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STATEMENT OF  
ALLEN R. VOSS, DIRECTOR, GENERAL GOVERNMENT DIVISION

BEFORE THE

SUBCOMMITTEE ON INTERGOVERNMENTAL RELATIONS

*S. Governmental Affairs*  
ON

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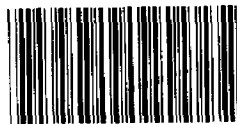
[REAUTHORIZING THE REVENUE

SHARING PROGRAM]

Mr. Chairman and Members of the Subcommittee:

We are pleased to appear today to discuss several issues which we believe should be explored as the Congress considers the reauthorization of the revenue sharing program.

As you know, the Revenue Sharing Act and the Public Works Employment Act of 1976 directed the Comptroller General to review the revenue sharing and antirecession assistance programs. Because of congressional interest and because of the large expenditures involved, we have devoted considerable effort to reviewing these programs. I have attached a listing of the major revenue sharing and antirecession reports which we have issued to the Congress since 1973.



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To place revenue sharing funds in proper perspective, I would mention that such funds represented about 13 percent of the \$46 billion total Federal aid to State and local governments in fiscal year 1974. (However, the proposed fiscal year 1980 budget shows revenue sharing to be only 8 percent of the \$83 billion Federal aid to State and local governments.)

When the Congress renewed the revenue sharing program in 1976, it made several significant changes which improved State and local governments' accountability to their citizens. These changes resulted in requiring periodic audits of all State and local expenditures and generally applied the nondiscrimination and citizen participation requirements to all State and local government programs. While such changes have certainly eased our reservations about revenue sharing, we continue to believe that Federal assistance should be provided under programs that are designed to meet more specific national purposes and objectives.

In this regard, we support efforts to continue to simplify grant administration through consolidation of programs with similar objectives and through standardization of grant regulations and requirements. Therefore, we endorse the goals of such bills as S.878 and S.904 which, if passed, would represent a major step toward improving Federal assistance administration.

Revenue sharing was designed to provide general financial assistance to State and local governments for uses as determined by State and local officials and citizens. Our audits have shown that this objective is being met. A decision to renew the program, therefore, depends on the relative importance of its objective compared to those of other programs. The current interest in balancing the Federal budget, revenue sharing's ranking among the Federal Government's current priorities, and the total Federal funds available should, in our opinion, be among the determining factors in setting the program's future funding levels.

#### USE AND IMPACT OF REVENUE SHARING FUNDS

Now I'd like to briefly comment on the problems of determining the actual use and impact of revenue sharing funds. In fiscal year 1977, about 75 percent of revenue sharing expenditures were reportedly used for operating expenditures and about 25 percent for capital outlays. These reported uses, however, do not provide meaningful information.

When a recipient government spends revenue sharing funds for activities that were previously financed, or would have been financed, from other revenues, considerable latitude exists for use of funds thus freed. This makes it almost impossible to assess the specific impact of revenue sharing funds. Because governments consider total resources when

determining the size of expenditures for their diverse activities, an objective identification and measurement of the impact of revenue sharing on specific tax levels, activities, or programs is extremely difficult, if not impossible.

For example, a city's accounting records might designate revenue sharing funds for police salaries and thereby displace city funds which otherwise would have been used to pay the salaries. These displaced funds could then be used for other purposes, but they cannot normally be traced to their specific operating or capital use because they lose their identity. Therefore, it is futile to attempt to determine whether revenue sharing is used to meet a government's most essential needs.

#### CITIZEN PARTICIPATION

With regard to citizen participation, we question the value of a separate hearing on the uses of revenue sharing. Revenue sharing recipients are required to hold public hearings and provide other opportunities for citizens to express their views on the proposed use of the funds. Yet, the act also requires that citizens be given an opportunity to examine and react to budget proposals for all expenditures.

Although our current review, which is in a preliminary stage, indicates that local governments are complying with this requirement, we question the value of holding a public hearing on the proposed uses of just revenue sharing funds.

Since the designation of uses for revenue sharing funds is fairly meaningless, and since the act requires governments to give citizens the opportunity to react to the total budget, the value of a separate public hearing for revenue sharing funds is questionable.

#### ALLOCATION FORMULAS

In the past, various individuals and organizations have suggested that revenue sharing should be selectively targeted to only needy governments. Such a change in the basis for allocating revenue sharing funds would be a significant departure from the program's current objective of simply distributing unrestricted financial assistance to all general-purpose State and local governments based on a limited recognition of relative need.

A current proposal, which would be in addition to a revenue sharing program, is a modified version of the former antirecession assistance program which distributed \$3 billion to about 17,000 State and local governments. This proposal for aid to distressed governments would send assistance to about 1,200 local governments when the national unemployment rate is below 6.5 percent. When the national unemployment rate is 6.5 percent or higher, all State and local governments would be eligible to receive this assistance.

Modifying the revenue sharing program and/or adopting a program similar to the former antirecession assistance program in this manner involves allocating assistance to State and local

governments based on the relative strength of their financial condition. For these programs to be effective, however, a formula should be developed to better show the financial condition of the various governments so that funds can be allocated equitably.

Our reviews of the former antirecession assistance program disclosed that a better formula for distributing funds was needed for the program to effectively meet its objective of selectively targeting aid only to those governments substantially affected by recession.

We found that the unemployment rates used to allocate the funds did not always correspond to the status of a government's financial condition, and most officials we interviewed perceived their governments to be in good fiscal health.

