112732

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Impact Of Eliminating The States From The General Revenue Sharing Program--A Nine-State Assessment

The general revenue sharing program is due to expire September 30, 1980. Elimination of the States' share of revenue sharing has become a central issue in congressional deliberations on renewing the program. GAO visited nine States to assess their fiscal health and the potential impact of their losing revenue sharing funds.

GAO concluded that, although the loss of revenue sharing funds would create difficulties for the States visited, the loss would not cause them severe hardship.

GGD-80-68
JUNE 27, 1980

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

B-198603

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

This report discusses the financial condition of State governments and the fiscal adjustments the States believed they would have to make if their share of general revenue sharing were not reauthorized.

To assist the Congress in considering the issue of reauthorizing revenue sharing, we visited nine States to assess the potential impact of eliminating State governments from the revenue sharing program. Because of State differences, our review does not provide a statistically valid basis for projecting our observations to all 50 States. To project our observations nationally would probably necessitate a review of almost all the States. However, the information we developed on the nine States was generally consistent with national data, where such data was available.

Because of anticipated early action on pending legislation concerning this matter, we did not take the additional time needed to obtain written agency comments. However, we did obtain oral agency comments.

We are sending a copy of this report to the Director, Office of Management and Budget; and the Secretary of the Treasury.

Milton J. Socolar
Acting Comptroller General
of the United States

HSE01505
SEN01502
AGC00038

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

IMPACT OF ELIMINATING THE STATES FROM THE GENERAL REVENUE SHARING PROGRAM--A NINE-STATE ASSESSMENT

D I G E S T

GAO assessed the potential impact of States' losing general revenue sharing funds when program authorization expires on September 30, 1980. GAO determined that the nine States it studied would not be severely affected by the loss.

Under the general revenue sharing program, about $6.9 billion in Federal funds is distributed annually to State and local governments. States receive one-third of the monies; local governments, two-thirds. (See p. 1.)

The Congress is considering renewing the program. Whether State governments should continue to receive revenue sharing funds has become a central and controversial issue surrounding the program's renewal. (See p.1.)

In studying this issue, GAO visited nine States--Arkansas, California, Idaho, Mississippi, New York, North Carolina, Vermont, Wisconsin, and West Virginia--to assess their fiscal health and the potential impact of their loss of revenue sharing funds.

Because States' economic situations and budgetary and fiscal policies differ, it would be statistically invalid to project GAO's observations to all 50 States. However, GAO has no reason to believe that its observations on the fiscal health of the nine States and their ability to absorb the loss of revenue sharing funds are at odds with the fiscal health of the States in general. (See p. 26.)

STATES' FISCAL HEALTH IS SOUND BUT FISCAL GROWTH SHOWS SIGNS OF SLOWING

In general, the nine States were fiscally healthy and, for most, the short-term prospects for continued health were good. Officials' perceptions of their States' sound financial health were generally supported by indicators of fiscal condition, such as revenues, expenditures, surpluses, tax actions, and bond ratings. Although the

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indicators pointed toward continued growth in revenues, expenditures were projected to increase more rapidly than revenues, and surpluses were projected to decline (as they did in some States in fiscal year 1979). These projections may signal a slowing of the sustained fiscal growth of recent years.

IN MOST STATES EFFECTS OF LOSING REVENUE SHARING WERE UNPREDICTABLE

According to State officials, the nine States could make a variety of budgetary decisions to compensate for the loss of revenue sharing. (See pp. 18 to 21.) Although it is clear that the loss would not necessarily be felt in those programs reported as being funded by revenue sharing, officials in most of the States could only speculate on what the eventual impact would be. (See pp. 14 to 16.)

Regardless of the eventual impact, most of the States would not need to make a full-year budgetary adjustment until their fiscal year 1982 since revenue sharing payments will continue through the first half of their fiscal year 1981. (See p. 14.)

Regarding the impact beyond fiscal year 1981, officials of five States said they believed the loss of revenue sharing would not result in cuts in State aid to local governments, although some thought the rate of growth of State aid might be slowed. Only one State--New York--was certain that it would pass the loss through to the local level. Of the many actions that States said they could take to compensate for losing revenue sharing funds, increasing taxes appeared no more likely than others. (See pp. 16 to 18.)

CONCLUSIONS

GAO concluded that although the loss of revenue sharing in the nine States would create difficulties,

--where specific effects would be felt could not be predicted with certainty in most of the States and

--the loss would not cause severe hardship.

STATE AND AGENCY COMMENTS

The short time between completion of the draft report and congressional deliberations on reauthorization of revenue sharing prevented GAO from obtaining State officials' comments on the draft report. During GAO auditors' visits, however, perceptions of executive and legislative officials of all but two States--California and New York--supported the observations that, while specific effects of losing revenue sharing are generally uncertain, the loss would not result in severe hardship.

While California and New York officials acknowledged the soundness of their States' current fiscal health, a number of contingencies caused them to be apprehensive about the future. They believed that the outcome of these contingencies would determine their States' future fiscal health, and, in turn, the States' ability to withstand the loss of revenue sharing without severe hardship.

State officials were almost unanimous in the view that State governments should be retained in the revenue sharing program. In addition to noting that the States effectively use revenue sharing funds, officials pointed to the program's greater flexibility, lack of red tape, and lower administrative cost as factors which counterbalance the more rigid requirements of Federal categorical grant programs. (See p. 23.)

Department of the Treasury officials, in commenting on this report, referred to a similar study done recently for that Department by a private firm. This study also included nine States, two of which were included in the GAO study.

Treasury officials said that the only significant difference in the two studies' conclusions concerned the potential impact on State aid to local governments. While GAO's report concluded that, in most States reviewed, there would be no significant impact on State aid, the Treasury commissioned report concluded that the impact on State aid in the States reviewed would be significant. Treasury officials believed this divergence of conclusions was largely due to a difference in study methodologies. GAO agrees.

GAO's criterion for what constituted an adverse impact on State aid was a reduction in aid in relation to the current, actual level of aid.

Treasury's criterion was either an aid reduction <u>or an aid increase prevented</u>. The Treasury study compared the States' projections of future aid to local governments--assuming continuation of revenue sharing--with their projections of future aid assuming the loss of revenue sharing. The Treasury report concluded that, despite the assumed loss of revenue sharing, State aid in some States was expected to increase. However, since the increases would not be as large as they would have been if revenue sharing were continued, the report concluded that loss of revenue sharing would have an adverse impact on aid to local governments in those States. (See pp. 23 and 24.)

C o n t e n t s

CHAPTER		Page
1	INTRODUCTION	1
	The issue: Should the States continue to receive revenue sharing funds?	1
	States visited during review	2
2	STATES' FISCAL HEALTH IS SOUND BUT FISCAL GROWTH SHOWS SIGNS OF SLOWING	3
	General operating fund expenditures have risen slightly faster than revenues while surpluses have declined	3
	States had favorable bond ratings	7
	States have enacted tax relief measures and spending limitations	8
	Officials considered States fiscally sound	10
	Conclusions	13
3	IN MOST STATES EFFECTS OF LOSING REVENUE SHARING WERE UNPREDICTABLE	14
	Loss of revenue sharing would have limited immediate impact in States visited	14
	States' reported use of revenue sharing funds does not necessarily indicate potential impact of losing the funds	14
	Likelihood of impact on State aid to local governments differed among the nine States	16
	State officials indicated other possible impacts	18
	States' past budgetary actions are not reliable indicators of future actions in response to loss of revenue sharing	21
	Conclusions	21
4	STATE AND AGENCY COMMENTS	23
	State Comments	23
	Agency Comments	23
5	SCOPE OF REVIEW	25

APPENDIX		Page

APPENDIX		Page
I	The States' general revenue sharing funds as a percentage of States' total revenues, 1978	27
II	Nine State governments' general operating fund revenues, expenditures, and unrestricted surplus balances, fiscal years 1974 through 1980	29
III	Trends in general operating fund revenues, expenditures, and unrestricted surplus balances at close of fiscal years 1974 through 1980	31
IV	Nine States' general operating fund revenues and expenditures year-to-year percentage changes compared with State and local governments' inflation rates, fiscal years 1974 through 1980	36
V	Classification of fiscal health of nine State governments based on current general obligation bond ratings	37
VI	Nine State governments' 1978 and 1979 tax actions	39

CHAPTER 1

INTRODUCTION

General revenue sharing was authorized by the State and Local Fiscal Assistance Act of 1972, as amended (31 U.S.C. §1221 et seq.), commonly called the Revenue Sharing Act. In 1976, revenue sharing was extended through fiscal year 1980 by the State and Local Fiscal Assistance Amendments. The revenue sharing program, as established by the act, provides a new approach in granting financial assistance to State and local governments. Unlike the Federal Government's categorical aid programs, which require recipients to use the funds for narrowly defined purposes, the revenue sharing program allows recipients wide discretion in deciding how to use the funds.

The Office of Revenue Sharing, Department of the Treasury, administers the program. It distributes about $6.9 billion annually, allocated by formulas, to more than 39,000 State and local governments. States receive one-third of the monies (or about $2.3 billion); local governments, two-thirds.

Each year, the significance of revenue sharing as a source of State revenue has diminished. For example, Bureau of the Census data showed that in fiscal year 1974, revenue sharing receipts constituted about 1.5 percent of total State revenues, while in fiscal year 1978 they constituted about 1.0 percent. The 1978 payments to individual States, as percentages of each State's total revenues, ranged from a low of about 0.5 percent to a high of about 1.8 percent. (See app. I.)

The significance of revenue sharing in relation to total Federal aid to States has also declined over the years. In fiscal year 1974, it represented about 6.5 percent of total Federal aid to State governments; in 1978, about 4.5 percent.

THE ISSUE: SHOULD THE STATES CONTINUE TO RECEIVE REVENUE SHARING FUNDS?

With program authorization due to expire on September 30, 1980, the Congress is now considering the question of extending, altering, or terminating the program. Whether State governments should continue to receive revenue sharing funds has become a central and controversial issue surrounding renewal of the program. Some Members of the Congress have pointed to the States' improved fiscal health and questioned whether the Federal Government, with its annual deficits, should continue to distribute revenue sharing funds to the States. Groups favoring retention of the States in the program maintain that the States are not as fiscally healthy as they may appear and that States' surpluses and general fiscal health will decline in the coming years. They also contend that if States lost revenue sharing funds, not only would State programs suffer, but States could be compelled to reduce aid to local governments.

