this is the fact that basic services have been maintained without raising taxes. He told us that unfavorable factors such as inflation and recession have affected the city government but not to the point that basic services have been or will be affected.

The deputy controller said that the most significant factor affecting the city's revenue raising capacity is the mayor's decision to hold property taxes constant. The recession also affected property tax revenues by slowing construction, thus slowing growth in property valuation. However, Evansville has had no difficulties in collecting enough property taxes to meet its budget. In 1978, elimination of a State revenue sharing program and reduction of Evansville's Federal revenue sharing grants will reduce the city's intergovernmental revenues about $790,000 and result in about 106 positions being cut from the 1978 budget.

The city's property tax revenue is limited by State law. The total tax assessment was restricted to be no higher than the 1973 total tax collected except that the total levy could increase by the percent the assessed value increased. However, Evansville's tax rate is below the maximum. A new law expands the limit to allow higher receipts in 1978, 1979, and 1980.

Inflation is the major long-term problem affecting the city's expenditures. About 60 percent of 1976 general fund expenditures were for personnel expenses. As a result of inflation, the city has had to pay annual increases to its personnel. For example, in 1977, city employees received a six percent pay increase. Inflation also drives up other costs such as gasoline and utility costs. The effects of inflation created the gap between revenues and expenditures which required the city to use surplus funds during 1975 through 1977.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

Evansville received three antirecession payments totaling $151,670 through October 1977. The November 1976 payment was not appropriated until about two months after the six month deadline because of an administrative error in preparing the appropriation ordinance. The January 1977 payment was appropriated within the six-month requirement. The July 1977 payment has not been appropriated, but the six-month limit had not expired at the time of this review.

Evansville has disbursed $31,118 of the antirecession funds as of October 31, 1977. Expenditures were $21,055 for summer intern personnel costs, $9,969 for library shelves, and $94 for public works. Of the remaining $57,063 appropriated but not disbursed, $51,687 is for public works, $5,345 for summer interns salaries, and $31 for library repairs.

Of the remaining $63,489 unappropriated as of October 31, 1977, an appropriation ordinance for $28,850 was signed by the mayor on November 25, 1977, which provided $9,850 for the stadium, $8,000 for the central garage, $6,500 for the fire department, $4,000 for parks and $500 for the finance department. Planned uses of the remaining $34,639 will be prepared by January 1978.

The antirecession funds minimally affected city employment. The deputy controller believed about 15 summer interns would not have been employed in 1977 if the antirecession funds had not been received.

The deputy controller said that, due to the small amount received, the antirecession funds had little impact on the city's budgetary actions. He said that if antirecession funds had not been available, the city would not have accomplished the public works, library repairs, or employed the summer interns. The funds were used to plug the gap caused by rising costs and the mayor's decision not to raise property taxes.

FORT WORTH, TEXAS

Fort Worth, with about 358,000 residents, has a highly diversified economy. Aerospace plants, food and beverage processing, mobile home manufacturing, automobile manufacturing, and medical service firms join agriculture-oriented industries to provide more than 75,000 manufacturing jobs in the city. The Texas Employment Commission reported an unemployment rate between 4 and 4.8 percent for Fort Worth during the period January through August 1977. An unemployment rate between 4 and 5 percent is considered typical for the area. The unemployment rate for the first three quarters of calendar year 1976 averaged 6.2 percent and entitled Fort Worth to $354,521 in antirecession payments from July 1, 1976, through March 31, 1977.

Under Fort Worth's council-manager form of government, the city manager administers and coordinates municipal operations and programs. The city had approximately 4,100 employees and a budget of about $109 million for fiscal year ending September 30, 1978. Major city services include police and fire protection, water and sewerage, parks and recreational facilities, libraries, health services, and public works. The city-owned bus system is operated by a private management firm. For the past three years, Federal funds and the city's general fund have financed the operating deficit for the bus system. City owned airports also operate at a deficit and are subsidized by the general fund.

FINANCIAL CONDITION IS EXCELLENT

The recession has had little, if any, adverse effect on Fort Worth's financial condition and did not increase the demand for services. Inflation has had the greatest impact. However, the budget director said that through fiscal restraint and good management techniques, the city has been able to cope with the inflation problem without it adversely affecting the city's financial condition.

The principal budget official for Fort Worth said that the city's fiscal position is excellent and has continually improved over the past several years. The schedule below contains data on the city's general fund which shows growth during the most recently completed and preceding fiscal years.

City fiscal year	Total revenues (millions)	Ending general fund balance (millions)
1975	$ -	$ 7.6
1976	69.3	9.6
1977	75.0	10.9 a/

a/Preliminary figure. As of December 5, 1977, Fort Worth had not completed its financial statements for fiscal year ended September 30, 1977. Therefore, we used preliminary figures for 1976-1977 here and in other parts of this case study.

Our analysis of the 1977 general fund activities indicated that the general fund balance growth resulted primarily because revenues ($75.0 million) exceeded budgeted revenues ($72.7 million) and actual expenditures ($72.7 million) were less than budgeted expenditures ($72.8 million). Based on preliminary financial data provided by the city, actual revenues exceeded budget estimates primarily because of higher than anticipated revenues from property taxes, sales taxes, and intergovernmental transfers.

Changes in revenues

The tax supported revenues, which include revenue sharing and airport revenue funds, have continued to increase each year. Fiscal year 1976 revenues were about $69.3 million. Preliminary 1977 information shows these revenues were about $75 million or an 8 percent increase. The tax supported operating budget for fiscal year 1978 is about $81.3 million which is another 8 percent increase. Although not part of tax supported revenues, water and sewer fund revenues continue to exceed expenditures. However, tax supported revenue is used to reduce the operational loss of the city-owned bus system and airports. In addition, the bus system receives a Federal subsidy.

The recession has had little, if any, effect on revenues generated from the city's own sources. The 1977 year-end general operating fund balance of $10.9 million is 13.5 percent greater than the previous year's $9.6 million balance.

Sales taxes which are most vulnerable during a recession, have increased each year since 1975. Sales tax revenue growth, according to city budget officials, is partly attributable to the inflationary trend and partly to city development after new shopping facilities open. The tax rate has not increased since Fort Worth voters approved the 1 percent city sales tax in 1968.

The State constitution limits the real and personal property tax rate to $2.50 per $100 of assessed valuation. The city charter further limits the tax rate to $1.90 per $100 of assessed valuation. However, from 1972 through September 1977, the rate remained constant at $1.69 per $100 of assessed valuation. Effective October 1977, the city decreased the rate to $1.655 per $100 of assessed valuation. Legally the city can assess real and personal property at 100 percent of the appraised value. However, since 1967, Fort Worth has only assessed about 55 percent of the appraised value. The city is well within the legal tax limits.

In commenting on potential effects of the recession on revenues from their own sources, the budget director stated that:

--The recession did not affect their tax base.

--Any effect the recession had on the city's revenue raising capacity has been negligible; if Fort Worth had experienced a recession, market values and sales tax receipts would have decreased rather than increased.

--Fiscal year 1977 tax revenue collections exceeded budget estimates and expenditures.

According to budget officials, Federal revenue sharing has the greatest impact on basic services in that these funds allowed property tax rates to remain constant and services to be maintained which otherwise may have been discontinued. Officials also said the relative lack of restrictions attached to revenue sharing funds enables city policy makers to allocate funds in terms of city-wide priorities.

Changes in expenditures

The city's tax supported expenditures are being matched by revenues which include Federal revenue sharing funds. Preliminary financial information for fiscal year 1977 shows that tax supported expenditures were about $72.7 million, up 6.5 percent over the previous year. The general fund tax supported fiscal year 1977 budgeted expenditures of $72.8 million were $4.6 million higher than the prior year actual expenditures of $68.2 million. Salary adjustments and increased health insurance benefits costs accounted for about $2.1 million of this increase. The 1978 budget of $81.3 million also provides for a general salary increase and other selective salary increases totaling over $4 million.

While the antirecession assistance payments were welcomed, Fort Worth budget officials said that the city would not have reduced services even if it had not received any antirecession assistance payments. These officials said that Fort Worth is in good financial condition because of good city management, reduction of unnecessary programs, and improved employee productivity.

Fort Worth budget officials said that the recession did not increase the demand for services and that the city did not cut any basic services because of the recession. The city deleted its residential street sweeping program and cut back on sweeping of downtown streets in fiscal year 1976 because these services were no longer considered essential. However, the city renewed residential street sweeping in the fiscal year 1978 budget. Fort Worth has not experienced any additional administrative burdens for social programs because it is not responsible for providing welfare services or for servicing unemployment compensation claims.

Inflation has had greater impact on city expenditures than has the recession. Fort Worth budget officials said that increased salary costs due to inflation are significant because most city services are labor intensive. Also, large operating costs for gasoline and utility expenses have increased faster than the general inflation rate.

Fort Worth has not relinquished authority to county or other governments for providing services due to funding shortages. Conversely, the city has increased the support it provides for civil defense and library services while the county has decreased its percentage.

Changes in employment

The Fort Worth budget excludes employee positions paid with Comprehensive Employment and Training Act (CETA) funds and other grant funds. For fiscal years 1974 through 1978, the budgeted positions have remained at about 4,100 full-time equivalent employees. A personnel official said that total city employment varies depending on the availability of grant funds. In October 1975, the city reported about 4,500 employees in full-time and part-time employment. In October 1977, the city had about 4,760 employees--4,220 regular employees and 540 CETA employees. Changes in public employment were due to:

--productivity improvements,

--changing priorities in services to be provided,

--changing staffing requirements for given services, and

--changes in CETA and other grant programs.

The Fort Worth budget director said that there have been no decreases or layoffs in employment attributable to the recession. The street sweeping reduction resulted from changing priorities.

Status of city indebtedness

The fiscal 1976 year-end long-term debt, including principal and interest, for all Fort Worth funds was about $270.8 million. The increase in the city's long-term debt resulted primarily from general obligation bonds sold in January 1977 for street improvements, fire protection, library improvements, a sanitary sewer system, and a sewage disposal plant. Water and sewer revenue bonds sold also increased city indebtedness.

Fort Worth general obligation bonds still have the same high quality ratings they have carried for the past several years. The October 1977 ratings were Aa by Moody's Investor Service, Inc., the same as in January 1978. The city does not use long-term debt funds for current operating expenses or for short-term financing. It has used borrowed funds to repay other borrowed funds when it was advantageous to the city to reduce long-term interest costs.

Capital projects

The city treasurer said capital projects were not delayed during fiscal year 1977, and he estimates funds will be adequate to finance projects planned for 1978. At the end of fiscal year 1976, Fort Worth had about $9.6 million in the capital project fund. The city supplemented this balance in January 1977 with a $28.4 million bond sale. The fund balance for September 30, 1977, however, was not available at the time of our review, but the budget director said that Fort Worth had about $38.3 million in unissued bond authorizations available for future capital projects. The city plans to hold another bond referendum in 1978 to insure a continuing capital projects program.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

According to the Fort Worth budget director, three factors which have contributed significantly to the city's excellent fiscal health are

--a strong local economy,

--area growth and development (broader tax base), and

--new businesses (more sales and, therefore, more sales taxes).

The budget director also attributes the city's strong financial position to a well-balanced program of municipal services, fiscal restraint, and effective administration.

The budget director said that the State constitution and statutes, the city charter, and the will of the people are significant factors affecting Fort Worth's revenue-raising capacity. However, he did not identify any one factor as being more significant than the other.

Inflation is the overriding factor affecting Fort Worth's expenditures, according to the budget director. Specific items which inflation has impacted significantly include salaries, equipment costs, and water purification costs. Likewise, much of the city's operating costs are for gasoline and utilities both of which have increased faster than the general inflation rate.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

Fort Worth received $354,521 in antirecession assistance payments through October 31, 1977. The funds were received in two payments on November 22, 1976, and January 10, 1977, for three quarters--July 1976 through March 1977. These funds had a minimal impact on a tax supported budget of about $72.8 million, and were not used specifically to fund employee positions but to fund basic services.

The city council appropriated $198,605 of the antirecession funds in January 1977 to cover police department reorganization which was implemented after the budget had been adopted. The city council appropriated the remaining $155,916 of antirecession funds in May 1977 to maintain the the city's vehicular fleet during a period of escalating maintenance and fuel costs. The availability and use of antirecession funds for these budget adjustments contributed to the increase in the year-end fund balances.

The appropriation of the antirecession funds by the city council was authority for the finance office to disburse the funds into revenue accounts. The funds were transferred to revenue accounts and thereby disbursed within 6 months after receipt. The city disburses funds from its accounts to pay operating expenses without identifying the source of revenue as being from sales taxes, property taxes, rental fees, or antirecession funds.

HONOLULU, HAWAII

The City and County of Honolulu encompasses the entire 593-square mile island of Oahu, one of seven major islands in the Hawaiian chain. With about 720,000 inhabitants, Honolulu accounts for over 80 percent of the State population and is the State center of trade, finance, agriculture, and manufacturing and is a communications and transportation hub for the Pacific area.

The City and County of Honolulu is a single government unit with a strong mayor-council form of government. The mayor is elected and has full authority and responsibility for administering the executive agencies. A nine-member council elected from nine districts comprises Honolulu's legislative body.

The State has responsibility for several costly functions usually performed by local governments. These include health, education, welfare, unemployment, and judicial functions as well as the operation and maintenance of airports and harbors. Honolulu principally provides police and fire protection, public transportation service, parks and recreation activities, and public works functions.

Overall, Hawaii's economy was slowed by the 1974-75 recession, particularly in the tourist and construction industries. Although tourism has made a recovery, the construction industry remains a troubled area. Honolulu's position as the State capital and largest city has dampened the recession's impact. It has a highly diversified economy with principal employment provided by tourism, agriculture, defense, commerce and manufacturing, construction, research and development, transportation, and government. Honolulu's per capita income, at $6,886 in 1975, was 18.1 percent above the national average and 3.4 percent above the State average.

FINANCIAL CONDITION REMAINS STRONG DESPITE OPERATING FUND DEFICIT

Honolulu officials believe that despite certain uncontrollable factors which have adversely affected revenues and expenditures during the last 2 years, the city's financial condition remains strong.

In fiscal year 1977, as a result of State legislative actions, Honolulu's real property tax fell by 3 percent from $119.9 million to $116.3 million. This decrease was offset by revenue gains from other sources, particularly intergovernmental funds. Overall, fiscal year 1977 revenues increased

5.9 percent from $216.4 million to $229.1 million. However, operating expenditures, spurred by inflation, rose about 10 percent and a $5 million operating funds deficit was incurred. The city intends to eliminate this deficit in 1978 through antirecession funds and increased general revenue sharing receipts. Despite these changes, Honolulu has maintained basic service levels and slightly increased public employment without raising tax rates.

<u>Shortfall in tax revenues offset by other revenues</u>

Honolulu's main revenue source is the real property tax. The State has responsibility for assessment and collection, and the city establishes the rates necessary to meet operating and capital improvement budgets. In fiscal year 1976, the State legislature passed three laws which adversely affected property tax revenues. One law reduced the assessment ratio from 70 percent to 60 percent. Another law increased homeowners' exemptions by 50 percent. The director of finance informed us that a third law increased public visibility over property taxes by requiring the State to certify the rate which would generate the same amount as the previous year.

Because of these changes and an overestimated property valuation, Honolulu had about a $14 million shortfall from the originally budgeted property tax assessment for fiscal year 1977. To compensate, the city appropriated sewer use charges and Federal grant revenues not originally budgeted and substituted bond funding for a portion of the capital improvement program that was funded with current revenues.

Revenues from Honolulu's other major taxes, (fuel and public utility franchise) increased moderately in fiscal year 1977. Service charges increased more than 100 percent, or nearly $5 million, because of a new sewer use charge established in accordance with the Federal Water Pollution Control Act. Overall, Honolulu's revenue from its own sources remained at $164 million--the same level as in fiscal year 1976.

Intergovernmental revenues increased by $12 million in fiscal year 1977 to $64 million, or 28 percent of total revenues. Nearly all of the increase was due to Federal grant receipts rising from $43.8 million to $55.7 million.

Honolulu's fiscal year 1978 budget projects a $20 million increase from its own revenue sources, primarily from property taxes and sewer use charges. As of October 1977, the city was achieving its major revenue estimates.

Expenditures impacted by inflation

Operating expenditures in fiscal year 1977 increased ($191.4 million to $210.4 million) largely due to collective bargaining provisions which cost about $12 million and affected every department. Current fiscal year operating expenditures are budgeted at $226 million.

Normal levels of basic services have been maintained. Public employment levels increased slightly from fiscal year 1976, primarily in the public works and fire departments. According to officials, no recession-related increase in administrative cost or demand for public services was experienced. Additionally, Honolulu has neither assumed nor relinquished responsibility for providing any services.

To meet increased operating budget requirements without raising property taxes, current revenue funding of the capital improvement program was reduced. This, however, did not result in a delay or cancellation of capital improvement projects in fiscal years 1977 and 1978.

General fund deficit results from State action and shortfall in revenues

Honolulu's general fund recorded a deficit of $12.3 million in fiscal year 1977, reducing the total balance of operating funds from a $4.3 million surplus to a $5 million deficit. The deficit was mostly due to a State law. The city repaid $10 million in bond anticipation notes with interfund borrowings instead of proceeds from new bonds which could not be issued because of the State laws. The deficit is also attributed to a $2.3 million shortfall in revenues largely due to increasing property tax delinquencies and appeals in escrow. According to the budget director, the general fund deficit will be brought to a zero balance in fiscal year 1978 because of anticipated antirecession payments and additional revenue sharing funds.

Borrowing capacity conserved for high priority projects

Total long-term debt increased from $213 million on June 30, 1976, to $226.3 million on June 30, 1977. Moody's Investor Service, Inc. rated the city's bonds Aa in January 1978, unchanged from the prior year.

According to the budget director, the city has relied heavily on current revenues for its capital improvement program to conserve borrowing capacity for its highest priority projects--sewage treatment plants and a fixed guideway rapid transit system. However, the current budget requires all operating revenues to meet operating expenditures. Federal community development block grants are the only significant current revenues included in the capital improvement budget. During 1978, Honolulu plans to issue $47 million of bonds including $12 million for its Board of Water Supply.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

Officials informed us that inflation has been the single most important factor affecting the city's fiscal health during the last two fiscal years. Changes in Federal grants-in-aid have also impacted but to a lesser degree.

Officials believe the city's revenue-raising capacity is affected most by State legislative actions. The State controls the assessment and collection of real property taxes and must authorize any expansion of property taxing powers. Revenue-raising capacity is also affected to a lesser extent by the large number of Federal- and State-owned tax exempt properties, and the recent slowdown in construction activity.

In order of significance, inflation, and Federal and State-mandated services have affected expenditure levels over the last 2 years. Demand for all public services has increased with population growth, but no specific services have shown a higher than normal demand.

Officials are concerned about next fiscal year's budget projections because projected revenues are less than anticipated expenditures. They said that the projected increase in property tax revenues will not cover negotiated wage increases, which are only a portion of the annual expenditure increases.

According to the officials, although Honolulu has the option of raising tax rates, this is not a practical alternative because Hawaii's per capita tax burden is already very high. Honolulu has attempted to reduce its dependence on the real property tax. In 1977, two bills were submitted to the State legislature, one for an 8 percent hotel room tax and another for an optional sales tax of up to 1 percent. Both were rejected, and according to officials, will be resubmitted in 1978.

STATUS, USE, AND IMPACT OF ANTIRECESSION ASSISTANCE

Honolulu received $4,265,226 in antirecession assistance for the program's first five quarters. As of October 31, 1977, all of the funds were appropriated.

Antirecession assistance used to pay salaries

During fiscal year 1977, Honolulu disbursed $3 million of antirecession funds for across-the-board police department wage increases, not originally budgeted. In the current operating year, another $2 million of antirecession funds was appropriated for police salaries. The budget director said an additional $2 million of anticipated antirecession funds will be appropriated for the same purpose by June 30, 1978.

According to officials, since antirecession funds were used to pay across-the-board wage increases in fiscal year 1977, they did not fund specific positions. The officials said that in fiscal year 1978 antirecession assistance provided funding for 120 full-time employees already on city rolls when the funds were received.

Antirecession assistance offsets effects of inflation enabling Honolulu to maintain basic service levels

In fiscal year 1977, antirecession assistance enabled the city to increase the authorized expenditure level required by collective bargaining agreements. In the current operating year, antirecession funds were appropriated to help offset the difference between revenues and expenditures.

Officials stated that if antirecession assistance were not available during the current operating year, Honolulu would have been forced to reduce current levels of service, probably in the police, fire, public works, and parks and recreation departments. They believed that the program should be continued so that a cutback in basic services will not have to be made in future years.

Officials believe that antirecession assistance has had a significant impact on Honolulu's ability to maintain basic services. They said that the funds have helped the city meet increasing operating expenditures without raising taxes or reducing levels of service.

LOS ANGELES, CALIFORNIA

Los Angeles, with a 1975 population of 2,727,399, is the largest city in California and the third largest in the United States. It covers approximately 464 square miles.

The Los Angeles area is the West's leading industrial center, surpassed among U.S. cities only by New York and Chicago. Over one-half of California's manufacturing activities are located in this region. Los Angeles' harbor leads the Pacific Coast in the number of ships serviced and tonnage shipped.

Los Angeles is governed by a 15-member city council and a mayor, each elected on a non-partisan basis for 4-year terms. The controller and the city attorney are also elected officials. Los Angeles does not have a city manager, although the City Administrative Officer (CAO) the chief financial and administrative official, fills that role to some extent. He reports to both the mayor and the council. The structure of the city government includes 43 separate departments, offices, and bureaus.

The responsibility for providing governmental services to city residents is divided among the city, State, county, special districts, and private sources.

The city provides fire and police protection, sanitation and sewerage, and street maintenance. Services such as water and power, harbor, and airport are provided by self-supporting departments.

The county provides public assistance and welfare services, with costs being shared by the county, State, and Federal governments.

FINANCIAL CONDITION IS VERY HEALTHY

The financial condition of Los Angeles for fiscal year 1977 and the current 1978 fiscal year was healthy. This could be demonstrated in a variety of ways including: uncommitted surplus in the reserve fund, less than 10 percent of authorized debt limit being used, highest quality bond ratings, absence of short-term debt, and balanced budgets.

While the city's financial condition was healthy in our February 1977 review, the current financial condition is even better. For example, 10.6 percent of the authorized debt limit was being used on June 30, 1976, compared to a projected 6.7 percent at June 30, 1978. Also, the uncommitted surplus increased from $34.4 million in fiscal year 1976 to $37.5 million in fiscal year 1977.

Growth in revenues exceed expenditures

General operating expenditures grew 6 percent in fiscal year 1977 while revenues increased about 7 percent for the same period. Expenditures are expected to increase about 8.5 percent in fiscal year 1978 while revenues for the same period are projected to rise about 10 percent.

City officials attributed the expenditure and revenue growth primarily to inflation. The increase in revenues over expenditures positively affected the city's financial condition, as the Reserve Fund, which is a significant measure of the city's fiscal health, was up $3.1 million in fiscal year 1977.

Revenue outlook good

Fiscal year 1976 was a year of economic recovery for the city, and revenues exceeded expectations. Consumer-generated revenue was a large component of the increase. The economic recovery continued throughout fiscal year 1977 as revenue exceeded projections in some categories but at a slower pace. Consumer spending for durable goods and the vigorous building activity contributed significantly to maintaining the recovery.

Revenue from own sources

While revenue from the city's own sources was up about 8 percent over 1976, fiscal year 1977 actual revenue was down slightly (about 2.2 percent) from budgeted estimates. This resulted primarily because of a property tax rate reduction and less than expected sewer construction receipts. The city's economic recovery is continuing in fiscal year 1978 as revenues from own sources are expected to be up about 6.6 percent over 1977, primarily because of property tax assessment increases.

