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STATEMENT OF
ELMER B. STAATS
COMPTROLLER GENERAL OF THE UNITED STATES
BEFORE THE
SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS
COMMITTEE ON GOVERNMENT OPERATIONS
UNITED STATES SENATE
ON
CASE STUDIES OF GENERAL REVENUE SHARING
IN 26 LOCAL GOVERNMENTS

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WE ARE PLEASED TO BE HERE TODAY TO DISCUSS THE 26 CASE STUDIES ON GENERAL REVENUE SHARING WHICH WE CONDUCTED AT THE SUBCOMMITTEE'S REQUEST. THE STUDIES REPRESENT A MAJOR INVESTMENT OF GAO RESOURCES, BUT I BELIEVE THEY PROVIDE USEFUL INSIGHT INTO THE OPERATION OF REVENUE SHARING. WHILE THE 26 GOVERNMENTS ARE A JUDGMENTAL SAMPLE WHICH IS NOT STATISTICALLY REPRESENTATIVE OF THE REVENUE SHARING PROGRAM, THEY REPRESENT A GOOD CROSS SECTION OF SMALL AND LARGE MUNICIPALITIES AND COUNTIES LOCATED THROUGHOUT THE COUNTRY.

REVENUE SHARING ALLOCATIONS TO THE 26 GOVERNMENTS INCLUDED IN OUR REVIEW THROUGH JUNE 30, 1974, TOTALED \$767 MILLION, RANGING FROM A PER CAPITA LOW OF \$3.79 IN WORCESTER COUNTY, MASSACHUSETTS TO A HIGH OF \$76.34 IN BOSTON. AS A PERCENTAGE OF EACH GOVERNMENT'S OWN TAX COLLECTIONS REVENUE SHARING RANGED FROM 4.9 PERCENT IN WESTCHESTER COUNTY, NEW YORK TO 73.8 PERCENT IN CLARKE COUNTY, MISSISSIPPI.

IN ACCORDANCE WITH THE SUBCOMMITTEE'S REQUEST, WE REVIEWED SEVEN AREAS OR ISSUES AT EACH OF THE 26 GOVERNMENTS. ALTHOUGH DIFFERENCES IN AUTHORITY, RESPONSIBILITY, SITUATION, AND CONSTITUENCY AMONG THE GOVERNMENTS PREVENT CERTAIN GENERALIZATIONS AND CONCLUSIONS, I WILL TRY TO BRIEFLY HIGHLIGHT THE INFORMATION OBTAINED IN EACH AREA.

1. THE SPECIFIC OPERATING AND CAPITAL PROGRAMS FUNDED IN PART OR IN WHOLE BY GENERAL REVENUE SHARING IN EACH JURISDICTION.

AS OF JUNE 30, 1974, ALL OF THE GOVERNMENTS HAD SPENT SOME OF THEIR REVENUE SHARING FUNDS. MOST OF THEM HAD SPENT FUNDS FOR BOTH OPERATING AND MAINTENANCE EXPENSES AND CAPITAL PURPOSES. WESTCHESTER COUNTY, NEW

YORK AND SACO, MAINE DID NOT MAINTAIN ACCOUNTING RECORDS TO IDENTIFY THE SPECIFIC USES OF THE \$8.4 MILLION THEY SPENT. NEW ORLEANS IDENTIFIED THE \$2.4 MILLION WORTH OF CAPITAL PROJECTS FINANCED BY REVENUE SHARING BUT NOT THE ACTIVITIES FINANCED BY THE \$23.3 MILLION IT SPENT FOR OPERATING AND MAINTENANCE PURPOSES.

ABOUT \$222 MILLION OF THE \$348 MILLION EXPENDED BY 22 GOVERNMENTS FOR OPERATIONS AND MAINTENANCE PURPOSES WAS DESIGNATED AS BEING SPENT FOR PUBLIC SAFETY PURPOSES, WITH THE CITIES OF LOS ANGELES AND PHILADELPHIA TOGETHER ACCOUNTING FOR \$135 MILLION. SIXTEEN GOVERNMENTS SPENT REVENUE SHARING FUNDS TOTALING \$72.2 MILLION FOR CAPITAL PURPOSES; LOS ANGELES COUNTY ACCOUNTED FOR \$55.6 MILLION OF THIS TOTAL.

AS WE TESTIFIED LAST YEAR BEFORE THIS SUBCOMMITTEE, ACCOUNTING DESIGNATIONS OF USES OF REVENUE SHARING MAY NOT IN ANY WAY REFLECT WHAT THE GOVERNMENT ACCOMPLISHED AS A RESULT OF THE FUNDS BECAUSE REVENUE SHARING FUNDS MAY SIMPLY DISPLACE THE GOVERNMENT'S OWN FUNDS THAT WOULD HAVE BEEN USED FOR THE DESIGNATED PURPOSES. CONSEQUENTLY, ACCOUNTING DESIGNATIONS OF FUND USES ARE ILLUSORY AND SHOULD NOT BE INTERPRETED TO INDICATE INCREASED OR IMPROVED SERVICES IN THE FUNCTIONS OR ACTIVITIES DESIGNATED AS BEING FINANCED WITH THE FUNDS.