STATES VISITED DURING REVIEW

The States we visited in making this review were Arkansas, California, Idaho, Mississippi, New York, North Carolina, Vermont, Wisconsin, and West Virginia. As stated in chapter 5, which describes the scope of this review, these nine States were selected with a view to obtaining geographic dispersion and a good mix of such variables as the amount of revenue sharing money received, aid provided to local governments, surpluses, and fiscal stress. In calendar year 1979, these States received 31 percent of the total revenue sharing payments made to the 50 States, with California and New York accounting for about 22 percent. In fiscal year 1978, revenue sharing payments to the nine States, as percentages of each State's total revenues, ranged from California's low of about 0.8 percent to Mississippi's high of about 1.8 percent.

The following table shows the revenue sharing monies (in millions of dollars) that the nine State governments reported receiving in their fiscal year 1979.

State government	1979
Arkansas	$ 22.2
California	256.3
Idaho	8.0
Mississippi	33.4
New York	256.5
North Carolina	56.4
Vermont	6.9
West Virginia	18.4
Wisconsin	53.2

CHAPTER 2

STATES' FISCAL HEALTH IS SOUND BUT FISCAL GROWTH SHOWS SIGNS OF SLOWING

Because the States' fiscal condition provides insight into both the extent of their continued need for revenue sharing assistance and their capacity for absorbing its loss, we examined all nine States' fiscal health. In general, the States were fiscally healthy and, for most, the short-term prospects for continued health were good. Indicators of fiscal health generally supported officials' perceptions of their States' sound financial condition. Although the fiscal health indicators pointed toward continued growth in revenues, expenditures were projected to increase more rapidly than revenues, and surpluses were projected to decline. These projections may signal a slowing of the sustained fiscal growth of recent years.

GENERAL OPERATING FUND EXPENDITURES HAVE RISEN SLIGHTLY FASTER THAN REVENUES WHILE SURPLUSES HAVE DECLINED

In examining each State's revenues, expenditures, and surpluses, we focused on its general operating fund. State officials considered this fund, which finances most current operations, the best single indicator of a State's fiscal health.

Consistent with national trends in total State revenues and expenditures, the nine States' general operating fund revenues and expenditures rose substantially during the past 6 fiscal years (1974 to 1979). Generally, among the nine States individually, general operating fund expenditures increased from year to year slightly faster than revenues. In contrast, general operating fund unrestricted surpluses fluctuated widely from year to year; however, in most States, current (fiscal year 1979) unrestricted surpluses were significantly below 1978 balances. The nine States' general operating fund projections indicated current trends will continue into the short-term future.

Revenues increased at slower rates

Paralleling a national trend in total State revenues, the nine States' general operating fund revenues rose substantially during the past 6 years. The States' projections of fiscal year 1980 revenue indicated continued increases but at rates generally slower than in previous years.

As shown in appendixes II and III, general operating fund revenues for all nine States generally increased each year between fiscal years 1974 and 1979. Although there were annual fluctuations, with the exception of New York and Vermont the States' revenue growth generally kept pace with or was ahead of inflation during the same period. (See app. IV.) In 4 of the 6 years, including fiscal year 1979, the majority of the nine States saw revenue growth rates lag behind expenditure growth rates.

The eight States with fiscal year 1980 general operating fund projections expected continued revenue growth but at generally slower rates than had been realized since 1974. Four States--Arkansas, California, Mississippi, and New York--expected higher rates of revenue growth in fiscal year 1980 than in 1979. Idaho, North Carolina, Vermont, and West Virginia expected lower rates of revenue growth than in 1979.

Expenditures increased at faster rates

Consistent with the national trend in total State expenditures, the nine States' general operating fund expenditures rose substantially during the past 6 years and, from year to year among the States individually, rose generally faster than revenues. The States' projections of fiscal year 1980 expenditures indicated continued increases close to or exceeding the past sustained high rates of increase.

As shown in appendixes II and III, general operating fund expenditures for all nine States generally increased each year between fiscal years 1974 and 1979. Although there was no consistent trend among individual States, their year-to-year expenditure growth in 4 of the 6 years, including fiscal year 1979, exceeded revenue growth. (See app. IV.)

Five of the eight States with fiscal year 1980 general operating fund projections expected continued expenditure growth at faster rates than they had experienced in most years since 1974. Three States--Arkansas, Idaho, and New York--expected higher rates of expenditure growth in fiscal year 1980 than in 1979. California, Mississippi, North Carolina, Vermont, and West Virginia expected lower rates of expenditure growth.

Unrestricted surpluses declined

General operating fund unrestricted surpluses--yearend surplus balances available for appropriations or expenditures in the next or subsequent fiscal years--have fluctuated widely from year to year in the nine States we visited. (See apps. II and III.) However, in six of these States, current (fiscal year 1979) unrestricted surpluses were significantly below 1978 balances. Of the seven States with available projections of fiscal year 1980 surpluses, four projected surpluses significantly below 1979 balances.

As shown in the following table, five of the nine States' fiscal year 1979 general operating fund unrestricted surpluses, as percentages of general operating fund revenues, were lower than their average ratios for the past 6 years. Six States' 1979 surplus ratios were significantly lower than their 1978 ratios.

Ratios of General Operating Fund Unrestricted Surpluses to General Operating Fund Revenues

State	6 year average ratio (FY 1974 to FY 1979)	Ratio FY 1978	Ratio FY 1979
	(percent)		
Arkansas	2.6	4.0	1.2
California	14.4	26.9	17.0
Idaho	3.8	1.3	3.1
Mississippi	10.1	13.0	8.4
New York (note a)	b/(0.9)	0.04	0.04
North Carolina	7.2	8.4	7.5
Vermont	1.1	2.8	0.1
West Virginia	9.8	6.7	c/3.4
Wisconsin	5.8	9.6	6.1

a/See footnote a, appendix II.
b/Deficit.
c/Ratio based on estimated data.

A report prepared jointly by the National Governors' Association Center for Policy Research and the National Association of State Budget Officers noted that state budget officers and bond rating analysts regard the ratio of unobligated balances, or unrestricted surpluses, to total general fund expenditures as a key indicator of a State's fiscal condition. The report further stated that "a 5 percent ratio of unobligated balances to expenditures is considered a reasonable target for a State, although individual circumstances may dictate a higher or lower balance."

As reported in the above Associations' joint publication Fiscal Survey of the States, 1979-1980, 15 States had unobligated balances of less than 5 percent of their own-source general fund expenditures in fiscal year 1979. Nine of these 15 had balances of 2 percent or less. Reflecting an expected downward trend in surpluses, 29 States projected 1980 yearend balances of less than 5 percent, with 17 of these anticipating balances of 2 percent or less.

As shown in the table below, five of the nine States we visited had general operating fund unrestricted surpluses of less than 5 percent of general operating fund expenditures in fiscal year 1979. Three of these five had ratios of less than 2 percent. As did the 29 States above, 6 of the 7 States which projected 1980 unrestricted surpluses expected surplus-to-expenditures ratios of below 5 percent. Five of the six projected ratios of less than 2 percent.

Ratios of General Operating Fund Unrestricted Surpluses to General Operating Fund Expenditures

State	Ratio FY 1979	Estimated ratio FY 1980
	-----(percent)-----	
Arkansas	1.3	1.2
California	15.9	9.8
Idaho	3.2	4.7
Mississippi	8.1	1.4
New York (note a)	0.04	(c)
North Carolina	7.6	0.2
Vermont	0.1	0.1
West Virginia	b/3.4	1.3
Wisconsin	6.0	(c)

a/See footnote a, appendix II.
b/Ratio based on estimated data.
c/Data not available to calculate ratio.

Of the seven States making fiscal year 1980 general operating fund unrestricted surplus projections, five projected decreases in surplus dollar amounts from 1979 balances.

Four States--California, Mississippi, West Virginia, and Wisconsin--had made longer range forecasts of declining surpluses during the early 1980s.

California has forecasted the continued drawdown of the State's general fund surplus by about $1 billion a year. The State's fiscal year 1981 surplus is projected to be about $674 million. For 1982, a $628 million deficit is projected. California's bleak outlook is attributable primarily to Proposition 13, a 1978 voter initiative which drastically reduced local property tax revenues. As a result of the reduction, the State government assumed the burden of funding programs formerly financed by local governments. This forecast did not take into consideration the (then) potentially significant impacts of Proposition 9, an initiative which--had it been approved by voters--would have required a 50 percent reduction in California's personal income tax rates. In June 1980, voters rejected the proposition.

Eight of the nine States we visited have legal constraints against deficit spending. Vermont has no such constraint, and as shown in appendix II, incurred general operating fund deficits in fiscal years 1975 and 1976. As reported under New York's cash accounting system, that State incurred general operating fund deficits in fiscal years 1975, 1976, and 1977. To offset those deficits, however, the State issued tax and revenue anticipation notes and borrowed money from available balances in the Tax Revenue Stabilization Reserve Funds. These funds were established to serve as a depository for surplus in excess of general fund requirements and are used to meet unplanned yearend deficits.

STATES HAD FAVORABLE BOND RATINGS

Since bond ratings provide a broad measure of fiscal condition, we examined the general obligation bond ratings held by eight of the nine States. (Arkansas, with no general obligation debt, had no rating.) These eight States have enjoyed good to excellent ratings since fiscal year 1977. As shown in appendix V, six States had excellent Moody's or Standard and Poor's general obligation bond ratings and two--New York and West Virginia--had good to excellent ratings.

In January 1980, Standard and Poor's lowered California's rating from AAA to AA+. As reasons for making this change, Standard and Poor's cited the State's

--past and potential tax reduction and expenditure limitation programs;

--excesses of expenditures over revenues in 1979 and expected excesses in 1980 and 1981;

--drawdown of accumulated surpluses; and

--management practices; for example, a reluctance to reduce expenditures.

Standard and Poor's also lowered New York's general obligation bond rating from AA to AA- in December 1979. This minor change was made because of the State's

--growing use of income tax refunds to adjust its yearend cash position,

--increasing expenditure pressures for services and for aid to local governments,

--revenue pressures resulting from tax reduction programs and anticipated expiration of the general revenue sharing program, and

--legislative override of the Governor's veto on fuel subsidy legislation.