Property, sales, business, and utility use taxes are the major taxes levied by the city to meet municipal requirements. These taxes contributed approximately 59 percent of the city's revenues during fiscal years 1976 and 1977 and are projected to contribute about the same percentage in fiscal year 1978.

Property tax is the city's primary revenue source for municipal operations. Property tax receipts increased $20.6 million or 8 percent in fiscal year 1977--in spite of a reduction of 9.6 percent in the rate--and are expected to increase 11.8 percent in fiscal year 1978. The increase in 1977 was caused by a 16.2 percent increase in the assessed valuation. The 1978 increase will result from an anticipated new tax levy for the Police Department, and a 9.1 percent increase in assessed valuations. Actual property tax receipts were down about 5 percent from budgeted in fiscal year 1977 because of the previously mentioned rate reduction.

The sales tax, the second largest revenue source for the city, is a 1 percent tax on the gross receipts of all tangible personal property sold within the city. Actual sales tax receipts rose 8.7 percent in fiscal year 1977 over 1976 and are projected to grow about 2.1 percent in fiscal year 1978. The increase in fiscal year 1977 was attributed to greater durable goods sales. The city achieved its budget estimates in fiscal year 1977.

A business tax is imposed on profit-seeking enterprises operating within the city. Actual business tax receipts rose 9.7 percent in fiscal year 1977 and are projected to grow about 3 percent in fiscal year 1978. Officials attributed the increase to greater business activity as a result of the improving economic condition. Receipts were 2.5 percent higher than budgeted in fiscal year 1977.

A utility user's tax is imposed on various utilities. Actual receipts were up 10.5 percent in fiscal year 1977 and are projected to rise about 2 percent in fiscal year 1978. The fiscal year 1977 growth was attributed to rate increases primarily for electricity to compensate for higher operating costs. According to officials, inflation is a significant factor in higher utility costs. Actual receipts exceeded budget estimates by about 4 percent in fiscal year 1977.

The city obtained additional revenues from charges and miscellaneous items, such as building permits, licenses, fines, etc. These receipts rose about 3.4 percent in fiscal year 1977 and are projected to increase 5.1 percent in 1978. The 1977 increase was normal and could be attributed to economic recovery. The receipts were down about 6 percent from budgeted in fiscal year 1977, primarily because sewer construction and maintenance projects of $20.8 million were not started. The 1978 increase is due to the scheduling of an additional $11.4 million for sewer construction projects.

The deputy controller told us that for the current fiscal year, the city is achieving revenue estimates. The controller's report of revenue estimates as of fiscal year 1978's first quarter showed that $179.1 million had been received which was about $1 million more than expected.

Intergovernmental revenues

While actual intergovernmental revenue was up slightly (about 4 percent) in fiscal year 1977 over 1976, it was down about 8 percent from budgeted. The budget estimate included $38.6 million for the community development trust fund receipts, but only $19.4 million was actually received. About 50 percent ($19.2 million) of the budget estimate was not required because some planned programs were not started by the city. The fiscal year 1978 budget estimate for intergovernmental revenue is up about 22 percent over actual 1977 primarily because receipts for the community development trust fund are projected to increase by about $29.4 million for new projects and those not started in the prior year.

Changes in expenditures

Actual general expenditures increased about 6 percent in fiscal year 1977 but were down 2.5 percent from budgeted. Expenditures are expected to increase about 8.5 percent in 1978. A CAO representative told us that the 6 percent increase in fiscal year 1977 was less than normal. Salary and fringe benefit adjustments were primarily responsible for the increase.

Fiscal year 1977 actual expenditures were down slightly (about 2.5 percent) from budgeted. The decrease was attributed primarily to a $19.8 million reduction in planned expenditures from the community development trust fund because as stated previously, some programs were not started.

The 1978 increase was attributed primarily to projected increases in the community development trust fund because the city plans to start more programs, and a 14.2 percent increase in the employees' retirement actuarial rate and salary and fringe benefit adjustments.

Changes in fund balances and indebtedness reflect healthy financial condition

The city has several different funds in its treasury. At the end of fiscal year 1977, these funds showed an increase of $7.4 million over 1976. The reserve fund, however, is a good measure of the city's financial condition because it represents the cumulative surplus of the general budget fund and plays a critical role in the budget process. For example, the reserve fund is used to help balance the budget; provides working capital to help finance the budget through slack revenue periods until property taxes, sales taxes, and other revenues are received; finances unforeseen interim appropriation requirements; and provides a cushion in case revenue estimates made some 15 months before the close of the fiscal year are not achieved. The following schedule shows the uncommitted reserve fund balance at June 30, 1976 and 1977.

	1976	1977
	(in millions)	
Balance	$50.2	$55.2
Less:		
Capital improvements	1.4	1.1
Interest earnings payable	--	--
City-wide projects	--	--
Additional employee salaries and benefits	--	--
Budget appropriation	14.4	16.6
Total liabilities	$15.8	$17.7
Reserve fund (uncommitted balances	$34.4	$37.5

Indebtedness declining

At June 30, 1977, the city has a general obligation bond debt limit of $1.7 billion which was expected to increase to $1.8 billion by June 30, 1978. Actual debt subject to the limit was $135.8 million or 8.2 percent of the debt limit in fiscal year 1977 and was expected to decrease to $121.7 million or 6.7 percent in fiscal year 1978. No new bonds were issued in 1977, and none were planned for fiscal year 1978.

The general obligation bonds are rated Aaa (best quality) by Moody's Investor Service, Inc. This high bond rating reflects the city's healthy financial condition.

The CAO officials believed that leasehold mortgage bonds totaling $129.8 million and unfunded liabilities of $1,540.6 million and $465.4 million for the pension and retirement systems, respectively, should be mentioned as part of the city's indebtedness.

Delay/start of capital projects

Actual fiscal year 1977 capital improvement projects were up about $3.3 million or 6.6 percent over 1976. While this change was not significant, the actual expenditures during 1977 did not meet budget expectations. Actual expenditures were down 29.2 percent or $21.8 million from budgeted during the year, primarily because seven capital projects totaling $17.5 million were delayed; but a CAO official said the delay did not reflect a weakness in the city's financial condition. He said that the projects delayed were of low priority including vehicle repair, animal shelter, and street maintenance facilities. The official felt that being able to delay these projects for 1 or 2 years and using the funds for other functions shows resiliency in the city's financial condition.

These project funds were used for other city functions, which minimized the need to increase property taxes. The city had projected an increase of about $18.4 million in fiscal year 1978 capital expenditures over those of 1977. No project delays were expected in 1978.

The city's Capital Projects Five Year Municipal Facilities Program showed that new projects totaling $27.6 million were started in fiscal year 1977 and $80.1 million of new projects are planned to begin in fiscal year 1978. City funds required for the projects started in 1977 totalled $8.8 million and for those planned in 1978 about $34.7 million. The balance of funds required for these projects were anticipated from other sources, primarily the Federal Government.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

A CAO official told us that the city's inability to find new revenue sources to meet continually increasing expenditures has been a long-term problem. Because the city operates on a balanced budget concept, the official foresees basic services being cut in the future to reduce expenditures. He also believes inflation, potential restrictive State legislation on property taxes, and a lower population growth rate will affect the city's fiscal health. The official could not say when the basic service cuts might actually occur. His views, however, are not supported by the city's current financial condition. Revenues exceeded expenditures in fiscal year 1977 and are projected to do the same in fiscal year 1978. Our prior review showed that revenues also exceeded expenditures during fiscal years 1972 - 1975.

Significant factors affecting revenue-raising capacity

Another CAO representative said the most significant factor affecting the city's revenue-raising capacity is State legislation (prior to 1976) limiting the government's taxing capacity including: legislation precluding local governments from imposing an income tax; a State court ruling that the city cannot tax alcoholic beverages; and State restrictions on the city's sales tax rate.

According to a CAO official, the State has not yet taken action limiting the amount of property taxes the city can levy or retain. The official said, however, that several proposals in the State legislature would have significant adverse impact on the city's property tax revenue, if passed.

Expenditures significantly affected by inflation

Several officials believe inflation has affected municipal operations more than the recession. According to the mayor's proposed budgets for fiscal years 1976 and 1978, inflation continued to plague the budget-making process.

A CAO official said that inflation had increased the city's operating costs, especially for salaries, fringe benefits, supplies, and equipment. Salary and fringe benefit adjustments for 1978 were $41.1 million. According to the mayor's proposed budget, the inflation rate for the 12-month period ending in February 1977 was 6.7 percent.

Changes in the demand and administrative costs for services not significant

A CAO official believed the demand for services did not rise significantly in fiscal years 1976 and 1977 and said they are not projected to increase very much in fiscal year 1978. The demand for social services did increase but was probably due to the availability of Federal programs, such as the community development block grants.

He also said that the recession did not create additional administrative burdens. According to him, those services that might affect the administrative function more during a recession, such as greater welfare applications or unemployment insurance claims, are State and county functions. The official said there might have been minor increases in administrative expense due to increased cost for social programs.

Changes in tax rate

The property tax rate, which is composed of several levies, decreased by 9.6 percent in fiscal year 1977. The decrease resulted primarily from reduced rates for general government and fire and police pensions, but other levies also declined except for employees' retirement which rose slightly. The total property tax rate is projected to increase slightly (about 3.5 percent) in fiscal year 1978 because of a new levy of about $.10 for the Police Department.

According to the deputy controller, the 1977 overall property tax rate decreased primarily by a reduction in the rates for: general government (8.5 percent) caused by a $14.5 million transfer from the reserve fund to the general fund; and fire and police pensions (10.2 percent) because of a 16.2 percent increase in the assessed property valuation. The higher property values caused significant reductions in the rates for other property tax elements.

While the overall tax rate increased slightly in fiscal year 1978, the deputy controller did not think the increase was significant because the change in the overall rate was caused by the new levy for the Police Department which is a 4-year tax override to raise about $38.9 million. These funds can only be expended for construction of emergency command control communication systems already in progress. The Fire Department levy was added in fiscal year 1976. It is a 10-year tax override exclusively for completion of Fire Department projects such as stations, purchase of equipment, etc. Individually, these two new levies might not be considered significant, but combined they add almost 14 cents for each $100 of assessed valuation.

The city charter sets a maximum property tax rate of $1.275 per $100 of assessed valuation for general government purposes. The tax levy required for bond redemption and interest or for the pension and retirement systems is unlimited. However, beginning with fiscal year 1970, the State, after exempting household furnishings and personal effects from property taxes, enabled cities to increase their tax rates by 2 percent to recover the lost revenue. Therefore, Los Angeles was able to increase its maximum rate from the $1.25 charter limitation to $1.275 on each $100 of assessed valuation. In addition, beginning with fiscal year 1974, the State permitted each city to levy either its normal maximum property tax rate (1.275 for Los Angeles) or an optional maximum property tax rate based on annual changes in population, consumer price index, and the assessed valuations. A CAO official said no major changes occurred in fiscal year 1977 that affected the statutory limitations of major taxes and no changes are planned for 1978.

The city has some margin to increase property tax revenues by using the optional maximum rate limit. Based on the city's total assessed valuation of $12 billion for fiscal year 1978, the optional maximum rate would result in an increased levy of about $4.5 million. In fiscal years 1976 and 1978, the city used the optional method but did not use the maximum rate allowable.

The Assistant Chief, Tax and Permit Division, told us that there were no major changes in the rates for sales, business, and utility users' tax in fiscal years 1976 and 1977 and none are planned for fiscal year 1978.

While there is no legal limitation on the general sales tax rate that the city can levy, the State places certain restrictions that control the city's rate. The State collects and administers the tax. If the city's rate becomes higher than 1 percent, the State would place the burden of administration and collection upon the city. An official told us that under State law, the 1 percent which the city now receives would be given to Los Angeles County.

A tax official said the city's business tax rates have no limits. These taxes are set by city ordinance and administered by the city clerk.

Basic services not affected

CAO officials told us that there was very little, if any, change in the normal basic service levels provided, such as police and fire protection, sewerage and sanitation, etc., during fiscal years 1976 and 1977, and none are anticipated in fiscal year 1978. Cuts were made in the sidewalk repair program during the recessionary period, but antirecession assistance was used to partially restore the funds in fiscal years 1977 and 1978.

Changes in public employment

A comparison of the city's full-time and Comprehensive Employment and Training Act (CETA) employees at the end of fiscal year 1976 and 1977 and projected for 1978 follows.

	Full-time	CETA	Total
June 30, 1976	38,135	3,039	41,174
June 30, 1977	37,877	2,444	40,321
June 30, 1978	38,000	5,150	43,150

A personnel official said the projected increase in full-time employees in fiscal year 1978 was not significantly abnormal. The number of CETA employees for the same period significantly changed and are projected to increase 2,706 or over 110 percent in fiscal year 1978. A personnel official attributed the CETA employment growth to increased program funding. The city received a $106.9 million CETA grant for fiscal year 1978 as compared to $48.3 million for fiscal year 1977. The official said that except for the CETA increase there was no significant change in the city's employment level during fiscal year 1977, and none are projected for fiscal year 1978.

The city laid off 1,165 people in fiscal year 1976 as compared to 772 in fiscal year 1977. A personnel official said the number of layoffs was normal and consisted primarily of summer hires and budget reductions. The official said that the fewer layoffs in fiscal year 1977 was due to a "layoff-avoidance campaign" to retain as many people as possible by filling various city vacancies. The official projected layoffs of about 1,000 in fiscal year 1978 and indicated that this number was not considered significant. The official also said that the layoffs did not affect basic services in fiscal years 1976 and 1977, and no effect is expected in fiscal year 1978.

Long-term problems

One CAO official believed revenue beyond the city's current taxing authority will be needed to meet expenditures at some time in the future. He said the city is developing a five-year fiscal forecast of revenues and expenditures, but it is far from complete.

The city's current position relative to its borrowing capacity is very strong; outstanding debt at the end of fiscal year 1978 was expected to equal only 6.7 percent of its legal capacity.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

As of October 31, 1977, the city had received $16,592,542 in antirecession assistance payments for the first five quarters and $413,064 in interest.

The sixth quarter payment of $4,345,439 was received on October 11, 1977, at which time, $503,181 had been appropriated. A CAO official told us that the balance of the sixth quarter payment would be appropriated within the 6-month deadline.

The city council's finance committee had approved a plan for use of the balance of the sixth quarter payment. The CAO and finance committee, respectively, recommended that $12,193,758 and $96,000 be appropriated for salary increases and a youth program in fiscal year 1978. A recommendation for salary increases was approved by the city council on December 15, 1977. The city council also appropriated $282,500 of assistance payments to continue senior citizen transportation programs through December 31, 1978. These recommendations, if approved by the Mayor, will require the use of the balance of the sixth quarter payment, estimated receipts for the seventh and eighth quarter payments, and the estimated interest.

As of October 31, 1977, the various city departments receiving antirecession funds reported expenditures and obligations of $4,898,308 of the total amount appropriated for the first five quarterly payments. The unobligated balance of $12,610,479 reportedly will be spent by June 30, 1978.

Based on city requirements, each department receiving antirecession assistance payments has established systems to account for the funds received and expended. The departments have set up specific accounts based on approved appropriations whereby expenditures can be identified as being paid with antirecession funds at the time of disbursement, based on documents maintained by the departments.

A CAO official told us that the $3.89 million of antirecession payments, that was appropriated for the Bureau of Sanitation in the fiscal year 1978 budget, was to be expended on a first-in-first-out method whereby initital expenditures up to $3.89 million would be changed to assistance payments. Using this method, this amount would have been spent by about August 19, 1977.

Antirecession funds were appropriated to the Bureau of Sanitation general budget with no indication of specific use.

A CAO official told us that he would instruct the Bureau to use the funds for salaries and to set up an account so the amount expended from assistance payments can be determined.

Functional use of payments

As of October 31, 1977, the city had appropriated $17,508,787 of the antirecession assistance payments for the functions listed below.

Function	Amount	Percent
Highways and streets	$ 4,157,502	23.75
Sanitation other than sewerage	4,149,458	23.70
Tree trimming	4,000,000	22.84
General public buildings	1,980,000	11.31
Sidewalk repair	1,500,000	8.57
Senior citizen transportation	714,542	4.08
Senior citizen multi-purpose centers	521,316	2.98
General control	216,000	1.23
Parks and recreation	120,000	.69
Fire protection	97,988	.56
Financial administration	31,981	.18
Summer youth transportation	20,000	.11
Totals	$17,508,787 a/	100.00

a/Includes $503,181 from the sixth quarter payment that could not be separately identified. Also, includes interest through September 30, 1977, of $413,064.

With the exception of $1,874,400 classified as capital outlay, mostly for public buildings, the monies listed above are for operation and maintanence expenses.

Use by object class

The antirecession assistance funds were expended and appropriated for the following categories.

	Amount		
	Expended	Appropriated but not spent	Total
Salaries and wages	$1,699,688 a/	$ 4,249,393	$ 5,949,081
Supplies and equipment	799,587	1,919,313	2,718,900
Repairs and maintenance	1,065,054 b/	3,619,748	4,684,802
Capital construction/ improvements	101,775	1,772,625	1,874,400
Contractual services - programs for the elderly	645,789	590,069	1,235,858
Summer youth transportation	20,000	- 0 -	20,000
Indirect (support) cost	566,415	459,331	1,025,746
Totals	$4,898,308	$12,610,479c/	$17,508,787d/

a/Includes $382,380 for fringe benefits.
b/Street and sidewalk repairs and tree trimming.
c/Includes estimated expenditures for October of $65,562, and obligations of $591,615
d/Includes $503,181 from the sixth quarter payment.

A CAO official told us that antirecession assistance was being used for functions that were not in the budget. The final budget for fiscal year 1977 was adopted by the council on June 16, 1976, prior to receipt of any assistance payments (first payment received on November 19, 1976). Interim appropriations of $9.8 million from antirecession payments were made in March 1977 for some functions such as tree trimming and sidewalk repair which, according to the official, probably would not have been funded in fiscal year 1977.

The adopted budget for fiscal year 1978 included appropriations of $3,890,596 from antirecession assistance payments for the Public Works Department - Bureau of Sanitation. The amount consisted of the fourth quarter payment ($3,184,038), anticipated receipts for the fifth quarter payment ($606,558), and estimated interest ($100,000).

While appropriation of assistance payments in fiscal year 1978 did not replace something that had already been budgeted, a CAO official told us that the $3.89 million would have been financed from the reserve fund or an increase in the property tax rate or a combination of the two.

Use for public service positions

The appropriated antirecession payments will fund an estimated 215 a/ full-time public service positions. As of October 31, 1978, 106 positions were actually funded, only 18 of which were new hires. The remaining 88 positions were rehires in the Bureau of Street Maintenance layoff avoidance program. The employees for these positions; both new and rehires, were (or will be) added or retained with the understanding that they will not become city-financed employees (i.e., paid from city taxes) when antirecession payments run out.

The layoff avoidance positions being funded with antirecession payments occurred because of a program to make the Bureau of Street Maintenance more cost effective. As a result of a March 1977 study, many positions were scheduled to be eliminated in fiscal year 1978. The Public Works Department was trying to find positions in other departments to retain some of the positions being cut. All positions could not be retained, however, and many of the people would have been laid off had it not been for antirecession payments. These people will be laid off when assistance payments run out, unless other positions in the city are found.

Views of officials on impact of antirecession payments on budgetary actions

A CAO official told us that antirecession assistance did not have any impact on the fiscal year 1977 budget. The budget was adopted before antirecession funds were received. The fiscal year 1978 budget included $3,890,596 of assistance payments.

The official said that the payments did increase expenditures significantly in fiscal year 1977 and 1978. The increases were interim appropriations made after adoption of the final budget.

He said that although city employment did not increase significantly as a result of assistance payments, many jobs

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a/This figure does not include the partial funding of positions in the Bureau of Santitation for fiscal year 1978. We could not determine the number of positions funded because city records do not show this data.

were created in the private sector. The payments enabled the city to retain some public service positions.

The official said that antirecession payments did not affect the tax rate in fiscal year 1977. He explained, however, that although it is hard to quantify, the payments may have contributed to a minor reduction (2 cents on each $100 of assessed valuation) in the fiscal year 1978 tax rate. The city finance committee believes that assistance payments will provide for a reduction in future taxes.

The payments will allow the city to reduce backlogs in street repairs and maintenance and tree trimming. Also, an official said that assistance payments enabled the city to fund elevator modifications and alterations and improvements in general public buildings which probably would have required reserve funds. In addition, the mayor noted that without the payments the city's senior citizen transportation program would have been terminated.

The CAO official reasoned that if antirecession assistance payments had not been available in both fiscal year 1977 and 1978, some of the funded projects such as sidewalk repair and tree trimming would have to be financed in some future budget. Other projects such as the elevator modifications had to be done either with reserve funds or a tax increase. Still other projects such as the senior citizen programs and tennis courts resurfacing would have probably been dropped. The official said that the $3.89 million of assistance payments used in the fiscal year 1978 budget would have been financed by a tax increase or the reserve fund or both.

In assessing the impact of antirecession payments for the current fiscal year (1978), several items must be considered. The city is still financing street repairs, and tree trimming with assistance payments which increases the expenditure levels because these projects would have been funded in some future budget; some projects such as elevator modifications had to be financed either with reserve funds or a tax increase. Also, $3,890,596 of assistance payments were used in the Bureau of Sanitation's budget in fiscal year 1978 for functions that would have been financed with city funds. Using antirecession payments to finance functions that would be funded with city funds tends to indicate that assistance payments are being used to increase or maintain surpluses or to avoid tax increases.

MIAMI, FLORIDA

Located on the lower east coast of Florida, Miami contains 34.3 square miles of land and 19.5 square miles of water. Miami's 344,000 population makes it the State's most populous city.

The combination of a favorable climate and excellent recreational opportunities make Miami an important tourist and retirement center. Trades, services, transportation industries, manufacturing, finance, construction, and government are the major activities.

Employment in the Miami area decreased from 608,300 in September 1974 to 569,800 in September 1976. All major industries except government experienced a decline in employment. During calendar year 1976, Miami's unemployment rate averaged 10.4 percent. Miami officials attribute most of the unemployment to depressed tourist and construction industries.

Miami's employment had risen to 658,100 in July 1977, and recent indicators point to a moderate recovery of the city's economy. The unemployment rate has fallen steadily from 12.3 percent in January 1976 to 6.7 percent in September 1977. The manufacturing industry has shown the greatest growth followed by recent increases in construction and tourism.

Miami has operated under a commission/city manager form of government since 1921. The city commission consists of five elected citizens--one serves as the mayor. The commission, as the city's governing body, passes ordinances, adopts regulations, and appoints the city manager. The city manager is the administrative head of the municipal government and is responsible for administering all city affairs. There are about 4,300 city employees, about 72 percent of whom are represented by five organized collective bargaining units.

Miami provides fourteen basic services to its citizens. About half of the city's fiscal year 1977 budget was dedicated to fire and police protection, sanitation, public works, and parks and recreation.

FINANCIAL CONDITION IS CRITICAL

Miami's city manager, in his 1978 budget message to the city commission, said that the city's financial condition "is in a state of crisis." From fiscal year 1975 to fiscal year 1977, annual expenditures have exceeded revenues. Because revenue deficiencies were offset by prior year fund balances, overall fund balances have dropped to dangerously low levels. Miami's general fund balance has fallen from a $4.3 million surplus in fiscal year 1974 to a $0.6 million deficit in fiscal year 1976. Although city officials estimate a $1 million general fund surplus for fiscal year 1977, this resulted from a transfer from other funds to the general fund, and not because operating revenues exceeded operating expenditures.