2. THE FISCAL CONDITION OF EACH JURISDICTION, INCLUDING ITS SURPLUS OR DEBT STATUS.

ULTIMATELY, THE QUESTION OF A GOVERNMENT'S FINANCIAL CONDITION DEPENDS ON WHETHER RESOURCES ARE SUFFICIENT TO PROVIDE WHAT IS PERCEIVED TO BE AN ADEQUATE LEVEL AND RANGE OF PUBLIC SERVICES, A QUESTION WHICH IS RESOLVED LARGELY THROUGH THE LOCAL POLITICAL PROCESS. WE MADE NO

ATTEMPT TO JUDGE THE ADEQUACY OF SERVICES PROVIDED BY THE 26 GOVERNMENTS. OUR REVIEW, WHICH WAS RESTRICTED TO AN ANALYSIS OF FINANCIAL TRENDS AND INTERVIEWS WITH LOCAL OFFICIALS, PRODUCED MIXED RESULTS. GENERALLY, THE GOVERNMENTS--PARTICULARLY THE COUNTIES AND SMALLER MUNICIPALITIES--APPEARED IN REASONABLY GOOD CONDITION.

HOWEVER, SOME GOVERNMENTS APPEARED TO BE FACED WITH DIFFICULT FINANCIAL SITUATIONS. FOR EXAMPLE, OAKLAND, CALIFORNIA, OFFICIALS WERE PROJECTING BUDGET DEFICITS RANGING FROM \$6.9 MILLION IN FISCAL YEAR 1977 TO \$20.5 MILLION IN 1980. THE BUDGET FOR FISCAL YEAR 1975 PROJECTED A NET REDUCTION OF 120 STAFF-YEARS IN CITY EMPLOYMENT.

CLEVELAND HAS BEEN CONFRONTED WITH PERIODIC FINANCIAL PROBLEMS. IN 1970 AND 1971, CLEVELAND VOTERS REJECTED PROPOSALS TO INCREASE THE CITY INCOME TAX RATE. BECAUSE VOTER APPROVAL OF THE INCREASE WAS ANTICIPATED, THE CITY CHOSE NOT TO ASK VOTERS TO RENEW A PROPERTY TAX LEVY THAT WAS SCHEDULED TO EXPIRE. AS A RESULT, 1971 TAX RECEIPTS DROPPED \$11.3 MILLION. IN ADDITION, CITY INCOME TAX COLLECTIONS WERE \$11.7 MILLION LOWER THAN EXPECTED. TO COMPENSATE, THE CITY REDUCED ITS WORK FORCE BY NEARLY 2,000 IN 1971, YET STILL EXPERIENCED A \$13.6 MILLION GENERAL FUND DEFICIT.

IN 1972, TO ALLEVIATE THE DEFICIT, CLEVELAND DEFERRED 10 PERCENT OF EACH OF ITS EMPLOYEE'S PAY UNTIL IT COULD OBTAIN FUNDING. BECAUSE OF CLEVELAND'S DIFFICULTIES, STATE LEGISLATION WAS PASSED PERMITTING OHIO CITIES TO ISSUE NOTES TO COVER GENERAL FUND DEFICITS. THE LEGISLATION ENABLED THE CITY TO ISSUE \$9.6 MILLION IN GENERAL PURPOSE NOTES. AS A RESULT, THE CITY ENDED 1972 WITH ABOUT A \$2 MILLION BALANCE IN ITS GENERAL FUND.

IN 1973, CLEVELAND SOLD ITS SEWER SYSTEM FOR ABOUT \$32 MILLION. THE SALE PROCEEDS WERE USED FOR OPERATING PURPOSES, AND TO RETIRE THE 1972 GENERAL PURPOSE NOTES.

IN 1974 VOTERS REJECTED ANOTHER ATTEMPT TO RAISE THE CITY INCOME TAX RATE, AND CLEVELAND WAS FACED WITH ANOTHER DEFICIT IN 1975. CONSEQUENTLY, THE CITY LAID OFF ABOUT 1,100 EMPLOYEES IN JANUARY AND FEBRUARY 1975. A LARGE NUMBER OF THESE EMPLOYEES HAVE BEEN RECALLED AND ARE BEING PAID WITH FEDERAL GRANT FUNDS.

3. THE IMPACT OF REVENUE SHARING ON LOCAL TAX RATES AND TAX LAWS, INCLUDING A COMPARISON OF THE TAX BURDEN ON FAMILIES OF THREE DIFFERENT INCOME LEVELS.

REVENUE SHARING HAS EASED TAX PRESSURES ON THE GOVERNMENTS. SINCE THE START OF THE PROGRAM, NINE GOVERNMENTS HAD REDUCED TAX RATES, INCLUDING SIX WHICH INDICATED REVENUE SHARING HAD BEEN A SIGNIFICANT FACTOR IN THE REDUCTIONS. FOR EXAMPLE, REVENUE SHARING ENABLED NEWARK TO STABILIZE ITS PROPERTY TAX AND BREAK A RISING PROPERTY TAX SPIRAL. THE VERY HIGH 1972 COMBINED PROPERTY TAX RATE FOR THE CITY, COUNTY, AND SCHOOL DISTRICT OF \$9.63 PER \$100 OF FAIR MARKET VALUE WAS REDUCED TO \$9.39 IN 1973 AND \$8.60 IN 1974.