STATES HAVE ENACTED TAX RELIEF MEASURES AND SPENDING LIMITATIONS

Nationally, numerous tax reductions and, to a lesser extent, tax and expenditure limitations have been enacted since 1978. Actions taken by the nine States we visited were consistent with these national trends.

States' tax cuts have outpaced increases

According to Tax Foundation, Inc., 1/ in calendar year 1978, 21 States enacted tax relief measures and 8 others increased taxes. For the first time in 4 years, tax reductions exceeded increases. The net result of these actions was to reduce State taxes by about $2.3 billion annually. In 1979, 33 States enacted tax relief measures and 13 increased taxes, producing net additional State tax reductions of about $2 billion.

As shown in appendix VI, all nine States enacted various tax reduction measures in calendar years 1978 and/or 1979. The majority of these reductions were in personal income, general sales, and business taxes. For example, eight States reduced personal income taxes, six reduced general sales

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1/Tax Foundation, Inc. is a publicly supported, nonprofit organization which conducts nonpartisan research and public education on the fiscal and management aspects of government.

taxes, and five reduced business taxes. According to State officials, some purposes of the tax cuts were to

--increase the States' competitive or economic climate in order to attract new businesses and retain established industries,

--reduce available surpluses, and

--provide a more equitable tax system.

In contrast to the tax reduction actions by all nine States, four of the nine increased or imposed new taxes in 1978 or 1979.

--California increased existing business taxes.

--Vermont and West Virginia enacted new business taxes.

--Arkansas and West Virginia increased gasoline taxes.

--West Virginia increased the State cigarette tax.

According to California officials, the State increased corporate and bank tax rates to offset reductions in the business inventories tax. West Virginia raised its gasoline and cigarette taxes to generate needed additional revenues. The State enacted its new privilege tax on the sale of electricity to provide more equitable taxation between producers and distributors.

Increased enactment of tax and spending limitations

Paralleling a more limited national trend, two of the nine States visited enacted or have proposed legislation to limit expenditures. As reported by the Tax Foundation, nationwide, 13 States in 1978 and three States in 1979 enacted tax and spending limitation measures. Most of these measures restrict future State spending or tax revenue growth to increases in personal income or other gauges of State economic growth.

In November 1979, California voters approved Proposition 4, a State constitutional initiative limiting expenditure growth. Proposition 4 placed a limit on year-to-year growth in certain tax supported appropriations of the State and most local governments. The initiative requires that certain appropriations be limited to the level of such appropriations in fiscal year 1979, adjusted annually for changes in population and cost of living. If, in any year after fiscal year 1980, total State or local revenues exceed total appropriations, the excess revenues must be returned to the State's citizens. While State officials did not expect the initiative to limit State appropriations in 1981, the measure could have a significant impact in future years.

In New York, the Governor had submitted legislation to limit the State's future expenditures. The Governor's bill, submitted with the fiscal year 1981 budget, would limit State general fund spending to the following percentages of actual fiscal year 1979 personal income.

Fiscal Year	Limit (percent)
1981	9.00
1982	8.75
1983	8.50
1984	8.25
1985 and on	8.00

OFFICIALS CONSIDERED STATES FISCALLY SOUND

According to State officials, a variety of favorable and unfavorable factors and financial management policies have affected and are expected to affect the States' fiscal health.

Factors identified as favorable to the States' financial health included:

--Continued industrial, agricultural, and employment growth.

--Influx of new industry.

--Growth in and changes to diversified economic bases.

--Progressive tax revenue structures.

--Conservative fiscal management practices.

Factors cited as working against the States' good fiscal health included:

--Economic pressures of inflation and recession.

--Problems associated with the Nation's energy crisis such as fuel costs and lack of alternative resources.

--Growth rates in older and poorer population groups demanding more expensive services than they generate in revenues.

--Federally mandated programs without adequate funding.

--Highway fund expenditures exceeding revenues.

--Tax reduction programs and unanticipated financial legislation resulting in revenue declines.

On balance, and despite adverse influences noted above, officials considered their States fiscally sound. Within each State, officials' perceptions of their State's current fiscal condition fell into one of the ranges, or categories, shown in the following table. The overall range was from "reasonable" to "excellent."

	Current health			
State	Reasonable to good	Fair to good	Strong to good	Good to excellent
Arkansas			X	
California				X
Idaho				X
Mississippi				X
New York	X			
North Carolina				X
Vermont				X
West Virginia		X		
Wisconsin				X

For the most part, the officials were optimistic about their States' short-term future fiscal health. As shown in the following table, their perceptions of their States' future health ranged from "questionable" to "excellent."

State	Questionable	Optimistic	Continued growth/health	Good to excellent
	Short-term future health			
Arkansas			X	
California	X			
Idaho				X
Mississippi		X		
New York	X			
North Carolina				X
Vermont			X	
West Virginia				X
Wisconsin				X

Although California officials considered the State's current health excellent, the State's future health was questionable for a variety of reasons. The most significant factors they cited as affecting the State's fiscal future were

--exhaustion of the State's surplus by fiscal year 1981,

--reduction of general fund revenues by about 25 percent in the event of Proposition 9's passage in June 1980 (see p. 7), and

--little hope of new taxes at either the State or local government level.

New York officials' views about their State's future fiscal condition were a mixture of apprehension and guarded optimism. Major reasons they cited for their concern included

--the "precarious balance" of the States's current fiscal condition;

--the continuation of tax reduction programs, which are considered necessary to improve the State's economic and business climate;

--the potential loss of general revenue sharing funds; and

--the possibility of unfavorable court decisions resulting in increased public spending.

In contrast to California and New York officials' apprehensions, West Virginia officials predicted future improvement in their State's fiscal condition. They believed the Nation's energy crisis would lead to an increase in the use of coal, thereby improving the financial status of West Virginia, a major coal-producing State.

CONCLUSIONS

State officials' perceptions that the fiscal health of the nine States was sound were generally supported by statistical indicators of fiscal condition. Officials in all States except California and New York were generally optimistic about their States' continued fiscal health. However, the States' projections that expenditures will increase more rapidly than revenues and that surpluses will decline (as they did in some States in fiscal year 1979) may signal a slowing of the States' fiscal growth of recent years.

CHAPTER 3

IN MOST STATES EFFECTS OF LOSING

REVENUE SHARING WERE UNPREDICTABLE

The loss of revenue sharing funds would affect State governments in a variety of ways. However, the States would not feel the full effects on their budgets until their fiscal year 1982. Although most State officials could only speculate on what the eventual impacts would be, clearly, States would not necessarily feel the impacts on those programs that revenue sharing monies are reportedly funding. Officials in most States believed the loss of revenue sharing would not result in cuts in State aid to localities. Only one State was certain that it would pass the loss through to the local level. Of the many actions States said they could take to compensate for losing revenue sharing funds, increasing taxes appeared no more likely than others.

LOSS OF REVENUE SHARING WOULD HAVE LIMITED IMMEDIATE IMPACT IN STATES VISITED

Under the present legislation, States receive revenue sharing payments shortly after each Federal fiscal quarter. The final entitlement quarter of the current program will end September 30, 1980. Since most States' fiscal years end on June 30, the States will receive the final two (June 30 and September 30, 1980) quarterly payments in their fiscal year 1981. Thus, if the program is not renewed, the States' budget year 1981 receipts will reflect only a partial-year loss of revenue sharing funds. States would not realize the first full-year impact of the loss of revenue sharing until their fiscal year 1982. In most of the nine States we visited, officials said the loss would, therefore, not result in any immediate, major fiscal effect.

STATES' REPORTED USE OF REVENUE SHARING FUNDS DOES NOT NECESSARILY INDICATE POTENTIAL IMPACT OF LOSING THE FUNDS

All States are required by the Revenue Sharing Act to report how they use revenue sharing funds. At first glance, it would seem logical to assume that the programs which States report as being funded by revenue sharing monies are the programs which would be most affected if revenue sharing were lost. This does not necessarily follow.

Identifying the impact of losing revenue sharing complicated by the fungible nature of money

In earlier reports, 1/ we stated that, because of the fungible (that is, interchangeable) nature of money, the actual effect of the use of revenue sharing funds could be quite different from the uses shown in a government's financial records or reports. We concluded that because budget choices are made on the basis of total resources available, the reporting of a specific expenditure as being made possible by revenue sharing funds could be misleading.

Comments of officials in four States illustrated the unreliability of the reported uses of revenue sharing funds as indicators of potential impact of loss of the funds. Officials of Idaho, North Carolina, Vermont, and Wisconsin stated that the loss of revenue sharing would have either no effect or only a partial effect on programs reported as being funded by revenue sharing. For example, Vermont officials said the State's Property Tax Relief Fund, currently supported by revenue sharing, would remain intact regardless of whether revenue sharing was continued or not. Officials of Idaho, North Carolina, and Wisconsin said a loss of revenue sharing funds would be viewed only as a drop in overall revenues. They said the loss would be distributed over the entire budget and would only partially affect revenue sharing funded programs.

Reported use of funds may be influenced by administrative expediency

States' reports of uses of revenue sharing funds are sometimes influenced by administrative expediency and do not necessarily reflect the States' funding priorities. Therefore, these reports cannot be relied upon to indicate programs which would be affected if revenue sharing were lost. For example, to avoid what it perceived as potentially burdensome administrative difficulties in enforcing the antidiscrimination requirements of a 1976 amendment to the Revenue Sharing Act, California shifted its reported use of funds from public education to the funding of the State share of the Supplementary Security Income program. Wisconsin allocated the entire revenue sharing amount to a single school

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1/Comptroller General's reports to the Congress:

"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).

district rather than to school districts throughout the State. It did so to limit the number of local governments subject to requirements of the Revenue Sharing Act.

LIKELIHOOD OF IMPACT ON STATE AID TO LOCAL GOVERNMENTS DIFFERED AMONG THE NINE STATES

A principal argument of some proponents of retaining the States in revenue sharing is that the loss of revenue sharing would result in cuts in State aid to local governments--a possibility that they believe would threaten the financial health of some local governments.

The degree to which State aid to local governments may be cut if revenue sharing is discontinued varies among the States. In five of the States visited, officials said the effect on this budget category would be minimal--at most, a curtailment in the growth of this aid. In three other States, the impact was less clear because of differing opinions on fiscal uncertainties. One State was certain that local assistance would bear the brunt of the loss of revenue sharing.