The following table shows that the city has had an operating revenue deficit since 1976.

Fiscal year (9/30 to 10/1)	Operating Expenditures	Operating Revenues	Operating Revenue deficiency
		(million)	
1976	$ 101.0	$ 89.0	$ 12.0
1977	$ 106.4	$ 99.6	$ 6.8
1978 1/	$ 115.7	$ 110.0	$ 5.7

1/City projections

In 1978 the city is taxing at the maximum legal property tax, yet revenues will still not meet expenditures. The city faces service and/or employment reductions in 1978. Through fiscal year 1977, the city was not forced to reduce basic services or relinquish them to another government because of its poor financial condition.

Revenues from own sources increase substantially

In fiscal year 1977, Miami's total operating revenue was $99.6 million. About $73 million of this amount was generated from the city's own sources--compared to $72.7 million budgeted revenue from these sources. The two major sources of self-generated revenue were property taxes--$42.7 million--and utility taxes--$18.2 million.

Property tax revenues increased by 11.7 percent from 1976 to 1977 and are expected to increase by 14 percent in 1978. City officials attribute the higher revenues primarily to increases in the tax rate (property valuation assessments increased only modestly). They say, too, that property tax revenues would have been greater had tax delinquencies not increased from 5 percent in 1976 to 7.6 percent in 1977. Officials believe that a slump in the tourist trade caused real estate values to be depressed and tax delinquencies to increase. They also believe that a lull in new construction has adversely affected property tax revenues. Even though there has been a recent upturn in construction activity, tax revenues from new construction lag about 2 years because Florida law only allows taxation of new property which is "substantially complete."

Miami's public utility tax revenues increased from $15 million in 1976 to $18.2 million in 1977--a 22 percent increase. The city projects that these revenues will level off in 1978. The increase in 1977 revenues resulted from higher utility charges rather than from tax rate increases which are limited to 10 percent by Florida law.

Intergovernmental revenues

Revenues from Federal, State, and county governments made up 27 percent of Miami's total operating revenues in fiscal year 1977--essentially the same proportion as in fiscal year 1976. Increased State revenue sharing funds were responsible for most of an 8 percent rise in these revenues from 1976 to 1977. Increased Federal and State revenue sharing funds are expected to push intergovernmental revenues up 17.2 percent to $31.1 million in 1978. Miami officials explained that State funds have been increasing as a result of Florida's improving economy.

Expenditures continue to exceed revenues

Miami's expenditures have risen from $47.7 million in fiscal year 1972 to $106 million in fiscal year 1977. Expenditures increased by 5.3 percent from fiscal year 1976 to 1977. This increase was held down because the city postponed certain salary increases which it expects to pay retroactively in fiscal year 1978. The city projects expenditures to increase $9.3 million or 9 percent in 1978. About $6.6 million of this amount will be for salary increases and corresponding pension costs.

Indebtedness increases for capital projects

At the end of fiscal year 1978, Miami's long-term debt will total about $200 million, an increase of 18.4 percent since 1976. The legal debt limit for Miami is $582 million.

The increase in long-term debt is attributed to greater expenditures for capital projects. During fiscal year 1977 Miami spent about $22 million on various capital projects which included street improvements, sewers, parks, and the renovation of a city auditorium. In fiscal year 1978, Miami plans to spend $31.5 million on such capital projects as a new city administration building, fire protection facilities, street improvements, and a new convention and sports center.

City officials said that the city has experienced no problem in paying its debt because the special benefits and debt service property tax revenues are specifically dedicated to repaying long-term debt. There is no limit on these taxes but they must be approved by referendum. The city's bonds were rated A-1 by Moody's Investor Service, Inc., in January 1977 and January 1978.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

Miami's poor financial condition has caused increases in property taxes, increased dependency on CETA funds, and possible basic service reductions in coming years. Although revenues have been rising at a greater rate than expenditures since fiscal year 1976, overall expenditures have exceeded revenues since 1975. Deficiencies have been offset by fund balances, which are now at dangerously low levels, and by property tax rate increases in fiscal years 1976 and 1977. Fiscal year 1978 projections show this trend continuing, with expenditures again exceeding revenues, and officials said that available fund balances will not cover the 1978 deficit.

Tax rate hikes

In fiscal years 1976 and 1977, Miami increased millage rates from 8.57 to 8.62 and 9.59, respectively. In fiscal year 1978, the city raised property taxes to 10 mills, the limit permitted by Florida law. Miami's future property tax revenue increases are limited because property is already assessed at 100 percent value and the tax rate has reached its ceiling.

Miami officials said that the city's other own sources of revenues such as permits, rentals, and licensing are not significant enough, individually, to be feasible options to generate the revenues needed to offset the deficit. They also said that public resistance makes it impractical to consider increasing the charge for all these sources.

Miami's utility tax rate is limited by State law. Miami's revenue growth in future years then, is dependent upon continued construction activity, and higher property values. A key element seems to be renewed tourism growth which has been recovering sluggishly.

Increased dependency on CETA to fund salaries

Total city employment increased from 4,254 in September 1976 to 4,369 in September 1977. However, the following schedule shows that the number of city-funded employees decreased while the number of CETA-funded employees increased.

	Total city employees	CETA-funded employees	City-funded employees
Sept. 1975	3,667	513	3,154
Sept. 1976	4,254	626	3,628
Sept. 1977	4,369	819	3,550
Sept. 1978 (projected)	4,200	918	3,282

City officials attribute the increase in CETA-funded positions to the lack of operational funds to pay salaries. In fiscal year 1977, the police department added 18 positions, parks and recreation added 57 positions, and the other positions were spread throughout other departments. City officials said that even though these CETA positions were created, and most were filled, about the same number of positions were not filled as they became vacant. In addition, the sanitation department laid off 93 employees in February 1977, but the city had already planned to close incinerators which employed these workers. City officials said that these changes had very little effect on services provided.

In fiscal year 1978, the city plans to use CETA funds again to offset increased salaries.

Minimal effect on capital projects

City officials said that there is no significant relationship between the city's capital projects program and its overall financial condition. During fiscal year 1977, Miami spent about $22 million on capital projects. The majority of expenditures were made by the Public Works Department for such projects as street improvements, sewers, and parks. There were about 12 other projects originally planned that were delayed. However, city officials stated that none were delayed due to a lack of funds and that the delays did not adversely affect basic services. However, in fiscal year 1978, the city plans to redirect funds from parks projects to other less maintenance-oriented projects because of employee shortages.

In fiscal year 1977, the city, because of its financial condition, funded salary increases of $3.5 million from revenues reserved for capital projects. Also, in fiscal year 1978, the city plans to use capital funds of $3 million to pay salary increases.

Long-term problems

Miami officials believe that the city's poor financial condition could result in long-term problems. The director of finance said that if inflation is not curtailed, costs will continue to remain greater than revenues. In fiscal year 1979, the city projects that expenditures will again be greater than revenues. While expenditures continue to increase, the property tax rate is at its ceiling and real estate values are depressed. Fund balances will also remain at low levels. City officials believe that this financial condition will not only cause further reductions in employment, but it will also force the city to use capital funds for operations. In the long run, these two actions will cause reductions in basic services.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

Miami officials said that the city would be in worse financial condition if Federal assistance had not been available. Through five quarters, Miami received $4,129,338 in antirecession payments, all of which was appropriated for general operating expenses. The sixth quarter payment for $899,235 was received October 11, 1977, and it also was appropriated for general operating expenses.

The precise use of antirecession funds by function or program cannot be determined since general fund revenues are not separately identified in expenditure accounts. These funds were used generally to fill the gap between revenues and expenditures. However, officials stated that since about 75 percent of general fund expenditures are for personnel costs and recent increases in expenditures are due primarily to increased salary and pension costs, it can be concluded that the majority of antirecession funds were spent for these purposes. In fact, officials estimated that without antirecession funds, the February 1977 employee layoff would have been twice as severe. Fiscal year 1978 antirecession payments are also expected to help ease the city's burden of rising personnel costs.

Antirecession funds were used to maintain basic services in fiscal year 1977, and the same is expected for fiscal year 1978. Discussions with city officials and review of available documentation disclosed no evidence that any new service was added. However, city officials believe that significant reductions in services will be required in fiscal year 1978, notwithstanding antirecession funds, due to projections that expenditures will again exceed revenues.

Antirecession payments are being used by the City of Miami to combat inflation-induced escalations in personnel costs and to maintain existing types and levels of basic services to the extent possible. According to city officials, antirecession funds have had little, if any, effect on tax rates since Miami's property tax rate is at the 10 mill ceiling and the utility tax rate is at the 10 percent limit.

NEWARK, NEW JERSEY

Newark, with an estimated 1976 population of 373,025, is New Jersey's largest city. It covers a land area of 24.14 square miles and is located in Essex County, 8 miles west of New York City.

Newark has a diverse economy primarily consisting of manufacturing, finance, and trade, and is the headquarters of a number of large financial institutions such as insurance companies.

Newark continues to be the State's industrial, financial and retail center. However, growth in Essex County and nearby Morris and Union Counties has generally shifted employment in trade and industry out of Newark. As a result, the city's population declined approximately 15 percent between 1950 and 1976. Moreover, the quality of job opportunities does not compare well with those in the outlying suburban areas, and the number of Newark residents in public assistance programs has increased significantly in recent years. Newark's average annual unemployment rates were 17.7 percent in 1976 and 13.4 percent as of September 1977, according to the New Jersey Department of Labor and Industry.

Newark has a mayor-council form of government. The city's chief administrative executive is the mayor who is elected every 4 years. The legislative body is made up of nine council members elected every 4 years, one from each of the city's five wards, and four at large.

The city is responsible for providing police and fire protection, sanitation services, and health and welfare services. In addition, the city also maintains 46 acres of parks, operates the city courts, and contributes to more than half of the operations of the Free Public Library and the Newark Museum Association. City services are financed by the city's current fund. Newark's public school system is governed by a nine-member Board of Education, a separate entity.

FINANCIAL CONDITION IS FAIR

Newark officials believe that the city's financial condition is fair and improved. This was evidenced by surpluses in 1976 and projected for 1977, reductions in the property and payroll tax rates, and the ability to maintain basic services at normal levels despite recessionary and inflationary pressures according to officials. However, officials stated that the city is dependent on Federal and State aid which funds about 42 percent of total personnel.

Changes in revenues and expenditures

The city's revenues increased 7.2 percent in 1976 to about $256 million versus a 2.5 percent decline in expenditures, resulting in a $7 million increase in the current fund balance.

The finance director and the comptroller expect a similiar surplus in operations in 1977 and said the impact of the surpluses has meant an improved cash flow and a decreased reliance on short-term debt financing.

Revenues increased because of higher collections of franchise, gross receipts, and delinquent taxes, but the major contributing factor was intergovernmental revenue which increased almost 5 percent or about $4 million.

Newark derives about 40-45 percent of its revenues from its own sources, mostly from property taxes (not including property taxes collected and passed on to other jurisdictions). Newark also generates revenues from payroll, franchise, gross receipts, and other taxes.

Newark has achieved or exceeded its revenue estimates in nearly all categories according to the finance director. He also stated that as of October 31, 1977, Newark has met or surpassed its revenue estimate and is projecting a $4-5 million year-end surplus. New Jersey governmental entities usually surpass budgeted revenue estimates because State law restricts estimates to no more than the revenue realized the previous year.

Public utility franchise taxes increased by 15.5 percent in 1976 ($9.5 million to $11.0 million). Newark officials did not know the reason for the increase other than that the State remitted more to the city.

Gross receipts tax increased 21.9 percent in 1976 ($6.6 million to $8.1 million). The tax is levied by the State on telephone and other utility company revenues. The finance director explained that these revenues reflect inflationary fuel cost increases which the utilities passed on to their customers.

The property tax retained by the city increased 16.9 percent over 1975 ($43.4 million to $50.8 million) mainly due to an increase in the municipal portion of the tax rate which was offset by a like reduction in the property tax rate for school purposes. The overall tax rate increased slightly from $9.94 per $100 valuation in 1975 to $10.00 in 1976 but declined to $9.25 in 1977.

Intergovernmental revenue provides the city with about 35 percent of its total revenues or about 45 percent after factoring out revenues collected for and passed on to the county and to the local school district. Intergovernmental revenue increased 4.8 percent in 1976 ($84.2 million to $88.3 million) due to increased revenue sharing and other Federal grants including antirecession assistance, according to the finance director.

As shown previously, total expenditures declined 2.5 percent from $251 million in 1975 to $245 million in 1976. The $6 million decline represents an $8 million reduction in basic service expenditures offset by a $2 million increase in the cost of other services. The basic service reductions involved layoffs of police officers, firemen, and sanitation and health workers.

Changes in the city's operating fund balance and indebtedness

The city has two operating funds: the current fund with which it finances operations and the water utility fund with which the city finances the operations of its water system.

Between 1975 and 1976, the current fund balance more than doubled from $5 million to about $12 million. This was due to the aforementioned 1976 surplus in operations resulting from the combination of increased revenues and reduced expenditures.

In 1977, the net current fund balance is forecasted to be at $13-15 million due to another surplus expected at year's end. According to the finance director most of the surplus resulted from increased Federal and State aid.

The fund balance in the water utility fund declined in 1976 ($334,462 to $9,167). The comptroller stated that the fund drew down last year's surplus to finance this year's deficit which resulted from increased energy and operational costs. He expects the water utility fund balance to be at $221,400 by December 31, 1977. This turnaround resulted from a 50 percent increase in water rates for all users, the first such rate increase since 1972.

In general, the city's net debt percentage is limited to 3.5 percent of its equalized property valuation. As of October 31, 1977, the city's net debt percentage was over the limit at 4.32 percent. Last October, it was 4.84 percent.

Any improvement in net debt percentage is crucial because the city's high percentage is not due to huge amounts of debt but rather to declining property values. The percentage dropped because the city reduced its total indebtedness as shown:

	12-31-75	12-31-76	11-30-77
Short-term notes	$ 22,782,000	$ 7,795,489	$ 4,461,203
Long-term bonds	148,247,000	156,512,000	146,441,000
Total debt outstanding	$171,029,000	$164,307,489	$150,902,203

In 1976, the sale of $18.9 million in school bonds was used to retire about $15 million of bond anticipation notes, leaving the remainder for school construction projects. In addition, more than $10 million of long-term debts reached maturity according to the comptroller. He also added that the city managed to reduce its total debt in 1977, mainly by using the 1976 surplus to retire debt.

Overall, the city's ability to reduce its total indebtedness has strengthened its fiscal health. Moody's Investor Service, Inc. rated Newark's general obligation bonds Baa in January 1977 and 1978. State qualified bonds were rated A. Moreover, the city paid 5.96 percent interest this year versus 6.55 percent on last year's bonds. Apparently, operational surpluses in 1976 and 1977 restored investor confidence. State backing of the bonds reinforces confidence since the debt service on the "qualified" bonds will be paid directly to investors by the State out of State aid reserved for Newark.

The finance director and comptroller told us that the city has not had to relinquish any authority to either the county, State, or Federal Government to provide services. They said, in fact, the State terminated aid for the city's certified health program in 1975 and the city had to assume additional costs. There were no further assumptions of costs in 1976 and 1977.

Regarding capital projects, these same officials stated that no capital projects were delayed in 1976 or 1977. Ten new projects costing about $1.2 million were authorized in 1977, the first since December 1975. About $4 million of net authorized but unissued debt was cancelled in 1976-77 enabling the city to obtain State "qualification" of city bonds and hence lower interest costs. This effectively reduced the amount of gross debt authorized and improved the city's net debt percentage.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

The finance director believes that Federal and State aid is the biggest factor affecting Newark's fiscal health. The city's total assessed value of property has been declining, as a result the tax rate has to be increased just to keep the levy even. The tax rate was at $9.25 in 1977. In this context, the city is relying more and more on State and Federal aid to finance its operations. As shown previously, State and Federal aid accounts for 35 percent of total revenues before pass through taxes for other jurisdictions, or 45 percent after pass through items.

The effects of recession and inflation, more so inflation, have compounded the city's fiscal dilemma, according to the finance director.

Limits on revenue raising capacity

According to the finance director the main factors affecting the city's ability to raise revenues are the city's heavy reliance on State and Federal aid and the chronic increase in high tax rates forced by a declining property base. Newark's property tax rate was $9.19 in 1971 and $10.00 in 1976. The reduction to $9.25 in 1977 is an aberration attributed by the finance director to antirecession assistance payments which allowed the city to maintain services without increasing the tax rate to meet the rising costs of these services. He added that without antirecession assistance the tax rate would have been up in 1977 and not down. Moreover, property tax rates are projected to increase to $9.55 in 1978 and every year thereafter to $12.00 by 1982, assuming no growth in services or revenues.

Factors affecting expenditures

The finance director feels that the city's expenditure level depends on three factors, each equally important

--inflation (especially in the area of fringe benefits);

--recession (increases demand for police and welfare services); and

--a State mandate which limits a municipality's operating expenditures to a 5 percent annual increase.

He stated that inflation heavily affects energy and personnel costs. For example, costs of gas and electricity, heating oil, and gas and oil to run city vehicles, have gone up 400-500 percent in the past 3 years. In addition, the city's social security contributions increased from $15.1 million in 1976 to $16.3 million in 1977 and pension costs in 1977 are up $3 million from $11 million in 1976.

According to the finance director, recession always brings on an increased demand for police and welfare services as more people are unemployed and idle on the streets, causing the crime rate to go up. People who have used up their unemployment benefits place an increased load on the city welfare program which provides assistance to city residents who do not qualify for other assistance. This caused the city's welfare caseload to increase by 10 percent in 1977. He said that administrative costs did not increase except for the 5 percent salary increase paid to all city employees in 1977.

Taxes

Newark has not imposed any new taxes since our prior review. Historically, property tax rates have been increasing while assessed property values have been declining as shown in the table below.

Year	Assessed values (in millions)	Tax rate
1971	$ 1,224	$ 9.19
1972	1,213	9.63
1973	1,212	9.39
1974	1,200	8.60
1975	1,187	9.94
1976	1,191	10.00
1977	1,147	9.25

Basic services

About 25 percent of Newark's total expenditures are spent on basic services; police and fire protection, health and welfare, and public works including sanitation. Excluding property tax pass throughs, which account for 20 percent of all expenditures, basic services total about 30 percent of the city's operating budget expenditures.

Basic services declined $7.9 million in 1976. The percentage of change from actual expenditures in 1975 was as follows:

	Percent of change
Police	(9.6)
Fire	(3.4)
Health and welfare	(0.2)
Public works (sanitation)	(28.4)
Other	0.8
Total expenditures	(2.5)

The reductions in basic service expenditures, necessitated by budget constraints, did not result in reductions in service because costs were supplemented by State and Federal aid which are reflected in other operating budget categories. Although many layoffs were averted, hundreds lost their jobs nonetheless; despite the loss, normal levels of service were maintained with State and Federal aid according to the finance director.

Changes in employment levels

City employment dropped almost 9 percent between October 1975 and 1976 (from 9,527 actual full time strength to 8,693) mainly due to layoffs. Almost 500 people were laid off, primarily police (192), fire (69), public works (80), health and welfare (51). These basic services cutbacks accounted for 80 percent of all layoffs.

The personnel director stated that in 1977 there were no layoffs, and most of the people who lost their jobs in 1976, were rehired, primarily because of antirecession funds. This allowed the city to keep services at their normal levels without raising taxes--in fact, the property tax rate was reduced in 1977. Actual strength rebounded 6 percent by October 1977 (from 8,693 to 9,220).

In general, more than half of the employees are paid with city budget funds (about 58 percent), the remainder are funded through Comprehensive Employment and Training Act (CETA) (about 29 percent) and other State and Federal grants (about 13 percent). The impact of State and Federal aid is evident; without it, the city would not be able to provide basic services at present levels.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

Newark received a total of $10,846,031 in antirecession assistance and earned $142,472 in interest on these funds.

Virtually all of the funds for the first five quarters ($8,263,039) have been spent within 6 months of their receipt except for $775,667 of the fifth quarter payment. The assistant treasurer told us that the sixth quarter payment of $2,582,992 and the $142,472 of interest earned on the first five payments will be appropriated for use in 1978.

Antirecession funds were used to pay salaries and wages, mostly those of police and firemen and to a lesser degree wages of laborers, clerks, and school crossing guards. Without these funds these same people would have lost their jobs.

According to a city budget official the funds saved the jobs of 387 full-time people: 207 police officers, 138 firemen, 35 laborers, and 7 clerks. Antirecession money also paid for 18 full-time court attendants and 171 part-time school crossing guards, positions which had been funded previously by other grants and budgets.

The finance director believes that overall the funds enabled the city to save jobs and maintain normal service levels in 1976 and 1977 while reducing the city's burdensome tax rate. Antirecession funds also contributed indirectly to surpluses in 1976 and 1977. Without the funds, the city would have had to layoff more police and firemen and raise rather than lower the property tax rate in 1977.

The finance director stated that antirecession assistance is being used to help fight long-term and chronic economic problems rising from the city's declining tax base, the exodus of businesses to the suburbs, and the influx of indigent people who require additional services. Recession and inflation have exacerbated matters by putting pressure on the city to reduce basic services.

NEW ORLEANS, LOUISIANA

New Orleans, Louisiana's largest city, occupies about 363 square miles (199 land and 164 water) of which approximately 65 square miles make up the city's developed area.

Although New Orleans' manufacturing base is relatively small, it is a major seaport and a trade and service center with an established tourist industry. The city's population has declined from 593,471 in 1970 to 559,770 in 1975.

In recent years economic growth of the metropolitan area has exceeded the growth rate of the city itself. New Orleans cannot expand its boundaries and benefit from residential, commercial, and industrial growth which is occurring in surrounding parishes. Nevertheless, per capita personal income within the city has increased steadily in recent years, ranking third in the State behind Jefferson and St. Bernard nard Parishes in 1975, and has grown about the same as the national average from 1966 to 1975.

Construction permits in New Orleans from 1970 to June 1976 reached a peak of $238.1 million in 1971. The value of construction permits declined sharply in 1975, but during the first 6 months of 1976, the value of permits was 102.9 percent of the 1975 value. During the 12-month period ending October 31, 1977, the city had issued 4,505 building permits valued about $237 million. This building boom is primarily attributable to new residential and commercial construction in the eastern section of the city plus commercial construction within the central business area.

The largest industry in New Orleans (and Louisiana) is the Port of New Orleans, which is administered by the "Dock Board". The port comprises 25 miles of public, private, and military facilities located on three waterways--the Mississippi River, the 76-mile Mississippi-Gulf Outlet, and the Gulf Intracoastal Waterway. The Port reportedly generates about 11 percent of the State's total gross product as well as employment for 72,000 persons with payrolls of nearly $700 million in the New Orleans Metropolitan Area.

The city has a mayor-council form of government. The mayor is elected for a four-year term and is limited to two consecutive terms. The mayor appoints his principal assistant, the chief administrative officer, and the city budget officer. The city operates on a calendar fiscal year and must operate on a balanced budget.

A number of important local government functions in New

Orleans are discharged by entities, which in varying degrees, operate independently of city government. These include:

--The New Orleans Sewerage and Water Board, which has exclusive control over the construction, maintenance, and operation of the sewerage, water, and drainage systems.

--The Orleans Parish School Board, which has complete authority and financial responsibility for city public schools.

--The Orleans Levee District, a State agency, has prime responsibility for the maintenance of levees, embankments, seawalls, jetties, breakwaters, water basins, and other such facilities surrounding the city along the shores of Lake Pontchartrain and the Mississippi River.

--The Core Area Development District (a special taxing district) was to upgrade the central business area by providing services and improvements in addition to those provided by the city.