SEVEN OF THE GOVERNMENTS HAD TAX RATE INCREASES. FOR EXAMPLE, OAKLAND INCREASED ITS REAL PROPERTY TAX RATE PER \$100 OF ASSESSED VALUATION FROM \$2.80 TO \$2.91 IN FISCAL YEAR 1973 AND THEN TO \$2.964 IN 1974. THE RATE WAS DECREASED SLIGHTLY IN FISCAL YEAR 1975 TO \$2.96. IN ADDITION, IN FISCAL YEAR 1974 THE UTILITY CONSUMPTION TAX RATE WAS INCREASED FROM 5 TO 5.5 PERCENT. THE TRANSIENT OCCUPANCY TAX WAS INCREASED FROM 5 TO 6 PERCENT.

A BEDROOM TAX BECAME EFFECTIVE IN FISCAL YEAR 1973 WHEREBY A FLAT ASSESSMENT OF \$100 IS MADE FOR EACH NEW BEDROOM. OAKLAND OFFICIALS SAID THE 1975 REAL PROPERTY TAX RATE WAS 14 CENTS BELOW THE MAXIMUM ALLOWED, PRIMARILY BECAUSE OF REVENUE SHARING.

USING UNIFORM ASSUMPTIONS, WE CALCULATED THE TOTAL STATE-LOCAL TAX BURDEN FOR FAMILIES OF THREE DIFFERENT INCOMES RESIDING IN THE 26 JURISDICTIONS. FOR THE HYPOTHETICAL FAMILY WITH AN ANNUAL INCOME OF \$12,500, THE PERCENT OF INCOME GOING TO STATE-LOCAL TAXES AVERAGED 11 PERCENT, RANGING FROM A LOW OF 5.5 PERCENT IN NEW ORLEANS TO A HIGH OF 25 PERCENT IN NEWARK. AS AN AVERAGE FOR ALL 26 GOVERNMENTS, THE TOTAL STATE-LOCAL TAX BURDEN WAS SLIGHTLY PROGRESSIVE, INCREASING FROM 10.6 PERCENT OF FAMILY INCOME, TO 11.0 PERCENT AND 11.7 PERCENT AS FAMILY INCOME INCREASED FROM \$7,500 TO \$12,500 AND \$17,500, RESPECTIVELY. ON THE OTHER HAND, TAXES PAID TO THE RECIPIENT GOVERNMENTS ALONE TENDED TO REPRESENT ABOUT THE SAME PERCENT OF FAMILY INCOME AT ALL THREE INCOME LEVELS.

4. THE PERCENTAGE OF THE TOTAL LOCAL BUDGET REPRESENTED BY GENERAL REVENUE SHARING.

AMONG THE 23 GOVERNMENTS THAT BUDGETED REVENUE SHARING DURING THEIR MOST RECENT FISCAL PERIOD THAT WE EXAMINED; THE PERCENTAGE OF TOTAL BUDGETED EXPENDITURES REPRESENTED BY REVENUE SHARING RANGED FROM 1.7 PERCENT IN WESTCHESTER COUNTY, NEW YORK TO 20.1 PERCENT IN HOLT COUNTY, NEBRASKA.

WE FOUND THAT WHEN THE GOVERNMENTS BECAME FAMILIAR WITH THE PROGRAM AND WERE ABLE TO ESTIMATE THE AMOUNT OF REVENUE SHARING THEY WOULD RECEIVE DURING THE ENSUING FISCAL YEAR, A SUBSTANTIAL PORTION OF THE FUNDS WAS INCLUDED IN THEIR BUDGETS. WITHOUT REVENUE SHARING MANY OF THE GOVERNMENTS

WOULD HAVE HAD TO (1) REDUCE OR ELIMINATE SOME SERVICES, (2) INCREASE THEIR TAXES, FEES, SERVICE CHARGES, OR OTHER SELF-GENERATED REVENUE OR (3) OBTAIN OTHER FINANCIAL ASSISTANCE FROM THE STATE OR THE FEDERAL GOVERNMENT.

5. THE IMPACT OF CUTBACKS IN OTHER FEDERAL ASSISTANCE PROGRAMS AND THE DEGREE, IF ANY, THAT REVENUE SHARING HAS BEEN USED TO REPLACE THE CUTBACKS.

IN EACH OF THE 26 GOVERNMENTS, WE INQUIRED INTO THE LEVEL AND NATURE OF FEDERAL AID, OTHER THAN REVENUE SHARING, THAT WAS RECEIVED OR EXPECTED TO BE RECEIVED OVER A 3 OR 4 YEAR PERIOD. IN TWO JURISDICTIONS, DATA FOR THE ENTIRE PERIOD COULD NOT BE DEVELOPED.

THREE OF THE GOVERNMENTS--HOLT COUNTY, NEBRASKA, BRENTWOOD BOROUGH, PENNSYLVANIA AND PIGEON TOWNSHIP, INDIANA--RECEIVED NO FEDERAL ASSISTANCE. A FOURTH, LAKE COUNTY, OREGON, DID NOT RECEIVE ANY FEDERAL AID UNTIL FISCAL YEAR 1975.