Nationally, the trend in State aid to local governments has been upward, and this assistance has become an increasingly significant revenue source for localities. According to the most recent available data, State aid to localities grew from $28.9 billion in 1970 to $65.8 billion in 1978 (about 32 percent of total State expenditures in fiscal year 1978). Since 1976, aid from the States has exceeded localities' property tax receipts, the major source of locally generated revenues.

In the eight States visited that could provide data for all or most of the period 1974 to 1979 (Idaho could provide none for any of the years; North Carolina, none for 1974), spending trends for aid to localities were consistent with the national trend. Since 1974, all eight States have increased local aid. New York had the the smallest percentage increase (about 22 percent), from about $5.1 billion in 1974 to $6.2 billion in 1979. California had the largest percentage increase (about 126 percent), from about $6.2 billion in 1974 to $14.0 billion in 1979. In this period, only three States showed a dollar drop in aid to localities--Vermont in 1976, New York in 1978, and West Virginia in 1979. Of the five States that provided estimates of aid to localities for fiscal year 1980, only two expected less than a 10 percent increase over 1979. New York expected a rise of about 2 percent and West Virginia about 6 percent.

Little or no impact expected in five States

Most officials in five of the States visited--Arkansas, Mississippi, North Carolina, Vermont, and West Virginia--indicated that they expected no reduction in State aid to local governments if States lost revenue sharing. Arkansas and West Virginia officials said that State aid would continue to rise. In Mississippi, officials said that State aid would be unaffected because of (1) the relative insignificance of revenue sharing funds that would be lost (in fiscal year 1979, revenue sharing funds represented 1.3 percent of total State revenues) and (2) local resistance that could be expected if attempts were made to reduce local aid. North Carolina officials said expanding revenues would probably cover the loss of revenue sharing funds and make cuts in State aid unnecessary; however, they thought that growth in State aid might be curtailed. In Vermont, most officials expected no cuts in State aid, but some thought that a curtailing of growth in State aid might result. The Governor, however, cautioned that actual cuts might be necessary.

Differing opinions on aid cutbacks in three States

In three other States, the potential impact on State aid was less clear.

Wisconsin officials disagreed on whether aid would be cut. For example, a senior executive branch official said it was politically unlikely at least in fiscal year 1981, while three ranking legislators said State aid was the logical place to cut because it constituted so much of the State budget (30 percent of total State expenditures).

In California, the issue was clouded by a variety of uncertainties, such as the projected deficit in fiscal year 1982 and the passage of Proposition 9. (See p. 7.) Officials said that, depending on the outcome of these uncertainties, the loss of revenue sharing could contribute to either severe or only minimal cuts in State aid. With the subsequent rejection of Proposition 9 by California voters, the potential impact of the loss of revenue sharing on State aid was lessened.

In Idaho, officials agreed that the loss of revenue sharing funds would probably result in an across-the-board action affecting both State-level and local aid spending.

Budgeting for this loss may be further complicated by a 1978 voter-approved initiative similar to California's Proposition 13. While this initiative, effective January 1, 1980, would not directly affect State revenues, it could increase local governments' demands for State assistance. The initiative would cost localities an estimated $17.6 million annually in reduced local property tax revenues.

New York saw cuts in State aid as a certainty

New York was the only State visited in which officials agreed that the loss of revenue sharing would be passed through to local governments. All eight officials we interviewed said local assistance would sustain the bulk of the loss. This means that, effective in the State's fiscal year 1982, the first full year without Federal revenue sharing if the States are eliminated from the program, State aid could be reduced by almost 4 percent. Six of the officials said that, within the local assistance area, the State's own revenue sharing program would be the program most likely affected.

STATE OFFICIALS INDICATED OTHER POSSIBLE IMPACTS

State officials indicated a number of other potential effects of losing revenue sharing funds, such as cuts in State services, tax increases, and reductions in States' participation in Federal formula grant programs because of their inability to meet Federal matching or maintenance-of-effort requirements. Most of these impacts were considered only possibilities and officials could not provide specifics. Some were considered certain, however--notably the following:

--Cutbacks in Arkansas' secondary rural road construction or improvements by an estimated 294 miles per year.

--Reductions in Mississippi's personnel and capital construction programs.

--Cutbacks in West Virginia's capital improvement projects.

According to the officials, increasing taxes, at first glance a likely reaction to losing revenue sharing funds, appeared no more likely than other possibilities.

Following are other potential impacts cited by officials in the various States.

Areas of possible impact	States	Other possible impacts cited
Taxes	Arkansas	Highway user fees could be increased but unlikely.
	California	Politically difficult to raise taxes, but could consider increasing sales tax or piggybacking local taxes on State taxes.
	Idaho	Sales tax possible but absorbing loss more likely.
	Mississippi	Possible increase but a reduction in spending more likely.
	New York	Although committed to tax reduction program, possible increase in nuisance taxes.
	North Carolina	No near-term tax increase; belt tightening a possibility.
	Vermont	Tax hike possible if more revenue is needed.
	West Virgina	Legislature might consider some kind of tax increase.
	Wisconsin	Decrease in business tax credits if necessary.
State programs (other than aid to localities)	Idaho	Expenditures for State programs would be affected across the board.
	Mississippi	Cutbacks possible but not likely.

Areas of possible impact	States	Other possible impacts cited
	New York	Welfare revisions, program freezes, and service cutbacks.
	Vermont	Leveling off of funding, tightened eligibility in State's property tax relief program, and reduction of adult education spending.
	Wisconsin	Cuts in spending but no specifics.
Personnel	New York	Reduction in State employees.
	Vermont	No new positions would be filled.
State surplus	California	Loss of revenue sharing funds would worsen projected revenue shortfall and increase drain on surplus.
	North Carolina	Loss of revenue sharing funds would affect surplus by unspecified amount.
	Vermont	May rely on surplus, if available, to avoid service cuts.
	Wisconsin	Would be more difficult to maintain a surplus cushion.
Eligibility in Federal grant programs	California	May affect participation in certain programs.

Areas of possible impact	States	Other possible impacts cited
	Mississippi	There might be some effect, but no specifics.
	New York	Impact uncertain.
State's economy	North Carolina	State's economy might be hurt in the short term.
	Wisconsin	There might be some effect, but no specifics.

STATES' PAST BUDGETARY ACTIONS ARE NOT RELIABLE INDICATORS OF FUTURE ACTIONS IN RESPONSE TO LOSS OF REVENUE SHARING

We examined States' past budgetary actions in response to revenue drops or slowdowns and unanticipated diversion of revenues (for example, satisfaction of a major lawsuit). This examination was to determine whether such budgetary actions might be reasonably indicative of future actions in event of loss of revenue sharing funds. We concluded that what States had done in the past in reacting to fiscal setbacks is not a reliable indicator of what they would do in the future.

For example, in California and Idaho, recent voter initiatives may so alter the States' fiscal situations that inferences based on past actions would be unreliable. In West Virginia and North Carolina, responses to fiscal setbacks have varied from time to time. Furthermore, in West Virginia, to compensate for an anticipated revenue shortage, the governor's fiscal year 1981 budget submission had included cuts in operating programs; however, officials said that, to compensate for the loss of revenue sharing receipts, the State would probably cut capital projects.

CONCLUSIONS

In most of the nine States, the impact of the loss of revenue sharing on the States' budgets would occur in two stages, with the full effect not being apparent until each State's fiscal year 1982.

State officials were able to identify possible effects of the loss of revenue sharing. However, with regard to most of these States, neither their reported uses of revenue sharing funds, their past budgetary actions, nor our discussions with State officials made it possible to predict with any certainty where the impact of losing revenue sharing would be felt. Such predictions are especially difficult when dealing with a loss of funds ranging from only 0.8 to 1.8 percent of the States' total revenues.

Based on officials' comments, in most of the nine States, tax increases are no more likely than other actions that States could take to compensate for loss of revenue sharing. In five States, it is unlikely that State aid to local governments would be cut significantly, although, according to some officials in two of these States, the rate of growth of State aid may be slowed. In the remaining four States, cuts in State aid would range from possible to expected.

Our overall conclusions are that although the loss of revenue sharing in the nine States would create difficulties,

--where specific effects of the loss would be felt cannot be predicted with certainty in most of the States and

--the loss would not cause severe hardship.

Two major considerations lead to the latter conclusion: (1) the sound current and short-term projected fiscal health of most of the States we visited and (2) the small part of total State revenues which revenue sharing funds represent.

CHAPTER 4

STATE AND AGENCY COMMENTS

STATE COMMENTS

The short timeframe between completion of our draft report and congressional deliberations on reauthorization of revenue sharing precluded our obtaining State officials' comments on the report. During our visits, however, perceptions of executive and legislative officials of all but two States--California and New York--supported our observation that, while in most States specific impacts of losing revenue sharing are uncertain, the loss would not result in severe hardship. While California and New York officials acknowledged the soundness of their States' current fiscal health, a number of contingencies caused them to be apprehensive about the future. They believed that the outcome of these contingencies would determine their States' future fiscal health and, in turn, the States' ability to withstand the loss of revenue sharing without severe hardship.

However, officials were almost unanimous in the view that State governments should be retained in the revenue sharing program. In addition to noting that the States effectively use revenue sharing funds, officials pointed to the program's greater flexibility, lack of red tape, and lower administrative cost as factors which counterbalance the more rigid requirements of Federal categorical grant programs.

Some officials of three States, although favoring the continued flow of revenue sharing money to their States, said they would be willing to lose revenue sharing if the money were used to balance the Federal budget.

AGENCY COMMENTS

Department of the Treasury officials provided oral comments on the report. In discussing the report, they referred to a similar study done recently for the Department of the Treasury by Peat, Marwick, Mitchell and Company. This study also included nine States, two of which were included in our study.

Treasury officials stated that the only significant difference in the two studies' conclusions concerned the potential impact on State aid to local governments. While our report concluded that, in most States reviewed, there would be no significant impact on State aid, the Treasury commissioned report concluded that the impact on State aid in the States reviewed would be significant. Treasury officials believed this divergence of conclusions was due to a difference in study methodologies. We agree.