FINANCIAL CONDITION IS FAIR

The mayor of New Orleans said that the city is under heavy financial pressure but, is not near a collapse. He said the city's basic financial problems do not appear to be recession-related; but instead have resulted more from inflation and an eroding tax base which have prevented revenue increases sufficient to keep pace with inflation.

Most significant financial problem

According to the mayor, the city's most significant problem affecting its financial stability--one that is common to all sizeable old cities--is an eroding tax base. He said the city's major tax resources, property and sales taxes, are being adversely affected as residents continue to move to the suburbs. The mayor said that to maintain a competitive tax structure with surrounding areas, the city is, for all practical purposes, prevented from increasing the sales tax rate to gain additional revenues as it would cause further erosion. In addition, the Louisiana constitution does not a low the city to levy a tax on motor fuel or a personal income tax.

Increasing reliance on Federal funds

According to the mayor, without Federal funds such as antirecession assistance, the city would have been forced to curtail basic services. The city has become increasingly dependent on State and Federal assistance to maintain service levels and a balanced budget. Federal aid accounted for 28.7 percent of the total 1976 revenues and 33.7 percent of budgeted revenues for 1977.

The city's financial condition appears to have worsened since the beginning of 1977. The city is projecting that expenditures for 1978 will exceed revenues by over $8 million. Since the city cannot incur deficits, this deficit will be reflected in lower basic service levels.

The director of finance said the 1978 budget of $214.8 million is actually a standstill budget even though it exceeds the 1977 budget by about $22 million. He attributed the increase to inflation and felt that the city's financial condition can best be characterized as "unstable", and undoubtedly worse than last year. The 1976 general fund balance decreased by $6.2 million (47.8 percent) from the 1975 fund balance.

Expenditures increasing

New Orleans has experienced a rapid expenditure growth in recent years. Expenditures increased by 15.5 percent in 1976, and are budgeted to increase by almost 13 percent in 1977. Officials attributed these increases to the increased cost of equipment, repairs, and supplies; granting annual pay increases and tenure awards-nonautomatic payments made to employees with 3 years of continuous service; and increases in city employment. About 75 percent of total 1976 expenditures, encumbrances, and transfers were for personnel services.

Revenue increased by 4.4 percent in 1976 over 1975. Although the city achieved budget estimates for each major category, revenues fell short; about $6.2 million or 47.8 percent of the 1975 general fund balance was used in 1976 to fill the gap. The director of finance said the city will be able to balance the 1977 budget only by using more of the general fund surplus.

Major tax resources

The city's major revenue sources are sales and property taxes, which accounted 50.4 and 7.2 percent, respectively, of 1976 revenues from the city's own sources.

Sales tax receipts increased 8.9 percent in 1976 over the prior year. The city sales tax rate is 2 percent, but the State and Orleans Parish School Board also levy 3 percent and 1 percent, respectively. Sales tax revenues have increased each year since 1972, partly because the taxpayers did not reduce their recreational spending and partly because tourism has not been adversely affected.

Combined personal and real property taxes collected for 1976 increased about 4 percent over the prior year. However, the city is projecting a combined increase of about 40 percent for the current year, primarily because 2 mills were transferred from bond redemption and debt service to the general fund to be used for general operating purposes. As a result, the city's property tax rate for general purposes increased from $5 to $7 per $1,000 of assessed value, while the rate for debt service on outstanding bonds dropped from $12 to $10 per $1,000. In effect, the change means the city will receive additional revenues for general purposes without an overall property tax increase.

Revenue projections on target

A city administrative analyst stated that 1977 revenue projections are substantially on target except for reimbursable indirect costs incurred to administer Federal programs. He said $1 million was budgeted for indirect cost, but as of September 30, 1977, only 5.1 percent of the budgeted amount had been collected. He felt that the $1 million projection was simply a poor estimate.

Fund balance changes

Year-end fund balances for 1975 and 1976 are shown below.

Fund account	Balances (as of 12/31) 1975	1976	Percent change
Trust and agency	$ 46,118,679	$ 46,902,228	1.7
Special assessment	907,169	964,601	6.3
Special revenue	7,878,340	9,244,127	17.3
Capital projects	24,427,804	41,092,053	68.2
Enterprise (retained earnings)	9,760,888	9,247,534	(5.3)
General	12,984,727	6,771,150	(47.8)
Total	$102,077,607	$114,221,693	11.9

Significant increases occurred in the capital projects and special revenue fund acounts. The assistant to the comptroller stated that capital projects increased primarily because $12.3 million in general obligation bonds and $6 million in general purpose aviation bonds were sold in 1976. He attributed the increase in special revenue to the receipt of about $1.8 million in antirecession funds and a $1 million increase in revenue sharing funds.

The finance director said that about one half of the 1975 general fund surplus was used to fill the gap between revenues and expenditures to insure a balanced budget.

The decrease in the enterprise funds, which show a retained earnings balance in lieu of a fund balance, was attributed to a year-end deficit for the French Market Corporation and a decrease in the retained earnings of the New Orleans Aviation Board.

Changes in indebtedness

The city does not market short-term securities. However, the following table shows the total outstanding long-term city debt, excluding interest, at the end of the last two fiscal years and the debt projected for the current fiscal year.

Year	Outstanding debt
1975	$230,574,104
1976	241,425,104
1977	252,976,525

The total outstanding long-term debt increased in the current and most recently completed fiscal years primarily because of general obligation bond issues. The assistant secretary for the Board of Liquidation did not believe the increase in total indebtedness reflects a decline in the city's fiscal health.

The finance director said that New Orleans has encountered problems in recent years with the electorate accepting its full bond proposal packages. He said that in 1973, a significant package for economic development was defeated; in 1975, a School Board referendum to increase millage rates for operational purposes was defeated; and in 1976 only half of the bond package was accepted. The director felt that the city, particularly in the last 5 years, has experienced problems with voter rejection of bond referendums to issue long-term debt. However, in 1975, the electorate approved a water bond issue with advance knowledge that a rate increase would be required.

Since 1972, the city has consistently received A-1 ratings from Moody's Investor Service, Inc. However, in December 1977, Moody's Investor Service, Inc. lowered the city's rating to A for a proposed issuance of $25 million in public improvement bonds because:

--the city experienced a sharp decline in its general fund balance for 1976.

--deteriorating financial conditions indicated an immediate need to expand revenues and effect expenditure controls,

--excess debt service reserves are being drawn down, and

--a State revision of the property tax system has clouded future financial operations.

City officials disagreed with Moody's statements, except for uncertainties associated with changes in State property tax laws. They believed that the lower rating will not materially affect the city's ability to market bonds because, even with an A-1 rating in the past, the city has obtained interest rates equal to bonds rated Aa.

Responsibilities relinquished

The city has not assumed the responsibility and cost for providing services of another level of government. State law released the city's sanitary inspection health units to the State of Louisiana Health and Human Resources Administration.

Capital projects delayed

Forty-one capital projects to be started in 1976 and 1977 were delayed because the city audit, which must accompany the prospectus for selling the bonds, was not completed until late 1976. City officials decided to combine the 1976 sale with the proposed 1977 sale. However, the audit required to accompany the 1977 prospectus was not completed until October 1977, so the bond sale was rescheduled for December 1977. The city planning commission director said that the delays do not signify a weakness in the city's overall financial condition.

MAJOR FACTORS INFLUENCING
FISCAL HEALTH

The assistant chief administrative officer and the director of policy planning said that the following favorable and unfavorable factors have the greatest affect on the city's financial condition.

Favorable factors include the tourist industry, the Port of New Orleans, a strengthening of the central business district through a special tax levied on these property owners, the Louisiana Superdome which attracts people to downtown New Orleans, and the renovation of housing in older neighborhoods.

Unfavorable factors include the inability to raise tax rates locally; regional growth, straining the central city without revenue to support the demand on city services; unemployment, particularly among minority youth; and and inflation.

Factors affecting revenues and expenditures

The assistant chief administrative officer and the director of policy and planning said that although there have been no referendums proposing major tax increases, public opinion polls show that it would be hard to pass an increased ad valorem tax. They said the most significant factors affecting the city's revenue raising capacity in order of priority are a constitutional prohibition against levying a personal income tax, and the inability to increase sales or property tax rates. Conversely, they said that increasing personnel costs, inflation, demands on center city services by the region, and unemployment are the most significant factors affecting expenditures.

Demand for services increasing

The demand for services is increasing, according to the mayor, for the following reasons:

--New residential subdivisions are being developed in the eastern section for which the city must provide streets, sanitation, sewers, police, and fire protection.

--Other agencies within the city have requested assistance in providing services. For example, the housing authority has asked the city to assist with garbage pick-up and increased police protection in the large housing projects.

--The city must offer services for a large commuter work-force and others in the region and the State who use recreational and other city facilities.

--Unemployment has increased. For example, the city's unemployment rate increased from 8.2 to 9.1 percent between June 30 and September 30, 1977. Furthermore, a July 1977 citizen attitude survey showed that certain neighborhoods have a 50 percent unemployment rate.

--Additional services are required by Federal regulations relating to environmental problems, safety, and prisons.

The mayor stated that he believes the city has not been able to meet the existing demand for services. He said that because of the hiring freeze and inflation, the city has been unable to deliver basic services for the same cost it did years ago. The director of policy planning said that no additional administrative burdens have been realized for social service activities because welfare is operated by the State.

Property tax changes

Since 1973, the total city tax rate has remained at 25.2 mills. In 1976 and 1977, the city levied a special tax of 6.5 mills on central city businesses to provide for capital projects and to improve basic services.

Major changes in the State's property tax laws will become effective in 1978. We were told the Louisiana constitution of 1974 provides that beginning January 1, 1978, all homeowners who live in homes valued at $50,000 or less, will not pay any property taxes. While there are still uncertainties as to the effects of the changes, the ultimate effect has to be a further erosion of the already declining property tax base and related revenues.

Changes in basic services

Both the mayor and his chief assistant said that the city has not eliminated any basic services during the past several years. On the other hand, it has not increased existing services or added any new services. They said, however, that the following changes were necessary to ease the burden of the city: garbage collections were reduced from three to two times weekly in 1974; overtime has been reduced in all departments except police and fire; city libraries have been closed on Sundays since 1974; many incinerators have been closed; and animal control services, as well as garbage collection and disposal services for one section of the city, are now contracted out.

City employees increase

The following table shows the number of full and part-time city employees for the two prior fiscal years as of December 31, and for the current fiscal year as of September 30, 1977. The estimated number of employees funded by the Comprehensive Employment and Training Act (CETA) is included in the total and also shown separately.

	1975	1976	1977
Full-time employees	10,346	10,423	10,635
Part-time employees	431	434	443
Total	10,777	10,857	11,078
CETA employees (estimated)	839	852	872

The above totals include classified (regular), unclassified (appointed), and sewerage and water board employees.

Our analysis of changes in classified city employment levels for the same time period shown above disclosed the following:

Year	Total appointments	New hires	Total removals	Layoffs	Total classified employees
1975	5164	2588	5128	11	9685
1976	4531	2554	4503	3	9763
1977	4576	2023	4410	5	9929

Total employment increased each year, even though a general hiring freeze was in effect and positions created by attrition were not filled, because the Police, Fire, and Sanitation Departments and the Sheriffs Office were exempted from the freeze and officials granted exceptions when attrition significantly impacted operations. Antirecession funds were not used to hire or fund positions.

Layoffs constituted less than one percent of total removals during 1976 and 1977 and consequently have not negatively impacted basic services.

Future outlook

For 1978 through 1981, officials have projected that expenditures would exceed revenues from $8.2 million to $14.3 million yearly. Because of the necessity to balance the budget, service levels will not increase, even if demand does.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

As of October 31, 1977, New Orleans had received antirecession funds for six quarters totaling $8,773,127. This amount includes payments through the first five quarters totaling $6,300,018 of which $4,907,023 was appropriated. City officials had not disbursed $1,116,658 of the appropriated amount because they were awaiting the award of contracts or awaiting the delivery of services under existing contracts. They expected all funds to be disbursed by December 31, 1977.

As of October 11, 1977, the 6-month deadline for appropriation of payments received for the first four quarters, the city had appropriated all these funds plus $475,864 of the fifth quarter payment.

New Orleans had appropriated antirecession payments received through October 1977 for wage and benefit increases, operation and maintenance, and for some capital equipment. The classification of appropriated funds shown on the following schedule, by department and object class, are those reported to us by the city.

		Amount	
Department	Object class	Disbursed	Appropriated but not disbursed
Sanitation	Repairs & maintenance	$ 145,098.28	$ 294,901.72
Health	Supplies & equipment	- 0 -	22,000.00
Streets	Supplies & equipment	2,343,888.90	399,756.10
Streets	Repairs & maintenance	- 0 -	400,000.00
General services	Wage & benefit increases	1,301,378.00	- 0 -
Total		$3,790,365.18	$1,116,657.82

New Orleans included anticipated antirecession funds in its 1977 budget but did not designate how these funds would be used. The city subsequently designated and used antirecession funds to reimburse the general fund for specific operating expenses included in the approved budget.

The assistant chief administrative officer said antirecession payments have not significantly affected tax rates or the type and level of services the city provides. The funds were used to maintain basic services already in existence prior to receipt of the funds. He said that if antirecession payments had not been available, the city would have been forced to reduce personnel, defer maintenance, and curtail tenure award payments which are considered essential benefits for retaining qualified employees.

NORFOLK, VIRGINIA

Norfolk, Virginia's largest city, is a major east coast port with a 1975 population of about 280,000. The Federal government is one of Norfolk's largest employers, with an estimated 37,600 military and 18,500 Federal civil service employees in 1977. Other major industries include automobile, communications (newspapers, radio, and television), and shipbuilding.

Norfolk's annual average unemployment rates for 1974-1976 have been 5.4, 6.5, and 7.3 percent, respectively. For October 1977, the rate was 6.1 percent.

The city is organized under the Council-Manager form of government, with council members elected by voters, and the mayor chosen from among the council members. The city manager is the chief administrative officer. The city provides all basic general government services to people within the city, including police and fire protection, education, welfare, public works, and recreation. As with some other Virginia cities, there is no overlapping county.

FINANCIAL CONDITION IS FAIR

Norfolk's assistant city manager said the city's current financial condition was fair, and had declined somewhat since our previous review in February 1977. At that time, the city was experiencing financial problems.

The city had imposed a hiring freeze in October 1976 to keep expenditures in line with expected fiscal year 1977 revenues. The city's budget officer said to his knowledge, fiscal year 1977 was the first year actual revenues were below the budgeted amounts. Actual general fund revenues were about $6.2 million below budget primarily because State funds were $6.5 million lower than estimated. Services had not yet been cut, but officials felt the freeze had affected the quality of services. Positions were eliminated to balance the fiscal year 1978 budget, and according to officials, lowered the service levels provided.

On the other hand, Norfolk officials believe the city was recovering from the recession. The city controller cited the balanced fiscal year 1978 budget with no revenue shortfalls expected, the Aa bond rating, and the relatively low long-term debt. The commissioner of revenue said revenues increased over fiscal year 1977, and real property tax revenue is projected to rise $1.5 million in 1978 and continue such increases annually. He believes the high inflation rate has caused Norfolk's economic problems. Other officials also said that although tax revenues have been increasing, government service costs have been increasing at a higher rate. The city controller believed the city's main problem, besides inflation, was Federal and State mandates to expand services without enough financial support.

Changes in revenues and expenditures

For fiscal year 1977, total revenues were 2.9 percent higher than in 1976, and general operating expenditures were 4 percent higher for the same period. Revenues from city sources increased 5.2 percent over 1976. Although the actual total revenues from city sources in 1977 exceeded budget by about 1 percent, tax collections were $1 million less than expected. Revenues from city sources include four major tax sources. These, and comparisons, are shown in the following table.

Tax source	Percent increase (decrease) Over prior year	Over budget
Property	4.0	(0.6)
Utility	4.3	0.9
Sales	8.0	(8.4)
Other	4.2	(1.2)

Officials said that inflation is a reason for the increase in sales tax revenues. Despite the shortfall in achieving tax revenue estimates, Norfolk collected about 98.5 percent of the total budget estimate for taxes. The commissioner of revenue feels that the city will achieve the 1978 budget estimate of revenue from city sources.

Norfolk experienced no significant changes in intergovernmental revenues between fiscal years 1976 and 1977. A budgeted decrease of 15.3 percent for fiscal year 1978 is attributed by city officials to a change in program management when in April 1977 the State assumed responsibility for Aid to Dependent Children, previously funded by the city then reimbursed by the State. This change did not impact upon the services.

As for expenditures, there were no significant changes overall. Actual expenditures during 1977 fell about $12 million short of the amount budgeted. City officials attributed this to the State's move to take over the Aid to Dependent Children and to the hiring freeze established in late 1976.

Changes in fund balances and indebtedness

From 1976 to 1977, the year-end fund balance for the general operating fund increased from $1.2 million to $3.9 million. The city controller attributed this to expenditures not being as great as budgeted. However, the fiscal year 1978 budget projects general fund expenditures ($166.2 million) to exceed general fund revenues ($162.6 million) requiring $3.6 million of unencumbered balances from the prior year to fill the gap. Actual expenditures and revenues are expected to be very close to budget estimates.

The city's long-term debt balance increased from $97.5 million in 1976 to $116 million in 1977. This increase was due to the sale of $27 million in serial general improvement bonds less payment of $8.5 million on outstanding bonds. These bonds were sold to pay for capital improvement projects including the water system, education, streets, redevelopment, and others.

Norfolk's bond rating according to Moody's Investor Service, Inc. was Aa for 1972 through January 1978. The city is well below its September 30, 1977, legal debt limit of $377.8 million. The limit is based on 18 percent of the assessed value of taxable real estate. The city can legally create an additional $268.4 million of debt.

Other changes

The Aid to Dependent Children program was the only service Norfolk relinquished to another government. However, city officials said they have increased educational services while decreasing public welfare services that they provide.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

Inflation is the most significant factor currently affecting the city's fiscal health, according to some officials. Although they acknowledge that the recession affected Norfolk's financial condition in 1976, they feel that inflation had and is having a more detrimental effect. They told us that the cost of governmental services is increasing at a greater rate than revenues due to the high inflation rate.

Norfolk's commissioner of revenue said the major factors affecting the city's ability to raise revenue at the present time were the existing State limitations on tax rates and the city council not wanting to place too heavy a burden on a single tax source (i.e., property taxes). We were told that the State limits taxes for utilities, automobile licenses, sales, and income. An assistant to the city manager said the council is reluctant to raise the property tax rate because an increase might drive residents and businesses from the city, thus decreasing revenue.

During fiscal year 1977, no tax rates or user charges were established or increased. For 1978, we were told the city increased charges for electrical inspections and land fill dumping. In addition, as of the beginning of fiscal year 1978, State law required that real estate be taxed on 100 percent versus the previous 60 percent of fair market value used by Norfolk. An official said the tax rate was accordingly reduced so that taxes would increase only about 5 percent.

City officials told us inflation was the most significant factor affecting expenditures and for fiscal years 1976, 1977, and 1978, the city budgeted for inflation at 7, 9, and 6 percent, respectively. Norfolk's budget officer said the costs of supplies, materials, and equipment have increased the most.

According to the budget officer, demand for services increased noticeably in police protection and corrections. He said 52 additional policemen and 32 sheriffs were authorized and hired during 1976 and 1977. He added that additional administrative funds were needed to support these positions.

For 1978, the city eliminated 409 positions so that expenditures would balance expected revenues. According to the budget officer, this decreased the level of basic services provided but did not eliminate any basic service. For example, one fire station was closed, some recreation activities were curtailed, and other services were reduced.

There were delays in capital projects during fiscal years 1977 and 1978, totalling about $20.1 million for utility development and general capital improvements. We were told that the decrease in city operating funds available for capital projects, which caused these delays, was an indication of financial weakness because fund balances had been decreasing.

STATUS, USE, AND IMPACT
OF ANTIRECESSION FUNDS

Norfolk received $1,281,790 for the first five quarters of the antirecession assistance program. As of October 31, 1977, the city had appropriated $849,155 and would appropriate the remaining amount by December 1, 1977. We were advised that the appropriated funds are for supplies and salaries and fringe benefits for 82 positions that were needed and would otherwise have been eliminated. As of October 31, $120,381 had been disbursed to pay salaries for two pay periods in July and October 1977 and another $60,708 was obligated for salaries. An official said that all the funds appropriated to date will be spent by the end of fiscal year 1978.

Another official told us that the city plans to use the unappropriated antirecession funds, including the payment received in October 1977, to reinstate a nursing program for secondary schools and some positions previously eliminated, and to provide overtime salaries for the paramedic ambulance crew.

City officials said the antirecession funds are used to combat problems caused by both the 1976 recession and continuing inflation and thus plugged a revenue gap in fiscal year 1977 and 1978. He said that inflation accentuated the adverse impact of the recession by causing expenditures to increase at a higher rate than city officials had anticipated. Additionally, the city cannot increase revenues from own sources sufficiently to compensate for the rising cost of goods and services.

OAKLAND, CALIFORNIA

The City of Oakland, incorporated in 1854, is located on the east shore of San Francisco Bay. Its population grew to about 386,000 by 1969, but by 1977 it had declined to about 328,000.

Oakland, the Alameda County seat, has the Council-Manager form of government. The council consists of eight elected officials and the mayor, who is the chief elected officer. The city charter specifies that the mayor shall provide community leadership, while general administrative responsibilities are assigned to a city manager appointed by the council.

The Port Department controls the city's seaport and airport and is administered by a seven-member Board of Port Commissioners; each is nominated by the mayor and confirmed by the city council. While the seaport is one of the largest containerized cargo ports in the United States, its direct contribution to Oakland's operating revenues is minimal and does not cover the cost of services provided by the city.

The major basic services provided are public safety, public works, recreation, and cultural activities. Public assistance and education are the responsibility of the county and education districts. Citizens contribute to the latter two services through a portion of their composite property tax rate, which in fiscal year 1976, was the 16th highest of 412 California cities.

Historically, Oakland has been an industrial center of the San Francisco Bay area, but it has suffered a thirty-year decline in economic and social conditions. The number of manufacturing and wholesaling firms has dropped considerably since 1963, and from 1948 to 1972 the number of retail establishments decreased 58 percent.

Oakland has experienced a 15 percent population decline since 1969 mainly due to emigration of its white population, which decreased 21 percent between 1960 and 1970 and by 23 percent between 1970 and 1975. Non-white population increased from 26 percent of the total population in 1960 to 53 percent in 1975. An estimated 16 percent of Oakland's population now live in households with incomes below the national poverty level.

Unemployment has traditionally been high in Oakland. The unemployment rates for 1940, 1950, 1960, and 1970 were 15.4, 9.6, 7.9, and 11.3 percent, respectively. In February 1977, unemployment was 14 percent, declining slowly since then.

Crime has been another major problem. Overall crime has increased 360 percent from 1951 to 1976. Oakland has also experienced urban decay, and has the highest percentage of occupied substandard housing in the San Francisco Bay Area.

FINANCIAL CONDITION IS POOR

Officials characterize the current financial condition of Oakland as poor. In fiscal year 1975, the city underwent an across-the-board $2.3 million budget reduction and eliminated 144 staff years. In fiscal year 1977, $5.0 million was cut from the city budget, and a hiring freeze was implemented. Higher than projected local revenues have somewhat eased the situation for fiscal year 1978, but the city is depleting its general fund surplus to maintain basic services.

Taxes, the largest source of revenues from own sources, are slightly ahead of projections due to inflationary effects on property valuations (property taxes), rising energy costs (utility taxes), and a general recovery in the local economy (sales taxes). These sources accounted for 34.3, 7.8, and 13.5 percent, respectively, of Oakland's fiscal year 1977 revenues from own sources. While revenues from own sources increased $10.5 million in fiscal 1977, operating expenses rose by more than $15.3 million.