Recognizing the problems in measuring a government's financial condition, we do have some concern about using local unemployment statistics for this purpose. In a soon-to-be-released report we describe the unreliability of these statistics. Errors in these figures will result in erroneous Federal assistance for some local governments. However, developing reliable local unemployment statistics is a formidable assignment, far from being accomplished.

The same problems associated with identifying distressed governments are also inherent in deciding which governments are in good financial condition. Although unemployment can

certainly be a factor, other elements affect a government's fiscal position. For example, the level of services provided, managerial ability, and citizen concern influence strongly the stability of a government's financial condition.

Although certain jurisdictions have more severe problems than others, all governments must make difficult decisions when preparing their budgets. They must provide adequate services that satisfy the citizenry while assessing taxes at levels which generate revenues to fund desired service levels. Inflation, decaying tax bases, unemployment, recession, increased efficiency, and other pressures may translate into actions to cut expenditures, use surpluses, or raise revenues.

Because of the multifaceted nature of factors affecting a government's financial condition, devising a formula to accurately allocate financial assistance equitably based on the relative financial conditions of governments is not a simple matter nor subject to easy solutions. For example:

--A surplus may not always indicate financial strength since it may be small in relation to the total budget and therefore be quickly depleted in the event of a revenue shortfall or an unanticipated expenditure.

--Some governments may be at, or close to, their maximum taxing and borrowing capacity while others may have considerable flexibility. Some finance capital projects from operating revenues while others seek long-term borrowing for such purposes.

--Service types and levels vary both among States, counties, and cities as well as within each government level.

--Managerial ability is undoubtedly a vital determinant of a government's productivity and fiscal health and should be considered, but is impossible to quantify.

( Attempts to consider all, or even most, of the factors influencing the fiscal health of 39,000 governmental units with widely diverse characteristics, and to devise a formula to allocate the funds accordingly would be a complex task. Yet, if funds are to be allocated based on financial condition, such an effort would be required to achieve equity. While the Congress may not want to withhold financial assistance from needy governments until a better method is found, efforts should continue to develop a better basis to identify and distinguish degrees of financial stress. )



## CONCLUSION

In conclusion, Mr. Chairman, (the Congress is now faced with the difficult task of deciding what level of funding it should authorize for the revenue sharing program.

In the short term, if general revenue sharing is renewed the Congress may wish to strengthen the formula's ability to distribute funds based on need.) For instance, the current act provides that no local government, except counties, can receive more than 145 percent nor less than 20 percent of the per capita amount available for distribution to all local governments within a State. By eliminating, or changing, these limitations, the Congress could increase the amount of funds allocated to governments with lower income residents and higher tax efforts.

( If, however, the Congress changes the objective of the revenue sharing program and directs funds only to distressed jurisdictions, then we ~~believe~~ the executive branch should attempt to improve the criteria for measuring a government's financial condition.) <sup>attempts p 8</sup> This, of course, is no easy matter; however we do believe that the executive branch should commit resources to fully explore the factors that need to be considered in better determining the financial condition of our local governments.

For instance, if the local unemployment statistic is to be a factor in distributing funds, then the executive branch needs to improve its measurement of unemployment estimates at local levels. We recognize that this is a formidable assignment, but we believe that with State cooperation more reliable local unemployment estimates can be obtained.

This concludes my statement, Mr. Chairman. We will be pleased to answer any questions you may have.

MAJOR REVENUE SHARING AND ANTIRECESSIONREPORTS ISSUED TO THE CONGRESS

1. Revenue Sharing: Its Use By and Impact on State Governments (B-146285), August 2, 1973
2. Revenue Sharing: Its Use by and Impact on Local Governments (B-146285), April 25, 1974
3. Revenue Sharing and Local Government Modernization--A Conference Report (GGD-75-60), April 17, 1975
4. Case Studies of Revenue Sharing in 26 Local Governments (GGD-75-77 & GGD-75-77A-2), July 21, 1975
5. Revenue Sharing: An Opportunity for Improved Public Awareness of State and Local Government Operations (GGD-76-2), September 9, 1975
6. Adjusted Taxes: An Incomplete and Inaccurate Measure for Revenue Sharing Allocations (GGD-76-12), October 28, 1975
7. Revenue Sharing Fund Impact on Midwestern Townships and New England Counties (GGD-76-59), April 22, 1976
8. Changes Needed in Revenue Sharing Act for Indian Tribes and Alaskan Native Villages (GGD-76-64), May 27, 1976
9. Nondiscrimination Provision of the Revenue Sharing Act Should Be Strengthened and Better Enforced (GGD-76-80), June 2, 1976
10. Revenue Sharing Act Audit Requirements Should Be Changed (GGD-76-90), July 30, 1976
11. Antirecession Assistance Is Helping But Distribution Formula Needs Reassessment (GGD-77-76), July 20, 1977
12. Antirecession Assistance--An Evaluation (PAD-78-20), November 29, 1977
13. Impact of Antirecession Assistance on 15 State Governments (GGD-77-69), February 22, 1978
14. Impact of Antirecession Assistance on 16 County Governments (GGD-77-60), February 22, 1978

15. Impact of Antirecession Assistance on 21 City Governments (GGD-77-70), February 22, 1978
16. Impact of Antirecession Assistance on 52 Governments--An Update (GGD-78-56), May 1, 1978
17. Impact of Antirecession Assistance on 52 Governments--An Update (GGD-78-56-A), May 1, 1978, State
18. Impact of Antirecession Assistance on 52 Governments--An Update (GGD-78-56-B), May 1, 1978, County
19. Impact of Antirecession Assistance on 52 Governments--An Update (GGD-78-56-C), May 1, 1978, City