ALTHOUGH THERE WERE ANNUAL FLUCTUATIONS DURING THE PERIOD WE EXAMINED AT EACH GOVERNMENT, TOTAL FEDERAL AID TO MOST OF THE REMAINING 22 GOVERNMENTS HAD INCREASED OR REMAINED AT APPROXIMATELY THE SAME LEVEL. IN ONLY THREE GOVERNMENTS--LOS ANGELES COUNTY, SACO, MAINE AND WOODRUFF, SOUTH CAROLINA, DID FEDERAL ASSISTANCE (EXCLUDING REVENUE SHARING) FOR THE MOST RECENT YEAR TOTAL LESS THAN ASSISTANCE FOR THE FIRST YEAR WE EXAMINED. IN THESE THREE CASES, THE DECLINES DID NOT HAVE A SIGNIFICANT IMPACT ON THE GOVERNMENTS' OPERATIONS.

FEDERAL FUNDS RECEIVED UNDER SOME SPECIFIC PROGRAMS WERE EITHER REDUCED OR TERMINATED; HOWEVER, THE REDUCTIONS WERE GENERALLY OFFSET BY

INCREASES IN OTHER PROGRAMS OR BY NEW PROGRAMS REPLACING THOSE TERMINATED. IN ONLY FIVE GOVERNMENTS--BOSTON, CLEVELAND, DENVER, LOS ANGELES COUNTY, AND REDDING, CALIFORNIA--WERE REVENUE SHARING FUNDS USED OR INTENDED TO BE USED IN PROGRAMS WHICH HAD EXPERIENCED DECLINES IN FEDERAL FUNDING.

6. THE RECORD OF EACH JURISDICTION IN COMPLYING WITH THE CIVIL RIGHTS, DAVIS-BACON, AND OTHER PROVISIONS OF THE LAW.

THE LEGACY OF WHAT IS NOW RECOGNIZED AS DISCRIMINATORY EMPLOYMENT PRACTICES APPEARED EVIDENT FROM THE COMPOSITION OF MANY OF THE RECIPIENTS' WORK FORCES. A SIMILAR REVIEW WOULD PROBABLY REVEAL THE SAME RESULTS FOR OTHER EMPLOYERS. ALTHOUGH EACH GOVERNMENT WAS UNIQUE, SOME BROAD GENERALIZATIONS MAY BE MADE:

--IN MOST OF THE COUNTIES, A HIGHER PERCENTAGE OF FEMALES WERE EMPLOYED BY THE COUNTY THAN THE PERCENTAGE OF FEMALES IN THE CIVILIAN LABOR FORCE. THE OPPOSITE WAS TRUE FOR CITIES. THE CITIES TYPICALLY HAD LARGE SANITATION, POLICE, AND FIRE PROTECTION SERVICES WHICH EMPLOYED A HIGH PERCENTAGE OF MALES. THE COUNTIES, ON THE OTHER HAND, OFTEN HAD LARGE HEALTH AND HOSPITALS, WELFARE, AND SOCIAL SERVICE FUNCTIONS WHICH EMPLOYED A HIGH PERCENTAGE OF FEMALES.

--SIX OF THE GOVERNMENTS HAD NO SPANISH-SURNAMED OR BLACK EMPLOYEES IN THEIR WORK FORCE. IN THESE CASES, THERE WERE NO OR VERY FEW BLACKS OR SPANISH-SURNAMED PEOPLE LIVING IN THE JURISDICTION. IN MOST OF THE GOVERNMENTS, THE PERCENTAGE OF BLACKS ON THE GOVERNMENT'S PAYROLL EXCEEDED OR CLOSELY APPROXIMATED THE PERCENTAGE OF BLACKS IN THE CIVILIAN LABOR FORCE. THE OPPOSITE WAS TRUE FOR SPANISH-SURNAMED,

- HIGHER PERCENTAGES OF WOMEN AND MINORITIES WERE IN THE GOVERNMENT'S LOWER LEVEL POSITIONS, SUCH AS CLERICAL OR MANUAL LABOR JOBS.
- POLICE AND FIRE PROTECTION EMPLOYEES WERE PREDOMINATELY WHITE MALES, WHILE BLACK MALES WERE CONCENTRATED IN SANITATION AND SERVICE MAINTENANCE ACTIVITIES.
- THE PERCENTAGE OF BLACK AND SPANISH-SURNAMED PERSONS HIRED DURING THE YEAR ENDED JUNE 30, 1974, GENERALLY APPROXIMATED OR EXCEEDED THE PERCENTAGE THESE GROUPS REPRESENTED OF THE RECIPIENT'S TOTAL WORK FORCE.

WE FOUND SUBSTANTIAL EVIDENCE THAT EMPLOYMENT PRACTICES, PARTICULARLY AMONG LARGER JURISDICTIONS, HAVE CHANGED AND ARE CHANGING TO INCLUDE MORE MINORITIES AND FEMALES. CHANGES ARE OCCURRING FROM BOTH SELF-INITIATED PROGRAMS AND AS A RESULT OF LEGAL ACTIONS. IN MAKING THIS OBSERVATION, WE DO NOT INTEND TO INFER THAT THE CIVIL RIGHTS PROBLEMS FACED BY LOCAL GOVERNMENT AND BY ESSENTIALLY ALL AMERICAN INSTITUTIONS HAVE BEEN SOLVED. IT IS CLEAR THAT MUCH REMAINS TO BE DONE TO ELIMINATE DISCRIMINATION FROM OUR SOCIETY.