Our criterion for what constituted an adverse impact on State aid was a reduction in aid in relation to the current, actual level of aid. Treasury's criterion was either an aid reduction <u>or an aid increase prevented</u>. The Treasury study compared the States' projections of aid to local governments in fiscal years 1981 and 1982--assuming continuation of revenue sharing--with their projections of aid assuming the loss of revenue sharing. The Treasury report concluded that, despite the assumed loss of revenue sharing, State aid in some States was expected to increase above current levels. However, since the increases would not be as large as they would have been if revenue sharing were continued, the report concluded that loss of revenue sharing would have an adverse impact on aid to local governments in those States.

CHAPTER 5

SCOPE OF REVIEW

We visited nine States during the period November 1979 to February 1980. (See p. 2.) We reviewed and analyzed data from budget, fiscal, and management reports and records. In addition, we talked with officials of the States' executive and legislative branches. Executive branch officials we interviewed included

--two governors and two lieutenant governors;

--State treasurers, comptrollers, and auditors;

--department directors for administration, finance and tax; and

--chief budget officers.

Legislative officials we interviewed included

--house or assembly speakers, and senate presidents or presidents pro tempore;

--chairpersons of finance, appropriations, ways and means, and revenue and taxation committees;

--legislative fiscal or budget officers and analysts; and

--directors and representatives of legislative councils.

In Washington, D.C., we analyzed State financial data prepared by Federal agencies and public interest groups.

We based our review on the assumption that States would be completely eliminated from the revenue sharing program and that local governments would be retained in the program at current funding levels.

We used each State's general operating fund as the vehicle for examining the State's revenues, expenditures, and surpluses. Although various funds are used to finance a State government's activities and programs, the general operating fund, with its State-generated tax revenues, typically finances most current operations. The National Governors' Association and the National Association of State Budget Officers report that States use the general operating fund to finance most broad-based services. These associations maintain that the general operating fund should be the principal focus of efforts to gauge the fiscal condition of States. In the nine States we reviewed, officials generally agreed that this fund is the best single indicator of a State's fiscal health.

It would be statistically invalid to project our observaations to all 50 States because the States differ substantially in economic environments, demands on revenues, and budgetary and fiscal policies. However, the nine States were selected with a view to obtaining geographic dispersion and a good mix of such variables as the amount of revenue sharing money received, aid provided to local governments, surpluses, and fiscal stress. Further, the information we developed on the nine States was generally consistent with national data, where such data was available. Therefore, we have no reason to believe that our observations on the fiscal health of the nine States and their ability to absorb the loss of revenue sharing funds are at odds with the fiscal health of the State sector in general.

The States' General Revenue Sharing Funds
As a Percentage of States' Total Revenues, 1978

State governments	General revenue sharing receipts	States' total revenue	Revenue sharing as percentage of total revenue
	----(thousands of	dollars)-----	
Alabama	36,830	3,385,436	1.09
Alaska	5,770	1,317,902	0.44
Arizona	23,199	2,423,112	0.96
Arkansas	22,916	1,839,706	1.25
California	245,942	29,486,935	0.83
Colorado	24,888	2,675,106	0.93
Connecticut	28,389	2,908,740	0.98
Delaware	7,085	800,842	0.88
Florida	68,196	6,442,069	1.06
Georgia	48,134	4,137,333	1.16
Hawaii	11,173	1,555,968	0.72
Idaho	8,540	887,700	0.96
Illinois	115,043	10,317,928	1.11
Indiana	48,118	4,223,579	1.14
Iowa	26,987	2,774,463	0.97
Kansas	19,913	1,902,986	1.05
Kentucky	38,364	3,354,533	1.14
Louisiana	45,940	4,115,184	1.12
Maine	13,806	1,161,242	1.19
Maryland	51,782	4,538,033	1.14
Massachusetts	72,444	6,259,387	1.16
Michigan	93,766	10,505,213	0.89
Minnesota	45,207	4,799,408	0.94
Mississippi	41,926	2,342,334	1.79
Missouri	42,630	3,401,585	1.25
Montana	8,054	922,568	0.87
Nebraska	13,985	1,231,625	1.14
Nevada	5,554	911,469	0.61
New Hampshire	7,541	742,887	1.02
New Jersey	70,928	7,437,860	0.95
New Mexico	11,482	1,638,729	0.70
New York	252,542	23,425,988	1.08
North Carolina	55,654	4,854,529	1.15
North Dakota	5,341	771,064	0.69
Ohio	90,886	10,095,426	0.90
Oklahoma	25,547	2,625,829	0.97
Oregon	28,147	3,052,187	0.92
Pennsylvania	116,367	12,106,282	0.96
Rhode Island	9,903	1,086,921	0.91
South Carolina	30,556	2,768,427	1.10
South Dakota	7,075	597,683	1.18
Tennessee	41,172	3,275,928	1.26

State governments	General revenue sharing receipts	States' total revenue	Revenue sharing as percentage of total revenue
	----(thousands of	dollars)-----	
Texas	114,145	9,925,190	1.15
Utah	12,742	1,432,247	0.89
Vermont	6,792	603,546	1.13
Virginia	45,915	4,706,668	0.98
Washington	25,211	4,965,154	0.51
West Virginia	25,027	2,080,435	1.20
Wisconsin	53,435	5,524,752	0.97
Wyoming	3,852	670,888	0.57
Total	2,254,841	225,011,006	1.00

Source: State Government Finances in 1978
Bureau of the Census

NINE STATE GOVERNMENTS' GENERAL OPERATING FUND REVENUES, EXPENDITURES, AND UNRESTRICTED SURPLUS BALANCES, FISCAL YEARS 1974 THROUGH 1980

Government

(Amounts rounded to nearest million)

General operating fund at close of States' fiscal years	Arkansas Amount	Arkansas Percentage change from prior year (note b)	California Amount	California Percentage change from prior year (note b)	Idaho Amount	Idaho Percentage change from prior year (note b)	Mississippi Amount	Mississippi Percentage change from prior year (note b)	New York (Note a) Amount	New York (Note a) Percentage change from prior year (note b)
1974										
Revenues	$438	17.8	$ 6,978	16.8	$177	14.9	$520	13.4	$ 8,635	3.7
Expenditures	374	(d)	7,299	30.0	153	(d)	535	22.4	8,631	4.0
Surplus (note c)	31	(d)	187	(69.8)	16	(d)	89	(14.4)	4	(d)
1975										
Revenues	481	9.9	8,630	23.7	210	18.7	575	10.5	9,658	11.8
Expenditures	427	14.1	8,349	14.4	191	24.7	604	13.0	9,676	12.1
Surplus (note c)	13	(57.2)	554	196.2	23	47.2	59	(33.6)	(19)	(562.5)
1976										
Revenues	540	12.1	9,639	11.7	231	10.2	645	12.2	10,204	5.7
Expenditures	501	17.4	9,518	14.0	240	25.8	674	11.6	10,651	10.1
Surplus (note c)	9	(32.3)	732	32.1	(e)	(98.8)	29	(50.3)	(447)	(2,315.1)
1977										
Revenues	610	12.9	11,381	18.1	253	9.6	722	12.0	11,279	10.5
Expenditures	569	13.5	10,467	10.0	251	4.7	689	2.2	11,370	6.8
Surplus (note c)	3	(66.4)	1,713	134.0	3	928.8	62	110.9	(92)	f/79.5
1978										
Revenues	713	16.9	13,695	20.3	283	11.7	805	11.5	11,273	(0.1)
Expenditures	645	13.4	11,686	11.6	278	10.7	762	10.5	11,268	(0.9)
Surplus (note c)	28	832.8	3,686	115.2	4	30.0	105	69.9	5	104.9
1979										
Revenues	777	9.0	15,219	11.1	325	15.2	854	6.2	11,987	6.3
Expenditures	717	11.2	16,251	39.1	315	13.4	888	16.6	11,933	5.9
Surplus (note c)	9	(66.5)	2,582	(30.0)	10	169.0	72	(31.6)	5	11.1
1980										
Revenues	h/851	k/ 9.5	h/17,781	k/ 16.8	h/368	k/13.0	h/920	k/ 7.6	h/13,318	k/11.1
Expenditures	h/823	k/14.7	h/18,706	k/ 15.1	h/361	k/14.4	h/982	k/ 10.7	h/13,015	k/ 9.1
Surplus (note c)	h/ 10	k/ 2.2	h/ 1,835	k/(28.9)	h/ 17	k/68.1	h/ 14	k/(80.8)	(d)	---

General operating fund at close of States' fiscal years	North Carolina Amount	North Carolina Percentage change from prior year (note b)	Vermont Amount	Vermont Percentage change from prior year (note b)	West Virginia Amount	West Virginia Percentage change from prior year (note b)	Wisconsin Amount	Wisconsin Percentage change from prior year (note b)
1974								
Revenues	$1,482	12.5	$144	4.6	$ 479	9.6	$2,688	8.3
Expenditures	1,625	42.6	146	10.0	456	13.8	2,730	18.9
Surplus (note c)	181	(44.1)	1	(86.6)	40	125.4	241	11.0
1975								
Revenues	1,597	7.7	149	3.4	603	26.0	2,967	10.4
Expenditures	1,721	5.9	162	11.0	461	1.0	3,149	15.4
Surplus (note c)	57	(68.6)	(10)	(1,383.5)	99	145.7	78	(67.7)
1976								
Revenues	1,711	7.1	162	8.5	676	12.2	3,477	17.2
Expenditures	1,699	(1.3)	162	0.3	560	21.5	3,439	9.2
Surplus (note c)	68	20.9	(2)	f/76.4	126	27.4	87	10.8
1977								
Revenues	2,018	18.0	182	12.5	749	10.8	3,808	9.5
Expenditures	1,936	14.0	165	1.6	g/771	g/ 37.7	3,713	8.0
Surplus (note c)	151	120.4	17	863.6	66	(47.7)	167	92.6
1978								
Revenues	2,197	8.8	184	0.9	811	8.3	4,240	11.4
Expenditures	2,162	11.7	192	16.3	696	g/ (9.7)	3,994	7.6
Surplus (note c)	185	22.6	5	(70.9)	55	(16.9)	408	144.8
1979								
Revenues	2,487	13.2	219	19.5	h/951	k/ 17.3	4,623	9.0
Expenditures	2,484	14.9	209	9.2	h/951	k/ 36.6	4,696	17.6
Surplus (note c)	188	1.4	(e)	(96.0)	h/ 32	k/(41.1)	281	(31.2)
1980								
Revenues	h/2,686	k/ 8.0	h/230	k/ 5.1	h/1,004	k/ 5.6	(d)	---
Expenditures	h/2,845	k/ 14.5	m/223	k/ 6.3	h/1,004	k/ 5.6	(d)	---
Surplus (note c)	h/ 4	k/(97.6)	(e)	k/(18.9)	h/ 13	k/(59.1)	(d)	---

a/According to the New York State Comptroller, financial information reported by the State is distorted because that information is derived from a cash accounting system. State officials are in the process of developing a modified accrual system for budgeting, accounting, and reporting in accordance with generally accepted accounting principles. The State's unrestricted surplus balance is defined as yearend excess of income over other expenditures and other payments.

b/Figures may not divide due to rounding.

c/Unrestricted surplus balances available for appropriations and/or expenditures in the next or subsequent fiscal years.

d/Not available.

e/Less than $500,000.

f/Decrease in deficit position.