Oakland is becoming increasingly dependent on Federal funding to maintain basic services. From fiscal years 1973 to 1978, Federal grants increased from 18 to 28 percent of total revenues. We were told that in fiscal year 1977, approximately 28 percent of all city positions were funded by the Comprehensive Employment and Training Act (CETA). About 33 percent of the city's employment is currently CETA funded and the percentage is expected to be even higher for fiscal year 1979.

General fund surpluses have been steadily declining in recent years from a high of $14 million at the end of fiscal year 1975 to a projected zero balance at the end of fiscal year 1978.

Debt expenses for general obligation bonds (none issued since 1961) amount to less than one percent of total current annual revenues. Moody's Investor Service, Inc. rated these bonds Aa in January 1978, unchanged from the prior year rating. Oakland has no outstanding revenue bonds and officials indicate that due to the city's poor financial condition, there are no future plans to incur long or shortterm debt.

There have been miscellaneous delays in capital construction projects, but no recent delays due to fiscal reasons. Oakland will not begin construction, for locally or Federally-funded projects until sufficient monies have been secured. Oakland is becoming increasingly dependent upon Federal funding for its capital projects.

In fiscal year 1969, capital expenditures were 12 percent of the local budget; however, during fiscal year 1975 they reached a low of slightly over 3 percent. In fiscal year 1977, local capital expenditures for new and ongoing projects were $4.1 million, or about 4 percent of the city's budget, while total capital expenditures (including Federal funding) were budgeted at $12.8 million.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

Officials believe the major factors affecting the fiscal health of Oakland to be a non-expanding economic base, chronic unemployment, and inflationary pressures on expenditures. We were told that Oakland's financial woes were aggravated, but not caused, by the national recession.

As mentioned earlier, industrial and commercial firms have been leaving Oakland, thus reducing potential business property, sales, and other taxes. Urban decay has taken some residential properties off the tax rolls entirely, and has reduced assessed valuations of others, further reducing property tax revenues. Officials said that unlike Alameda County, Oakland is highly urbanized, and has little open space available for new housing developments which could increase property tax revenue.

Unemployment has been a persistent problem for decades. Officials said that chronic unemployment in Oakland has reduced sales tax revenues, contributed to urban decay, increased crime, and in general, reduced the level of local business activity.

The major factor influencing expenditures has been inflation. Approximately 80 percent of operating expenditures are for direct personal services which have risen due to cost-of-living pay increases. For example, from fiscal years 1972 to 1978, the total number of city police and fire personnel decreased by 5 percent, while their salary and fringe benefits budget increased 79 percent. This amounted to nearly 40 percent of fiscal year 1978 operating expenditures.

Officials said Oakland has not had to relinquish or assume responsibility for any major services since 1972, nor have changing demands for, or administrative costs of, any major services had a significant effect on the city's fiscal health.

Recent major budget adjustments have been necessary to maintain Oakland's solvency. In the past, Oakland funded pension expenses from current revenues, but rising contributions were threatening to bankrupt the city. In fiscal year 1976, voter approval was obtained to allow the city's nearly $300 million unfunded pension liability for uniformed employees to be ammortized over 40 years. As previously indicated, budget reductions were implemented in fiscal years 1975 and 1977. While some positions were eliminated in the public service area, Oakland thus far has substantially maintained basic service levels. Deficits are projected for fiscal year 1979 and beyond, and officials are considering the need to raise taxes and/or reduce services.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

Oakland has appropriated or disbursed its $5.0 million in antirecessison payments received as of October 31, 1977, within six months of receipt. The city appropriated $2.9 million to finance a wage and benefits arbitration settlement with the fire department; the remainder and anticipated future fiscal year 1978 payments were appropriated to meet across-the-board wage and benefits increases averaging 6 percent for all employees.

No new positions or services were created by antirecession funds. All funds are being used to maintain existing basic services. Oakland officials indicated that antirecession funds are being used to combat inflation, as all monies received are being used to meet increasing salary and benefit expenses.

Officials view antirecession funds as another source of unrestricted funding, or subsidy, to the general fund. Oakland's general fund had a surplus of about $5 million on June 30, 1977. One official commented that the real impact of these funds was to increase the balance of the declining general fund.

We were told that the ultimate impact of these funds has yet to be felt. Oakland has projected that it will deplete its general fund by June 30, 1978; the antirecession funds have allowed the city to remain solvent longer. This means Oakland will not have to face the decision to raise taxes or cut basic services as early as it would have without antirecession assistance.

PHOENIX, ARIZONA

Phoenix is Arizona's capital and largest city. In June 1977, the city had an estimated population of 682,300 within its more than 277 square miles. Phoenix's growth in recent years has been rapid as demonstrated by the fact that its 1950 population was only 106,818 in about a 16 square mile area.

The Phoenix area's economy is based on manufacturing, tourism, agriculture, government, and commerce. Some products which provide a substantial portion of the metropolitan area's manufacturing employment include turbine engines, electronic systems and aerospace equipment, flight instruments, men's apparel, and telephone cables. Unemployment has declined from 9.3 percent in 1976 to 6.3 in the third quarter of 1977.

The city uses the council-manager form of government with the city council appointing a city manager to carry out council policies and administer city operations. The city manager appoints city employees and department heads. The city's programs include such basic services as general government, criminal justice, public safety, transportation, sanitation, community enrichment, water systems, housing and urban redevelopment, and human resources.

FINANCIAL CONDITION IS HEALTHY

Phoenix's financial condition remains as described in our February 1977 review--"basically good". The administrative services manager told us that the city, favored by a local and national economic recovery, experienced a healthy financial condition during fiscal year 1977 and expects the same for 1978. The city increased the general purpose funds which a city official says have the greatest impact on the city's financial condition, maintained excellent bond ratings on its long-term debt, and financed needed capital improvements.

General purpose fund balances increased

A variety of funds are used to finance the city's activities and programs. By far, the most important are the general purpose funds which finance most of the city's current operations. Phoenix had a $2.8 million larger fund balance at the close of fiscal 1977 than it had in 1976. According to the budget analysis administrator, general purpose funds have the greatest impact on the city's financial condition because they are used to provide essential services such as police and fire protection, sanitation, sewers, etc., and are drawn primarily from taxes. She explained that the city is required by statute to budget for a zero general purpose funds ending balance; however, Phoenix, historically, has achieved a fund surplus.

The budget analysis administrator said that during fiscal year 1977, city officials had projected a deficit for fiscal year 1978 following the repeal of the sales tax increase and, to avoid this deficit, made a concerted effort to achieve a general purpose funds surplus by the end of fiscal 1977. The resulting $10.7 million surplus was primarily due to the following factors:

--the ending 1976 surplus was actually $2.5 million greater than anticipated;

--belt-tightening efforts during 1977 reduced budgeted expenditures by $4.8 million; and

--revenues were $3.3 million over those expected in 1977 including $1.8 million in antirecession assistance that had not been budgeted.

In September 1977, based on two months actual data, the city projected a general purpose funds surplus of $2.2 million at the close of fiscal year 1978. This change from the planned zero balance occurred primarily because the $10.7 million surplus at the end of 1977 was $2.1 million more than anticipated. The budget analysis administrator says that operating revenues are coming in stronger than anticipated and she expects the general purpose funds surplus at the end of 1978 to be higher than the $2.2 million estimate. She said that city officials consider this a sign of a healthy financial condition.

Long-term debt structure good

The city has maintained a sound credit rating during fiscal years 1977 and 1978 which has allowed it to finance capital projects at low interest rates, without approaching its legal debt ceiling. Due to the city's sound credit rating, bond sales continue to receive very favorable low interest rates. The city's general obligation bonds were rated Aa by Moody's Investor Service, Inc., in January 1978, unchanged from 1977.

The total debt outstanding increased from $270 million to $330 million between fiscal years 1976 and 1977, or about 22 percent. The increase is due to $71 million in bond sales, primarily general obligation and revenue bonds, offset by $11 million in bonds retired during fiscal year 1977. About

$37 million in general obligation bonds were issued to finance sewer, airport, and water projects and another $25 million in revenue bonds went for airport, street, and highway improvement projects.

The city has projected a total debt outstanding ending balance of $358 million for fiscal year 1978. This is an increase of $28.1 million or 8.5 percent over the 1977 ending balance and is the net result of anticipated bond sales of $38 million offset by retirement of $10 million in existing bond issues. So far this year, the city has sold $12 million in street and highway improvement bonds and plans to sell another $26 million in general obligation bonds, mostly for water and sewer projects.

Changes in revenues and expenditures

Even though Phoenix's expenditures increased more (18 percent) than revenues (12 percent) in fiscal year 1977, total operating revenues and expenditures were both about $239 million. Phoenix's fiscal year 1978 budget indicates that expenditures will continue to grow at a faster rate than revenues; however, the latest budget forecast shows that the city will achieve a surplus again in 1978 in part because revenues are coming in greater than anticipated.

Revenues from own sources

City revenues increased by 14 percent in fiscal year 1977, and revenues are expected to rise by 7 percent in 1978. Revenue collections were close to the budgeted amounts in 1977; similarly, the city's latest revenue projections, based on three months actual data, show that it is achieving 1978 budget estimates.

Phoenix's budget analysis administrator said an important measure of the city's financial health is how well it's doing with respect to its budget. During fiscal year 1977, the city's budgeted revenue was $141 million compared to the actual collection of $140 million.

The major revenue sources are the sales and franchise taxes, receipts from public enterprises, and property taxes. The property tax receipts remained about the same between fiscal years 1976 and 1977, but the sales taxes and enterprise fund receipts increased significantly as shown in the following table.

	Actual 1976	Actual 1977	Difference	Percent change
	(000's omitted)			
Revenue from own sources:				
Sales and franchise taxes	$ 36,726	$ 45,645	$ 8,919	24
City property tax	26,994	28,715	1,712	6
Other taxes	3,652	4,187	532	15
Charges and miscellaneous	13,353	14,686	1,333	10
Public enterprise fund	42,503	46,747	4,244	10
Total revenue from own sources	$123,228	$139,980	$16,752	14

About $4.2 million of the $8.9 million increase in sales and franchise taxes resulted from a one-time gain from a sales tax increase applied during November 1, 1976 to February 15, 1977. The sales tax increase was repealed by the voters. A $3.5 million rise was anticipated in sales and franchise tax revenues based on the present coverage and tax rate, from utility rate increases, and continuing improvement in the economy.

The public enterprise revenues rose $4.2 million primarily because of increased water sales receipts and better than expected airport concession revenue. The water sales growth was mainly due to a water rate increase.

The city is achieving the fiscal year 1978 revenue estimates. The city assumed that all tax rates and fee structures, except for a 5 percent increase in the water system rate, would remain the same, and the current growth rates of major revenue sources will continue.

Revenues from intergovernmental sources

Intergovernmental revenue collections rose $9.4 million from $89.9 million in fiscal year 1976 to $99.3 million in 1977. The increase included about $4.4 million in State shared taxes, and net Federal funds rose about $5.0 million. The higher State shared taxes were primarily due to population growth and continued economic improvement.

In fiscal year 1977, Phoenix received $8.0 million additional Federal grants for public housing, community development, and antirecession assistance payments while funds for Federal revenue sharing and urban mass transit decreased by $1.5 million and $3.2 million, respectively. The reduction in revenue sharing primarily reflects a prior entitlement period adjustment caused mainly by revised adjusted taxes created by the Arizona property tax relief law for 1974. The urban mass transit revenue decreased in fiscal year 1977 because the city did not receive any new capital grant awards.

The intergovernmental revenues budgeted for fiscal year 1978 exceeded actual collections in 1977 by $26.9 million or 27 percent. Intergovernmental revenues accounted for 73 percent of the total change in operating revenues during this period. The most significant increases were in the Comprehensive Employment and Training Act (CETA) program and in community development block grants which amounted to $12.8 million and $5.3 million respectively. The increase in the community development funds includes additional grants for fiscal year 1978 as well as grants for 1977 projects that were carried over.

Operating expenditures increased

For fiscal year 1977, the city's actual operating expenses of $239.9 million were $16.7 million (6.5 percent) lower than the budgeted amounts of $256.6 million. The largest reduction was due to a hiring freeze which affected most major expense categories. In 9 of the 10 major expense categories, actual expenses were less than budgeted. Capital improvement expenditures accounted for $4.3 million or 26 percent of the reductions, primarily because the city did not use $3.3 million of aviation operating funds for capital improvements in order to carry over a larger operating balance to the next fiscal period.

Total general expenditures increased from $203 million in fiscal year 1976 to $239.9 million in 1977, about 18.2 percent. The city manager attributed this increase to inflation, which has significantly affected the cost of providing city services; a higher level of pay-as-you-go capital improvements; as well as budget additions for police, fire, and other essential services. The consumer price index listed in the Phoenix annual financial report shows that consumer prices were 7.5 percent higher in fiscal year 1977 than in 1976.

The major expenditure increases were police protection, transportation, and capital improvements paid with operating funds. The police expenditures rose $5.3 million primarily because of additional personal and contractual services required to maintain existing capabilities. Transportation expenditures have risen $6.3 million since fiscal year 1976 because of debt service on 1976-1977 bond issues for street improvements and the expanded airport facilities.

Capital improvement expenditures increased $5.8 million to $15.3 million in fiscal year 1977 compared to 1976. These capital improvement expenditures were mostly applied to airport facilities development. The capital improvements program coordinator told us that the city has maintained a fairly strong financial position during fiscal year 1977 which allowed it to undertake the capital improvements that were necessary to maintain basic services.

The city's fiscal year 1978 budget projected expenditures of $47 million over actual expenses for fiscal year 1977. This change of 19.6 percent is comparable to the 18.2 percent change from fiscal year 1976 to 1977.

Major expenditure gains are expected to occur in human resources, transportation, and police. The increase of $12.7 million to the human resources budget was due primarily to an additional $10.7 million in Federal CETA funds which will be used to sustain existing programs and to institute new projects which could not otherwise be accomplished. About $2.7 million of the $9.6 million transportation budget increase will be used to retire bonds issued for street construction, and the balance was used in street maintenance and aviation. The city increased the police budget by $7 million primarily to pay for salary increases due to inflation.

MAJOR FACTORS INFLUENCING FINANCIAL HEALTH

The major factors influencing the city's financial health are the long-term effects of inflation and recession, and a chronic growth situation where revenues periodically lag behind service demands. The city manager stated in the fiscal year 1978 budget presentation that the economic conditions of high unemployment and inflation, which had adversely affected all phases of city operation since 1975, appear to be abating. He said current trends show decreased unemployment sparked by a sharp increase in new housing starts as well as continuing local retail sales growth. He also said these trends were expected to continue through fiscal year 1978 unless offset by the return of high inflation.

Phoenix's management and budget director described the most significant factors affecting the government's revenue-raising capacity in order of priority as consumer confidence, local unemployment, and inflation. He defines consumer confidence as the consumer's perceptions of how well the economy is doing. These perceptions have a major bearing on how much money the consumer spends. In past recessions, according to the director, Phoenix has experienced a sharp decline in consumer confidence and jobs available; both of which resulted in fewer taxable purchases. He further explained that inflation has a negative impact on city tax revenues because it indirectly taxes consumers by reducing their purchasing power.

The administrative services manager said inflation had the greatest impact on the government's expenditure levels followed by the demands associated with the city's continuing growth and development, and citizen expectations. He said inflation has driven government costs to new high levels. These cost increases, he stated, have been much greater than the revenue increases that have resulted from economic recovery. The 1977 budget report indicates electricity and gas expenditures rose 20.1 and 14.7 percent for the fiscal years 1976 and 1977, respectively. A 1978 budget report shows a 29.6 percent increase over fiscal year 1977 actual expenditures. The official told us that a significant portion of these increases can be attributed to inflation.

Phoenix is a rapidly growing metropolitan area and citizen service demands continue to increase for virtually all services. According to the city manager, during the coming year, for example, the fire department projects a 10 percent increase in calls for service, the water system expects to add 5,000 new connections, and the libraries anticipate a 12 percent rise in circulated material. The administrative services manager told us that there had been an increase in demand for emergency services, parks and recreation, and human resource services which created additional administrative burdens.

The major adjustments to the budgets for fiscal years 1977 and 1978 were the changes in the city sales and property tax revenues, employment levels, and basic services. Capital projects were only slightly affected by changes to the budgets.

Difficulties in raising taxes

Phoenix officials encountered a major difficulty in raising the sales tax in fiscal year 1977 and in addition, the city may lose about $5.9 million in property taxes in fiscal years 1979 and 1980 because of State legislation. The Phoenix city council increased the retail sales tax to 2 percent, exempting food items, beginning November 1976 to balance the fiscal year 1977 budget. The tax increase was repealed by a voter initiative in February 1977 and reverted to its previous 1 percent rate on all retail sales. A city council report projected a $15.8 million deficit for fiscal year 1978 without the sales tax increase. Subsequently, the city manager ordered a hiring freeze for all but the most essential positions and also asked department heads to defer other expenditures where possbile.

In 1977, the State enacted legislation that limits the total assessed valuation of property. This was done to avoid excessive property tax increases; however, the legislation permits local governments to increase their property tax rate to offset losses resulting from this limitation. Phoenix officials stated that the legislation would not affect fiscal year 1977 and 1978 assessments, but they estimated that the city will lose $1.5 million and $3.1 million, respectively, in fiscal years 1979 and 1980 unless the city council increases the tax rate. In addition, a property tax levy loss of $507,000 and $821,000, respectively, is estimated for fiscal year 1979 and 1980 due to legislative changes reducing the property assessment ratio for multiple rental dwelling units from 27 to 23 percent in 1978 and down to 21 percent in 1979.

Employment levels remain constant

Between fiscal year 1976 and the first quarter of 1978, employment levels increased slightly. The table below shows the city's employment over this period and identifies the number of Federally-funded positions.

No. of full-time employees	At end of fiscal period 1976	1977	1978 (1st qtr.)
Regular	6,643	6,617	6,744
Federally-funded 1/	843	1,003	1,112
Total full-time employees	7,486	7,620	7,856

1/Includes Federally-funded public services, job stimulus, and other CETA employees.

The temporary hiring freeze which was implemented in February 1977 to help balance the budget resulted in a net decrease of 26 regular employees during fiscal year 1977. City officials told us that the fact that city employment had risen at all is attributable to increased Federal funding in the new Job Stimulus Program, authorized under CETA.

City officials also said that the city has not laid off any employees during this period. Any reductions-in-force by one department were offset by transfers to other departments.

Slight reduction in services

Service reductions, imposed in fiscal years 1977 and 1978, were in non-critical areas such as recreation, library services, and street sweeping. Balancing the budget during these periods was a difficult task since revenue increases had not kept pace with service demands. The administrative services manager told us that the city did not assume or relinquish responsibility for providing services during fiscal years 1977 and 1978.

Delays in capital projects

The capital improvements program coordinator said that the city normally carries over into the next year about one-third or more of its budgeted projects because of over-optimistic projections and project delays.

The city budgeted $134.2 million for capital improvement projects in fiscal year 1977, but actually spent $79.6 million and $11.9 million in projects was deleted or deferred. The rest was carried over into 1978. An additional $4.5 million of capital improvement projects scheduled for fiscal year 1978 were left out of the budget. By deferring these projects, the budget indicated that the city could save about $479,000 in operating costs and interest in fiscal year 1978. However, the capital improvements program coordinator stated that the deferral of these projects resulted from a conservative fiscal policy and will have little impact on basic services. In addition to the $4.5 million, as of November 2, 1977, $2.2 million of the budgeted projects had been deferred.

STATUS, USE AND IMPACT OF
ANTIRECESSION FUNDS

Phoenix expects to receive $4,167,000 in antirecession payments for fiscal years 1977 and 1978. As of October 31, 1977, it had received $2,881,656, all of which were appropriated within six months of their receipt. To date, the city has earned $48,407 in interest on these funds.

According to city officials, all antirecession payments are placed in a separate fund. Since expenditures are made from the general fund, warrants must be issued to transfer monies from the antirecession fund to the general fund as expenses are incurred. Designated departments are required to charge their initial expenses to the antirecession fund in proportion to their budget appropriation. Tracing antirecession monies to specific expense accounts becomes impossible and no determination can be made of the specific uses of antirecession payments. City officials told us that they consider antirecession payments spent when they are transferred to the general fund.

Antirecession funds used to maintain basic services

Antirecession payments are being used to maintain basic services; police and fire protection, street maintenence, and parks and recreation, and thereby replaced other city funds which helped increase the 1977 surplus. City officials said that Phoenix did not increase its service levels or add new services as a result of antirecession assistance; however, some basic services were extended to parts of the city where these services had previously been absent or substandard. The first five quarters of antirecession payments and earned interest, a total of $2.4 million, were transferred to the programs listed below.

Program	Amount	Percent
Street maintenance	$1,113,000	46.4
Police	874,726	36.5
Parks and recreation	265,000	11.1
Fire	144,000	6.0
Total	$2,396,726	100.0

The management and budget director explained that even though anticipated antirecession revenues are appropriated for designated programs, Phoenix is not able to assess the effect of antirecession revenues on its employment.

An official said that as of December 1977, the city changed its accounting procedures for antirecession assistance payments to permit tracing of these funds to specific expenditures. This was done to comply with antirecession program regulations.

City officials say antirecession funds used to avoid expenditures cuts

The management and budget director told us that antirecession payments had some impact on their budgetary actions. Payments were used primarily to partially offset the effects of a repealed sales tax increase in fiscal year 1977 and to help balance the budget in fiscal year 1978.

In fiscal year 1978, antirecession assistance payments of $3,322,000 were included in the city's budget, and according to the management and budget director, helped provide the necessary resources to balance the budget and still maintain customary service levels.

Antirecession funds help maintain a surplus

As we mentioned earlier, the city achieved a $10.7 million general purpose funds surplus in fiscal year 1977. This resulted from greater than expected revenue collections, including $1.8 million in antirecession funds, and a hiring freeze which reduced expenditures. In fiscal year 1978, city officials are projecting a surplus of over $2.2 million. Antirecession payments were helpful in producing this surplus.

PROVIDENCE, RHODE ISLAND

The capital of Rhode Island, Providence, covers 18.1 square miles and had an estimated 1976 population of 169,931. The population has declined steadily since the 1940's, paralleling a decline in businesses. In 1974, per capita retail sales for Providence were only 89 percent of the per capita retail sales for the United States. Providence's adjusted average unemployment rate for calendar year 1976 was 9.06 percent. In terms of employment, the major industries are rubber and plastic products; fabricated metal products; and jewelry, silverware, and related items.

The city has a mayor and city council elected to 4-year terms. The mayor directs all city departments except the schools, recommends budget actions, and appoints individuals to various positions. The council approves the budget, mayoral appointments, city ordinances, and the yearly tax levy. The school committee, appointed by the mayor with city council approval, is responsible for all school department actions. Major city services include fire and police protection, education, public works, water supply, and sewage treatment. The State administers unemployment and public assistance programs.

FINANCIAL CONDITION IS FAIR

A city official said the city's financial condition has improved from poor in fiscal year 1977 to fair in 1978. In 1977 the city incurred a $3.2 million general fund deficit. Property tax revenues were about $5 million less than budgeted because abatements relating to the 1977 property revaluation were higher than anticipated. Revenue collections for 1978 were on target with budget estimates as of November 1977; however, a city official stated he does not know whether the city will end the year with a balanced budget. He said 1978 positive factors include tax collections up $4.8 million over the comparable 1977 period and an extra $0.6 million in State aid to education. However, November revenues included $1.2 million in settlements for delinquent taxes. In addition, city employee longevity bonuses totaling about $0.5 million were not included in the 1978 budget. Bonuses earned in 1978 are payable in fiscal year 1979.