MOST OF THE GOVERNMENTS THAT HAD CONSTRUCTION PROJECTS SUBJECT TO THE DAVIS-BACON PROVISION OF THE ACT EXPERIENCED SOME COMPLIANCE DIFFICULTIES, TYPICALLY BECAUSE LOCAL OFFICIALS WERE EITHER UNAWARE OR UNCLEAR ABOUT THE REQUIREMENTS. AMONG LARGER GOVERNMENTS IT IS DOUBTFUL WHETHER THIS HAD A SUBSTANTIVE EFFECT SINCE THEIR CONSTRUCTION WORK WAS ROUTINELY PERFORMED BY CONTRACTORS WHO PAID PREVAILING UNION WAGES.

OFFICIALS FROM SOME SMALLER JURISDICTIONS, HOWEVER, INDICATED THE DAVIS-BACON PROVISION WOULD INCREASE COSTS AND INFORMED US THAT CONSTRUCTION WORK WOULD (1) BE FINANCED WITH THE JURISDICTION'S OWN FUNDS OR (2) LESS THAN 25 PERCENT OF THE COSTS WOULD BE FUNDED WITH REVENUE SHARING, SO THAT THE DAVIS-BACON PROVISION WOULD NOT APPLY.

7. PUBLIC PARTICIPATION IN THE LOCAL BUDGETARY PROCESS, AND THE IMPACT OF REVENUE SHARING ON THAT PROCESS.

A FEW LOCAL GOVERNMENTS MADE A SPECIAL EFFORT TO ENCOURAGE THE PUBLIC TO PARTICIPATE IN DECIDING HOW REVENUE SHARING FUNDS SHOULD BE USED. IN OAKLAND AND REDDING, CALIFORNIA REVENUE SHARING CAUSED A SIGNIFICANT INITIAL INCREASE IN PUBLIC PARTICIPATION. BOTH OF THESE CITIES HELD SPECIAL HEARINGS ON REVENUE SHARING IN 1973; HOWEVER, NEITHER HELD SUCH HEARINGS IN SUBSEQUENT YEARS. PUBLIC PARTICIPATION IN MOST OF THE GOVERNMENTS' BUDGETARY PROCESSES DID NOT CHANGE BUT REMAINED AT THE SAME LOW LEVEL THAT EXISTED PRIOR TO REVENUE SHARING.

BEFORE CONCLUDING, I WOULD LIKE TO BRIEFLY OUTLINE OUR OVERALL CONCLUSION ON THE REVENUE SHARING PROGRAM BASED ON OUR SEVERAL STUDIES OF THE SUBJECT. PROPONENTS OF REVENUE SHARING ESSENTIALLY ARGUE FOR A PRINCIPLE OF NON-CONTROL BY THE FEDERAL GOVERNMENT, A PRINCIPLE WHICH ASSERTS THAT STATES AND LOCALITIES ARE IN THE BEST POSITION TO DETERMINE THE USES TO BE MADE OF THE FEDERAL FUNDS. THE CONDITIONS ATTACHED TO THE PRESENT PROGRAM COMPROMISE THIS PRINCIPLE TO A SUBSTANTIAL DEGREE. THE CONDITIONS, MOREOVER, ARE VIRTUALLY IMPOSSIBLE TO ENFORCE.

THE OTHER SIDE, WHICH WE TEND TO SHARE, ARGUES THAT SINCE THESE ARE NATIONAL FUNDS RAISED BY THE FEDERAL GOVERNMENT, THEY OUGHT TO BE USED FOR A NATIONAL PURPOSE OR OBJECTIVE AS DETERMINED BY THE CONGRESS.

ONE OF THE PRINCIPAL ARGUMENTS ADVANCED IN SUPPORT OF GENERAL REVENUE SHARING WAS THAT IT WOULD GIVE SOME RELIEF FROM THE DIFFICULTIES ASSOCIATED WITH FEDERAL CATEGORICAL AID. GAO STUDIES SUPPORT MANY OF THE CRITICISMS OF THE CATEGORICAL APPROACH--CUMBERSOME PROCESSING PROCEDURES, LONG DELAYS IN GRANT APPROVALS, HIGH OVERHEAD COSTS, DELAYS IN NOTIFICATION OF THE AVAILABILITY OF FEDERAL FUNDS, AND SO FORTH. IN OUR JUDGMENT, RATHER THAN RELINQUISHING RESPONSIBILITY FOR DIRECTING THE USE OF FEDERAL FUNDS, THE FEDERAL GOVERNMENT SHOULD SEEK WAYS TO IMPROVE ITS CATEGORICAL ASSISTANCE PROGRAMS. FOR EXAMPLE, MORE USE SHOULD BE MADE OF ADVANCE FUNDING SO THAT STATES AND LOCALITIES CAN KNOW THE LEVEL OF SUPPORT ON WHICH TO BASE THEIR PLANS. SIMILAR AND OVERLAPPING PROGRAMS SHOULD BE GROUPED AND CONSOLIDATED. THE VARIABLE MATCHING CONCEPT COULD BE UTILIZED AND EXTENDED TO TAKE INTO ACCOUNT DIFFERING FINANCIAL NEEDS IN INDIVIDUAL STATES AND LOCALITIES.