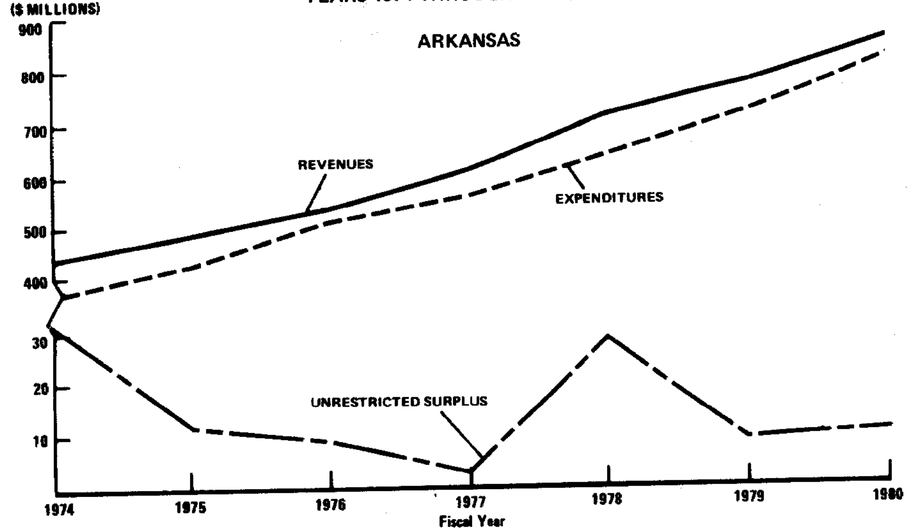
g/Figures may be overstated by about $158 million due to possible accounting error in FY 1977.

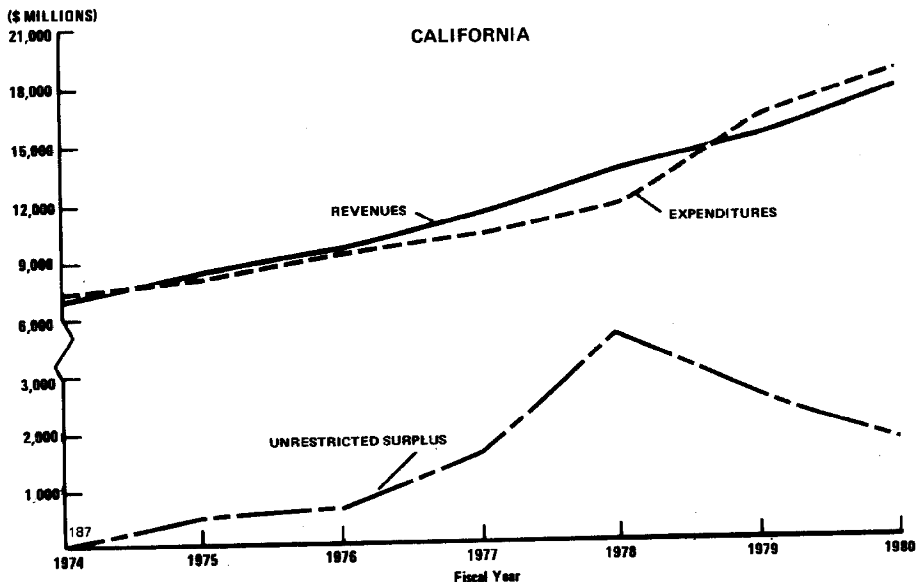
h/Estimated.

k/Based on estimated or appropriations data.

m/Appropriation figure.

TRENDS IN GENERAL OPERATING FUND REVENUES, EXPENDITURES, AND UNRESTRICTED SURPLUS BALANCES (note a) AT CLOSE OF FISCAL YEARS 1974 THROUGH 1980 (note b)





a/ UNRESTRICTED SURPLUS BALANCES AVAILABLE FOR APPROPRIATIONS AND EXPENDITURES IN THE NEXT OR SUBSEQUENT YEARS.

b/ IN ALL STATES, FISCAL YEAR 1980 DATA IS ESTIMATED. IN WEST VIRGINIA, FISCAL YEAR 1979 DATA IS ALSO ESTIMATED.

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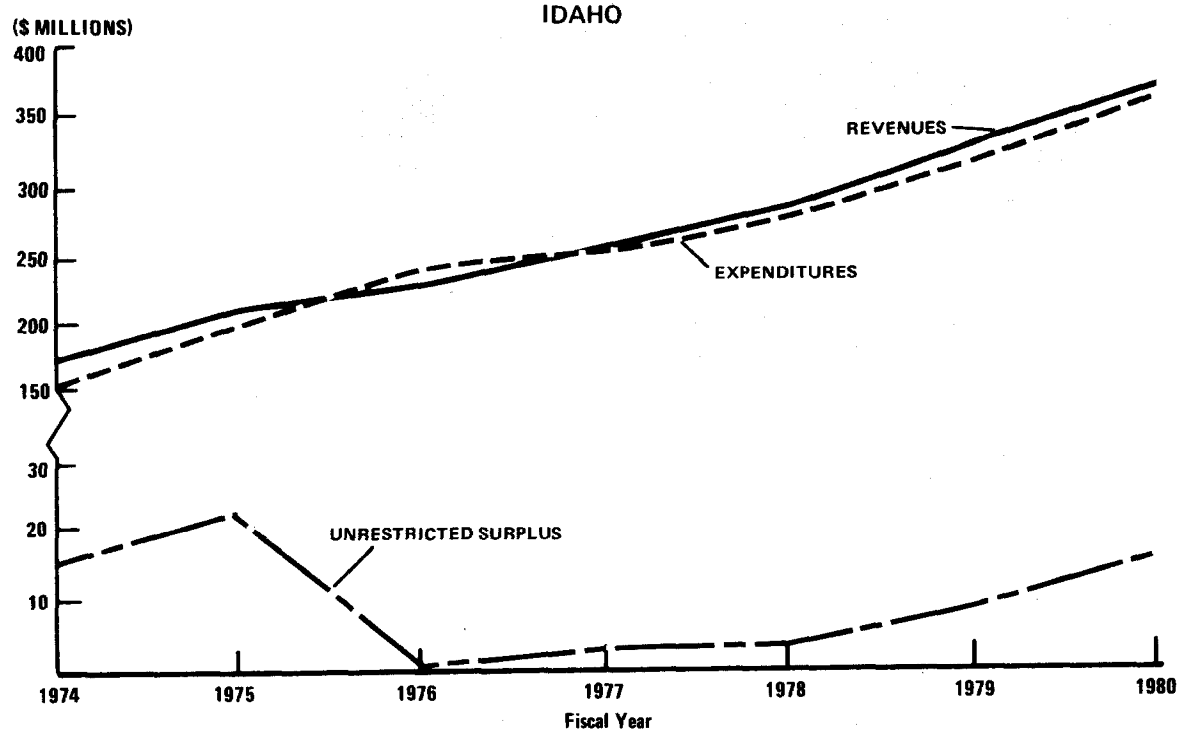