Providence's primary operating fund is the general fund which finances all basic services except public education which is financed by the school fund. Most of the revenue in the school fund (65.4 percent) in 1977 came from the general fund, the rest came from the Federal and State governments.

The city's actual total general fund revenue for 1977 exceeded actual 1976 revenues by 4.5 percent but fell short of 1977 estimates by about 9.6 percent. Revenue estimates for 1978 are 15 percent higher than 1977 actuals.

In 1977 own source revenues accounted for about 81 percent of total revenues. Revenues from the State accounted for about 10 percent of which about 70 percent is for general public assistance. The remaining revenues (9 percent) come from the Federal Government. More than half of the city's revenue is generated by property taxes. In 1977 the city implemented its first revaluation of real property in 16 years. The property tax levy increased from $53.0 to $64.3 million, or about 21 percent over 1976, but revenues did not achieve budget estimates because of a significant amount of abatements granted as a result of the revaluation. Significant increases in 1978 revenues are expected due to an anticipated increase in property tax receipts.

In 1977 the city received $1.6 million in antirecession assistance funds. The city expects to receive $1.3 million in 1978.

Providence's general fund actual expenditures increased about 4.9 percent from 1976 to 1977, mostly due to higher personnel costs. Expenditure estimates for 1978 are 11.2 percent higher than actual 1977 expenditures.

Actual expenditures for 1977 were 6.5 percent less than budgeted because the city overestimated the amount of revenue it was going to receive from real estate taxes. When the city realized this, about 6 months into fiscal year 1977, the mayor ordered all department directors to place a temporary freeze on all overtime, purchase only essential items, and place a temporary freeze on all job hirings. As a result, nearly all the expenditures except the school department were less than budgeted. School department costs rose due to a new teacher contract.

Expenditure increases for fiscal year 1978 are for salary and fringe benefits in the public safety and school department, ($4.6 million); increased fringe benefits for all departments ($.8 million); and special funding ($1.7 million). The latter item includes $1.2 million as a reserve for abatements and $.5 million as a reserve for deficit funding. The budget also included an estimated reduction of 300 city positions, 180 of which were occupied at the beginning of the budget year in July 1977.

Until 1978, the general fund had a surplus account representing the excess of revenues over expenditures and an unfunded deficit account representing unpaid obligations from prior years. Since 1970, the city has appropriated the surplus balance to the next year's operating revenues to cover budgeted expenditures not provided for from current revenues. From 1972 through 1974, the balance of the unfunded deficit account was about $1.2 million. During this period, the city did not appropriate funds to reduce this deficit, nor did it offset the deficit against the surplus which gave the impression that the surplus balance was larger than it actually was.

Audited financial statements show that the city had cumulative deficits of $479,970 for 1975, $3,051,057 for 1976 and $6,226,809 for 1977. City officials said that problems resulting from the 1975 deficit carried into 1976 and 1977. These were due to operating on interim budgets well into the next fiscal year and appropriating funds against a non-existent surplus, since prior fiscal year records were not available well into the subsequent year. For example, the 1975 financial statements were not finalized and the 1976 budget was not approved until April 1976 (10 months into the 1976 budget year). In 1977 the general fund budget included $920,000 of prior year anticipated surplus; however, 1976 statements finalized in May 1977 indicated a cumulative deficit of about $3 million.

Officials said 1978 marks a positive departure from previous years since the budget was approved in July 1977, preliminary financial statements were completed in November 1977, and the general fund accounts have been combined. In addition, 1978 is the first year the city has appropriated funds ($500,000) to reduce the deficit.

The city has two types of retirement plans, a pay-as-you-go plan of special pensions to elected officials, and a contributory plan which covers substantially all other employees except teachers, who belong to a State retirement plan.

An actuarial valuation of the contributory plan in October 1977 showed that as of the end of fiscal year 1974, the city's contributions were about $50 million short of full funding. However, State law requires the city to maintain funding at 70 percent of total. On this basis the city owed the plan about $7.1 million at the end of 1974. For subsequent years, the actuary recommended that the city contribute enough annually to eliminate the $50 million deficit over 30 years and maintain current contributions at the State required 70 percent level.

The overall net debt has decreased slightly from $75.5 million as of June 30, 1976, to $73.9 million as of February 28, 1978. Long and short-term debt has fluctuated with short-term increasing and long-term debt decreasing.

Short-term debt is used for long-term purposes, such as capital projects, redevelopment and school modernization. The city had no problem obtaining short-term financing in fiscal years 1977 or 1978. The city allows short-term debt to accumulate until it reaches an amount that bond houses will be receptive to handling. Long-term debt is paid with general fund revenues. The last bonds issued by the city were in January 1974. The Moody's Investors Service, Inc. rating of Aa has not changed since then.

Capital projects and bond issues must be approved by voter referendum prior to initiating construction. In 1977 no new capital projects were undertaken with city funds nor was there a delay of existing or approved projects. In 1978 voters approved construction of a sewerage sludge incinerator, estimated to cost $8.5 million. A city official viewed these facts as neither strengths nor weaknesses in the government's overall financial condition.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

In Providence the property tax accounts for about 60 percent of revenues. Providence has increased taxes each of the last three fiscal years on all property except manufacturers' machinery and equipment.

In 1976, Providence increased the tax rate per thousand by $5.00. In 1977, the city increased real property valuations by about $400 million. The tax assessment percent was increased from 80 to 85 percent, and the tax rate decreased from $58.00 to $47.50. These combined actions along with higher anticipated expenditures resulted in the tax levy increasing from $53.0 million in fiscal year 1976 to $64.3 million in fiscal year 1977.

In 1978, the property tax rate increased by $3.90 and total value of real property decreased by about $58 million. The assistant city assessor said the increase in the property tax rate is the result of decreases in the total value of real property because of 1977 tax abatements, and an increase in State legislated property tax exemptions for the elderly. Total property tax exemptions increased from 1977 to 1978 by $21.45 million or about 113 percent. The mayor stated that about 19 percent of the property in Providence is owned by tax-exempt organizations which benefit from city services without contributing to their costs.

City officials agreed that the primary reason for financial problems in 1977 was the tax revaluation and subsequent abatement actions which amount to about $3 million. The 1977 budget included no allowances for such actions. The 1978 budget includes about $1.2 million in anticipated tax abatement actions. In addition, officials believe that because the city's delinquency tax penalty of 8 percent is less than lending rates, some property owners view unpaid taxes as an inexpensive loan.

The mayor said the two long-standing problems most affecting the city are chronic inflation resulting in rising tax rates and tax base erosion from migration of businesses and population to the suburbs which began in the late 1960's and carried into the early 1970's. Officials said other factors include:

--minimal economic growth over the last 3 or 4 years,

--increases in the number of elderly and poor citizens since about 1966,

--failure to develop the city over the last 15-20 years as reflected in depleted housing stock and business migrations, and

--failure to replace equipment and make repairs as needed, e.g., prior efforts to minimize tax increases has resulted in a deterioration of equipment and facilities.

In addition, the mayor said the city's jewelry industry, a major employer, could be affected by proposed legislation regarding disposing metals in waste water. To offset these problems, the mayor said the city is:

--Committed to renewing and revitalizing the city. Federal funds are helping.

--Taking advantage of its economic resources. It is improving waterfront docking facilities, promoting tourism and conventions, and planning a convention center and new marine terminal.

--Encouraging and obtaining private investment in the downtown area and applying for Federal funds to improve the industrial base.

The mayor said it will take about 4 years before significant effects on the tax rate will be felt. As an indicator of improvement, he said that the Port of Providence's 1977 revenue was about $250,000 higher than 1976.

Officials said fiscal year 1977 and 1978 expenditures increased because of

--inflation generated by rising personnel costs. For example, during the period 1976 through 1978 education costs rose about $6 million. However, because of decreasing school enrollments, State aid to education has remained relatively stable.

--severe winters which generated higher costs of heat, power, and snow removal.

--Federal and State-mandated programs and actions such as special education programs for vocational and handicapped needs; increased employer taxes and municipal contributions for unemployment compensation; a lowering of retirement age and service requirements; increased tax exemptions for the elderly, and State approved health and utility rate hikes.

--high debt service costs.

A city official estimates fiscal year 1979 expenditures will be about $10 million higher because of rising personnel costs. Expenditure increases in the present and prior fiscal years have resulted in higher tax rates and decreasing public employment, which officials say have not affected levels of services provided by the city.

Since June 1976, total public employment has decreased by 327 individuals or about 6.2 percent. While the number of employees paid by non-Federal funds has decreased, there has been no significant change in the total paid with Federal funds.

City of Providence, Rhode Island

	Number of employees as of 6/30/76	6/30/77	10/31/77	Changes 6/30/76 to 10/31/77
Employees paid with non-Federal funds:				
City departments	2495	2411	2218	(277)
School department	2023	2043	1978	(45)
Subtotal	4513	4454	4196	(322)
Employees paid by Federal funds:				
Community development	104	92	89	(15)
CETA	204	267	348	144
Various education programs	448	363	314	(134)
Subtotal	756	722	751	(5)
Total public employment	5274	5176	4947	(327)

City department reductions occurred in fiscal year 1977 due to attrition and a hiring freeze initiated in December 1976 when the city realized revenues were going to be less than estimates. Reductions in fiscal year 1978 were primarily the result of layoffs which occurred in August 1977. To minimize 1978 tax increases, the city decided to eliminate 300 positions, 180 of which were occupied. The employees union objected, and the city agreed to submit the case to arbitration. The arbiter's decision, effective August 5, 1977, allowed 179 layoffs but exempted from layoff, services which affected public safety, health, or welfare.

As of November 17, 1977, 69 persons had been rehired--46 with city funds and 23 through special provisions of the CETA program. The personnel director said practically all rehirings were necessary to fill essential positions affected by the arbiter's ruling. The public works department was affected most with 63 layoffs, although 26 had been rehired by November. The reduction of 65 school department positions in fiscal year 1978 resulted from declining enrollments and a $1 million city council cut in the salary budget.

A city official identified fire and police protection, public education, water service, and public works as basic city services. Providence does not administer unemployment or public assistance programs. Officials said that over the last 2 years the demand for all services has increased. An official attributed the increased demand to a better informed public.

Officials said that during fiscal years 1977 and 1978 the city has not assumed or relinquished responsibility for providing any services and that despite personnel reductions, the increased demand for services has been met. For example, from January 1976 to June 1977 the size of the police force remained about the same; however, the crime rate decreased 2.73 percent in calendar year 1976 and 13.47 percent through June 1977. The latter statistic surpasses both national and regional crime rate decreases.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

As of October 12, 1977, Providence had received and transferred to the general fund five antirecession payments totaling $2,324,114 and $8,764 of interest earnings. All funds were transferred for normal operating expenditures within the 6-month limitation. According to the acting finance director, uses of the antirecession funds will not be more specifically identified.

The $1.6 million of antirecession funds received in fiscal year 1977 had no effect on tax rates as they were received after the start of the budget year. Their greatest impact, according to the acting finance director, was to reduce the 1977 general fund operating deficit from $4.8 million to $3.2 million.

The city expects to receive $1.3 million of antirecession funds in 1978. The acting finance director said these funds would save about 130 positions which probably would have been affected by the August 1977 layoffs. Otherwise, the city would have had to increase the tax rate or reduce other budgeted expenditures.

SALT LAKE CITY, UTAH

Over one-half million people live in metropolitan Salt Lake, a four county urban strip along the base of the Wasatch mountains in north central Utah. Of this total, about 180,000 live within the Salt Lake City limits. Per capita income in 1976 amounted to $5,350.

The largest non-manufacturing employers are educational institutions with the University of Utah heading the list, employing 10,000 persons. The largest mining, manufacturing, and processing employers are companies dealing in mining machinery, digital equipment, oil field equipment, and printing and publishing. The four largest companies in these industries employ 5,485 persons.

As of September 1977, there were 11,100 persons unemployed in the Salt Lake metropolitan area, a decline of 700 from the previous year. This decline, according to the Utah Department of Employment Security, "reflects the excellent condition of the local economy." The seasonally adjusted unemployment rate, according to this source, declined from 5.5 percent in September 1976 to an estimated 5.0 percent in September 1977.

Salt Lake City has a commission form of government with a mayor and four commissioners. Each of the five officials is responsible for a functional area of government. These include public works, public safety, public utilities, public planning and development, and public affairs and finance. Basic services provided by the city include:

- Police and fire protection
- Street maintenance and engineering
- Sewage and water treatment
- Parks and recreation
- Planning and zoning, community development, and housing
- Courts
- City administrative services-personnel, finance, etc.
- Airport operation

The city operates on a fiscal year that ends on June 30. Hence, in the following, the "recently completed year" is fiscal year 1977 ending June 30, 1977, and the "current operating year" is fiscal year 1978 beginning July 1, 1977.

FINANCIAL CONDITION IS HEALTHY

City officials contacted felt the city's financial condition for fiscal years 1977 and 1978 is healthy due to the city's conservative financial management and "pay-as-you-go" philosophy. They cited conservative revenue estimates and good control over expenditures as key factors in this management.

Officials stated that although the financial condition has stayed about the same during 1977 and 1978, they were concerned about some factors which could change the financial outlook in the future. They generally felt the city's revenue base would be too restrictive in the future to meet anticipated higher levels of expenditure primarily caused by inflation, and believed a firm control of expenditures, greater government efficiency, and a larger revenue base (possibly including a city income tax) would be needed to counter the anticipated trend. Generation of revenues from the city's own sources in the future is especially important since the city has recently initiated an effort to eliminate reliance on Federal funds (revenue sharing) for day-to-day operations. Although the city's property tax mill levy is 11.5 mills below the maximum authorized by State law, city officials are reluctant to increase this tax rate since they believe it is not equitable for all citizens, especially the aged and poor, and it is not responsive to inflation since reappraisal of property is scheduled only once every 5 years.

General fund revenues exceeded expenditures by $82,730 in fiscal year 1976 and by $147,427 in fiscal year 1977. Revenues in this fund increased 6.8 percent from 1976 to 1977 while operating expenditures rose 6.5 percent. The unappropriated reserve in the general fund increased 4 percent during the same period. These figures indicate a stable financial position.

The city exceeded its budgeted revenues from own sources for fiscal year 1977 by 4.6 percent. All tax revenue estimates were exceeded, particularly sales taxes because of a new downtown shopping mall and franchise taxes and utility company rate increases. Major city revenues come from property tax, sales tax, and franchise tax which accounted for 76 percent of own source revenues in 1977. The city auditor told us it was too early to tell the status of current year revenue collections; however, he and other city officials felt revenues should be near those anticipated.

Intergovernmental revenues available in the general fund declined in 1977 compared to 1976. In the early stages of the revenue sharing program, Salt Lake City pooled the funds in a reserve account. The purpose of this procedure was to finance general fund expenditures that were growing much faster than could be funded by normal revenues. The fund had built up a $3.6 million balance by 1975. The 1976 and 1977 fiscal years budgets estimated receiving revenue sharing which was greater than the actual entitlements. This overestimation resulted in depleting the revenue sharing reserve. General fund intergovernmental revenues were 17.5 percent of 1977 general fund expenditures, down from 22.3 percent in 1976.

General fund expenditures increased 6.4 percent in 1977. Most of this increase was due to higher salary costs for a city employee wage increase effective March 1977. Actual expenditures for most categories were very close to 1977 budgeted amounts.

Salt Lake City's year-end fund balances show a stable financial condition, but city officials are concerned that future revenues may not be adequate to cover expenditures. According to the city auditor, the general fund increase of almost $117,000, or 4 percent, shows the general growth condition of the city. The fiscal year 1977 year ending fund balance in this account was $3,023,571. However, a decrease in the revenue sharing trust fund of over $1.3 million, 49 percent, represents the city's draw down of the reserve in this fund, and signifies the need for additional revenue sources to replace revenue sharing in the future. The three enterprise funds, water utility, airport, and golf courses, showed increases in retained earnings from fiscal years 1976 to 1977.

Outstanding general obligation bonds increased during fiscal year 1977 to $29,115,000, up 26 percent from 1976 due to an $8 million bond sale in March 1977 for airport construction. The city has a history of prompt debt repayment. Moody's recently rated the city's general obligation bonds as Aaa; the highest rating. Salt Lake City's long-term debt indicates a strong financial position in that the current debt is about 17 percent of allowable city debt. There was no short-term debt outstanding at the end of fiscal years 1976 and 1977.

The city has not relinquished authority to another level of government for providing any services, nor has it assumed the responsibility and cost for providing services previously provided by another governmental unit.

During fiscal years 1977 and 1978, 11 capital projects were started, most with the assistance of Federal grants. Although four projects were delayed prior to this 2-year period, city officials felt this indicated the city's strong financial condition since the projects were actually not scheduled to start until revenues were available to meet the expected expenditures. Some of the projects eventually funded by Federal categorical grants probably would have required bond revenue if started earlier. We were told none of these delays affected basic services provided by the city.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

Officials said inflation has been the most significant factor affecting Salt Lake City's fiscal health for 1977 and 1978. Inflation has increased expenditures and caused concern about the ability of the city's revenue base to meet future expenditure levels. Specifically, they are concerned about the need for an additional revenue source such as a city income tax or a commuter tax, especially since they have started to reduce reliance on revenue sharing.

Officials see an increase in city services caused by newly developed areas as a contributing factor to increased costs. On the other hand, they believe the city's strong economic base and sound, conservative fiscal management are favorable factors affecting the city's fiscal health.

City officials believe the only significant factor affecting revenue-raising capacities has been inflation. They specifically cited property taxes as not being responsive to increased values of property brought about by inflation. Although sales tax revenues increased due to the influence of a new downtown mall, additional revenues were needed to cover increased expenditures. Consequently, the franchise tax (tax on utility company revenues) rate was doubled. The city had no difficulties in raising this tax and felt it was the most equitable way to increase revenues from own sources.

Officials also said inflation has been the most significant factor affecting the level of expenditures. They cited increased costs for personnel, materials, capital expenditures, insurance and a new computer expansion program.

The demand for basic services has not increased noticeably. Some minor increases were noted in the fire department, and planning and zoning. The city does not administer major public assistance programs and there have been no changes in administrative costs other than the city employee wage increase in March 1977. Normal levels of basic services have not changed significantly.

The only tax change occurring during fiscal years 1977 or 1978 was the increase in the franchise tax from 4 percent to 8 percent effective July 1, 1977. This additional revenue was required to cover increased expenditures caused by the city wage increase and expanded computer program.

Employment levels have changed minimally. The number of full-time equivalent employees was 2,346 on June 30, 1977, up 5.9 percent from a year before. Increases were the result of a gradual growth in services provided by the city and personnel hired with Federal grant monies. The personnel director told us there have been no layoffs or hiring freezes in the last 3 years, and any personnel decreases were due to attrition or seasonal terminations.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

City officials told us antirecession funds had little or no overall impact on the govenment's tax rates or types and levels of services. All antirecession funds for the period July 1, 1976, to June 30, 1977, were spent for a city employee wage increase effective March 1977. City officials told us the pay raises were tentatively planned prior to the time the city knew it was receiving the antirecession funds. Specific wage increases were not budgeted, however, until after antirecession funds were received. They said the wage increases might have been somewhat less or might have been delayed a few months if antirecession funds had not been received. City officials believe revenues were being collected as expected to meet budgeted expenditures, and antirecession assistance payments were used to increase the 1977 authorized level of expenditures.

Of the total $565,626 in antirecession funds received for the period July 1, 1976, to September 30, 1977, $140,853 was unappropriated as of October 31, 1977. Officials said the unappropriated amount would be appropriated within the 6-month limit (by January 1978), but they had no specific plans for these funds at the time of our review.

All officials believed the antirecession program should be continued since it could provide helpful relief to cities in need. However, they felt the formula for distribution of funds should be changed to exclude cities in good fiscal health such as Salt Lake City.

SEATTLE, WASHINGTON

Seattle, with an estimated 1977 population of 500,000 is the largest city in Washington. It covers a geographic area of 91.6 square miles on the western edge of King County. Major industries providing employment in Seattle include aerospace, wood products, food products, shipbuilding, and retail trade. Employment within the Seattle metropolitan area increased from 613,000 in 1975 to an estimated 638,000 in 1976 while the unemployment rate decreased from 9.2 to 8.8 percent. The unemployment rate continued to drop in 1977 and was at 6.0 percent for September, according to a Department of Labor official.

Seattle's 1978 proposed budget describes the area's economic picture as being very bright. Seattle reported making strong gains during 1977 in the manufacturing sector. The aerospace expansion aided the State's economy and improved the construction and retail industries in the Seattle area. Forecasters predict additional growth in both the manufacturing and service sectors for 1978.

Seattle is governed by a mayor and a nine-member city council. The city provides public safety, street maintenance, parks and recreation, health, miscellaneous general operations, and self-supporting public utilities for water, light, sewer, and solid waste disposal. Education is administered by a separate local school district. Although Seattle's 1976 budget was about $220 million, we limited our review of revenues and expenses to five funds--the parks and recreation, Seattle Center, library, city-county health, and general funds which had revenues of about $110 million in 1976. City officials said these five funds would provide a fair picture of Seattle's financial condition because they account for about 90 percent of Seattle's tax revenues. The city's fiscal year runs from January 1 to December 31.

FINANCIAL CONDITION IS GOOD

Seattle officials told us that the city's financial condition was fairly good in 1977, while it was only fair in 1976. Their opinion was based on Seattle's balanced budget in 1976 and an expected $3 million surplus in the general fund for 1977. This surplus was not expected at the beginning of 1977. In addition, Seattle now expects to have a balanced budget in 1978, an improvement from the $8-14 million deficit expected for that year at the beginning of 1977.

Comparisons of revenue and expense data for 1976 and 1977 support the above views. In 1976, for example, Seattle's revenues from the five funds we examined rose by 10.3 percent over comparable 1975 revenues, while expenditures rose by 13.0 percent. In 1977, however, revenues were expected to increase by 9.5 percent, while expenditures were expected to increase by only 7.3 percent.

Tax revenues in 1976 provided 42 percent of Seattle's total revenue and 67 percent of revenues from sources other than governmental agencies. Seattle's principal taxes are the property, sales, general business and occupation (B&O), and utilities B&O taxes. The following table shows the rate of change for the major taxes plus intergovernmental revenue, for the five selected funds.

	Percent increase (decrease)		
from:	1975 revenues	1976 budget	1976 revenues
Source to:	1976 revenues	1976 revenues	1977 budget
Property tax 1/	2.6	(0.0)	7.7
Sales tax	7.5	(3.5)	8.8
General B&O tax	11.3	(1.3)	2.2
Utilities B&O tax	7.4	(2.7)	14.0
Intergovernmental	27.8	(7.9)	11.5
Total revenues for the five selected funds	10.3	(1.1)	9.5

1/Does not include property tax credited to other funds.

A spokesman from the budget office generally attributed the yearly revenue increases to inflation but also believed growth in Seattle's economy was partially responsible. Retail sales statewide, for example, increased by almost 18 percent through mid-year 1977. He said the general B&O tax increased $1.4 million in 1976 because that was the first full year to feel the effects of a 1975 tax rate increase. A 1977 tax rate increase on natural gas and a new tax on cable television also account for about 25 percent of the expected 1977 utilities B&O tax revenue increase of about $2.8 million.

The spokesman said new construction in 1976 and 1977, together with reassessed property values in 1977, increased property tax revenues. He attributed the rise in intergovernmental revenues, which increased from 13.2 percent of revenues in 1975 to 15.3 percent in 1976, to the effect of inflation on shared revenues received from the State and more Federal grants. The spokesman said Seattle's 1976 budgeted revenues were generally overestimated because the actual rate of inflation was about 6 percent, while they had anticipated about an 8 percent inflation rate.