UNDER THE CATEGORICAL AID APPROACH--BE IT A SO-CALLED SPECIAL REVENUE SHARING PROGRAM OR A GRANT PROGRAM WITH VERY SPECIFIC PURPOSES--THE FEDERAL GOVERNMENT MUST MAKE PROGRAMMATIC DECISIONS ON NATIONAL DOMESTIC NEEDS AND PRIORITIES. OVERSIGHT CAN THEN BE EXERCISED BY THE CONGRESS TO DETERMINE WHETHER PROGRAM OBJECTIVES ARE BEING MET. UNDER REVENUE SHARING THIS KIND OF OVERSIGHT IS SIMPLY NOT POSSIBLE.

IF, HOWEVER, THE CONGRESS BELIEVES IT IS NECESSARY TO PROVIDE FISCAL ASSISTANCE TO STATE AND LOCAL GOVERNMENTS UNDER A PROGRAM WHERE THE USES OF THE FUNDS ARE DETERMINED AT THE STATE AND LOCAL LEVELS, THEN GENERAL REVENUE SHARING IS CERTAINLY A WAY TO ACHIEVE THIS OBJECTIVE. TO FULLY ACHIEVE THIS OBJECTIVE, WE SUGGEST THE ELIMINATION OF MOST OF THE EXPENDITURE RESTRICTIONS NOW IN THE REVENUE SHARING ACT. IT SEEMS TO US THAT

EXPENDITURE RESTRICTIONS ARE NOT COMPATIBLE WITH THE REVENUE SHARING CONCEPT. FURTHER, AS WE HAVE PREVIOUSLY REPORTED, RESTRICTIONS ON THE DIRECT USES OF REVENUE SHARING FUNDS ARE NOT EFFECTIVE. BECAUSE OF THE WIDE LATITUDE RECIPIENTS HAVE IN USING REVENUE SHARING, THEY CAN ARRANGE TO USE THE FUNDS IN A FASHION AUTHORIZED BY THE ACT AND THEN USE THEIR OWN FUNDS IN THOSE AREAS WHERE COMPLIANCE PROBLEMS MIGHT BE ENCOUNTERED. GIVEN THE REALITIES OF THE SITUATION, WE DOUBT THE NECESSITY OR DESIRABILITY OF RETAINING RESTRICTIONS WHICH OFFER NO ASSURANCE OF ANYTHING SUBSTANTIVE BEING ACCOMPLISHED OTHER THAN PERHAPS MORE BOOKKEEPING DESIGNED TO CREATE THE APPEARANCE OF COMPLIANCE WITH THEM.

ON THE OTHER HAND, THERE ARE TWO REQUIREMENTS--CIVIL RIGHTS AND CITIZEN PARTICIPATION--WHICH WE BELIEVE SHOULD BE BROADENED. AS WILLIAM TAYLOR, DIRECTOR, CENTER FOR NATIONAL POLICY REVIEW, SAID IN A RECENT COMMENTARY--

**** THERE IS A BASIC DISTINCTION TO BE MADE BETWEEN THE MYRIAD STRINGS THAT HAVE BEEN ATTACHED TO MANY FEDERAL PROGRAMS AND REQUIREMENTS OF CIVIL RIGHTS AND CITIZEN PARTICIPATION. THE RIGHT TO BE TREATED FAIRLY AND WITHOUT DISCRIMINATION BASED ON RACE, SEX OR OTHER INVIDIOUS CONSIDERATIONS IN PROGRAMS MADE POSSIBLE BY GOVERNMENT FUNDS AND THE RIGHT TO HAVE A VOICE AND TO PARTICIPATE IN THE FORMULATION OF SUCH PROGRAMS ARE NOT SIMPLY ADMINISTRATIVE REQUIREMENTS OR STRINGS, BUT FUNDAMENTAL GROUNDRULES HAVING TO DO WITH THE INTEGRITY OF THE PROCESSES OF GOVERNMENT. NATIONAL GUARANTEES OF CIVIL RIGHTS AND CITIZEN PARTICIPATION FALL INTO THE SAME CATEGORY AS 'ONE-MAN, ONE-VOTE;' THEY ARE RULES IMPOSED FROM ABOVE ON STATES AND LOCAL GOVERNMENTS, NOT FOR THE PURPOSE OF MAKING THEM WEAK OR DEPENDENT BUT TO ASSIST THEM IN BECOMING STRONG ENOUGH TO BE VITAL PARTS OF A FUNCTIONING FEDERAL SYSTEM."

THE EXISTING REVENUE SHARING LEGISLATION PROHIBITS DISCRIMINATION IN ANY PROGRAM OR ACTIVITY THAT IS WHOLLY OR PARTIALLY FUNDED WITH REVENUE SHARING. BECAUSE RECIPIENT GOVERNMENTS CAN AVOID DIRECTLY USING THE FUNDS

IN A PROGRAM OR ACTIVITY WHERE POTENTIAL DISCRIMINATION PROBLEMS EXIST, WE SUGGESTED DURING THE APRIL 1975 HEARINGS HELD BY THE REVENUE SHARING SUBCOMMITTEE, SENATE FINANCE COMMITTEE, THAT THE CIVIL RIGHTS PROVISIONS OF THE ACT BE BROADENED TO PROVIDE THAT (1) A GOVERNMENT RECEIVING REVENUE SHARING COULD NOT DISCRIMINATE IN ANY OF ITS PROGRAMS OR ACTIVITIES REGARDLESS OF THE SOURCE OF FUNDING AND (2) REVENUE SHARING FUNDS COULD BE WITHHELD, AFTER DUE PROCESS, PENDING ACCEPTABLE ACTIONS TO CORRECT DISCRIMINATORY PRACTICES.