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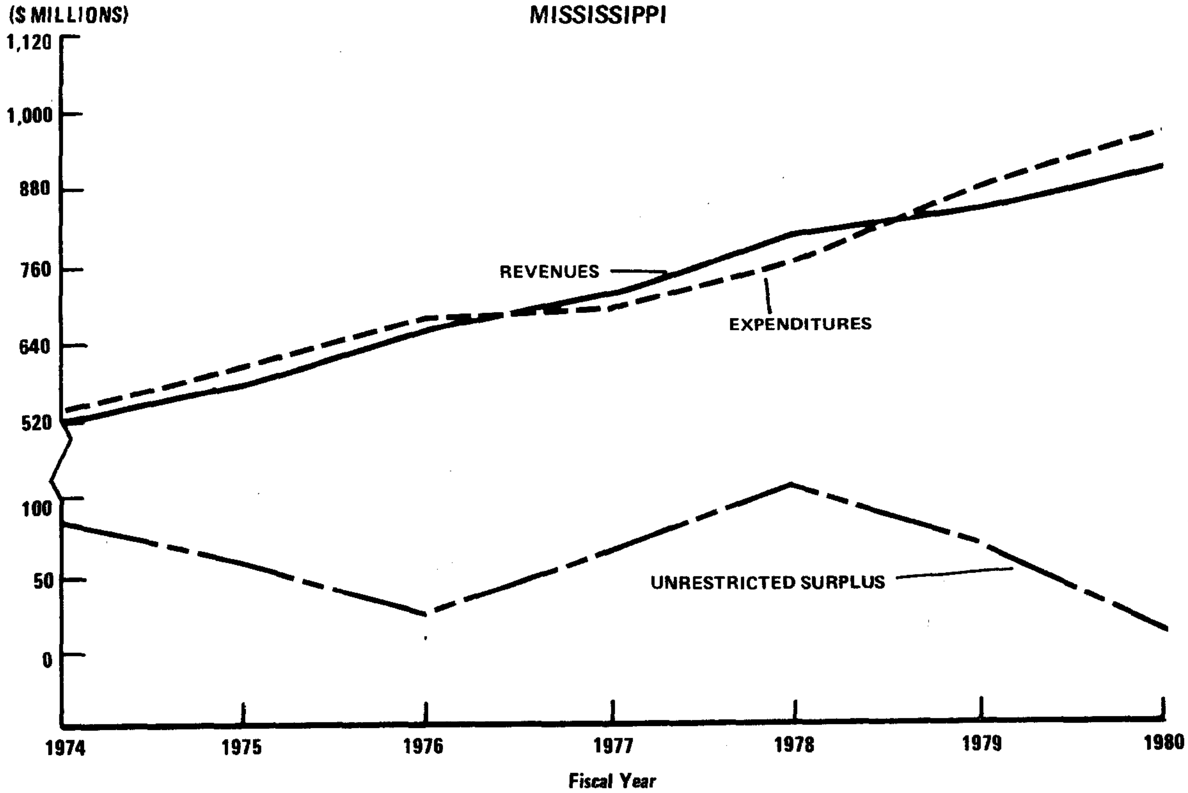
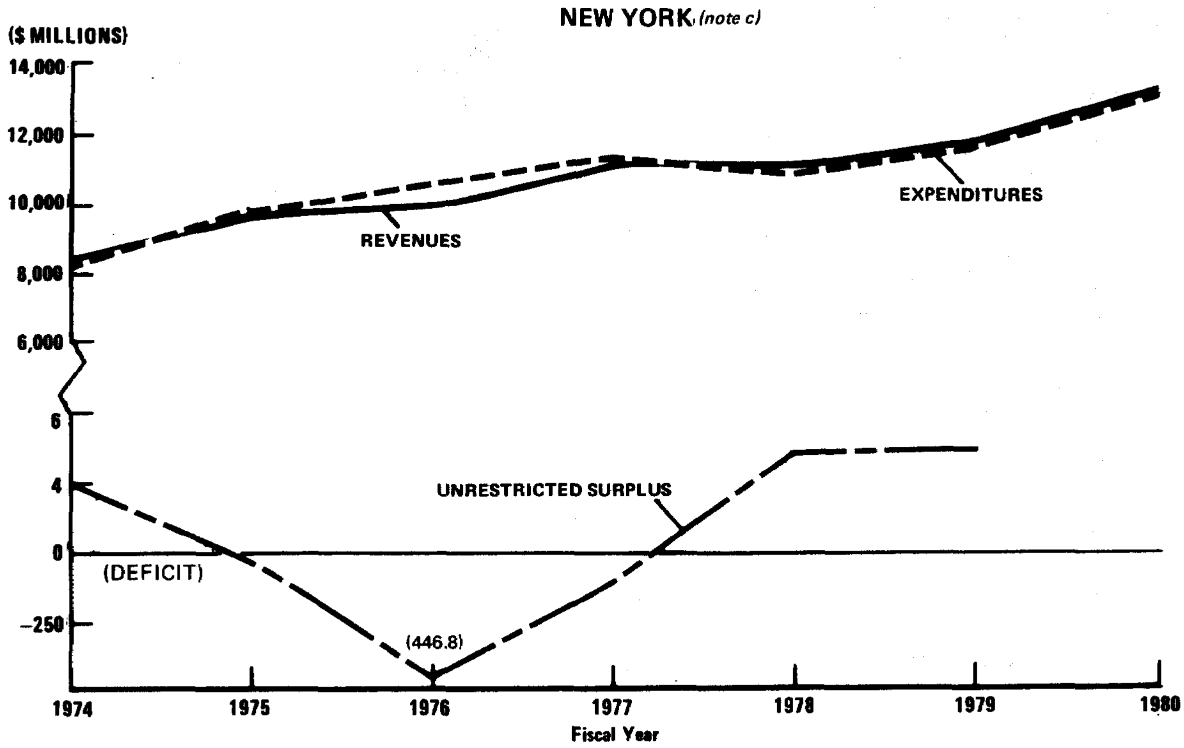
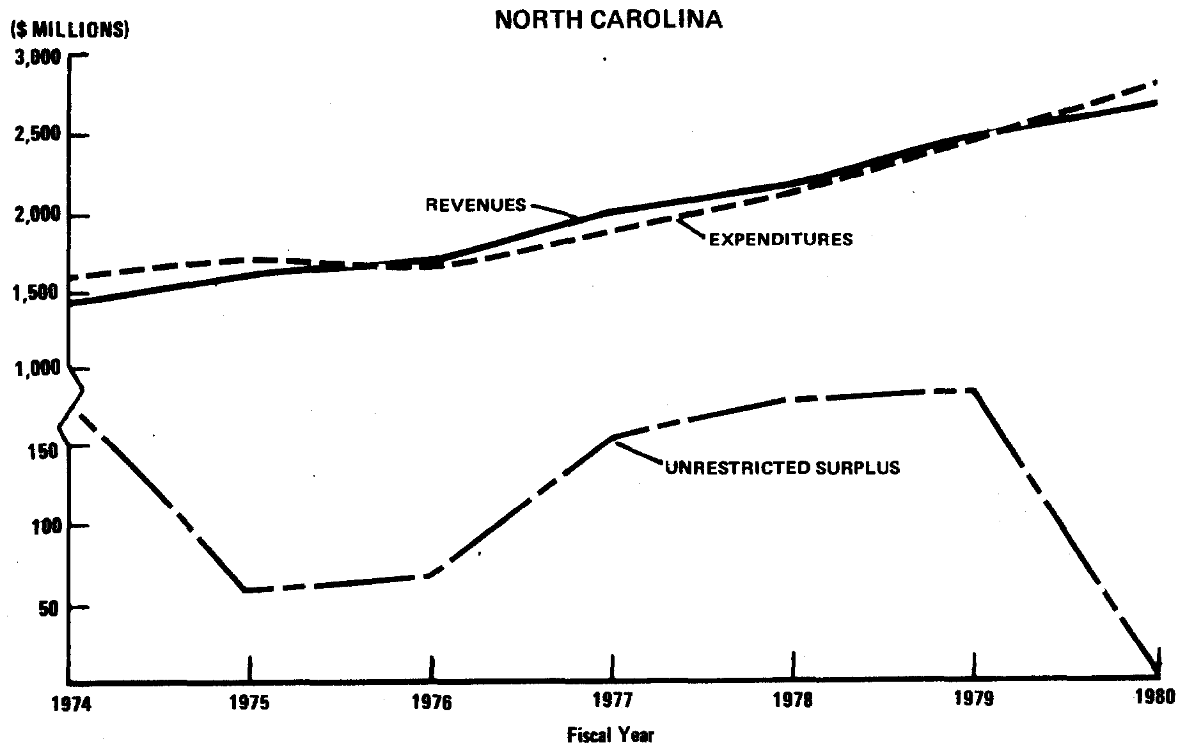
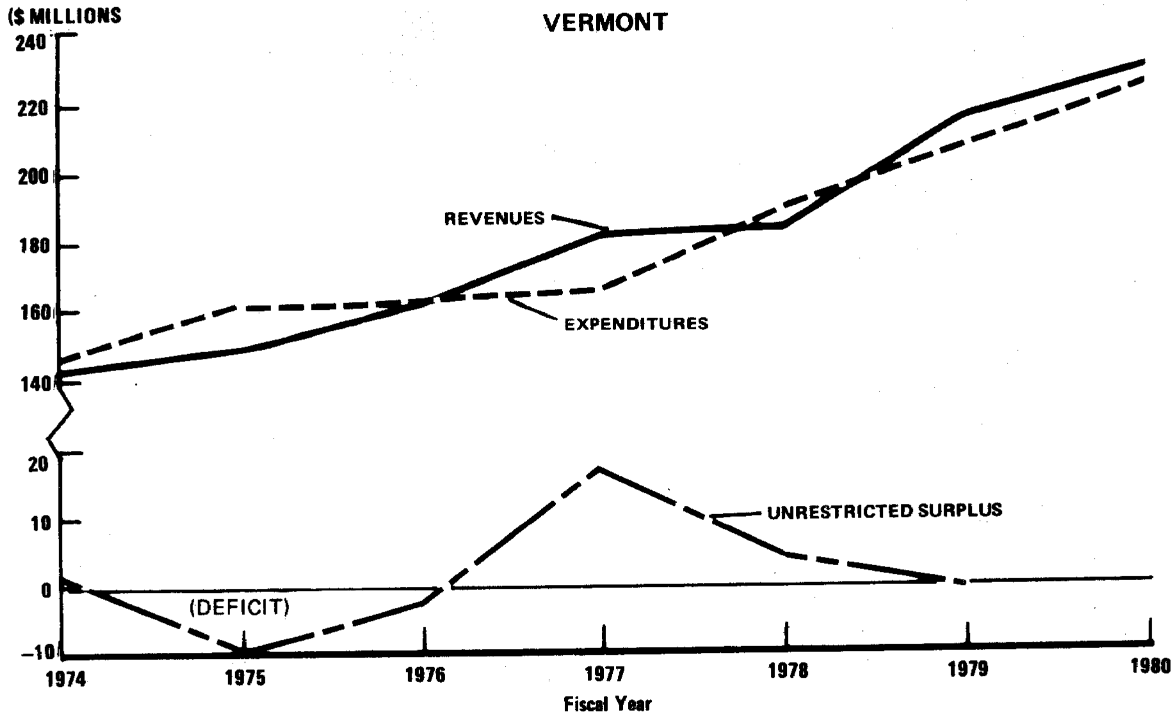
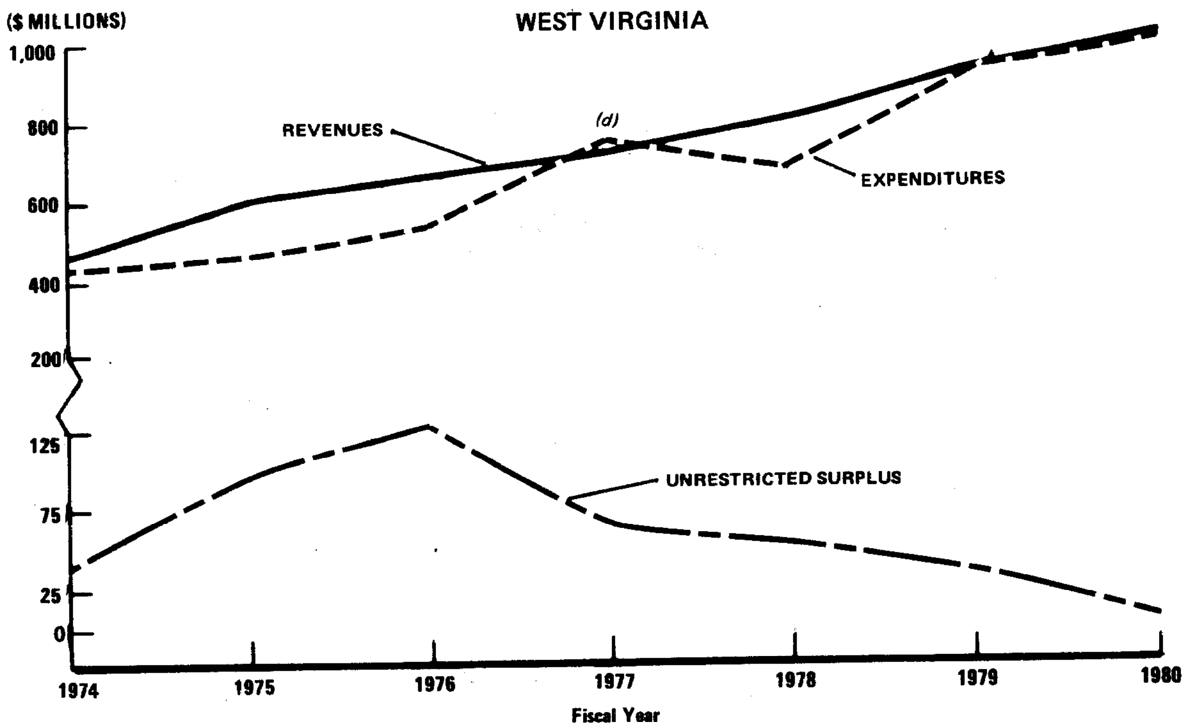