As cited earlier, Seattle's expenses increased by

13.0 percent in 1976 and were originally budgeted to increase another 7.3 percent in 1977. A city spokesman said the increased expenditures were primarily due to higher salaries and did not generally indicate an increase in level of service provided; however, the mix of services has changed. The following table shows rate of change for basic service expenditures.

Basic service	from: to:	Percent increase (decrease) 1975 expenditures 1976 expenditures	1976 expenditures 1977 budget
Police 1/		(2.9)	4.0
Fire 1/		12.9	8.4
Health		5.7	3.3
Parks		12.9	11.6
Engineering		9.0	(6.5)

1/Including expenditures from antirecession assistance and revenue sharing funds.

In addition to inflation, which was the major factor, Seattle budget analysts provided the following reasons for changes in expenditures for basic services. Police expenditures for 1976 decreased by about $900,000 due to a continuing policy of force reduction through attrition. The city hired many police between 1968 and 1971 when it feared civil disturbances and demonstrations. As a result, the city had 2.29 police officers per 1000 citizens, above the national average. Due to budget limitations over the past 5 or 6 years and reduced fear of riots, the city has been reducing the police staff.

Fire department costs went up because recruit classes were held in 1976 and 1977, whereas none were held in 1975. Expenditures on parks and recreation rose because of an increase in facilities, such as the aquarium which began operations in 1977. The engineering and health expenditure levels normally fluctuate annually because of changes in construction projects undertaken and grants awarded.

Because revenues grew faster than expenses, the city expected a $3.2 million increase in Seattle's general fund balance for 1977, while balances of other operating funds are expected to remain relatively constant as a whole. A Seattle official said the increase in the general fund balance was a result of (1) the unexpected antirecession assistance payments received in July and October 1977, (2) a 1977 budget reduction because revenue was expected to be lower than originally budgeted, and (3) a higher inflation rate in 1977 than expected, along with growth, which caused greater revenues than planned.

While the total balance for all operating funds was expected to increase in 1977, it decreased by about $3 million in 1976. A spokesman from the budget office said the decrease did not reflect a declining financial condition, however, because almost all of the decline could be attributed to the emergency fund which was used to finance grant projects until grant payments were received. He thought that the declining emergency fund balance in 1976 was actually a sign of strength because it meant that more grants were being received.

Changes in Seattle's indebtedness and amount of capital projects also indicate good financial health. For example, Seattle's long-term debt increased 5.1 percent in 1976 and is expected to increase 6.5 percent in 1977. The majority of the increases occurred in the utility funds, however, rather than for general government. A city official said all debt was used to finance capital projects, and that the increases were part of the normal process of financing capital improvements. He said that only about 1 percent of Seattle's debt is financed by the general fund. He said debt increased more in 1977 than was really necessary to take advantage of especially low interest rates. The spokesman said Seattle has not had any trouble obtaining financing and that Seattle has no short-term debt. Seattle's general obligation bonds were rated Aa by Moody's Investor Service, Inc. in January 1978, unchanged from the prior year.

Seattle's Annual Comptroller's Report shows that general government capital expenditures (excluding utility projects) increased 11 percent in 1976, from $34.0 million to $37.8 million. Seattle's coordinator for capital improvement projects said these capital expenditures will increase another 8 to 9 percent in 1977. He attributed the increases to larger amounts of Federal grants. He said no projects had been delayed as a result of any budget problems and that over 100 projects had been started. City officials did not believe these changes in capital project expenditures affected Seattle's financial condition.

Seattle's city government employment level in November 1977 was almost identical to its October 1975 level, following a slight (2 percent) decline in October 1976. A city official said the reduction was achieved primarily through attrition with no layoffs. The 1976 decline appears to have resulted largely from a reduction in Comprehensive Employment and Training Act (CETA) employees. City officials said the subsequent 1977 increase was due to increased CETA employment, adding recruit training classes for the fire department, and the construction of new facilities. The increases in these areas were partially offset, however, by reduced employment in the engineering department, caused by a 1975 State law requiring all projects costing over $10,000 to be done under contract, according to a city official.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

An Office of Management and Budget official said inflation is the only significant long-term economic factor affecting Seattle's overall financial condition because personnel costs account for 85 percent of Seattle's operating expenses. Seattle's wage increases were about 10 percent in 1976 and about 5 percent for 1977, due to increases awarded in previous years. City officials said the wage increases negotiated with employee unions corresponded to the inflation rate.

Seattle's financial condition is also affected by several short-term economic and demographic variables. Seattle's population has declined by 57,000 since 1960 to an estimated 500,000 in 1977 and is expected to decrease another 2,000 in 1978. The composition of the population has also changed, and Seattle's population relative to the suburbs has become older and poorer. The shift in demographic patterns has resulted in gradually changing residential shopping patterns and in manufacturing facilities locations, both of which have slowed city tax revenue growth rates.

City officials said Seattle has not had any trouble raising taxes in the past, and that the only factor which affects their revenue-raising capacity--other than inflation--is a lack of control over taxes generally. For example, King County only increases property tax assessments for Seattle during 2 years of a 4-year reassessment cycle. Sales and property taxes are limited by State law.

Seattle officials also cited inflation as the major factor affecting their expenses. A less important factor cited was State and Federal requirements that increased costs in such areas as environmental protection, shoreline management, reducing barriers to the handicapped, and improving pension requirements. Seattle officials told us that these new services were offset by decreasing expenditures in other departments, especially police and engineering.

Seattle offficials told us that the ciy has not assumed responsibilities from other levels of governments during the period covered by our review, nor had it relinquished any responsibilities. They said that Seattle has not experienced any increased administrative burdens because of the recession.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

Seattle received $3,637,883, including interest, in antirecession assistance payments as of October 31, 1977. Receipts totaling $2,978,831 for the first five quarters and $17,156 in interest had been appropriated for police and fire department salaries during 1977. These funds were substituted for city funds. By October 31, 1977, $2,100,000 had been disbursed. The remaining amount is to be used to pay salary increases in the last quarter of 1977. Seattle intends to continue allocating antirecession funds in 1978 for police and fire department salaries.

Although accounting records showed that antirecession payments were used to pay police and fire department salaries, it was not possible to identify their real impact because the funds were treated as general funds for budget purposes. A city official told us, however, that Seattle's general fund balance was about $1.5 million greater due to antirecession funds and all department budgets would have been reduced an unknown amount, possibly through layoffs, if no antirecession funds had been received. City officials said the payments were appropriated to pay for police and fire department salaries in order to (1) simplify reporting on the "official" use of antirecession funds, (2) provide a clear audit trail, and (3) show "accounting" compliance with the law's intent of ensuring "maintenance of basic services." A spokesman from the budget office said a tax increase would probably have been necessary in 1978 without the antirecession assistance.

SPOKANE, WASHINGTON

Spokane, with an estimated 1976 population of 174,500, is the second largest city in Washington. A variety of industries provide a diversified local economy that is heavily oriented toward resource industries, including agriculture, lumber, and mining.

The Spokane economy has shown strength in recent years. For example, the second quarter unemployment rate in 1977 was 6.5 percent, a decline from 8.2 percent for the same quarter a year earlier. Retail sales during the first 4 months of 1977 were about 20 percent--adjusted for inflation--above last year, and 25 percent more building permits were issued in the second quarter of 1977 than the same period in 1976.

Spokane has a city council consisting of six members and the mayor, all elected to staggered 4-year terms. The council appoints a city manager who administers the city government. Among the services the city provides are police, fire, traffic control, refuse disposal, water, sewer, and transit. Health and education are provided by special districts. Spokane had a total annual budget of about $40.4 million in 1977.

FINANCIAL CONDITION IS GOOD

Spokane's overall fiscal health is considered good by both the mayor and the manager of finance. They offered the following reasons:

--Spokane has incurred little debt.

--City bonds have a Moody's Investor Service, Inc. Aa rating.

--Existing levels of service have been maintained despite inflation's impact in recent years.

The major taxes for Spokane are property, sales, and utility taxes producing 75 percent of 1977 budgeted revenues from its own sources. The manager of finance expects Spokane to achieve the fiscal year 1977 budget estimates for these taxes. In 1976, revenues from the property tax increased 7.2 percent with actual collections slightly exceeding budget estimates. In the same year, revenues from the sales tax increased 23.9 percent. Actual collections exceeded budget estimates by 6.9 percent. The manager of finance attributed 11 percent of the increase in sales tax revenues to changed accounting procedures. He believed increased consumption was responsible for the remaining increase, a belief corroborated by State officials. Revenues from utility taxes increased

8.1 percent in 1976. Actual collections slightly exceeded budget estimates.

Intergovernmental revenues of the general fund rose 21.1 percent in 1976 to $6.5 million. The manager of finance gave three reasons for this increase:

--Spokane received more revenues from the Federal revenue sharing program.

--More money came from the State motor vehicle excise tax.

--There was a reclassification of accounts for reporting purposes.

He also said actual intergovernmental revenues in the current year are meeting budget expectations.

Total general fund expenditures in 1976 were 13.3 percent greater than 1975 and are expected to increase 10.9 percent in 1977. Expenses for personal services (employee salaries and benefits) comprised 78.5 percent of the total budgeted outlays in 1977. The manager of finance stated that increases in annual wage and salary settlements with city employees are the major cause of rising expenditures. Wage and salary increases for unionized employees ranged between 9.5 to 13.09 percent in both 1975 and 1976 and between 7 and 8.5 percent in 1977.

Spokane officials said expenditure increases outpaced revenue growth in 1976, causing year-end balances for the general fund--which finances most city operations--to diminish from $1,844,754 in 1975 to $1,594,584 in 1976. The manager of finance estimated that the 1977 year-end balance will decline to approximately $1.3 million and said the budget is planned to have an adequate year-end balance to meet contingencies and expenditures of the early months of the new fiscal year. Inflation continues to force expenditures to rise faster than revenues causing the reduced general fund balance.

No substantial change has occurred in city indebtedness between 1975 and 1977. Debt has remained at about $7 million. According to Moody's Investor Service, Inc., Spokane's bond rating was Aa in January 1978, unchanged from the previous year.

Some repair and replacement programs involving the city's physical plant were postponed in earlier budgets as a result of reduced capital outlays available from the general fund. The manager of finance said that money for repair and replacement had been diverted so the city could maintain existing levels of service despite cost increases during recent inflationary periods. He attributed delays in capital projects financed through specific capital project funds, however, to construction difficulties and not to economic conditions.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

The manager of finance viewed inflation as the most significant factor affecting the fiscal health of Spokane in 1976 and 1977. He believes continued inflation may threaten Spokane's ability to maintain the reasonably good financial condition the city enjoyed in fiscal years 1972 to 1976. General fund revenues increased 12 percent in 1976 while expenditures increased 13.3 percent. Revenues are expected to increase 9.7 percent in 1977, while expenditures are expected to increase 10.9 percent. The finance manager said that while inflation affects all areas of expenditure, only approximately one quarter of the revenue sources respond to inflation.

According to the manager of finance, the important factors affecting Spokane's revenue-raising capacity are legal taxing limitations and public resistance to increasing taxes for projects not related to public safety. He said the State limits the revenue Spokane can realize from property and sales taxes. The manager of finance told us levies and referendums to improve public safety (fire and police) historically receive voter acceptance while city projects for other efforts are generally not as well received. The only referendum placed before the voters within the past 2 years, a special levy for $1.8 million to replace fire equipment, was passed in November 1976.

Expenditure levels are significantly influenced by wage and salary settlements, State and Federal requirements, and increased pressures for social programs, according to the finance manager. Since most of Spokane's expenditures are for wages and salaries, annual wage and salary settlements with city employees have a sizeable impact on city finances. The mayor identified the State's requirement for compulsory binding arbitration with uniformed employees as a problem affecting Spokane's long-term financial condition. He said a State-appointed arbitrator fixes new wage and salary levels if the city and its uniformed employees do not reach an agreement within a specified time. He believed past years' experiences show that settlements imposed are inflationary.

State and Federal requirements, particularly for social and environmental programs, tend to commit city resources for long periods; and according to the finance manager, the city financial burden is increased when the programs must be continued after Federal and State grants for the programs are exhausted. The programs tend to generate public pressure for greater city participation in these areas. He cited drug treatment, elderly and handicapped transit services, and youth programs as receiving such local support.

According to the finance manager, Spokane was not severely affected by the recession. In 1975 through 1977, Spokane did not cut basic services, raise taxes, layoff employees, or make any other major budget adjustments contrary to Federal actions to stimulate the economy during the recession.

All of the city's services are regarded as essential. The mayor cited police, fire protection, and traffic control as the city's prime responsibilities. The manager of finance said generally there have been no requests for additional basic services in 1976 and 1977 and that the city has maintained existing service levels. The mayor told us Spokane does not administer public assistance or unemployment programs so these programs do not affect the city's financial condition.

An official said property tax rates vary from year to year due to special tax levies approved by the voters. With this exception, the mayor said no significant changes occurred in Spokane's tax rates or methods of assessment in 1976 or 1977, and no new major taxes were imposed.

City employment has remained relatively constant from 1975 to 1977. The city's financial condition during the past 2 years has been good, and layoffs, hiring freezes, or changes in funding of capital projects were unnecessary. The city has neither assumed nor relinquished responsibility for providing services from other levels of government.

STATUS, USE, AND IMPACT OF ANTIRECESSION FUNDS

Spokane received $1,003,014 for the first five quarters of the antirecession assistance program and had appropriated $704,411 of this money prior to October 31, 1977, for use in the following areas:

Function/program	Amount
Road/street	$306,118.59
Fire	176,100.00
Community events (e.g., coliseum, stadium)	99,375.10
Financial/administrative	36,409.55
Parks/recreation	31,793.04
Library	22,879.75
Sewer	19,660.00
Legal	12,043.72
Central data processing	30.98
	$704,410.73

About 49 percent was directly applied to repairs and maintenance. About 22 percent was used to hire temporary employees, and most of the remainder was used to replace a destroyed fire truck.

Antirecession assistance funds were used for 48 (47 full-time and 1 part-time) public service positions. Three positions had been funded under prior programs. Because the antirecession assistance funding is temporary, these public service positions are under a temporary-seasonal classification and no new permanent employees were hired. Many of these people are engaged in maintenance and repair projects. While the finance manager could indicate positions directly funded by antirecession assistance payments, he said it was difficult to specify the number of positions actually saved by the program. He believed that layoffs and service cutbacks were undoubtedly avoided because of the antirecession assistance payments.

We believe the overall impact of the antirecession assistance payments has been to increase expenditure levels. The money has been applied primarily to repair and maintenance programs. The manager of finance told us these areas were neglected in previous budgets in order to have the money available to continue current levels of service. He said that without antirecession assistance, some of the repair and maintenenace programs would have been delayed and services would have been cut.

ST. LOUIS, MISSOURI

St. Louis, the nations's 18th largest city in 1970, is in one of the nation's top 10 industrial areas. Abundant water, electrical power, mineral resources, and transportation are available, and aircraft, automobiles, beer, chemicals, and shoes are some of the principal products produced.

In September 1977, the city's unemployment rate was 10 percent compared to a high of 15.1 percent in January 1976. Since the 1974-1975 recessionary period, the city's unemployment rate has remained above the national average.

FINANCIAL CONDITION IS AUSTERE

A comptroller official expressed an austere view of the government's financial condition primarily because of its dependence on Federal funds to prevent budget deficits. But, the financial condition has improved. General fund revenue and expenditures have been about equal, but the cash position has improved. About $6.5 million in revenue sharing was withheld from the general fund in fiscal year 1977 and is available and recorded separately. Employment remained somewhat constant because of antirecession assistance funds, and some basic services have been affected because of fund limitations. Capital project appropriations increased, but previous budgets provided little for these projects. Also, long-term general obligation bond indebtedness decreased.

Tax and intergovernmental revenue and basic service expenditures increased

The city's tax revenue increased from $108.8 to $121.5 million between fiscal years 1976 and 1977. Major sources of tax revenue have been from earnings, franchise, sales, and property taxes as shown below.

Tax	Fiscal year 1976	Fiscal year 1977	Increase Amount	Increase Percent
	- - - - -In millions - - - - -			
Earnings	$ 37.8	$ 44.7	$ 6.9	18.3
Franchise	27.9	32.5	4.6	16.5
Sales	17.7	18.9	1.2	6.8
Property	19.2	18.9	(.3)	(1.6)
Subtotal	$102.6	$115.0	$12.4	
Total taxes	$108.8	$121.5	$12.7	

A budget official attributed much of the earnings tax increase to inflation and a large year-end deposit of tax receipts. He said the franchise tax increase was caused by inflation and increasing public utility revenues. He attributed the sales tax increase to inflation and the State's prosecuting delinquent sales tax accounts more aggressively than in previous years. He also said the property tax decrease was caused by a declining tax base involving population and business losses.

In fiscal year 1977, actual tax receipts exceeded estimates except for property tax. A budget official attributed the differences between estimated and actual earnings and franchise taxes to inflation. The differences between estimated and actual sales and property taxes were minor. He believed the fiscal year 1978 estimates will be achieved.

Between fiscal years 1976 and 1977, intergovernmental revenue increased about 15.5 percent from $57.3 million to $66.2 million. A comptroller official attributed the majority of the increase to larger antirecession assistance payments and more community development funds.

Basic service expenditures increased from $109 million to $111.5 million as shown below.

	Fiscal year		Increase	
	1976	1977	Amount	Percent
	- - - - In millions - - -			
Streets	$ 8.5	$ 8.9	$ .4	4.7
Hospitals	42.9	44.1	1.2	2.8
Parks	5.4	5.0	(.4)	(7.4)
Police	39.6	40.4	.8	2.0
Fire	12.6	13.1	.5	4.0
Subtotal	$109.0	$111.5	$2.5	
Total general fund expenditures	$174.4	$186.2	$11.8	6.7

A parks, recreation, and forestry official stated their expenditure decrease was due to fewer employees than planned.

General fund, bond indebtedness, and capital projects

Between fiscal years 1976 and 1977, the general fund balance decreased from $2.2 million to $.2 million primarily due to inflation, according to a budget official. Approximately $4.9 million was projected for fiscal year 1978. The official stated this surplu based on receiving additional Federal funds.

Between fiscal years 1976 and 1977, long-term general obligation bond indebtedness decreased 10.5 percent, from $85.9 million to $76.7 million. No attempts had been made to obtain voter approval on bond issues during the review time frame. In past years, the city has had difficulty in getting voter approval of bond issues. The city has been given an A rating by Moody's Investor Service, Inc.

Capital projects appropriated from general operating revenue increased from $.5 million in fiscal year 1977 to $3.7 million in 1978. A budget official attributed this increase to additional Federal funds and an improving financial condition. No capital projects were delayed because of fund limitations.

The city had not assumed or relinquished responsibility for providing services.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

City officials identified declining population and an eroding tax base as problems affecting revenue-raising capacity. One official stated inflation and the exodus of industry were also problems. The population decline involved loss of middle-income families to the suburbs, which leaves the poor and unskilled who have the greatest need for services.

Inflation was the primary factor affecting expenditures for basic services. For example, in the streets department, heating fuel and asphalt costs increased 13.0 and 14.7 percent from 1976 to 1977. The supply official said gasoline costs increased 16.8 percent, and in the Fire Department, trouser and shirt costs increased 24.2 and 30.7 percent over the same one-year period. Other factors affecting expenditures included declining tax base, population losses, operating two city hospitals with neither at full strength, duplicating services, and recession.

City officials believed there was no increased demand for services, except for parks. A park official stated golf course use, sports-program participation, and planetarium attendance increased. City officials believed administrative costs had not changed.

The city uses the maximum tax rates for its major sources of tax revenue, except that, in certain conditions, the property tax rate could be increased. A budget official said the property tax rate was at the practical limit already. The city has not tried to raise taxes through voter referendums during the review time frame.

Fire and police officials reported no change in basic services. A hospital official stated that because of inflation, they have been forced to maintain the same level of basic services for the past five years. A streets official stated because of past budget cuts, they were not providing a normal level of basic services, but were improving in all areas except street maintenance. A park official stated that basic services were improving but were not at a normal level because of personnel layoffs.

Between fiscal years 1976 and 1977, the city's estimated full-time employment decreased .5 percent. This decrease includes 74 layoffs in health, hospitals, parks, recreation and forestry. A budget official attributed this decrease primarily to budget limitations. In 1978, employment increased 2.1 percent. A budget official said this increase was because of more Federal funds including antirecession assistance.

Capital projects were not delayed because of fund limitations. Capital projects appropriated from general operating revenue increased from $.5 million to $3.7 million between fiscal years 1977 and 1978.

A comptroller official said the city was experiencing problems similar to other cities--declining tax base, population losses, and exodus of industry. He also said inflation has caused revenue to increase, particularly the franchise tax on utilities. He believed taxation was a primary factor causing business and residents to move from the city.

STATUS, USE, AND IMPACT OF ANTIRECESSION ASSISTANCE FUNDS

City officials stated that antirecession assistance funds have been used to maintain existing services and increase expenditures to restore services that were affected by budget limitations. Most of the funds were used for salaries and fringe benefits. By using antirecession assistance funds in this manner, the city has freed general revenue for other uses.

The status of the first five quarterly payments was as follows.

	(In millions)
Funds received	6.3
Funds appropriated	6.3
Funds disbursed	4.6
Funds not disbursed	1.7
Funds accounted for	$6.3

A comptroller official stated an additional $2 million appropriation was made to anticipate future antirecession assistance payments. Antirecession assistance funds were appropriated in two ordinances approved March 29, 1977, and July 25, 1977. Of the $4.6 million disbursed as of October 31, 1977, all but about $19,000 were for salaries and fringe benefits. A comptroller official stated the remaining $1.7 million would be disbursed by April 30, 1978.

The March 1977 appropriation created 166 new positions, provided for the purchase of supplies, and paid some salaries which were previously paid with general revenue. The number of positions filled with the July 1977 appropriation was not readily identifiable because salaries in general were paid with the funds. A comptroller official stated that when the antirecession assistance funds are depleted, the general fund will absorb these payroll costs.

Antirecession assistance appropriations by function are shown below.

Function	Amount (In thousands)
Highways and streets	$2,217
Hospitals and clinics	520
Health	100
Local fire protection	150
Sanitation other than sewerage	1,825
Local parks and recreation	2,670
Corrections	210
Financial administration	50
General control	175
General public buildings	375
Total	$8,292

Antirecession assistance appropriations by object class were:

Object Class	Amount (In thousands)
Salaries/wages for positions, across-the-board wage and benefit increases	$4,569.7
Supplies, equipment, repairs and maintenance	19.2
Total	$4,588.9

Specific uses of the remaining $3.7 million could not be identified because the March appropriation ordinance did not specify exact usage.

The antirecession assistance funds freed general revenue for repairs, maintenance, and capital projects. A budget official stated that these projects would have been deferred and employment would probably have been reduced if antirecession assistance funds had not been received.

Receipt of antirecession assistance funds has had no impact on taxes, according to a budget official. The city's tax rates are controlled by the State, except for the property tax rate which is believed to be at the practical limit already.

ST. PAUL, MINNESOTA

St. Paul, the capital city of Minnesota, has a population of 291,304 and occupies an area of 55.44 square miles along the Mississippi River in Ramsey County. St. Paul has a mayor-council form of city government as the result of a charter revision in June 1972. The city along with Minneapolis and their suburbs comprise the Twin Cities metropolitan area and have a population of about 2 million and a work force of about 950,000. The area has a balanced and diversified employment picture with no single industry dominating.

The city's monthly unemployment rate during 1977 declined from 7.0 percent in January to 5.3 percent in August.