IN THE AREA OF CITIZEN PARTICIPATION, WE RECOMMEND AN AMENDMENT TO THE ACT WHICH WOULD REQUIRE EACH GOVERNMENT RECEIVING REVENUE SHARING FUNDS TO PROVIDE THE PUBLIC WITH (1) COMPARATIVE FINANCIAL DATA ON ITS OVERALL PLAN AND RESULTS OF OPERATIONS AND (2) AN OPPORTUNITY TO EXPRESS THEIR VIEWS ON THE GOVERNMENT'S PROGRAMS. OUR REPORT DEVELOPING THE BASIS FOR THESE RECOMMENDATIONS SHOULD BE RELEASED NEXT MONTH.

WE HAVE SEVERAL OTHER REVENUE SHARING STUDIES UNDERWAY. I WILL BRIEFLY DESCRIBE SOME OF OUR TENTATIVE OBSERVATIONS AND RECOMMENDATIONS. (A SUMMARY DESCRIBING COMPLETED GAO REVIEWS, WORK IN PROCESS, AND ESTIMATED REPORTING DATES IS ATTACHED.)

BECAUSE OF THE CONCERN THAT HAS BEEN EXPRESSED ABOUT DISTRIBUTING REVENUE SHARING FUNDS TO SO-CALLED "MARGINAL" UNITS OF GOVERNMENTS, WE HAVE REVIEWED PRESENT AND PAST ROLES OF MIDWESTERN TOWNSHIPS AND NEW ENGLAND COUNTIES.

IN NEW ENGLAND, COUNTIES HAVE PLAYED AND CONTINUE TO PLAY A RELATIVELY INSIGNIFICANT ROLE IN THE DELIVERY OF PUBLIC SERVICES. OVER THE YEARS, FUNCTIONS, REVENUES, AND EXPENDITURES OF MIDWESTERN TOWNSHIPS HAVE

DECLINED RELATIVE TO OTHER LOCAL GOVERNMENTS. MANY TOWNSHIPS PROVIDE ONE SERVICE MAKING THEM MORE LIKE SPECIAL DISTRICTS THAN GENERAL PURPOSE GOVERNMENTS. THE 20 PERCENT MINIMUM GRANT PROVISION OF THE ACT TENDS TO DISPROPORTIONALLY REWARD TOWNSHIPS.

THERE IS SOME EVIDENCE TO SUPPORT A POSITION THAT THE UNILATERAL DISTRIBUTION OF FEDERAL FUNDS TO MIDWESTERN TOWNSHIPS WILL TEND TO INTERFERE WITH THE GENERAL DECLINE OF THESE UNITS. ON THE OTHER HAND, WE FOUND THAT SOME TOWNSHIPS ARE PROVIDING MANY SERVICES AND HAVE THE CHARACTERISTICS OF SMALL MUNICIPALITIES. WE ARE CONSIDERING AN ALTERNATIVE THAT STATE GOVERNMENTS BE GIVEN A GREATER ROLE IN DECIDING WHICH OF THEIR LOCAL GOVERNMENTS SHOULD BE ELIGIBLE TO RECEIVE REVENUE SHARING FUNDS. ANOTHER ALTERNATIVE IS THE ELIMINATION OF THE 20 PERCENT MINIMUM GRANT PROVISION, WHICH WOULD GENERALLY TRANSFER FUNDS AWAY FROM TOWNSHIPS TO MUNICIPALITIES AND COUNTIES.

THE ADMINISTRATION, IN ITS PROPOSAL FOR EXTENDING THE PROGRAM, DID NOT RECOMMEND CHANGING THE 20 PERCENT MINIMUM GRANT PROVISION, HOWEVER, IT DID SUGGEST A GRADUAL INCREASE OF THE 145 PERCENT MAXIMUM LIMITATION TO 175 PERCENT. A SIMILAR PROPOSAL WAS CONSIDERED DURING A CONFERENCE ON REVENUE SHARING THAT WE SPONSORED LAST FALL. HOWEVER, IN CONTRAST TO THE ADMINISTRATION'S RECOMMENDATION, THE PROPOSAL DISCUSSED AT THE CONFERENCE WOULD REMOVE THE 145 PERCENT CONSTRAINT FROM GOVERNMENTS WITH LARGER POPULATIONS. THIS WOULD AVOID REWARDING RESORT COMMUNITIES.

ONE OF THE MAJOR DETERMINANTS OF A GOVERNMENT'S REVENUE SHARING ALLOCATION IS THE AMOUNT OF TAXES IT COLLECTS. THE CURRENT DEFINITION OF TAXES IS AN INCOMPLETE MEASURE OF A LOCAL GOVERNMENT'S FISCAL EFFORT, AND WE PLAN TO RECOMMEND THAT OTHER TYPES OF LOCAL REVENUES, SUCH AS PAYMENTS IN LIEU OF TAXES, PROFITS TRANSFERRED FROM UTILITY OPERATIONS, AND CERTAIN

SERVICE CHARGES ALSO BE RECOGNIZED. WE ALSO INTEND TO MAKE RECOMMENDATIONS FOR IMPROVING THE ACCURACY OF THE TAX DATA.