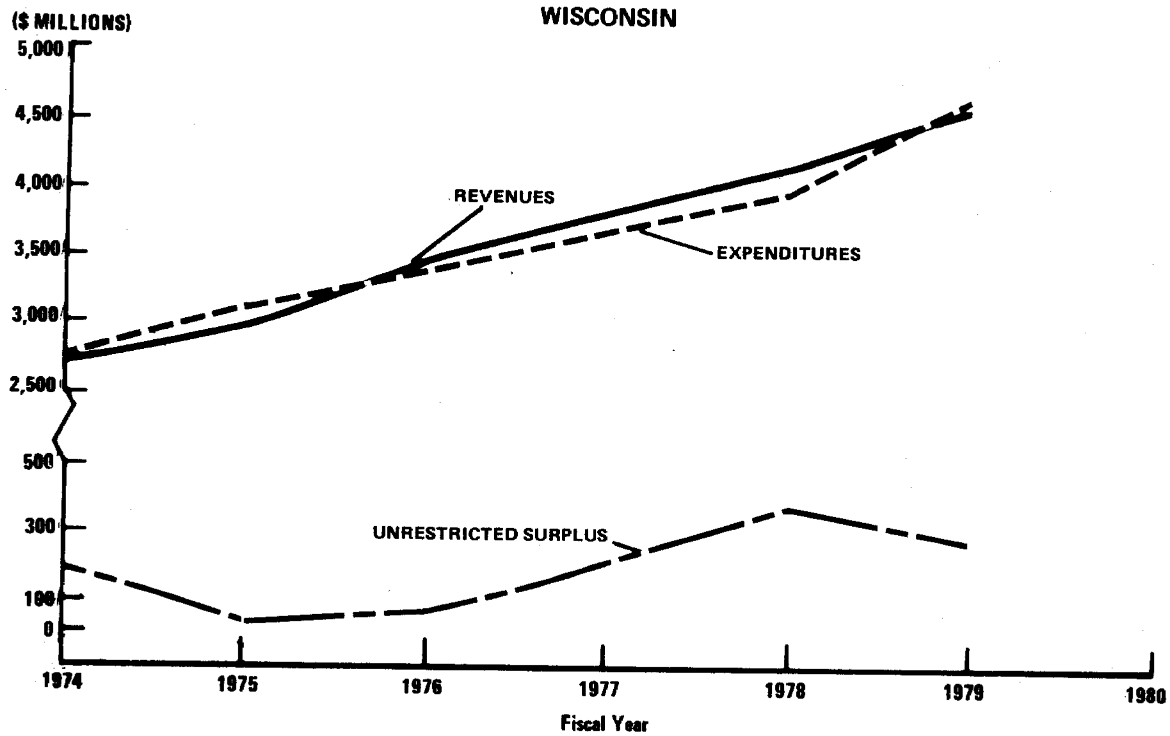


c/ SEE APP. II, NOTE a.





d/ SEE APP. II, NOTE g.


WISCONSIN
($ MILLIONS)
5,000
4,500
4,000
3,500
3,000
2,500
500
300
100
0
REVENUES
EXPENDITURES
UNRESTRICTED SURPLUS
1974
1975
1976
1977
1978
1979
1980
Fiscal Year

NINE STATES' GENERAL OPERATING FUND REVENUES AND EXPENDITURES YEAR-TO-YEAR P
CHANGES COMPARED WITH STATE AND LOCAL GOVERNMENTS' INFLATION RATES, FISCAL YEARS 1

	Inflation rate (note a) (percent)	General operating fund revenues and expenditures year-to-year						
		Arkansas	California	Idaho	Mississippi	New York (note b)	North Carolina	Verm
FY 1974	8.8							
Revenue		17.8	16.8	14.9	13.4	3.7	12.5	4.
Expenditures		(c)	30.0	(c)	22.4	4.0	42.6	10.
FY 1975	11.3							
Revenue		9.9	23.7	18.7	10.5	11.8	7.7	3.
Expenditures		14.1	14.4	24.7	13.0	12.1	5.9	11.
FY 1976	7.6							
Revenue		12.1	11.7	10.2	12.2	5.7	7.1	8.
Expenditures		17.4	14.0	25.8	11.6	10.1	(1.3)	0.
FY 1977	7.5							
Revenues		12.9	18.1	9.6	12.0	10.5	18.0	12.
Expenditures		13.5	10.0	4.7	2.2	6.8	14.0	1.
FY 1978	8.0							
Revenue		16.9	20.3	11.7	11.5	(0.1)	8.8	0.
Expenditures		13.4	11.6	10.7	10.5	(0.9)	11.7	16.
FY 1979	8.6							
Revenue		9.0	11.1	15.2	6.2	6.3	13.2	19.
Expenditures		11.2	39.1	13.4	16.6	5.9	14.9	9.
FY 1980	(c)							
Revenues (note e)		9.5	16.8	13.0	7.6	11.1	8.0	5.
Expenditures (note e)		14.7	15.1	14.4	10.7	9.1	14.5	6.

a/Based on implicit deflators for State and local governments in the Gross National Product ac
and recomputed on a July-June fiscal year basis.

b/The data for New York is possibly distorted. (See footnote a/, app. II.)

c/Data not available to make calculations.

d/ The data for West Virginia's FY 1977 and FY 1978 expenditures is possibly distorted. (See footnote g/, app. II.)

e/Calculations based on estimated or appropriations data.

CLASSIFICATION OF FISCAL HEALTH OF NINE STATE GOVERNMENTS BASED ON CURRENT GENERAL OBLIGATION BOND RATINGS

	Bond Ratings				Classification of fiscal health based on current bond ratings (note d)	
Government	Current rating by Moody's (note a)	Change from Fiscal Year 1977 (note b)	Current rating by Standard and Poor's (note c)	Change from Fiscal Year 1977 (note b)	Moody's	Standard & Poor's
Arkansas	(e)	N/A	(e)	N/A	N/A	N/A
California	Aaa	N	AA+	f/D	Excellent	Excellent
Idaho	Aa	N	(e)	N/A	Excellent	N/A
Mississippi	Aa	N	AA-	N	Excellent	Excellent
New York	A	N	AA-	g/D	Good	Excellent
North Carolina	Aaa	N	AAA	N	Excellent	Excellent
Vermont	Aa	N	(e)	N/A	Excellent	N/A
West Virginia	Al	N	AA+	N	Good	Excellent
Wisconsin	Aaa	N	AAA	N	Excellent	Excellent

a/Based on Moody's Investors Service, Inc. rating.

b/"D" means bond rating decreased; "N", no change in bond rating.

c/Based on Standard & Poor's Corporation rating.

d/Based on GAO's classification of ratings.

Degrees of "excellent"		Degrees of "good"	
Moody's	Standard & Poor's	Moody's	Standard & Poor's
Aaa	AAA	Al	A+
Aa	AA+	A	A
	AA	Baal	A-
	AA-	Baa	BBB+
			BBB
			BBB-

e/No rating.

f/Rating decreased from AAA to AA+ on 1/22/80.

g/Rating decreased from AA to AA- on 12/4/79.

APPENDIX V

APPENDIX VI

NINE STATE GOVERNMENTS' 1978 AND 1979 TAX ACTIONS (note a)

Calendar year	Government	Personal income taxes		General sales taxes		Business taxes		Gasoline taxes		Cigarette taxes		Inheritance taxes		Other taxes	
		Reduction	Increase	Reduction	Increase	Reduction	Increase	Reduction	Increase	Reduction	Increase	Reduction	Increase	Reduction	Increas
1978	Arkansas														
	California	X												(b)	
	Idaho	X												(b)	
	Mississippi	X													
	New York	X		X		X								(c)	
	North Carolina			X											
	Vermont	X													
	West Virginia						(d)		X		X				
	Wisconsin	X	-	X	-	-	-	-	-	-	-	X	-	(e)	-
	Totals	6	0	3	0	1	1	0	1	0	1	1	0	4	0
1979	Arkansas	X		X					X						
	California	X				X	X								
	Idaho	X													
	Mississippi	X		X		X									
	New York	X		X											
	North Carolina	X				X						X			
	Vermont	X					X								
	West Virginia			X											
	Wisconsin	X	-	X	-	X	-	-	-	-	-	X	-	-	-
	Totals	8	0	5	0	4	2	0	1	0	0	2	0	0	0

a/Data derived primarily from (1) State Tax Action in 1978 (Tax Foundation, Inc., Tax Review, Nov. 1978, Vol. XXXIX, No. 11, pp. 47-50), and (2) State Tax Action in 1979 (Tax Foundation, Inc., Tax Review, Nov.-Dec. 1979, Vol. XL, No. 10, pp. 39-42).

b/Local property taxes Statewide. (For California tax action, see p.7. For Idaho tax action, see pp. 17 and 18.)

c/Estate tax.

d/West Virginia enacted a new privilege tax on the sale of electric power.

e/Gift tax.

(018440)

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