FINANCIAL CONDITION IS GOOD

City officials rate St. Paul's financial condition as good in 1976 and 1977, a position which was fair to good from 1972 through 1975. Its good financial condition results from the ability to collect approximately 98 percent of the property tax levied--the major revenue source; a growth in commerical and residential development of undeveloped land and revitalization of older buildings; an increase in assessed values due to area-wide adjustments 1/; and a $4.7 million increase in State aid in 1976.

Significant changes in revenues and expenditures

In 1976, total revenues of $163.5 million were approximately 1.2 percent greater than total expenditures of $161.6 million. An official said total revenues exceeded expenditures in 1975 and are expected to exceed expenditures in 1977. For 1977, no additional revenues beyond taxes and borrowing authority will be needed to meet forecasted expenditures.

1/Forty percent of the valuation of all new commercial-industry construction after 1970 in the seven-county Minneapolis-St. Paul metropolitan area constitutes an area-wide pool. The valuation of the pool is apportioned among the local governmental units in an effort to equalize tax burdens so that the taxpayers of each municipality pay a tax rate for comparable services equal to the rate paid by other municipalities in the area. St. Paul's gain in 1976 was over $21 million of taxable assessed value. While the law was passed in 1971, implementation of adjustments did not commence until levy year 1974.

Revenues and expenditures are basically from the general revenue and debt services funds. The two funds make up the city's operational budget. Other funds include intragovernmental, enterprise, special revenue, special assessment, trust and agency, and capital projects, which are generally dedicated for specific purposes and are not considered in the development of the operational budget.

Revenues from own sources

Total revenues from own sources decreased 9.2 percent in 1976 to $44.2 million and were estimated to increase 6.5 percent in 1977. The decrease in 1976 was caused by a drop in the property tax assessment rate, whereas the rate increased in 1977, causing the estimated 6.5 percent increase. (See p. .)

Ramsey County collects property taxes and distributes them to each governmental unit within the county in the same ratio that the unit's tax is to the total tax. St. Paul received $28.8 million, or about 38 percent of the taxes levied in 1976.

Intergovernmental revenues increased

Intergovernmental revenues in 1976 were 21.5 percent greater than in 1975. The increase is the result of an additional $4.7 million in State aid.

Operating and capital expenditures increased

General revenue and debt services fund expenditures increased from $64.6 million to $70.3 million between 1975 and 1976. According to an official, this reflects a normal pattern for operating expenditures. The capital expenditures increase of 44.6 percent in the 1977 budget reflects the enactment of a State law in 1976 authorizing St. Paul to issue $6.5 million of capital improvement bonds each year through 1979.

Fund balances and indebtedness

A State official said that the city uses its fund balances for two purposes, to cover emergencies and to support cash flow needs. Fund balances for the general and debt services funds increased by about $350,000 between 1975 and 1976.

The city charter limits the amount of net debt the city can incur to 10 percent of the adjusted market value of the taxable real and personal property within the city. However, in calculating net debt, the following items are deducted from the city's gross debt:

--Obligations issued for special assessments.

--Warrants or orders having no definite or fixed maturity.

--Revenue bonds.

--Obligations issued to create or maintain a special assessment revolving fund.

--Obligations issued for public works systems and public lighting, heating or power systems, or any public convenience which does or may produce revenue.

--Value of sinking funds.

--Any other obligations which by law are not includable in net debt.

For 1975 and 1976, St. Paul was at about 51 percent of its legal debt limit. The city's total indebtedness has declined slightly as follows:

	Fiscal year		
	1975	1976	1977
	(000 omitted)		
Long- and short-term debt outstanding 1/	$169,561	$172,294	$169,917
Less sinking and reserve fund	8,032	13,494	12,978
Net debt outstanding	$161,529	$158,800	$156,939
Percent of change over prior year	-	(1.69)	(1.17)

1/Includes the St. Paul Port Authority's general obligation bonds. The Port Authority is a corporate body of Minnesota organized to promote commerce and industry in St. Paul. Funded by property tax levies and bond sales, the Port Authority acquires and redevelops distressed real property for industrial uses and restoration to the tax rolls. Although it operates independently of the city of St. Paul, the city is ultimately liable for the general obligation indebtedness of the Port Authority.

St. Paul has had little difficulty in obtaining long-term financing from 1975 through 1977. There was a delay, however, in the issuance of $25.3 million general obligation refunding bonds in 1976. The market was such that bidders did not initially respond to the interest rate; however, the market became more responsive within the next 30 days and made it possible for a negotiated sale. The city has not had any short-term borrowing since 1974.

The city's general obligation bonds were rated Aa by Moody's Investor Service, Inc., in January 1978, unchanged from the prior year rating.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

City officials rate St. Paul's financial condition for 1976 and 1977 as good. The following list contains positive factors influencing the city's health.

--Collection of approximately 98 percent of property tax levies, the major revenue source.

--An increase of $4.7 million in State aid for 1976.

--An increase in areawide assessed values in 1976 and 1977.

--An increase in residential and commercial growth and revitalization of old buildings.

Officials also provided negative factors influencing the city's health, which were

--the rate of inflation,

--an eroding tax base,

--a population becoming older and poorer, and

--a threat of large businesses leaving the city.

An official considers the first two factors--the rate of inflation and tax base erosion--as long-term problems, and the last two factors as short-term difficulties.

Significant factors affecting revenue-raising capacity

Officials provided the following list of negative factors affecting revenue-raising capacity:

--State tax levy limits. St. Paul is operating under a State statute which restricts the amount of taxes the city can levy for general purposes to a 6 percent annual increase over the old levy limit.

--Tax exempt property. The city provides basic services to State government buildings and a number of schools and colleges which are exempt from property taxes.

--Threat of large businesses leaving the city. Two large companies are currently considering sites other than St. Paul for part of their operations. Loss of a portion of those two companies would decrease taxes considerably.

--Population becoming older and poorer. The city has subsidized a number of services for older individuals living on fixed income.

An official also identified two positive factors affecting revenue raising capacity:

--Commercial and residential growth and revitalization of old buildings. The Port Authority initiated 27 projects during 1976, producing almost 600 new jobs and adding real estate to the city's tax roll.

--Growth in "Fees and Charges." The city collects a gross earnings fee from a large power company. The fee is 8.7 percent added to users' utility charges. Revenue provided by the fee increased in 1976 and 1977.

An official said St. Paul has no trouble increasing or collecting taxes and user charges. The city collects about 98 percent of its property tax levies.

<u>Significant factors affecting expenditures</u>

Officials listed the following as factors affecting expenditures:

--Rate of inflation. Employees' fringe benefits increased about $2 million in 1976 over 1975.

--Long-term debt outstanding. Much of the city's long-term debt is outside the charter limitations. For example, in 1975, the Port Authority issued $5.6 million of general obligation bonds which are backed by the full faith and credit of the city but which are outside the city's debt limitation. So while the city is well within its legal debt limit, total bonded debt is much higher.

--Change in the tax base. The tax base has been eroded by the exit of industry from the city and there is currently indication that part of the operations of two additional companies will leave in the near future.

--Underfunded police and firemen pension funds. The State legislature passed a statute in 1969 requiring full funding of the two pension funds by the year 2007. The city's contribution is steadily increasing.

Demand and administrative cost for services

A city accountant said no basic services had been cut during 1976 or 1977. There is a hold-the-line policy--no new programs have been added, but there has been a growth in the shade tree disease control program and the police department.

A significant increase in the cost of the shade tree disease control program occurred because this problem reached critical proportions during 1976 and 1977, and the city began assuming the full cost of tree removal on both public and private property. The increase in this service cost is being partially met with antirecession funds.

As a result of an increase in Federal funds, the city also increased police department services. The city increased the number of officers, expanded its crime lab, and implemented a reorganization study for a decentralization/ team concept. The increase in basic services was made possible by an increased police budget and a 3-year Law Enforcement Assistance Administration grant beginning in 1976.

A city official said St. Paul did not relinquish authority to or assume financial responsibility for providing services from another governmental unit from 1975 through 1977.

A city accountant said the recession did not raise administrative costs during 1976 and 1977. Some possible reasons are the city favored a belt-tightening position on expenditures; program costs which react to a recession, such as welfare, are not borne by the city; and the unemployment rate is down. The average unemployment rate in 1976 was 6.7 percent while through November 1977, the average rate was 5.8 percent.

Budget adjustments

From 1975 to 1977, the tax mill rates were 45.223, 34.682, and 35.532, respectively. The decrease in 1976 occurred mostly because State aid to the city rose $4.7 million. The increase in 1977 reflects the higher costs of doing business. The assessment method did not change during that period. At least one-fourth of all parcels of real property in a taxing district must be reassessed every year.

Much of the city property is carried at less than estimated market value. Although all property is to be brought up to estimated market value by 1980, the increase in assessed value is limited by law to 10 percent per year. In addition, increases in the property tax mill rate are limited by law to 6 percent per year.

The number of St. Paul full-time equivalent employees has been fairly stable from 1975 through 1977, increasing slightly as shown in the following schedule.

	1975	1976	11/4/77
Full-time equivalent employees	3,407	3,459	3,596
CETA-Title I	9	9	16
Total	3,416	3,468	3,612
Increase over prior year	-	52	144

Officials said greater Federal funds and State aid allowed the city to increase its staff in the park and recreation program and the police department. No layoffs occurred from 1975 through 1977 except within the public works department where approximately 30 employees were laid off in 1977 because of a shortage in the intragovernmental fund.

STATUS, USE, AND IMPACT OF ANTIRECESSION ASSISTANCE PAYMENTS

St. Paul received $830,246 of antirecession assistance funds for the first five quarters. All funds were disbursed within 6 months for the removal of diseased trees.

The city received its sixth quarter payment of $177,201 in October 1977. In December, a resolution by the city council authorized the use of the sixth quarter payment and up to $679,002 of future funds for the shade tree disease control program.

The first three quarter payments were commingled with city, State, and other Federal money in one account, making accounting identification of a specific use impossible. The superintendent of parks and recreation said that these initial payments were used to pay private contractors for tree removal services. The fourth and fifth quarter payments were accounted for separately from other funds and disbursements were all traceable to payments to private contractors for tree removal services.

A disease control program that has existed in St. Paul for a number of years was expanded to include removal of trees on private property in the fall of 1976. Expansion of the program was badly needed and would have occurred to some degree without antirecession funds.

According to a city official, St. Paul's financial situation for 1976 and 1977 is best described as revenues are being collected on line to meet budgeted expenditures, and antirecession funds were used to increase the authorized level of expenditures.

Antirecession assistance was received when the shade tree disease control program was being expanded to cope with the growing problem of Dutch elm disease. Without antirecession funds, the program would probably still have expanded to the present level, but some of the funding would have necessarily come from other sources.

TOLEDO, OHIO

The city borders on the western shore of Lake Erie, with Michigan to the north, and is 75 miles east of Indiana. The city covers 85 square miles, and its 1970 population of 383,105 made it the fourth largest city in Ohio.

Toledo is the home of three of the nation's largest glass companies and is the largest oil refining center east of Chicago. The area also has manufacturers of automotive parts, spray painting equipment, food, scales, petroleum products, chemicals, machinery, tools, cosmetics, jet engines, shafts and transmissions, plastics and die casting.

Among various economic indicators for the city or the Toledo area are the following:

--Area employment went from 282,000 in 1970 to 338,000 in September 1977. About 56 percent of the employed work within Toledo.

--Average weekly earnings of factory production workers increased from $266 in September 1976 to $302 in September 1977.

--Disposable income in 1975 for the average household was $16,455. ($5,423 on a per capita basis).

--Retail sales increased from $1.8 billion in 1972 to an estimated $2.3 billion in 1975.

--Building permits in the city rose from 4,979 in 1971 to 8,110 in 1976; however, the value of related construction during this period fell from $70.2 to $68.8 million.

Toledo has a council-manager form of government. The legislative authority is vested in the city council of which one member is the mayor who presides at all council meetings. A city manager, appointed by the council, is the chief executive and administrative officer. The city manager appoints the directors of the several departments. The city auditor is appointed by the mayor with the consent of the council. City departments provide many services including police and fire protection, refuse collection, street maintenance, health care, and water and sewer systems.

FINANCIAL CONDITION IS ACCEPTABLE AND IMPROVING

Toledo officials believe that the city's financial condition in 1976 and 1977 was acceptable but not as healthy as they would like. While income and property tax revenues increased in both years, no new programs or services were funded because of inflation's impact on expenditures. Basic services were provided at respectable levels mainly because of the Federal aid from the general revenue sharing, Comprehensive Employment and Training Act, and antirecession assistance programs. According to Toledo officials, the Federal government carried the city in 1975 and 1976. Further, they stated that the antirecession assistance program in 1977 enabled Toledo to continue its 1976 level of services.

Assuming that current economic conditions continue, i.e., the upward trend in employment and a reasonable inflation rate, officials believe the city's financial condition will be healthy in 1979. This means it will have the funds to maintain a reasonable level of normal services and fund a limited capital improvement program.

Revenues increasing faster than expenditures

Actual revenue in 1976 and estimated revenue to be received in 1977 for general fund operations increased at a faster pace than general fund expenditures. For the 2 years, general fund revenue increased 12 percent and 13 percent over the previous year, whereas general fund expenditures were increasing at the rate of 9 and 11 percent respectively. This situation improved Toledo's financial condition since it will not be necessary to use much of the 1976 general fund balances for 1977 expenditures. Fund balances were used in the prior two years.

The city's total revenue rose 10 percent from 1975 to 1976 and is estimated to increase an additional 10 percent in 1977. Meanwhile, total operating expenditures grew 19 percent from 1975 to 1976 and will increase 8 percent in 1977.

Locally-generated revenue increased from $77.2 million in 1975 to an estimated $90.8 million in 1977. Increasing revenues from local income and property taxes used mainly for general fund purposes accounted for $9.5 million of the $13.6 million increase. The remaining $4.1 million is attributed to service fees, admission charges, rentals, and fines.

City income tax revenue is steadily increasing and has exceeded estimates for the past three years by 2 to 6 percent annually. The income tax revenue rise is attributed to improving employment, growing weekly earnings, and increased corporate profits. The income tax rate did not change during the period reviewed.

Property tax collections increased by $220,000 in 1976 and should increase by about $2 million in 1977 because the assessed value of property was raised over $500 million. Ohio enacted a law requiring that in 1976 property be assessed at 35 percent of its market value as compared with the prior assessed rate of 32.4 percent. This rate change occurred at the same time as the sexennial reappraisal of real property. There has been no property tax rate increase for several years.

Toledo officials project receiving about $39.7 million in other locally-generated revenue in 1977 as opposed to $40.2 million in 1976 and $35.9 million in 1975. Other revenue includes sanitation fees, water fees, special assessment fees, admission charges, rentals, and fines.

Water and sanitation fees increased by $3.4 million over 1975 due to increased water consumption and water rate increases of 39 and 10 percent in 1976 and 1977. Revenue from special assessments increased by $1.5 million because of increased costs for services such as street cleaning, snow removal, leaf collection, and ditch cleaning. This revenue is received in the second year after the cost is incurred.

Intergovernmental revenue which consists mainly of Federal grants and the redistribution of various taxes and fees imposed and collected by the State, increased from $33.4 million in 1975 to $43 million in 1976 and dropped to an estimated $38.6 million for 1977. The revenue from State government has been reduced, whereas Federal revenue has increased.

Toledo received Federal revenues totaling $20.4 million, $31.3 million, and $26.3 million in 1975, 1976, and 1977, respectively. In 1976, Toledo switched from a cash basis to the accrual basis for recording general revenue sharing funds. This change in accounting methods increased 1976 Federal revenue by $1.3 million. Community development and antirecession assistance accounted for much of the 1977 increase over 1975.

The State imposes certain taxes and fees, such as sales tax, gasoline tax, and automobile license fees, which are partially redistributed to local government units based on formulas. Toledo has no control over the revenue amount it receives from the State's collection of these taxes and fees. Toledo received $13 million from the State in 1975 and will get about $12.3 million for 1977.

Expenditures increasing

Toledo's total expenditures including capital projects for 1975 were about the same as those for 1976, but they will probably be higher in 1977. The higher expenditures are mainly attributed to normal inflationary pressures and greater expenditures for capital improvements. While expenditures are increasing, the level of services has undergone no significant changes.

Most normal operation expenditures ($52.7 million in 1975 and $57.2 million in 1976) are for general fund activities. In both years, general fund expenditures exceeded the initial budget. Toledo expects the 1977 general fund expenditures to approximate the budget of $56.4 million.

Other operations are primarily Federal assistance programs such as community development and manpower. According to city officials, Federal program expenditures over the past few years have declined because of reduced funding levels. They stated that the reduced funding coincided with the Federal Government's switch from some categorical grants to block grants, such as community development.

According to Toledo officials, inflation was the only significant factor in 1976 and 1977 affecting expenditure levels. Inflation increased personnel expenditures and raised prices for goods and services. Personnel costs, which constituted 69 percent of Toledo's normal and other expenditures in 1976, are affected by inflation because labor contracts include annual improvement and cost-of-living allowance increases and greater fringe benefit outlays. The 1976 cost-of-living provisions of the labor contracts increased expenditures by $2.8 million for the last 6 months of 1976 and all of 1977, and the annual improvement factor raised expenditures by $424,000 in the last 6 months of 1976. The annual improvement factor is a set rate, but the cost-of-living allowance is dependent upon the inflation rate.

Inflation contributed to the increase in the rate of fringe benefits in relation to salaries and wages. In 1975, fringe benefits were 37 percent of salaries and wages.

In 1976 and 1977, the relationship increased to 40 and 45 percent, respectively. The pension plans covering Toledo employees--State-operated but locally-financed--illustrate inflationary effects. As the pension benefits grow due to the cost-of-living allowances, the amount paid annually by Toledo rises. For example, the contribution rate paid by Toledo in relation to salaries and wages for employees covered by the Public Employees Retirement System increased from 11.2 percent in 1975, to 11.9 percent in 1976, to 13.95 percent in July 1977.

Other factors indicating an improved financial condition

There are several other factors indicating that Toledo's financial condition is improving. In 1975, Toledo used about $7.8 million from total funds' surpluses to meet expenditures. It used only about $0.6 million in 1976 and it is estimated that about $0.5 million will be used in 1977.

For the past 2 years, it has had no difficulty in selling short- and long-term debentures and its bond quality rating has remained the same at Aa. Toledo's short and long-term debt increased from $111.9 million in 1975 to $134.4 million as of December 31, 1977. Borrowed funds are used primarily for capital improvement projects.

Most of the capital improvement projects planned to start in 1976 and 1977 were begun. Generally, those not started were low priority projects and were not large. A few projects were delayed from one year to the next because of the timing for issuing notes or bonds to finance them.

MAJOR FACTORS INFLUENCING FISCAL HEALTH

Toledo officials cited several factors--favorable and unfavorable--affecting the city's fiscal health in 1976 and 1977. They believe the unfavorable factors outweighed the favorable ones.

Unfavorable factors were

--inflation,

--flight to the suburbs,

--new construction not keeping pace with buildings being demolished, and

--lingering effects of the recession.

Generally, these factors have either raised the government's costs or eroded the city's tax base. Inflation is considered by Toledo officials to be the only significant factor causing increased cost. Tax erosion, according to Toledo officials, occurs in two particular ways in their community. People and small industry continue to move to the suburbs causing the income tax base to decline as most people leaving the city are the middle and upper income families. Those left behind are lower income families. Flight by small industry reduces the income tax base and the property tax base. Lack of adequate construction to replace demolished structures also erodes the property tax base.

According to a Toledo official, the lingering effects of the recession have affected income tax revenue. Had it not been for the recession, he believes that 1976 and 1977 income tax collections probably would have been greater.

With the exception of the recession's effect on income tax revenue, Toledo officials consider the unfavorable factors to be long-term problems. They stated that these problems have been around for quite a while and the city will have to continue to contend with them for the forseeable future.

Favorable factors were:

--Federal assistance, i.e., general revenue sharing and antirecession funds;

--rising employment; and

--reassessment of property values in 1976.

The favorable factors positively affected Toledo's revenue-raising capacity. For example, income tax revenue for 1977 is $7 million greater than for 1975. Property tax collections are $2 million higher, and Federal general revenue sharing and antirecession funds are up $1.4 million.

This increased revenue has enabled the city to maintain its normal level of services, slightly increase public employment, and avoid tax increases. Further, the additional revenue assisted the city in financing its higher priority capital improvement projects.

<u>Services have not been affected</u>

Despite the recent recession and the aforementioned long-term problems, a Toledo official stated that for 1976 and 1977 the city did not reduce any services; but funds have not been available for new programs and services. The city in 1976 and 1977 has not relinquished authority to another level of government for providing any services, nor has it assumed the responsibility and cost for providing services previously provided by another government unit. Further, the recent recession did not increase Toledo's administrative costs as welfare and unemployment claims are handled by the county and State governments.

STATUS, USE, AND IMPACT OF ANTIRECESSION ASSISTANCE

Antirecession assistance payments--first used by Toledo in 1977--are helping finance all general fund operations. For accountability purposes, Toledo budgeted the antirecession funds for salaries and wages of the municipal garage and zoo. Of the $1,800,757 antirecession payments received through October 31, 1977, it is estimated that $1.5 million will be spent by December 31, 1977. The remainder will be appropriated for 1978 and will be spent within the required 6 months.

According to Toledo officials, antirecession payments are being used to maintain basic services. Although income tax receipts have been steadily rising, officials believe the recession restricted revenue growth and that greater revenues would been collected had the recession not occurred. Consequently, they stated that antirecession payments are being used to combat the lingering effects of the recession.

According to Toledo officials, the antirecession payments enabled the city to maintain its normal level of services. They also stated that without these funds in 1977 Toledo would have had to cut back on expenditures for equipment purchases and nonessential services.

Antirecession payments budgeted for salaries and wages

The city, during the annual budgeting process, considers all revenue available for general fund functions before it finalizes budgeted expenditures. Available revenue includes property taxes, income taxes, Federal general revenue sharing and estimated antirecession payments to be received. After the budgeted expenditures have been established for each department, the city selects one or more accounts containing salaries and wages that equal or exceed the estimated antirecession payments and budgets antirecession funds to pay these salaries and wages. A Toledo official stated that this budgetary process is strictly for accountability purposes, but in reality the antirecession payments assist in funding the entire general fund operations.

Under the initial appropriation act for the antirecession program, Toledo expected $1 million in antirecession payments. The entire amount was appropriated for 1977 salaries and wages for the municipal garage. As of October 31, 1977, municipal garage salaries and wages expended against the appropriation were about $1,004,000.

After Toledo's 1977 antirecession payments were increased by $800,757 to $1,800,757, Toledo appropriated $382,560 of the increase for salaries and wages of the city zoo. As of October 31, 1977, zoo salaries and wages disbursed against this appropriation were almost $216,000. The city expected to disburse the remainder of the payment and appropriate an additional $118,197 by December 31, 1977. As of December 31, 1977, Toledo had $300,000 of its 1977 antirecession payments unappropriated. This amount plus the 1978 estimated $1.5 million of antirecession payments will be appropriated for use in 1978.

City-wide, the antirecession payments did not increase public employment. Toledo's full-time employment was 3,828 in 1976 as compared to 3,820 in 1977. Part-time employment was 253 in 1976 and 257 in 1977. No layoffs occurred during this period.

City officials stated that the antirecession funds enabled the city to maintain the same work force that it had in 1976 and to maintain its normal level of services. They also stated that had Toledo not received these funds it would have been necessary to cut back on expenditures. The priorities for cutbacks, according to these officials, would have been equipment purchases and then less essential services which may have included some reduction in part-time employees.

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