WE PLAN TO RECOMMEND ELIMINATING THE REQUIREMENT THAT INDIAN TRIBES AND ALASKAN NATIVE VILLAGES MUST SPEND THEIR REVENUE SHARING FUNDS FOR THE MEMBERS OF THE TRIBE OR VILLAGE RESIDING IN THE COUNTY AREA FROM WHICH ITS REVENUE SHARING ENTITLEMENT ORIGINATES. IN ADDITION, WE INTEND TO SUGGEST CHANGES IN THE METHOD OF COMPUTING THE REVENUE SHARING AMOUNT PAID TO TRIBES AND VILLAGES.

WE ARE EXAMINING THE AUDITS OF REVENUE SHARING CONDUCTED BY STATE AND LOCAL AUDITORS AND INDEPENDENT PUBLIC ACCOUNTANTS. OUR PRELIMINARY DATA SUGGESTS THAT PUBLIC ACCOUNTANTS ARE EXPERIENCING DIFFICULTIES IN AUDITING FOR COMPLIANCE WITH SOME OF THE ACT'S RESTRICTIONS, NOTABLY IN THE AREA OF CIVIL RIGHTS. WE ALSO HAVE SOME CONCERN THAT AUDIT RESOURCES COULD BE USED FOR MORE SUBSTANTIVE MATTERS THAN REVIEWING FOR COMPLIANCE WITH UNENFORCEABLE RESTRICTIONS.

IN OUR WORK FOR THE HOUSE JUDICIARY COMMITTEE WE ARE REVIEWING THE OFFICE OF REVENUE SHARING'S ADMINISTRATION OF THE CIVIL RIGHTS PROVISION OF THE ACT. IT IS CLEAR THAT THE OFFICE OF REVENUE SHARING'S COMPLIANCE STAFF IS QUITE SMALL IN RELATION TO THE JOB AT HAND.

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MR. CHAIRMAN THAT CONCLUDES MY PREPARED STATEMENT. MY ASSOCIATES AND I WILL BE HAPPY TO ANSWER ANY QUESTIONS.

SUMMARY OF REVENUE SHARING REVIEWS
COMPLETED AND IN PROCESS AT
JULY 23, 1975

Issued reports

Revenue Sharing: Its Use By and Impact on State Governments
(B-146285 dated August 2, 1973)

Revenue Sharing: Its Use By and Impact on Local Governments
(B-146285 dated April 25, 1974)

Revenue Sharing and Local Government Modernization: A
Conference Report (GGD-75-60 dated April 17, 1975)

Reviews in process

Title: Review of system for reporting uses of revenue sharing funds

Results to date: Current system for reporting uses of revenue sharing funds is illusory and meaningless. Report will recommend that governments publish comparative data on the uses of all of their funds showing current years estimated expenditures, the prior years actual expenditures, and the next years proposed budget by functional category and that the citizenry be given an opportunity to comment on the proposed budget.

Report target date: 8/75

Title: Review of tax data used in allocating revenue sharing funds

Results to date: Current definition of "adjusted taxes," which are used in formula to allocate revenue sharing funds, does not indicate a local government's total revenue efforts. Report will probably recommend that the Congress consider adding other types of local government revenues (such as payments in lieu of taxes, profits transferred from utility operations, and service charges which often are assessed in lieu of taxes) to the "adjusted tax figures used to allocate revenue sharing.

Report target date: October 1975

ATTACHMENT

Title: Review of compliance program of the Office of Revenue Sharing

Results to date: Report will describe number, quality, and effectiveness of compliance audits completed by the Office of Revenue Sharing, State audit groups, CPA firms, and others. The report will assess the meaningfulness of certain restrictions on the use of the funds.

Report target date: November 1975

Title: Review of civil rights enforcement activities of the Office of Revenue Sharing (Review requested by House Committee on the Judiciary)

Results to date: Report will analyze Office of Revenue Sharing's civil rights enforcement activities showing number, basis, origin, and disposition of cases. The Office of Revenue Sharing's criteria and processes will be compared with those of other agencies.

Report target date: October 1975

Title: Review of effects of revenue sharing on certain townships and counties

Results to date: Functions, revenues, and expenditures of many midwestern townships have decreased relative to other forms of local government. Revenue sharing, as a new source of revenue, may have slowed this trend. Many townships are now performing essentially one function such as road repair or poor relief. These single-purpose townships are more like special districts (which do not receive revenue sharing) than like general purpose governments. Report will probably present several alternatives for the Congress to consider as means of determining which governments should be eligible to receive revenue sharing.

Report target date: November 1975

Title: Review of revenue sharing funds received by Indian tribes

Results to date: Report will probably recommend that allocation of revenue sharing funds be made based on tribe's share of State population rather than its share of county area's population. Report will show that requirement that tribes use funds in county from which funds are derived eliminates tribe's ability to use funds for greatest needs, and the requirement does not apply to other forms of local government. Report will recommend that this requirement be eliminated from act.

Report target date: November 1975

Title: Review of population data used to allocate revenue sharing funds

Results to date: Description of basis for population data being used by Office of Revenue Sharing. Assessment of Bureau of the Census plans for reducing the undercount of the poor and minorities in the 1980 census.

Report target date: December 1975